

Overview



The Economic Report on Africa 2009 (ERA 2009) is organized into two parts. Part I examines global economic developments and their implication for Africa (chapter 1), analyses recent economic and social trends (chapter 2) and highlights emerging development challenges to the continent in 2008 (chapter 3). The thematic part of this edition of ERA, Part II, is devoted to the issue of regional value chain development and starts with a discussion in chapter 4 of the need to address challenges to developing African agriculture in the context of the Comprehensive African Agriculture Development Programme (CAADP) of the African Union's New Partnership for Africa's Development (AU/NEPAD).

ERA 2009 then focuses on the question of how to enhance structural transformation of African agriculture through systematic efforts to develop regionally integrated value chains and markets for selected strategic food and agricultural commodities (chapter 5). Finally, the report urges African governments to operationalize commitments to develop agriculture, and suggests strategies that promote viable value chains at the national and regional levels (chapter 6).

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Global
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slowdown
continues to deepen
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Developments in the World Economy and Implications for Africa

In 2008, the financial crisis spread to many countries resulting in further deterioration in housing, and financial markets, and a global economic down turn. World growth is thus estimated to decline from 3.7 per cent in 2007 to 2.5 per cent in 2008 and to 1.0 per cent in 2009, while Organization for Economic Cooperation and Development (OECD) countries are expected to experience a significant decline in output. All developing regions have now been affected by the crises with growth already slowing down in 2008. For 2009, a further slowdown is expected, driven by a decline in both foreign and domestic demand.

GDP growth in Africa has declined from 6.0 per cent in 2007 to 5.1 per cent in 2008 and is expected to be 2.0 per cent in 2009. It is worth noting that recent economic developments in early 2009 suggest a more severe global economic recession and greater decline in GDP growth in Africa than expected in late 2008.

“ Surge in commodity prices ended in mid 2008 ”

The financial crisis and world recession will have significant effects on current account and fiscal balances. Regions with current account surpluses mostly experienced a decline in these surpluses in 2008, namely Japan and developing Asia, including China. Latin America is expected to move from a small surplus to a small deficit. The Middle Eastern countries are running the highest current account surpluses due to high oil revenues. However, these are expected to decline in line with the falling oil price.

Africa is one of the few regions where the current account surplus increased significantly in 2008, albeit from a low level. The fiscal balance deteriorated in industrialized countries as a whole and in all major countries and regions. This was mainly driven by lower revenues due to the growth slowdown and higher expenditure as countries dealt with the effects of the financial crisis. All major industrialized countries have started to implement fiscal measures to support struggling industries and stimulate demand to counter the negative effects of the housing and credit crises.

Commodity prices had continued their recent upward trend until mid-2008 and then started to fall rapidly. Both food and minerals prices had reached long-term peaks by then. For example, the oil price reached \$147 per barrel in July 2008 but declined to less than \$50 by December 2008. The depreciation of the US dollar against the euro between 2006 and mid-2008 by 27 per cent has exaggerated the price increase of both minerals and food as most of these commodities are quoted in dollar terms. The commodity price boom ended in mid-2008 as supply began to respond to the extremely high prices and demand fell due to the slowdown in the world economy. Most commodity prices had lost all their gains during the boom by the end of 2008, although some prices started to pick up a bit at the beginning of 2009.

The sharp increase in commodity prices that started in 2007 and accelerated in the first half of 2008 drove up average prices in all regions of the world. Average world inflation increased from 3.5 per cent in 2007 to around 6 per cent in mid-2008, the highest rate since the late 1990s. However, as world demand declined in the wake of the financial crisis, prices for most commodities also declined easing inflation pressures. Thus, inflation rates for 2009 are expected to fall back to 2007 levels in most regions.

Global trade, foreign direct investment (FDI) and remittances continued to grow in 2008 but will also be affected by the recession in 2009. World trade expanded less in 2007 than in previous years, which was reflected in lower export growth rates in almost all regions, except developed economies. Growth in world trade slowed in 2008 due to slowing demand in OECD countries.

In 2007, FDI inflows increased by 30 per cent, reaching an all time high of \$1,833 billion. This growth was driven mainly by the European Union (EU) and developing Asia. However, in 2008, world FDI flows declined by 21 per cent due to the global economic downturn, generally tighter credit conditions, and more risk-averse investors with deepening financial crisis. Remittance flows to developing countries had also grown by 7 per cent to \$283 billion in 2008. For 2009, remittance flows to developing countries are expected to decline substantially.

Thus, the financial crisis and the recession are likely to have a significant direct impact on Africa especially in terms of lower growth as a result of declining global commodity demand, which affects quantities and prices. Also, other important export sectors such as tourism and non-traditional agriculture are negatively affected. In a number of countries, the financial sector has been affected through a sharp decline in stock prices. The reversal of portfolio inflows makes the rollover of government bonds more difficult, and for those countries with a high share of foreign banks the risk of withdrawals of capital persists.

Many African currencies are weakening as a result of the falling commodity revenues, capital flows and high uncertainty. Currency depreciation is expected to be particularly high in mineral-exporting countries. This will help to improve the competitiveness of Africa's exports and reduce inflationary pressure.

Other indirect effects of the financial crises are also expected to be high. These include falling Official Development Assistance (ODA) flows as well as lower FDI and remittances. African countries with sizeable foreign currency reserves accumulated during the commodity boom should use these reserves to mitigate the adverse economic and social impact of the crisis. However, for countries with limited reserves and current account as well as fiscal deficits, in addition to improved macroeconomic and public expenditure management, external support from donors and multilateral development institutions is essential.

“ External assistance essential for low income African countries to mitigate the impact of the financial crisis ”

Recent Economic and Social Performance in Africa

Africa's growth slows down in 2008

Economic growth in Africa slowed to 5.1 per cent in 2008, down from 6.0 per cent in 2007.¹ This downturn resulted mainly from the global economic slowdown ignited by the financial turmoil that originated in the USA and spread to many other

¹ All the growth and inflation data are from UN-DESA, November 2008.

“Commodity revenue a key determinant of growth in Africa”

countries around the world. Despite the slowing demand and declining commodity prices, primary commodity exports, especially oil, have remained the major driver of growth in Africa. Although oil and other commodity prices fell generally in the second half of 2008, they remained high by historical standards. Thus, oil-exporting African countries grew at 5.9 per cent in 2008 compared with 4.3 per cent in the non-oil African economies.

Oil-exporting African countries contributed 56 per cent of the continent's total GDP and 64 per cent to the GDP growth rate in 2008. High energy and food prices and slowing aid and private capital flows are among the key factors contributing to low growth in oil-importing African economies. On the other hand, the improved governance and institutional environment, including long-term planning and monitoring and evaluation, have boosted opportunities for private sector development and growth in many countries such as Botswana, Nigeria, Rwanda and Tanzania.

The inflationary pressure that many African countries experienced complicated public expenditure and macroeconomic management in 2008. Many countries have adopted targeted domestic policies such as reduction of import tariffs and domestic taxes on food and cash transfers in order to mitigate the economic and social impact of high energy and food prices. Furthermore, despite the decline in commodity prices, energy and food prices are expected to remain above their historical levels. Some African countries continue to suffer from food shortages owing to drought and other unfavourable supply conditions. Thus, the need for increased international emergency aid, especially in conflict- and drought-prone areas remains high.

However, in the medium to long term, African countries have to invest more in agriculture and increase productivity through use of better seeds, more fertilizer, and better methods of cultivation and irrigation, among other policy tools. Strengthening the linkages between agriculture and other sectors through integrated value chains would, among other measures, go a long way towards enhancing economic diversification and accelerating sustained and shared growth.

Widening internal and external imbalances in oil-importing countries

High energy and food prices pushed the proportion of oil-importing countries with fiscal deficits (including grants) from 76 per cent in 2007 to 86 per cent in 2008. On average, these countries recorded a fiscal deficit of – 0.5 per cent of GDP compared with a surplus of 7.7 per cent for oil-exporting countries. Fiscal management in many African countries has been effective in maintaining low budget deficits relative to GDP. Fiscal prudence manifested itself in increased revenue from non-debt gener-

ating sources in line with required increases in spending on infrastructure, especially on energy, roads and social sectors.

Sources of revenue increases included strong - though weakening - growth, rising exports, sale of public enterprises, widening the tax base and improving tax collection. However, public spending has accelerated recently with high energy and food prices leading to higher wages and scaling up of public expenditure on services, food, fertilizer, energy subsidies, and social security.

To maintain fiscal stability, many countries resorted to additional measures to control public spending and finance their deficits. These included reduced expenditure on development projects as well as service delivery in some instances. Many African countries relied on donor support, external non-debt generating or concessional borrowing as well as domestic borrowing to finance deficits. This highlights the need for further debt relief as well as scaling up of aid to these countries in order to sustain the achievements they made in the last few years in terms of improved macroeconomic management, stability, and progress towards reaching the Millennium Development Goals (MDGs).

As in previous years, monetary policy in Africa continued to focus on controlling money supply to reduce core (non-food) inflation. Due to weak financial markets, most of these countries lack effective indirect monetary tools. They are also characterized by poor coordination between fiscal and monetary policy. In countries where the financial markets are more sophisticated (e.g. South Africa and Egypt), governments have relied mainly on interest rates and Treasury Bill rates as the main monetary policy instruments. High interest rates can have strong adverse effects on growth and, in turn, government revenue.

Inflation in Africa, excluding Zimbabwe, was 10.7 per cent in 2008, up from 6.4 per cent in 2007. Over 90 per cent of the 51 African countries with available data recorded a 5 per cent or more inflation rate in 2008, up from 60 per cent of them in 2007. Only three countries (Central African Republic, Cote d'Ivoire and the Comoros) had inflation rates of less than 5 per cent in 2008. Africa's recent inflation has been mostly imported in the form of high energy and food prices associated with the high global demand. Other factors contributing to the 2008 inflationary pressure on the continent included sustained government spending and robust demand in oil-exporting countries. Zimbabwe is still the highest inflationary country in Africa (over 11 million per cent).

Current account deficits have widened in the 31 oil-importing African countries with available data, from -1.5 per cent of GDP in 2007 to -1.8 per cent in 2008. At the same time, the current account surplus of oil-exporting countries increased from 10.7 per cent to 15.0 per cent. However, owing to falling commodity prices,

“ Monetary policy continues to focus on controlling inflation ”

the current account surpluses of oil-exporting African countries are expected to fall considerably during 2009. Similarly, while most African currencies with available data appreciated against the US dollar in the first half of 2008, this trend began to change as from the third quarter of 2008.

“Africa needs to mobilize more non-debt generating external resources”

External debt remains high and capital inflows necessary for economic recovery in 2009

Whereas Africa's average gross domestic savings increased from 21.8 per cent of GDP in 2004 to 26.3 in 2007, gross domestic investment rates remained almost unchanged at around 22 per cent, far below the level required for achieving the MDGs. This partly reflects low levels of income, weaknesses in the domestic and regional financial markets, and the inability, especially of oil-exporting countries, to use commodity revenues to boost domestic investment significantly. In addition to harnessing domestic resources, Africa needs to mobilize increasing non-debt generating external resources to boost domestic investment. Falling official debt levels as a result of debt relief are in some countries counterbalanced by the rising levels of private debt.

Meanwhile, ODA to Africa remains below the level of \$72 billion per annum considered - by a 2008 United Nations Secretary-General's Report – as necessary for the continent to support achievement of the MDGs. This calls for donors to honour their aid commitments or at least sustain their recent levels in face of the financial crisis and recession in order to complement the efforts by African countries to mobilize more domestic resources and attract more private foreign capital inflows.

Sectoral performance shows limited dynamics for economic diversification

Between 1960 and 2007, the GDP share of agriculture value added in Africa decreased from 41 per cent to 22 per cent. At the same time, the share of industry increased from 17 per cent to 32 per cent and the share of services value added rose from 42 per cent to 46 per cent. This structural change has not resulted in the type of economic diversification that is most needed to sustain growth and development in the long term (see UNECA, 2007). In many countries, the share of agriculture decreased either as a result of relatively large increases in the share of services and/or mining, while the manufacturing sub-sector remained small. As a consequence, the productive structure of Africa is today less balanced than 45 years ago.

The key policy issue in this context is, therefore, how to promote diversification for growth and development underpinned by recovery in agriculture and promo-

tion of labour-intensive industrial activities with a high potential for value addition and competitiveness (manufacturing in particular).² Part II of ERA 2009 specifically deals with agriculture. The promotion of manufacturing and non-mining industry passes through an increase in investment, which in turn requires combined interventions of macroeconomic, industrial and financial policy.

Drawing on past experiences in Africa, Asia and Latin America, successful industrialization episodes seem to emerge from an approach that combines elements of import substitution and *laissez-faire*. The aim is to uncover where the most significant obstacles to restructuring lie and what types of intervention are required to remove them (see also Rodrik 2007). Following this logic, industrial policy should be centred on two pillars. One is the provision of appropriate incentives to the private sector to invest and engage in new activities. These incentives can take various forms, including tax incentives and facilitated access to credit.

The other pillar is establishment of mechanisms for evaluating the performance of firms receiving public support. Every publicly supported project needs to have a clear statement *ex ante* of what constitutes success and failure.³ Based on this statement, independent and competent authorities should regularly evaluate the performance of firms. Support should then be maintained only to successful firms. With this approach, a government does not have to “pick the winners” *ex ante*, which is often the source of major distortions. Instead, new areas of comparative advantage self-select in response to the incentives provided by government and the systematic evaluation of their performance.

“ Promoting manufacturing essential for economic diversification ”

Social development remains limited

Progress toward meeting the targets of the MDGs has been mixed, with some noticeable gains in universal education and very limited headway on poverty and hunger eradication and on most of the health-related goals. Poverty rates remain stubbornly high in Central, East, South and West Africa, despite the impressive economic growth rates recorded in recent years (United Nations, 2008). The proportion of the “working poor” decreased by only 4 per cent over the last decade, from 55.5 per cent in 1997 to 51.4 per cent in 2007. More worrisome, recent food and energy price increases, although easing, are still historically high. These adversely affect the poor and dim the prospects for meaningful reduction of poverty and hunger in most African countries (UNECA, 2008).

2 See also UNECA (2007) for more extensive treatment of several of these issues.

3 Possible benchmarks are the performance of firms in similar industries in neighbouring countries and/or the performance of firms in international markets, as expressed for instance by export levels.

“ Primary school enrolment ratios increasing in a majority of countries ”

On the bright side, gross primary and net primary enrolment ratios are on the rise in a majority of countries, driven largely by the combination of strong government commitment and appropriate support from the donor community. However, while most African countries are likely to achieve gender parity in primary education by 2015, very few countries have recorded similar progress in the areas of secondary and tertiary education. Further, progress in gender parity in decision-making has varied considerably across the continent, despite inroads made in a number of countries.

Child mortality has not declined in 27 African countries due mainly to preventable diseases and malnutrition. The under-five mortality rate decreased slightly, from 185 per 1000 live births in 1990 to 165 live births in 2005 (UNICEF, 2008; UNECA, 2008). Progress in responding to HIV/AIDS, tuberculosis, malaria and other diseases has generally been limited, despite the positive outcomes recorded in some countries in terms of the growing integration of HIV/AIDS concerns into national development plans and the increasing number of people receiving anti-retroviral treatment (ART).

Given the current trends, the prospects of meeting the goal on environmental sustainability also look daunting. Areas covered by forest have shrunk by 3 per cent in Central, East, South and West Africa and increases in the proportion of people with access to safe drinking water and sanitation are far below the rate required to achieve the targets set for 2015. At the same time, increases in aid flows are still well below the rates needed to double donor assistance to Africa, as pledged in Monterrey, Mexico, and subsequently reconfirmed in Doha, Qatar. The quality of the aid also remains low.

Prospects for 2009: further economic slowdown

Africa's real GDP growth rate is expected to fall to 2.0 per cent in 2009 from 5.1 per cent in 2008. Regional growth rates in 2009 are projected to range from -1.2 per cent in Southern Africa to 1.9 in Central Africa, 3.1 per cent in North Africa, 3.1 per cent in West Africa and 3.8 per cent in East Africa. It is important to note that economic developments in early 2009 suggest a much worse global economic recession and lower growth prospects for Africa.

Indeed, the continent's prospects for 2009 are subject to strong uncertainties stemming mainly from the recent global financial crisis. Based on its weak integration into the global financial system, it was first assumed that the crisis would have relatively small direct effects on the continent. However, growth forecasts for all developed and high-growth developing economies indicate a slowdown in growth or recession in 2009 as well as a general fall in primary commodity demand and prices.

Accordingly, economic growth in Africa is expected to decline further in 2009 as export revenue decreases. Also owing to the global financial crisis and economic downturn, lower aid and private capital flows, especially of FDI and remittances, suggest an even weaker economic outlook for Africa in 2009. Finally, despite some improvements, Africa remains vulnerable to political conflicts, epidemics such as HIV/AIDS, tuberculosis and malaria, as well as shocks emanating from weather and climate change.

The chances for growth rebound in Africa in 2009 are slim and hinge on the ability of the economic stimulus packages being implemented in developed and some advanced developing countries to enhance domestic demand as well as demand for commodity exports from Africa. Nevertheless, sustained economic reforms, exchange rate adjustment, easing inflation and efforts to revive domestic demand would contribute to a positive growth performance in Africa in 2009. Average inflation in Africa is expected to ease in 2009, as oil and food prices decline. This should ease the pressure on government budget and support efforts to consolidate effective macroeconomic management and institutional reforms, which should stimulate private investment and growth.

“ Africa’s growth prospects darken as global recession deepens ”

Current and emerging development challenges in Africa in 2008

Trade negotiations and aid for trade

During the past year, Africa remained a marginal player in world trade since the continent’s trade structure still lacks diversity in terms of production and exports. In view of current global economic events, the prospects for trade in the medium term remain uncertain. Despite the efforts made to resolve the key issues related to the Lamy triangle, the Doha round of negotiations could not reach a deal in 2008 as hoped. These issues included improved agricultural market access to European Union (EU) countries, substantial reduction of domestic subsidies by the USA to its agricultural sector and increased agricultural and industrial market access to advanced developing countries.

While the negotiations registered some progress in terms of flexibilities and special and differential treatment on domestic support, new issues such as the new Special Safeguard Mechanism and sectoral issues emerged as deal-breaker issues. Current efforts are pushing to get a pro-development conclusion to this round of negotiations in the near future and to safeguard any positive results registered in the next steps of the negotiations.

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EPA
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must focus on a
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Regarding the Economic Partnership Agreement (EPA) negotiations, by December 2008, 19 African countries had initialled individual interim agreements with EU. These interim agreements mainly focus on market access in goods trade and were supposed to be signed and ratified in 2008. In some of the groupings, it had been anticipated that comprehensive EPAs would be concluded and signed by the end of 2008. However, several outstanding issues such as the development dimension, the African regional integration processes, and other trade-related issues that are of concern to African countries, make it difficult to conclude the negotiations. ERA 2009 therefore urges African countries to continue to negotiate the full regional EPA with a more coordinated strategy at the continental level, focusing on a comprehensive development dimension.

The past year witnessed an impetus in the implementation of the recommendations of the World Trade Organization (WTO) Task Force on Aid for Trade (AfT). An African Working Group on AfT comprising African Development Bank (AfDB), UNECA and WTO is spearheading implementation of this initiative at the continental level. The focus in 2008 was on monitoring and evaluation mechanisms for the implementation of the initiative and on identification and design of bankable projects at regional level, according to the three main priority areas, namely Standards, Infrastructure and Trade Facilitation.

Financing development

African countries are making credible efforts to mobilize adequate domestic resources for financing their development agenda. This has been reflected in rising tax revenues and gross domestic savings ratios. However, as mentioned previously, domestic savings remains inadequate relative to the level required to finance a meaningful growth rate for achieving the MDGs. Furthermore, the substantial increase in domestic savings is largely due to increases in commodity prices. It is therefore unlikely that this high savings rate can be sustained in the long run given the commodity price volatility.

There is, therefore, a need for sustained efforts aimed at increasing government revenue through strengthening revenue collection institutions, broadening the tax base and enhancing the efficiency and transparency of tax administration. Given the continent's dependence on primary commodities, African countries need to put measures in place for improving management of the commodity price bonanza.

Due to the decline in debt relief, ODA to Africa declined noticeably in 2007 despite several commitments made by donor countries to increase aid to the continent. The decline in aid to the region is worrisome given its critical importance in financing social infrastructure and other vital development programmes in Africa. It is impor-

tant that donor countries redouble their efforts to increase aid to Africa in consistency with their commitments to the continent.

This has become even more important in light of Africa's reduced access to private capital on account of the current global financial crisis. Development partners can signal their commitment to scale up aid to Africa by establishing rolling indicative timetables showing how they intend to reach their goals on aid quantity. This must be accompanied by measures to improve the delivery and management of aid. The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action provide useful frameworks for improving aid effectiveness and these need to be fully implemented.

Debt relief under the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI) have contributed significantly to reduction of Africa's external debt burden as evidenced by declining total external debt and debt service ratios. This notwithstanding, debt ratios for a number of post-completion point African countries are starting to deteriorate. Another serious challenge relates to the increasing incidence of vulture fund litigation against countries eligible under HIPC. This potentially threatens to undermine the gains made under debt relief in several African countries. Therefore, there is a need for strengthening international financial mechanisms for debt crisis prevention and resolution. Recent steps taken to prevent such vulture fund litigation, including through strengthening debt-buyback mechanisms and provision of technical assistance, are welcome developments.

Although FDI inflows have increased, they are concentrated in a few countries and enclave sectors, which tend to have limited impact on employment creation. African countries need to encourage FDI in sectors with the greatest impact on employment creation. This calls for targeted, sector-specific investment incentives in new activities vital for diversification and structural transformation.

Food crisis not over yet

As indicated earlier, although food prices are on the decline, they are likely to stay high in the medium term. At the same time, many African countries continue to suffer from food shortages and food insecurity due to drought, conflicts, and rigid supply conditions among other factors. Also as discussed in part II of this Report, in addition to strengthening emergency responses, Africa needs to have a long-term focus on agricultural development and transformation in the context of economic diversification. This is not only essential for increasing food supply but also for increasing access to food by creating jobs and accelerating sustained and shared growth.

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Public
revenue collection
improving in many
African countries
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Developing African agriculture through regionally integrated value chains

“ Agriculture has the potential to spur manufacturing growth and poverty reduction ”

Developing and modernizing African agriculture is crucial to the structural transformation of African economies, food security, sustained poverty reduction and integration of Africa in the global economy. African economies are heavily dependent on agriculture for its contribution to employment, aggregate output, foreign exchange earnings, and tax revenue. Yet, Africa continues to trade in raw materials. With fragmented agricultural markets, the continent is highly vulnerable to changes in global commodity demand and prices, in addition to recurrent food crises.

There is great potential for developing African economies through the development of agribusiness, particularly agro-processing. Indeed, agriculture could facilitate industrial growth and manufacturing as well as job creation through its strong multiplier effects. This would reduce dependence on primary commodity exports, increase job creation and promote accelerated and sustained growth. At the same time, since the majority of the poor in Africa live in rural areas and draw their livelihood from agriculture, developing African agriculture and its linkages with other sectors would undoubtedly help to reduce poverty and accelerate progress towards achieving the MDGs. With the recent general decline in world commodity prices for most crops, food security remains a concern in many African countries.

Agricultural development and economic transformation in Africa require policies that address the overall challenges to increasing and sustaining agricultural growth and productivity as well as innovative strategies that promote competitiveness and linkages with other sectors at national, regional and global levels. Promoting regionally integrated value chains and markets for strategic commodities would encourage economic diversification, food security and poverty reduction.

African agriculture suffers from under-capitalization as reflected in the low levels of irrigation (6 per cent of arable land compared to 40 per cent in Asia), inadequate land management, low fertilizer and tractor use, limited access to credit and insurance schemes, poor roads and marketing infrastructure, poor access to energy and telecommunications, and poorly funded agriculture-related institutions of higher education, research and extension.

African agriculture is further characterized by weak linkages with other sectors, including agro-processing and agribusiness, and weak regional integration of commodity chains (UNECA 2007). Agriculture remains a relatively low priority area in public spending, in most countries receiving less than 6 per cent of total budgetary allocations, well below the objective of 10 per cent agreed in Maputo, Mozambique, in July 2003.

A successful agricultural revolution in Africa has to be conceptualized differently from the green revolutions that underpinned agricultural advancement in Asia and Latin America. Instead of a green revolution that focuses on one commodity, Africa needs a rainbow revolution that targets several strategic commodities, particularly those identified by the Abuja Food Security Summit of 2006 as being regionally or subregionally strategic. The Summit identified these commodities by their importance to the African food basket, significance to Africa’s trade balance measured by contribution to export earnings or import substitution, and by having unexploited production potential in Africa. These commodities included rice, legumes, maize, cotton, palm oil, beef, dairy, poultry and fisheries products at the continental level and cassava, sorghum and millet at subregional levels.

“ Africa’s green revolution should target a range of strategic commodities ”

In order to develop meaningful agricultural product value chains, the perception of agriculture as mainly “farming” needs changing. Agricultural development depends on increasing the productivity of the entire system, not just farming. Thus, efforts to increase efficiency throughout the physical transformation phases and transaction links of the commodity chains would involve an array of strategies to enhance research and development, input markets, farm level production, product processing, storage, handling, transport, marketing and trade, financing etc. (figure 1).

Figure 1
Food and Agricultural System Matrix

PRODUCTION AND EXCHANGE FUNCTIONS		COMMODITIES									
		Rice	Maize	Beans	Cotton	Oil Palm	Beef	Dairy	Fishery	Etc...	
Input Production	COMMODITY SUBSECTOR	AGRICULTURAL INPUT INDUSTRY									
Input Distribution		AGRIBUSINESS SUBSECTOR									
Farm Production		FARMING SUBSECTOR									
Output Marketing		AGRIBUSINESS (Output Market)									
Output Processing & Product Storage		AGRO - PROCESSING INDUSTRY									
Transportation		AGRIBUSINESS (Product Market)									
Trade											
Wholesaling											
Retailing											
Consumption											

Source: Adapted from Boughton et al (1995).

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Regional value chains would enhance investment in agriculture and agro-processing
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ERA 2009 argues that regionally integrated value chains and markets that build on local, national and regional value chains offer better opportunities for transforming African agriculture. The key arguments in this regard include diverse cross-country agro-ecological systems, small and fragmented national markets and the small population size of most African countries, strong global competition, and the dominance of small-scale farming. Currently, export value chains favour large producers and traders because of the increasing importance of post-harvest handling, processing and transport, which may exclude many small producers and exporters. Regional value chains have the potential of expanding the geographical space within which market opportunities can be exploited, hence providing incentives for private investors to undertake long-term investments in agribusiness and agro-processing.

This would enhance job-creation opportunities in processing and marketing besides improving the income of farmers. With established and reliable vertical arrangements between agricultural producers and retailers along the value chain, there would be greater reliance on forward-purchasing contracts and less on spot-market transactions. This would lead to greater price stability for both suppliers and consumers. Centralized procurement arrangements offer a number of cost-savings to firms, including reduced coordination costs, less inventory management, and savings in logistical and other transaction costs.

Regional value chains could also provide incentives for product and process upgrading. Raising agricultural productivity has always been the goal of agricultural policies in most African countries. With expanding markets, there will be increased demand for improved or differentiated commodities with higher value. However, for farmers and agribusinesses to respond to this demand, there is need for improved access to credit to finance investment in productivity-enhancing inputs and technologies as well as processing of outputs.

Although the exercise of market power in supply chains could threaten the economic survival of smallholder producers, supply chains have the potential of involving more of them in downstream activities such as processing and marketing. In addition, competition in the chain results in their getting better returns and stricter adherence to high-quality outputs. Product and process upgrading also leads to more competitive pricing of commodities as technological improvements reduce the costs of transforming and delivering products. With improved products, the African agriculture sector could compete favourably with non-African imports of processed and unprocessed agricultural commodities.

Conclusion

Global economic developments in 2008 have impacted negatively on economic and social development in Africa and the impact is expected to worsen in 2009. Due to limited economic diversification and high dependence on commodity exports, the continent remains vulnerable to external developments such as high energy and food prices in the first half of 2008 and the financial crisis and economic down turn that have engulfed the global economy. Since mid-2008, commodity prices have fallen sharply, leading to a slowdown in economic growth in Africa in 2008, which is expected to fall further in 2009.

However, although the medium-term outlook could be worse than expected, the continent is likely to sustain a positive average growth rate, thanks to improved macroeconomic management and diversification of sources of growth in some countries. However, the economic down turn is slowing down progress towards achieving the MDGs, which was below the targets set even during the era of the commodity boom. Mounting internal and external deficits in oil-importing African countries and declining aid flows due the global recession have resulted in lower public expenditure on service delivery in some countries. This has also weakened government response to the food crises and the food insecurity that remain concerns in some parts of Africa.

African governments and their development partners need to sustain and strengthen efforts to mobilize more resources from domestic and external non-debt generating sources to increase emergency aid and finance short-term strategies to mitigate the adverse effects of the global crisis. They also need to focus simultaneously on such long-term responses as increased domestic investment for job creation and sustained poverty reduction. In this regard, countries with large accumulated reserves from the commodity boom should use these reserves to implement counter-cyclical measures or use an expansionary fiscal policy to sustain growth and speed up economic recovery.

In view of the dominant role of agriculture in most African economies and its huge untapped potential, investment in agricultural transformation would provide the best opportunities for sustained economic transformation, enhanced food security and accelerated poverty reduction on the continent. Agricultural transformation has not happened in Africa, as agriculture has been isolated at the level of the farm and is not sufficiently linked to agro-industries and agribusiness. Transforming African agriculture requires strategies that address the key challenges to agricultural development. It also requires innovative programmes for strengthening the linkages between agriculture and other sectors and for promoting agricultural value chains and markets at national and regional levels.

“ Africa is expected to sustain a positive growth rate in 2009 ”

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*Developing
regional value
chains requires
cross-border
cooperation*
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African governments should accord agriculture the priority it deserves as the strategic sector and, accordingly, operationalize the various commitments they have made to transform agriculture. These commitments have to be prioritized and institutionalized. Governments must provide adequate budgetary allocations as well as improved technical capacity for their effective implementation and performance assessment and monitoring.

The essential interventions for Africa to accelerate and sustain agricultural development include: promoting sustainable agricultural production systems; addressing the chronic under-capitalization of agriculture through adequate budgetary allocations; increased funding for agricultural research and technology; increased use of yield-enhancing practices and technologies; investment in soil and water conservation; and improved marketing and rural infrastructure.

In view of diverse agro-ecological systems and small national markets and populations, developing regionally integrated value chains and market is essential for Africa to improve the competitiveness of its agriculture. This requires comprehensive national plans and regional coordination that should, among other things, provide information on opportunities for value chain development and incentives for their exploitation, support spillovers from lead firms, promote inclusive standards and widen access to markets and credit for both firms and farmers. At the regional level, governments need to harmonize policies, facilitate the movement of people and goods, and simplify customs procedures.

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