



## Brussels Policy Briefing no. 33

### Key drivers of success for agricultural transformation in Africa

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in partnership with NEPAD/CAADP

#### 1. Background

No country has been able to sustain a rapid transition out of poverty without raising productivity in its agricultural sector. Agriculture continues to be the predominant source of employment in many regions, accounting for 63 % of rural household income in Africa, 62 % in Asia, 50 % in Europe and 56 % in Latin America. Historically, agricultural growth was the precursor to industrial growth in Europe and, more recently, in parts of Asia. However, agricultural growth also has much broader linkages or multipliers and allows poor countries to diversify their economies to sectors where growth may be faster and where labour productivity and wages are typically higher. Where agricultural productivity has grown slowly, as in many parts of sub-Saharan Africa, non-farm activities have also tended to grow slowly.<sup>1</sup>

#### Many challenges for African agriculture

African Agriculture is challenged by a number of threats such as food price spikes, land and water not adequately exploited, rising energy and fertilizer prices and the impact of climate change on agriculture production and livelihoods. Feeding more than 9 billion people by 2050 will require doubling food production on a sustainable basis. Therefore, agriculture should be resilient - able to withstand or recover from stresses and shocks. Developing resilient agriculture will require technologies and practices that build on agro-ecological knowledge and enable smallholder farmers to counter environmental degradation and climate change in ways that maintain sustainable agricultural growth.<sup>2</sup> Financial markets and rural finance institutions are weak. Development of competitive output and input markets has lagged, and services for smallholders remain poor. Progress in science and technology is inadequate and agricultural research, agricultural extension, and agriculture education remain persistently underfunded. These factors threaten to condemn African agriculture to slow and inadequate technical change, contributing to a growing technology divide. Africa will have to address these issues if it is to capitalize on today's better agricultural opportunities<sup>3</sup>.

#### But also many opportunities arising...

Placing agriculture at the center of Africa's socio-economic growth and development agenda is the decision African Heads of State and Government made when they signed up on the Comprehensive Africa Agriculture Development Programme (CAADP) in Maputo, Mozambique in 2003. Over the last decade, Africa has entered a period of fairly rapid economic and agricultural growth. Macroeconomic stability, improved investment climates, and agricultural incentives have contributed to the improved trends. Rising international agricultural prices and expanding market opportunities within Africa will make farming more profitable and create great opportunities for African agriculture to make up lost ground, especially in domestic and regional markets<sup>4</sup>. Price incentives for producers have improved as a result of unified exchange rates, lower industrial protection, and sharply reduced export taxation. The higher international commodity prices, which are likely to stay, could create growing opportunities for import substitution and regional agricultural trade. Within the context of CAADP, African governments, the

<sup>1</sup> Peter Timmer and Selvin Akkus, *The Structural Transformation as a Pathway out of Poverty: Analytics, Empirics and Politics*, Centre for Global Development, Working Paper Number 150, July 2008;

<sup>2</sup> The Montpellier Panel. 2012. *Growth with Resilience: Opportunities in African Agriculture*. London: Agriculture for Impact.

<sup>3</sup> The growing opportunities for African Agricultural Development. Hans P. Binswanger-Mkhize, Derek Byerlee, Alex McCalla, Michael Morris, and John Staatz. ASTI. 2011

<sup>4</sup> Ibid

regional institutions, and development partners are demonstrating increasing commitment to agricultural and rural development.<sup>5</sup> Most African countries have a comparative advantage in agriculture. Africa has more than half of the world's agriculturally suitable yet unused land, and impressive water resources scarcely tapped.<sup>6</sup>

## 2. Agriculture as a driver of African economic growth

Agriculture remains Africa's main source of employment with around 60% of its labour force employed in the sector. But its share in GDP is much smaller, accounting for an average of 25%, indicating its relatively low level of productivity and earnings. The big share of labour force employed in the agricultural sector gives us the idea of the huge opportunity that can be exploited. Increase of productivity in the agricultural sector could lead to a significant increase of the GDP share in those countries

The size of the sector differs across the continent. In Burkina Faso, Burundi, Ethiopia, Guinea, Guinea-Bissau, Malawi, Mali, Mozambique, Niger and Rwanda, between 80% and 90% of the total workforce are engaged in agriculture. In some of these countries (Ethiopia, Guinea-Bissau, Mali and Niger) agriculture contributes 40% or more to GDP. And in a few other countries (Liberia, Central African Republic and Sierra Leone) the agricultural sector contributes between around 50% and 70% to GDP (with employment shares of around 60% to 70%). However, in South Africa and in Mauritius employment in the agricultural sector is less than 10% of the labour force and the share of the sector in GDP is less than 5%.<sup>7</sup>

The **manufacturing sector** in Africa is relatively small with an average contribution of only about 10% to GDP. However, the degree of industrialisation differs significantly across the continent and depends, among other conditions, on the stage of development and the availability of natural resources. Countries with low per capita income levels and those with high resource wealth tend to have very small manufacturing sectors, often around 5% of GDP or less. With an abundant youth labour force, large agricultural sectors and abundant natural resources, Africa has large potential to develop labour-intensive manufacturing notably in sub-sectors with linkages to agriculture. It has been found that manufacturing activity has to cope with many country-specific constraints, such as infrastructure bottlenecks including unreliable and expensive energy supply, lack of skilled labour, red tape, expensive investment financing and demand constraints due to fierce foreign competition.<sup>8</sup>

### Leveraging agribusiness potential

Agricultural production and agribusiness together constitute an average of around 45 percent of the economy of Sub-Saharan Africa. In Sub-Saharan African countries, the share of agribusiness (including logistics and retail) in gross domestic product (GDP) is typically around 20 percent, while the share of agricultural production is around 24 percent for low-income countries, although only a part of production is commercialized.<sup>9</sup> Notwithstanding the low share of agribusiness in the value chain in Africa, a sizeable share of African manufacturing is based on agricultural raw materials. In the least developed countries, agro-processing accounts for 68 percent of the manufacturing value added. In Africa, the share of agro-industry in manufacturing value added is typically one-third to one-half and sometimes higher.

The lack of **finance** is widely recognized as a perennial constraint on agricultural performance, whether among large agribusinesses or smallholders. Formal lending to agriculture is severely limited by agriculture's seasonality and high risk, the absence of formal land titles, the heterogeneity of agriculture across commodities and regions, and bankers' inexperience with agribusiness. There are now much better opportunities to tap private sector financing. Companies can provide financing directly through interlinked value chains, provided that contracts can be enforced, especially for high-value exports and some products that require immediate processing. At the same time, interest in Africa among foreign investors, pension funds, and foreign banks in direct investments and loans is at an all-time high, but tapping that potential requires the identification of viable projects and attention to mitigating social risks. An unprecedented number of funds employ public-private partnerships with donors and foundations to

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<sup>5</sup> Ibid

<sup>6</sup> Growing Africa. Unlocking the Potential of Agribusiness. World Bank. January 2013

<sup>7</sup> AfDB, OECD, UNDP, ECA. African Economic Outlook. 2013.

<sup>8</sup> Ibid

<sup>9</sup> Growing Africa. Unlocking the Potential of Agribusiness. World Bank. January 2013

provide patient capital to African agribusiness firms<sup>10</sup>. Development partners are mobilizing to help Africa seize its agribusiness opportunity. The Comprehensive Africa Agriculture Development Programme (CAADP) is articulating the central role of private investors and agribusiness. Several international agencies have partnered with the African Union in the African Agribusiness and Agro-Industries Development Initiative (3ADI).

### **3. Towards agriculture transformation**

A number of actions are needed to propel agriculture and the broader economy toward a faster sustainable transformation. Domestic and subregional markets need to be recognized as representing the main opportunities for African producers in the short-to-medium term. To improve agricultural profitability, farmers need to have access to input and output markets and more support should be given to farmer associations. Governments need to significantly increase investment in agricultural technology generation and dissemination at national and subregional levels that will help increase resilience against the many stressors affecting agricultural activities in Africa. Stronger regional action is needed to help small countries with limited financial capacity expand regional trade in agriculture and food products, improve regional and internal infrastructure, improve indigenous scientific and research capacity, and adopt regional approaches to rural financial architecture. Focus on smallholder development as a way of reducing poverty as there is little to suggest that the promotion of large-scale farming is likely to be successful enough to reach the rural poor in Africa. Eventually promote in the same time the affiliation of smallholder in farmer association in order to better deal with market access. Finally, the private sector; communities and civil society; local governments; and sector institutions concerned with health, education, and agriculture need to collaborate to promote local and community development via public-private partnerships and other mechanisms. Building the capacity of agricultural and rural institutions can best be done in the context of a broader, national capacity development strategy and program. It cannot be done through top-down provision of services.<sup>11</sup>

#### **Policy processes in support of agricultural transformation in Africa**

The Comprehensive Africa Agriculture Development Programme (CAADP) is an African Union (AU) initiative to accelerate agricultural growth, improve food security and strengthen the resilience of the environment in Africa. As an integral part of the New Partnership for Africa's Development (NEPAD), the initiative was endorsed by African Heads of State and Government at the 2003 AU Summit held in Maputo, Mozambique where African governments agreed to allocate at least 10% of national budgetary resources to agriculture and rural development and to adopt sound policies to achieve sustainable agricultural growth. CAADP provides a common policy framework for agriculture development in Africa. Chief among CAADP's targets is the achievement of agricultural growth rates of at least 6% per annum. Underlying it are targets for reducing poverty and malnutrition, for increasing productivity and farm incomes, and for improvements in the sustainability of agricultural production and use of natural resources. These targets relate to the four thematic broad priorities for CAADP as a continental policy framework: (i) sustainable land and water management, (ii) rural infrastructure and trade-related capacities for market access, (iii) food supply and hunger, (iv) agricultural research.

The L'Aquila Joint Statement on Global Food Security, which emerged from the G8 Summit in 2009, generally endorses CAADP and commits to providing financial, in kind and technical assistance as part of the \$22 billion pledged to assist agriculture and food security globally, including \$6 billion in additional funding to existing commitments. The most significant share of the L'Aquila pledge comes from aligning current funding streams with programmes that already support national and regional agriculture and food security investment plans. Some agencies have also started to directly finance its implementation through the CAADP Multi-Donor Trust Fund (MDTF) as well as bilateral support at continental, regional and national levels.

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<sup>10</sup>Ibid

<sup>11</sup> Hans Binswanger-Mkhize. The role of Agriculture in structural transformation in *Patterns of Growth and Structural Transformation in Africa. Trends and Lessons for Future Development Strategies*. IFPRI West and Central Africa Office. April 2012.

#### 4. The way forward: Learning from successes

Growing agricultural productivity attacks poverty from three different directions. It increases the productivity and incomes of the majority of Africa's poor, who work primarily in agriculture. It reduces food prices, which govern real incomes and poverty in urban areas, and generates important spill-overs to the rest of the economy. Though inadequate in number and scale to counter Sub-Saharan Africa's daunting demographic challenge, African farmers and agricultural policymakers have achieved a series of significant successes in agricultural development. Malian cotton production has grown at 9 percent per year for the past 40 years, while Kenyan horticultural exports have increased five-fold since 1975. Farmers and researchers have launched literally hundreds of innovative soil and water-conservation initiatives in a wide variety of locations to contend with declining soil fertility and declining fertilizer subsidies. Work by cassava scientists across Africa has countered deadly disease and pests attacks and converted these threats into opportunities for significant subsequent rapid production growth, benefiting tens of millions of small farmers and making it one of the continent's most powerful poverty fighters to date. Collectively, the case studies reviewed in the book suggest two key determinants of outstanding agricultural performance: a) sustained, productivity-enhancing research; and b) favorable market incentives for farmers and agribusinesses. Successes have emerged at places and times where these two ingredients converge. Where agriculture has performed poorly, one or both of these pre-conditions has been absent.<sup>12</sup>

Research on the current and future competitiveness of African selected countries highlights the following:<sup>13</sup> (i) ***Farm-level production costs in Africa are competitive.*** Despite significantly lower yields in the African countries, farm-level unit production costs in Mozambique, Nigeria, and Zambia are comparable to or lower than those in the Brazilian *Cerrado* and in Northeast Thailand, due to very low labor costs and limited use of purchased inputs; (ii) ***Africa's producers are generally competitive in domestic and regional markets.*** The competitiveness of Africa's producers at the farm level makes them generally competitive in domestic markets relative to imports. Since domestic and regional markets for many of the targeted commodities are large and rapidly growing, and since significant imports are already taking place, prospects for import substitution are bright, especially for rice, soybeans, sugar, and maize; (iii) ***In the short- to medium-term, regional markets offer the most promising opportunities.*** For the six commodities under consideration, African producers are more favorably positioned to serve regional markets than the countries that currently dominate international trade. Logistical costs are less when serving regional markets than when exporting overseas; moreover, as a result of population growth, income gains, and urbanization demand in regional markets is expected to grow.

#### Objectives of the Briefing

To improve information sharing and promote networking, CTA, the DG DEVCO from the European Commission, the ACP Secretariat, Concord organize bimonthly briefings on key issues and challenges for rural development in the context of ACP-EU cooperation. The Briefing on 2 October 2013 will address issues related to CAADP and agricultural transformation in Africa and in particular, it will: (i) inform and raise awareness on the key drivers of such transformation within the context of the "Sustaining CAADP Momentum" thrust and priorities; (ii) facilitate exchange of information and expertise on proven successes on agriculture transformation; and (iv) facilitate networking among development partners.

#### Target group

Around 150 ACP-EU policy-makers and representatives of EU Member States, civil society groups, research networks and development practitioners, and international organizations based in Brussels.

#### Available material

Input and comments before, during and after the meetings will be included in the Briefings blog: <http://brusselsbriefings.net>. A Reader and Highlights in printed and electronic format will be produced shortly after the meeting.

<sup>12</sup> Steven Haggblade and Peter Hazell. Successes in African Agriculture. Lessons for the future. IFPRI. 2010

<sup>13</sup> The growing opportunities for African Agricultural Development. Hans P. Binswanger-Mkhize, Derek Byerlee, Alex McCalla, Michael Morris, and John Staatz. ASTI. 2011.