

# AID FOR TRADE AND VALUE CHAINS IN AGRIFOOD

## EXECUTIVE SUMMARY



The economic context in which agriculture operates is changing rapidly, driven by population growth, urbanization, changing diets, information and communication technologies (ICT), and broader technological change. Changes in food retailing are leading to greater involvement of the private sector in agriculture and a focus on developing and improving agriculture value chains. Initially driven by export market opportunities, value chains are also extending their reach into domestic markets as retail markets evolve to meet the needs of urban consumers.

For the 70 percent of the world's poor who still live in rural area, agriculture remains the main source of income and employment. Agricultural development is one of the fastest ways to achieve poverty reduction; growth in the agricultural sector could be 2-4 times more effective at reducing poverty than growth in other sectors. Harnessing value chain development for poverty reduction is an opportunity for the trade and development community, albeit one not without risks.

The 2007-08 food price crisis galvanized action by donors, and agriculture has since assumed a more prominent place on the development agenda. At the 2009 L'Aquila G8 Summit, the international community pledged USD 22 billion over three years to support agricultural development, and agreed to a set of principles to deliver more effective and strategic assistance through better coordination and long-term investment in the country-led plans. Pledges were confirmed at the 2009 World Food Summit in Rome and successive G20 summits.

Aid for trade contributes to these efforts. In recent years, the importance of aid for trade to the agrifood sector has significantly grown to reach a record-high of USD 870 million in 2010. In line with the overall decrease in official development assistance (ODA) support dropped to USD 695 million in 2011. The European Union, Japan, the U.S.

and France are the largest bilateral donors in the sector, while multilateral donors (IDA, IFAD, FAO) also play a prominent role.

The results from the OECD/WTO private sector survey highlight that cost (e.g. production, transport, labour, and certification) is the main driver of business decisions, although the ability to meet standards and product specifications play an increasingly prominent role in the sourcing and investment decisions of lead firms, together with other factors such as the regulatory environment and labour skills. Access to finance and lack of infrastructure are also major source of concern for suppliers in developing countries.

The combined analysis of the survey results and a number of aid-for-trade case stories suggests that the boundary between public and private actions has become thinner. Efforts undertaken by lead firms to improve their value chains' efficiency include capacity building efforts (from infrastructure to skill-building) that are very similar to those undertaken as part of the Aid-for-Trade Initiative. A new generation of programs adopting a joint public-private approach to agricultural development is bringing all the elements together. These programs, such as the African (Accelerated) Agribusiness and Agro-industries Development Initiative (3ADI) and Grow Africa initiatives, offer promising prospects for maximizing the impact of both aid-for-trade and private sector investment.

