"Investing in Africa's future"

COLLEGE OF HEALTH, AGRICULTURE AND NATURAL SCIENCES

NAEC409: AGRICULTURAL POLICY ANALYSIS

END OF FIRST SEMESTER SUPPLEMENTARY EXAMINATIONS

JANUARY 2021

LECTURER: DR. K. MUKUMBI

DURATION: 24 HRS

INSTRUCTIONS

Answer **ONE** question only

All questions carry equal marks (100)

QUESTION 1

Read the passage below and answer the questions that follow.

You have been hired by the African Union to recommend policies that address the problem of unemployment among youths on the African continent through agribusiness entrepreneurship. The African Union (AU) is a continental body consisting of the 55 member states that make up the countries of the African Continent. Your response should include the following:

a) Identify and describe two types of market failure associated with youth unemployment in Africa. (8 marks)

i. List and describe 6 policy alternatives [i.e. 3 policies for each market failure identified in (a) that African Union member countries can implement. Justify each choice. (30 marks)

ii. Identify and describe 6 possible unintended consequences of the policies you mentioned in (i). (12 marks)

b) i. What are the main challenges facing the agricultural sector in your home country? (25 marks)

ii. What should be done to address these challenges? (25 marks)

<u>End of Question 1</u>

QUESTION 2

Read the passage below and answer the questions that follow

Economic growth, industrialisation, sustainable development, regional cooperation and integration in Africa are just a few of the desires and expectations riding on the African Continental Free Trade Area (AfCFTA).

At this time of Covid-19-induced economic and social woes, the AfCFTA has been hailed as a continental comeback strategy, and as a way for Africa to reposition itself on a global stage. The formation of new markets, the projections for higher employment numbers, more diverse products and the stimulation of industrialisation pathways are part of the vision for the AfCFTA as African economic integration is realised.

The Covid-19 pandemic has induced a crisis in the 'real economy' of production and not The agreement has come a long way since 2012 when heads of state in the African Union decided on its establishment. Since its adoption in 2018 in Rwanda, 54 countries have signed the AfCFTA agreement, meaning all African countries except Eritrea have shown intent to participate. Removing tariffs on 90% of traded goods and allowing services, commodities, products and people free movement are among some of the basic protocols to counter trade barriers and slow development on the continent.

The agreement aims to boost trade by 52% by harmonising a market of 1.2 billion people to become the world's biggest free trade market. The operational phase was launched in 2019 after 30 countries had ratified the agreement.

The current state of intra-continental trade

Intra-regional trade in Africa accounts for 15% of exports, which is far below that of Asia (58%), Europe (67%) and even North America (31%). While this can be attributed in part to high tariffs on the continent, combined with colonial-era infrastructure, the complexity of multi-regional economic community membership also acts as a barrier.

In the period between 2000 and 2017, intra-African trade focused on manufactured goods and food. The main intra-African exports were minerals, chemical products, food, beverages and tobacco, 60% of which consisted of raw materials and primary products. On the other hand, 70% of imports across the continent were manufactured goods, mainly comprising chemicals, machinery and transport equipment, among others.

Intra-African trade, while still low, is steadily increasing. Of particular importance is the influence of the agricultural sector in Africa. Agriculture is the largest employment sector on the continent, accounting for 19% of intra-African exports and 18% of intra-African imports.

Real-time projected impacts

African businesses operating within the continent vary in type and size, from the formal to the informal, from family businesses to micro-, small- and medium-sized enterprises (MSMEs) and large corporations. The success of the AfCFTA will be driven by the involvement of this highly diverse set of private commercial entities that invest and trade in goods and services across the African continent.

An often forgotten actor is the informal sector operators. Informal cross-border trade contributes between 30% and 40% of total intra-regional trade in the SADC region, and 40% in the COMESA region. While not explicitly stated in the agreement, AfCFTA has the potential to significantly benefit informal cross-border trade by supporting its formalisation, making it more affordable for the operators, and offering protection.

MSMEs, which are responsible for more than 80% of the continent's employment and 50% of its GDP, are also likely to benefit as the AfCFTA agreement is designed to encourage MSME economic activity. The World Bank, which estimates that approximately 415 million Africans live in extreme poverty, calculates that AfCFTA has the potential to lift 30 million people from extreme poverty and 68 million from moderate poverty.

With the ratification and implementation of AfCFTA strategies, the structural transformation of employment in Africa is set to accelerate diversification. Half of employment on the continent is expected to be in the wholesale and retail sectors and, in agriculture. Sectors likely to experience the greatest growth in employment are energy-intensive manufacturing (with an all-African increase of roughly 2.4 million employees), public services (4.6 million), recreational and other services (0.28 million), and trade services (0.13 million).

While the agreement aims to promote economic development for all, it also addresses exclusionary economic development, particularly along gender lines and in other marginalised communities. Vera Songwe, executive secretary of the United Nations Economic Commission for Africa (UNECA), has said that the economic empowerment of women will be one of the effects of the AfCFTA. Total income for female labour is expected to grow faster than average income growth in all regions except Southern Africa.

Challenges in implementing the AfCFTA

The AfCFTA has been applauded for its scope and ambition. In the short term, however, a more competitive environment could disadvantage MSMEs and small-scale farmers through higher trading costs than larger and more established companies.

Furthermore, in the transitional phase, less diversified and adaptable countries will encounter higher adjustment costs. In addition, labour mobility costs will vary from country to country, while labour mobility remains limited across economic sectors.

The development of e-commerce across the African continent is vital if the potential of AfCFTA is to be realised. The advent of the digital economy highlights the necessity for affordable information and communication technologies and enhanced connectivity in rural and remote areas. Closer attention will also have to be given to ensuring a conducive legal framework to support digital activities and trade, as well as data privacy, data protection and cyber security.

In the short to medium-term, trade liberalisation could potentially negatively impact unskilled labour, particularly if low-skill sectors were previously protected. Unless governments put social security and compensation safeguards in place, such change could precipitate social tensions or adverse working conditions and job losses.

Important to note is that trade liberalisation, decoupled from developing a financial sector, strong governance structures and a population with rising education levels, does not result in lower poverty levels, so developments in these areas are key to achieving the goals of AfCFTA.

For some member states, reduced tariffs could adversely impact government budgets, particularly if revenue decreases are sharp or sudden. Beyond inhibiting governments' capacity to invest in infrastructure, education and social programmes, revenue decreases could shift countries away from sustainable development practices and exacerbate inequality.

The European Union experience is instructive in this regard: the rules favour a dominant economy, such as Germany with a strong manufacturing-oriented export base, and can work against less industrialised economies such as Greece, Portugal and Spain. One can only imagine how this could be exacerbated in Africa, where inequalities between middle developing and least developed countries are particularly severe.

A major potential challenge that the AfCFTA could face involves the necessary integration of heterogeneous economies (varying in levels of development) under the single agreement. Unlike other continental free trade agreements, the AfCFTA will be implemented in a context with massive levels of income disparity – more than double that of the Association of South East Asian Nations (ASEAN) and Caribbean Community (CARICOM) economic blocs.

In addition, further integration will be required across regional economic communities. The membership of states within multiple RECs will need to be addressed, requiring convergence to ensure compatibility with the AfCFTA.

Convergence in terms of standards and certifications is certainly needed, along with trade facilitation policies to reduce excessive border bureaucracy and corruption, while encouraging businesses to develop cross-border trade.

There are concerns about the effect of the AfCFTA on climate sustainability and sustainable practices if the rise of intra-continental trade results in higher CO_2 emissions. Greater competition could tempt smaller companies to cut costs in the areas of manufacturing and waste disposal. There is an assumption that an improvement in south-south trade would eventually result in a decreased contribution to climate change by reducing reliance on imports from the north. However, shorter term concerns remain. In addition, while sustainable standards are included in the AfCFTA agreement, the environment is not prioritised in its primary objectives.

a) Use the GRADE framework to analyse AfCFTA. (50 marks)

b) What policy measures can be put into place to support young entrepreneurs, start-ups and small and medium enterprises to participate in intra-Africa trade through the AfCFTA, particularly in agribusiness? Justify each response. Your response should include 10 policy measures and should be written paragraph form. (50 marks)

<u>End of Question 2</u>

QUESTION 3

Read the passage below and answer the questions that follow

UK grants emergency approval to use Syngenta neonicotinoid insecticide on sugar beet seeds

London — The UK government approved on Jan. 8, 2021 the industry's application for the emergency authorization of neonicotinoids (neonics) on sugar beets for the 2021 season, according to the government's website. This will address the threat of the virus yellows on the 2021 sugar beet crop, with the government stating that the protection provided by neonics cannot be "provided by any other reasonable means". The sugar industry had been eagerly awaiting this news, with one source expressing concerns earlier this week that any further delays to the announcement would delay the arrival of seeds, push planting back and cause losses in yield potential. Many growers had been holding off making planting decisions in anticipation of the news and total sugar beet acreage for 2021 is still unclear.

Prior to the news, one participant said "a poor UK crop without neonics and a successful French crop [due to the ban on neonics being lifted] would be disastrous for the UK industry". One participant added, "it's impossible to compete internationally when you don't have the same regulatory environment".

The UK's 2020 crop suffered from a high incidence of virus yellows due to the ban on neonics and warmer than usual weather.

Norfolk Wildlife Trust has criticised an "alarming" government decision to allow some farmers to temporarily use pesticides previously banned over fears they could be killing bees.

East Anglia's sugar beet growers have been granted an emergency authorisation an emergency authorisation to use neonicotinoid seed treatments to kill aphids carrying virus yellows disease - a disease which destroyed many plants last year and poses a significant threat to the 2021 crop.

The chemicals were banned in 2019 due to fears over their impact on the health of bees and pollinators.

Defra agreed with farming groups who said neonicotinoids were the only way to combat a "very real threat to the sugar beet industry", and said stringent controls would be in place to ensure the chemicals are not absorbed into flowering plants which could attract bees.

But Pamela Abbott, chief executive of Norfolk Wildlife Trust, said there was an urgent need to reduce the use of pesticides to reverse drastic declines of insect and pollinator populations. "The evidence of the devastating impact this group of pesticides is having on our wildlife is growing, as is public awareness of the associated ecological crisis," she said. "Hundreds of thousands of people came together across Britain over the last decade to call for better protection of our bee populations, and for these highly toxic pesticides to be banned.

"We need urgent action to restore the abundance of our insect populations and this is an alarming move which will destroy the species we all depend on for the health of our natural world."

The government issued a statement which says as sugar beet is a non-flowering plant, the risk to bees from the crop itself is "acceptable", while herbicides must be used to kill flowering weeds in and around the crop. Other restrictions include that no flowering crop is to be planted within 22 months of the sugar beet crop.

The emergency temporary authorisation for sugar beet in 2021 was welcomed by growers and by British Sugar. South West Norfolk MP Liz Truss said some farmers she visited in her constituency last autumn had reported crop losses of up to 80pc from the virus. "If no action was taken in 2021, then farmers would be facing a similar issue this year," she said.

"Cultivation of sugar beet is particularly high in East Anglia with three large factories processing the crop. "It is therefore incredibly important to the local economy as well as the significant export revenues it generates."

Neonicotinoid thiamethoxam, which was banned in 2018 by the EU and UK due to the serious damage it causes to bees, has been permitted for emergency use this year to protect sugar beet seeds from a virus that reduced its production last year.

Scientific studies have long linked the use of neonicotinoid thiamethoxam to the decline of bees which play a vital role in the food chain. It's estimated around a third of the food we eat is dependent on pollination mainly by bees.

Cllr Sykes said: "Conservationists are clear that the use of this pesticide will threaten not only bees, but also wildflowers and the human population itself as water courses could be contaminated."

a) Use the GRADE framework to analyse the new policy of lifting the ban on neonicotinoids.
(50 marks)

b) Neonicotinoids are already in use in Africa. In the future should the African Union have a common policy banning all its member countries from using them or should each country be left to decide on its own whether to ban or continue its use? Justify your response. (50 marks)

End of Question 3