Enhancing Domestic Drivers of Competitiveness for Improved Agricultural Trade Performance in Sub-Saharan Africa
1. Stimulating domestic and international trade in agriculture is central to growth, food security and poverty reduction strategies in Sub-Saharan Africa (SSA).

2. SSA has genuine concerns about the global agricultural trade liberation process, incl. accessing external markets and remaining competitive on own markets.

3. SSA countries are combining trade, commodity, and domestic policies, reforms and investments to maximize benefits from trade, enhance food and nutritional security and accelerate poverty reduction—we will discuss selected case studies.

4. Looking forward, enhancing the domestic drivers of internal, regional and international competitiveness in agriculture is key to sustainable agricultural transformation in SSA.
1 & 2: Perceived Benefits and Common Concerns on the global agricultural trade reforms
There is a large consensus on the benefits of trade in agriculture...

- **Increased productivity**: Trade in inputs, commodities, and ideas can boost agricultural productivity and increase sustainability by facilitating diffusion of technology and spurring innovation.

- **Increased food and nutritional security**: Trade can contribute to the four key requirements of food security—food availability, access, utilization, and stability of supply. Nutrition can be improved by open trade, which can provide better access to a diversified food basket, including greater diversity of products and suppliers and reduced volatility of supply.

- **Increased real incomes or reduced poverty**: Trade raises countries’ incomes and provides access to better prices on the world market through the mechanism of comparative advantage in agriculture: limiting trade would result in high prices in land-scarce countries, depressed food prices in land-abundant countries, and lower real incomes in both.

- **Reduced vulnerability among the Bottom 40**: The real beneficiaries of reforms to farm support are those who are most vulnerable—poor producers in developing countries.

Benefits of trade—the natural resources argument: Trade facilitates more efficient use of inputs, thereby leading to more sustainable global food production systems...

**Sources**

**Laborde (2017):** International Agricultural Trade and Natural Resources: Global trends and illustrations for China

**Chaoqun Lu and Hanqin Tian (2017):** Global nitrogen and phosphorus fertilizer use for agriculture production in the past half century: shifted hot spots and nutrient imbalance
Benefits from trade – the natural resources argument:
Water and Fertilizer Content of Trade in China vs US

- US exports water and fertilizer content of primary crops to China; China saves on water and fertilizer use on these crops by not producing them (lower input intensity of imports—efficiency effect).

- US exports of primary crops to China are produced using water and fertilizer inputs; by importing primary crops from the US, China indirectly imports these inputs, without being exposed to externalities associated with the use of water and fertilizer.

Source: D. Laborde (2017), IFPRI
Recent trends in domestic policies in OECD countries is encouraging...

1. Producer support as a percentage of gross farm revenue is falling...

2. ... and share of OECD producer support tied to production is declining: i.e. positive shifts towards less distortionary policies...

3. ...but significant growth in distortionary forms of support such as agricultural insurance

J. Glauber. 2018. Domestic Farm Policy Reform and Global Food Security, Global Food Policy Report 2018; Based on OECD data (Panels 1 & 2); and citing A. Bouet, David Laborde (Panel 3)
...but major concerns remain...

- **Depressed world prices**: Farm support policies in developed countries often lead to overproduction and depressed global prices.

- **Loss to low-income farmers**: Tough competition against subsidized production; increased risks of malnutrition, food insecurity, and weakened rural development.

- **Tough political economy**: Removing support policies is politically difficult: total support remains high—USD 228 billion in 2016.

- **Stagnation of reform efforts**: Rising uncertainty about future reforms; and increasing anti-globalism and protectionism sentiments.

- **Also concerns in emerging economies**: Countries such as Brazil, China, India, and Indonesia—are increasing distortionary forms of farm support, including input and investment subsidies.

- **Reviewed** of the position of 27 African countries at WTO, 6 years after the Agreement on Agriculture became effective.

- **Summarized** concerns among African countries:
  - the promised benefits from trade were not materializing
  - high tariffs, non-tariff barriers, domestic support and export subsidies were continuing and distorting the markets; e.g. use of tariff escalation diminished competitiveness of processing industries in Africa.
  - dumping of heavily subsidized agriculture products on African countries were weakening domestic competitiveness
  - the promised technical assistance and special and differential treatments were not materializing

- **Discussed** concerns among developed countries about difficult customs procedures in developing countries.

- **Recognized** agricultural trade liberalization was a long term business; Africa could gain as much from increased regional trade and it was important to invest in domestic drivers of trade competitiveness.
Nouve and Staatz (2003) – *The Food Security Debate in West Africa Following the WTO Agreements on Agriculture* Discussed concerns about potential effect of WTO agreements on food security (increased volatility, high prices & food import bill)

- **Highlighted** the self-reliance food security strategy of West and Central African countries (increased domestic production combined with imports, with targeted protection policies when required)
- **Tested changes** in aggregate food availability in the period pre- and post-Uruguay Round on Agriculture periods and found no significant change
- **Discussed alternative policies** to boost domestic food security


Source: [http://ageconsearch.umn.edu/record/11746/files/sp03-05.pdf](http://ageconsearch.umn.edu/record/11746/files/sp03-05.pdf)
3. Case Studies
Led by Kenya, African countries captured a significant share of a rapidly expanding but demanding export market, in the European Union (EU).

Success is attributed to: (1) leading role played by private companies in establishing the industry (outgrowers’ contracts, technical support); (2) inclusion of smallholders in the supply chain at the early stages; (3) the Kenyan government’s supportive role; and (4) secured land tenure.

Increasingly stringent food safety and other standards in the EU are diminishing the role of smallholders (now only about 30 percent of the supply).

New entries in the EU market: Kenyan exports of green beans have fallen very

Survival through diversification: share of green been in horticultural exports fell from 30% in the 2000s to 10% currently, while Kenya’s fruit and vegetable exports have expanded over the period.

This diversification was enabled by the skills, logistics, market contacts, and advanced market infrastructure put in place through first movers such as green bean exporters.

Case Study 2: Poultry Import Policies in Ghana

- **Poultry meat policies: 1980’s – 2010’s**
  - Late 1980s: Ghana’s poultry sector was at its prime
  - 1990s: Rapid decline in the sector following withdrawal of government support and reduction of tariffs
  - 1993 and 2003: Poultry imports rose by 144 percent between, and a significant share of this was heavily subsidized by Europe. Half million chicken farmers reportedly wiped out.
  - Over the same period: EU frozen chicken export to West Africa rose eight fold, mainly due to import liberalization
  - 2003: Ghana’s parliament raised the poultry tariff from 20 to 40 percent (over objection from some development partners)
  - 2017: production less than 25% of the local demand; tariffs and taxes on imports are about 52.4%; imports rose by 10% from 144 to 158,000 tons between 2016 in 2017; local broiler meat 30-40% more expensive on the market; local layer production still competitive.

- **Policy considerations (trade & agricultural):** protect and stimulate local production; affordable costs to consumers; farmer livelihoods; food security and nutrition; rural development and national economic development.

<table>
<thead>
<tr>
<th>Tariff, taxes, levies &amp; fees applicable to poultry meat imports in Ghana, 2017 [in % of import value]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tariff</td>
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<tr>
<td>2. Value Added Tax</td>
</tr>
<tr>
<td>3. National Health Insurance Levy</td>
</tr>
<tr>
<td>4. Export Development and Investment Fund Levy</td>
</tr>
<tr>
<td>5. Inspection fee</td>
</tr>
<tr>
<td>6. ECOWAS Levy</td>
</tr>
<tr>
<td>7. Ghana Customs network</td>
</tr>
<tr>
<td>TOTAL</td>
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Cashew World Market

- Rising demand
- High dependence on Vietnam
- Rising food safety needs
- Concern for environment and csr.

- Production drop
- Factory closures

- Opportunities for growth in terms of supply of RCN and processing

- Supply deficit
- Falling production
- Dependence on imported RCN
- Food safety non compliance

- Rising costs
- Labour problems
- Fast growing consumption

RCN trade
- Lost traceability
- Volatility and speculation
- Carbon footprint
The cashew sector in Cote d’Ivoire – an increasingly important origin for RCN and key export commodity

- 330,000 producers providing income for about 1.9 million people - mainly in the northern impoverished regions of Cote d’Ivoire

- Annual production of about 711,000 MT (2017) with a high growth potential; expected to reach 1.2 million tons by 2022

- Annual export of 650,000 MT: Number 2 producer and Number 1 exporter of RCN

- Value of 2017 cashew exports: over US$ 700 million

Several weaknesses negatively impacting the sector development and competitiveness

- **Low Productivity**
  - Poorly productive trees - non-certified planting material
  - AVG Yields of 500 kg/ha against 800-1000 kg/ha in India and Vietnam

- **Weak Organization**
  - Inadequate coordination of field initiatives
  - Low level of producer organizations

- **Limited Investments**
  - Low level of transformation and value-added
  - Limited access to technology and finance
National processing industry has been stagnating because of its lack of competitiveness

Impaired by high operating costs, including:

- A low productivity of labor
- High cost of energy
- and a lack of access to credit to finance both investments and working capital.

Installed capacity for cashew processing is around 100,000 MT:
- Capacity use max 50%
- or 5-7% domestic processing.

Cost of Processing per RCN Ton Comparison

Gap $170-$250 per ton RCN input
**Government Response:** A catalytic and supportive role for the GoCI by providing substantial financing to boost its efforts to improve the competitiveness of the cashew value chain

- Public sector activities supportive on-farm productivity and access to markets
- Support of private investments in processing facilities
- Investments to support the creation of a more favorable economic, financial, regulatory and social environment
A proactive and ambitious stimulus program with a focus on increased domestic processing: Source of growth in the poorest regions of the country, where it can generate inclusive rural employment through farming and rural industrialization.

Government objective:
Increase domestic processing to minimum 50% by 2020

- Reduction of 50 percent of the customs duties on imported capital equipment and a first inventory of spare parts
- Exemption, for a period from 5 to 15 years of the benefit tax, land taxes and various other taxes levies.
- Creation of industrial parks in towns located in producing areas, and a reduction in in the cost of utilities
- Creation of a Cashew Innovation and Technology Center for the transfer of technologies, training of the labor force, and the provision of technical assistance to private investors.
- Establishment of a Security Deposit Fund, to offer a partial guarantee for loans from financial institutions to processors for investments and/or working capital.
- WRS which allows SMEs better access to working capital by pledging RCNs as collateral
<table>
<thead>
<tr>
<th>What could 50% processing in 2025 mean to the sector?</th>
</tr>
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<tbody>
<tr>
<td>• US$1.6 billion in annual kernels sales revenue.</td>
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<td>• 200,000 jobs / 75,000 directly.</td>
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<tr>
<td>• Leadership in Africa/ 3\textsuperscript{rd} in the World.</td>
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<tr>
<td>• Security of demand and fair pricing for 330,000 cashew farm families.</td>
</tr>
<tr>
<td>• Rural based agricultural processing.</td>
</tr>
<tr>
<td>• Sustainable food safe primary processing industry.</td>
</tr>
<tr>
<td>• 400,000 tonnes annually of cashew shell as bio fuel.</td>
</tr>
<tr>
<td>• Opportunity to develop further value addition – roasted and packed product could double sales value.</td>
</tr>
</tbody>
</table>
4. Looking Forward: Enhancing the domestic drivers of internal, regional and international competitiveness
Current situation: (1) Agriculture as a major contributor to the economy and trade in SSA; regional variations exist...

**Agricultural Value Added (% GDP)**

Agriculture is still a larger sector of SSA economies, especially in the Central, Eastern and Western parts of the continent.

**Agricultural Exports (% merchandise exports)**

The ag share in total exports is rising, especially in East Africa.

**Ratio of Agricultural Exports to Imports (%)**

Except in East Africa, the ag trade is negative in the rest of SSA.

Source: ReSAKSS—Regional Strategic Analysis and Knowledge Support System.
(2) Poverty and undernourishment indicators are generally trending in the right direction, albeit with important country and local variations...

Poverty Headcount Index at $1.90 a day ($PPP 2011)

Prevalence of undernourishment (% population)

..but the percentages and the absolute numbers of people in poverty or undernourished is still high...

Source: ReSAKSS—Regional Strategic Analysis and Knowledge Support System
(3)... and so are trends in nutrition indicators...

Prevalence of stunting

Source: ReSAKSS—Regional Strategic Analysis and Knowledge Support System
(4) Yield trends are marginally positive in aggregate, but local, country and regional variations are important

Cassava (tons/ha)

Maize (tons/ha)

Indigenous cattle (kg/head)

Source: ReSAKSS—Regional Strategic Analysis and Knowledge Support System
A body of recent works highlighted the immense potential of the agriculture and agribusiness sector in Africa…
Agriculture and agribusiness together account for nearly half of GDP in Africa. African agriculture is also diverse. Africa food markets project to reach USD 1 trillion by 2030.

Most African countries have a comparative advantage in agriculture. Africa has more than half of the world’s agriculturally suitable yet unused land, and its impressive water resources have scarcely been tapped.

Both domestic and global markets are experiencing strong demand, which is likely to continue even as domestic demand accelerates.

Private sector interest in African agribusiness is unprecedented.

Projected value of food markets in Sub-Saharan Africa (USD Billion)

Source: Growing Africa, WBG.
...(2) But there is also a general recognition that long term competitiveness of the agriculture sector in SSA countries is declining; This can be reversed by fixing the inhibitors of competitiveness. Measuring competitiveness through benchmarking is rising...

The WBG Enabling Business in Agriculture Report has set up a process to monitor the drivers of competitiveness of the global agribusiness sector, and benchmark countries’ ease of doing agribusiness against world’s best performers

Source: EBA 2017, WBG
... (3) The WBG EBA Report 2017 shows that SSA lies further away from the best performers with respect to several agricultural sector competitiveness drivers, and...

**Costs to obtain per-shipment exports documents**

**Fertilizer**

(DFM max score = 100)

**Markets**

(DFM max score = 100)

**ICT**

(DFM max score = 100)

Source: EBA 2017, WBG
...most countries rank above the global average in at least one of the areas of competitiveness.

**Rwanda**

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**Kenya**

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**Nigeria**

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<tr>
<td>ICT</td>
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</table>

Source: EBA 2017, WBG
The WBG’s Framework for Maximizing Finance Development recognizes the importance of both domestic (and trade) policies in driving competitiveness...

- **The cost and time to trade (on domestic, regional and international markets) are important determinants of competitiveness.** Trade logistics and trade logistic practices are equally important.
  - 10 percent increase in transport costs reduces trade by 20 percent
  - One-day delay due to transport and customs issues can cause exports of time sensitive agricultural goods to decrease by 7 percent.

- **Trade policy is a key determinant of domestic and foreign investment** (stability of the trading environment, investor confidence, backward linkage with domestic firms). SSA cannot mobilize the required private investment to unlock agricultural sector potential, if agricultural markets remain segmented by tariffs, import and export restrictions, non-tariff barriers, and a lack of trade facilitation.

- **Reducing the direct costs associated with trade restrictions**, streamlining regulations and procedures as well as regulatory compliance, reducing delays at the border can significantly help reduce costs and risks for private sector investment.
(5) Greater commitment at continental level through the African Union’s CAADP process:
Adoption of benchmarking framework to track countries’ commitments and actions
to boost agricultural competitiveness and transformation...

7 Thematic Areas of Malabo Commitments
1. Re-committing to the Principles and Values of the CAADP Process
2. Enhancing investment finance in agriculture
3. Ending Hunger in Africa by 2025
4. Reducing poverty by half, by 2025 through inclusive agricultural growth and transformation
5. Boosting intra-African trade in agricultural commodities and services
6. Enhancing resilience of livelihoods and production systems to climate variability and other related risks
7. Strengthening mutual accountability to actions and results.

Source: African Union Commission
(6) Good targeting of public resources is key in driving forward the competitiveness agenda

- In **Malawi**, the share of agricultural expenditure in total expenditure increased significantly while the cereal import dependency ratio fell drastically over the period;
- In **Nigeria**, where an average of 3% of the budget is spent on agriculture, the ratio is rising significantly.

**Ag expenditure as % of total expenditure**

**Cereal import dependency ratio**

Source: RESAKSS
1. The WBG supports the WTO’s efforts to deliver outcomes for agricultural trade, and advocates for developing country interest.

2. The WBG believes many distortions in agriculture can only be conclusively addressed through collective action at the multilateral level through the WTO.

3. The WBG:
   - supports developing countries in the process of WTO accession;
   - partners with others on the Enhanced Integrated Framework which helps LDCs integrate into the world trading system; and
   - supports the implementation of commitments of multilateral agreements consistent with the Doha Round.
Key Messages

1. Stimulating domestic and international trade in agriculture is central to food security and poverty reduction strategies in Sub-Saharan Africa.

2. SSA has genuine concerns about the global agricultural trade liberation process, including accessing external markets and remaining competitive on own markets. Pursuing reforms at WTO and making the global trade inclusive is a win-win option.

3. SSA countries are combining trade, commodity, and domestic policies, reforms and investments to maximize benefits from trade, enhance food and nutritional security, and accelerate poverty reduction.

4. Looking Forward, enhancing the domestic drivers of internal, regional and international competitiveness is key. SSA will derive the greatest benefits from trade on domestic and external markets only if it can compete against the best performers on these markets.
Thank you!

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