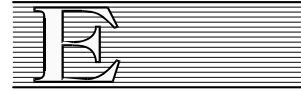




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Report on The Development and Promotion of Regional Strategic Food and Agricultural Commodities Value Chains in Africa

I. INTRODUCTION

1. A significant proportion of non-farm rural and urban employment is linked to agriculture. This is more so for many informal sector enterprises involved in agricultural inputs and implements, manufacturing and distribution, agricultural commodity processing and marketing and food preparation and retailing, which is generally performed by women. It is estimated that the urban poor in Africa spend 60 to 70 per cent of their budget on food. Hence, urban and rural livelihoods are interconnected through linkages between agriculture and the urban economy of goods and services. It is also a common fact that urban poverty generally feeds on rural poverty through rural-urban migration in Africa. For all these reasons, meeting the Millennium Development Goals (MDGs) on the continent would entail having a more productive, profitable and competitive agricultural sector.

2. Recently, the Abuja High-Level Conference on Agribusiness and Agro-industries urged African Union (AU) member States to establish the requisite legal, regulatory and institutional framework to support agribusiness and agro-industry development and put in place programmes to accelerate the development of the value for strategic food commodities, build competitive food supply systems and reduce reliance on food imports.

3. This paper presents an update on an initiative by the Economic Commission for Africa (ECA), on the development and promotion of regional strategic food and agricultural commodities value chains in Africa. The cornerstone of the approach to the implementation of this initiative is a pilot scheme in two Regional Economic Communities (RECs), the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS) that focuses on three of the strategic food and agricultural commodities identified at the 2006 Abuja Summit¹ (livestock, maize and rice). ECA will take the leadership role but the process will be undertaken in partnership with the African Union Commission (AUC) and the United Nations Food and Agriculture Organization (FAO). Also, the involvement of other development partners and national and international research centres will facilitate the process.

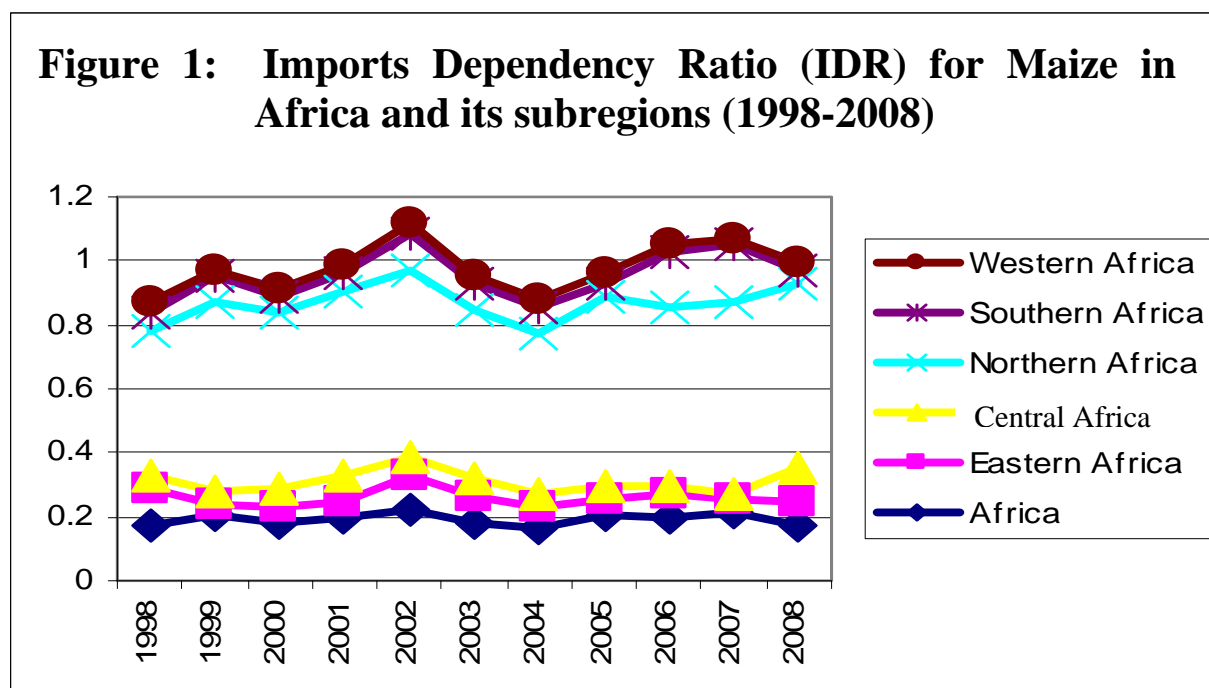
II. AFRICAN AGRICULTURE: CHALLENGES AND PERSPECTIVES

A. An overview

4. Africa was a net exporter until the mid-1960s. Since then, the continent's agriculture has failed to keep pace with increasing food demands of a fast growing population. It has also not been able employ inter-sectoral growth linkages to generate employment and income opportunities

¹ Footnote: ¹ Of strategic importance are such commodities: 1) Which carry an important weight in the African food basket and agricultural GDP; 2) Which hold an important (present or potential) weight in the trade balance of the continent through their contribution to the overall regional export earnings or import bills; and 3) For which the region has considerable unexploited production, value-addition and trade potential, owing to internal constraints as well as external impediments such as agricultural subsidies and support measures of trading partner countries outside of the continent. In the light of these criteria, the Abuja 2006 Food Security Summit, called on African countries to promote and protect rice, legumes, maize, cotton, oil palm, beef, dairy, poultry and fisheries products as strategic commodities at the continental level, and cassava, sorghum and millet at subregional level, without prejudice to focused attention being given also to products of particular national importance.

to achieve significant poverty reduction. A major structural problem that Africa's agriculture faces in today's global economy is its growing import bill, which stands now at over US\$30 billion annually. In the course of analyzing the food situation of a country, an important aspect is to know how much of the available domestic food supply has been imported and how much comes from the country's own production. The Import Dependency Ratio (IDR) provides information on the extent to which a country is dependent on food imports². Figures 1, 2 and 3 illustrate the heavy dependence of African countries on food imports.



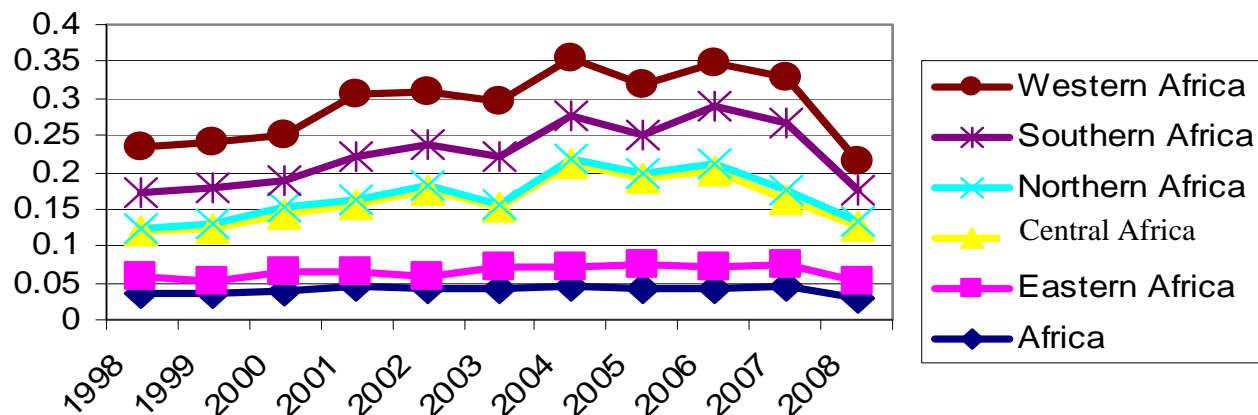
Source: FAOSTAT accessed on 23rd August 2011

² The IDR is calculated according to the international definition of FAO. It does not include change in stocks, because the origin of the stocks (imported or own-produced) is not known, and because it is assumed that the origin of the stocks did not change substantially over the surveyed years. It is defined as

$$\text{IDR} = \frac{\text{Imports}}{(\text{Production} + \text{Imports}) - \text{Exports}} * 100$$

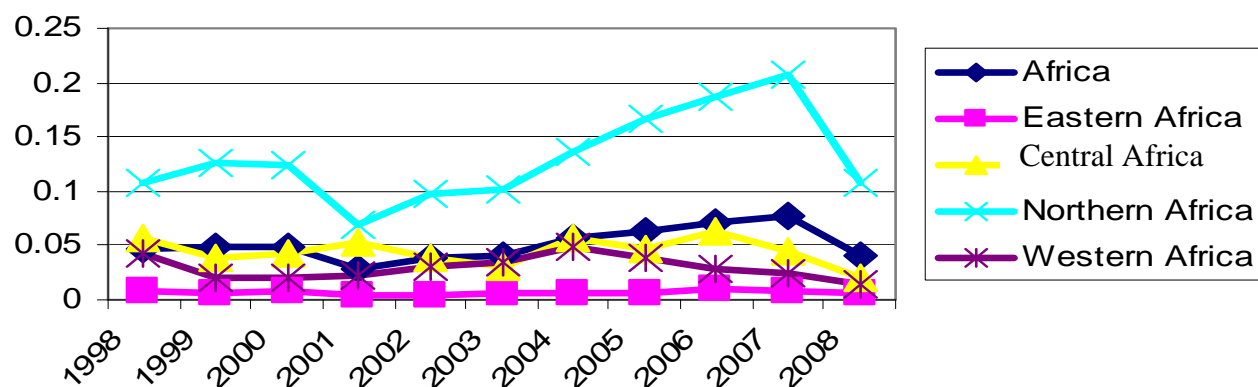
The complement of this ratio to 100 would represent that part of the domestic food supply that has been produced in the country itself. There is, however, a caveat to be kept in mind: these ratios hold only if imports are mainly used for domestic utilization and are not re-exported.

Figure 2: Imports Dependency Ratio (IDR) for Rice in Africa and its subregions (1998-2008)



Source: FAOSTAT accessed on 23rd August 2011

Figure 3: Imports Dependency Ratio for Bovine Meat in Africa and its subregions (1998-2008)

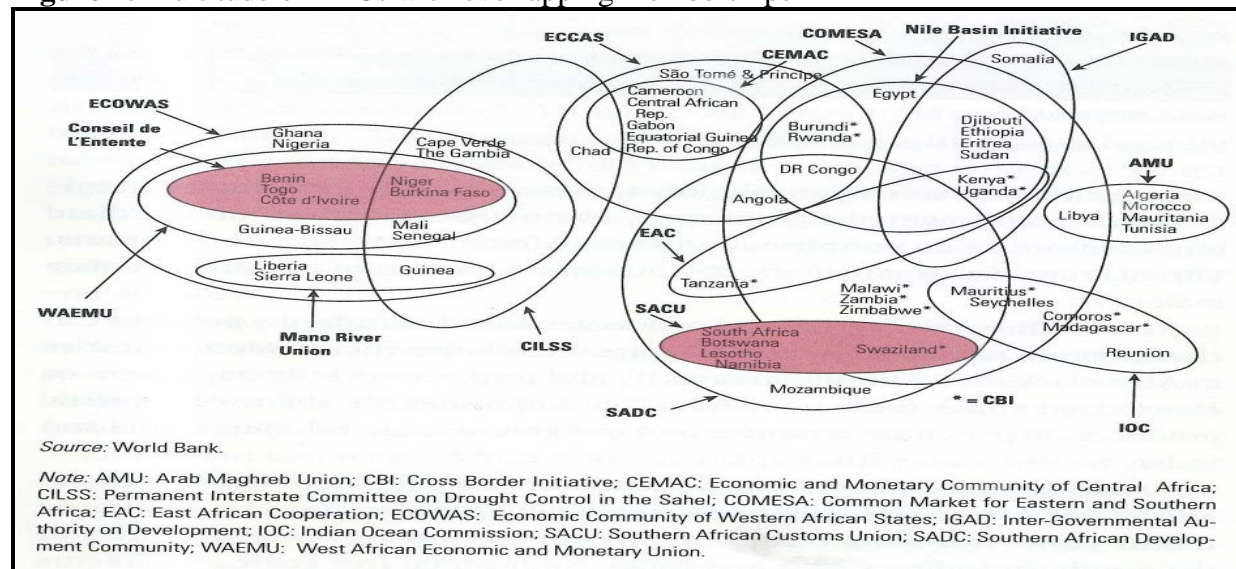


Source: FAOSTAT accessed on 23rd August 2011

5. There is also the loss of export market shares in the face of considerable unexploited intra-regional production and trade potential. This problem is symptomatic of an increasing disconnection of the region's agriculture, and indeed, farmers, from the market, both at the regional and global levels, and doubly backward from the input/factor markets and forward from the output/product market.

6. The African food and agricultural market is characterized by extreme fragmentation along subregional, national and even subnational borders. Paradoxically, while being largely close to each other, these fragmented national and subregional markets are increasingly open to trade (imports and exports) between the continent and the rest of the world (see figure 4 below). From an economic standpoint and within the context of an increasingly global economy, this landscape is not optimal enough to provide for the levels of economies of scale (at the different stages of commodity value chains), economies of vertical coordination (among the different stages of the value chains) and economies of complementary diversification and specialization (among countries and subregional groupings) that would allow the realization of full competitiveness gains and intraregional trade potential for Africa's agriculture.

Figure 4: Multitude of RECs with overlapping memberships



7. In this fragmented regional market landscape, African farmers are increasingly disconnected from both input and product markets, primarily because of failure to develop the agro-industry and agribusiness stages of the agricultural system that are critical in linking them to the market. Indeed, market development and linking farmers to the market are prerequisites for the structural transformation of agriculture in Africa. For farmers to take the risk of investing in productivity-increasing technologies, they should have access to related information and affordable inputs. There should also be reliable and accessible markets for any surplus output resulting from technology-based productivity gains.

8. As a result, the gap between national/subregional domestic production and increasing regional demand tends to be filled by imports from non-African sources. Conversely, fragmented national food and agriculture systems strive to produce for exports aimed primarily at international markets. Worse still, agricultural subsidies and support measures by key trading partners of Africa typically encourage the continent's imports and hinder its exports. Charity must begin at home: With an annual food and agricultural import bill of US\$33 billion, the biggest challenge that Africa probably faces in the area of market access is granting its own (domestic) food and agricultural systems full access to the regional (intra-African) market.

B. Revival of the agricultural development agenda

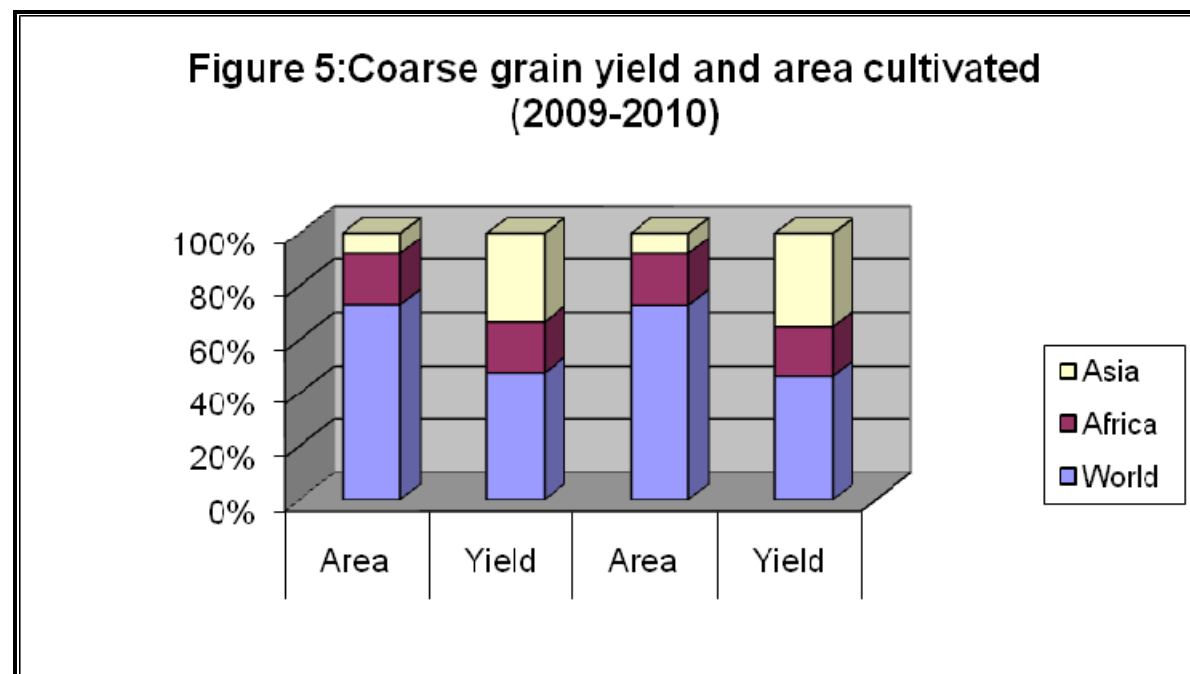
9. After more than two decades of considerable neglect, agriculture is coming back to the forefront of Africa's development agenda. Because of past neglect in the face of the crucial importance of the sector described above, the New Partnership for Africa's Development (NEPAD) opted to include agriculture as the only productive sector among its five sectoral priorities. This choice was reinforced by recent initiatives by the United Nations Secretary-General in favour of an African Green Revolution. After some 25 years, the World Bank is devoting its World Development Report 2008 to the central theme of "Agriculture for Development", with special focus on agriculture-based pathways out of poverty.

10. The renaissance of the African agricultural agenda is engraved in the NEPAD Comprehensive Africa Agricultural Development Programme (CAADP), which provides a framework for consensual policies and priorities for African governments, regional organizations, farmers, private agribusiness and development partners. With the explicit target of achieving an average annual growth rate of 6 per cent in agriculture, the CAADP objectives are to develop dynamic domestic and regional agricultural markets, make Africa a net exporter of agricultural products by integrating farmers into the market economy and improving market access, achieve more equitable distribution of wealth, make Africa a strategic player in agricultural science and technology development and ensure sustainable management of the natural resource base.

C. Under-capitalization and poor performance of agriculture

11. Because of the lack of consistency in degree and direction of priority, African agriculture is today one of the most under-capitalized in the world. Only 6 per cent of arable land in Africa is irrigated, compared to 40 per cent in Asia. On average, African farmers use only 20 kilograms of fertilizer per hectare of arable land (8 kg/ha in sub-Saharan Africa), that is, only 22 per cent (and 9 per cent) of the world average of 93 kilograms per hectare (figure 5). The number of tractors per 1000 hectares of arable land is three times greater in Asia and eight times greater in Latin America than in Africa.

12. Similarly, road densities are more than two and half times higher in Latin America and six times higher in Asia than in Africa. The quantitative deficit in roads is further compounded by inadequate maintenance, which has rendered the existing networks of rural and feeder incapable of allowing effective year-round transport of food and agricultural produce from rural communities and agricultural inputs, services and consumer goods to those communities. In most African countries, access to other basic infrastructure such as electricity and telephone in rural areas is inadequate. For instance, electric power consumption in sub-Saharan Africa is 446kw/h compared to 1402kw/h for Latin America. Similarly, the number of telephone lines per 1000 persons in sub-Saharan Africa is 14 compared with 123 in Latin America.



Source: USDA accessed on 20th August 2011

13. Because of the severe under-capitalization depicted above, the rural landscape in Africa is still marked by smallholder subsistence farms, low technology and weak knowledge-based agricultural production systems, owing to the lack of development and widespread use of appropriate technologies as well as extreme paucity of basic support infrastructure. Input and product markets lack quality infrastructure and support services such as information and communication. Where they do exist, they are poorly integrated at the national, subregional and regional levels. Private investment in farming and market chains is inhibited by the lack of sustainable financial structures that can respond effectively to the needs of economic agents.

14. The emergence and development of a vibrant private agro-industrial sector to add value to and raise the competitiveness of agricultural commodities is lacking because of delays in establishing enabling policy and institutional environments. The combined effects of these features include stagnating or declining agricultural productivity, weak backward and forward linkages between agriculture and other sectors, loss of competitiveness in world markets, increased food insecurity and natural resource and environmental degradation. At around one ton per hectare, average agricultural yields in Africa account for only 25 to 30 per cent of yields in other comparable regions. Similarly, the productivity of labour in agriculture in Africa barely reaches 60 per cent of that in Asia and Latin America.

III. STIMULATING AGRICULTURAL TRANSFORMATION FOR FOOD SECURITY, ECONOMIC GROWTH AND POVERTY REDUCTION

15. The pace of change in agribusiness, agro-food and agro-industrial markets around the world is accelerating rapidly. If Africa is to benefit from these changes, African agriculture and

agro-industry need to undergo structural transformation. In terms of the transformation of the economy, structural changes in farming and agro-industry are tightly interrelated and cannot be dealt with independently of each other. Broad-based development and structural transformation of agriculture will contribute significantly to advancing development of the whole economy, as increases in rural incomes would serve as a strong engine for overall economic growth and poverty reduction.

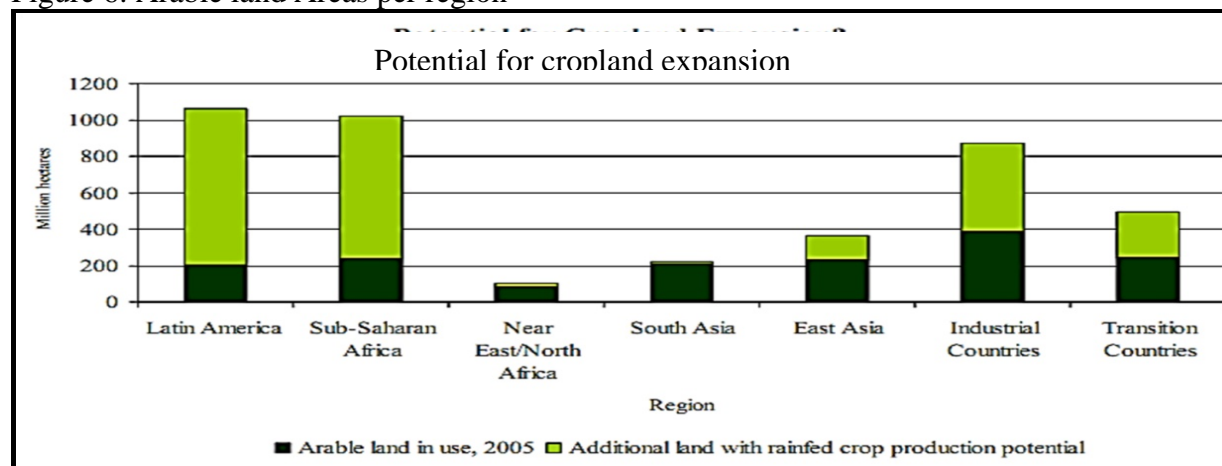
16. However, to appreciate the wisdom of a strategy of harnessing agricultural development for achieving the MDGs one must understand agriculture beyond the narrow confines of farming. No doubt, agriculture is rooted in and primarily articulated around farming as a primary sector. However, this is just one vital part of this comprehensive and far-reaching economic system that we need to consider, namely the food and agriculture system. The system comprises a set of physical production and transformation stages, which are inter-linked by transactions and include research, technology generation and diffusion; input production and delivery; farm-level production; commodity processing, conditioning and handling (including storage) and product transport, marketing and trade.

A. Considerable untapped opportunities for meeting the regional food production potential

17. To face up to the challenges ahead, the world is fortunately far below (the limit for) current global food production and supply frontier, both in terms of natural resource (especially land and water) endowment and available food and agriculture system technologies. Although most developed countries would need to rely mainly on major technological breakthroughs for significant increase in food production, there is ample room for boosting sustainable food production and supply considerably through area expansion and by widespread adoption of available technologies in developing countries.

18. As figure 6 shows, this typically applies to sub-Saharan Africa where more than half of the total arable land is yet to be cultivated, barely 4 per cent of available water resources are used to irrigate less than 6 per cent of farmed land, and less than 10 kilograms of fertilizers are used per hectare to result in yields that still stand at only 34 per cent of world average for maize and 55 per cent for rice – two major staples in Africa's food basket and import bill. In other words, optimal use of available productive natural resource base and technologies could lead to virtually tripling food production in Africa from a 50 per cent expansion of the area under cultivation and the doubling of average staple crop yields which, even under such a scenario, would still remain at about two-thirds of the world average for maize.

Figure 6: Arable land Areas per region



Source: World Bank, 2005

19. Obviously, the outcome of such a scenario could, in the medium term, turn Africa from a net food importer and aid-recipient to a net food exporter, as the region used to be, until the mid-1960s. Provided there is effective and sustained political will and adequate international support, the short-term feasibility of such a strategy will not lead to controversy as demonstrated by the recent Malawi success story of input (fertilizer) support to maize production. And the impact of even doubling food production in Africa – an increasingly global net food importer – would be significant in reducing supply fluctuations and price volatility in world food markets.

20. Comparing common cereal crop yields with world averages shows the huge potential gains that Africa can reap by introducing measures to reach the world average. Africa's yield is 55 per cent of the world average in the case of rice, 34 per cent in the case of maize, and 69 per cent in the case of sorghum. Thus, while Africa needs large investments in agriculture and related services to increase yields in order to reach the world average, the potential benefits in terms of income growth and poverty reduction are quite high relative to other regions.

B. Huge potential for exploiting inter-sectoral linkages for employment creation, income growth (through value addition) and poverty reduction

21. Economic growth that generates increased employment and income for the majority of the population is the best and most sustainable pathway out of poverty and food insecurity. Yet, African economies grew, by about 2 per cent on average, annually, during the 1980s and 1990s and between 3 and 3.6 per cent from 2000 to 2003, by 4.8 per cent from 2003 to 2005 and remained around 4.9 per cent from 2005 to 2009. Falling below the estimated 7 per cent annual growth needed to meet the poverty and hunger MDG, this poor economic performance has broadened the scope of poverty, as the modest growth experienced largely occurred in relative enclave sectors (especially the extractive sectors), with limited impact on broad-based employment and income creation.

22. By contrast, progress in broad-based development and structural transformation of agriculture would contribute significantly to advancing the whole economy, as increases in rural incomes would serve as a strong engine for overall economic growth and poverty reduction. However, to appreciate the wisdom of a strategy to harness agricultural development to achieve the MDGs one's understanding of agriculture must go beyond the narrow confines of farming. No doubt, agriculture takes its roots in and is primarily articulated around farming as a primary sector. However, this is just one vital part of a comprehensive and far-reaching economic system to be considered, that is, the food and agriculture system. This system comprises a set of physical production and transformation stages, which are inter-linked by transactions and include research, technology generation and diffusion, input production and delivery, farm-level production, commodity processing, conditioning and handling (including storage) and product transport, marketing and trade.

23. Within the context of an increasingly global economy, structural transformation of agriculture in Africa thus calls for broadening the policy and strategic frameworks to encompass the farming sector as well as the agro-industrial and the agribusiness services sectors. In other words, innovations to develop agriculture should be conceived from the explicit perspective that agro-industrial and agribusiness development and green revolution must go hand in hand. Through this comprehensive perspective, the transformation of the agricultural system would yield its fullest impact on improving livelihoods by reducing poverty, through broad-based economic growth, enhancing food security, creating employment and generating value-added and wealth across the farming and non-farming sectors of the economy.

24. Indeed, empirical evidence from many African countries shows that increases in agricultural incomes are amplified through growth multipliers of ranging from 1.5 to 2.7, resulting from expenditure and consumption linkages among agriculture and other sectors of the economy. Widespread increase in income through broad-based agricultural growth is crucial for achieving the full potential of these multiplier effects. As structural transformation proceeds from the movement of commodities/products through the sequence of value-addition stages of the sub-sector, the further a commodity/product moves from the primary production level, the greater the aggregated addition to its value (income multiplier effect). Hence, structural transformation requires walking through the value chain of key agricultural commodities, by developing those industries and services that are necessary for processing, handling and distributing products that meet consumer-demand preferences. The development of these industries and services further contributes to creating jobs and increasing the total output of the economy (employment and output multiplier effects). At this juncture, increasing the productivity and competitiveness of agriculture thus holds the key to improving the livelihoods and overall income of the majority of African households.

IV. TACKLING THE CHALLENGES FOR AGRICULTURAL TRANSFORMATION THROUGH THE DEVELOPMENT AND PROMOTION OF REGIONALLY-INTEGRATED VALUE CHAINS

25. The competitiveness of a value chain within the agro-food system depends on the efficiency of the physical transformations that take place at each individual stage of the chain (for instance, transformation of grain into flour) and coordination among the various stages within that

chain. Coordination failures (failure to deliver key inputs on time, for instance) can undermine the productivity gains achieved by improved technology. This means that both the development of technologies and coordination arrangements within the vertical chain are mutually interdependent (Staatz et al. 2007).

A. Addressing the fragmentation of the African regional agricultural market

26. The establishment of a common market for agricultural products is consistent with the underlying principles of the Abuja Treaty. It is also consistent with the objectives of the African Union which include, accelerating the political and socio-economic integration of the continent, promoting sustainable development at the economic, social and cultural levels and coordinating and harmonizing policies among the RECs. However, the process has been very slow as many protocols for the facilitation of regional trade are incomplete and tariff and non-tariff barriers impede the flow of goods and services within and among the RECs.

27. Growth in African agriculture and increased intraregional and international agricultural trade are critically constrained by high marketing costs in the region. Indeed, the agricultural marketing systems in most African countries leave much to be desired in terms of organization, physical infrastructure, and technology. As a result, the continent is ill-equipped to meet the basic requirements for becoming competitive in the global market, namely producing affordable products in quantity and quality. More attention should thus be paid to improving the marketing system.

28. An International Food Policy Research Institute (IFPRI) study (Diao et al., 2003) to evaluate the importance of reducing transaction costs of African agricultural trade and farm income, with focus on the inter-linkage/spillover effect of reducing marketing costs, led to the assessment of the total gains, if transport costs can be lowered in the whole region. The study shows that a 50-per cent (30 per cent for South Africa given its relatively more advanced technological status) increase in total production factors (TFP) in the transport sector for all African countries would significantly and positively affect African countries, with real GDP increases by 5.3 per cent, and agricultural real GDP increases by 9.6 per cent for the region as a whole. Moreover, most countries enjoy a significant increase in both aggregate real GDP and agricultural real GDP and the benefits are more equally distributed among the countries in the region than in the case of the liberalized European Union market, where some small countries hardly stand to gain.

29. These results suggest strong cross-sectoral linkages between African agriculture and non-agricultural sectors such as transport, industrial and services. With poor market and transport conditions and high transaction costs, many African agricultural commodities cannot reach domestic, regional or world markets. Without improving the efficiency of these non-agricultural sectors that provide critical inputs or services to agricultural production and trade, it is virtually impossible for the countries to increase their competitiveness in international markets, while the region would gain little from trade liberalization.

B. Developing a vibrant regional agro-industry/agribusiness sector to effectively link farmers to both agricultural input and product markets

30. The economic environment within which African producers, especially the rural poor households, operate is characterized by unpredictability, uncertainty and risk. Agricultural markets in particular – for input supplies and agricultural produce – have become increasingly difficult for them to access. To the extent that rural poor households are able to participate in these markets at all, they do so on generally inequitable terms, where the poor are often obliged to sell low and buy high, with little choice regarding where they conduct transactions, with whom, and at what price. Among the main factors behind this situation have been the various processes of liberalization at both national and international levels that led to the withdrawal of government support and intervention in agricultural production and marketing.

31. Technological developments in the biological sciences, energy, information and communications offer new opportunities that could help address this challenge. Africa is offered great opportunities to harness both conventional green revolution and emerging green revolution technologies to make significant headway to sustainable agricultural development and food security. The public and private sectors in African countries must seek out and exploit these opportunities.

32. Public investments in research and technology generation and diffusion are needed to encourage broad-based adoption of available technologies and to strengthen indigenous capacities to develop and/or adapt and diffuse the kinds of technologies needed to compete effectively in domestic, regional and global markets. This will require strengthening African research capabilities.

C. Building Africa's capacity to become a major player in the global agricultural economy

33. For Africa to reverse its weak and declining competitiveness in both regional and global markets, it is important that African countries collaborate in regional frameworks to create and sustain a competitive edge in commodities that the countries produce and trade. This means therefore that strategic commodities must be identified according to agro-ecological zones while marketing of commodities must take into account the entire commodity value chains from input acquisition, production, transformation, and end use. Dynamic efficiency, which is a prerequisite to sustaining competitiveness can only be achieved along commodity value chains which take advantage of agriculture's forward and backward linkages with other sectors at the national and regional levels.

34. Regional efforts must thus be focused on upgrading regional capacities in non-traditional exports and increasing the regional value addition component in traded commodities. It also requires rationalization of regulations concerning agricultural trade, investment and movement of individuals involved in delivering trade-related services. Consistent with the CAADP pillars, a regional trade and infrastructure strategy is needed, as proximity and similarity of needs are crucial to expanding and accessing regional markets (Porter, 2008).

D. Containing the new global scramble for Africa's land and water resources and managing climate change

35. In combination with the financial crisis and the recent global food price surge, some countries are looking for suitable land in Africa to outsource their highly-subsidized (in the Middle East) or substitute their shrinking land-based food systems (China) in meeting their food security challenges. Meanwhile, private companies from Europe, the United States and some parts of Asia are lining up to access African lands to develop huge plantations or agro-industry ventures to produce bio-fuels. Many initiatives are underway at the country level, under rather questionable processes.

36. While this new trend can spur long-delayed investment for agricultural transformation that could benefit African countries, it also raises serious concerns about its potential negative impact on the development agenda. Since it poses serious threats to the resource basis of Africa's agriculture, it can jeopardize the CAADP agenda and derail the concerted effort by Africa as a development actor.

37. Another major challenge facing Africa is climate change. A recent FAO report (FAO, 2009) states that agricultural output is expected to decrease by 50 per cent in Africa, resulting in severe undernourishment as a result of unchecked climate change. The health burden and conflicts will increase as populations fight over dwindling resources. The need for Africa to develop adaptation and mitigation strategies cannot be overemphasized. The costs of adaptation and mitigation are, however, extremely high and beyond the means of African countries. It is estimated that the cost of adaptation could be anywhere between 5 and 10 per cent of continental GDP. It is therefore important for the international community to help in financing the cost of climate change adaptation and mitigation in Africa.

E. Encouraging member countries to support regional integration initiatives

38. A major reason why regional integration schemes in Africa have, thus far, achieved limited success can be traced to the failure of African governments to implement integration measures called for in the mandates and protocols of various organizations. In Africa, different food and agriculture problems have been addressed separately, resulting in a blend of policies that does not only discourage agricultural and rural development but also compels economies to move back into costly self-reliant measures in the face of crises rather than engage in joint cooperation activities that would yield less costly and more mutually beneficial outcomes. Furthermore, this mix of policies protects local interests rather than advance a joint local and regional approach to food security.

39. While the need to take a long-term view in considering the sustainability of agricultural value chains in Africa cannot be overemphasized, there appears to have been a tendency in recent agricultural policy work to concentrate on the short term, perhaps because of national expediency. A focus on strategic food and agricultural commodities require African decision makers and key stakeholders to take a more far-sighted view of their responsibilities. A policy and regulatory

framework is key to ensuring a sustainable future for an African Common Market for agricultural products because it provides assurance that all the rules for a well functioning market are in place.

F. Addressing the compensation issue

40. An undesirable feature of regional integration is that member countries are unlikely to benefit equally because of the existence of economic and social disparities. Since the purpose of integration is to improve the efficiency of resource allocation, the manufacturing industries set up in countries may lead to the emergence of a few poles of industrialization. Theoretically, if regional integration leads to higher economic growth rates than would have otherwise been the case because of efficiency gains, it should be possible to compensate the losers. The key issue, however, is that differences in size and level of development are a real obstacle to successful integration because they create problems in terms of the equitable sharing of the costs and benefits from regional integration. Larger and more developed economies stand more to gain than the smaller and least developed economies in the regional groupings.

41. There is a need to carefully monitor the integration process to ensure that every country benefits from its participation. In particular, there should be compensation mechanisms that will adequately address the financial losses that member countries may suffer as a result of trade liberalization measures undertaken in the context of regional integration. This initiative should, therefore, encourage the establishment of temporary or time-bound compensation mechanisms that will ensure equitable distribution of the benefits and burdens from integration across member countries through fact-finding studies and policy dialogue with regional member countries.

V. SUPPORT TO THE IMPLEMENTATION OF THE INITIATIVE

42. To further support the implementation of CAADP, ECA has been advocating for a strategy that calls for revisiting Africa's commitment to and efforts at broadening and deepening regional integration. This strategy aims primarily at exploiting the special diversity in resource endowments on the basis of the continent's principles of "comparative" and "competitive" advantage at the global level.

43. Indeed, for the last five years, ECA has focused on advocating for an approach to a structural transformation of African agriculture, primarily articulated around systematic efforts to develop coordinated value chains for selected strategic food and agricultural commodities within a regional integration perspective. In so doing, the purpose is not only to promote the development of agriculture as a key sector of Africa's national economies, but also to use agricultural development as a conduit for broadening and deepening regional integration. The aim is to trigger a structural transformation that would enable African agriculture to capture the growing regional market, which, unfortunately, is currently too fragmented to provide the right incentive sets for significant market-oriented, private-business operations as well as to become a key player in the global market place.

44. A multi-institutional approach was thus adopted for the implementation of an initiative on the development and promotion of regional strategic food and agricultural commodity value chains. The Common Market for Eastern and Southern Africa (COMESA) and the Economic

Community of West African States (ECOWAS) were brought on board right away as key entry points in the process of the implementation of the initiative. Two consultative meetings were planned and carried out. Currently, stocktaking exercises/baseline studies are being conducted in the COMESA and ECOWAS regions to highlight the challenges and opportunities of the development and promotion of regional strategic food and agricultural commodity value chains in Africa. The outputs of these studies will be presented at regional workshops, which will bring together key stakeholders (policy makers, private sector, service providers, sector associations, scientists, NGOs etc.) to ensure ownership for future value chain upgrading activities, and also to assess the sector's willingness to reorganize and change. In the second phase of the project, upon the request of RECs, activities will be undertaken to develop a regulatory and policy framework and guidelines for the development of regional value chains in Africa. Next, there will be follow-up actions to assist in disseminating the framework and building the capacity of member States to be able to implement the policy framework.

45. ECA is leading the implementation of this initiative, in collaboration with the African Union Commission (AUC), the Food and Agriculture Organization (FAO), the United Nations Industrial Development Organization (UNIDO) and the Pan-African Farmers Forum (PAFFO), within the framework of NEPAD's CAADP and focusing on Pillar II, on the development and promotion of rice, maize and livestock value chains within the COMESA and ECOWAS regions.

CONCLUSIONS AND RECOMMENDATIONS

A. Deepen regional integration to promote the development of coordinated value chains of strategic food and agricultural commodities by:

1. *Building on the outcomes of the Abuja Food Security Summit and the 3ADI High-Level Conference*

46. It is now generally recognized that enhanced intraregional trade through strengthened regional integration arrangements (RIAs) holds the key to Africa's agriculture and food insecurity problems. The preferred strategy rests on the common notion that African food and agricultural markets are extremely fragmented at subregional, national and even subnational levels, resulting in segmented sub-optimal markets which do not ensure profitability for sizeable private investment in the different stages of the commodity chain. These segmented gaps between regional/national domestic production and regional demand are increasingly being filled by imports of non-African origin, even in cases where tradable surpluses exist.

2. *Moving market integration beyond national and subregional levels to encompass the global regional market - Common African Market*

47. Owing to its extreme fragmentation (due to weak integration from a regional perspective), the African agricultural market system is failing to address the double disconnection of the farming sector from the market because there are significant asymmetries in perceptions of market and investment opportunities by the private agro-industry and agribusiness community as one moves from the national to the subregional and regional perspectives. As a result, the perceived market and investment opportunity sets diverge increasingly, as one moves from the regional

perspective (one market) to the fragmented subregional and national ones. In other words, business communities within the continent tend to operate along perceived opportunities that are circumscribed within national/subregional boundaries, while their counterparts from outside of the continent tend to operate in line with strategies based on perceived opportunities of a common regional market.

48. In terms of trade, such asymmetries in perceptions of market and investment opportunities could explain to a large extent why the gap between national/subregional domestic production/supply and increasing regional demand is primarily filled by imports from non-African sources. They would also help understand why the fragmented national food and agriculture systems of African countries strive to produce and compete among themselves for export markets outside the continent. The resulting double negative trend is further compounded by agricultural subsidies and support measures of key trading partners of Africa, which typically encourage the continent's imports and hinder its exports. It is in this sense that one of the biggest challenges that Africa faces in the area of agricultural market access is granting its own (domestic) food and agricultural systems full access to the regional (intraAfrican) market, as considerable and increasing intra-African trade potential remains untapped not only within the existing subregional economic groupings, but also and importantly among these groupings.

3. Mapping potential regional production and processing belts of strategic commodities (based on a mixed REC and agro-ecological approach)

49. Currently, domestic markets for food staples dominate agricultural markets in Africa. Intra-African trade data have shown that a growth strategy for higher-valued products destined for domestic and regional markets as well as non-African markets could revitalize agriculture in all regions of Africa. Instead of raw agricultural commodities and related jobs and processing industries being exported, the expansion of forward-linked agribusiness and agro-processing could significantly increase employment and non-farm incomes for rural populations in many African countries. For instance, the value of traditional and non-traditional exports to non-African destinations represents the minimum revenue that could be captured by processing agricultural commodities in the respective regions. This value would more than triple – up to \$US68.2 billion if domestic and intraregional markets were taken into account, contributing to rapid job creation, food security and poverty reduction.

50. One of the main steps to be taken is to map the potential of strategic commodities in agricultural production and processing, in order to optimally use scarce resources in building infrastructure such as roads, communication links, energy and water schemes, as well as technological and research centres and extension services. These would serve as a platform to host the agro-industrial belts across RECs. This mapping exercise will entail an interrelated series of mapping activities by the RECs, integrating:

- (a) The biophysical factors that influence agricultural production;
- (b) The biophysical, economic and infrastructural factors that influence processing activities; and

(c) The current human capital stock and the human capacities required to develop the identified commodity belts.

B. Build regional cooperation and effective public-private partnerships to articulate efforts and investment in the CAADP pillars around an explicit strategy to develop a regionally-integrated value chains for strategic food and agricultural commodities

1. Create an enabling environment to unleash private sector investment in strategic food and agricultural commodity value-chain development

51. Developing vertically coordinated regional chains (of production, processing and marketing) for strategic agricultural commodities would require building public private partnerships to create an environment that is conducive to ensuring both profitability and security of private investment. More explicitly, the creation of such an environment could proceed from the opening of free subregional/regional investment zones in those areas where the greatest unexploited production potential for selected strategic agricultural commodities lie, so as to stimulate the mobilization of private investment into agriculture at a regional scale. Major river basin-wide initiatives such as those of the Niger and Nile rivers could lend themselves to a strategy of free regional investment zones for the development of vertically coordinated chains of production, processing and marketing of strategic food and agricultural commodities/products.

52. In such zones, the creation of the right policy, institutional and legal frameworks for the development and management of land and water resources and the provision of the necessary supportive public infrastructure and services and the establishment of trans-national agribusiness companies would grant further incentives and security for private investment. This would be conducive to the mobilization of pooled investment through regional agricultural companies (joint ventures) with a view to developing the primary production, processing, transport and regional marketing stages of the strategic food commodity chains in a vertically coordinated manner. This strategy could be further strengthened by the development of capital markets so as to contribute to optimal development of the production potential as well as the sectoral growth and employment linkages within the regional food and agriculture systems.

53. It is important for African countries to create an enabling environment for profitable and secure investments in coordinated regional agricultural input and commodity value chains. Profitability is not just a matter of minimizing costs at the farm, as globally significant value chain actors operate in regional markets that offer economies of complementarities where substantial “comparative” and “competitive” advantages are recouped beyond national boundaries. Hence, African countries must take initiatives in designing and implementing policies, legal and institutional frameworks that would promote regional integration to create industry-to-industry linkages and strengthen supply chain linkages.

54. It is therefore time for Africa to explore the possibilities of establishing preferential subregional/regional agricultural investment zones along agro-ecological zones of regionally-strategic agricultural commodities. This in turn requires forging public-private partnerships (PPPs) to promote private investment in regional agribusiness joint ventures, as well as in trade

facilitating infrastructure and services. This is consistent with CAADP Pillar 2, whose activities include promoting PPPs that would raise capacities of private entrepreneurs, including commercial and small-holder farmers, to meet the increasingly complex quality and logistic requirements of regional markets. The global financial meltdown further strengthens the need for governments to take a keen interest in securing investments. Potential investments in agribusiness and agro-processing are failing to take off, not because they cannot succeed, but because the private sector cannot guarantee financing in the presence of uncertainty. Governments must be willing then to take up some of those risks while at the same time providing the missing infrastructure services that interact to heighten the risks.

2. Establish an African agricultural market information forum

55. As a result of recent agricultural development policies, Africa has experienced the emergence and rise of market information systems at both country and subregional levels. Indeed, over the last decade, Africa has seen rapid growth in the use of market information systems. This activity is consistent with regional trade facilitation initiatives under the NEPAD CAAPD that includes collecting and disseminating information on regional trade flows. However, collaboration among existing national and regional information systems has been very limited. This forces much of the trade to be within narrow networks, across short distances, with small lot sizes and limited arbitrage over time. Much value would be added to these national and subregional initiatives if they were inter-linked, creating a platform for mutual sharing of information and experience across the continent.

56. Access to technical, socio-economic, policy, market and trade information is essential for agricultural transformation and food security. However, the majority of smallholder farmers and private sector agribusiness have limited access to information. As the socio-economic environments of Africa continue to change and the private sector actors are becoming the major providers of services previously managed by the public sector, a properly established and well-coordinated agricultural information system has the potential of promoting free trade based on an open, transparent and competitive agricultural marketing system and could serve as a decision support tool for policymakers, private sector dealers and farmers. While many institutions have attempted to provide market information, their efforts are often not coordinated. Therefore, the establishment of a regional market information forum and decision support system that combines agricultural market information and a decision support tool as a response to this need is necessary to:

(a) Increase regional agricultural trade and food security by improving and linking efforts by existing regional food and agricultural market information systems to provide marketing services, generate, disseminate and make efficient use of market information throughout Africa;

(b) Provide support to regional market information systems through key public and private regional organizations on selected commodities with the greatest potential impact on intraregional trade, food security, export and overall economic and social development; and

(c) Serve as an analytical base for studies on agricultural trade, productivity and profitability of investment in various agro-ecological conditions and across countries in Africa.

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