CONCEPT NOTE

MINISTERIAL CONFERENCE ON RURAL INFRASTRUCTURE FOR IMPROVED MARKET ACCESS

Theme: *Improving rural infrastructure to raise competitiveness of Africa's agricultural sector and to develop regional markets*

21-25 NOVEMBER 2011
KIGALI, RWANDA

I. BACKGROUND

1. The Comprehensive Africa Agriculture Development Program (CAADP) is at the heart of efforts by African Governments under AU/NEPAD initiative to accelerate growth and eliminate poverty and hunger among African countries. The main objective is to help African countries achieve high economic growth through agriculture-led development. The NEPAD goal for the sector is agriculture-led development that eliminates hunger and reduces poverty and food insecurity, opening the way for export expansion.

2. CAADP defines four pillars and a companion document that addresses cross-cutting issues, including livestock, forestry, fisheries, gender and HIV/AIDS in order to accelerate agricultural growth, reduce poverty and achieve food and nutrition security in alignment with the key CAADP principles and targets.

3. The four CAADP pillars are:
   - **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 agricultural research and technology dissemination and adoption.

4. The development of adequate infrastructure is a key element in the fight against poverty as it increases access to markets for smallholders and small enterprises as well as inputs at competitive prices.

5. This *concept note*, is part of preparations for the Africa Ministerial Conference on Rural Infrastructure due in November 2011 in Kigali, Rwanda. It explores possible areas to build on current initiatives that would ensure Africa's smallholder farmers have access to domestic, regional and international markets whilst building partnership for infrastructure development.

6. Five regional studies will be undertaken to provide input to the process. To ensure the regional studies capture the current infrastructure projects being implemented at national and regional level, the CAADP pillar institutions and the RECs will put in place a focal team to work with the consultants.

7. The Program for Infrastructure Development in Africa (PIDA), a joint initiative of the AUC, the NEPAD Planning and Coordinating Agency (NPCA) and the African Development Bank (AfDB) aims at responding to the infrastructure development challenge in Africa. PIDA covers infrastructure of four sectors notably Energy, Transport, Information & Communication Technologies (ICT) and Trans-boundary Water. It will contribute to reinforcing and developing rural infrastructure in Africa.

II. IMPROVING RURAL INFRASTRUCTURE AND TRADE-RELATED CAPACITIES FOR MARKET ACCESS

1. The objective of CAADP 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 sanitary and phytosanitary requirements for accessing regional and international markets. The focus is on developing strategic value chains with the greatest potential to generate broad-based income growth and create wealth in both rural areas and the rest of the country.

2. Pillar II focuses on policy and regulatory actions, infrastructure development, capacity development efforts, partnerships and alliances that could facilitate small-holder development to stimulate sustainable poverty reducing growth across African countries.

3. Infrastructure, for purposes of the programme is defined as category 1 infrastructure which consists of capital-intensive forms such as roads and ports (addressed by PIDA) and category 2 rural infrastructure which consists of commercial and post-harvest infrastructure such as: markets, storage, grading, packaging and processing that the ministerial meeting will address.

4. The development of the first category of infrastructure seeks to generate complementarities with the second category in order to enhance smallholder integration into input and output markets and other segments of the value chain.

5. Several studies show that insufficient infrastructure generates exorbitant production costs. Some estimates indicate that with improved infrastructure, the growth rate could be at least 1% higher than it is today.

6. The slow development of efficient domestic and regional production and distribution networks notably transportation infrastructure has:
   (i) Impeded growth in domestic, regional and international trade and is especially a major barrier for land-locked countries.
   (ii) Created disincentives to domestic private sector and foreign direct investment in Africa.
   (iii) Resulted in increased costs of production as private firms invest in alternative forms of infrastructure.
   (iv) Encouraged the emergence of powerful groups of actors who control local agricultural markets and retard the integration of smallholder farmers into major value chains.

7. According to the AU/NEPAD, the deficit in infrastructure is one of the key factors that prevent Africa from achieving its full development potential for economic growth and competitiveness in world markets. Access to modern infrastructure remains a challenge to the rural poor who represent 60% of the population in Africa.

8. In many countries, the share of transport costs and insurance as a percentage of the value of exports is exorbitant. For example in Malawi it is 55.5%, 51.5% in Chad, 48.8% in Rwanda, 35.6% in Mali, 35.5% in Uganda and 32.8% in Central African Republic.

9. **It is important to note that:**
   - The regional market demand is projected to growth from USD 50 to 150Billion by 2030.
   - The potential for increased agricultural raw materials exports to Europe is expected to grow from US$ 8 to US$10 billion by 2030, and
   - The export products from US$ 3 to 10 billion.
   - This is an opportunity for income generation for smallholder farmers, a cumulative growth of $4.5 billion in the case of export markets, compared with $30 billion expected from local and “trans-border” markets*.*

10. But all this as has been noted, is linked to the existence of quality infrastructural network that can support broad-based agriculture development with attendant benefits. Infrastructure therefore remains a key determinant of trade competitiveness, growth and the development of agricultural value chain.

III. CHALLENGES FACING RURAL INFRASTRUCTURE DEVELOPMENT IN AFRICA

11. The challenges to rural infrastructure development and emerging trends relate to:
    a) Poor connectivity between African countries when compared to other regions in the world.
    b) Rapid urbanization. There is a shift in food demand from dispersed rural areas to urban centres. Rural infrastructure is required to link domestic food supplies to the growing urban consumption centres.
    c) Huge amounts of resources are needed to build, operate and maintain quality infrastructure in rural areas
    d) A strong need for pre and post-harvest financial, technical, mechanical and human infrastructure to help farmers organize themselves to bulk, add value to agricultural produce, extend the shelf life of their products, as well as access markets;
    e) The poor status and maintenance of existing rural infrastructure–resulting in high cost of transport, poor quality products and a low final price in the market.
    f) Scarcity or lack of other complementary social welfare infrastructures such as health and education.
    g) An increasing competition for external global resources for infrastructure development from emerging markets.
    h) An increasing consumer demands for safe and quality standard of products (from farm to table) in addition to demands for quantity, puts more pressure on existing infrastructure.
    i) There is inadequate coordination of agribusiness actors along the value chain.

IV. EMERGING OPPORTUNITIES

12. A number of emerging opportunities and strengths could help Africa sustain rapid and long term infrastructure development for agricultural value chain growth. Some of the emerging opportunities for countries and the regions include:

1) Infrastructure for ICTs which reduces information asymmetries and opens new local, regional and international markets, particularly for high value and commodity products for which transaction costs are significant.
2) Regional approach to infrastructure development by RECs that creates the economies of scale necessary to lower costs of meeting rapidly expanding food demands.
3) Existing regional integration initiatives
4) Global population growth estimated at 9 billion demands a 70% agricultural growth by 2050.
5) Development of common approach for border inspection controls to reduce burdensome and costly barrier to trade procedures for agricultural products.
6) Focus on value chain (VC) development. Countries are increasingly moving towards agricultural VC development. Agribusiness development is attracting investments into rural infrastructure-as an embedded service.
7) Increasing use of Non-Tariff Barriers (legitimate, arbitrary or adhoc) acting as an incentive into investment in Infrastructure e.g. SPS compliant-regional laboratories for food items in order to have a competitive advantage on regional and global markets.
8) The Standards and Trade Development Facility (STDF) a multi-donor fund set up by United Nations Food and Agricultural Organization (FAO), World Trade Organization (WTO) and the World Bank to help countries access high value agricultural markets.
9) Increasing emphasis on integrated rural development (multi-sectoral approach to rural development).
10) Regional market demand that is projected at US$50-150 billion in 20 years' time. Potential for increased raw material exports to Europe and that of export products presents an incentive for infrastructural investments.
11) Increasing demand for agricultural products in the Middle East and Europe. Only 30% of Africa's arable land is used for agriculture. Exploiting the remaining 70% with requisite infrastructural investments can give it a competitive advantage over other regions.
12) For Government's, investment in infrastructure is an opportunity of mass job creation especially for millions of youth.
13) MDG obligations can be used to leverage additional donor funding for infrastructure development in the quest to meet the goals by 2015.
14) Public Private Partnerships (PPP) arrangements. Private sector companies are increasingly interested to fund Infrastructure projects from their Corporate Social Responsibility (CSR) fund.
15) National agricultural investment plans (NAIPs). All the four CAADP pillars factored in national plans. Pillar 2 interventions should be packaged to attract the private sector investment.
16) Government's investment in social infrastructure should be linked to trade related infrastructure, e.g. rural markets should be strategically located near trunk or main roads.

17) The high food import bill for African countries necessitates effective policies for import substitution through rural agribusiness and agro-industry development.
18) Decentralized planning creates an opportunity for rural infrastructure development.

13. Given the importance of infrastructure in facilitating agricultural development and especially in the rural areas, it is expected that Ministers in charge of agriculture, Finance and other public organs linked to agriculture and rural development will agree to act on the following:

1) Inventorise, harmonize, implement, coordinate and enforce multi-sectoral policies and strategies for rural infrastructural development;
2) Create an enabling environment for private sector involvement in infrastructure development, investment, delivery and management;
3) Identify and support the development of agricultural growth poles as the engine of economic growth;
4) Support and implement the infrastructure for growth initiatives with the objective of linking the current projects of corridor regional transport infrastructure to potential agricultural growth poles;
5) Governments to increase domestic public sector funding towards rural infrastructure development for increased value addition and market access at national, regional and international levels;
6) To support the development of harmonized infrastructure for Standards enforcing institutions, regional certification facilities for agricultural products and border inspections and controls.

14. Given the apparent failure of purely public sector based interventions in infrastructure development and management in the past, it is necessary to search for institutional innovations that would yield greater success in Africa.

There is growing pressure on countries to:

a) Upgrade trade infrastructure such as airports, ports and roads
b) Develop infrastructure corridors, in particular roads and rail networks corridors
c) Adopt regional policies to better coordinate country infrastructure priorities and promote effective interconnection of national road and rail networks to facilitate regional trade and movement of people.

It is recommended that African governments should therefore:

1) Adopt a demand-driven infrastructure system that is responsive to the agricultural sector and the needs of the people living in the rural areas
2) Initiate market led reforms to enhance competitiveness and regional integration
3) Create a conducive environment that promotes structured Public-Private Partnerships (PPPs) for rural infrastructural development.
4) Call on continental research institutions to undertake evidence-based infrastructure and trade-related market access research to support rural development in Africa.
5) Undertake scoping exercise on existing policies and regulatory, institutional and implementation frameworks.