Africa's untapped opportunity: How Africa's free-trade area could catalyse the agricultural sector's development

By Louis van Ravesteyn

2 Dec 2020

The African Continental Free-Trade Area (AfCFTA) could accelerate the development of sub-Saharan Africa's agricultural sector and help the continent to become self-sufficient in food production.

The trading bloc, which is set to become operational in January 2021, will significantly increase intra-African trade over time as it dismantles barriers to trade - including import tariffs and non-tariff barriers such as customs delays, restrictive licensing processes, and certification challenges.

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The World Bank said in a recent report that 60% of African countries are likely to see increased agricultural employment by 2035 thanks to AfCFTA, and wages for unskilled workers are expected to grow faster in these nations.

While some countries will gravitate towards other sectors in which they have competitive advantages – North African states will shift more towards manufacturing and services – many in sub-Saharan Africa are well placed to become food production hubs thanks in part to favourable climates.

The World Bank estimates that by 2035, agriculture will account for more than 50% of total employment in several East African countries, including Kenya, Ethiopia, Uganda, Tanzania and Madagascar.

And by that time, intra-African trade in agriculture will likely be 49% higher than today, according to the study.

Africa's abundance of uncultivated arable land, together with favourable climatic conditions in several countries and underutilised fresh-water resources, gives the continent significant headroom to produce more for regional and international export markets.

Those countries that adopt the latest technologies and develop strategies to remain competitive in the global marketplace will fare best. To compete over the long term, producers and governments need to plan and adopt strategies that are associated with characteristics of more mature markets to stay ahead of the curve

Further, any increases in output should be demand-driven. Products should be well researched and diversified, and production should be viable in terms of export-parity pricing.

Better cooperation

As countries establish themselves as major agricultural producers, there is an opportunity to share best practices across the continent. This includes the adoption of appropriate production systems, the development of infrastructure that supports agribusinesses, and the implementation of policies that spur investments in the sector.

Some countries are relatively well advanced when it comes to the adoption of technology and climate-smart practices, and this has lifted output, lowered costs, and ensured that product quality is consistent.

Several African nations have focused more on value-addition and processing, and this has contributed to import substitution and greater exports, returns and employment. Other African countries can greatly benefit from replicating these best practices.

To promote the sector's growth, authorities can consider interventions that stimulate innovation and the adoption of technology, such as tax incentives. There should also be a focus on preventing illegal trade and dumping in local markets, and on developing policies that improve investor confidence and reduce the cost of funding.

Transparent market information systems, healthy competition, capacity-building programmes, and investments in transport and storage infrastructure would also go a long way towards the sector's development.

According to the International Food Policy Research Institute, African policymakers should focus on harmonising trade regulation across the continent, with an emphasis not only on import duty reductions but also on addressing the costly non-tariff barriers that suffocate trade, including logistical challenges. In fact, it found that non-tariff barriers can be more damaging than tariffs.

The institute says it is crucial that policymakers, investors, and businesses prioritise 'culturally appropriate, nutrient-dense foods' to promote healthier lifestyles. Stakeholders should also coordinate efforts to integrate informally traded goods into formal markets by removing barriers for producers and supply intermediaries.

The banking sector will also have a significant role to play as an enabler of cross-border agricultural trade. Standard Bank Group, with its footprint across 20 African markets, sees AfCFTA as a significant opportunity for clients, the agricultural sector in general, and the continent. To play its part, the bank will leverage its expertise in agribusiness, provide client-centric solutions for the agriculture value chain, and facilitate trade through platforms like Trade Club, as well as its foreign exchange and trade finance solutions.

Opportunities ahead

We believe that there are untapped opportunities in terms of both intra- and extra-African exports.

For the global market, there is scope to become a leading supplier of agricultural products such as vanilla, cocoa and avocados, thanks to strong demand elsewhere. Asia and the European Union will continue to drive global demand for African food products.

The products with the most export potential for other African countries include seafood, sugar, black tea, maize and maize seeds, palm oil, vegetables, onions, potatoes, margarine, sunflower seeds and oil, fertilisers, fruits, rice, sorghum, sesame seeds, pulses, vanilla and other spices, and poultry products.

Sub-Saharan Africa’s growing population, which is increasingly urbanising, will drive long-term demand for consumer products including foods. As a result, the growing agricultural sector will likely satisfy regional demand first, meaning it will take some time for Africa to become the ‘breadbasket’ of the world.

The Covid-19 crisis, which severely disrupted global supply chains, has highlighted the importance of local production and self-sufficiency. AfCFTA may well accelerate the shift in that direction.

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