



Brussels Policy Briefing n. 58

Africa's Agriculture Trade in a changing environment

Organisers: CTA, ACP Secretariat, European Commission/Devco, Concord, IFPRI, BMZ/GIZ
Wednesday 23rd October 2019, 9h00-13h00,
Hotel Sofitel Brussels Europe, 1 Place Jourdan, 1040 Brussels
<http://brusselsbriefings.net>

BACKGROUND NOTE

1. Context

Rapid population and income growth are expanding the demand for food and agricultural products in the African continent, opening substantial opportunities for trade and employment not only in agricultural production but also across agri-food systems.

Trade is an important avenue through which countries transform their economies and raise standards of living. For African countries, trade in agricultural products offers great potential to boost incomes for farmers, processors and other agricultural value chain actors. Increasing the ability of African countries to participate in regional and global trade helps to improve well-being of consumers, raise incomes of farmers, build resilience of food markets, and ultimately also helps to boost economic growth and reduce poverty.

Trade and regional integration dominate the political agenda for years, with scores of countries pursuing trade agreements under various configurations. The nexus between trade, integration and development is recognised to hold immense potential for sustainable growth and poverty reduction and provides opportunities for enhancing the welfare of producers and consumers, provided that governments are able to develop and enforce policies to this effect. Under the framework of the 2030 Agenda for Sustainable Development, the role of trade in achieving the Sustainable Development Goals is recognised in several areas. Target 2.b of SDG2 calls for the correction and prevention of trade restrictions and distortions in world agricultural markets, whereas targets 17.10 to 17.12 of SDG 17 also highlights the importance of trade, particularly for the least developed countries.

Regional integration is imperative for Africa as it allows economies of scale, promote cross-border industrialisation, better position the continent in global trade agreements, incentivise foreign and domestic investment, conflicts and consolidate transnational economic and political reforms that support sustainable economic growth.

We witness a critical moment for both international trade relations and African trade integration. At the global level, protectionist tensions are high and could have significant consequences for the world economy and for Africa in particular. Their impact is already evident in the current slowdown in the global economy. At the same time, African governments are multiplying initiatives in support of greater regional integration. The African Continental Free Trade Area is a particularly important initiative¹ even if the overlapping country membership in Regional Economic Communities (RECs) makes the tasks of harmonizing and coordinating policies and regulations more complex and the costs of trading high which is an issue to be addressed.

2. New impetus for intra-regional trade

Intra-regional trade in Africa is increasing rapidly, by 12% a year between 1998 and 2013, but is still low compared with other regions such as Europe and Asia. Africa has much catching up to do: its intra-regional trade accounted for just 17% of exports in 2017 versus 59% in Asia and

¹ Bouët, Antoine and Odjo, Sunday P. (Eds.). 2019. [Africa agriculture trade monitor 2019](#). Washington, DC: International Food Policy Research Institute (IFPRI).

69% in Europe, and Africa has missed out on the economic booms that other trade blocs have experienced in recent decades.²

The value of Africa's food market is expected to more than triple to US\$1 trillion by 2030 which would unlock enormous opportunities for farmers, food processors, and agribusinesses alike, particularly through domestic trade. In fact, as the 2018 Africa Agriculture Trade Monitor (AATM)³ shows, Africa's agricultural trade has increased significantly over time including intraregional agricultural trade, while African exporters gained competitiveness in intraregional markets. Although Africa's intraregional trade is still low compared to other regions of the world, it has great potential to expand, especially with investments in trade-related infrastructure and improvements in policy to facilitate greater private sector participation in regional markets.

Given the amounts spent on imported food⁴, the demographic changes taking place, the huge opportunities offered by urban markets across the continent not to mention the immense productive potential for agriculture in Africa, it is evident that there are both significant opportunities and a pressing need for greater intra-African and intra-regional agricultural trade.

Food security in Sub-Sahara Africa can only be achieved through enhanced regional trade and integration. Badiane and Odjo⁵ argue that the increase in intra-African and intra-regional trade, and the rising role of continental and regional markets as major destinations of agricultural exports by African countries suggest that cross-border trade flows will exert greater influence on the level and stability of domestic food supplies.

In a show of their strong commitment to advancing regional trade and economic integration on the continent, 44 African Heads of State and Government signed the African Continental Free Trade Area (AfCFTA) agreement in March 2018. In July 2019, 54 countries signed this agreement. If successful, the continental free-trade zone, which would be the largest free trade area in the world, would unite 1.3 billion people, create a \$3.4 trillion economic and a GDP of US\$2,500 billion. The agreement is a game changer that is expected to significantly boost intraregional trade within an African market of 1.2 billion people.⁶ It aims to eliminate tariff and nontariff barriers on most goods, accelerate regional and continental integration, improve customs and trade facilitation, develop regional and continental value chains, foster industrialization, and eventually create a single market with free movement of labor and capital. The AfCFTA could significantly boost intraregional trade in Africa if both tariffs and nontariff policy levers are used. Eliminating tariffs on 90 percent of existing intraregional trade flows would increase regional trade by about 16 percent, or US\$16 billion, over time. Tariff reductions should be complemented with policies addressing nontariff bottlenecks. Even small improvements in addressing such bottlenecks are likely to have sizable effects. Improving trade logistics, such as customs services, and addressing poor infrastructure could be up to four times more effective in boosting trade than tariff reductions. Moreover, reducing nontariff obstacles to trade would improve the effectiveness of tariff reductions in boosting trade, especially in landlocked and low-income countries. Therefore, policies to reduce nontariff bottlenecks, particularly poor trade logistics and infrastructure, should be at the centre of the effort to foster deeper trade integration in Africa.⁷

² Badiane, Ousmane, ed.; Odjo, Sunday P., ed.; and Collins, Julia, ed. 2018. [Africa Agriculture Trade Monitor Report 2018](#). Washington, DC: International Food Policy Research Institute (IFPRI).

³ *ibid*

⁴ Between 2001 and 2014, the sub-continent's food import bill rose from US\$ 6 billion to US\$ 45 billion. Thomas S. Jayne, Felix Kwame Yeboah and Carla Henry. [The future of work in African agriculture: Trends and drivers of change](#). ILO. Research Department. Working Paper n. 25. December 2017.

According to the [African Development Bank](#), the continent spends up to 35 billion USD annually on imported food and rise to 110 billion USD by 2025.

⁵ Badiane, Ousmane; and Odjo, Sunday. 2016. [Regional trade and volatility in staple food markets in Africa. In Food price volatility and its implications for food security and policy](#), eds. Matthias Kalkuhl, Joachim von Braun, and Maximo Torero. Chapter 16, pp. 385 - 412.

⁶ Bouët, Antoine and Odjo, Sunday P. (Eds.). 2019. [Africa agriculture trade monitor 2019](#). Washington, DC: International Food Policy Research Institute (IFPRI).

⁷ International Monetary Fund. Regional economic outlook. Sub-Saharan Africa : recovery amid elevated uncertainty. World economic and financial surveys. Washington, DC. 2019

Other key factors limiting Africa's trade in agricultural products include the poor quality of physical infrastructure, inefficient customs processes and high harassment costs, inconsistent regional standards and regulations and low food safety and traceability requirements. Political commitment, trade-related policies and expansion of manufacturing activities across borders, will require that African governments jointly develop and manage good physical infrastructure in transport, energy and communications.

- **Encouraging value-addition to agricultural products and new skills**

Most African economies still rely on the export of raw agricultural commodities often associated with low returns and is vulnerable to global price fluctuations. The agricultural transformation of the continent needs investment in value addition in order to expand opportunities for employment creation farm and non-farm activities. Africa is competitive mainly in unprocessed and semi-processed products and not in processed products. Although on global markets Africa is competitive mainly in unprocessed and semi-processed products, on intra-African markets the continent's processed products are also competitive. African exporters are adaptable, demonstrating an ability to shift their product and move to new markets.⁸

The combined effects of rapid urbanisation, population growth and resulting transformations in the demand for food have had major impacts on the size of the African food economy and its structure. Urbanisation and urban lifestyles are also accompanied by shifts in dietary patterns, which are spreading beyond the frontiers of towns and cities. More fruits and vegetables and more processed foods are being consumed, while consumption of cereals and pulses is declining. Demand for convenience is another overarching trend across income groups and are reflected in the strong demand for processed and prepared foods and in the expansion of street food. A major evolution of the food economy is the rapid development of processing, packaging, distribution and retail. These transformations open up new opportunities for value addition and employment creation, and increasingly in the off-farm segments of the value chain.⁹

Sub-Saharan Africa has the world's youngest and fastest growing population. It is projected that the continent's youth population will double to over 830 million by 2050. 10 to 12 million youth enter the workforce each year but only 3.1 million jobs are created.¹⁰ Agriculture and the informal economy will need to absorb a large share of these new workers.¹¹

There is growing consensus that the productive agriculture of the future will be knowledge and technology intensive, and will require a greater range of technical, business and management skills than African education and training systems are currently producing. African governments will therefore need to invest in education and skills development, including digital skills, to enhance productivity and seize trade opportunities in more sophisticated products and markets. Technology can provide tools to save time and improve efficiency. New digital technologies and services are already having a considerable impact on how food is being produced, processed, marketed, traded and consumed across the continent. How African countries position themselves to harness and deploy digital technologies will also determine the future competitiveness of African agriculture and its contribution to African economies.¹² Rural market penetration and the digitisation of agricultural value chains is a priority for a growing number of mobile money providers.¹³

- **Addressing the trade finance gap**

⁸ Bouët, Antoine and Odjo, Sunday P. (Eds.). 2019. [Africa agriculture trade monitor 2019](#). Washington, DC: International Food Policy Research Institute (IFPRI).

⁹ Allen, T., P. Heinrichs and I. Heo (2018), "[Agriculture, Food and Jobs in West Africa](#)", *West African Papers*, No. 14, OECD Publishing, Paris.

¹⁰ African Development Bank. *Jobs for Youth in Africa*. 2016

¹¹ Thomas S. Jayne, Felix Kwame Yeboah and Carla Henry. [The future of work in African agriculture: Trends and drivers of change](#). ILO. Research Department. Working Paper n. 25. December 2017.

¹² Mamo Panel. [Byte by Byte: Policy Innovation for Transforming Africa's Food System with Digital Technologies](#). 2019.

¹³ GSMA. [2018 State of the Industry Report on Mobile Money](#).

In order to benefit from the ensuing economic advantages, the continent's financial institutions have started to tackle the unmet demand of Africa's trade finance gap, currently estimated at US\$120 billion by the African Development Bank (AfDB). Several trade finance initiatives have been brought to the fore, aimed at unlocking intra-regional trade to boost economic growth. Domestic and international banks still account for over 30 percent of total trade transactions in Africa, while the amount of bank-intermediated trade finance devoted to intra-African trade is estimated at just 20 percent of the continent's total trade, according to the AfDB. Large African corporates absorb the lion's share of this trade finance while small and medium-sized enterprises (SMEs) and first-time applicants face significant challenges in accessing credit facilities from banks.¹⁴

The World Bank estimates that SMEs contribute up to 60% of total employment and 40% of GDP in emerging economies. Digital solutions have a key role to play in closing the trade finance gap. SMEs are expected to account for a significant percentage of the continent growth if some constraints are addressed such as accessing trade finance, reducing high complexity of procedures, poor documentation and a lack of client credit data; lack of depth in financial skills and tools; limited resources and knowledge to support the fundraise process. There is an urgent need for the investors, intermediaries and businesses to reduce their overall transaction costs. The complexity of trade finance with many manual checkpoints, multiple disintegrated platforms, regulation leads to both payment and shipment delays and higher costs will benefit from technology innovations such as decentralized ledger technology (DLT) and blockchain to improve logistics and distribution of locally produced goods, strengthen traceability and certification providing information from farm to table to the consumer who can track products as they pass through a supply chain from the manufacturer and distributor, to the final buyer.¹⁵

3. The way forward

Boosting intra-African trade and deepening regional integration offer an effective channel to speed up Africa's economic transformation. Higher volumes of intra-African trade in agricultural products and the elimination of non-tariff barriers have the potential to boost industrialization and enhance competitiveness, at country and industry levels, through higher investments in connectivity and infrastructure, both physical and digital.

There is a need for governments to act to raise productivity along the value chain, reduce trade costs, and eliminate barriers to trade in order to boost both global and intra-regional trade.

Enabling policies that enhance intra-regional trade such as CFTA will be crucial to open up the continent to new investors and better opportunities for its entrepreneurs. As important will be allocating greater public expenditures to agriculture and to agricultural research and development in particular, harmonising regulations and decreasing barriers to intra-regional trade and providing an enabling environment for value chain development by strengthening market institutions and investing in infrastructure. In order to maximise the benefits of regional integration and look for new opportunities for agricultural competitiveness, policymakers, the private sector and development partners need access to accurate, comprehensive and reliable data on intra and inter-regional agricultural trade in Africa.

Objectives of the Briefing: To improve information sharing and promote networking, CTA, the European Commission (DG Devco), the ACP Secretariat and Concord organise since 2007 bimonthly briefings on key issues and challenges for agriculture and rural development in the context of EU/ACP cooperation. This Briefing on Africa's Agricultural Trade uses the findings of the AATM.

Target group: More than 150 ACP-EU policy-makers and representatives of EU Member States, embassies of ACP countries, civil society groups, research networks, development practitioners, and international organisations based in Brussels.

Available material: Input and comments before, during and after the meetings will be included in the Briefings blog: <http://brusselsbriefings.net/>. A short report and a Reader in printed and electronic format will be available after the meeting.

¹⁴ <https://www.tradefinanceglobal.com/trade-finance/>

¹⁵ CTA. [Opportunities of Blockchain for Agriculture](#). Chris Addison, Senior Expert Data4Ag; Isolina Boto, Manager, CTA; Thomas Heinen, Advisor Communication and Digitalisation, GIZ; Ken Lohento, CTA



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PROGRAMME

09h00-09h15 **Introduction to the Briefing:** *Isolina Boto, Manager, CTA Brussels Office and Coordinator of the Briefings*

Introductory remarks: *Viwanou Gnassounou, Assistant Secretary General, ACP Secretariat; Wim Olthof, Deputy Head of Unit Rural Development, Food Security, Nutrition, Europeaid, European Commission; Ousmane Badiane, Director for Africa, IFPRI; Tim Sauler, Deputy Head of Development Policy, Delegate to the ACP WP, Permanent Representation of Germany to the European Union; Michael Hailu, Director, CTA.*

09h15-11h00 Panel 1: New opportunities in regional trade for Africa

This panel will discuss trends and prospects of regional trade in Africa in the light of new policy developments as well as Africa's recent performance in different markets.

Panelists:

- What do we know about intra-regional trade in Africa: findings of AATM 2019
Antoine Bouet, Senior Research Fellow and co-leader of the Globalization and Markets Program in the Markets, Trade and Institutions Division (MTID), IFPRI
- Impact of the CAP and lessons learned for Africa's agricultural regional trade
Alan Matthews, Professor of European Agricultural Policy, Trinity College, Ireland
- Supporting agribusiness development and industrialisation in the continent
Mariam Yinusa, Principal Financial Economist, African Development Bank (AfDB)
- Investing in inclusive agricultural trade that benefits farmers
Hanna Saarinen, Policy Advisor Food, Agriculture, Land, Oxfam EU

11h00-11h15 Coffee Break

11h15-13h00 Panel 2: Successes in regional trade

This panel will present some successes and innovative models in regional trade across regions in Africa and lessons learned for upscaling and expanding regional trade.

Panelists:

- Africa-EU trade relations in agriculture and agrifood sector
Cécile Billaux, Head of Unit, DG Trade, European Commission
- Opportunities in added-value products in local and regional markets
Rose Mutuku, Managing Director, Smart Logistics Solution, Kenya
- From Bean to Bar: capturing value-added from cocoa
Komi Agbokou, Founder and President, Togo Choco

Closing remarks

13h00 Light Lunch