Agricultural Value Chains and Agro-Industrialisation

Background and Context

Malabo Commitment 4 aims at ‘halving Poverty by the year 2025, through Inclusive Agricultural Growth and Transformation’. To this end, it calls upon African Union member states to ‘establish and/or strengthen inclusive public-private partnerships for at least five (5) priority agricultural commodity value chains with strong linkage to smallholder agriculture’. Addressing the underlying challenges in agro-industry and agribusiness development and promoting competitive agribusiness value chains is therefore key to achieving Commitment 4.

The agro-industrial sector is broadly defined as the subset of the manufacturing sector that processes raw materials and intermediate products derived from agriculture, fisheries and forestry. Thus, the agro-industrial sector includes manufacturers of food, beverages and tobacco, textiles and clothing, wood products and furniture, paper, paper products and printing, and rubber and rubber products (FAO 1997). Agro-industry forms part of the broader concept of value chains that includes suppliers, processors, distributors and consumers food and non-food outputs from agro-industry. It also includes the legal, technological and economic environment. Figure 1 lays out a typical value chain.

KEY MESSAGES

Agro-industry and value chain development need to be at the heart of every NAIP, which can act as the pull and push factor for agricultural transformation, as envisaged by the Malabo Declaration. However, in order to make a difference, countries must take deliberate steps in their NAIPs to advance agricultural industries and value chains. These steps include investing in technology and innovation, competitiveness, regional integration and promoting inclusive integrated chains. AU Member States are advised to select five commodities or services and to specialise in those, so as to ensure competitive advantages and to maximise returns. Adopting a gender-sensitive value chain approach is critical in order to realise the full potential of agricultural value chains.

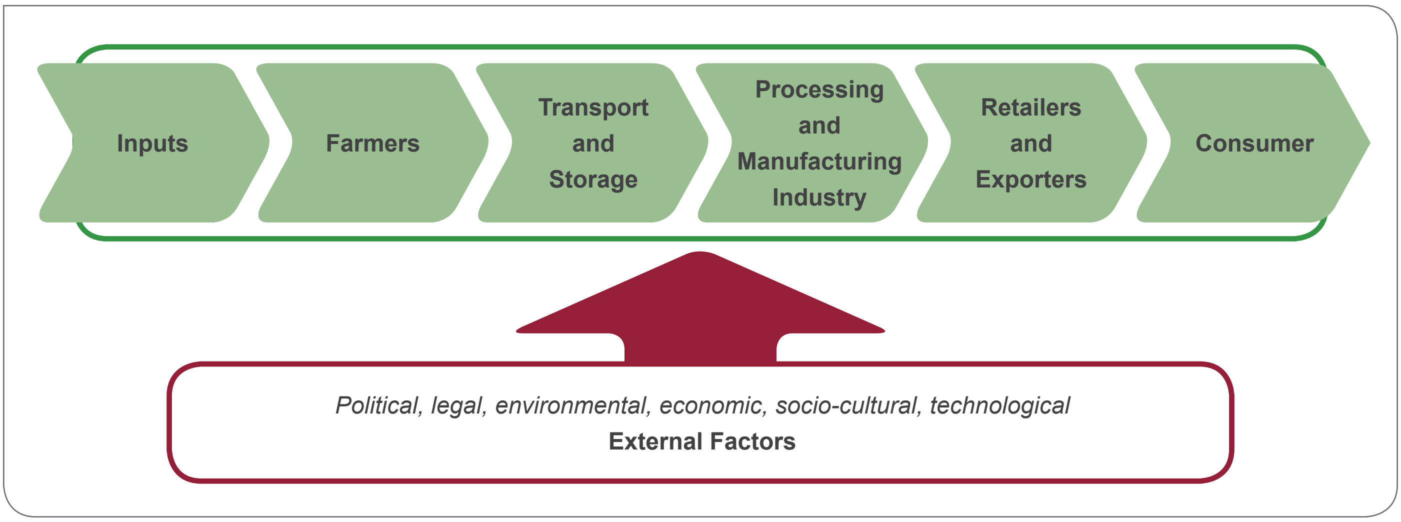

Figure 1: A typical agricultural value chain.

The importance of agro-industry to agricultural and broader economic development in Africa is immediately apparent. Agro-industrialization contributes to employment and increase in incomes for those whose livelihood is linked to the agro-food economy. Agro-industrialization also has impacts on the quality, availability and price of food and non-food products. Furthermore, it has influence on natural resources and the environment.

Challenges Facing African Agro-Industry

According to the African Union Continental Agribusiness Strategy, '…Weak value chains have resulted in the continued marginalisation of smallholder farmers (SHFs) from the mainstream of transformation development and wealth creation. Markets for the continent's commodities remain underdeveloped and limited; processed goods via value chains are rare and agribusiness potential remains untapped, resulting in uncompetitive firms and farms within the continent. Linkage of African producers to local, regional and global value chains is poor, thereby making it difficult for small producers to significantly increase their household incomes. Similarly, there are weak mechanisms and approaches that promote product quality and functional upgrading aimed at improving the competitiveness of firms and farms in much of the continent. The roles of standards and quality management with regard to the products supplied by the value chain to markets, as well as the issue of coordination and governance in the value chain, are given inadequate attention.'

In other words, there are many challenges to agro-industry development that must be tackled. The most critical ones can be summarised as follows.

- Low agricultural productivity and post-harvest losses are incredibly high. Some quotes suggest that, even with low productivity, up to 30% of produce is lost post-harvest *(see Knowledge Note: Post-Harvest Loss)*. This means that sufficient raw materials cannot be availed for processing for some products.
- Levels of technology in Africa are still low relative to other continents, making it difficult to efficiently process agricultural commodities *(see Knowledge Notes: Mechanisation; Digital technology)*.
- Infrastructure – roads, transport, energy, telecommunications etc. – remains relatively weak.
- Technical capacity for manufacturing is limited.
- Meeting market demands, especially certification requirements, is a formidable challenge *(see Knowledge Note: Regional Trade)*.
- Poor farmer organisation limits potential: many cooperatives and farmer businesses that could grown into industries have been mismanaged.


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- Access to finance is sparse *(see Knowledge Note: Agricultural finance)*.
- Private sector development is inadequate *(see Knowledge Notes: Agricultural Public-Private Partnerships; Country Agribusiness Partnership Framework)*.

Addressing the aforementioned challenges in a comprehensive way by integrating them into National Agricultural Investment Plans (NAIPs) can unlock significant growth potential in the agribusiness sector and contribute to achieving multiple Malabo Commitments. In doing so, however, it is important to recognize that different actors along agricultural value chains face different challenges and opportunities. While women constitute almost half of the agricultural labour force along the whole value chain, they often experience challenges in fully participating and benefitting from value chains. A gender-sensitive approach to value chain development can prevent the perpetuation of existing gender inequalities and empower women and men to equally benefit from value chain gains. Missing out on this potential inherently limits the sustainability and contributes to underperformance of value chains. In fact, Gender equality and sustainable value chains must be regarded interdependent goals (FAO 2016).

Recommendations for Agro-Industrial Development

The AU Agribusiness Strategy highlights focus areas that can facilitate the creation and strengthening of vital value chains in such a way that all the stages of the chain are given their due attention. The major focus areas for NAIPS in addressing value chain and agro-industry development include:

- **Promoting strategic national, regional and continental value chains:** It is recommended that each country's NAIP identifies at least five priority value chains from a list of 11 AU prioritised value chains. These value chains could then be intensively developed so as to remain competitive.
- **Link producers to local, regional and global value chains:** It has been observed that vertical integration promotes agro-industry and value chain development as it builds downward pressure for quality, efficiency and cost-effectiveness. A NAIP can recommend specific and deliberate investments in value chain development.
- **Improving the competitiveness of firms and farms within value chains:** The NAIPs must offer incentives for greater efficiency and competitiveness of farms and firms. Producers may be supported through smart subsidy systems to produce more, while processors

may be helped to improve technology and business processes in order to meet international standards.

- **Promoting appropriate technologies & innovations along the value chains** – Value chains that do not continuously innovate and use new technology will very soon become uncompetitive. NAIPS can help reinforce national and sector innovation systems by driving investments in research, policy and regulatory frameworks that encourage investments in technology and innovation
- **Supporting smallholder farmer participation in post-production value chain stages:** Inclusivity is key. Organising farmers to benefit more from the returns shared in a value chain can uplift agroindustry. For example, farmers may be part or full owners of intermediary processing operations for the products they produce.
- **Supporting market development for processed goods:** NAIP policies may emphasise and support export trade in processed goods as opposed to primary products.
- **Adopting a Gender-Sensitive Value Chain Framework** is critical to ensure that women and men benefit equally from value chain gains and that value chains can unfold their full potential (FAO 2016).

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