



Economic Commission
for Africa



African Union

Economic Report on Africa 2009



**Developing African Agriculture
Through Regional Value Chains**



Economic Commission for Africa



African Union

Economic Report on
Africa 2009
**Developing African Agriculture
Through Regional Value Chains**

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List of Acronyms

ACP	Africa Caribbean Pacific
AfDB	African Development Bank
AfT	Aid for trade
AGOA	Africa Growth Opportunity Act
AGRA	Alliance for Green Revolution in Africa
AIDS	Acquired Immune Deficiency Syndrome
AMS	Amber Box
AMU	Arab maghreb Union
APN	Asian-Pacific Network
ART	Anti-Retroviral Treatment
AU	African Union
AUC	African Union Commission
AWPS	African Women's Progress Scorecard
BCR	Benefit Cost Ratios
BDS	Business Development services
BPFA	Beijing Platform for Action
CAADP	Comprehensive Africa Agriculture Development Programme
CAR	Central African Republic
CEDAW	Convention on the Elimination of all forms of Discrimination Against Women
CENSAD	The Community of Sahel-Saharan States
CEMAC	Economic and Monetary Community of Central Africa
COMESA	Common Markets for East and Southern Africa
DAC	Development assistance Committee
DRC	Democratic Republic of Congo
EAC	East African Community
EBA	Everything But Arms
ECA	Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EIU	Economic Intelligent Unit
EPA	Economic Partnership Agreement
ERA	The Economic Report on Africa

ERR	External Rates of Return
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GSP	Generalized System of Preferences
HIPC	Heavily Indebted Poor countries Initiative
HIV	Human Immunodeficiency Virus
ICPD	International Conference on Population and Development
ICT	Information Communication Technology
IFPRI	International Food Policy and Research Institute
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organization
IMF	International Monetary Fund
KMC	The Kenya Meat Commission
LDC	Least Developed Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NAMA	Non- Agricultural Market Access
NEPAD	New Partnership for Africa's Development
NGOs	Non- Governmental Organizations
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation for Development
OPEC	Organization of the Petroleum Exporting Countries
RATES	Regional Agricultural Trade Expansion Support Programme
RECs	Regional Economic Communities
REER	Real Effective Exchange Rate
SACU	South African Customs Unions
SADC	Southern African Development Community
SMEs	Small and Medium Enterprises
SSA	Sub-saharan African countries
SVEs	Small and Vulnerable economies
TBT	Technical Barrier to Trade
TNC	Trade Negotiations Committee

TNCs	Transnational Co operations
UN	United Nations
UAE	United Arab Emirates
UNCTAD	UN Conference on Trade and Development
UEMOA	The West African Economic and Monetary Union
UNECA	United Nations Economic Commission for Africa
UN-DESA	United Nations - Department of Economic and Social Development
UNICEF	United Nations International Children Education Fund
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USAID	United States Agency for International Development
WAEMU	West African Economic and Monetary Union
WB	The World Bank
WHO	World Health Organization
WTO	World Trade Organization

Foreword

Africa's commitment to improved economic management has resulted in significant progress in many fronts over the last half decade. The African Union Commission and the Economic Commission for Africa accompanied the process through their facilitation, tracking and reporting functions. Main issues and outcomes of these functions are presented in key publications such as the Economic Report on Africa. The Economic Report on Africa 2009 (ERA 2009) is focused on **“Developing African Agriculture Through Regional Value Chains”**.

The continent's efforts to grapple with the impact of the recent food crisis have been complicated by the unfolding global financial crisis and recession. Many African governments and donors had to reconsider expenditure allocations and design measures to provide emergency assistance and mitigate the impact of the high food and energy prices in the first half of 2008. Notwithstanding the decline in prices since the second half of 2008, the food crisis remains a challenge especially in the Horn of Africa, Western Africa and in conflict countries.

The sustained high food prices witnessed lately, coupled with a weak capital base, climate change and recurrent droughts continue to intensify the volatility in agricultural production and food supply situation in many African countries. Furthermore, falling commodity prices and export revenue, as well as contracted aid and private capital inflows as a result of the global credit crunch and recession imply reduced public and private funding for investment, particularly in agriculture and infrastructure.

Against this backdrop, the Economic Report on Africa 2009, prepared by staff from UNECA and AUC, thus provides thorough analyses of the key economic and social development challenges in Africa. The Report has emphasized the need for developing regional value chains for agricultural commodities in order to enhance agricultural transformation and global competitiveness. In addition, it has highlighted the role played by globalization in promoting agricultural value chains. In the context of the current global financial and economic crisis, ERA 2009 stresses the need for African countries to maintain sound macroeconomic policies and for development partners to fulfill their commitments towards attainment of the Millennium Development Goals (MDGs).

In addition to emergency and other short-term policy interventions, the Report calls for sustained long-term investment strategies to ensure agricultural transformation through the framework of the Comprehensive African Agriculture Development

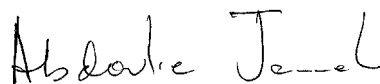
Programme (CAADP) of the African Union's New Partnership for Africa's Development (AU/NEPAD). The transformation of African agriculture does not only provide the best opportunities for economic diversification, it also enhances rapid and sustained growth for poverty reduction.

It is essential that the continent addresses the overall constraints to agricultural development and focuses on high impact interventions such as regional value chain development in order to maximize value added, expand markets, and enhance productivity and the international competitiveness of African agriculture. For the transformation of African agriculture to become a reality, it is imperative that African governments translate their commitments into concrete action, notably the Maputo 2003 Declaration on Food Security, through which they pledged to devote at least 10 per cent of public expenditure to this sector.

Indeed, adequate funding of agriculture is a prerequisite for Africa to promote sustainable agricultural production systems, undertake essential agricultural research, provide efficient extension services, boost the use of yield-enhancing practices and technologies, increase investment in soil and water conservation, and improve marketing and rural infrastructure.

Agricultural transformation in Africa still remains a far cry given its weak inter-sectoral linkages, especially with manufacturing. Regionally integrated value chains and markets that build on local and national networks are essential to address Africa's diverse agro-ecological systems, small national markets and populations, and unfair competition from outside the continent. These key factors provide incentives for private investors to undertake long-term investments in agribusiness and agro-processing, including product upgrading.

The Report concludes by arguing for comprehensive strategies at both the national and regional levels to promote value chain development. Such strategies should provide information on relevant investment opportunities, incentives for their exploitation, support spillovers from lead firms, promote inclusive standards, and widen access to markets and credit for both firms and farmers. Governments must adopt measures to enhance regional integration and increase intra-Africa trade and investment, thus paving the way for Africa's agricultural transformation and sustained development.



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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).

“
Global
economic
slowdown
continues to deepen
”

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.

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.

“ Promoting manufacturing essential for economic diversification ”

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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
negotiations
must focus on a
comprehensive
development
dimension
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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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Developments in the World Economy and Implications for Africa

Introduction

The most significant changes in the world economy in 2008 were the sharp slowdown in economic growth, especially in the industrialized countries, and the worldwide rise in inflation in the first half of the year.¹ These developments were largely driven by the financial market turmoil, the housing market downturn, and high commodity prices in the first half of 2008. Currently, the world economy is facing one of the most difficult crises of recent years. According to United Nations baseline estimates, world growth declined from 3.7 per cent in 2007 to 2.5 per cent in 2008, and it is expected to decelerate to 1.0 per cent in 2009 as the second-round effects of the credit crisis of 2008 begin to take their toll on the real economy.

After peaking in mid-2008, commodity prices, especially those of oil, metals and food, have been declining and are expected to remain well below the peak levels of mid-2008 for some time. The commodity price boom ended in mid-2008 as supply started to respond to extremely high prices and demand started to fall due to the slowdown in the world economy. Commodity-exporting countries have been negatively affected by the slowdown in world growth, but for countries that are dependent on food and oil imports, the recent pressure on their balance of payments and budgets has eased somewhat.

As the economies of the industrialized countries are weakening, the trend towards deepened South-South relations is accelerating. This is attested by the many high-level summits on Africa that have been organized by such countries as India, South Korea and Turkey. In addition, trade and investment relations between developing countries are accounting for an increasing share of world totals.

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Currently,
the world
economy is facing
one of the most
difficult crises of
recent years
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¹ Data used for this chapter were last updated in November 2008.

1.1 Europe and the United States have slipped into recession but Asia is still growing

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In 2008,
the burst of the
United States
housing bubble
quickly spread to
the rest of the world
through the global
financial network
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The financial crisis that started in 2007 following the collapse of the United States sub-prime mortgage market spread further in 2008. It has not only affected housing and financial markets in many other countries, but has also triggered what is expected to become the worst recession since the 1980s in member countries of the Organization for Economic Cooperation and Development (OECD), with their growth declining by about half a percentage point.

In 2008, the burst of the United States housing bubble quickly spread to the rest of the world through the global financial network. The credit crunch that ensued made banks less willing to lend to each other and to consumers, drying up liquidity in the process, while risk perceptions started to rise sharply. The destruction of trillions of dollars in wealth has dragged down household spending on durable goods as well as corporate investments (United Nations 2009; AfDB *et al*, 2008).

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, according to United Nations baseline estimates, as second-round effects of the credit crisis are expected to have a serious impact on the real economy. After reaching record levels in mid-2008, commodity prices have dropped sharply due to weakened demand. It is worth noting that the financial crisis was still unfolding at the end of 2008 and thus the forecasts for 2009 quoted in this chapter are subject to significant downward revisions, because the credit crunch could last longer and monetary and fiscal rescue packages might be less effective than anticipated.

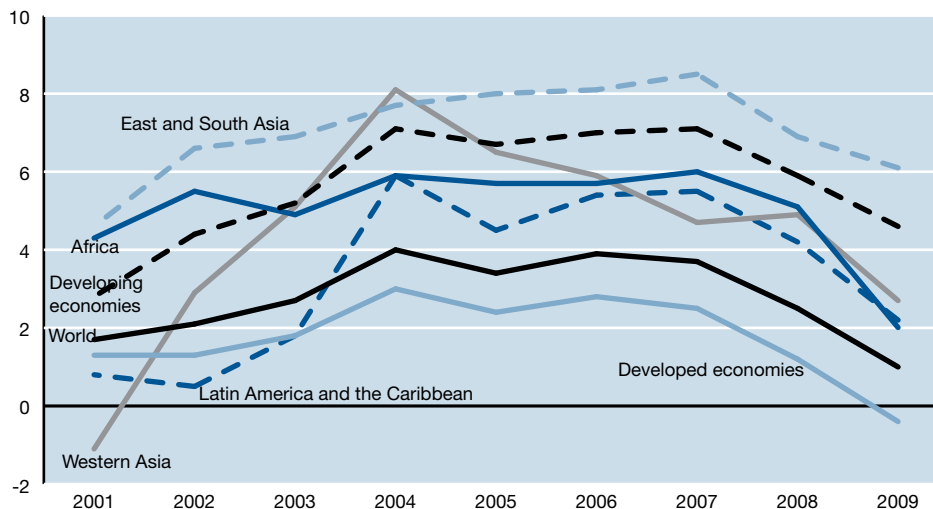
In fact, the most recent estimates show the world economy shrinking in 2009, as the growth in developing countries will not be sufficient to offset the sharp decline in industrial countries. This would then be the worst recession in the industrialized countries since World War II. Nevertheless, all forecasts call for a recovery in 2010 (United Nations 2009; World Bank 2009; IMF 2009b).

The weak dollar as well as an expansionary fiscal and monetary policy had softened the effect of the financial crisis in the USA in the first half of 2008. However, as the crisis deepened, domestic demand declined sharply, despite drastic measures by the US Treasury Department and the Federal Reserve (Fed) to stabilize the economy. Thus, most analysts had estimated that growth in the USA would decline to 1 per cent in 2008. For 2009, they expect the economy to shrink by at least 1 per cent (United Nations 2009, OECD 2008).

In 2008, as in many developed countries, the European Union (EU) grew at a rate of 1.1 per cent, under the effect of the financial crisis, which led to the collapse of several European banks. In addition, consumer confidence dropped to very low levels. Thus, growth is projected to remain low in 2009 as both domestic demand and exports are expected to remain weak (United Nations 2009).

“ The effects of the current crisis on other regions will be very strong ”

Figure 1.1
GDP growth rates of major regions, 2001-2009



Source: United Nations 2009, 2008 estimates, 2009 forecasts.

Note: The reported estimates of growth rates for world gross product are obtained using country gross domestic products at market prices in dollars as weights.

In Japan, the situation has deteriorated dramatically with a gross domestic product (GDP) growth rate of only 0.4 per cent in 2008 and 0.1 per cent for 2009, mainly due to weakened private consumption and the tight fiscal policy adopted in the first half of 2008. However, the economic downturn is expected to be less severe than in other industrialized countries, as Japanese financial institutions have only limited exposure to sub-prime loans and the level of domestic savings is high (United Nations 2009).

The fact that all major industrialized countries are expected to slide into recession at the same time is unprecedented. The effects of the current crisis on other regions will be very strong as there is little chance of their being offset. Developing regions will be mainly affected by lower demand for exports, reduced commodity prices, fewer remittances due to job losses, reduced capital inflows due to higher risk aversion, and delayed investments (AfDB *et al* 2008; World Bank and G-20 2008).

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The financial crisis and its consequences have prompted governments all over the world to provide huge fiscal stimulus packages”

The East and South Asia region seems so far to be less affected by the global slowdown, due to strong domestic demand, which partly offsets weakening external demand. Its growth rate, which stood at 7 per cent in 2008, is expected to hold steady at about 6 per cent in 2009. However, many individual financial institutions in the region have incurred substantial losses as a result of the financial crisis.

In China, GDP growth slowed down from 11.4 per cent in 2007 to 9.1 per cent in 2008 and is expected to decline further to 8.4 per cent in 2009. The main reasons are the slowing demand for Chinese exports in industrialized countries, the appreciation of the renminbi, and rising labour costs. In November 2008, China announced a fiscal stimulus package of \$586 billion over two years, representing about 14 per cent of GDP. The Government will stimulate domestic demand by reducing taxes, investing in infrastructure, health care and education, and promoting agriculture and environmental protection.

However, growth forecasts for China have been revised downwards for 2009 to 7-8 per cent, which will most likely affect trade and foreign direct investment (FDI) prospects for Africa. China's trade surplus actually increased in 2008 as the slump in imports was much stronger than the decline in exports, due to reduced commodity prices, weaker demand for inputs into export products and reduced domestic demand. For 2009, imports are expected to bounce back with the planned increase in infrastructure investment, which will trigger demand for raw materials and machinery (United Nations 2009; OECD 2008, World Bank 2008a).

For Western Asia, high oil prices and strong consumption and investment spending in the first half of the year contributed to a relatively high growth rate of 4.9 per cent in 2008 (up from 4.7 per cent in 2007), despite the subsequent decline in oil prices in the second half. For 2009, however, growth is only expected to be 2.7 per cent (United Nations 2009). For Latin America and the Caribbean, growth fell from 5.5 per cent in 2007 to 4.2 per cent in 2008, and it is expected to drop to 2.2 per cent in 2009. The factors that were driving growth in the first half of 2008, especially strong domestic demand and high commodity prices, were reversed as the financial crisis unfolded. Several countries are also negatively affected by lower remittances. Similarly, estimates show that GDP growth in Africa decreased from 6.0 per cent in 2007 to 5.1 per cent in 2008, and it is expected to fall to 2.0 per cent in 2009, as discussed in Chapter 2 (United Nations 2009).

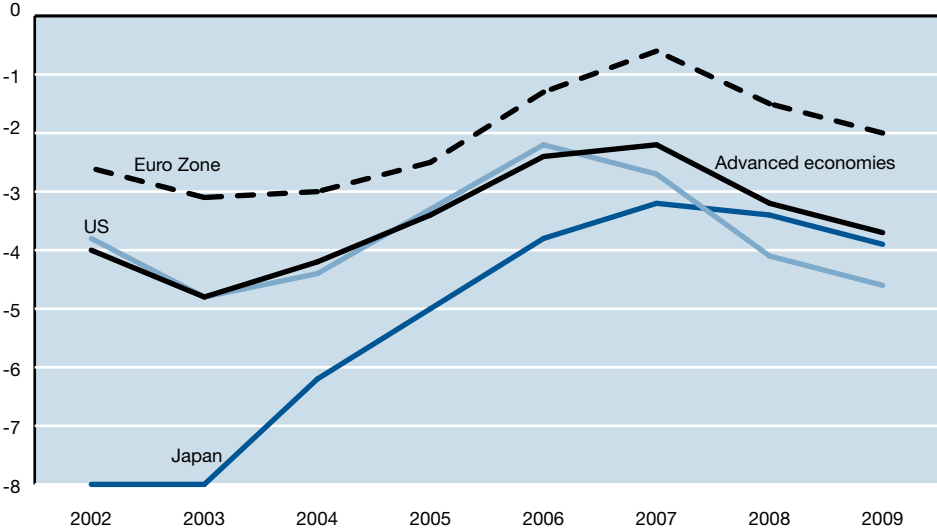
The financial crisis and its consequences have prompted governments all over the world to provide huge fiscal stimulus packages for their economies. Fiscal stimulus packages in G-20 countries are projected to represent about 1.5 per cent of GDP. The fiscal balance deteriorated in industrialized countries as a whole and in all major countries and regions (figure 1.2). This was mainly driven by lower revenues due to the growth slowdown and higher expenditure as countries had to deal with the

effects of the financial crisis. All major industrialized countries have announced fiscal measures to support their struggling industries and to stimulate demand, in order to counter the negative effects of the housing and credit crises.

Emerging economies such as China, Russia and a number of Asian countries have followed suit. However, these fiscal measures have not been well coordinated and might have limited effects due to their *ad hoc* nature. Indeed, at the end of 2008, it was highly debatable whether these measures would be sufficient to end the recession in OECD countries in 2009 (United Nations 2009, IMF 2009b).

“Fiscal measures have not been well coordinated and might have limited effects due to their *ad hoc* nature”

Figure 1.2
Central government fiscal balance for selected regions and economies, 2002-2009 (% of GDP)



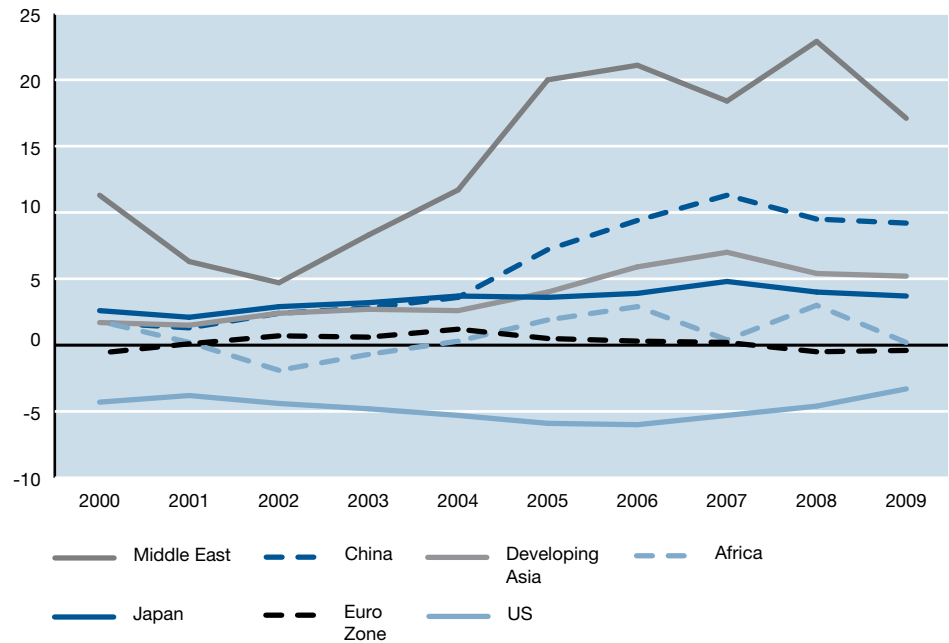
Source: IMF 2008a, 2008 estimates, 2009 forecasts.

1.2 Macroeconomic imbalances decline but remain huge

The USA experienced a sharp decline in imports due to the depreciation of its currency and slowing demand, causing its current account deficit in 2008 to drop by about 1 per cent relative to GDP (figure 1.3). However, the deficit might not decline further in 2009 as exports are expected to decrease, the dollar has appreciated and the fiscal stimulus package will further reduce public savings. In the euro zone, the small surplus in 2007 turned into a deficit in 2008 due to a slowdown in exports, while Germany and Switzerland had the largest surpluses in absolute terms (UNCTAD 2008c).

“ Over the past few years, many developing countries have accumulated large foreign reserves ”

Figure 1.3
Current account balance for selected regions and countries, 2002-2009
 (% of GDP)



Source: IMF 2008, 2008 estimates, 2009 forecasts.

Japan and developing Asia saw their current account surpluses decline in 2008. Latin America is expected to see its small surplus turn into 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 as oil prices fall. Africa is one of the few regions where the current account surplus increased significantly in 2008, albeit from an initially low level. The rectification of the current account imbalances has been mainly driven by exchange rate adjustments and to some extent by stronger domestic demand in the surplus countries. For 2009, the current account balances are expected to remain unchanged in most regions, except in the Middle East and the USA, where they are expected to decline further (UNCTAD 2008c; IMF 2008a).

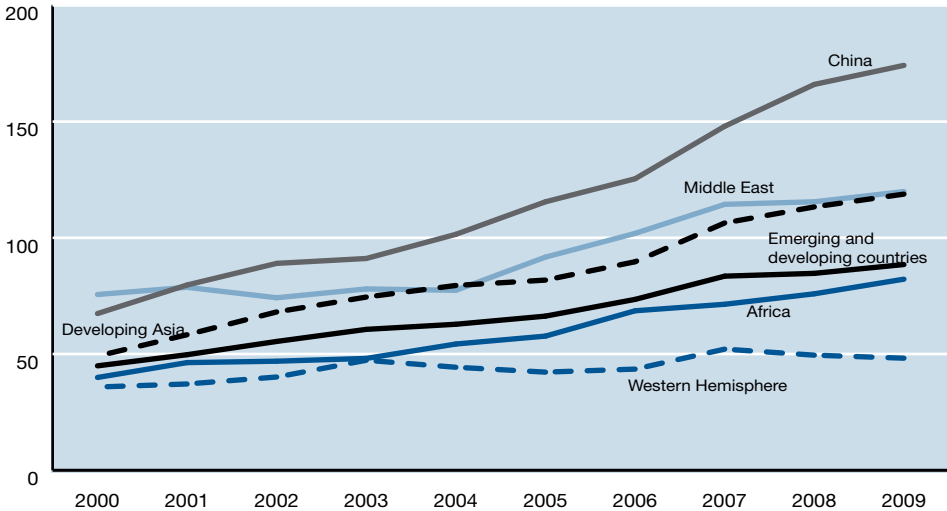
Over the past few years, many developing countries have accumulated large foreign reserves, such that global reserves tripled between 2001 and 2007 to \$6.2 trillion (figure 1.4). Eighty per cent of this global increase, which has picked up speed since 2005, was accounted for by developing countries. In 2008, official reserves of emerging and developing countries amounted to \$5.5 trillion, an increase driven partly by current account surpluses and partly by capital inflows. During the current financial crisis, countries with large reserves have been shielded somewhat from the effects

of the credit crunch, but for a number of oil and net food importers, reserves have been depleted due to the steep rise in prices for these commodities. In 2009, foreign reserves of developing countries are expected to stagnate (United Nations 2009).

In addition to official reserves, sovereign wealth funds have been accumulating assets estimated at \$5 trillion, fuelled by the increase in commodity prices and large current account surpluses in countries such as China. Like official reserves, these funds serve to stabilize fluctuations in current accounts. In addition, they are considered as savings to cover future generations for a time when natural resources are depleted. They are mainly invested in government bonds and increasingly in stocks. However, some sovereign wealth funds invested heavily in the banking sector in the USA and EU in late 2007, as banks were in urgent need of fresh capital (Griffith-Jones and Ocampo 2008; UNCTAD 2008b; IMF 2008a).

“ By the end of 2008, many commodity prices had lost all the gains obtained during the boom ”

Figure 1.4
Official reserves of emerging and developing countries and regions, 2000-2009 (% of imports of goods and services)



Source: IMF 2008a, 2008 estimates, 2009 forecasts.

1.3 World commodity prices peaked in mid-2008

Both food and mineral prices continued their sharp increase, reaching long-term peaks in the first half of 2008 (table 1.1 and figure 1.6). The price of oil hit \$147 per barrel in July 2008, but by November it had come down to below \$60 per barrel. Similarly, many metal and food prices increased substantially in the first half

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Global
demand for oil
will remain low
in the medium term
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of 2008, but started declining in mid-year. They are expected to remain below the peak level of mid-2008 in the foreseeable future. By the end of 2008, most commodity prices had lost all the gains obtained during the boom. Only some prices are expected to start picking again at the beginning of 2009 (UNCTAD 2008c; United Nations 2009; OECD and FAO 2008; IMF 2009a).

Oil and mineral prices peak

At more than \$140 per barrel in mid-2008, the price of oil reached a new peak even in real terms, having more than doubled between December 2006 and July 2008. This was mainly driven by a reduction in supply in 2007 and continued growth in demand. By December 2008, the price of oil had fallen to below \$50 per barrel, mainly as demand reacted to the global economic slowdown. In addition, energy consumers switched to more energy-saving technologies and to alternative energies. Thus, high oil prices are likely to help reduce carbon emissions somewhat. However, in many developing countries, higher fuel prices had not been fully reflected in domestic prices by mid-2008, thus limiting the response in demand (UNCTAD 2008c; IMF 2008a).

As a result of high oil prices in the first half of 2008, the fuel import bill of developing countries jumped from 2.7 per cent of GDP in 2002 to about 8 per cent in 2008. In addition, high oil prices have contributed to the increase in prices of other commodities, as energy is an important input for production and transport. The decrease in demand in industrialized countries was only partly offset by increasing demand in developing countries. Global demand for oil will remain low in the medium term, and is even projected to slow down in 2009. There is considerable uncertainty over supply due to political turbulence, weather-related fluctuations in production and lags in increasing production capacity.

The Organization of Petroleum-Exporting Countries (OPEC) took several steps to reduce output towards the end of 2008 and the beginning of 2009, but this has had only temporary downward effects on prices. Earlier forecasts of oil prices went as high as \$200 per barrel in the medium term, but a range of between \$50 and \$90 seems more reasonable for 2009, in view of recent economic developments (United Nations 2009; UNCTAD 2008c; IMF 2009b).

Table 1.1**Indices of selected primary commodity prices, 2003-2009 (2000 = 100)**

Commodity	2003	2004	2005	2006	2007	2008	2009
All commodities	105.1	126.1	140.8	183.6	207.2	256.6	
Crude petroleum	102.4	133.8	189.1	227.8	252.1	343.8	170
Food and tropical beverages	103.1	116.7	127.0	149.6	162.5	228.1	
Wheat	126.8	114.9	109.2	128.5	225.9	288.0	180
Maize	118.9	124.9	109.9	136.8	189.0	253.2	170
Rice	97.9	120.6	141.2	149.0	163.1	343.6	220
Sugar	86.7	87.6	120.9	180.6	123.3	156.5	145
Coffee	80.6	92.3	131.8	144.8	166.3	192.3	160
Cocoa	197.7	174.5	173.3	179.4	219.9	287.1	240
Palm oil	142.9	151.9	136.1	154.2	251.5	305.8	160
Agricultural raw materials	112.4	123.5	132.3	152.2	169.4	202.2	
Cotton	107.1	103.6	91.5	97.0	106.8	120.8	95
Tropical logs	114.3	136.3	136.7	130.2	155.7	216.8	190
Rubber	162.0	194.9	224.4	315.2	342.3	391.3	175
Minerals, ores and metals	97.6	137.3	173.2	277.7	313.2	332.4	
Aluminium	92.4	110.8	122.5	165.9	170.3	166.1	90
Copper	96.6	152.8	198.4	361.2	392.6	383.6	180
Gold	130.3	146.6	159.4	216.6	249.7	312.4	300

Source: UNCTAD 2008a; Estimates for 2008 and forecasts for 2009 based on UNCTAD database.

The supply response in mineral production has also been weak, as exploration costs have increased due to technological and geological constraints. In addition, there is a shortage of specialists in some of these sectors. For commodities such as copper and aluminum, shortages in supply have been relatively high, leading to a further increase in price levels in the first half of 2008 (table 1.1). For most metals, prices declined in the second half of 2008 due to weakening demand and large inventories. For 2009, most metal prices are expected to remain at their end of 2008 levels (UNCTAD 2008c; World Bank 2009).

The depreciation of the dollar against the euro between 2006 and mid-2008 by 27 per cent exacerbated the price increase of both minerals and food, as most of the prices of these commodities are quoted in dollars. For example, the price of gold depends to a large extent on the value of the dollar, as it is a substitute for holding savings. Thus, the price increases in countries whose currencies appreciated against the dollar were on average only about half of the increases quoted in table 1.1. Con-

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The depreciation
of the dollar
against the euro
exacerbated
increases in mineral
and food prices
”

sequently, supply and demand responses in these countries were also weaker. The recent appreciation of the dollar against many currencies contributed to the fall of commodity prices in dollar terms (UNCTAD 2008c).

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Some of the
increases in
food prices are
attributable to the
recent massive
increase in bio-fuel
production
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Unprecedented surge in food prices ended

The surge in food prices of more than 50 per cent between December 2006 and July 2008 was caused by a number of different factors. For many food products such as maize and rice, demand is increasing over the long term, driven by population growth and higher incomes in many developing countries, especially in Asia, and increasing demand for bio-fuels. At the same time, food supply is constrained by high production and transport costs due to increasing prices of oil and fertilizer as well as severe droughts induced by climate change.

As elaborated in chapter 3, some of the increases in food prices are attributable to the recent massive increase in production of bio-fuels. In addition to its direct effects on demand for corn, grains, sugar and oilseeds, this production has reduced the amount of land available for other crops like rice. The increasing demand for bio-fuels is caused in part by higher oil prices. Subsidies and consumption targets in OECD countries have contributed considerably to rising demand for bio-fuels. Currently, about 30 per cent of the land used for corn production in the USA is used to produce bio-fuel. The impact of bio-fuel production on the current increase in food prices is estimated at more than 50 per cent (Mitchell 2008).

For a long time, food supply had been increasing faster than demand owing to improved production technology in many countries. However, in a number of developing countries, stagnating agricultural productivity was one of the key factors that led to a slowdown in growth over the last 20 years. More recently, the rising production costs resulting mainly from high energy prices led to a slower increase in supply than in demand. At first, the slowdown in production growth resulted in a decline in inventories and therefore had no major impact on prices. However, combined with lower-than-usual harvests in major exporting countries such as Australia, it eventually contributed to the price increases of 2007 and 2008 (UNCTAD 2008c; IMF 2008a).

The rise in food prices has even affected such commodities as rice that are not directly influenced by demand for bio-fuels or by adverse weather conditions. This is due to substitution effects and adverse policy measures. For example, demand for bio-fuels led to the shift of production from rice, wheat and soybeans to maize. Likewise, substitution effects can be felt in demand as consumers switch from maize to soybean when the price of the former increases (IMF 2008a).

Policy measures to protect domestic consumers from higher food prices have also contributed to the price increases. A number of countries have introduced producer price controls to make cheaper food available on the domestic market. Despite the possibility of targeting through the selection of basic foodstuffs, this might still benefit the richer consumers disproportionately, because of substitution effects. In Egypt, for example, subsidized bread has been diverted to feed animals, thereby exacerbating the shortages. In effect, price controls reduce the incentives for producers to increase supply, thus contributing to shortages and further price increases.

Likewise, export restrictions might increase the domestic availability of food in the short term, but they are not targeted towards the poor and therefore reduce incentives for agricultural producers to increase production. In addition, they reduce supply on the international market and drive up prices further. Due to these adverse effects, such measures should be avoided as much as possible and should only be used by countries that do not have the capacity to introduce more comprehensive measures. Specific measures such as targeted subsidies and expanded social protection are better able to help the poor cope with higher food prices.

One feature of the recent development in commodity prices is the increasing volatility and uncertainty about short-term trends. Volatility has increased over the past 30 years due to the low short-term elasticity of demand and supply. It might even increase further due to the higher variability of weather patterns as a consequence of climate change. This higher volatility reduces investment in the agricultural sector and puts a heavy burden on governments for their financial planning. Speculation by financial investors has most likely further increased volatility. It has been driven by the recent turbulence in financial markets as investors try to diversify their portfolios (UNCTAD 2008c).

As figure 1.5 shows, food prices peaked in June 2008 and declined by more than 50 per cent on average during the second half of the year. At the end of 2008, they stood at the level of 2005 but were still considerably higher than the 2000 level. In addition, the decline in world market prices has slowly worked its way into domestic prices in many developing countries. Hence, the issues of stabilizing food prices at reasonable levels and increasing agricultural productivity still remain very relevant, especially for Africa (see part II of this report).

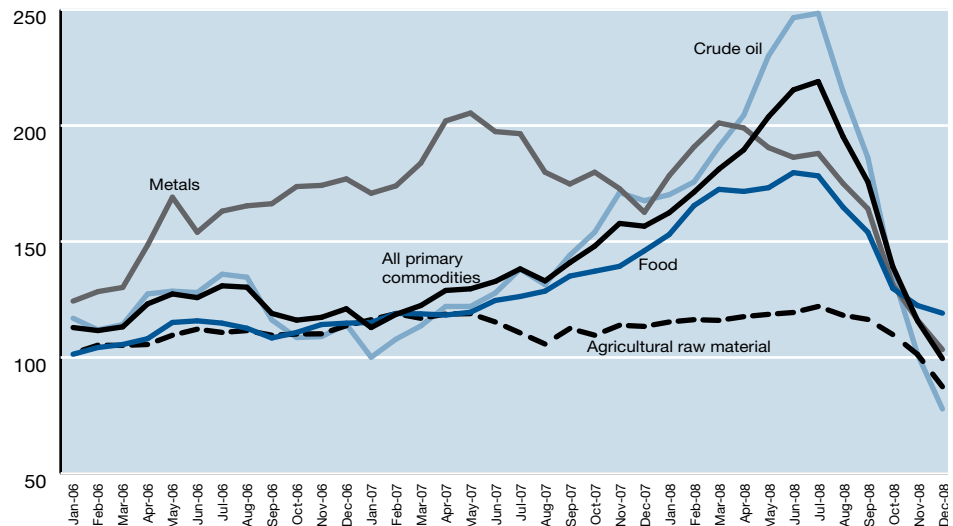
The medium-term prospects for global food prices are likely to be lower than the 2008 levels, but higher than those seen at the beginning of the century. However, prices are likely to resume their decline in real terms, albeit at a slower rate than before the recent surge. Maize and sugar prices, which are directly affected by demand for bio-fuels, are expected to increase further in 2009, whereas most other food and beverage prices are expected to remain relatively stable. It is expected that the increase in

“ Higher volatility of food prices reduces investment in agriculture ”

supply will come mainly from productivity gains and less from an increase in areas under cultivation (FAO and OECD 2008; United Nations 2009).

“ Inflation rates for 2009 are expected to fall back to their 2007 levels in most regions ”

Figure 1.5
Indices of primary commodity prices, 2006-2008 (2005=100, in \$US)



Source: IMF 2009a.

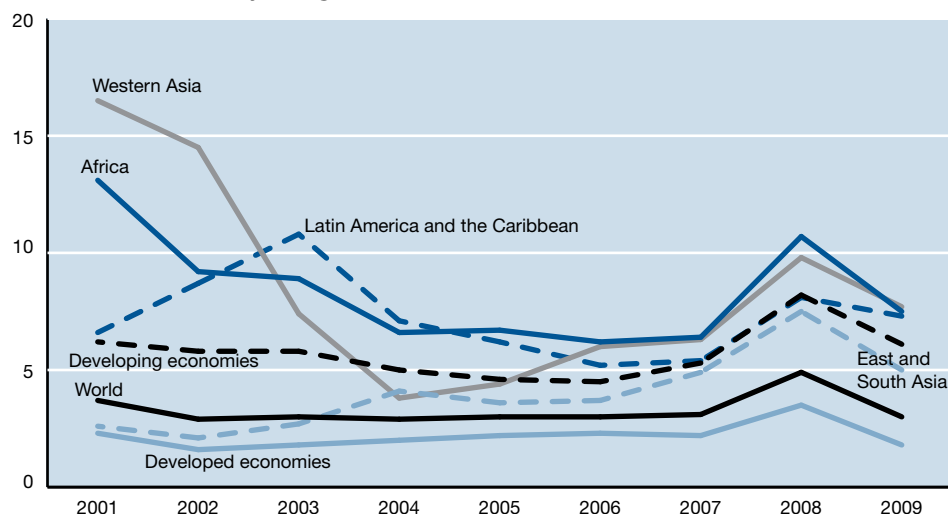
1.4 Global inflation increased significantly in line with commodity prices

The sharp increase in commodity prices that started in 2007 and accelerated in the first half of 2008 pushed up average prices in all regions of the world by the end of 2008 (figure 1.6). Average world inflation increased from 3.5 per cent in 2007 to about 6 per cent in mid-2008, the highest rate since the late 1990s. As world demand declined in the wake of the financial crisis, prices for most commodities also declined, thus easing inflationary pressures. Inflation rates for 2009 are therefore expected to fall back to their 2007 levels in most regions. The strength of the impact of changing food and oil prices on inflation depends on the composition of consumption. Increases in food prices have a stronger impact on inflation in developing countries because their food products represent a much higher share of the consumption basket. However, increases in energy prices have a stronger effect on inflation in industrialized countries (United Nations 2009; OECD 2008; IMF 2008a).

In the first half of 2008, the European Central Bank (ECB) kept interest rates high, as headline inflation was more than double its target of 2 per cent. Most central banks were reluctant to increase interest rates, since the increase in inflation was mainly due to external circumstances rather than a robust expansion in domestic demand. As the global economy was generally slowing down, it was seen as appropriate to wait for a trend reversal in commodity prices, something that finally occurred in mid-2008. In Europe and Japan, wage increases in particular were largely contained, leading to a stable underlying inflation rate, but in the United States, underlying inflation started to pick up in mid-2008.

“With inflationary pressures waning, central banks have lowered interest rates”

Figure 1.6
Inflation rates in major regions and economies, 2001-2009



Source: United Nations 2009, 2008 estimates, 2009 forecasts.

In addition to declining commodity prices, weakening demand and lower capacity utilization rates are expected to bring inflation down in 2009. Towards the end of 2008 and the beginning of 2009, all major central banks cut interest rates to historically low levels: the Fed to 0 per cent and the Bank of Japan to 0.1 per cent in December 2008, the Bank of England to 1.5 per cent and ECB to 2 per cent in January 2009 (OECD 2008; UNCTAD 2008c; ECB 2009).

Up to mid-2008, the central banks of several developing countries, including Brazil and India, increased interest rates to contain inflation and reduce the second-round effects of rising nominal wages. These effects on core inflation were mainly occurring in countries where demand growth has been strong and inflation expectations are increasing due to the low credibility of monetary policy. With the easing of many commodity prices, especially those of oil and some major food items, inflationary pressures have been reduced and central banks in Asia have lowered interest rates.

“ External borrowing costs for developing countries have increased dramatically since September 2008 ”

For developing countries, inflation is expected to decline to 6.1 per cent in 2009 compared with 8.2 per cent in 2008. The same pattern is observable in all regions of the world, although the decline in inflation is less rapid in Western Asia and Latin America due to higher inflationary expectations (figure 1.6; UNCTAD 2008c; IMF 2008a; United Nations 2009).

External financing costs for developing countries have increased dramatically since September 2008. Spreads on emerging market bonds doubled within a few weeks and have remained at a very high level for most countries, reflecting general risk aversion as opposed to country-specific risk perceptions. The measures taken by the governments and central banks of industrialized countries to contain the recent financial crisis eased constraints in the financial markets somewhat, but were not sufficient to re-establish confidence (figure 1.7).

Emerging markets remain vulnerable to continued de-leveraging and credit retrenchment. At the G-20 meeting of November 2008, Heads of State and Government agreed to strengthen transparency and accountability, enhance regulations, promote integrity in financial markets, reinforce international cooperation and reform international financial institutions, but these commitments could not stop the decline in share or commodity prices (World Bank and G-20 2008; IMF 2009b).

Table 1.2
Indicators of financial market stress and bank credit default swap rates

	Before August 2007		August 2007 to 12.09.2008		15.09.2008-14.10.2008	
	Average	Standard deviation	Average	Standard deviation	Average	Standard deviation
United States	21	6	158	97	271	60
Euro zone	13	4	79	33	170	24
United Kingdom	10	3	97	33	177	33

Source: OECD 2008.

1.5 Global interest in Africa is broadening

In 2008, several high-level meetings were organized with Africa's concerns high on the agenda. In April 2008, the India-Africa Forum Summit was held in New Delhi with 14 Heads of State and Government and representatives of regional bodies. A comprehensive Africa-India Framework for Cooperation was established, covering economic cooperation in such areas as agricultural development, political cooperation, science and technology, social development, tourism, infrastructure, energy and environment, and media and communication. A joint plan of action and implementation mechanism is to be developed within a year. One of the stated aims of

the framework is to reinforce South-South cooperation to enable Africa and India to have greater leverage in international forums.

In May 2008, the fourth Tokyo International Conference on African Development (TICAD-IV) took place in Yokohama, with representatives from 51 African countries, including 40 Heads of State and Government as well representatives of African organizations and from many Asian countries. Japan pledged to double its official development assistance (ODA) over the next five years, focusing on infrastructure and agricultural development.

The first Turkey-Africa Cooperation Summit was held in Istanbul in August 2008 with the participation of representatives of 50 African countries, among them several Heads of State and Government. Turkey's trade and investment relations with Africa have increased dramatically over the past few years and Africa is a major market for Turkish contractors. Turkey has also formalized relations with AU and with AfDB.

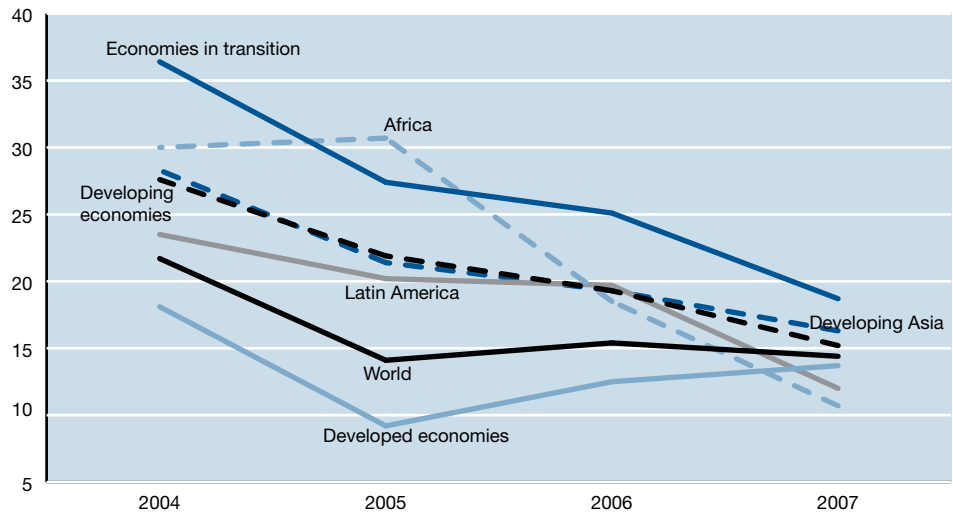
In October 2008, a ministerial conference on economic cooperation between South Korea and Africa was held to discuss major economic development issues and share South Korea's economic development experiences with African partners. Other middle-income countries such as Brazil are also intensifying their economic and diplomatic ties with Africa. These developments are taking place against the recent backdrop of high growth in Africa, increasing demand for commodities, especially in emerging economies, and the search for low-cost locations for investments in simple manufacturing. They have helped halt the trend of Africa's declining share of world trade and foreign direct investment (FDI) flows.

World trade expanded less in 2007 than in previous years, which is reflected in lower export growth rates in almost all regions, except developed economies (figure 1.7). However, there are fundamental differences between countries, as the increase in commodity exports was mainly driven by price hikes, whereas exports of manufactured goods expanded because of higher trade volumes. Exports of economies in transition grew the fastest, followed by those of developing Asia. Africa had the slowest growth rate at 10.7 per cent, despite the increase in most commodity prices. Growth in world trade slowed in 2008 to around 6 per cent, due to lower demand in OECD countries. Another important factor that restricts exports is the drying up of short-term export credit, as about 90 per cent of trade is financed with short-term credit. (Massa and te Velde 2008).

“ Growth in world trade slowed in 2008 and will decline in 2009 with declining short-term export credit ”

“ FDI flows declined by 21 per cent in 2008 ”

Figure 1.7
Annual average growth rates of exports by region (%)



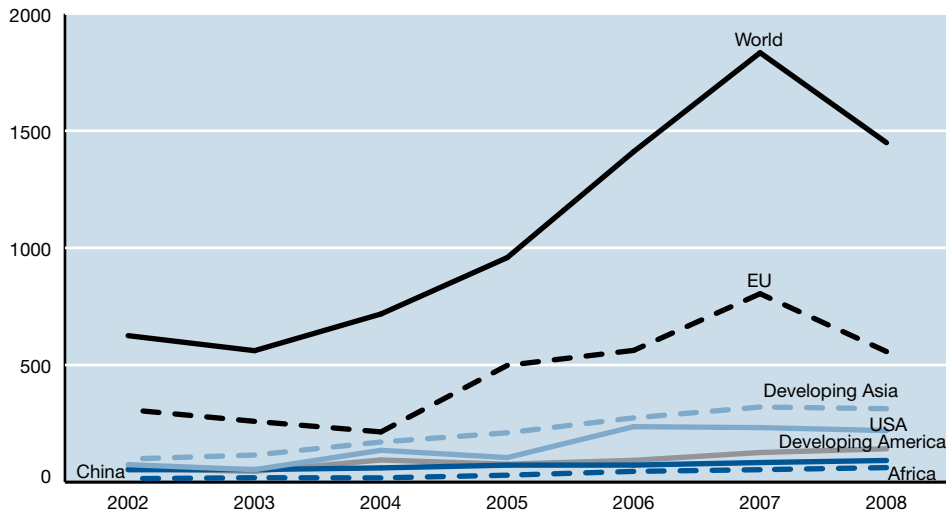
Source: UNCTAD 2008a.

A further 2 per cent decline in overall trade is expected for 2009, for the first time since 1982. Some countries such as Russia and India have already started to raise tariffs and others are increasingly using anti-dumping rules to protect their domestic industries from the sharp decline in demand. The result could be a doubling of average tariffs, as most of the tariff reductions over the past decade are not bound to be maintained under the World Trade Organization (WTO). (See UNCTAD 2008c; World Bank 2009; United Nations 2009).

In 2007, FDI inflows increased by 30 per cent, reaching an all-time high of \$1,833 billion. 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 (figure 1.8). EU played an important role both in the surge in 2007 and in the fall in 2008. FDI into the USA already declined in 2007 and continued this trend in 2008. The USA remained the largest recipient country, as the depreciation of the dollar reduced the cost of FDI in the country. The total FDI inflows into industrialized countries dropped by 33 per cent in 2008, whereas for developing countries, they increased by 4 per cent on average. Africa and Latin America recorded growing FDI inflows mainly in the first half of 2008. For 2009, capital flows are expected to drop further. Net private debt and equity flows to developing countries are also expected to decline by half from \$1 trillion in 2007 to \$530 billion in 2009, slowing down investment growth dramatically (UNCTAD 2009; World Bank 2009; United Nations 2009).

Figure 1.8

FDI inflows by region and for selected countries and regions, 2002-2008



Source: UNCTAD 2009; 2008 figures are preliminary estimates.

In 2007, the trend of increasing FDI flows between developing countries continued with Asia being the main source of FDI for other developing regions. However, even African transnational corporations (TNCs) expanded their activities inside and outside the region. FDI flows to Africa grew to a new record of \$53 billion in 2007, increasingly targeting extractive industries due to the increase in commodity prices. Overall, the service sector still accounts for the largest share of global FDI stocks, whereas the share of manufacturing is declining and the share of agriculture remains very low (UNCTAD 2008b).

Remittance flows to developing countries also grew by 7 per cent to \$283 billion in 2008, up from \$265 billion in 2007. The increase in remittances was strongest in South Asia, followed by the Middle East, North Africa and sub-Saharan Africa (SSA). However, this increase was much slower than in previous years due to the growing unemployment and weakening economies in industrialized countries. For 2009, a loss of 20 million jobs globally is expected, which might affect migrants disproportionately.

However, the net effect of the crisis on migration is uncertain as both pull factors such as employment opportunities in receiving countries and push factors such as prospects for earning money in developing countries are affected. Overall remittance flows to developing countries are expected to decline by 6 per cent. However, they are still expected to be less affected by the financial crisis than other flows (World Bank 2008).

“ Remittance flows to developing countries grew by 7 per cent in 2008, but are expected to decline ”

1.6 Effects of the financial crisis on Africa and the policy response

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The financial crisis and the global economic recession present serious challenges for Africa
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The financial crisis and the global economic recession are likely to have both direct and indirect effects on Africa. Owing to the relatively weak integration of African financial markets into the global market, the direct effects are likely to be moderate. In a number of countries such as South Africa, Egypt, Nigeria and Kenya, the financial sector has been affected as stock prices have declined dramatically. The reversal of portfolio inflows makes the rollover of government bonds more difficult and for those countries with a high share of foreign banks such as Mali, Tanzania, Rwanda, Uganda, Mozambique and Zambia, the risk of capital withdrawals persists (Massa and te Velde 2008).

The global financial crunch makes it difficult even for large African companies to borrow on international markets. Domestic banking systems are also affected by the global financial instability and liquidity shortage, such that they are unlikely to provide significant financing in the short term. This leads to contraction in domestic credit to the private sector, thereby compromising their profitability, at least in the short term, and further reducing the value of stocks on the markets.

Falling stock prices and the credit crunch may bring about a sharp contraction of domestic consumption through the wealth effect associated with declining stock prices and disposable income. At the same time, difficulties in financing investment projects will force some domestic firms to increase tariffs and prices. For instance, South Africa's State electricity supplier, Eskom, has already announced that its tariffs will increase because it can no longer finance its long-term investment plan through international capital markets. Since demand for electricity is typically inelastic, this increase in tariffs will be largely borne by the final consumer.

The indirect effects of the crisis can be significant and multifaceted. They stem mainly from the world economic recession and falling commodity prices and exports, slow and unpredictable capital inflows, and exchange rate volatility. In addition to lower growth, these factors can create significant internal and external economic imbalances as well as slow progress towards achieving the Millennium Development Goals (MDGs). However, the impact of the global financial crisis on inflation should be marginal. As mentioned previously, slowing global demand will result in lower prices for Africa's commodity exports.

Other important export sectors such as non-traditional agriculture will also be adversely affected by the financial crisis and ensuing global recession. Tourism, on the other hand, will be affected not just by the crisis, but also by high oil prices and air transport costs. Thus, current account deficits are expected to widen, while lower

revenues from exports will put a strain on government expenditure (Massa and te Velde 2008).

The indirect effects of the financial crisis are also expected to be significant, with falling ODA flows and lower FDI and remittances. Even if industrialized countries keep aid as a percentage of gross national income (GNI) constant, the recession in those countries will result in lower absolute aid flows. The financial crisis will also weaken many African countries, especially mineral exporters. It is expected that the real currency appreciation experienced by African countries in recent years will be offset, thereby improving the competitiveness of African exports. On the other hand, imported inflation might offset the stabilizing effects of the decline in international commodity prices, and the overall effect of the crisis on domestic inflation should be marginal. The global recession will cool down inflationary pressures, while monetary policy is likely to be more expansionary in response to the crisis.

The worldwide recession and weak growth in Africa will slow down the pace at which the continent approaches the MDG targets. The drop in ODA and the difficulties in mobilizing domestic resources through public budgets exacerbate this effect. Disposable income of households will also decrease as a consequence of reduced remittances. The number of those hit by the food crisis is also likely to increase. Overall, Africa might therefore experience an increase in the number of its poor citizens and a decrease in the living standards of the most vulnerable segments of its population.

Clearly, the financial crisis will force African countries and their partners to consider both short-term and long-term mitigating policy actions. These should include: strengthening financial sector regulations, especially in relation to banking surveillance and supervision; reducing vulnerability to international shocks through economic diversification and improved management of income from natural resources; and improving the mobilization of domestic resources in the face of declining and volatile external flows.

1.7 Conclusions

The fact that all major industrialized countries were sliding into recession and were mired in a financial crisis at the end of 2008 is an occurrence that has not been witnessed since the Great Depression of the 1930s. Recovery in industrialized countries is only expected towards the end of 2009. As the financial crisis is going to have significant negative effects on all developing regions, further coordinated action by industrialized and emerging economies should not only bring relief to their own economies but also take into account the needs of countries that do not have the

“ Deepening global slowdown and slowing growth in Africa hampers progress towards achieving the MDGs. ”

means to protect themselves against the unfolding turmoil. This might include extension of rescue packages to poorer countries.

“ Higher food prices also present an opportunity for increasing investment in agriculture. ”

Although the surge in food prices subsided and even started retreating in mid-2008, prices have remained relatively high, presenting a number of challenges for developing countries in general and Africa in particular. For example, food importers are confronted with higher trade and fiscal deficits, while the increasing volatility of commodity prices is increasing the level of uncertainty, which in turn has a negative impact on investment and production. In addition, fiscal and financial planning becomes more difficult, which is especially problematic for countries with weak institutions and capacity gaps. However, higher food prices also present an opportunity for increasing investment in agriculture and thus reducing poverty in the medium term, as discussed in the second part of ERA 2009.

While the world financial crisis will undoubtedly have significant direct and indirect economic and social effects on Africa, policy responses will depend on the nature of these effects and on the financial position of each country. African countries with accumulated reserves from the recent commodity boom should use these reserves to boost domestic demand and mitigate the impact of the crisis on their economic and social development. Countries with limited reserves and high dependence on donor support are likely to suffer the most.

In addition to better macroeconomic and public sector management, these countries need the support of donors and multilateral development institutions in order to sustain the economic and social achievements of the last few years. In this regard, industrialized countries should consider using a fraction of their financial rescue and economic stimulus packages to help finance transfers to the hardest-hit poor countries.

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Growth and Social Development in Africa in 2008 and Prospects for 2009

Economic performance in Africa slowed in 2008 and is projected to slow further in 2009. Africa's economic downturn is spurred by the financial turmoil that originated in the USA and affected most countries of the world. For the continent as a whole, despite this decline, fiscal and current account balances have improved and domestic savings and investment rates increased. However, with high average fuel and food prices in 2008, Africa's average inflation rate rose significantly, threatening macroeconomic stability and food security in many countries.

The continent needs short-term measures to address the expected adverse consequences of the global financial crisis and food shortages, as well as long-term measures to accelerate and sustain the growth needed to achieve meaningful economic and social development in the future. Also, economic performance in Africa, driven mainly by revenues from oil and mineral exports in resource-rich countries, conceals considerable variation across countries and remains insufficient for Africa to meet the MDGs. In particular, Africa has to strengthen efforts to promote gender equality and women empowerment as factors that are strongly correlated with other social development goals.

“ Africa's growth remains highly vulnerable to external shocks ”

2.1 Growth performance

2.1.1 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 Despite the deceleration, growth remains strong in view of the global economic slowdown ignited by the global financial turmoil. The main factors underpinning the continent's growth in 2008 are high commodity demand and prices, continued sound macroeconomic management and commitment to economic reforms, increased domestic investment and productivity, recent debt write-offs, private capital flows, increasing non-fuel exports and consolidation of peace in various parts of the continent.

¹ All the growth and inflation data are from UN-DESA (2008a), November, except for data for Swaziland and Seychelles, which come from the Economist Intelligence Unit (EIU, 2008).

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Commodity
revenue a key
driver of growth
in 2008
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Improved governance and institutional environment, including long-term planning and monitoring and evaluation, have also boosted opportunities for private sector development and growth in many countries such as Botswana, Nigeria, Rwanda and Tanzania. However, aid and other capital inflows are likely to decline as a result of the severe world financial crisis and recession in major donor/development partner countries.

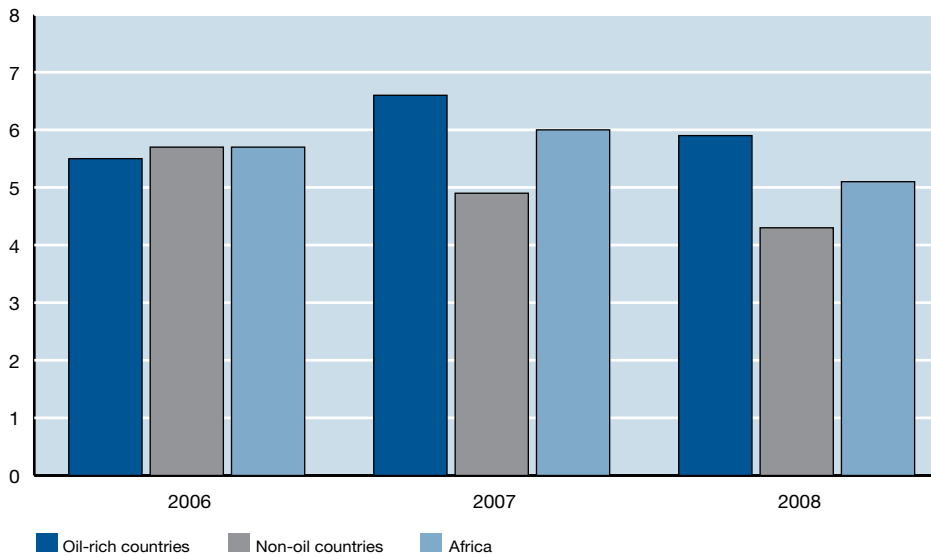
Commodity revenue, especially from oil, was the key driver of economic growth in Africa in 2008. Oil-exporting African countries contributed 53.3 per cent and 61.4 per cent to the continent's total GDP and GDP growth rate in 2008, respectively. Despite the recent global slowdown, oil-exporting African economies sustained a relatively high growth rate (5.9 per cent) in 2008, thanks mainly to high oil prices (figure 2.1). Although oil and other commodity prices are expected to fall in the aftermath of the financial crisis and reduced global demand, they are likely to remain high by historical standards.

The lower average growth rate in Africa in 2008 is mainly the result of a notable slowdown in GDP growth in oil-importing countries, from 5 per cent in 2007 to 4.4 per cent in 2008. This downturn emanated mainly from the increased energy and food costs that resulted in larger import bills, but also from the effect of the financial crisis in the form of lower export demand and revenue.

Growth analysis confirms that African economies are more susceptible to fluctuations in commodity prices than the direct effects of fluctuations in global financial markets (IMF 2008). The direct and second-round effects of the financial crunch and recession in industrial countries on Africa are likely to intensify in 2009 (see chapter 2). In terms of volume, African exports of goods and services grew at 13 per annum between 2006 and 2008 compared to a 6.6 per cent growth in imports over the same period. In terms of value, the respective growth rates were 8.1 per cent and 4.2 per cent. This partly explains the low rate of growth in the continent's terms of trade of 1.4 per cent annually in 2006-2008.

Figure 2.1

Growth in Africa, oil vs. non-oil economies, 2006-2008 (%)



“Growth rates drop further below the level needed for achieving the MDGs”

Source: UN-DESA, November, (2008a).

Overall, growth in Africa plunged further below the 7 per cent average rate required for achieving the MDGs. More important, the number of oil-importing African countries achieving a growth rate of 7 per cent or more has consistently declined over the last 3 years. Also, gains in the continent's per capita income are modest. Accordingly, it is not surprising that recent estimates show that the poverty rate in sub-Saharan African (SSA) countries in 2005 was the same as the rate of 50 per cent in 1981. The number of poor people has actually doubled over the same period (Ravallion and Chen 2008).

As in the rest of the world, both oil-importing and oil-exporting African countries have experienced notable increases in inflation rates in 2008. Inflationary pressure complicates macroeconomic management and threatens recent achievements in the areas of growth and macroeconomic stability, particularly in oil-importing countries. Consolidating improved macroeconomic management and mobilizing long-term, non-debt generating resources is essential for the continent to diversify exports and sustain high growth.

In addition to generally low savings and investment rates in many African countries, incentives for diversification have lessened as high commodity prices, more aid and stronger capital inflows strengthened exchange rates over the last few years (Commission on Growth and Development 2008). This trend is likely to be halted or reversed in most Africa countries as commodity prices decline in 2009.

“Africa needs more effective strategies for greater integration with the global economy”

African governments must formulate growth-oriented long-term strategies underpinned by prudent macroeconomic policies, including competitive exchange rates. These strategies should also foster public investment in education, technology and infrastructure and be based on effective industrial policies. The continent also needs strategies to “facilitate integration with the global economy; densification of people and activities; and policies that encourage self-discovery of products in which Africa can create comparative advantages” (ibid, p. 72).

High average energy and food prices in 2008 contributed to food shortages and the rising poverty rates in Africa, especially in the Horn of Africa, West Africa and in conflict countries in general. Africa imports a significant percentage of its food from other regions and poor households spend more than 50 per cent of their income on food. In addition to external support, oil-importing African countries need sound domestic policies to mitigate the economic and social impact of high energy and food prices (see chapter 3).

The international community has the obligation to increase emergency aid, especially to conflict countries and drought-stricken areas. Domestic policies may include reduction of import tariffs and domestic taxes on food, as well as cash transfers. 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 (see part II).

Table 2.1
Distribution of growth performance in Africa, 2006-2008 (53 countries)

GDP growth rate	2006		2007		2008	
	Oil	Non-oil	Oil	Non-oil	Oil	Non-oil
Less than 3%	5	7	4	10	2	7
Between 3% and 5%	1	11	2	8	3	14
Greater than 5% and less than 7%	4	14	2	15	3	17
7% or more	3	8	5	7	4	2
Total	13	40	13	40	13	40

Source: UN-DESA, November (2008a).

2.1.2 Economic performance varied across subregions and countries

GDP growth decelerated in three of the five subregions of the continent in 2008 (table 2.2). West and Central Africa grew at 5.4 and 4.9 per cent in 2008, compared with 5.2 and 3.9 per cent in 2007, respectively. In 2008, GDP growth rates decreased in North Africa (to 5.4 per cent), East Africa (5.7 per cent) and Southern

Africa (4.2 per cent). High commodity demand and prices are still among the key factors supporting growth in all African subregions.

Table 2.2
Subregional growth performance, 2006-2008 (per cent)

	2006	2007	2008
East Africa	6.2	6.3	5.7
Southern Africa	6.1	6.2	4.2
North Africa	5.8	5.9	5.4
West Africa	4.6	5.2	5.4
Central Africa	1.8	3.9	4.9
Africa	5.7	6.0	5.1

Source: UN-DESA, November (2008a).

Despite the slowdown, East Africa maintained the highest growth on the continent over 2006-2008. Again, Ethiopia led the subregion with an 8.0 per cent real GDP growth rate in 2008, followed by DRC (7.2), Tanzania (6.8 per cent), Seychelles (6.2 per cent), Uganda (6.0 per cent), Rwanda (5.8 per cent), Madagascar (5.2 per cent), and Burundi and Djibouti (5.0 per cent each). Growth plummeted in Kenya from 6.1 per cent to 3.5 per cent, due largely to post-elections violence and a sharp fall in tourism. Growth remained weak in Eritrea (1.0 per cent) owing to poor rainfall, weak agricultural production and a poor business environment. Political instability disrupted tourism and FDI inflows as well as overall growth in the Comoros (0.5 per cent).

Growth factors in East Africa included expansion in agriculture, horticulture, and services, especially finance, telecommunications and construction. The subregion also benefited from healthy inflows of aid and strong growth in tourism and FDI. However, growth in some East African countries such as Uganda remains constrained by infrastructure bottlenecks, especially energy and transportation.

High oil revenues and tourism receipts continued to boost growth in North Africa. Egypt grew at 6.5 per cent, followed by Libya (6.2 per cent), the Sudan (6.0 per cent), Morocco (5.1 per cent) and Tunisia (4.8 per cent). Economic growth recovered markedly in Mauritania (from 1 per cent in 2007 to 4.2 per cent in 2008), but declined in Algeria (from 4.6 per cent to 3.3 per cent). Besides the strong rise in oil and mineral exports that boosted both public and private consumption in most North African countries, that subregion saw a rebound in agricultural output as well as a construction boom due to high demand for tourism and residential buildings. Growth slowed in Tunisia owing to food and oil costs and weaker EU demand for exports, and in the Sudan due to declining oil production.

“ East Africa continues to lead in terms of growth performance ”

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Non-commodity
sectors are
expanding in
many African
countries
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In West Africa, GDP growth was strong in most countries, thanks to accelerated recovery in Liberia (8.0 per cent), increased oil production and prices and growth in non-oil sectors in Nigeria (6.1 per cent each), high FDI inflows and remittances in Cape Verde (5.8 per cent), and expansion in mining activity in Sierra Leone (5.8 per cent), Ghana (6.0 per cent) and Burkina Faso (4.3 per cent). Growth in construction and tourism together with high public spending underpinned high growth in the Gambia (5.8 per cent). Growth also remained high in Benin (4.7 per cent) with a recovery in re-export activity, cotton production and strong growth in construction.

Strong activity in the mining and service sectors, among other factors, has supported growth in Senegal (4.6 per cent), and the Niger (4.0 per cent), whereas growth in Mali (3.9 per cent) benefited from fast expansion in the non-mining sector. Economic performance was relatively weak in other countries of the subregion. Guinea-Bissau grew at 3.3 per cent thanks to a recovery in agricultural output and rising donor support, Togo at 2.9 per cent due to growth in cotton production and in manufacturing and services. Recovery in the oil sector and peace dividends underpinned a 2.8 per cent growth in Cote d'Ivoire in 2008, while political upheavals condemned Guinea to a 2.0 per cent growth rate.

Economic performance in Central Africa accelerated from 3.9 per cent in 2007 to 4.9 per cent in 2008, thanks largely to increased public investment in infrastructure in Equatorial Guinea (9.0 per cent), significant expansion in oil production and activity in the non-oil sector in Republic of Congo (7.8 per cent), and Gabon (3.9 per cent). Growth also remained high in Sao Tome and Principe (5.3 per cent) despite delays in the disbursement of some donor funds and the impact of high inflation and energy costs.

Growth improved in Central African Republic (to 4.4 per cent) with the resumption of donor support and the improved political situation, and in Cameroon (to 3.9 per cent) as a result of developments in infrastructure and exploitation of natural resources. Despite improvement, Chad (1.0 per cent) remains the least performing country in the subregion as a result of political conflict and the erratic flow and management of oil revenue.

Southern Africa's economic performance slowed from 6.2 per cent in 2007 to 4.2 per cent in 2008 as most of the larger economies posted lower growth rates. Despite deceleration, Angola maintained the highest growth rate in the subregion in 2008 (12.9 per cent), followed by Malawi (6.6 per cent), Botswana (6.5 per cent), Mozambique (6.2 per cent), Zambia (5.9 per cent), Mauritius (5.4 per cent), Lesotho (5.0 per cent), and Namibia (3.5 per cent). GDP growth slowed sharply in South Africa (from 5.1 per cent in 2007 to 3.1 per cent in 2008), and remained low in Swaziland (2.0 per cent), while Zimbabwe's economy continued to contract (-4.5 per cent).

Key growth factors in this subregion in 2008 comprise high oil and mineral prices and exports, rising crop output and growth in commerce, communications and transport. The key factors constraining growth include delays in donor funding (Malawi), global slowdown in demand (Zambia), power shortages, high interest rate and weaker global economic activity (South Africa), difficulties in the export manufacturing industries (Swaziland), and political instability (Zimbabwe).

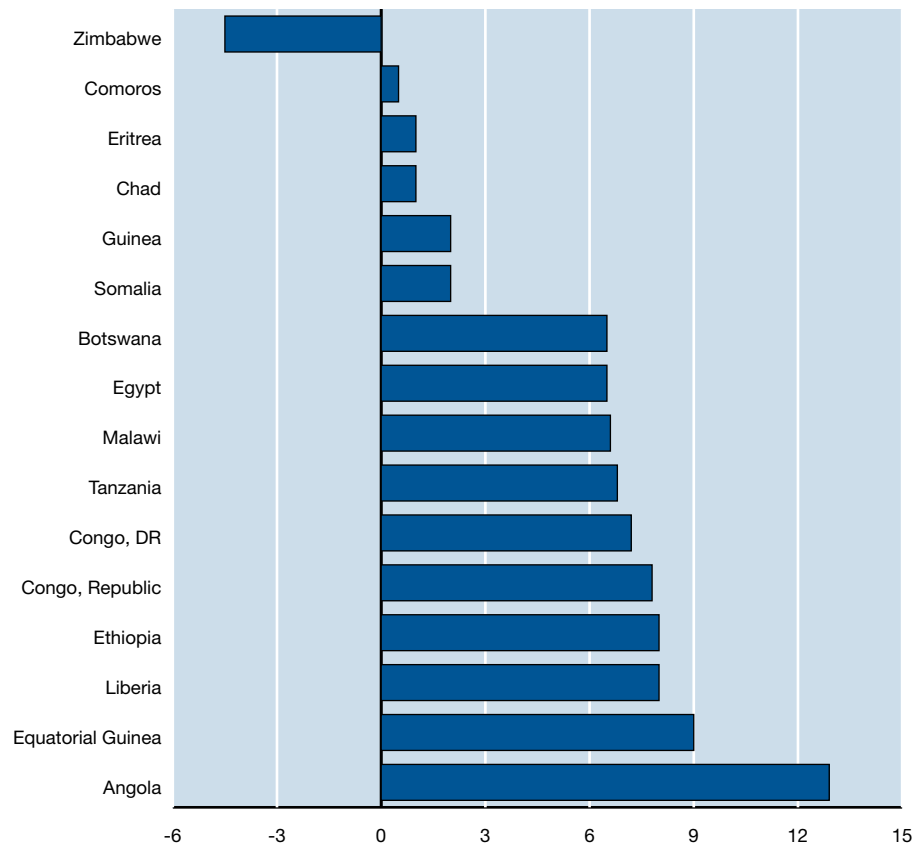
2.1.3 Top and bottom performers in 2008

As in previous years, the top performers in Africa are mainly resource-rich, recovery or high-aid recipient economies, while the least performers suffered from political instability and/or external shocks (figure 2.2). Only 6 of the top performing economies in 2007 are ranked in the 11 top performers of 2008. Among these, in addition to oil, only Egypt has a relatively diversified economy. This underscores the fragility of growth on the continent and the inability of most African countries to accelerate and sustain growth.

Five countries (Zimbabwe, the Comoros, Chad, Somalia and Eritrea) have remained on the list of least performing economies over the past 5 years. Eritrea suffered from weak agricultural production and a poor business environment. Political instability, among other factors, dampened growth in Chad, the Comoros, Guinea, Somalia, and Zimbabwe. Thus, improvement in the political situation is essential for these countries if they are to reverse the tide of low and declining economic performance. At the same time, diversification of sources of growth and exports is a must for both top performers and least performers, in order to accelerate and sustain growth and to achieve their social objectives.

“Least performing African economies suffered from political instability and/or external shocks”

Figure 2.2
Top and bottom performers in Africa in 2008 (% annual growth)



Source: UN-DESA, November (2008a).

2.1.4 Widening fiscal imbalances in oil-importing countries

High energy and food prices pushed the proportion of oil-importing countries with deficits from 76 per cent in 2007 to 86 per cent in 2008 (table 2.3). On average, these countries recorded a fiscal deficit of -0.5 per cent of GDP.² At the same time, while the number of oil-exporting African countries with fiscal surplus remained unchanged, their combined surplus amounted to 7.7 per cent of GDP in 2008 compared with 5.0 per cent in 2007.

The overall budget surplus of Africa in 2008 mainly reflects the position of oil-exporting countries. All 9 surplus countries on the continent in the last five years are oil or mineral-rich countries. On the other hand, with the exception of Egypt and Ghana that have invested substantively in infrastructure and human development,

² Fiscal balance includes grants.

all the largest deficit countries have been subjected to strong external shocks and/or political unrest.

Table 2.3
Distribution of fiscal deficits in Africa in 2008 (42 countries)

	Oil countries	Non-oil countries	Mineral-rich	Non-mineral-rich	Sub-Saharan Countries
Countries with surpluses	8	4	2	2	10
Less than 5%	2	3	1	2	5
5% to 10%	0	1	1	0	1
More than 10%	6	0	0	0	4
Countries with deficits	5	25	8	17	26
Less than 5%	4	18	5	13	19
5% to 10%	1	5	2	3	5
More than 10%	0	2	1	1	2
Total number of countries	13	29	10	19	36

Source: UNECA calculations based on data from EIU, November 2008.

Note: Due to data limitations, only 42 countries are covered. The 11 excluded countries are Central African Republic, Comoros, DRC, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Sierra Leone, and Somalia.

The fiscal deficits of oil-importing African countries seem to reflect a trend rather than a short-term phenomenon. Over 1998-2008, 93 per cent of these countries had budget deficits (table 2.4). However, for 79 per cent of these countries, the deficit has been less than 5 per cent of GDP, thanks to prudent fiscal management. Indeed, fiscal policy 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 generating sources in line with the required increases in spending on infrastructure, especially energy and roads, and social sectors. Sources of revenue increases include strong growth, rising exports, sale of public enterprises, widening of the tax base and improved tax collection. However, public spending has accelerated in 2008, with high energy and food prices leading to higher wages, and scaling up of public expenditure on infrastructure, energy subsidies and social security. The energy and food price effects came at a time when many countries were attempting to increase spending to strengthen institutional capacity, especially in relation to political and economic governance.

To maintain fiscal stability, many countries resorted to additional measures to curb public spending and finance their deficits. These included reduced expenditure on development projects as well as service delivery in some instances. Many SSA 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

“Most African countries continue to sustain sound fiscal policies”

further debt relief as well as a 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 and stability.

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Fiscal
surplus increased
in oil-rich African
economies in 2008
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Table 2.4
Distribution of fiscal deficits in Africa by resource group, 1998-2008
(average)

	Oil countries	Non-oil countries	Mineral-rich	Non-mineral-rich
Countries with surpluses	7	2	1	1
Less than 5%	1	1	0	1
5% to 10%	3	1	1	0
More than 10%	3	0	0	0
Countries with deficits	6	27	9	18
Less than 5%	5	23	7	16
5% to 10%	1	3	2	1
More than 10%	0	1	0	1
Total number of countries	13	29	10	19

Source: UNECA calculations based on data from EIU, November 2008.

Note: Due to data limitations, only 42 countries are covered. The 11 excluded countries are CAR, Comoros, DRC, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Sierra Leone, and Somalia.

2.1.5 Controlling inflation a concern for both oil-rich and non-oil economies

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 52 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 (table 2.5). 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 high global demand in the first half of 2008.

Table 2.5
Distribution of inflation rates in Africa, 2008 (51 countries)

Range	Africa	Oil countries	Non-oil countries	Mineral-rich	Non-oil, non-mineral rich	SSA
Less than 5%	3	1	2	1	2	3
Between 5 and 10 % (10% excluded)	23	7	16	5	18	19
Between 10 and 20 % (20% excluded)	19	0	19	8	11	16
20% and higher	6	0	6	2	4	6
Total number of countries	51	8	43	16	35	44

Source: UN-DESA, November (2008a).

Note: Excluding Seychelles and Swaziland due to lack of data.

Other factors contributing to the inflationary pressure on the continent in 2008 included sustained government spending and robust domestic demand, especially in oil-exporting countries (overheating)³. This was the case in oil economies such as Angola, Egypt, and the Sudan, where inflation was 12.6, 17.1 per cent and 15.0 respectively. Zimbabwe aside, Ethiopia recorded the highest inflation rate (41 per cent) in Africa in 2008, owing mainly to high energy and food costs coupled with drought, followed by Guinea (30 per cent), Sao Tome and Principe (28 per cent) and Kenya (25 per cent). Zimbabwe still has the highest inflation on the continent (11 million per cent).

Increased inflation rates in Africa have complicated macroeconomic management and contributed to a reversal in the achievements made over the last two decades in terms of poverty reduction. The average poverty rate in SSA is now back to its early 1980s level of 50 per cent. The impact of soaring food prices is particularly large for oil-importing, low-income African countries. The poor in these countries lack adequate safety nets, while high inflation rates always have a stronger impact on the price of basic consumer goods.

Tightening fiscal and monetary policies may harm the poor with no significant impact on inflation. In most African countries, monetary policy is focused on controlling money supply to reduce core (non-food) inflation. Due to weak financial markets, these countries lack effective indirect monetary tools. They are also characterized by poor coordination between fiscal and monetary policies. In countries

³ Increased oil revenue often leads to rapid increases in domestic demand, contributing to high inflation rates in oil-exporting countries.

“High inflation rates complicated macroeconomic management in resource-poor African countries”

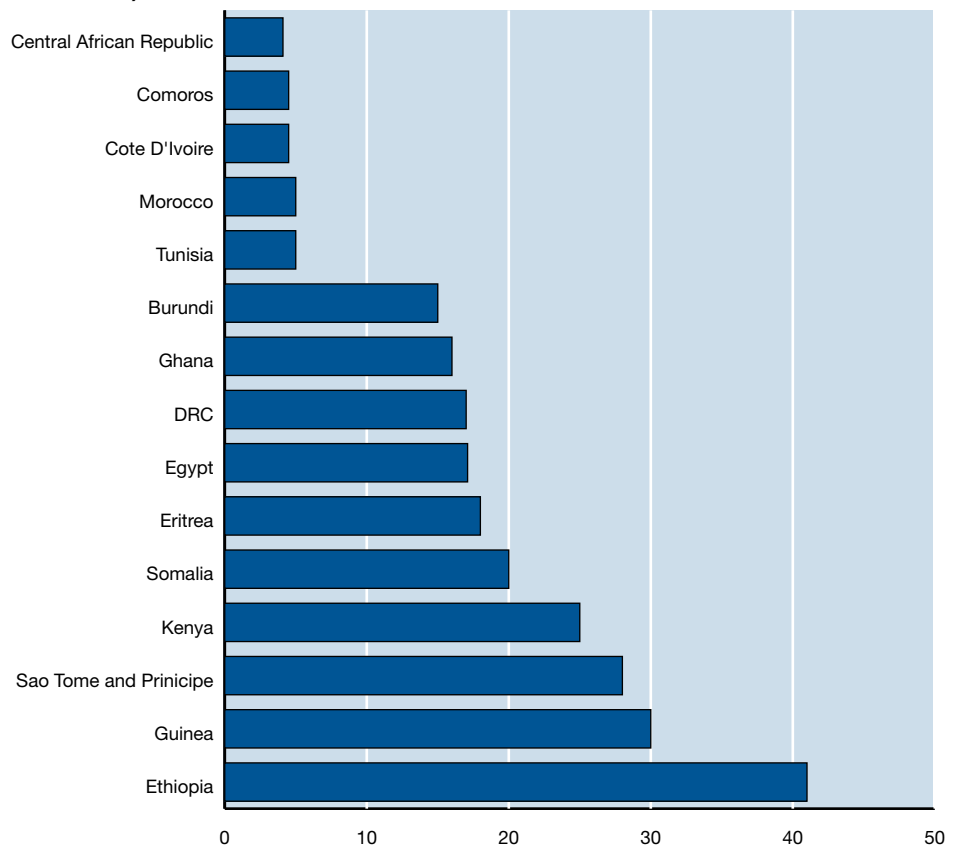
where the financial markets are more sophisticated, governments have relied mainly on interest rates and Treasury Bill rates as the main monetary policy instruments.

For example, South Africa increased the repurchase (repo) rate by 50 basis points to 12 per cent in June 2008, raising the prime lending rate to 15.5 per cent. In Egypt, the overnight deposit and lending rates were also raised by 50 basis points to 11 and 13 per cent respectively in August 2008. High interest rates can have strong adverse effects on growth and, in turn, on government revenue.

“High interest rates contribute to lower growth and government revenue”

Figure 2.3

Ten highest and 5 lowest inflation countries in Africa in 2008 (% , excluding Zimbabwe)



Source: UN-DESA, November 2008.

2.1.6 External balances worsened in most African countries in 2008

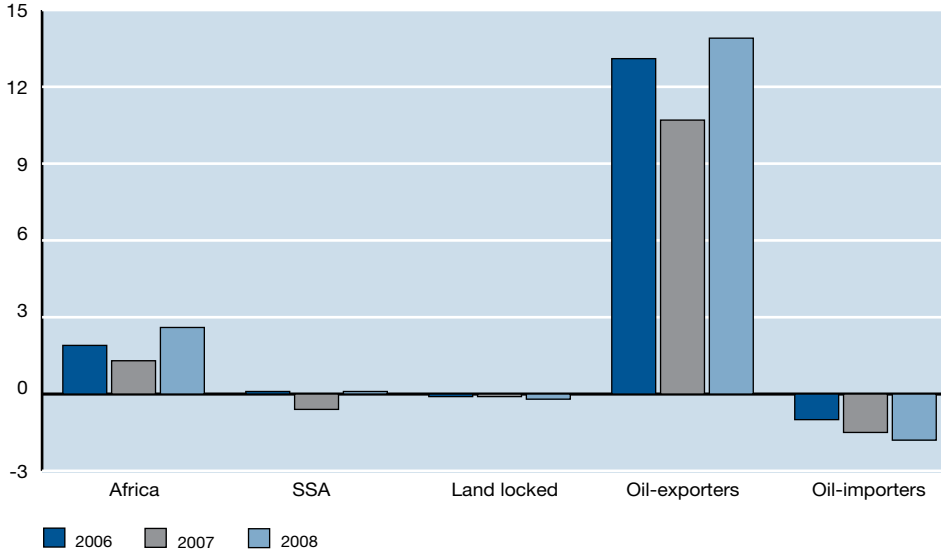
Despite their downward trend since the second half of 2008, high energy and food prices have resulted in rising current account deficits in 31 oil-importing African

countries with available data. On average, current account deficit in these countries increased from -1.5 per cent of GDP in 2007 to -1.8 per cent in 2008. Despite relatively high donor support, current account deficits have also increased, though slightly, in landlocked African economies. Current account surpluses in oil-exporting countries increased from 10.7 per cent in 2007 to 15.9 per cent in 2008, thanks to high oil prices. Therefore, the overall current account position of the 42 African countries with available data, which shows a surplus of 2.6 per cent in 2008, is a reflection of the high revenues generated by oil-exporting countries (figure 2.4).

The data clearly show mounting threats to current account sustainability in oil-importing African countries. This, together with internal imbalances and inflationary pressure, pose risks to macroeconomic stability and growth prospects in these countries. In addition to rationalizing energy consumption, these countries should adopt strategies to diversify exports, promote tourism and attract remittances. In the short-term, however, oil-importing African economies need more aid inflows to manage their external balances effectively. Meanwhile, oil exporters should devote a sizable proportion of their export earnings and accumulated reserves to boost public investment in infrastructure, human capital development and public service delivery.

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Mounting threats to current account sustainability in oil-importing African economies
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Figure 2.4
Current account balance in Africa by category, 2006-2008 (% of GDP)



Source: UNECA calculations based on data from EIU, November 2008.
Note: Data cover only 42 African countries. The 11 excluded countries are: CAR, Comoros, DRC, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Sierra Leone, and Somalia.

2.1.7 Exchange rates and international competitiveness

Based on nominal exchange rates, 18 of the 35 African currencies with available data appreciated against the US dollar in 2008, with 16 depreciating and one currency remaining unchanged. For the second consecutive year, the CFA, which is pegged to the Euro, appreciated substantially against the US dollar. In fact, many of the countries with strong primary commodity exports experienced currency appreciation in 2008. Overvalued exchange rates can discourage non-commodity exports from Africa, resulting in reduced international competitiveness or the “Dutch Disease” problem. However, many African currencies began to depreciate against the US dollar in late 2008.

“*Many African currencies began to depreciate against the US dollar in late 2008*”

In terms of real effective exchange rate (REER), 28 of the 38 African countries with available data experienced currency appreciation in 2008. However, only six countries recorded REER appreciation of more than 10 per cent and three countries had REER depreciation of more than 10 per cent. Kenya, Madagascar, Mauritius, Mozambique and Zambia were the five African countries with the highest REER appreciation rates in 2008. Burundi, Ghana, Namibia, Seychelles and Zimbabwe were the five countries with the highest depreciation rates. This shows that both resource-rich and non-resource-rich countries can be confronted with large REER depreciation or appreciation, mainly as a result of fluctuations in the domestic price level.⁴ High domestic prices as opposed to low prices cause the REER to appreciate, even if the nominal exchange rate is constant.

The main factors contributing to REER fluctuations - through the nominal exchange rate or the domestic price channels - are high commodity revenues and scaled-up expenditures, aid and other capital inflows, remittances and high earnings from tourism. Twelve of the 13 oil-exporting economies saw their REER appreciating in 2008. Maintaining competitive exchange rates, especially in oil-exporting countries, requires strategies to strengthen the supply side of the economy through increased public investment in infrastructure, education, skills development and technology.

Owing to high current account surpluses in oil-exporting African countries, the continent's foreign exchange reserves continued to rise, from 32.6 per cent of GDP in 2007 to 34.5 per cent in 2008. Thirty-four of the 42 African countries with available data maintained foreign exchange reserves of 10 per cent of GDP or more in 2008. The list of the top 10 African countries in terms of foreign exchange reserves as a ratio of GDP indicates that high reserves originate mainly from commodity

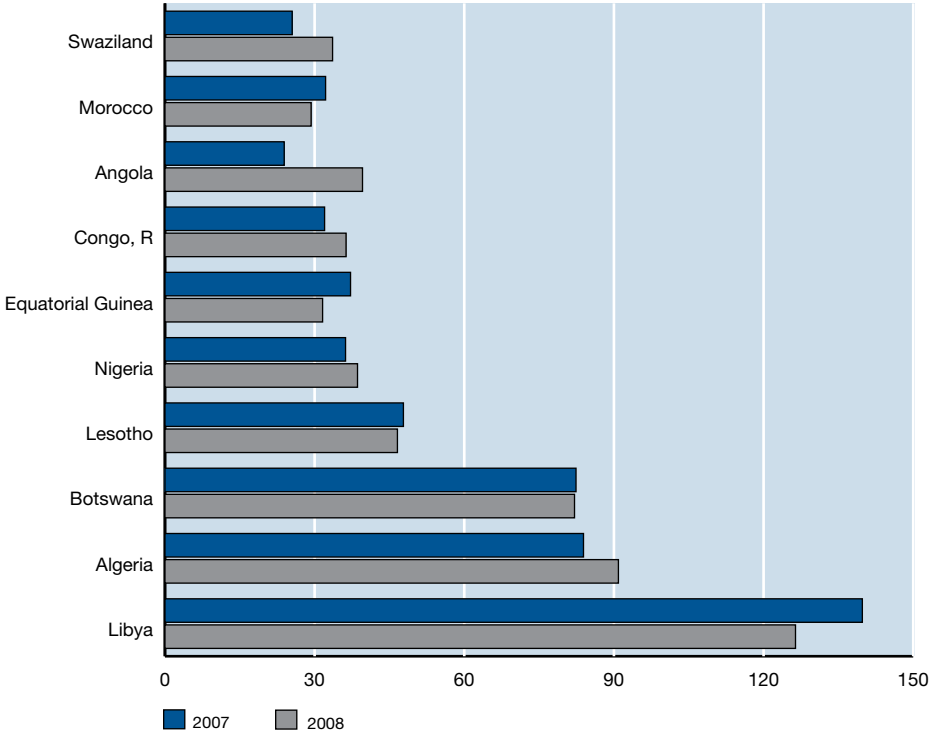
⁴ The REER index is defined as $[P_d/P_f \cdot NER]$, where P_d is the domestic price level, P_f is foreign (US) price level, NER is the official exchange rate expressed in terms of the domestic currency price of the US dollar (period average). Thus, REER represents the quantity of foreign goods that can be purchased with one unit of domestic goods.

revenues and private capital flows and that none of these countries is a high aid-recipient country (figure 2.5).

Oil-exporting African economies need to coordinate fiscal and monetary policies closely to manage their foreign exchange reserves effectively and create a fiscal space for counter-cyclical interventions that can mitigate the impact of the global financial crisis. This will also help them to manage risks emanating from disruptive exchange rate volatility and inflationary pressure while at the same time spurring domestic investment for fast and sustained growth.

“Accumulated currency reserves should be used to finance counter-cyclical measures”

Figure 2.5
Top 10 countries in terms of foreign reserve (% of GDP)



Source: EIU, November 2008.

Note: Excluding the following countries due to lack of data: CAR, Comoros, DRC, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Sierra Leone, and Somalia

2.1.8 Harnessing internal and external resources essential for Africa to boost domestic investment

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Ineffective
use of trade
for development
reflects weak
productive capacity
in Africa
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As elaborated in chapter 3, Africa's average gross domestic savings has increased from 21.8 per cent of GDP in 2004 to 26.3 in 2007. However, the domestic investment rate remained almost unchanged at around 22 per cent over the same period, far below the level required for achieving the MDGs. This partly reflects weaknesses in the domestic and regional financial markets and the inability, especially of oil-exporting countries, to use commodity revenues to boost domestic investment. Owing to low income, both domestic savings and investment rates are lower in oil-importing African countries compared with oil-exporters.

In addition to mobilizing more domestic resources, Africa needs to mobilize more non-debt generating external resources to boost domestic investment. As of July 2008, 19 African countries had received major reductions in official debt (United Nations 2008a). However, while Africa's official debt declined, the debt owed to banks and other private creditors rose considerably such that overall debt remained high. ODA to Africa remains below the level of \$72 billion per annum considered necessary for the continent to support the achievements of the MDGs (United Nations 2008a). Meanwhile, more needs to be done for the continent to improve aid quality and effectiveness and to enhance development through trade (see chapter 3).

The rather ineffective use of trade for development is a reflection of domestic supply constraints, including poor infrastructure, a weak human capital base, and such external trade constraints as the stalemate of the Doha Round of trade negotiations, and the disputed agricultural subsidies by the EU, US, Japan and Canada. Besides raising public and private investment in infrastructure - at some \$52 billion annually - Africa needs substantial improvements in market access, as well as stronger regional market integration to enhance global competitiveness. Again, in face of the global financial turmoil and increasing uncertainties, African countries should continue to consolidate their recent economic reforms to create a business environment attractive to private capital inflows.

2.2 Sectoral performance shows limited transformation of production structures

2.2.1 Growth of sectoral value added

In 2007, industry's value added in Africa grew at a record rate of almost 8 per cent (figure 2.6).⁵ The manufacturing sector stands out with a rather impressive 9.6 per cent growth, which represents the highest growth rate since 2001 and the second highest growth rate since 1970. East and Southern Africa led this record performance, owing especially to the robust dynamics in mining and the recovery in construction and manufacturing. Somewhat less remarkable was the expansion of industry in the other subregions of the continent. In North Africa, manufacturing production slowed down after a sharp acceleration in 2006. Industry's growth averaged 5.4 per cent, well below the peak in 2006.

In West Africa, the contribution of manufacturing turned positive after a year of stagnation, thus bringing industry's growth up to 4.7 per cent. This is still rather low compared to the rates observed in the subregion at the beginning of the decade. Finally, in spite of the strong performance in manufacturing, industry grew by only 3.1 per cent in Central Africa, which denotes both the difficulties of the mining sub-sector in several countries and lack of progress in diversifying the range of industrial production.

The performance of agriculture was similar over the last three years. The value added of the sector grew by 3.2 per cent (figure 2.6 and table Ax.1), with none of the five subregions achieving growth above 5 per cent. In fact, North Africa even recorded a decline. The 2007 data must be put in the context of the disappointing long-term trends of the sector. Agricultural value-added growth in Africa has averaged around 3 per cent per year since 1961. Annual growth rates display rather sharp volatility, around a substantially flat historical trend, which means that the sector is structurally stagnating as a result of weak growth of productivity per worker. While value added per worker in absolute terms in Africa in 2005 (the latest available information) was higher than in South and East Asia and above the low-and-middle-income country average, its aggregate growth between 1985 and 2005 having been 38 per cent. This was marginally lower than average productivity growth in low-income countries (40 per cent) and significantly lower than growth in Latin America and the Caribbean (64 per cent) and East Asia (72 per cent). South Asia (41 per cent) also outperformed Africa over the past 20 years (see part II of this report for further discussion).

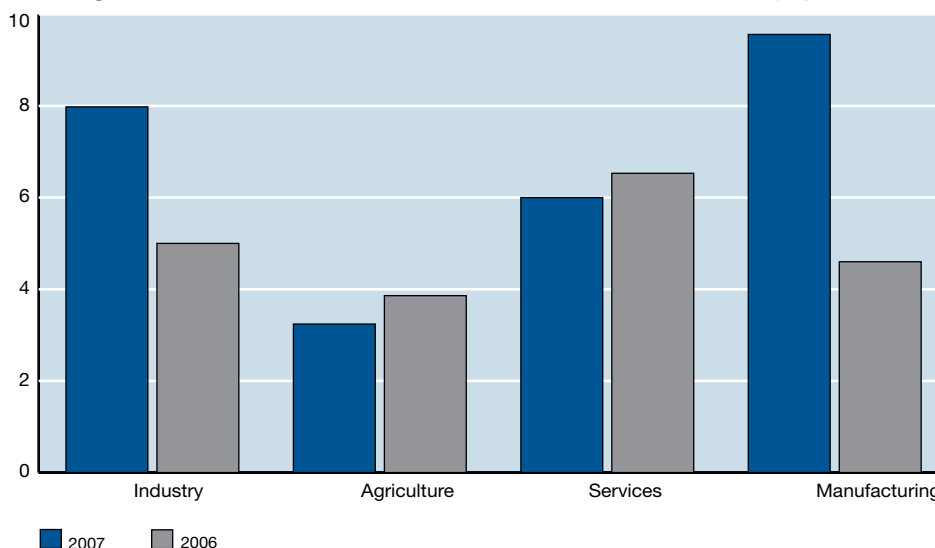
“ Agriculture and services grew at higher rates in 2008 ”

⁵ Throughout this section, 2007 yielded the latest available data for most African countries.

“ Increasing share of industry in Africa’s GDP ”

Finally, the services sector, the most dynamic sector in 2005 and 2006, grew at 6 per cent in 2007 (see figure 2.6). This growth rate is one of the highest since 1970. The performance of the sector was mostly homogenous across the subregions (table A1). The highest growth rate was observed in North Africa (7.6 per cent) and it was only 3 percentage points higher than the lowest growth rate, in West Africa (4.8 per cent). Data for the past five years indicate that services growth is probably more stable, both within and across countries, than growth in other sectors. This suggests progressive consolidation of performance in the services sector across the continent as a whole.

Figure 2.6
Annual growth rate of value added of different sectors in Africa (%)



Source: UNECA computations based on World Bank (2008).

2.2.2 Sectoral contribution to GDP and total value-added growth

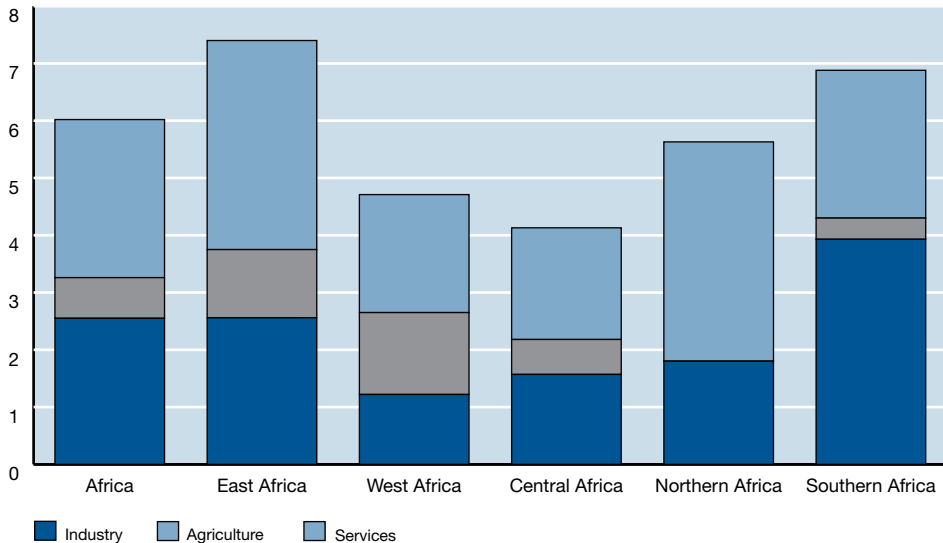
Industry’s share in GDP continued to expand in 2007, reaching 32 per cent (figure 2.7 and table A2). Between 2002 and 2007, the share of industry went up by about 4 percentage points of GDP while the agricultural share dropped from 26.4 per cent to 22 per cent. This structural change is clearly evident in Central and West Africa, even though the share of industry somewhat declined in the latter between 2006 and 2007. This was due to the already noted difficulties of mining activities in some countries of the subregion. In East and North Africa, industrial share grew modestly between 2002 and 2007 and much of the decline in the share of agriculture was accounted for by the increase in the share of services. In South-

ern Africa, the share of agriculture was already very low in 2002 and it has declined only marginally since then.

By combining the data on sectoral growth and sectoral share of GDP, it is possible to determine each sector’s contribution to total value-added growth⁶. In figure 2.7, each column represents the total value-added growth in a given country group (Africa or each of the five subregions) and the partition of this growth among the three sectors (for more detailed data see also table A3). The main predictable fact emerging from the chart is the small contribution of agriculture. This contribution ranges from practically 0 per cent in North Africa to a maximum of 1.4 per cent in West Africa. Industry and Services, on the other hand, contributed more than 2.5 per cent each on average. Services drive value-added growth in East and North Africa, while in Southern Africa it is the industry sector that provides the largest contribution.

“ Services drive value-added growth in East and North Africa ”

Figure 2.7
Contribution of different sectors to growth in value-added in 2007 (%)



Source: ECA computations based on World Bank data (2008).

Sectoral contribution to growth in total value-added in Africa appears to be quite unbalanced. The only possible exception is West Africa, where the three sectors provide roughly comparable contributions. In relatively fast-growing subregions such as North and Southern Africa, agriculture is almost entirely neglected. This is another indicator of the broader agricultural problem already noted under the previous heading “Growth of sectoral value added”.

⁶ Note that for each country grouping, total value-added growth in 2007 is not necessarily the same as the total GDP growth reported in section 2.1.

2.2.3 Sectoral dynamics and economic diversification

“
Manufacturing
remains marginal
in Africa
”

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 GDP share of industry has increased from 17 per cent to 32 per cent, while the share of services has gone up 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. Indeed, indicators suggest that over time, the African productive structure has become less diversified (see UNECA 2007). The services and mining sector's share increased considerably over the years at the expense of agriculture and other productive subsectors.

Indeed, the increase in industry's share over the past four decades has been mostly driven by the expansion of mining while manufacturing has continued to play a rather marginal role. In fact, the GDP share of manufacturing value added increased from an average of 8.7 in 1960 to only 10.7 percent in 2007. The weak contribution of manufacturing has important consequences. First, the opportunities for technological spillovers, productivity gains, and skills upgrade make the manufacturing sector a key driver of growth. Second, in the absence of a robust manufacturing sector, countries tend to depend heavily on primary commodity exports. Given the instability of international commodity prices, this means greater macroeconomic instability and output volatility.

Finally, when the industry sector mainly consists of mining activities, job creation in the economy is subdued and other sectors do not benefit from any significant trickle-down effects. It then follows that growth in mining is not redistributed to the rest of the economy, which in turn implies that the contribution of mining expansion to poverty reduction and social development is quite limited.

The key policy issue in this context is how to promote diversification for growth and development⁷. It is clear from the above discussion that the diversification process must lead to a recovery in agriculture and promotion of non-mining industrial activities, manufacturing in particular. Part II of ERA 2009 specifically deals with agriculture. The promotion of manufacturing and requires an increase in investment, which in turn requires combined interventions of macroeconomic, industrial and financial policies. As discussed earlier in this chapter, macroeconomic stability and microeconomic reforms are essential for enhancing domestic investment and economic diversification. These should include efforts to strengthen the financial system to contribute effectively to domestic resource mobilization and the financing of profitable investments (see chapter 3).

⁷ See also UNECA (2007) for an extensive treatment of several of these issues.

Regarding industrial policy, it is possible to draw some lessons from past experiences in Africa, Asia and Latin America (UNIDO 2004; Rodrik 2007). The most recent and successful industrialization episodes seem to emerge from a new approach that combines elements of import substitution and laissez faire, in the attempt to uncover where the most significant obstacles to restructuring lie and what type of interventions are required to remove them. 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 the establishment of mechanisms to evaluate 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.⁸ 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, the government does not have to “pick the winners” *ex ante*, as this 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.

“ Industrial policy essential for economic diversification in Africa ”

2.3 Trends in social development in Africa

2.3.1 Mixed progress towards achieving the MDGs

Progress towards meeting the targets of the MDGs has been mixed, with some noticeable gains in universal education but very limited headway on poverty and hunger eradication and on various health-related goals. Poverty rates continue to be stubbornly high in Central, East, South and West Africa, despite the impressive economic growth rates recorded in recent years (United Nations, 2008a). 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, and are adversely affecting the poor and dimming the prospects of meaningful reduction of poverty and hunger in many African countries (UNECA, 2008a).

Achieving universal primary education is arguably the goal in which many African countries have made remarkable headway. Both gross primary enrolment and net primary enrolment are on the rise in a majority of countries, driven largely by

⁸ 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.

“ Remarkable progress in achieving universal primary education ”

a combination of strong government commitment and appropriate support from the donor community. However, while a majority of 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 (United Nations, 2008b), and preventable diseases and malnutrition are still the leading causes of this. Under-five mortality rate decreased slightly, from 185 per 1000 live births in 1990 to 165 live births in 2005 (UNICEF, 2008, UNECA, 2008b). Progress in combating HIV/AIDS, malaria and other diseases has generally been limited, despite the positive spots recorded in some countries. The highest HIV/AIDS prevalence rate is recorded in Southern Africa, where it often stands above 15 per cent, while the lowest rates are found in North Africa, with less than 1 per cent of the adult population affected.

One notable positive development in many countries has been the growing integration of HIV/AIDS concerns into national development plans. As a result, the number of people who received anti-retroviral treatment (ART) in Central, East, South and West Africa increased from 100 000 in 2003 to 1.3 million in 2006 (UNICEF, 2008). The corresponding coverage of people who received treatment improved from 2 per cent in 2003 to 28 per cent in 2006. Although widening, coverage rate is still very low relative to demand. Tuberculosis incidence, prevalence and morbidity have not declined in the subregions, except in North Africa.

At 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. The proportion of people with access to safe drinking water and the percentage of people with improved sanitation have increased, although at a lower pace than what is required to achieve the targets set for 2015. Finally, as mentioned earlier in the area of developing a global partnership for development, aid flows to the continent remain below the levels pledged by donors and below the levels needed for Africa to bridge the domestic resource gap.

Slow progress towards achieving the MDGs is most pronounced for marginalized and vulnerable groups in African countries, including women, the aged, youth, people with disabilities, and indigenous people. The overall exclusion of these groups from society is reflected not only in their lower incomes and poorer outcomes in the labour market but also in terms of lower educational attainment rates, poor health status and under-representation in political processes and at policy-making levels. African women still experience the greatest forms of marginalization and exclusion from the benefits of recent growth recovery in Africa.

Promoting gender equality and women's empowerment in Africa

In recent decades, governments around the globe have increasingly answered the call to put gender equality and women's empowerment at the centre of the development agenda. Recognizing that inclusive economic and social development cannot be achieved without tackling these issues, governments have made various commitments to achieving the goals of gender equality and women's empowerment. At the global level, key commitments include MDG 3, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), the Beijing Platform for Action (BPFA) and the International Conference on Population and Development (ICPD).

In addition, African member States have committed themselves to these goals through a range of AU Declarations, Plans of Action and policy frameworks. The main commitments are: the Protocol on the Rights of Women in Africa, which is a supplementary protocol to the African Charter on Human and People's Rights; the Solemn Declaration on Gender Equality in Africa (SDGEA); the African Plan of Action to Accelerate Implementation of the Dakar and Beijing Platforms for Action for the Advancement of Women; and the Addis Ababa Declaration on Violence against Women.

Given the crosscutting nature of gender considerations, other sectoral AU commitments that are relevant to this area include the Abuja Declaration on HIV/AIDS, Tuberculosis and other Related Infectious Diseases, the Bamako Declaration on Reduction of Maternal and Neo-Natal Mortality, and the Maputo Plan of Action on Sexual and Reproductive Health and Rights, among others.

Looking at various dimensions of women's economic and social development reveals that though some progress is being made in areas such as access to basic education, other barriers remain for women in Africa, particularly in terms of accessing post-primary education, and finding decent jobs. In this context, this section reviews progress in five key areas: education, health, HIV/AIDS, employment and participation in political and decision-making processes.

Education

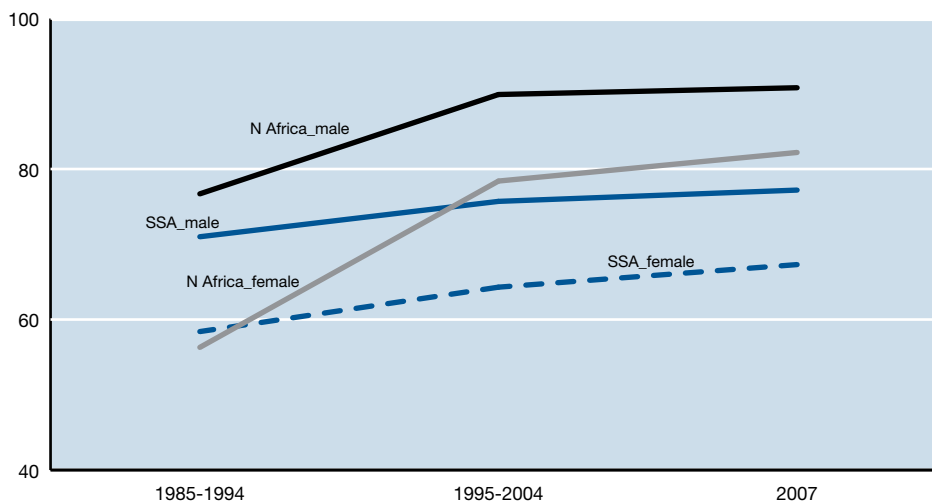
Inequalities in accessing education have been a traditional source of exclusion for women in Africa, leaving them with few opportunities to find a decent job, obtain credit and participate in public life. In recent years, considerable efforts have been made by African governments and development partners to increase girls' access to primary school. In 2006, the ratio of girls to boys' gross enrolment ratios in primary education reached 0.89 in SSA, while it stands at 0.93 in North Africa (United Nations 2008b). Girls' gross primary enrolment ratio reached 91 per cent in 2006.

“ Steady progress towards gender equality in most countries ”

“ North Africa has achieved gender parity in tertiary education ”

As a result of improvements in access to primary education, literacy rates for women have been increasing, which is particularly evident in the case of the literacy rates of young women aged 15-24, vis-à-vis young men (figure 2.8). North Africa has achieved the strongest gains with young female literacy rates increasing by over 20 percentage points from the 1980s to 2007. At the same time, the literacy rate for young women in SSA increased from 58.6 per cent for the period 1985-1994 to 67.3 per cent in 2007. Despite this progress, the gap between the female and male literacy rates is not decreasing fast enough, especially in SSA, where the ratio of young female to male literacy rate has remained rather static over the last decade, at around 0.87 per cent.

Figure 2.8
Literacy rates for young men and women (15-24 years) (%)



Source: United Nations (2008b).

The latest figures also reveal that young girls' access to post-primary education is not improving vis-à-vis the situation for boys. Indeed, gender parity has deteriorated at the secondary level in SSA where the gross enrolment ratio of girls to boys in secondary education decreased from 0.82 in 2000 to 0.80 in 2006 (United Nations 2008b). The gross enrolment ratio in secondary education for girls reached only 28 per cent. Far fewer African countries are making progress in achieving gender parity in tertiary education. The ratio of female to male tertiary enrolment ratios only reached 0.68 in SSA. In comparison, North Africa has achieved gender parity in enrolment in tertiary education (United Nations 2008b).

Health

African women are vulnerable to a range of illnesses and afflictions. Young women in SSA aged 15 to 29 mostly die from HIV and AIDS followed by maternal complications, tuberculosis, and STDs excluding HIV and malaria.⁹ Maternal mortality continues to be a major challenge facing Africa. In 2005, there were 900 maternal deaths per 100,000 live births in SSA, barely down on the figure for 1990 (920 per 100,000). In contrast, the ratio in North Africa has dropped from 250 to 160 deaths per 100,000 live births (United Nations 2008b). One of the factors behind maternal mortality in Africa is the high rate of adolescent pregnancies.

In this respect, girls in SSA have the highest rates of early marriage and early motherhood, as well as the highest mortality rates for young mothers and their babies. Young teenagers in SSA are more vulnerable to becoming pregnant than in other subregions. It is encouraging that the adolescent birth rate in SSA fell from 130.6 births per 1,000 women aged 15-19 in 1990 to 118.9 in 2005 (United Nations 2008b).

Women, particularly young women, are more vulnerable to getting infected by HIV/AIDS, which stems from economic, social and cultural inequalities. In SSA, women bear the brunt of the epidemic, which is still increasing. According to UNAIDS figures, 61 per cent of persons living with HIV in this region are women (UNAIDS 2008a).

The United Nations Joint Programme on HIV and AIDS (UNAIDS) estimates that in 2007, 3.2 per cent of young women in SSA had the HIV virus compared to 1.1 per cent of young men (UNAIDS 2008b). This heightened vulnerability amongst young females is found throughout SSA but it is most pronounced in Southern Africa.

Women's participation in the labour market and political and decision-making processes

Women continue to face considerable barriers in African labour markets as a result of lack of education, inadequate access to training, discrimination, and cultural attitudes about their role in the workplace. Official figures provided by the International Labour Organization (ILO) indicate that there is very little difference between the unemployment rates of adult women and men in SSA.¹⁰ In 2006, it was estimated that both female and male unemployment rates stood at 9.7 per cent.

9 WHO Revised Global Burden of Disease 2002 Estimates; Countries from the WHO-AFRO region – see www.afro.who.int/home/countryprofiles.html. The AFRO region includes all SSA countries, excluding Eritrea, Somalia, and Algeria.

10 See ILO, Key Indicators of the Labour Market, Version 5 CD-ROM.

“ Women are more vulnerable to infection by HIV/AIDS ”

“
Increasing
proportion of
women’s seats in
SSA parliaments
”

Given the difficulties in measuring the rate of unemployment in Africa and the reality that most Africans cannot afford to remain unemployed¹¹, it is crucial to recognize women’s participation in the informal economy, where most African women are working, mostly in low paid and often dangerous jobs. Indeed, women are highly represented in the informal sector as employees, entrepreneurs or unpaid home-based workers (Chen 2001).

Political participation and representation is a cornerstone of democracy and is key to promoting inclusive development. In particular, women’s political representation in national parliaments is an important indicator of their capacity to influence decision-making processes, including policies, strategies and resource allocation. Without this representation, their issues and concerns tend to be overlooked. Between 2000 and 2008, the proportion of women’s seats in SSA parliaments has increased from an average of 13.5 per cent to 17.3 per cent, (up to 19.8 per cent in countries that have introduced quotas). Globally, this is one of the higher figures and is considerably above the figure for North Africa, which reached 8.3 per cent in 2008 (United Nations 2008b).

Overcoming challenges to gender equality

The UNECA African Women’s Progress Scorecard (AWPS) shows that African countries under review have met less than half of their commitments. AWPS measures policy performance regarding women’s advancement and empowerment and tracks government progress in ratifying, implementing and monitoring relevant conventions and documents on gender equality and women’s rights including CEDAW, the Women’s Protocol of the African Charter on Human and People’s Rights, the BPFA and the ICPD Plan of Action.

Most progress is being made in the social dimension, particularly in relation to commitments to health in the context of ICPD. More progress is needed in terms of commitments to women’s rights in the context of CEDAW, the African Women’s Rights Protocol and in the economic area, particularly with respect to increasing access to technology and land. In the political area, least progress is being made in relation to the commitment to United Nations Security Council resolution 1325, support for women quotas, and other affirmative action. Overall, the main challenge in Africa is lack of implementation of the commitments and policies, which is the result of inadequate will, capacity and resources. National and regional gender policies and programmes remain grossly under-funded and under-staffed.

Therefore, in order to promote gender equality and women’s empowerment in Africa, governments and development partners need to focus on overcoming the

¹¹ See ECA (2005) for more details.

implementation gaps through capacity building and increased funding of policies and programmes. More specifically, African States need to establish gender-responsive public financial management systems, strengthen gender budget initiatives and take a multi-sectoral approach to the challenges facing women, including issues in the areas of education, health and employment. The international community should support African governments in their implementation of gender equality and empowerment commitments as contained in national development strategies, and integrate gender equality in aid policies and architecture.

“Prospects for 2009 are constantly revised downward”

2.4 Prospects for 2009: further slowdown

The real GDP growth rate in Africa is expected to fall to 2.0 per cent in 2009 from 5.1 per cent in 2008. Subregional growth rates in 2009 are projected to range from -1.2 per cent in Southern, to 1.9 per cent 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 (figure 2.9). The continent's prospects for 2009 are subject to strong uncertainties stemming mainly from the world financial crisis and the worsening global recession.

Based on its weak integration into the global financial system, the crisis was expected to have few direct effects on the continent. However, growth forecasts for all developed and high-growth developing economies indicate a slow down in growth or recession in 2009, and a general fall in primary commodity demand and prices (UN-DESA 2008b). Accordingly, economic growth in Africa is expected to decline further in 2009 as export revenue decreases. In fact, economic developments in early 2009 suggest a deeper world economic recession than previously expected (United Nations 2009). Hence, the economic outlook for Africa in 2009 could be significantly worse than indicated in earlier projections.

The chances for growth rebound in Africa in 2009 are slim, and hinge on the ability of economic stimulus packages in developed countries to enhance not only domestic demand but also demand for commodity exports from Africa. Nevertheless, sustained economic reforms, easing inflation, domestic currency depreciation and efforts to revive domestic demand would contribute to a positive, albeit weaker, growth performance in Africa in 2009. Average inflation in Africa is also expected to ease in 2009, as oil and food prices decline. This decline can stimulate higher private consumption and investment demand in some countries.

Lower energy and food prices in 2009 should also ease the pressure on government budgets. This will support government efforts to consolidate effective macroeconomic management and institutional reforms, which should further stimulate private investment and growth on the continent. In line with global financial trends,

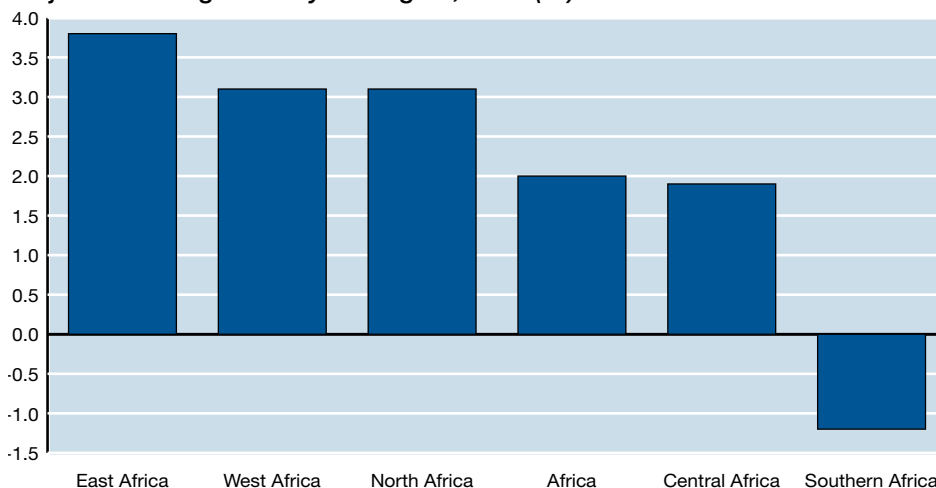
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*Sound
 macroeconomic
 management and
 reforms are essential
 for growth recovery*
 ”

governments are expected to maintain or lower interest rates to ease credit markets. They are also expected to allow exchange rates to adjust to stabilize the external sector and promote international competitiveness. In fact, most African currencies are expected to depreciate in 2009, as a result of the recession and slowing of export earnings and capital inflows.

As external capital flows are likely to decline in 2009 because of the difficult economic conditions in major donor countries, African countries should use available flows to boost domestic demand. Improving political and economic governance and the security situation are additional factors that can help Africa to avoid a severe slowdown. However, while the political situation is improving in countries such as Kenya and the Comoros, the continent faces persistent conflicts in countries such as DRC and CAR.

The political and governance environment also remains tenuous in countries such as Chad, the Sudan, and Zimbabwe. The recent food crisis and looming starvation are threats to political and social stability, especially in East and West Africa and in conflict countries. Rising poverty rates also compound the effect of epidemics such as HIV/AIDS and malaria, halting or reducing economic and social progress on the continent. Finally, due to the limited diversification of production structures and high dependence on rain-fed agriculture, Africa also remains vulnerable to weather shocks and climate change. Some countries in the Horn of Africa were still experiencing severe drought conditions and food shortages in early 2009.

Figure 2.9
Projected GDP growth by subregion, 2009 (%)



Source: UNECA computations based on EIU (2009).

2.5 Conclusions and policy recommendations

Economic performance in Africa continues to depend heavily on global commodity demand and prices due to limited transformation of production structures. However, the GDP growth rate remained positive in 2008 at 5.1 per cent. While the continent is, to some extent, insulated from the direct impact of the recent global financial crisis, a global economic downturn or recession will have substantial effects on Africa through reduced capital inflows and lower demand and prices for primary commodity exports. Thus, Africa's GDP growth is expected to fall further in 2009.

So far, high oil prices translated into high GDP growth rates as well as favourable internal and external balances in oil-exporting African countries. Currently, these countries contribute more than 60 per cent of the continent's total GDP and average growth rates. On the other hand, oil-importing African countries are experiencing faster slow down in growth as well as mounting fiscal and current account deficits. However, the two groups of countries recorded high inflation rates in 2008, originating largely from outside the continent. Indeed, high energy and food prices resulted in rising poverty rates in SSA and pose a serious threat to the recent achievements in social development in many countries.

As in previous years, economic performance varied considerably across countries and subregions and remains insufficient for Africa to make meaningful progress towards achieving the MDGs. Both short- and long-term responses are essential for Africa to meet the challenges of the food crisis, growth volatility and social development. In the short run, governments need greater policy flexibility as well as external support to combat food shortages through, for example, lower tariffs on food imports, subsidies and cash transfers to poor households. In the long-run, governments should invest more in agriculture and infrastructure - the main constraints on growth - especially energy, communication, roads and public service delivery in the areas of education and health. This, together with effective macroeconomic management and institutional reforms will stimulate private sector development and investment.

In particular, resource-rich African countries need to use commodity revenue and accumulated reserves from the commodity boom to enhance diversification of production structures and international competitiveness. First, this requires increased productivity-enhancing public investment, especially in infrastructure, technology and human capital development through education and technical training. Public investment in modern and rural infrastructure and education can support economic and social development in many different ways. It will assist the country to create a favourable environment for attracting increased FDI as well as domestic private investments that create jobs. This, together with the fact that public investment can

“ Growth recovery requires increased focus on infrastructure and spending on the MDGs ”

also be an effective tool for redistributing commodity revenues will help to reduce poverty and promote political stability.

“
Africa needs
to build capacity
to promote
innovative private
investment
”

Second, commodity revenue should be employed to build capacity to promote innovative private investment. At the forefront of policy interventions in this regard must be industrial and trade strategies for encouraging allocation of the resources needed for stimulating diversification of exports away from primary commodities. These strategies should include measures to promote entrepreneurship and innovative private activities and to address market failures that arise from information and coordination externalities.

Promoting such activities requires government support to research and development, technical assistance, selective taxation, financing, regulation, networking and coordination of investments to ensure complementarities. Regional integration and harmonization of economic policies should also support efforts towards diversification.

While overall human and social development remains low in Africa and achievements are mixed, the marginalized and vulnerable groups such as women, the aged, the youth and the disabled are still more affected than others. This calls for mainstreaming of the special needs of these groups into policymaking and implementation frameworks. Focusing on women as the largest marginalized group with the greatest economic potential and most important social role, this chapter argues for their empowerment through education, health services, employment and adequate representation in political and socio-economic legislative and decision-making institutions.

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Appendix tables

Table A1

Value added of different sectors (% of total GDP)

	Simple averages						Weighted averages					
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
Industry												
Africa	27.90	28.11	29.22	30.12	31.80	31.98	33.43	33.97	35.03	36.10	33.83	33.45
East Africa	18.36	18.29	18.82	18.34	18.18	18.93	17.31	17.42	17.85	17.58	17.61	18.01
West Africa	20.99	21.59	21.99	22.79	25.58	26.15	27.49	31.00	34.65	35.97	36.29	35.31
Central Africa	44.30	45.43	50.63	53.95	54.71	49.97	44.38	44.56	48.79	51.80	52.42	48.27
North Africa	32.10	32.04	33.87	35.37	34.06	33.31	36.68	37.58	38.71	40.13	34.05	32.60
Southern Africa	35.87	35.55	35.56	36.42	38.13	38.82	34.96	33.80	33.34	34.10	34.73	35.18
Agriculture												
Africa	26.41	26.65	25.61	25.33	23.27	21.98	18.19	17.84	16.56	15.83	16.33	15.01
East Africa	31.38	31.57	31.40	31.68	30.47	27.49	36.64	36.53	36.67	36.99	36.99	32.21
West Africa	35.73	36.48	34.75	34.95	31.03	30.73	40.13	37.40	31.81	31.17	30.15	30.38
Central Africa	22.43	21.73	19.35	18.14	17.98	18.69	17.38	16.79	14.99	13.79	13.88	14.09
North Africa	20.19	20.41	19.21	17.58	17.26	16.08	15.88	16.05	15.15	13.87	15.59	14.20
Southern Africa	14.67	14.86	14.58	14.32	13.78	13.50	6.26	5.92	5.56	5.22	4.96	5.13
Services												
Africa	45.46	45.24	45.17	44.51	44.78	45.94	48.33	48.19	48.41	48.07	49.84	51.53
East Africa	49.32	50.14	49.79	49.98	50.80	53.18	45.60	46.04	45.48	45.43	45.40	49.75
West Africa	43.27	41.94	43.26	42.11	43.39	43.09	32.37	31.60	33.53	32.83	33.56	34.31
Central Africa	33.28	32.84	30.02	27.91	27.30	31.34	38.24	38.65	36.22	34.41	33.70	37.64
North Africa	47.71	47.55	46.92	47.05	48.68	50.62	47.44	46.37	46.14	45.99	50.36	53.20
Southern Africa	49.46	49.59	49.86	49.26	48.09	47.68	58.79	60.29	61.10	60.68	60.31	59.69
Manufacturing												
Africa	10.77	10.74	10.57	10.33	10.35	10.73	14.22	13.75	13.32	12.92	13.35	13.58
East Africa	8.73	8.52	8.59	8.26	8.02	8.43	8.67	8.57	8.56	8.44	8.25	8.81
West Africa	8.49	8.51	8.65	8.73	7.94	7.53	7.24	6.80	6.56	6.36	5.77	5.39
Central Africa	8.93	8.81	8.04	7.80	7.97	9.22	12.46	12.32	11.32	10.54	10.64	11.72
North Africa	12.78	12.33	12.00	11.56	12.24	12.68	15.38	14.60	14.18	13.71	15.66	15.84
Southern Africa	15.79	16.20	15.79	15.32	15.79	15.85	17.66	17.54	17.09	16.63	16.36	16.28

Source: UNECA computations based on World Bank (2008).

Table A2
Growth of value added of different sectors (%)

	2002	2003	2004	2005	2006	2007
Industry						
Africa	5.42	5.46	8.88	5.05	5.00	7.98
East Africa	2.91	5.02	5.27	4.09	6.10	13.54
West Africa	9.13	4.03	4.24	5.93	3.58	4.66
Central Africa	8.87	13.96	36.52	3.85	-0.64	3.13
North Africa	4.69	5.28	8.35	5.61	8.91	5.39
Southern Africa	3.26	3.72	5.61	5.31	6.06	10.11
Agriculture						
Africa	-0.41	4.26	2.71	3.38	3.86	3.24
East Africa	0.05	0.31	3.53	4.32	4.13	4.34
West Africa	-3.30	7.39	3.38	5.59	3.82	4.66
Central Africa	2.95	2.42	2.13	5.78	2.46	3.27
North Africa	-1.59	11.47	2.05	-0.17	9.66	-0.27
Southern Africa	1.11	2.05	1.70	0.80	1.41	2.73
Services						
Africa	4.26	3.80	4.92	5.56	6.53	6.00
East Africa	2.85	4.30	5.05	7.39	8.15	6.86
West Africa	3.42	4.21	4.96	3.24	5.45	4.78
Central Africa	7.39	3.77	4.66	8.18	5.82	6.23
North Africa	4.06	5.46	4.93	6.04	8.27	7.56
Southern Africa	5.33	1.92	4.84	4.61	5.41	5.41
Manufacturing						
Africa	5.00	2.76	5.16	4.67	4.60	9.56
East Africa	2.37	3.99	3.97	5.72	4.54	6.36
West Africa	9.40	0.09	6.41	3.48	0.27	4.32
Central Africa	11.85	2.36	9.21	12.79	2.97	25.06
North Africa	3.40	2.03	5.84	2.52	6.86	5.18
Southern Africa	2.00	4.50	3.36	2.79	6.78	10.74

Source: ECA computations based on World Bank (2008).

Table A3**Sectoral contribution to total value added growth rate**

	2002	2003	2004	2005	2006	2007
Industry						
Africa	1.51	1.53	2.60	1.52	1.59	2.55
East Africa	0.53	0.92	0.99	0.75	1.11	2.56
West Africa	1.92	0.87	0.93	1.35	0.92	1.22
Central Africa	3.93	6.34	18.49	2.07	-0.35	1.57
North Africa	1.51	1.69	2.83	1.98	3.04	1.80
Southern Africa	1.17	1.32	2.00	1.93	2.31	3.93
Agriculture						
Africa	-0.11	1.13	0.69	0.86	0.90	0.71
East Africa	0.02	0.10	1.11	1.37	1.26	1.19
West Africa	-1.18	2.69	1.17	1.95	1.19	1.43
Central Africa	0.66	0.53	0.41	1.05	0.44	0.61
North Africa	-0.32	2.34	0.39	-0.03	1.67	-0.04
Southern Africa	0.16	0.30	0.25	0.11	0.19	0.37
Services						
Africa	1.94	1.72	2.22	2.48	2.92	2.76
East Africa	1.41	2.15	2.51	3.69	4.14	3.65
West Africa	1.48	1.77	2.14	1.36	2.36	2.06
Central Africa	2.46	1.24	1.40	2.28	1.59	1.95
North Africa	1.94	2.59	2.31	2.84	4.03	3.83
Southern Africa	2.64	0.95	2.41	2.27	2.60	2.58
Manufacturing						
Africa	0.54	0.30	0.55	0.48	0.48	1.03
East Africa	0.21	0.34	0.34	0.47	0.36	0.54
West Africa	0.80	0.01	0.55	0.30	0.02	0.32
Central Africa	1.06	0.21	0.74	1.00	0.24	2.31
North Africa	0.43	0.25	0.70	0.29	0.84	0.66
Southern Africa	0.32	0.73	0.53	0.43	1.07	1.70

Source: ECA computations based on World Bank (2008).



Current and Emerging Development Challenges for Africa in 2008

This chapter discusses the important global challenges facing Africa in three areas: trade, development financing, and the food crisis. Several structural constraints continue to limit trade performance in Africa. These include lack of diversification, supply side constraints, and low levels of subregional and continental trade integration. In addition to promoting trade capacity, African countries are expected to press for conclusion of the WTO negotiations with pro-development provisions. They also want to ensure that the development dimension is not diluted in the EPA negotiations and need to maintain coordination at the continental level. In this regard, it is essential to accelerate implementation of the Aid for Trade (AfT) initiative by identifying the needs related to standards, infrastructure and trade facilitation.

Africa also needs to enhance domestic resource mobilization especially as the challenge of financing development is likely to be complicated by the recent global financial crisis. Finally, while the rise in food prices is slowing, many African countries still face the challenge of mounting food shortages due to production constraints and inadequate emergency planning and assistance.

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Mounting
challenges to
improving Africa’s
trade performance
”

3.1 Africa’s trade performance, trade negotiations, and Aid for Trade

Africa faces mounting challenges in relation to improving trade performance and the slow progress of the multilateral and bilateral trade negotiations. Pro-development expectations are attached to the outcomes of the Doha Round and EPA negotiation processes. In addition, the AfT initiative constitutes a major opportunity to operate trading arrangements as an engine of growth. After assessing Africa’s trade performance, this section will focus on developments in the Doha Round negotiations at the WTO and on the EPAs with the EU. The section then examines the implementation of AfT in Africa and examines the African Growth Opportunity Act (AGOA) with the USA.

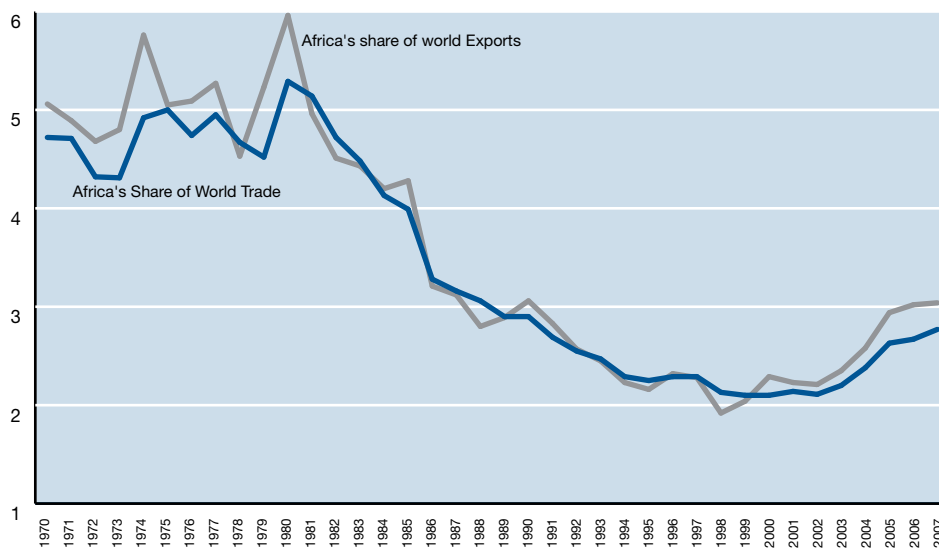
“ Africa remained marginalized in world trade in 2007 ”

3.1.1 Africa's trade performance

Over the last few years, Africa has registered some progress in terms of trade performance (figure 3.1). Whereas the position of the continent in global trade remains marginal, these positive trends are likely to be adversely influenced by the current global economic downturn.

In 2007, African total merchandise trade (exports plus imports) amounted to over \$782 billion, accounting for 2.7 per cent of world trade. In terms of the trade growth rate, 30 African countries performed above the world average of 9.26 per cent in 1997-2007. Equatorial Guinea registered the highest average growth rate (36 per cent), followed by Chad (29 per cent), the Sudan and Angola (22 per cent), and Mozambique (18 per cent). In contrast, Eritrea and Zimbabwe registered negative growth rates (-0.85 per cent) and (-0.24 per cent), respectively.

Figure 3.1
Africa's share in world trade (%)



Source: WTO (2008a).

Despite a sustained positive growth, Africa still accounts for a negligible 3 per cent of world total exports. Exports increased by 15.6 per cent between 2006 and 2007 compared to an average growth rate of 20 per cent in the previous four years. African exports are highly undiversified with crude oil and minerals contributing about 70 per cent and agriculture and manufacturing about 30 per cent. On the other hand, Africa's share in world imports was about 2.5 per cent in 2007 and imports grew by 24 per cent in the same year. Imports were mainly concentrated in manufactured

goods (68 per cent of total merchandises imports), followed by fuels and mining products (15.4 per cent) and agricultural products (4 per cent).

Lack of export diversification exposes the continent to severely adverse terms-of-trade shocks such as the one gripping the world economy today. Indeed, the prospects for trade growth in the medium term remain bleak in view of the current financial crisis and falling commodity prices. Sixty per cent of the top ten African exporters are oil-exporting countries and the ten top exporters accounted for 81.5 per cent of African exports in 2007.¹

The major trading partners of African countries are North America and EU with a cumulative share of exports of over 61 per cent in 2007 (see table 3.1). Asia is gradually becoming a major trading partner with African countries. In 2005-2007, African exports to Asia grew by nearly 50 per cent (WTO 2008a). About 78 per cent of these exports were fuels and mining products.

In 2007, intra-Africa trade remained low despite the positive trends in export growth (table 3.2). At the continental level, less than 10 per cent of total merchandise exports were destined to African countries. This low-level of intra-Africa trade illustrates the weakness of continental integration, highlighting the urgency with which regional economic communities (RECs) should deal with the obstacles, both in terms of policy and investment. West Africa appears to be the most integrated subregion in terms of intra-regional trade 1996-2006.

“ Export concentration increases vulnerability to terms of trade shocks ”

Table 3.1

Africa's total exports by product and trading area in 2007 (\$US billions)

	World	North America	South & Central America	Europe	CIS	Africa	Middle East	Asia
Agricultural products	34.33	1.61	0.21	16.47	0.63	6.93	1.67	5.67
Fuels and mining products	295.80	82.17	13.20	107.80	0.07	14.33	1.78	63.24
Manufactures	79.76	7.81	1.21	39.21	0.24	17.18	3.33	9.58
Total merchandise exports	424.14	91.87	14.62	167.55	0.94	40.47	10.53	80.88

Source: WTO (2008a).

The Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU), unlike the Common Market of Eastern and Southern Africa (COMESA), have expanded their intra-regional exports faster

¹ The top 10 African countries in terms of exports in 2007 were Nigeria, Algeria, Libya, Angola, Equatorial Guinea and the Sudan (net oil exporters) and South Africa, Egypt, Tunisia, and Morocco (net oil importers).

“ Intra-Africa’s trade share almost constant ”

than their exports to the rest of the world. The average growth rate of the group’s trade (14 per cent) is higher than the intra-group trade growth (10.8 per cent). The Economic and Monetary Community of Central African States (CEMAC) shows the highest disparity with a difference between total exports and intra-group trade of roughly 10 per cent. In terms of the share of intra-group trade in total trade, again ECOWAS appears to be the most integrated subregion, with an average share of nearly 12 per cent, whilst the CEMAC intra-group trade does not reach 7 per cent. The Southern African Development Community (SADC) Arab Maghreb Union (AMU), and WAEMU show similar percentages. African subregions are not well integrated due to major constraints related to infrastructure and non-tariff barriers.

Table 3.2
Share of intra-regional trade in total African trade (%)

Selected subregions	2006			1996-2006 Average		
	Share of intra-group trade	Intra-group trade growth rate	Group total trade growth rate	Share of intra-group trade	Intra-group trade growth rate	Group total trade growth rate
Africa	8.33	17.59	21.34	10.57	11.22	12.94
East Africa	14.33	18.85	20.62	9.11	7.52	6.99
Central Africa	0.53	23.59	31.74	6.93	6.18	18.24
North Africa	2.72	23.04	26.49	9.51	12.26	16.80
Southern Africa	6.59
Western Africa	8.41	8.57	22.44	11.78	14.29	12.82
CEMAC	0.90	23.59	22.25	6.81	6.60	16.08
COMESA	4.22	21.81	29.81	9.12	10.82	14.72
ECCAS	0.57	23.35	31.66	7.00	6.48	18.06
ECOWAS	8.30	8.37	22.02	11.83	14.43	12.91
SADC	9.05	11.77	13.66	8.71	7.38	9.33
WAEMU	13.07	11.13	13.84	8.79	8.28	6.07
AMU	2.01	24.59	26.12	8.11	10.06	15.75

Source: UNCTAD (2008).

It is clear from the above that the African trade structure has remained undiversified in terms of products and destination of exports. However, since 2005, Asia is emerging as a new and important trade partner for Africa. This trend is likely to continue given that the increasing presence of Asia in Africa is being reinforced through development cooperation and trade frameworks. Of concern to Africa’s long-term development prospects is the emerging picture that, like the old traditional partners, the trade with Asia is also being focused on extraction of fuels and mining products.

Failure to tackle high trade costs due to poor infrastructure and inefficient trade facilitation continue to make African producers and exporters prefer to trade with

the rest of the world. This has been the case despite the huge potential for developing competitive industries on the continent. The argument that trade among African countries has remained low because of similar production and export structure fails to recognize the potential for developing regional value chains supported by internal tariffs and removal of non-tariff barriers, among other factors discussed in chapter 4. Unless barriers are removed, African countries will not be able to exploit scale economies that would lower production and marketing costs. Moreover, new dynamic industries along the production value chain are unlikely to emerge.

In this context, African countries should continue targeting export diversification as a long-run priority objective and to pursue regional integration as a means for expanding markets and improving Africa's international competitiveness. Moreover, African policymakers should be careful while negotiating with new trading partners and endorse only those agreements that do not hinder the emergence of regional value chains, based on already existing comparative advantages. Governments need to redouble efforts to enhance production and trade capacities at national and regional levels.

“ Intra-Africa trade costs are high due to poor infrastructure and inefficient trade facilitation ”

3.1.2 The Doha Round still far from conclusion in 2008

Major issues blocking the WTO negotiations

Despite the intense efforts undertaken to unlock the Doha negotiations, the divergences persisted into 2008. The resumption and intensification of the talks in early 2008 had provided some hope that the cycle could be concluded during 2008 (see WTO 2008b). However, this hope vanished with the collapse of the ministerial meeting that took place in Geneva in July 2008. This meeting was supposed to be a stepping-stone towards conclusion of the Doha Round and its main objective was to establish the modalities for Agriculture and for the Non-agricultural Market Access (NAMA) that have both remained the major issues blocking progress with the whole Doha development agenda.²

Progress was made during the July 2008 meeting with respect to agricultural tariff cuts, the domestic support pillar, and the NAMA negotiations, involving flexibilities and special and differential treatments. The breakdown of the talks occurred during discussion of the new Special Safeguard Mechanism (SSM).

The Doha Round negotiations in 2008 were expected to revolve around the well-articulated Lamy triangle (UNECA 2008a). The Lamy triangle had identified the issues at stake that needed to be resolved in order for a new trade deal to be reached.

² Formulas and other methods to be used to cut tariffs and agricultural subsidies, and a range of related provisions under Agriculture and NAMA negotiations.

These issues involved improved agricultural market access from EU, substantial reduction of domestic subsidies by the USA to its agricultural sector and agricultural and industrial market access to advanced developing countries.



*Limited
progress in
agriculture
negotiations
in 2008*



In order to capture the issues on which progress was achieved in the Doha Round, the discussion that follows will provide an update on Agriculture, NAMA, Trade Facilitation and Services negotiations which are of particular significance to Africa, vis-à-vis the continent's pro-development positions captured in ERA 2007 (UNECA 2007).

The Agriculture negotiations

The Agriculture negotiations aim to reform agricultural trade principally in three areas (the “three pillars”): domestic support, market access, and export subsidies and related issues (“export competition”). The 6 December 2008 text and accompanying working documents reflect progress in a number of areas since the draft of July 2008:

- **Overall trade-distorting domestic support³** (Amber + *de minimis* + Blue): The 6 December 2008 draft proposals on modalities suggest the following levels of cuts in the overall trade-distorting domestic support (OTDS). EU is to cut by 80 per cent; USA/Japan to cut by 70 per cent; and the rest of concerned Members to cut by 55 per cent. A “down payment” or immediate cut of 33 per cent for USA, EU, and Japan, and 25 per cent for the rest is proposed. The cuts are to be made over 5 years for developed countries and 8 years for developing countries.
- **Amber Box (AMS):** The draft modalities indicate the following cuts for this class of the most distorting domestic support. Overall, EU, which is at the top tier, is to cut by 70 per cent; the USA and Japan to cut by 60 per cent; and the rest to cut by 45 per cent. A bigger cut from some other developed countries, such as Norway and Switzerland is expected since their AMS constitutes a large percentage of production value. The AMS also has a “down payment” or prescribed immediate cuts once the agreement is reached. The text also proposes Amber Box support per product, to be capped at the average of the notified support 1995-2000, with some variation for the USA and others.
- ***De minimis*:** Developed countries are to cut this type of support to 2.5 per cent of production immediately. Developing countries, on the other hand would make two-thirds of the cut over three years to 6.7 per cent of production (no cuts if mainly for subsistence/resource-poor farmers, etc). These

³ See Economic Report on Africa 2008 for definitions of the various boxes in the Agriculture negotiations.

cuts are to apply to product-specific and non-product specific *de minimis* support.

- **Blue Box (including “new Blue Box”):** Support in this category will be limited to 2.5 per cent of production for developed countries and 5 per cent for developing members with caps per product.
- **Green Box:** The latest text incorporates revisions particularly on income support; to ensure that the support provided under this box is really “decoupled” (i.e., separated) from production levels. Tighter monitoring and surveillance is also proposed.

“No progress in cotton-specific trade issues”

Cotton-specific related issues

The Cotton-4 countries proposal and its motivation remain widely accepted. The intention to cut trade-distorting domestic support for cotton by more than the rest of the sector remains unmodified. With regard to the shaping of the cotton trade framework, modalities not agreed upon in previous rounds did not find any positive resolution in the July 2008 Geneva Round and talks are still at a deadlock. The Blue Box support for cotton is proposed to be capped at 1/3 of what would be the normal product-specific limit.

Market Access Pillar

The tiered reduction formula is still the main approach for cutting tariffs. Products will be categorized by the height of the starting point and those in higher bands will be subject to deeper cuts. The latest draft text has replaced most ranges of possibilities with single numbers that are roughly at the mid-point of the previous range (table 3.3). Developing countries will be expected to apply cuts of 2/3 of the levels required for developed countries.

Table 3.3

Thresholds and required cuts for the tiered formula applying to Agriculture tariffs

Developed countries		Developing countries	
Tariff band % (Final Bound Tariff rates)	Proposed cuts	Tariff Band % (Final Bound Tariff rates)	Proposed cuts
0 – <20	50%	0 – >30	33.3%
>20 – <50	57%	>30 – <80	38%
>50 – < 75	64%	>80 – <130	42.6%
Above 75	70%	Above 130	44 – 48.6%

Source: WTO Draft Modalities, 6 December 2008.

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Some flexibility is granted for specific products that are politically sensitive
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The minimum average cut on final bound tariffs that developed country Members would be required to undertake is 54 per cent and the maximum overall average cut for developing countries is 36 per cent. A number of small and vulnerable economies (SVEs) will be subject to a maximum average cut of 24 per cent applied on a discretionary basis without using the tiered formula. Least Developed countries (LDCs) will not be required to make any tariff reductions. Positive progress for developing countries in the revised December 2008 modalities is that they are now required to reduce their final bound tariffs in eleven equal installments over ten years. This is doubled for developed countries where they are required to reduce their final bound tariffs in six equal installments over five years.

Sensitive products (SeP)

As in previous drafts, when it comes to agricultural tariff reductions, the general tiered formula will not apply to all products. Some flexibility is granted for specific products that are politically sensitive. Developed countries are eligible to designate 4 per cent of their product lines as sensitive in exchange for an expanded tariff quota. However, Japan and Canada have declared that they are not in a position to agree to this limitation, with the former requesting up to 6 per cent of its tariff lines as sensitive while the latter is asking for 8 per cent. While a special exception for Iceland, Japan, Norway and Switzerland would allow these countries to maintain tariffs at above 100 per cent for products that are not designated as sensitive, the new text would now limit this to 1 per cent of such tariff lines.

Developing countries would be able to designate 1/3 more of the agreed developed country tariff lines as sensitive. They would also be able to deviate from application of the full effect of the tiered formula by 1/3, 1/2 or 2/3 (see table 3.4).

Table 3.4
Number, deviation and implementation period of the tiered formula

	Deviation	No more than following proportion of sensitive lines	Implementation Period (Years)	Full Cut/Longer Period/ Apply in any case (no.)
First Option	1/3	1/2	3	2/3
Second Option	1/2	1/3	2	1/2
Third Option	2/3	1/4	1	2/3

Source: WTO Draft Modalities, 6 December 2008.

Developing countries may either take a full formula cut on the remainder of SeP lines but with a three-year longer implementation period than would otherwise be required or apply tariff quota expansions, amongst other options.

In order to balance the reduced effect of the formula by the sensitive lines, mandatory tariff quotas expansions are expected in relation to the abovementioned deviations (table 3.5). This new market access opportunity would be 4-6 per cent of domestic consumption if the 2/3 deviation is applied, half a percentage point less in case of the 1/2 deviation and one point percentage less in case of a 1/3 deviation. For developing countries, the quota expansion would be 2/3 of the amounts for developed countries, and domestic consumption would not include subsistence farmers' consumption of their own produce.

“Special safeguard mechanism allows developing countries to raise tariffs temporarily”

Table 3.5
Tariff cut reductions and quota expansion

Developed countries		Developing countries	
Deviation from formula	Additional Market Access	Deviation from formula	Additional Market Access
2/3	From 4 to 6%	2/3	From 2.6 to 4%
1/2	From 3.5 to 5.5%	1/2	From 1.75 to 3.6%
1/3	From 3 to 5%	1/3	From 2 to 3.3%

Source: WTO, 2008b.

Special products

This is a very important element of the modalities for African countries, given the rationale and objectives of seeking the designation of special products. It is generally agreed that developing countries should be entitled to self-designate a special products list guided by food security, livelihood security and rural development indicators. Presently, the percentage of tariff lines open to self-designation is 12 per cent, 5 per cent of which would be entirely excluded from any cuts, with the overall average cut being 11 per cent.

It should be noted that a number of developing countries have expressed reservations concerning the numbers specified in the new modalities text. In the case of SVEs, including those which are ceiling-binding and homogeneous low-binding countries, if they choose to apply the moderated tariff formula they would have the additional flexibility of a further 10 *ad valorem* percentage points in each band.

Special Safeguard Mechanism (SSM)

The SSM would allow developing countries to raise tariffs temporarily to deal with import surges and price falls. The blockage in the July 2008 talks was only about import surges and this remains a difficult subject. The main text proposes formula options for the mechanism which include possible disciplines to avoid the safeguard being triggered frequently and suggests when (if at all), and by how much, the

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Export
subsidies to be
eliminated for
developing
countries by 2016
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increase in tariffs could exceed present bound ceilings (or “Pre-Doha Round bindings”). An additional paper accompanying the main text offers possible draft text (with options) for when the SSM raises tariffs above pre-Doha bound rates: when it would be triggered, how high the tariff would go, how long it would last, when it could be triggered again, and whether it could be triggered when prices are not falling.

Export Competition Pillar

Export subsidies

Export subsidies should be eliminated by the end of 2013 for developed countries, with half cut by the end of 2010, and details revised for cutting the subsidized quantities in the period. The elimination date for developing countries would be 2016. The text ensures commitments on net food importing and least-developed countries are unaffected.

Export credit guarantees or insurance programmes

The activities of these enterprises would be disciplined to avoid hidden subsidies and ensure that programmes operate on a commercial basis. Proposed conditions include limiting the repayment period to 180 days, ensuring that programmes are self-financing (i.e., not making losses over a given period).

For developing countries providing credit, the 180-day maximum repayment term would be reached in three steps over a given period, probably four years (or by 2013 if that is earlier). LDCs and net food-importing developing countries would normally be allowed 360–540 days to repay (previously 360 days). Some additional flexibility in special cases would be allowed, monitored by the WTO Agriculture Committee.

Agricultural exporting state trading enterprises

The activities of these enterprises would be disciplined. A key question remains whether monopoly power should be outlawed or just disciplined. The definition of exporting state trading enterprises was simplified in the February text by referring to the relevant provisions in the General Agreement on Trade and Tariffs (GATT).

International food aid

Emergency food aid would be in a “Safe Box” with more lenient disciplines. Emergencies would be declared or appeals made by relevant international organizations such as the United Nations World Food Programme (WFP) and the Red Cross. Other food aid (i.e., not emergency aid) would be monitored to prevent the aid from displacing commercial trade.

The December 2008 text gives the recipient government priority over all food aid operations, emphasizes needs assessment, and gives the United Nations the final say when NGOs assess needs. Despite its causing differences among Members previously, monetization (i.e., selling donated products to raise funds for aid) there are no longer any other options. Monetization may be permitted under certain conditions, both in emergencies and in other situations.

“ Some convergence in 2008 regarding non-agricultural market access ”

The NAMA negotiations

As stated above, some convergence has been reached in this area. This convergence is conditional on agreement on a number of issues at stake in the agricultural negotiations, and no final consensus was therefore found. Building on the text presented in June 2008 before the July mini-ministerial meeting, the 6 December 2008 NAMA revised text was the first to include specific figures, rather than ranges, for the ‘coefficients’ linked to the Swiss formula that would determine the future tariff levels of most major economies, and the figures governing the extent of ‘flexibilities’ for developing nations to shield some products from full duty cuts (see table 3.6). The figures corresponded to those suggested by the Director-General of WTO during the July mini-ministerial, which had, in turn, been drawn from the ranges in the earlier draft agreements put together by the previous NAMA Chair⁴.

As per the terms of the revised text, the developed country coefficient would be 8. What this means is that all of a country’s tariffs would be slashed to below the value of its ‘coefficient’, with lower tariffs cut less sharply across the board. For developing countries that would have to apply this tariff reduction formula, there is a three-option ‘sliding scale’: the higher the coefficient they choose, the less the flexibility or freedom to shelter products from tariff reductions.

⁴ Report by the Chairman, Ambassador Don Stephenson, to the Trade Negotiating Committee, Negotiating Group on Market Access, JOB (08) 96, 12 August 2008.

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Near
convergence on
flexibilities for small
and vulnerable
economies
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Table 3.6
The NAMA formula, coefficients and flexibilities

	Coefficient options	Flexibility A	Flexibility B
Developed Countries	8	No flexibilities allowed	No flexibilities allowed
Developing Countries	20	Less than formula cuts for up to 14% of non-agricultural tariff lines provided that cuts are no less than half the formula cuts and that these tariff lines do not exceed 16% of total value of non-agricultural imports.	Or Keeping tariff lines unbound, as an exception, or not applying the formula cuts up to 6.5% of non-agricultural tariff lines provided they do not exceed 7.5% of total value of non-agricultural imports.
Either			
	Or		
	22	Less than formula cuts for up to 10% of non-agricultural tariff lines provided that cuts are no less than half the formula cuts and that these tariff lines do not exceed 10% of total value of non-agricultural imports.	Or Keeping tariff lines unbound, as an exception, or not applying the formula cuts up to 5% of non-agricultural tariff lines provided they do not exceed 5% of total value of non-agricultural imports.
	Or		
	25	No flexibilities allowed	No flexibilities allowed

Source: WTO (2008b).

An ‘anti-concentration’ clause, designed to constrain developing countries from focusing their tariff-reduction ‘flexibilities’ on a limited number of industrial sectors, would require them to apply full tariff cuts to either 20 per cent of tariff lines or 9 per cent of import value within each chapter of the harmonized system used to classify products for customs purposes.

Also, the new draft revised text indicates the near-consensus that had been achieved on flexibilities for two *de facto* sub-groups of developing countries, namely, small and vulnerable economies. For the non-LDC developing countries with binding caps on fewer than 35 per cent of their industrial tariff lines - dubbed ‘Paragraph 6’ countries which include many of the African countries - it has been accepted that Members with binding coverage of less than 15 per cent of tariff lines would bind 75 per cent of NAMA tariff lines; those with at or above 15 per cent would bind 80 per cent of NAMA lines and each Member would bind at a rate that does not exceed 30 per cent.

Of special significance to Africa, the text also includes the possible special treatment of some countries:

- Botswana, Lesotho, Namibia, South Africa and Swaziland, members of the South African Customs Union (SACU), would have additional flexibilities still to be negotiated; and

- The 32 African LDCs are exempted from tariff reductions; with special provisions for SVEs and for developing countries with low levels of binding. As a result, relatively weaker developing economies would retain higher average tariffs and greater flexibility on how they structure their tariff schedules. They would, nevertheless, contribute to the negotiations by significantly increasing the number of bindings. Bolivia, Fiji and Gabon are singled out as special cases.

“Controversy intensifies regarding non-reciprocal preferences”

An issue which is of paramount importance to African countries is non-reciprocal preferences. The 6 December 2008 draft NAMA texts include provisions that allow EU and USA to take ten years instead of five to phase in Doha Round tariff cuts on some tariff lines, primarily textiles and clothing (and also some fish products for EU). This would at least slow the rate at which preference beneficiaries would have to confront potential displacement by more competitive exporters.

The issue of non-reciprocal preferences has become controversial since the issuance of the July text in relation to the so-called “disproportionately affected” countries. The controversy remains over country scope and product coverage. The countries claiming to be disproportionately affected are Bangladesh, Cambodia, Nepal, Pakistan, and Sri Lanka.

The NAMA issue on which WTO will be looking for “positive results” would be “sectorals”. The sectoral negotiations are one of the most controversial areas of NAMA. Controversial issues include whether there should be sectoral negotiations at all; how these should be structured; the “non-mandatory nature of the negotiations, if they take place, how and when special and differential treatment should be designed and applied; and the exclusion of preference-receiving products or sectors from sectoral initiatives.

The Trade Facilitation negotiations

On trade facilitation, negotiations are moving forward within sessions of the WTO Negotiating Group on Trade Facilitation (NGTF) and in various configurations. Several proposals have been compiled towards preparation of a text agreement. African trade facilitation issues are better known especially by their contribution of various initiatives (box 3.8). The negotiation measures to be implemented are divided into three categories. Category A measures, which are already being implemented by member States and which are easy to implement would come into force when the Agreement has been signed or 1 year after (discussions ongoing). Category B has those measures that require a transition period, while category C measures, which are difficult to implement, require technical assistance and capacity-building.

Box 3.1

Trade facilitation in Africa

It is important to take note of existing initiatives, including technical assistance and support for capacity building, in assessing the trade facilitation needs of African countries. Such initiatives have provided a wealth of knowledge on Africa's trade facilitation needs and, in some cases, implemented activities that have resulted in modest improvement in trade facilitation on the continent. In this regard, it is worth mentioning the Almaty Programme of Action for landlocked and least developed countries, adopted in 2003, that has trade facilitation as one of its priority areas and has identified specific actions to be undertaken; the Sub-Saharan African Transport Policy Programme established by UNECA and the World Bank in 1987 with trade and transport facilitation as one of its areas of focus; trade and transport facilitation programmes of the RECs; and the NEPAD Infrastructure Programme, which includes trade facilitation as an important component.

Africa needs to ensure that the ongoing need assessments are comprehensive, all-inclusive and avoid duplication of efforts. It is even more important to develop a clear implementation strategy for the resultant action plans. The practice of indiscriminately soliciting funds from all potential donors for the same lists of projects has proven to be ineffective and even counter-productive as it creates an impression of lack of focus. A more effective approach would be to categorize projects by sectors (transport, customs, trade etc.) and, based on this, target specific donors in line with their areas of interest. This requires strong monitoring and evaluation capacity and entails effective tracking of the state of implementation of priority projects. Having a clear picture of the projects that have already been implemented and the donors involved as well as those projects that have not secured funding is essential for effective resource mobilization.

Source: Karingi and Lisinge (2008); Lisinge (2008).

There is consensus over the first two categories and disagreement is mainly over the third category. Here, the disagreement lies in whether the agreement should be binding with flexibilities or non-binding. Developing countries want the agreement to be non-binding. The measures envisaged in this category would have an implementation plan based on analysis by both beneficiary country and donors. The implementation plan would be expected to spotlight and monitor donors, to ensure that they follow through on their commitments, as there is nothing in the Doha Mandate on donor commitments being binding.

In addition, the implementation plan would be ongoing until all measures are funded. If a country were unable to get a donor then it could not submit a plan. The African Group position is that Category C measures should be non-binding and that acquisition of capacity is a sovereign issue and should be determined by each beneficiary country and not jointly by beneficiary country and donors as proposed by some countries.

The Services negotiations

The elements required for the completion of the Services negotiations have been identified since 26 May 2008. Indeed, the Trade Negotiations Committee (TNC) Chair hosted a “signaling exercise” among a group of Ministers, which took place in July 2008 when the agricultural and NAMA modalities were being discussed. The ministerial-level conference brought participants together from 32 WTO members and provided them with the opportunity to exchange indications on their own new and improved services commitments as well as the contributions expected from others. However, the signals were not intended to represent the final outcome of the negotiations. A number of issues were discussed including the central importance of services sector for economic and social development as well as the conditions for improvement of access for mode 4.

Further discussion is needed on certain issues relating to the level of ambition of the participants, their willingness to bind existing and improved levels of market access and national treatment, as well as specific reference to Modes 1 and 4. These deal with treatment of sectors and modes of supply of export interest to developing countries.

Final note on the Doha Round

In the case of the agriculture text, the Africa Group in Geneva has welcomed the flexibilities given to them as SVEs, LDCs and NFIDCs. However, on the flexibilities for developed countries, the African countries have pointed out that they reserve the right to revert to some issues and that an outcome would not be complete without an agreement on important issues such as cotton preferences, among others.

As for the NAMA text, the African countries generally find the revised December 6, 2008 text acceptable including the provisions relating to paragraph 6 countries, SVEs and LDCs. However, for the Africa Group, there are areas of varying difficulties that need to be resolved:

- The treatment of South Africa and hence SACU. South Africa/SACU are seeking coefficient 22 with 14 per cent flexibility and additional capacity-building measures for Botswana, Lesotho, Namibia and Swaziland.
- The issue of sectoral negotiations.
- The preferences that disproportionately affect some countries.

The African countries would like to see positive aspects that pertain to them safeguarded in the next steps of the negotiations. It must be said that African countries have a great interest in a speedy conclusion of the Doha Round since it will open up

“The elements required for the completion of the Services negotiations have been identified”

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Positive gains
by African
countries should
be safeguarded in
future negotiations
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new market access opportunities and promote a fairer and pro-development multi-lateral trading system. However, the Africa Group has pointed out that it will make any outcome of the DDA conditional to the satisfactory solution on cotton, SSM, and preferences, among others which must be addressed as a matter of top priority.

To sum up, the Doha Round of negotiations could not be concluded in 2008 as had been hoped. Due to the single undertaking modality of negotiations, a blockage on a critical issue affects the whole process. Some developments interesting African countries were registered in terms of flexibilities and special and differential treatment on domestic support. These positive results should be safeguarded in the next steps of the negotiations.

3.1.3 The state of play of the EPA negotiations:

By the expiration of the WTO waiver on 31 December 2007 covering the trade relations between the African, Caribbean and Pacific (ACP) countries and EU, none of the four African sub-regional negotiation groupings was able to conclude a comprehensive EPA. What this meant was that the African LDCs had to fall back fully on the Everything But Arms (EBA) initiative, while African non-LDCs were to resort to the General System of Preferences (GSP) trade regime for their exports to EU. In order to avoid trade disruption and be in a WTO-compatible trade regime, all African non-LDCs, except for Nigeria, Cape Verde, Republic of Congo, Gabon and South Africa, initialled Interim EPAs (I-EPAs) to secure market access to EU under a preferential trade regime.

The five African non-LDCs that did not initial the I-EPAs are currently exporting under the GSP, except for South Africa, where trade with the EU is governed by the Trade Development Cooperation Agreement (TDCA), and Cape Verde where trade is under EBA since this country has only recently become a non-LDC in January 2008 and has therefore been granted a three-year transitional period. Exporting under the GSP implies significantly higher tariffs on a number of products compared to the Cotonou regime. These countries had an opportunity to apply for GSP plus regime by 31 October 2008 in order to benefit from improved market access to the EU.

Nineteen countries have initialled I-EPAs in Africa (table 3.7). These I-EPAs were supposed to serve as the stepping-stones towards the conclusion of comprehensive regional EPAs in 2009. The I-EPAs substantively dealt only with the key issues of the trade liberalization schedules of goods but without detailing the development dimension and also with trade related issues, without committing any additional funding. However, it is noteworthy to observe some differences in certain cases, where some interim agreements deal with areas others do not. Differences exist

in market access schedules across I-EPAs, particularly in a subregion such as West Africa where Ghana and Côte d'Ivoire have different schedules and different sensitive products lists. In November 2008, Côte d'Ivoire signed the I-EPA with EU, to become the first African country to take another concrete step towards ratification of the agreements.

The various I-EPAs were seen as undermining the solidarity and regional integration processes in the continent, by introducing several trade regimes within Africa and its subregions. The initialling and eventual signing of individual I-EPAs raised some concerns about the credibility and sustainability of regional integration mechanisms in Africa. In particular, due to the lack of coherence between the I-EPA agenda and regional integration processes.

The I-EPAs have also been faulted for their lack of binding commitment on the part of EU for development support that would fully accompany the policy reforms and adjustment costs that emanate from their implementation in Africa. Several provisions such as the rules of origins, or the MFN clause, have also been cited as not being development friendly. Consequently, current I-EPAs could be considered as classic Regional Trade Agreements (see Karingi and Deotti 2008).

The position for African countries has remained that the negotiations should result in comprehensive regional and pro-development EPAs. The outstanding issues such as those highlighted in UNECA (2008b), which make EPAs simply trade tools rather than development instruments, should be resolved and provisions in the final agreements should be weighed against development benchmarks. A pro-development perspective remains pivotal to reaching the necessary consensus towards full EPAs across Africa. Key contentious issues remain as follows: asymmetry of trade liberalization, TBT and SPS measures, MFN and standstill clauses, rules of origin, trade-related issues, final provisions, and removal of regional integration funding instruments such as in Central and West Africa subregions.

On development financing, the tenth European Development Fund (EDF) was ratified in July 2008. Yet, in view of the complex process, efforts should focus on getting additional resources or structural funds and explore potential domestic resources. Therefore, the already initialled interim agreements may also need to be reviewed⁵ to deal with these key issues and ensure that the agreed provisions support the desire for African countries to maintain sufficient policy space for development strategies and to promote, not hamper, the regional integration process across the continent. Con-

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5 Under international law an initialled agreement is an authentic text ready for signature and provisional application. As a document in itself, it does not impose any obligation upon parties, because entry into force takes place only upon ratification. Therefore, if parties have concerns on the initialled text, provisional application should be made to address those clauses that are sources of concern.

sequently, harmonization at the regional level and coordination at the continental level were emphasized. There was an agreement for more consideration of common African positions during the African Trade Ministerial Conference of April 2008.

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The
comprehensive
EPA is not an
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In this respect, an African EPA Template prepared under the auspices of AUC and UNECA works towards possible harmonization of texts based on African common positions. The negotiations are currently taking place at various speeds across the subregions with the objective of reaching a conclusion in 2009.

In the final analysis, while the EPAs are important to African countries, they should not be considered as an end. Countries should continue to negotiate the full regional EPA in a more coordinated process at the continental level. The comprehensive EPAs should be in a position to realize promised development outcomes, including ability to anchor and strengthen regional integration in Africa.

Table 3.7

The state of play in the EPA negotiations for African countries in 2008

Subregions	African EPA Countries (47)		
	Initialled (19)	Not Initialled (27)	Signed (1)
Central Africa	Cameroon	Central African Republic, DR Congo, Chad, Gabon, Equatorial Guinea, Republic of Congo, Sao Tome & Principe	
SA	EAC Countries (Burundi, Kenya, Rwanda, Tanzania, Uganda), Comoros, Madagascar, Mauritius, Seychelles, Zambia, Zimbabwe	Djibouti, Eritrea, Ethiopia, Malawi, Sudan	
SADC	SACU Countries (Botswana, Lesotho, Namibia, Swaziland), Mozambique	Angola, South Africa	
West Africa	Côte d'Ivoire, Ghana	Benin, Burkina Faso, Cape Verde, Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo	Côte d'Ivoire

Source: ICTSD and ACP Secretariat, 2008

3.1.4 The Aid for Trade Initiative: recent developments and performance assessment

Recent developments

The year 2007 provided the opportunities to implement some of the recommendations of the Task Force on Aid for Trade. The focus was on monitoring and evaluation aspects, and a global consensus emerged that the OECD-CRS database should be used to provide a global picture of AfT flows. Most importantly, recipient countries should be able to report whether their AfT needs are being met or not. The

regional reviews of 2007 provided a platform to raise awareness, share information and create incentives amongst stakeholders to implement and monitor AfT.

In 2008, AfT increasingly became an important political and economic complement to the trade negotiations and its support is essential to successful conclusion of the negotiations. In the case of Africa, three areas remain as the main priorities: Standards, Infrastructure and Trade Facilitation.

In February 2008, the WTO Committee on Trade and Development approved the AfT Roadmap aiming at creating a specific action plan by merging the conclusions and recommendations put forward at the Global Review of Aid for Trade (WTO 2008c). The emphasis was put on increasing developing country ownership of AfT, monitoring implementation with a focus on country, regional and sectoral priorities, and launching a programme to develop performance indicators and strengthen self-evaluation.

In Africa, UNECA, AfDB and WTO are jointly working on some of the continent's specific regional issues such as identifying bankable regional and national projects in the priority areas of Infrastructure, Trade Facilitation and Standards. The three continental institutions coordinate with the RECs and individual countries in the identification of bankable projects, including their implementation timeframes. They are also working on establishing an African AfT Network and contributing to the review and development of monitoring and evaluation indicators for effective AfT implementation.

Of particular significance, AfT is about investing in developing countries and it is fundamental for African countries that the initiative reaches its full potential as soon as possible, and that aid flows meet the right needs of beneficiary countries. So far, there is general support for breaking the monitoring issue into three elements: AfT flows, AfT resource use and trade performance, assessment of trade development needs to integrate them into the design of national development strategies, and building collaborative partnerships between donors and beneficiaries.

In selecting the indicators, the importance of complementing macro-indicators to provide the means of monitoring overall progress at the global level, with micro-indicators, was recognized. This complementary approach was more suited to monitoring progress in detail at country and subregional levels, to better understand how AfT works and can be mobilized.

Aid for Trade Supply: 2002-2006 snapshots

The long-term evolution of AfT has been negative for over 20 years, with trade-related assistance sharply declining since the mid-1970s (OECD 2008). However,

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The WTO
Committee on
Trade and
Development
approves the AfT
Roadmap
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“ AfT mostly used to build infrastructure and productive capacity ”

this trend has been reversing since 2000. There has been a significant increase since the new Millennium with a 2002-2006 average growth of 24 per cent. It is reasonable to link the AfT initiative with reversing of the declining trend that had started (see table 3.8). However, as an issue raised by the advocates of the initiative, including UNECA, increase in AfT should in no way be detrimental to other aid-related projects and programmes. It is important that AfT finance is additional and is not merely a re-labelling of funds that would have been used under other development initiatives.

From this view, recent trends are welcomed. Global ODA increased by 19 per cent during 2002-2006. While the average growth rate for AfT funds has been 12 per cent totalling \$29 billion in 2006, non-AfT funds have grown at a higher average rate of 22 per cent. A similar picture is seen in Africa, with AfT funds growing at an average rate of 13 per cent reaching \$10.5 billion in 2006. Furthermore, funds that were not AfT related grew at 28 per cent.

Table 3.8
ODA and AfT in Africa (\$US millions)

Africa	2002	2003	2004	2005	2006	Average Growth 2002-2006 (%)
Total ODA to Africa	22,110	31,545	34,815	41,674	50,625	23.55
Growth rates (%)		42.67	10.37	19.70	21.48	
Total AfT to Africa	6,541	7,631	9,038	9,536	10,560	12.84
Growth rates (%)		16.66	18.44	5.51	10.74	
Non-AfT to Africa	15,569	23,914	25,777	32,138	40,065	27.68
Growth rates (%)		53.60	7.79	24.68	24.66	

Source: Calculations based on OECD data (2008).

During 2002-2006, economic infrastructure and building productive capacities accounted for over 76 per cent of AfT to the world (see table 3.9). This AfT focus is not surprising since trade capacity constraints in terms of infrastructure and production are huge in Africa and must remain at the top of any overall aid strategy to help African economies enhance their trade performance. AfT finance to LDCs topped \$6.4 billion in 2006, up just 0.4 per cent from 2005. It is also important to note that AfT to African LDCs grew by only 5.9 per cent in 2005 and 0.4 per cent in 2006. The share of AfT to LDCs in total AfT to Africa was over 61 per cent in 2006, down from 67 per cent in 2004.

Table 3.9
Total AfT by WTO category⁶, (\$US millions)

AfT Category Description	2002	2003	2004	2005	2006	Total 2002-2006
Economic infrastructure	7727	8907	13709	12219	12464	55026
Building productive capacities (including trade development)	5829	8341	9104	9042	9906	42222
Trade policy and regulations	685	550	477	655	1044	3411
Trade-related adjustment	4628	5890	5239	5428	5509	26694
Total AfT per Year	18869	23688	28529	27344	28923	127353

Source: Calculations based on OECD (2008).

However, it is also worth noting that AfT funds to African LDCs are not being diverted from other developing countries in Africa. AfT flows of ODA to countries other than LDCs in Africa have been growing positively for the last five years, jumping from \$2.6 billion in 2002 to over \$4 billion in 2006. The same can be said when comparing AfT funds to other forms of aid flows. In terms of allocation of AfT, trade-related adjustment accounted for over 45 per cent of total AfT to African LDCs during 2002-2006, economic infrastructure for nearly 28 per cent, building productive capacities for 24 per cent and trade policy and regulations for just over 3 per cent (see table 3.10).

Table 3.10
AfT flows by selected RECs, 2002-2006 (\$US millions)

REC	2002-2006				Total AfT
	Economic Infrastructure	Building Productive Capacities (including Trade Development)	Trade Policy and Regulations	Trade-related Adjustment	
COMESA	5709.32	5362.3	474.68	5379.73	16926.03
SADC	3286.75	3480.99	49.81	6510.33	13327.88
ECOWAS	3123.89	3202.57	236.12	4629.3	11191.88
UMA	2257.52	930.23	55.6	175.2	3418.55
CEMAC	880.62	486.27	0.94	551.7	1919.53

Source: ECA calculations based on OECD (2008) data.

6 Currently, the OECD-CRS does not have a proxy for the WTO category “other trade-related needs” but intends to introduce a marker within the CRS to separate trade development from the broader category of building productive capacities.

3.2 Tracking performance and progress in the implementation of commitments on financing for development

“ *Increasing public revenue mobilization in many African countries* ”

The Monterrey Consensus on Financing for Development, which was adopted by the international community in March 2002, has become an important framework for mobilizing financial resources for development. This subsection of the report reviews recent developments and assesses progress in the implementation of commitments on financing for development in Africa.

3.2.1 Domestic resource mobilization

The Monterrey Consensus recognizes domestic resource mobilization as the foundation for self-sustaining development. Although externally generated resources can play an important role in financing Africa's development, such resources should complement rather than substitute for domestic resources in financing national development priorities. Against this backdrop, African countries have agreed to mobilize additional domestic resources for financing MDGs through:

- Promoting sound macroeconomic policies
- Strengthening good governance
- Ensuring greater transparency and efficiency in resource mobilization and utilization, and
- Creating a conducive environment for private sector development.

The international community can play an important complementary role in supporting national efforts aimed at revenue mobilization. The Monterrey Consensus called on development partners to support national revenue-raising efforts, through capacity development in tax administration, reducing capital flight and fighting tax evasion.

African countries have made considerable efforts to implement policies in key areas of their economic frameworks, which have contributed to increased revenue mobilization. For example, government revenue, excluding grants as a percentage of GDP increased from 24.3 per cent in 2003 to 29.3 per cent in 2006. The increase in revenue mobilization has been observed across a large number of African countries, including resource-rich and non-resource rich countries. In terms of distribution of government revenue, the number of African countries with government revenue as per cent of GDP in excess of 20 per cent increased to 28 in 2007 compared to 24 in 2003.

Rising domestic revenue has also translated into improved domestic savings. For example, gross domestic savings as a percentage of GDP in Africa increased from 22.6 per cent in 2000 to nearly 24 per cent in 2006. The performance of gross domestic savings was even better for SSA countries, rising from 21.1 per cent in 2000 to 25 per cent in 2006. However, gross domestic savings ratios for North African countries declined from 24.7 per cent in 2000 to 21.1 per cent in 2006.

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Gross
domestic
savings rates
also increased
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A large number of African countries have seen improvement in savings mobilization. For example, the number of countries with a negative savings ratio declined from 10 in 2000 to 5 in 2006. On the other hand, the number of countries with savings ratios in excess of 25 per cent increased from 8 in 2000 to 10 in 2006. Several resource-rich countries⁷ experienced substantial increase in savings ratios in excess of 30 per cent. This gives these countries much needed policy space to increase public investment in activities and sectors critical to meeting the MDGs, including infrastructure such as transport, power and telecommunication.

Efforts to strengthen revenue collection institutions and improve efficiency in tax administration have contributed to increased domestic revenue. The substantial rise in government revenue has been due to increased commodity prices. It is therefore unlikely that the huge increase in government revenue can be sustained in the long run. This is especially true given the boom-bust cycle characterizing commodity prices. This calls for sustained efforts aimed at:

- Increasing government revenue through broadening the tax base;
- Enhancing efficiency and transparency in tax administration; and
- Supporting measures aimed at improving management of the commodity price bonanza.

One approach that has been used successfully in Latin America and the Caribbean is stabilization funds with in-built savings mechanisms. Income gains resulting from positive commodity price shocks are saved for rainy days.

Furthermore, corruption-linked capital flight remains a serious problem in many African countries, undermining the resource mobilization for development. African countries need to strengthen measures aimed at eliminating corruption in all its manifestations. This must be supported by measures at the international level. In this regard, the outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, adopted in Doha, Qatar on 3 December 2008, commits countries to strengthen national and multilateral efforts to address factors that give rise to capital flight (UN 2008). It calls for effective implementation of measures aimed at pre-

⁷ These include Angola, Botswana, Chad, Congo Republic, Equatorial Guinea, Gabon, Namibia, Nigeria and Zambia.

venting the transfer of stolen assets and facilitating the recovery and return of such assets to their countries of origin in consistence with the United Nations Convention against Corruption.

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Capital
markets remain
shallow and
relatively illiquid”

In addition to public savings, African countries need to tap into private savings for financing development. They have implemented measures to strengthen financial sector development, including financial sector reform, and deregulation to enhance efficiency in resource allocation through greater competition. Liberalization and deregulation of the banking sector has led to entry of new banks, especially foreign banks, and this has increased competition in the banking sector. However, increased competition has not led to substantial reduction in interest rates in most African countries. This is probably due to the inefficiency of banking institutions, which is reflected in high interest rate margins. This discourages private investment.

Capital market development is shallow and illiquid and is thus unable to play a meaningful role in savings mobilization. Furthermore, due to their smallness and illiquidity, African stock exchanges are not able to mobilize external finance, especially portfolio equity for development. In this regard, African countries need to consider the benefits of a regional approach to capital market development. This would help overcome the problems associated with smallness and with illiquidity of capital markets by making it possible to pool resources for national and regional development.

Although banks dominate the financial sector in Africa, they have been ineffective in savings mobilization due to their reluctance to open branches in the rural areas. Consequently, a large proportion of the population is un-banked. Therefore, micro-finance institutions can play an important role in mobilizing resources for development. More importantly, the development of micro-finance institutions can go a long way toward breaking the vicious cycle of poverty.

3.2.2 Official Development Assistance

Aid quantity

A number of commitments have been undertaken by developed countries to scale up resources for Africa's development. At the Monterrey Conference on Financing for Development, they undertook to make efforts toward meeting the 0.7 ODA to GNP target to developing countries set by the United Nations. Furthermore, at Gleneagles, the G-8 leaders made a commitment to increase ODA to Africa by \$25 billion a year by 2010, relative to 2004.

Assessment of the delivery of aid commitments shows mixed results. The international community has made credible efforts to scale up aid resources to African countries in order to enable them to finance their MDGs (table 3.11). Total net ODA to Africa, which increased to a record \$43.4 billion in 2006, declined by 10.8 per cent to \$38.7 billion in 2007. Similarly, Africa's share in total aid also declined to 36.9 per cent in 2007 compared to 41.2 per cent in 2006. The drop in ODA flows in 2007 was mainly due to the decline in debt relief.

“ Only a few countries have met the 0.7 per cent ODA to GNP target ”

Table 3.11
Net ODA flows to developing countries (% of total)

	1990	2000	2001	2002	2003	2004	2005	2006	2007
Africa	44.0	31.2	32.3	35.8	38.4	37.4	33.0	41.2	36.9
Europe	2.5	7.4	6.4	8.3	4.9	4.6	3.8	4.8	4.0
America	9.2	9.7	11.3	8.3	8.6	8.6	6.2	6.8	6.5
Asia	31.6	32.0	32.3	31.4	28.6	28.9	42.3	31.0	33.3
Oceania	2.4	1.6	1.5	1.2	1.2	1.2	1.1	1.1	1.2
Developing countries unspecified	10.3	18.0	16.2	15.0	18.4	19.4	13.8	15.2	18.1
All Developing countries (\$ billion)	57.0	49.9	51.9	60.6	70.7	78.9	107.7	105.6	105.1

Source: OECD, *International Development Statistics, DAC Online Database* (accessed in October 2008).

Despite commitments to increase ODA flows to Africa, only a handful of countries have met the 0.7 per cent ODA to GNP target set by the United Nations. However, EU has made a commitment to reach an ODA to GNI target of 0.56 per cent by 2010. This is welcome and represents an important first step towards meeting the overall target of 0.7 per cent.

The decline in ODA flows to Africa is worrisome, especially given its critical importance in financing social infrastructure and other vital development programmes. In fact, ODA remains the largest component of external finance for many SSA countries. The Doha Declaration reaffirms the importance of foreign aid and urges donor countries to increase aid consistence with their commitments. This has become important in light of reduced developing country access to private capital, on account of the current global financial crisis. The Declaration also calls on donor countries to establish rolling indicative timetables showing how they intend to reach their goals on aid quantity.

An important feature of recent aid flows to Africa has been the significant shift in its sectoral composition, away from productive activities in favour of social sectors. According to data from OECD-DAC, the share of the productive sector in aid allocation declined considerably from 15 per cent in 2002 to 8 per cent in 2006. On the other hand, the proportion of aid directed to social sectors rose to nearly 70 per

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China and
India are by far
the largest non-
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cent in 2006, up from 60 per cent in 2002. This is indeed worrisome, given the importance of productive capacity development for the achievement of the MDGs. In this regard, donors should ensure that increased aid is allocated to productive sectors and other activities with greater impact on employment creation and poverty reduction.

The emergence of new non-OECD DAC bilateral donors, private entities as well as vertical funds, has also increased the resource envelope for development in Africa. China and India are by far the largest non-DAC development partners for African countries. The impact of their engagement has been particularly evident in the development of much needed infrastructure, including roads and power. Other new entrants in Africa such as Malaysia, the United Arab Emirates and others are also playing an important role, albeit to a lesser extent. Given concerns raised around issues of transparency in the way new actors are dealing with African countries, it would be advisable for African countries to embed the Paris Declaration principles into their development cooperation framework with the new non-OECD DAC partners. Some African countries such as South Africa are already doing this.

Aid quality

The quality of aid is as important as its quantity. The way aid is delivered and managed influences significantly its development impact in recipient countries. It was this recognition that led to the adoption of the Paris Declaration on Aid Effectiveness in 2005. The declaration contains actionable and time-bound commitments with clear targets around five core principles. These include: ownership, alignment, harmonization, mutual accountability and delivering for results. Since it was adopted in 2005, the Paris Declaration has emerged as the key framework for addressing issues related to aid effectiveness. The 2008 OECD Survey of Monitoring the Paris Declaration shows that, although progress has been made in several areas, it is unlikely that most of the key targets will be met by 2010.

For example, in the area of ownership, the survey results show that, although some progress has been made, only 24 per cent of partner countries have an operational development strategy linked to Medium Expenditure Framework. Based on this recognition, the Accra Agenda for Action, which was adopted at the Third High Level Forum on Aid Effectiveness, held in Accra, Ghana 2-4 September 2008, calls on partner countries to strengthen ownership of their development programmes through strengthened engagement of parliaments and other non-state actors. Donor countries undertook to strengthen the use of a system for partner countries as well as enhancing transparency of their procurement system so as to facilitate greater competition by local and regional firms. Furthermore, in the Accra Agenda for Action, development partners undertook to work closely together to arrive at a limited set

of mutually agreed conditions based on national development strategies. This would reduce the use of conditionality in development assistance.

Another serious challenge to aid effectiveness is aid volatility, which affects African countries disproportionately (World Bank 2008). It was estimated in 2008 that 46 per cent of aid was predictable, compared to 41 per cent in the 2005 baseline period. However, this is considerably below the 71 per cent target for 2010. Aid volatility undermines development planning. If the effect on aid volatility is factored in, data show that aid flows should be discounted by 15-20 per cent. Therefore, the commitment by partner countries at the Doha Follow-up International Conference on Financing for Development to improve aid predictability by providing recipient countries with regular, timely, indicative information on planned support in the medium term is welcome. It would certainly go a long way towards reducing aid unpredictability.

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Aid volatility
a serious
challenge to aid
effectiveness
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Aid fragmentation also remains a serious challenge to aid effectiveness. The problem is complicated by the proliferation of donors implementing a plethora of individual stand-alone projects in Africa. According to the 2008 OECD Survey of Monitoring the Paris Declaration, only 20 per cent of missions were coordinated in 2008, an increase of 2 per cent over the 2005 baseline. Hardly any progress has been made in coordinating country analytical studies. There is need to strengthen harmonization and coordination among development partners. EU adopted a Code of Conduct on Division of Labour and Development Policy with 11 guiding principles. This should reduce the transaction cost of aid through encouraging greater harmonization and coordination among the development partners within and across countries. The Accra Agenda for Action commits donor and partner countries to make efforts to reduce aid fragmentation by improving the complementarities of their efforts and through greater division of labour.

Tied aid also continues to undermine the effectiveness of aid in recipient countries. It limits the flexibility of recipients to shop around, thus making it impossible for them to maximize the full benefits of aid. Several OECD-DAC members are making efforts to reduce tied aid. Furthermore, DAC countries have already made the decision to extend the coverage of the 2001 OECD recommendation on untying aid to eight non-LDC countries eligible under the HIPC initiative.

3.2.3 External debt

The HIPC initiative has served as an important global framework for addressing the debt problem of developing countries. This has further been strengthened by several international commitments including the United Nations Millennium Declaration as well as the Monterrey Consensus of 2002. However, it was not until the

“ Substantial progress has been made in the area of debt relief ”

G-8 summit at Gleneagles in 2005 that bold efforts were taken to address the debt crisis facing developing countries. The G-8 leaders agreed to cancel all debts owed by countries eligible under the HIPC initiative, to the International Development Association (IDA), IMF and the African Development Fund. The Multilateral Debt Relief Initiative (MDRI) was launched to supplement the HIPC initiative.

Substantial progress has been made in the area of debt relief. In fact, it is one of the areas of the Monterrey Consensus where progress has been the most significant (UNECA 2008). For example, a large number of eligible countries (19 African countries) had reached their HIPC completion points as of July 2008 and thus qualified for debt relief. Eight other countries are between the decision and completion points, while 6 African countries are yet to reach the decision point. As a result, net debt relief to African countries, which rose from \$1.5 billion in 2001 to \$15.2 billion in 2006, dropped precipitously to \$3.7 billion in 2007.

Debt relief has contributed to the reduction of Africa’s external debt. Africa’s total external debt declined from \$279.3 billion in 2000 to \$260 billion in 2007 (table 3.12). Similarly, total external debt as a percentage of GDP declined to 23.7 per cent in 2007, down from 62.8 per cent in 2000. Debt service ratio (expressed as a percentage of total exports) also declined from 17.5 per cent in the 2000 to 7.8 per cent in 2007, thanks to debt relief and favourable external conditions, especially high commodity prices. However, total debt service payments rose from \$27.2 billion in 2000 to \$ 33.4 billion in 2007.

Table 3.12
Africa’s external debt, 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total External Debt (billions of current US\$)										
Africa	279.3	270.7	275.7	297.6	313.0	282.7	235.5	260.6	279.0	300.5
Africa: Sub-Saharan	224.6	219.1	222.2	239.7	255.0	233.0	195.7	217.4	235.2	255.6
Total External Debt (as a % of GDP)										
Africa	62.8	62.6	60.1	51.4	43.9	34.0	24.7	23.7	20.6	20.1
Africa: Sub-Saharan	67.4	68.4	65.3	54.9	47.0	36.4	26.4	25.4	22.4	21.7
Total External Debt (as a % of exports of goods and services)										
Africa	180.3	183.6	179.7	154.0	126.8	90.6	63.8	60.7	48.0	49.6
Africa: Sub-Saharan	198.2	205.0	198.9	168.7	139.4	101.3	71.3	68.2	55.3	56.5
Total External Debt Service (as a % of exports of goods & services)										
Africa	17.5	18.0	14.4	14.1	12.1	13.8	18.1	7.8	5.2	5.6
Africa: Sub-Saharan	15.2	16.7	11.8	12.4	10.3	14.0	17.5	8.3	5.4	6.2

Source: International Monetary Fund, World Economic Outlook Database, October 2008.

Despite progress in debt relief, a number of challenges remain. Although the debt burden of African countries has declined, debt ratios in a number of post-completion point African countries are starting to deteriorate. Furthermore, in recent years, a number of countries have emerged as new creditors to African countries, with China and India being the largest. While this is a welcome development as it increases the availability of resources for financing development, mechanisms are needed to ensure that their activities do not undermine debt sustainability in Africa.

Vulture fund litigation has become a serious problem, which can potentially undermine gains made by debt relief in several African countries. In this regard, the Doha Declaration of the Follow-up International Conference on Financing for Development welcomes recent steps taken to prevent aggressive litigation against countries eligible under HIPC, including through improvement of debt buy-back mechanisms. It also called for the provision of technical assistance and for legal support to countries facing litigation.

“Vulture fund litigation has become a serious problem”

3.2.4. Private flows

The Monterrey Consensus on Financing for Development recognizes private international capital flows, especially FDI, as an important complement to domestic resources and ODA. Indeed, FDI is the most effective way of financing sustained long-term economic growth. It contributes to economic growth and development through transferring knowledge and technology, creating employment and boosting productivity, which in turn enhances a country's competitiveness. In order to reap benefits from increased private international flows, African countries committed themselves to creating conditions conducive for mobilizing private capital, through improving the investment climate, promoting sound macroeconomic policies, enforcing contracts and respecting property rights.

On its part, the international community pledged to support national efforts through encouraging foreign investment in infrastructure and other priority sectors. In the context of capacity development for RECs, the 2007 G-8 Summit at Heiligendamm, Germany undertook to support implementation of the NEPAD Infrastructure Short Term Action Plan (STAP) as well as the Infrastructure Consortium.

As mentioned in chapter 2, the macroeconomic policy environment has improved considerably in a number of African countries. Through the NEPAD Investment Climate Facility for Africa, efforts are being made to strengthen the investment climate in Africa. The World Bank's "Doing Business" report shows that doing business in Africa is getting easier thanks to implementation of reforms that reduced the cost of starting and running a business (World Bank 2008).

“ Net private capital inflows to SSA increased significantly in recent years ”

As a result, net private capital flows to SSA have increased significantly in recent years, from \$12.2 billion in 2001 to \$38 billion in 2006 and further to \$56.6 billion in 2007 (table 3.13). This increase in net private flows was due to increases in FDI and private debt flows. FDI inflows grew from \$15.1 billion in 2001 to \$25.3 billion in 2007. The increase in FDI flows in 2007 was due to \$5.5 billion investment by the Industrial and Commercial Bank of China for acquisition of a 20 per cent equity stake in Standard Bank South Africa. Despite the increase in FDI flows to Africa, the continent's share of global FDI flows has dropped to 2.3 per cent in 2007, down from 3.2 per cent in 2006.

Table 3.13
Net private flows to sub-Saharan Africa (\$US billions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net Private Capital flows	17.4	10.2	12.2	7.2	15.1	23.6	32.4	40.1	56.6
Net Equity flows	18.7	11	14.2	10.1	15.1	19.2	24.7	32.2	35.5
Net FDI inflows	9.7	6.8	15.1	10.5	14.4	12.5	17.3	17.1	25.3
Net portfolio equity inflows	9	4.2	-0.9	-0.4	0.7	6.7	7.4	15.1	10.2
Net Private debt flows	-1.3	-0.8	-2	-2.9	0	4.4	7.7	7.9	21.1
Workers' remittances	4.4	4.6	4.7	5	6	8	9.3	10.3	10.8

Source: World Bank, *Global Development Finance*, 2008.

Investment in the infrastructure sectors in Africa has also increased in recent years (UNCTAD 2008). This has been driven by liberalization and deregulation of the infrastructure industry. For example, FDI in transport, storage, and communication sectors grew from \$132 million in 1990 to \$12.8 billion in 2006. This is a welcome development given the poor quality of infrastructure in Africa. South-South investment in infrastructure has assumed considerable importance in recent years, with China emerging as the largest investor in the infrastructure industry in SSA.

Net portfolio equity flows declined by \$6.9 billion to \$10.2 billion in 2007. This was accounted for by a large decline in portfolio equity to South Africa, reflecting increased risk aversion by foreign investors due to the global credit crisis and the decline in the holdings of South African equity by non-residents (World Bank 2008). Another noteworthy development was the issuance of \$750 million Eurobond by Ghana in September 2007, making it the first HIPC country to issue an external bond. Gabon also issued a \$1 billion 10-year Eurobond in December 2007.

Remittances have also become an important source of development finance for SSA countries. Such flows increased from \$4.6 billion in 2000 to \$10.8 billion in 2007. This figure, however, underestimates the true size of remittances to SSA since the

bulk of remittances are directed through unofficial channels.⁸ This is due to the underdeveloped nature of financial markets in many African countries, as well as the high cost of transferring money.⁹ Moreover, remittances to Africa, especially SSA represent a small proportion of global remittance market and are insignificant relative to flows to other developing countries. Therefore, African countries need to put measures in place to mobilize more remittances and to channel them through the financial system so as to leverage their developmental impact. In this way, they could provide a pool of investment resources, which could be accessed by potential entrepreneurs for business investment and expansion.

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*Financial
crisis underline
the need to reform
global financial
governance*
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3.2.5 Systemic issues

The Monterrey Consensus committed developed and developing countries to strengthening governance of the international financial, monetary and trading systems. It also called for greater coordination among international institutions in charge of financial, monetary and trade policies to ensure coherence and complementarities of policies in support of development. Some progress has been made in improving the governance of some international institutions, especially the WTO. For example, several African Trade Ministers now play key roles in international trade negotiations under the Doha Round. However, with regard to improving the participation and voice of African countries in international financial institutions, including the IMF and the World Bank, progress remains slow. The World Bank has initiated reforms to strengthen the voice and participation of developing countries in the governance and decision-making structure of the World Bank Group. The World Bank's Board approved a decision recently to increase Executive Directors for Africa to three from the current level of two. This is a step in the right direction. However, more remains to be done to increase Africa's voice and participation in the World Bank Group as well as in other institutions of global governance such as the G-20.

The current global financial crisis underscores the importance of improving governance of international financial and monetary institutions. Furthermore, while measures taken by several developed countries are important in addressing the impact of the crisis in the short term, more long-term measures are needed to ensure proper regulation of the financial sector. This is key to reducing future disruptions to the international financial system.

8 For example, unofficial remittances to the Sudan are said to be 85 times higher than the official flows (Sandler and Maimbo, 2003).

9 For example, Ratha, Mohapatra and Plaza (2008) estimate the cost of sending \$200 from London to Nigeria at roughly 14 per cent of the amount remitted. However, the cost of sending the same amount from neighbouring Benin to Lagos, Nigeria is as high as 17 per cent.

3.3 The food crisis and its impact on Africa

3.3.1 Trends and determinants of food prices

Recent increases in food prices encompassed almost all commodities

The world has experienced a dramatic increase in the international prices of basic food commodities in recent years. The FAO Food Price Index rose by 8 per cent in 2006 and by a further 24 per cent in 2007 and was 53 per cent higher in the first quarter of 2008 than in 2007. Africa is one of the most affected regions by the high food prices. For example, in Cote d'Ivoire, rice prices in March 2008 were double their level a year earlier, and in Senegal wheat prices by February 2008 were twice the level of a year earlier while sorghum was up 56 per cent.

The recent hike in food prices distinguishes itself from previous ones in its duration and breadth. The increase has affected nearly all food commodities, although to different degrees. In addition, there has been much greater price volatility than in the past, and the length of its duration has also lasted longer than in the past.

Many food commodity prices that started to increase since 2001 are likely to remain high in the medium term compared to their historical levels (IFPRI 2008; IMF 2008; and figure 3.2). Food commodity prices for the next ten years are likely to be higher than during the previous ten years, even though a decline is expected in 2009 and 2010 as supply and demand respond to high prices as a result of the global economic recession. However, future food prices are surrounded by uncertainty.

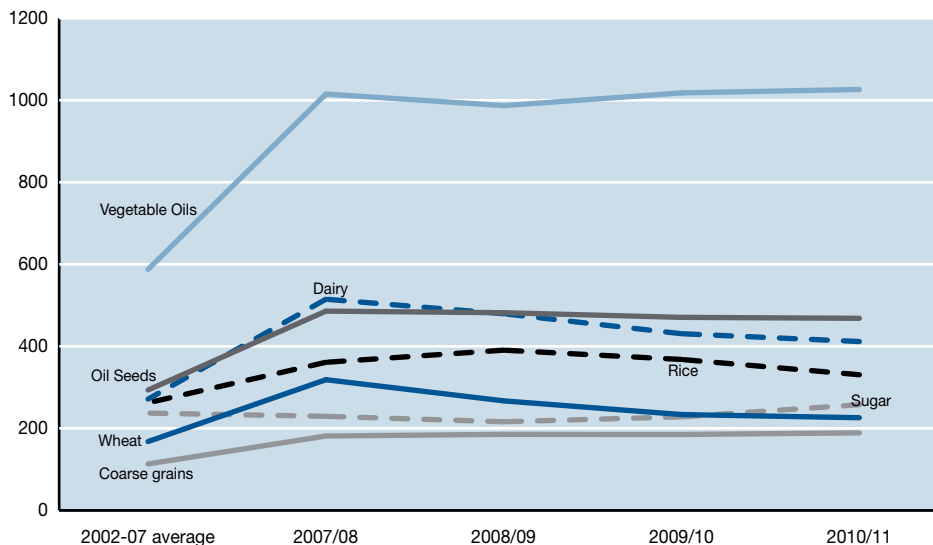
Temporary factors, such as droughts or even the global recession might wane, but changing demand patterns, higher fuel and fertilizer prices and climate change are more structural. Higher prices today should in principle lead to higher production and lower future prices. Yet, the effects of climate change on agricultural production and the demand for bio-fuels create considerable uncertainty and render market reaction highly unpredictable.

One of the structural factors behind the recent food price increases is the decrease in global food stocks, which is an indication that production of food has been lagging behind growth in consumption. For example, rice and wheat stocks are now about 200 million metric tons compared to 350 million in 2000¹⁰. The steep increase in the price of these products is not only caused by production shortfalls but also by demand to replenish the depleted stocks.

¹⁰ Asian Development Bank. Special Report on Food Prices and Inflation in Developing Asia, April 2008, p.5.

Figure 3.2

World food price forecasts (USD per 100 kg for dairy and per ton for others)



“Increases in food prices are mainly due to structural factors”

Source: OECD/FAO (2007).

Note: Dairy consists of the unweighted average of butter, cheese, skim, whole milk powder, and casein.

Another important factor is the increase in oil prices that have triggering high food prices via the increased cost of production and marketing¹¹. A third factor is the growing world population and income, especially in emerging countries such as China, Brazil and India. The income factors are associated with changes in diet resulting in increased demand for meat and dairy products, which in turn has led to increased demand for animal feed. Over the last 15 years, meat consumption more than doubled in China and grew by 70 per cent in Brazil and 20 per cent in India. As the dietary habits in emerging economies shift more in favour of livestock products, the demand and hence the price of grains will continue to rise under normal economic conditions. Production of one kilogramme of beef requires seven kgs of grains.

Increasing demand for grains for the production of bio-fuels has also contributed to high food prices by diverting grains, sugar, soybean and vegetable oil from being used as food and feed. Finally, there is also strong evidence that agricultural land is being increasingly used for commercial and industrial purposes as urbanization increases. The channels through which changes in global food prices translate into higher domestic food and consumer prices can vary across countries (box 3.2).

¹¹ Petroleum prices and food prices are highly correlated, with an estimated correlation coefficient of 0.6.



Food
shortages
affected most
African countries



Box 3.2

Channels of transmission of international food price changes to domestic food markets

The main factors determining the extent of the pass-through of global food prices into the domestic economy are: exchange rate movements between trading countries; domestic policies, such as taxes and subsidies of the recipient country; and the extent of the integration of the domestic food market with the international commodity market.

Domestic prices are denominated in local currencies, whereas most international food and commodity prices are in US dollars. Therefore, exchange rate movement between currencies can influence the relationship between domestic and foreign prices. Although there is no formal evidence, these movements have undoubtedly contributed to higher domestic food prices as most African currencies appreciated over the last few years.

The impact of food prices on domestic inflation also depends to some extent on the share of food in household consumption. During 2005-2007, headline inflation has accelerated in 16 out of 17 countries surveyed. On average, food price inflation has been very high in African countries and well above the average of other developing countries. However, in the East African Community (EAC), average headline inflation increased from 8 percent in 2007 to 20 percent in June 2008 while domestic commodity prices have risen substantially less than the global ones. The contribution of world food and oil prices to CPI inflation in EAC is estimated at 1.5 percentage points (1.1 for food) in 2007 and 4.6 percentage points (2.2 for food) in 2008. The main factor limiting the impact of global food price increases on domestic food prices in the subregion are the diversified food commodity production base and the partial insulation of the domestic from the world market due to poor infrastructure and/or trade barriers, such as the recent export ban in Tanzania.

Indeed, the majority of households in East and West Africa are relatively insulated from most global food markets, and from shifts in international food prices because a large share of their diet is based on local staples such as cassava, millet, *teff*, local varieties of maize, beans, etc. These are mostly traded locally and on the regional market barring infrastructure and institutional bottlenecks. Should the price of these local staples also rise, as demand for them increases, high global food prices would have a much stronger impact.

Sources: IMF (2008) and Staatz et al (2008).

3.3.2 Impact of the recent increases in food prices

The impact of the recent increase in global food prices may differ across countries depending on whether they are net food exporters or net importers. Net exporting countries should benefit from windfall gains, as this will be translated into improved balance of trade. Net importing countries on the other hand, are facing a higher import bill with adverse effects on their balance-of-payment and macroeconomic conditions.

In 2007, the total cost of food imports for Low Income Food Deficit Countries (LIFDCs) reached \$107 billion or 24 per cent higher than in 2006, and this was more than twice the level in 2000. Since most African countries are net food importers, the high food prices have resulted in deteriorating terms of trade for many of

them. The impact of the high food import bill on the balance of payments of these countries is further compounded by the dramatic increase in the prices of oil in the first half of 2008. The countries most affected are those where, according to FAO, 30 per cent of the population are already undernourished. Government efforts to mitigate the impact of high food prices led to increased government spending. For example, in Algeria, the bread subsidy system is estimated to cost \$50 million every month.

The inflationary pressure of high food prices has also been quite significant in the LIFDCs, as food accounts for a significant proportion of household expenditure. The global impact of food prices on world inflation was 26.6 per cent, while in Africa it was as much as 46.5 per cent¹². In Egypt, the most affected country in North Africa, the year-to-year inflation in urban areas, driven by high food prices, reached 23.6 per cent in August 2008 up from 6.9 per cent in December 2007 (FAO, IFAD and WFP 2008). In some countries, high food prices had provoked political instability and social tensions.

The effects of high food prices also differ across households depending on their position as surplus producers, food self-sufficient farmers or net food buyers. Households producing food with surplus to sell should, in theory, benefit from high food prices, provided that high food prices in the consumer market are translated into higher farm gate prices. This, however, is not always the case, especially in Africa where price transmission mechanisms do not always function well, due to a combination of inappropriate pricing policies and fragmented commodity markets.

Poor households that already spend more than 60 per cent of their income on food are coping with the high prices by eating less, buying less nutritious food, cutting expenses in health care and education, selling assets or accumulating additional debts. They are literally mortgaging their future to meet today's needs, with long-term economic and social consequences.

In many countries, urban populations are finding that there is food on the shelves but they cannot afford to buy it. In Liberia and Guinea for example, governments are struggling to import enough to feed their people. Pastoralists in Djibouti are discovering that sales of vital livestock fetch very little grain on the market, while in Mozambique and Uganda, rural farmers can hardly afford to buy the seeds and fertilizers they need to grow their family's food, let alone reap the benefits of high food prices.

Children and women are particularly affected. Women, who need to eat more nutritious food during pregnancy and childbirth, are sacrificing their food intake to cater

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Rising
government
expenditure to
mitigate the effects
of high food prices
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12 FAO, IFAD, WFP: High Food Prices: Impact and Recommendations for Action. Paper prepared for the meeting of Chief Executives Board in April 2008, p. 3.

“ *Increased investment in agriculture essential for enhanced food security* ”

for their families with consequences for their health and that of their children. Children, particularly those under two years old, are missing out on nutrition that is essential for their growth and development, causing irreversible damage. Historically, subsistence farmers, producing enough for their household food demand and other basic needs with little or no surplus to sell, represented the largest farming group in Africa. However, if not assisted, the rising input prices and transport costs that are inflating the overall cost of production are throwing a large proportion of them into the group of net food buyers. The urban poor and net food-buying farmers are naturally the most impacted by the high food prices. Overall, a large proportion of people in LIFDCs are being pushed into deeper poverty as a result of high food prices.

3.3.3 Short- and long-term policy responses

The policy responses can be divided into two broad categories:

- Interventions to ensure household food security by strengthening targeted safety nets in the short term; and
- Interventions to enhance domestic food production through productive safety nets, long-term policy adjustments and increased public and private sector investment.

Many countries, in collaboration with their development partners, have adopted different types of policies to cushion the impact of high food prices on the most vulnerable groups. In this regard, the first set of policy measures are directed at making food directly accessible to the most affected. These include:

- Free distribution of food aid to the most vulnerable groups;
- Implementation of food for work programmes; and
- Making effective use of implementation of existing school feeding programmes.

The second option to mitigate the effects of high food prices is to increase domestic crop production through new initiatives or by strengthening existing programmes aimed at enabling smallholder farmers to have access to seeds, fertilizers and credit for production of major food crops. Programmes for distributing subsidized seeds and fertilizers were already operational in some African countries, among them Malawi, where the programme was successfully implemented during the 2005-2006 and 2006-2007 cropping seasons. These programmes should target marginalized groups such as women because they are normally among the groups most

affected by food shortages despite their role in agricultural activity, nutrition and food security (box 3.3).

Another policy measure to increase food production in developing countries is to change current bio-fuel policies. A range of measures should be considered to make more grains and oilseeds currently used for fuel available for food and feed. These measures include freezing bio-fuel production at current levels, reducing it, or imposing a moratorium for bio-fuels based on grains and oilseeds until prices come down to reasonable levels according to long-run supply and demand. However, bio-fuel policy will have little significant role in Africa given the limited amount of land currently devoted to such production.

The most important long-term response is to scale up investments for accelerated agricultural growth. To transform the crisis into an opportunity for farmers and to build resilience to future food crises, a transition to viable long-term investments in support of sustained agricultural growth is urgently needed. Such investments are important in view of the emerging stress factors for agriculture from climate change that threaten to perpetuate the current crisis.

Investment for sustained agricultural growth includes:

- Expanded public spending on rural infrastructure, services, agricultural research, science and technology
- New and innovative crop insurance mechanisms
- Improved weather data, and
- Improved market access.

The needed supply response must encompass the whole food value chain. Private sector actors in the food processing and retail industries play key roles. See part II for further discussion of supply responses).

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The needed
supply response
must encompass the
whole value chain
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Box 3.3

Gender, agricultural production and food security

Significant differences in gender roles exist between women and men in achieving food security and agricultural production in Africa. Across the continent, women are the dominant agricultural producers, traders and nutrition providers and produce more than 70 per cent of food in most countries. Women in both rural and urban areas are almost exclusively responsible for guaranteeing food security and well-being for their households either through smallholder farming of food crops, or through income earned from informal activities. Yet, women generally lack access to land, credit and farm inputs, and information and technical skills. Equitable, effective and sustainable agriculture and rural development cannot, therefore, be pursued without an explicit recognition of these realities, especially in the context of the recent food crisis.

Over the past four decades some progress has been achieved in recognizing the importance of women in the agricultural sector in Africa. In many countries, gender has been mainstreamed into sectoral agricultural policies and through various initiatives including: training; literacy activities; provision of subsidized inputs; and improved access to land, credit, and extension services. However, implementation of these policies has been inadequate due to lack of resources, capacity and prioritization. Agricultural research, extension and credit services still do not fully meet the needs of women farmers, while climate change has an adverse impact on food security with marked gender dimensions.

Strategies that promote gender equality in smallholder agriculture and food security have been identified to include: targeting women in agricultural technology dissemination; equalizing agricultural input distribution between men and women; and strengthening women's property rights to hold individual or joint title to land under inheritance and divorce laws, and in laws pertaining to violence against women. Longer-term strategies aimed at addressing the underlying problems of gender inequality in agricultural development include improving the access of women and girls to education, health and greater participation in policy-making. Women must be included alongside men in the design of food and agriculture policies and donor assistance programmes. Involving more women in the development processes may require special outreach and training for poorer and less educated women and for those who hesitate to voice their needs in front of men for cultural reasons.

Source: IFPRI (2005).

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Challenges to Agricultural Development in Africa



Africa has abundant arable land and labour which, with sound policies, could be translated into increased production, incomes and food security. This has not materialized because of lack of consistent policies and/or effective implementation strategies. Thus, despite agriculture accounting for 70 per cent of the labour force, over 25 per cent of GDP and 20 per cent of agribusinesses in most countries, it continues to be given low priority. Agriculture also has a high multiplier effect, which means that agricultural investment can generate high economic and social returns and enhance economic diversification as well as social development.

Strategies for transforming African agriculture have to address such challenges as low investment and productivity, poor infrastructure, lack of funding for agricultural research, inadequate use of yield-enhancing technologies, weak linkages between agriculture and other sectors, unfavourable policy and regulatory environments, and climate change. This chapter discusses these and other challenges with a special focus on the commodities identified at the African Union Abuja Food Security Summit (2006) as vital for enhancing food production at continental and sub-regional levels.

The continental-level commodities are rice, legumes, maize, cotton, palm oil, beef, dairy, poultry and fisheries, while regional-level commodities include cassava, sorghum and millet. Among other measures to overcome constraints to agricultural transformation on the continent, the analysis highlights the potential role of regionally integrated value chains and markets. The challenges, opportunities and benefits as well as specific measures to develop value chains are discussed in detail in chapter 5. Owing to data constraints, the analysis is based on the RECs, although they often have overlapping memberships.¹ These RECs comprise AMU, the Community of Sahel-Saharan States (CEN-SAD), COMESA, the East African Community (EAC), the Economic Community of Central African States (ECCAS), ECOWAS, the Intergovernmental Development Authority (IGAD), and SADC.

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Sound and sustained institutions critical for transform agriculture
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¹ This leads to some duplication of data and some distortion in comparisons.

4.1 Analysis of trends and status of African agriculture

“ African agriculture remains largely traditional ”

African agriculture remains largely traditional and concentrated in the hands of smallholders and pastoralists. Given the dominance of rain-fed agriculture, yields are low and farmers can be trapped in a cycle of poverty and food insecurity for decades. Nevertheless, agriculture remains an important economic sector in Africa, as reflected in its share in GDP across RECs (table 4.1). African agriculture contributed 29.2 per cent of GDP in 1979-81 and 24.6 per cent in 2002-2004 compared with the world averages of 7 per cent and 3 per cent, respectively.

Table 4.1
Share of agriculture in GDP by RECs (percentage)

RECs	1979-81	1989-91	1999-01	2002-04
AMU	13.7	17.7	13.9	13.8
CEN-SAD	31.7	32.3	31.4	29.8
COMESA	29.9	27.2	27.8	25.6
EAC	47.2	41.1	36.5	34.6
ECCAS	25.7	28.7	25.6	24.5
ECOWAS	34.8	34.2	33.1	31.6
IGAD	48.4	39.2	33.1	28.7
SADC	22.4	21.1	19.5	18.7
Africa	29.2	28.5	25.8	24.6
World	7.0	5.0	4.0	3.0

Source: UNECA (2007).

In COMESA, CEN-SAD, EAC, ECCAS, ECOWAS and IGAD, agriculture accounts for between 25 per cent and 35 per cent of GDP. Although the share of agriculture in Africa's GDP declined to about 22 per cent in 2007, as discussed in chapter 2, agriculture still holds the key to future industrialization and poverty reduction in most countries. It provides jobs as well as a livelihood for over 65 per cent of the population of most African countries.

In terms of sectoral linkages, agriculture supplies raw materials as well as final consumer goods to other sectors. At the same time, increased agricultural output and income expand markets for the output of other sectors such as manufacturing and services. This explains why agriculture has a high multiplier effect on the economy, which ranges from 1.5 to 2.7 per cent (UNECA 2006). The multiplier implies that a one-dollar increase in agricultural income would lead to an increase in aggregate income of more than two dollars on average. The experience of industrialized and high-income developing economies shows that although the share of agriculture in

GDP tends to decline over time, agricultural output normally increases in absolute terms. Agriculture should, therefore, remain a priority sector not only for national food security, but also as a driver of growth.

Owing to a combination of climatic and dietary factors, certain subregions are the dominant consumers of certain crops or food types. For example, as shown in table 4.2, Southern Africa is the dominant consumer of maize (32 per cent of African total); West Africa is the dominant consumer of rice (49 per cent), sorghum (50 per cent), millet (77.6 per cent), yam (93 per cent) and marine fish (36 per cent); East Africa is the dominant consumer of cassava (46 per cent), beans (38 per cent), and freshwater fish (44 per cent); while North Africa is the main consumer of bovine meat (31 per cent), goats (44 per cent), poultry meat (38 per cent) and milk (52 per cent).

“Expansion in agricultural production relied mainly the expansion of crop land”

Table 4.2
Consumption of key commodities by subregion in 2004 (percentage of total)

Commodity	Central Africa	East Africa	North Africa	Southern Africa	West Africa	Africa
Maize	2.6	30.6	17	32	17.7	100
Beans	5.4	44.6	2.1	9.8	38.1	100
Rice	2.4	19.9	2.2	7.2	48.5	100
Oil seeds	8.1	20.8	4.1	5.1	61.9	100
Beef	5.7	26.0	30.6	23.1	14.6	100
Milk	2.5	22.5	52	15	8	100
Poultry	2.7	7.8	38.2	36.6	14.7	100
Fish products	7.9	38	21.2	10.1	22.8	100
Cassava	5.0	45.9	0.4	14.2	34.5	100
Millet	3.6	10.7	5.0	3.1	77.6	100
Sorghum	5.7	17	23.3	3.8	50.2	100

Source: UNECA (2006).

Crop output in Africa has mostly increased due to the expansion of cultivated land. The growth in areas harvested ranged from 7 per cent to 20 per cent per annum between 1990 and 2006 (table 4.3). The area for cassava has grown by 20 per cent per annum while the area for other crops has generally grown at below 10 per cent. The growth in yield has been between 6 per cent and 9 per cent, well below the growth in area harvested, except in the case of maize, where yield has grown at a higher rate thanks to the introduction of hybrid maize in some areas. In the case of meat, yield growth has averaged 9 per cent per annum while that of milk has averaged 10 per cent per annum. This is mainly due to improvements in animal husbandry and the introduction of better breeds.

Table 4.3

Average area, growth rates and yield characteristics of some commodities, 1990–2006

	Area harvested		Yield	
	Average area (Million hectares)	Growth rate (per cent)	Yield (mean) MT/ha ^(a)	Growth rate (per cent)
Cassava	10.7	20	8.9	8.6
Cereal	93	8	1.5	7.6
Maize	27	7	1.6	7.3
Meat	10.9 ^(b)	9	-	-
Milk	27.5 ^(c)	10	-	-
Palm oil fruit	4.0	8.4	3.8	6
Rice paddy	7.8	10	2.2	7
Roots and Tubers	19.7	10	8.4	7.2
Sorghum	22	10	0.9	8.5

Source: Calculated from UNECA data, 2007.

Note: (a) MT/ha stands for metric ton per hectare; (b) Million metric ton; (c) Billion litres;

Cereals cover a total area of 93 million hectares, with maize accounting for 29 per cent, rice 8.4 per cent and sorghum 23.7 per cent of the total area. Cassava accounts for 48.6 per cent of the total land under root crops. Yields of the twelve commodities covered show some minor variations across RECs (table 4.4). These variations are mainly due to use of irrigation and other yield-enhancing technologies and practices.² Differences in weather conditions and amount and duration of rainfall are also important since most crop production in Africa is rain fed.

Table 4.4

Comparison of yields and production by REC, 1990-2006

Commodity (unit)	RECs							
	COMESA	EAC	SADC	IGAD	ECOWAS	ECCAS	AMU	CENSAD
Cassava (MT/ha)	7.4	8.8	7.5	8.0	4.6	7.0	-	8
Maize (MT/ha)	1.6	1.3	1.8	1.2	1.1	1.3	1.6	1.5
Millet (MT/ha)	0.7	0.9	0.5	0.7	0.9	0.8	0.9	0.8
palm oil fruits (MT/ha)	9.4	12.2	10.6		7.9	10.8		8.2
Pulses (MT/ha)	0.83	0.7	0.6	0.7	0.5	0.7	0.9	0.8
Sorghum (MT/ha)	1.1	1.1	0.98	0.8	0.8	0.8	1.3	1.0
Rice (MT/ha)	2.7	2.7	1.8	2.8	1.9	1.6	3.7	2.6
Milk (000MT)	802.5	847	5321.4	1901	163.3	85.5	259	217
Meat (000MT)	211.1	214.1	241	274.7	152.2	66.8	627	670

Source: UNECA (2007).

Notes: MT/ha stands for metric ton per hectare.

² The minor variations across RECs may also be due to overlapping memberships.

Measured in metric tons per hectare (MT/ha), yields of cassava are highest in EAC (8.8) and IGAD (8.0) and lowest in ECOWAS (4.6), while yields of maize are highest in SADC (1.8), followed by COMESA (1.6) and AMU (1.6), and are lowest in ECOWAS. The high yields in EAC and IGAD are due to the widespread adoption of hybrid seeds and use of inputs in these RECs. Except for SADC (0.5), yields for millet are almost similar across RECs (0.7 – 0.9MT/ha). Humid West African countries are the traditional palm oil producers, with old plantations and low yields. Other countries have established plantations with new varieties and higher yields. Sorghum yields are relatively similar across the RECs, although AMU, COMESA and SADC have a slightly higher average yield. Yields of pulses are lowest in ECOWAS (0.5), possibly because of the humid climate, while in other RECs they are relatively similar. Rice yields are highest in AMU (3.7) due to the use of irrigation and are lowest in ECCAS (1.6), ECOWAS (1.9) and SADC (1.8). Rice yields in other RECs are similar.

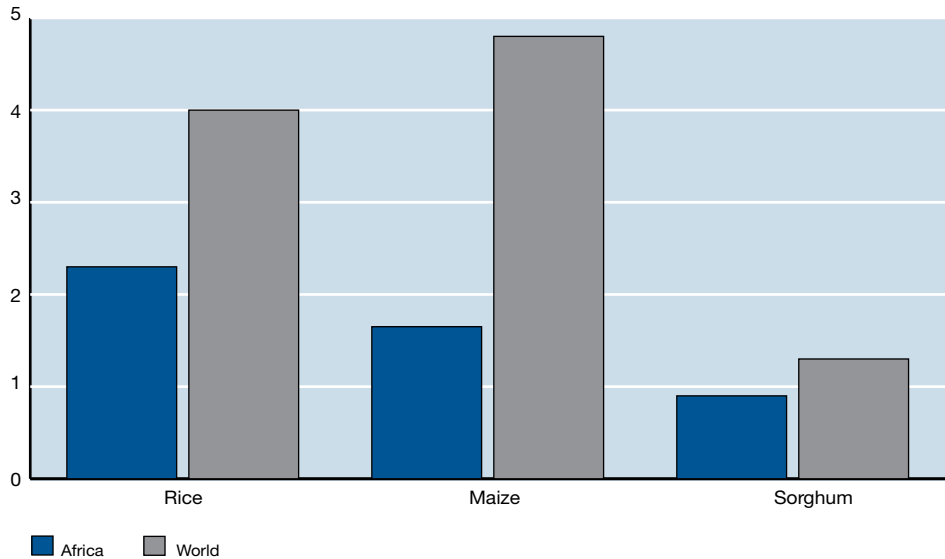
Within the RECs, there is also a wide variation in yields across countries. In ECOWAS, the country with the highest yields of cassava is Niger, whose yields are double the ECOWAS average. Maize yields in COMESA are only 19 per cent of Egypt's irrigated maize yields. Average millet yields in EAC are 66 per cent of Uganda's yields. In the case of pulses, CEN-SAD average yields are 33 per cent of Egypt's yields. Egypt's rice yields are three times those of CEN-SAD, and sorghum yields in CEN-SAD are only 18 per cent of Egypt's yields.

Comparing the yields of common cereal crops with the world averages shows the huge potential gains that Africa can reap by introducing measures to reach the world average (figure 4.1). 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.

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Wide
variation
in crop yield
across RECs
”

““ Four pillars for transforming African agriculture ””

Figure 4.1
Comparison of cereal yields, Africa vs. world (Mt/ha)



Source: FAO (2007).

The above analysis indicates that many African countries depend more on area expansion to increase food production. Africa’s arable land is 733 million hectares, which is adequate to feed the population if efficiently farmed. However, in many countries, land is a limiting factor and emphasis should be placed on increased productivity and sustainable agricultural production practices. Whereas area expansion may be the only option in the short term, governments have to effectively address the challenges discussed below for achieving accelerated agricultural transformation in the long term.

4.2 Challenges to agricultural transformation in Africa

Challenges to agricultural transformation in Africa are well known and approaches to solving them are well documented (Diouf 1989; UNECA 2002 and 2005). The AU-NEPAD (2004) road map on implementing the Comprehensive African Agriculture Development Programme (CAADP) and restoring food security in Africa has identified four pillars for transforming agriculture:

- Improve agricultural research and technology dissemination and adoption;

- Increase food supply chains, reduce hunger and improve response to emergencies;
- Extend areas under sustainable land management and reliable water control systems; and
- Improve rural infrastructure and trade-related capacities for market access.

Challenges to increasing agricultural productivity

The key challenges include under-capitalization of agriculture and research, inadequate use of mechanization and agro-chemicals, inadequate investments in irrigation, and low land and labour productivity.

Under-capitalization of agriculture

Many African governments have treated agriculture as a way of life for farmers who in most cases have no voice in lobbying for an adequate share of public expenditure. Following the Maputo Summit, African countries agreed to devote at least 10 per cent of their public expenditure to agriculture (AU 2003). According to a validation workshop organized by NEPAD in December 2008, only 19 per cent of African countries allocate more than 10 per cent of their national expenditure to agricultural development. Many countries hardly reach 4 per cent of GDP and have depended on ODA for funding agriculture and other sectors. There is clearly a need for governments to increase agricultural investment in order to enhance food production and accelerate economic transformation, given the strong multiplier effect of agriculture.

Inadequate funding of agricultural research and technology

Agricultural research and technology has for a long time been recognized as the key to increased productivity in African agriculture. A number of studies in Eastern and Southern African countries have shown evidence of the high impact of agricultural research. Economic rates of return of agricultural research are generally high, ranging from 117 per cent for sorghum to 30-80 per cent for rice, 51 per cent for wheat, and 29 per cent for livestock. Research undertaken by the Consultative Group on International Agricultural Research (CGIAR) shows high benefit-cost ratios (BCR), ranging from 1: 1.94 to 1: 17.20 with an average of 1: 4.76 (Waibel 2006). Agricultural research has also been shown to create high welfare gains in the economy as a whole (Ehui and Tsigas 2006).

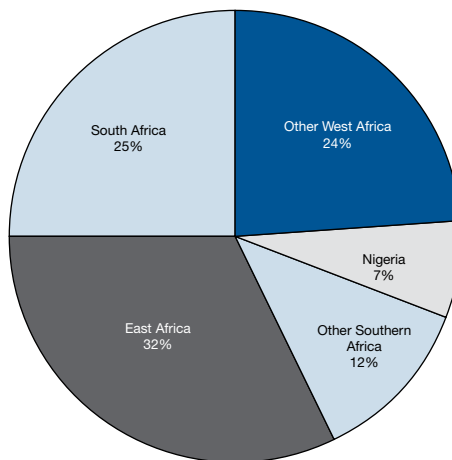
In 2000, research funding in a sample of 27 sub-Saharan African countries from East Africa (7), Southern Africa (6) and West Africa (14) was \$1.46 billion. However, subregional spending totals mask huge variations in research expenditure by country

“ African governments agreed in 2003 to devote at least 10 per cent of their public expenditure to agriculture ”

“ Declining donor support to agricultural research in Africa ”

and per researcher (Beintema and Stads 2004, Spielman 2005). South Africa and Nigeria accounted for over one third of total research spending in the sample (figure 4.2).³ Relative to GDP, East Africa had a larger share of total research expenditure in the sample, excluding Nigeria and South Africa. As indicated above, this has resulted in high productivity for some crops such as cassava in EAC and IGAD areas of East Africa compared with the rest of the continent.

Figure 4.2
Agricultural research expenditure in selected sub-Saharan Africa subregions and countries in 2000 (percentage of total)*



Source: Beintema and Stads, 2004.

Notes: * Total expenditure was \$1.46 billion.

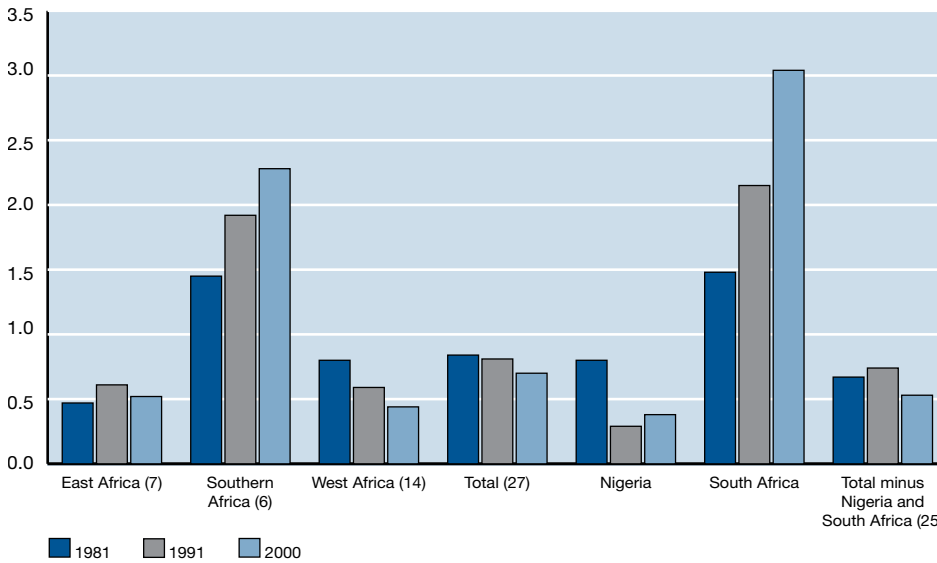
Public spending on agricultural research as a percentage of agricultural GDP (AgGDP) is considered adequate at 2 per cent or more. Worldwide expenditure on agricultural research is about 1 per cent of AgGDP - over 2.5 per cent in developed countries, 0.6 per cent in developing countries and 0.7 per cent in Africa.

Agricultural research expenditure as a ratio of AgGDP in Southern Africa (2.28 per cent) and South Africa (3.04 per cent) is higher than the global average, but for other subregions in Africa the ratio is far less than the global average (figure 4.3). At the same time, donor support for agricultural research declined from \$6.0 billion in 1980 to \$2.8 billion in 2006 and World Bank lending to agriculture in general decreased from \$7.76 billion in 1980 to \$2.0 billion in 2004 (IHT 2008). Undoubtedly, these cuts had serious implications for Africa, which was receiving 42 per cent of the Bank's funding for agricultural research at the turn of the century (Byerlee 2000).

³ The latest available figures compiled by the International Food Policy Research Institute (IFPRI) are for 2000 (see <http://www.ifpri.org/data/dataset.asp> - accessed on 13 February 2009).

Figure 4.3

Agricultural research expenditure in selected sub-Saharan Africa subregions and countries (percentage of AgGDP)



“ SSA ranks the lowest in the world in terms of yield-enhancing practices ”

Source: Beintema and Stads 2004.

The decline in donor funding, which stood at 35 per cent of agricultural research funding in 2000, implies that governments have to rely more on domestic sources. Countries such as Botswana, Burundi, Ethiopia, Gabon, Malawi and the Sudan, already fund over 60 per cent of agricultural research from domestic sources. The private sector contributes only 2 per cent of total agricultural research funding in Africa and its contribution varies across subregions and countries, ranging from 1.6 per cent in East Africa to about 4.3 per cent in South Africa. The private sector should be enabled and encouraged to undertake and finance research, especially in commodities where it has a vested interest.

Inadequate use of yield-enhancing practices and technologies

Sub-Saharan Africa ranks the lowest in the world in terms of yield-enhancing practices and techniques. Yield-enhancing practices include mechanization, use of agrochemicals (fertilizers and pesticides), and increased use of irrigated land. The use of these practices and technologies is low in Africa even in comparison to other developing regions (table 4.5). This at least partly explains why crop yields in Africa in general are far below average yields in other parts of the world.

Irrigated land is only 3.6 per cent of total cropland on the continent compared with the world average of 18.4 per cent, while the use of fertilizers is minimal at 125 gm/ha compared with the world average of 1,020 gm/ha. In the case of mechanization, the con-

continent has an average of only 13 tractors/100 km² of arable land, versus the world average of 200 tractors/100 km². In Africa, tractor ploughing and use of other modern inputs are confined to areas with high market demand or large-scale farms. Therefore, there is considerable variation in the use of these technologies across the RECs (table 4.6).

Table 4.5
Use of yield-enhancing technologies, 2001-2003

Region	Irrigated land (percentage of crop land)	Fertilizer consumption (00 grams/ha of arable land)	Agricultural machinery (tractors/100 km ² of arable land)
East Asia and Pacific	-	-	89
Europe and Central Asia	11.2	347	185
Latin America/Caribbean	11.4	896	123
Middle East and North Africa	32.7	833	142
South Asia	38.9	1067	129
Sub-Saharan Africa	3.6	125	13
Europe EMU	17	2059	1002
World	18.4	1020	200

Source: World Development Report 2007.

Table 4.6
Regional comparison of the use of yield-enhancing technologies, 2001-2003

REC	Irrigated land (percentage of crop land)	Fertilizer consumption (00 grams/ha of arable land)	Agricultural machinery (tractors/100 km ² of arable land)
COMESA	14.4	618.9	59.56
SADC	8	383.1	51
ECOWAS	2.7	100.9	13.5
IGAD	6.3	107.2	11.8
AMU	11.8	270	108
CEN-SAD	8.7	301.4	33.7

Source: World Development Indicators (2004).

The development of irrigated agriculture is highest in COMESA (14.4 per cent of arable land), possibly due to the large irrigation projects in Egypt and the Sudan. COMESA is also dominant in the use of fertilizers (619 gm/ha). ECOWAS ranks the lowest in the use of irrigation (2.7 per cent) and fertilizers (101gm/ha), while IGAD ranks lowest in the use of tractors (12 tractors/100 km²). The highest use of tractors is in AMU with 108 tractors/100 km². The limited use of these technologies coupled with the lack of improved seeds and poor agricultural practices leads to low aggregate output and productivity.

Low land and labour productivity

Under-capitalization of agriculture as discussed above has given rise to an agricultural sector with a weak knowledge base, resulting in low-input, low-output and low-value-added agriculture in most cases. Land productivity in Africa is estimated at 42 per cent and 50 per cent of those of Asia and Latin America, respectively. Asia and Latin America have more irrigated land and use more fertilizers and machinery than Africa.

This is the main explanation for Africa's lower land productivity, which increased from \$9.7/ha (6 per cent of world average) in 1979-1981 to only \$18.3/ha (7 per cent of world average) in 2005-2007 (table 4.7). SADC is the REC with the highest land productivity at \$54/ha compared with AMU at \$16,762/ha.

“ Africa’s agriculture is characterized by low-input, low-output and low value added ”

Table 4.7

Land productivity in Africa (constant 2000 dollars per hectare)

RECs	1979-81	1989-91	1999-01	2005-07
AMU	7965.0	14299.6	12153.3	16761.9
CEN-SAD	1941.5	3017.6	3220.2	3670.7
COMESA	634.3	558.6	580.6	599.2
EAC	155.0	144.6	183.1	212.8
ECCAS	60.2	60.7	2222.7	156.8
ECOWAS	89.7	143.3	172.0	201.5
IGAD	53.8	67.0	83.0	102.0
SADC	37.9	44.2	53.0	54.0
Africa	9.7	10.9	12.9	18.3
World	153.1	191.7	227.5	259.1

Source: UNECA (2008).

These figures demonstrate the potential gains that could be derived from the transformation of agriculture in Africa through productivity-enhancing measures. On average, land productivity on the continent increased by 88.6 per cent versus 69 per cent for the world during the period from 1979-1981 to 2005-2007. This positive trend has to be strengthened and sustained.

Labour productivity is also lower in Africa compared with other developing regions, amounting to only 57 and 58 per cent of those of Latin America and Asia, respectively. This is mainly because most of Africa's agriculture is manual or semi-mechanized. It is worth noting that labour productivity in Africa increased by 39.5 per cent over the period from 1979-1981 to 2003-2005, and amounted to 79 per cent of average world labour productivity in 2003-2005. In SSA, labour productivity

increased by only 10.6 per cent between 1989-1991 and 2003-2005, and was 31 per cent of average world labour productivity in 2003-2005 (table 4.8).

EAC has the lowest labour productivity, followed by IGAD, while AMU has the highest labour productivity at almost 2.5 times the African average and twice the world average. ECCAS and COMESA labour productivities are 84 per cent and 91 per cent of Africa's average, compared with 53 per cent for ECOWAS.

It is worth noting that in addition to education and technical skills development programmes, labour productivity in different countries is influenced by many factors, including the production system, weather, the availability of complementary inputs such as improved seeds and fertilizers, and the use of modern farming technology. Improving access to education and technical skills development in rural Africa will undoubtedly enhance labour productivity in agriculture and related activities.

Yet, as highlighted in chapter 2, progress towards the MDG target of universal primary education is especially slow in SSA where large gaps in access to education also exist between girls and boys and between rural and urban areas. In many African countries, school enrolment ratios are quite low in rural areas and among women, who represent the majority of small farmers. This calls for targeted agricultural education and extension programmes to upgrade skills and ensure effective use of modern yield-enhancing techniques and simple processing and marketing methods for farm produce.

“ Africa needs targeted education and extension programmes to promote effective yield-enhancing practices ”

Table 4.8
Labour productivity in Africa (\$/hectare)

REC	1979-1981	1989-1991	1999-2001	2003-2005
AMU	1,020	1,539	1,546	1,769
CEN-SAD	429	490	524	568
COMESA	518	580	628	660
EAC	215	206	211	222
ECCAS	415	394	542	610
ECOWAS	277	327	376	385
IGAD	317	236	250	252
SADC	707	738	805	871
Sub-Saharan Africa		254	273	281
Africa	518	609	657	723
World	648	717	853	911

Source: UNECA (2008).

Extension of area under sustainable land management and reliable water control systems

Africa has 733 million hectares of arable land (27.4 per cent of world total) compared with 570 million hectares for Latin America and 628 million hectares for Asia. Only 3.8 per cent of Africa's surface and groundwater is harnessed, while irrigation covers only 7 per cent of cropland (3.6 per cent in SSA). Clearly, there is considerable scope for both horizontal and vertical expansion in African agriculture.

However, area expansion should not be a priority in view of increased environmental degradation on the continent. Currently, Africa accounts for 27 per cent of the world's land degradation and has 500 million hectares of moderately or severely degraded land. Degradation affects 65 per cent of cropland and 30 per cent of pastureland. Soil degradation is associated with low land productivity. It is mainly caused by loss of vegetation and land exploitation, especially overgrazing and shifting cultivation (UNECA 2002).

Insecurity in land ownership has been blamed for accelerated land degradation and lack of long-term investments in sustainable land management and stewardship of natural resources. Security of tenure needs to be assured to reverse the deterioration. Soil and water conservation measures, although an integral part of agricultural ministries, have not been pursued rigorously. This has mainly been because benefits from such measures are mostly intangible and long term. However, evidence indicates that in several countries these measures have high net benefits, high internal rates of return (IRR) at farm level, as well as high external rates of return (ERR) at community level. (ENTRO 2007, WFP 2005, Yesuf 2007).

The Nile Basin Initiative, which uses a river basin approach, has demonstrated the potential benefits of soil and water conservation measures (ENTRO 2007). Incremental benefits for the East Nile Basin were calculated at \$13.2 billion and a benefit-cost ratio (BCR) of 2.8 was estimated. In Ethiopia, possibly the most land-degraded country in Africa, the overall BCR is 4.5, with 1.7 for soil conservation bunds and 15.5 for on-farm forage. These figures are robust and strongly justify increased investments in soil and water conservation.

At country level, considerable work has been done in Ethiopia using the universal soil loss equation (USLE) to measure productivity loss due to degradation. Studies have shown on-farm IRR of between 7 per cent and 19 per cent for various measures at farm level (WFP 2005, Yesuf 2007). At watershed level, the ERR has been calculated at 13-16 per cent in dry land watersheds and 9-13 per cent in humid-moist zones. Again, these figures, as in the case of the BCR, are high enough to call for additional investments in soil and water conservation measures at farm, community, national and regional levels.

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In view of increased environmental degradation, area expansion should not be a priority
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Concerns over the impact of global warming on agriculture

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Poor
infrastructure a
major constraint
to market access
and agricultural
development
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Global warming is another factor that adversely affects African agriculture. Projections show that it may cause losses of over 25 per cent of agricultural productivity in Southern and West Africa (APN 2008). Countries in East and Central Africa are also projected to experience losses of 5 per cent to 25 per cent. This calls for more research on adaptive agriculture as well as closer collaboration between Africa and other developing regions to address common climatic threats. Additional alarming information shows that climate change will have drastic impacts on African agriculture in the future. Dione (2007) forecasted that there would be reduced productivity of about 10 per cent in rain-fed agriculture in SSA, and an increase in aridity affecting 60-90 million hectares.

Inadequate market access and infrastructure

Promoting agricultural investment and productivity requires improved market access and adequate service infrastructure, including better road networks, communication, rural electrification and water supply. For improved agro-industrialization and domestic and regional trade, the key prerequisites are competitive power and road/rail freight tariffs. Africa performs poorly in all areas of enabling infrastructure and policy (table 4.9).

In terms of paved road density, SSA has a low coverage of 31 km/1,000 km², which amounts to only 23 per cent of the average in other developing regions. The total road density for SSA is 137 km/1,000 km², which is 65 per cent of that of other developing regions. Most roads in Africa are unpaved and impassable during the wet seasons. Improvement of domestic and regional roads has great potential to reduce transportation costs, increase overland trade and enhance the global competitiveness of African agriculture.

The proposed trans-Africa road network connecting cities of over 500,000 people and the road corridor proposed by the African Development Bank (AfDB) is estimated to generate \$250 billion over 15 years in overland intra-African trade (APN-2008). Apart from low road density coverage, road freight tariffs are quite high in Africa (\$0.05-0.25/ton-km) compared with other developing regions (\$0.01-0.04/ton-km).

Table 4.9

Comparison of infrastructure coverage and cost, sub-Saharan Africa vs. other developing regions

	Coverage deficit		Item	High costs	
	Sub-Saharan Africa	Other developing regions		Sub-Saharan Africa	Other developing regions
Paved road density (per 1,000 sq. km)	31	134	Power tariffs (\$/kwh)	0.05-0.30	0.05-0.10
Total road density (per 1,000 sq. km)	137	211	-	-	-
Fixed line density (lines per 1,000 people)	10	78	Road freight tariffs (\$/ton-km)	0.05-0.25	0.01-0.04
Mobile density (lines per 1,000 people)	55	86	-	-	-
Generation capacity (MW per million people)	37	326	International phone calls (\$/3-min call to the United States)	0.80	0.20
Electricity coverage (percentage of population)	16	41	Internet dial-up services (\$/month)	50	15-25
Improved water (percentage of population)	60	72	-	-	-
Improved sanitation (percentage of population)	34	51	-	-	-

Source: World Bank (2008).

Information and communications technology (ICT) is critical in modern-day transactions, but Africa lags behind in this area, as represented by its fixed-line density, mobile density, international calls and Internet dial-up services. Fixed-line density is 10/1,000 people, while mobile density is 55/1,000 people. Fixed-line and mobile density in Africa are about 13 per cent and 64 per cent of the averages in other developing regions, respectively. At \$0.80/3 minutes, international calls cost four times as much as those of other developing regions, while Internet dial-up service at \$50/month is two and a half times that of other developing regions.

Electricity coverage, especially rural electrification, is critical for the development of agro-industries. Overall generation capacity in Africa is 37MW (megawatt) per million people, which is only 11 per cent of the other developing regions' average. Electricity coverage as a percentage of the population is only 16 per cent compared with 41 per cent in other developing regions. Power tariffs are higher in Africa compared with other developing regions.

There is considerable variation in power tariffs across the continent, with differences of up to 15 times between countries, which increase the cost of manufacturing, as shown for some countries in COMESA and SADC (table 4.10). As discussed in

chapter 2, energy and transportation costs in Africa in general have increased sharply over the last few years due to high oil prices. Even though these prices declined in the second half of 2008, energy costs are expected to remain high by historical comparisons.



*Biofuel
production
still limited
in Africa*



Table 4.10

Comparison of electricity tariffs for manufacturing firms (\$US/kwh*)

Country	Base unit tariff	Ad-quantum tariff	Demand tariff	Cost for 10,000 kwh	Cost rank
Malawi	10.01	0.02	0.05	740	9
Zambia	4.10	0.01	0.11	1,246	8
Zimbabwe	0.00	0.16	0.00	1,669	7
Tanzania	0.02	0.15	0.06	2,151	6
Egypt	0.00	0.18	0.11	2,945	5
South Africa	0.00	0.37	0.00	3,683	4
Uganda	0.00	1.09	0.00	10,864	3
Swaziland	0.00	1.10	0.00	11,046	2
Kenya	107.14	1.14	0.06	11,536	1

Source: MTI/JICA (2007).

Note: * kwh stands for kilowatt per hour.

Apart from the enabling infrastructure discussed above, the simplification of customs clearance and improvement of port facilities are essential for regional trade and the development of a more integrated agricultural market in Africa. Customs clearance time ranges from one day in Ethiopia to 25.4 days in Nigeria, averaging 12.70 days for the continent (IFM 2007). Delays at ports (coastal and inland) also imply the need for improvement of port handling facilities.

Provision of enabling infrastructure and services would strengthen the linkage between the agricultural and non-agricultural sectors, especially in rural areas. This would help the landless and the unemployed obtain jobs in agro-industries and associated small- and medium-sized enterprises (SMEs) in rural and urban areas. To accelerate such integration, governments must provide incentives and support to farmers and agro-businesses, including improved access to credit, promotion of entrepreneurship and development of technical skills in general.

Food versus bio-fuel production

As discussed in chapter 3, in addition to historically high energy prices, emerging challenges to food production in Africa include competition from bio-fuel production, which is gaining momentum in many parts of the world due to the recent high fuel prices. However, the downtrend in petroleum prices since mid-2008 may

dampen this momentum. A simulation of the impact of a 30 per cent increase in bio-fuel demand by 2010 on wheat, rice, maize, vegetable oils and sugar shows strong price effects (FAO 2008). Wheat prices would rise by 4 per cent, maize by 10 per cent, vegetable oils by 7 per cent and sugar by 26 per cent by 2010. A decline in bio-fuel demand of 15 per cent would lower wheat prices by 1.5 per cent, maize by 5 per cent, vegetable oils by 3 per cent and sugar by 10 per cent by 2010.

Development in the bio-fuel sub-sector provides both opportunities and challenges to sustainable agricultural development and food security in Africa. Increases in production in response to high oil prices means substantial income for farmers, but the sustainability of this income could be highly uncertain in view of the extreme volatility of oil prices. Furthermore, increased bio-fuel production often means reduced production and supply of food crops. Therefore, bio-fuel policies have to carefully balance the need to respond to market incentives with the need to ensure adequate and stable food supply at affordable prices.

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*Agro-processing
a key to
overcoming
constraints to
agricultural
transformation*
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Constraints and need for value chain development in Africa

African agriculture is weakly integrated with other sectors such as the manufacturing sector. By promoting greater sectoral linkages, value chain development can greatly enhance job creation, agricultural transformation and broad-based growth on the continent. Therefore, Africa should take the necessary measures to confront its challenges in this area. Processing of agricultural output is essential for expanding agricultural markets nationally and regionally because raw products are characterized by:

- High perishability, which means a short shelf life;
- Bulkiness as water constitutes a high percentage of agricultural products;
- Quality variability and hence the need for quality standards;
- Seasonal variability in output; and
- Lack of market information (There is therefore a need for transformational processes such as ginning of cotton, milling of cereals, and pasteurization and dehydration for milk (Jaffee and Morton 1995).

Commodity and production characteristics call for a coherent linking of production and agro-industries/agribusiness. However, constraints to such value chain development abound in Africa. In addition to the general challenges to agricultural development discussed above, agricultural processing is limited by lack of capital and credit, lack of appropriate technology, inadequate information, marketing and other externalities that make private investment in agro-industries generally less profitable in the short run.

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Increasing
funding to
agriculture a key
test of government
commitment to
ensuring food
security”

Thus, coordinated government interventions at the national and/or regional levels can be critical for overcoming information and coordination failures that curtail the long-term benefits of value chain development. The challenges, opportunities and benefits of developing regionally integrated value chains are discussed in detail in chapter 5.

4.3 Interventions for addressing challenges to agricultural development in Africa

The challenges facing agricultural transformation in Africa have persisted despite numerous commitments and interventions by African governments and their development partners. This persistence is mainly due to policy inconsistency and insufficiency. The following key measures are necessary to meet those challenges:

Address chronic under-capitalization of agriculture

In many countries, the agricultural sector is in a situation of “a cow being continuously milked and fed only enough for survival”. African governments should:

- Implement the Maputo Agreement to devote 10 per cent of their public expenditure to agriculture, in order to achieve the NEPAD/CAADP goal of agricultural growth of at least 6 per cent annually by 2015; and
- Create an enabling environment for the provision of adequate financing and credit facilities by both the public and the private sectors for the funding of agricultural production, processing and marketing. This should include the promotion of microfinance institutions and insurance schemes to serve farmers.

Promote sustainable agricultural production systems

Agricultural production has to a large extent been based on increasing the area cultivated to meet food demand for an increasing population. This strategy is a recipe for environmental degradation and increased food insecurity. There is therefore a need to promote sustainable agricultural production based on increased productivity, while protecting the environment. This requires:

- Increasing irrigated land from the current 7 per cent (3.6 per cent in sub-Saharan Africa) to at least 10 per cent of arable land;
- Rehabilitating the estimated 500 million hectares of degraded land through soil and water conservation measures;

- Addressing land policy issues, especially security of tenure and equitable land distribution;
- Addressing the root causes of disappearing biodiversity and implementing the recommendations of various conventions that governments have signed in this regard;
- Improving land use by restricting the encroachment of cultivation into fragile ecosystems, rampant urbanization, and inappropriate agricultural practices;
- Improving water management through the protection of water sources, conflict resolution, and enhancement of water utilization systems and quality; and
- Improving human capital stock by providing access to health facilities, basic education and extension services to farmers aimed at promoting sustainable agricultural production.

“ African countries need to encourage private investment in agricultural research ”

Increase funding for agricultural research and technology

Internal and economic rates of return for agricultural research are high at 30-60 per cent for most commodities, and agricultural research also creates welfare gains in the rest of the economy. However, agricultural research continues to be under-funded. African governments need to:

- Increase agricultural research funding from the current average of 0.7 per cent of agricultural GDP to the desired rate of 2 per cent;
- Continuously update research capability in the new areas of biotechnology by providing adequate support to national and regional agricultural research and educational institutions on the continent; and
- Create an enabling environment for private sector participation and funding of research at national and regional levels.

Increase use of yield-enhancing practices and technologies

As Africa lags behind in the use of yield-enhancing technologies, it is recommended that proactive policies be implemented to promote their use as follows:

- Increase fertilizer use from the low levels of 125 gm/ha to at least 500 gm/ha, which is about half of the world average, and increasingly aim to reach the world average;

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Soil and water
conservation
a prerequisite
for sustainable
agricultural
development
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- Increase the comparatively low use of tractors, which stands at 13/100 km² in sub-Saharan Africa to at least the level in East Asia of 89/100 km²; and
- Increase the use of improved seeds and livestock to enhance yields and output.

Boost investment in soil and water conservation

Africa accounts for 27 per cent of degraded land in the world. This is mainly due to insecurity of land tenure and lack of aggressive promotion of soil and water conservation measures, despite their proven value. It is recommended that governments should:

- Ensure that national agricultural development strategies place emphasis on soil and water conservation measures rather than on expansion of cultivated land; and
- Create incentives and enabling environments for communities and individual farmers to adopt soil and water conservation measures.

Improve marketing and rural infrastructure

Improved rural infrastructure and marketing are essential for Africa to enhance the competitiveness of its agricultural products. To do so the continent needs to:

- Increase road densities in rural areas from the low level of 31 km/1,000 km² to 134 km/1,000 km², which are comparable to those of other developing regions, in order to lower road freight tariffs, which are five times higher in Africa than elsewhere in the world;
- Increase ICT absorption, especially the mobile density, from 55/1,000 people to the level of 86/1000 people in other developing regions;
- Increase computer connection, especially in rural centres, and lower costs of Internet dial-up service, which are two to three times those of other developing regions;
- Increase electricity coverage from 16 per cent to 41 per cent of the population as in other developing regions, and lower power tariffs to encourage increased use by SMEs, agro-industries and farmers; and
- Improve port handling facilities (both coastal and inland) and simplify customs clearance procedures.

Address the potential adverse impact of bio-fuels

To reduce the potential impact of bio-fuel production on the agricultural output mix and food security in Africa, governments should:

- Promote bio-fuel production only from non-food crop species, such as Jatropha and other species where bio-fuel is manufactured from the by-product, as in the case of sugarcane with its molasses by-product; and
- Design and implement strategies to ensure a careful long-term balance between food security and bio-fuel production.

“ Promote biofuel production only from non-food crop species ”

Improve access to education and technical skills development in rural Africa

To increase labour productivity and modernize agriculture, African countries and donors need to work together in order to increase access to education in rural areas in the context of the MDGs. Targeted interventions in this regard should encompass:

- Measures to promote universal primary education in rural areas and ensure gender equality in school enrolment;
- Support to poor households through income transfer, free school feeding programmes and other measures to encourage them to send their children to school; and
- Adapt curricula and provide training courses and extension services to upgrade skills for improved farming practices and use of modern technology in agriculture and related activities.

4.4 Conclusions

After outlining the key challenges to agricultural development and transformation in Africa, this chapter has underscored the urgent need for African governments to take the necessary measures and decisions to implement the continent's long-awaited agricultural transformation agenda.

Agricultural production based on expansion of cultivated areas as practiced in most countries has a limit. Increasing populations and declining land availability call for enhanced productivity and promotion of sustainable agriculture for the continent, in order to avoid an environmental disaster. Already, about 500 million hectares of land are degraded. There is therefore an urgent need for a carefully planned strategy of land reform and land use, which is vital for reversing this trend.

The critical challenge to agricultural development in Africa is the under-capitalization of agriculture in general and agricultural research in particular. African governments should therefore fund agriculture and agricultural research to the agreed levels, in order to achieve the NEPAD-CAADP projected growth rate of 6 per cent per annum by 2015. Their strategies should also include measures to increase the use of yield-enhancing practices and technologies.

Other critical catalysts for the transformation of agriculture are improvement of road densities, adequate financing, ICT infrastructure, rural electrification and promotion of agro-industries and related SMEs. These together with improved port handling facilities and simplification of cross-country customs clearance procedures will promote regional trade.

To more effectively exploit opportunities in regional trade for agricultural transformation and food security, there is need to create an agro-industrial base and integrated value chains to transform bulky commodities into marketable products with a long shelf life. There are ample opportunities for increased value addition in agriculture and regional trade in Africa. These opportunities include large amounts of imported food items that can be produced locally; the existence of large amounts of primary products and raw materials that can be processed in Africa; and increasing urbanization, which translates into growing demand for processed products.

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An Integrated Regional Value Chains Approach to Agricultural Development in Africa

Developing regional value chains for strategic agricultural commodities, especially those identified by the AU Food Security Summit in Abuja, is essential for African countries to enhance their agricultural transformation and global competitiveness (AU, 2006). This can be done in the context of the AU/NEPAD Comprehensive Africa Agriculture Development Programme (CAADP), which offers a platform for joint action by African governments, regional organizations, farmers, private agribusiness and development partners (UNECA, 2007).

However, the four pillars of CAADP - outlined in chapter 4 - are necessary but not sufficient conditions for enhancing agricultural production and trade in Africa. In the context of increasingly globalized agricultural markets, African countries need to form strategic partnerships through regional value chains that enhance investment, trade, marketing and food security. Regional value chain development could also be one of the ways in which the CAADP process can be strengthened and implementation of core activities under CAADP pillars enhanced.

Indeed, a major concern with the CAADP process is that it faces information gaps as well as coordination weaknesses at continental, regional and national levels (Gerecke, 2006). In addition, the CAADP pillars, which ought to be mutually reinforcing, have not been implemented in a coordinated manner, because the policy clusters coordinating activities under the various pillars are convened separately. Integrated regional value chains could facilitate coordination of the CAADP framework at all levels. In particular, they could promote public-private partnerships at the national as well as regional levels to capture the economies of scale and complementarities of diverse resource endowments based on comparative and competitive advantages beyond national boundaries.

Developing regionally integrated value chains and markets is both feasible and important given Africa's high population and income growth rates. Urban population growth in particular has led to increasing demand for high-value food com-

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Developing regionally integrated value chains is both feasible and profitable
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A value
chain encompasses
all integrated
value-generating
activities
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modities such as wheat, dairy and meat products and processed food commodities, and this trend is expected to continue. At the same time, recent increases in food prices have created pressures and opened up opportunities for African countries to carefully assess the potential benefits of implementing the food production and agribusiness value chain strategy.

There is great potential for maximizing values from horizontal and vertical integration at every level of the value chain strategy. In the long run, expected gains from the strategy would undoubtedly justify intervention costs in terms of economic diversification, increased productivity, food security, job creation and poverty alleviation.

The next section discusses the motivation for value chain development with special reference to the threats and challenges of globalization. The challenges and opportunities for value chain development in Africa are discussed in section 5.2. In section 5.3, integrated regional value chains for some strategic commodities in Africa are used to illustrate various value chain analytical issues. The different approaches to evaluating and intervening in value chains are outlined in section 5.4. An example of the operation of the value chain matching grant fund is included to illustrate the system of intervention. Section 5.5 concludes with some policy recommendations.

5.1 Motivation for value chain development: threats and challenges of globalization

A value chain consists of all value-generating activities, sequential or otherwise, required to produce, deliver and dispose of a commodity (Schmitz, 2005). More specifically, it “describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformations and the input of various producer services), to delivery to the final consumer and final disposal after use” (Kaplinksy and Morris, 2000).

Since activities may belong to different sectors of the economy, commodity value chain analysis is a multi-sectoral framework for studying the inter-linkages among the activities associated with the commodity. Thus, value chain analysis primarily involves drawing the economic map or footprint of inputs and outputs arising directly from the production, use and disposal of a commodity.

The original value chain formulation by Porter (1985) was that a firm could improve and maintain its competitive advantage by identifying core activities such as acquisition of inputs as well as production and delivery of outputs which it can per-

form more cheaply and better than its competitors. This was done by disaggregating and quantifying the value of each core function of the firm (Stamm, 2004). In this framework, core functional activities are streamlined with organizational goals and the feedback that the firm receives from its corporate links. Thus, while a firm's internal focus is important for minimizing costs, it is the firm's products and associated economic footprint that are critical for establishing its influence in the value chain.

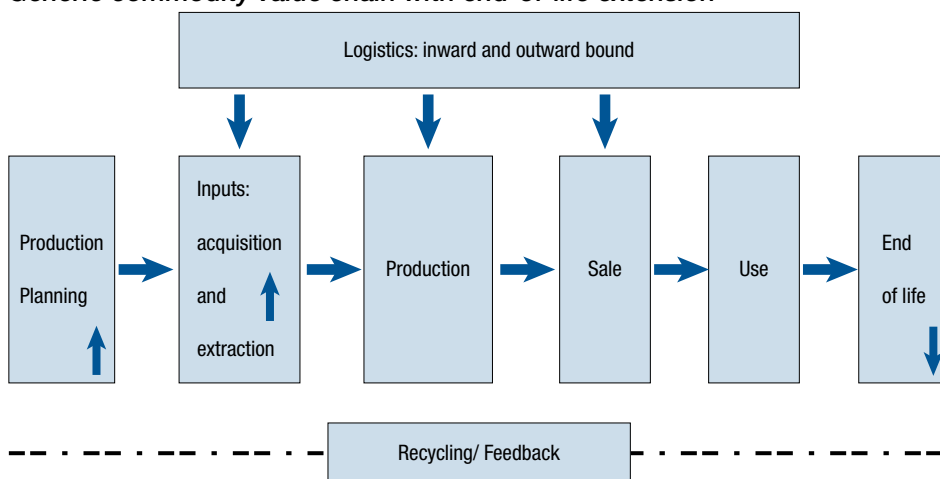
The second element in more recent value chain analyses is the process of logically delineating, categorizing and quantifying all the distinct activities through which a product passes. Since the focus of value chain mapping is the commodity, the value chain analyst would only consider for inclusion in the footprint those activities that are closely related to the commodity (Taylor, 2005). Also, since they differ in input requirements along the value chain, commodities would have different requirements of logistical detail, including transportation, storage, distribution and marketing. Hence, the third element of value chain analysis is the review of factors determining the distribution of benefits and costs among various actors along the economic footprint of the commodity (Fitter and Kaplinsky 2001; Taylor 2005).

In the generic value chain model below, a useful but often disregarded activity is that of disposing of commodities after ordinary end use (figure 5.1). After a commodity has been used, it is generally regarded as waste that must be dumped or recycled. Things that happen at end of the commodity's life, however, may reveal imperfections in certain aspects of the commodity or the process of delivering the commodity.

Information obtained from waste has the potential of changing the distribution of costs and benefits to economic actors along the value chain when the feedback results in a redesign of the entire value chain. Changes to the value chain may also occur without necessarily requiring feedback from waste, since large amounts of information are generated by the entire process, from production planning to end use of the commodity.

“ Dynamic efficiency involves change and innovation along the value chain ”

Figure 5.1
Generic commodity value chain with end-of-life extension



Source: Kaplinsky and Morris 2000.

One of the essential questions in Africa’s agricultural transformation agenda is how a country could create and maintain a competitive edge for its commodities. Unlike Porter’s (1998) model of competitive advantage where pricing and cost structure determines a firm’s competitive advantage, the value chain framework presented above suggests that a country’s competitive advantage in a given commodity is a result of interrelationships among related activities involved in the production and delivery of the commodity.

Hence, efficiency in Porter’s (1998) model is only a necessary condition for minimizing costs and hence improving a commodity’s competitive edge. A country can, however, advance its competitive advantage by seeking dynamic efficiency through value chain management of its strategic commodities.

Dynamic efficiency involves change and innovation along the commodity value chain. It also involves minimization of inefficiencies in activities along the value chain. Thus, value chain management is based not only on the static theory of competitive advantage as advanced by Porter (1998), but on an ongoing exploration of the dynamic effects of trade on costs and value drivers, and the interaction between closely related business units along the chain.

In market-orientated agricultural production, value chain management involves streamlining inbound logistics (input acquisition for instance) and production activities to minimize cost of production as well as transaction costs associated with inbound logistics. Hence, the focus is on enhancing a business unit’s corporate networks by paying special attention to reciprocal influences from other business units and the institutional framework.

Harnessing crucial linkages to the global market calls for a proactive approach to connect smallholder producers, who form the majority of farmers in Africa, to consumers, who may include processing firms, wholesalers, retailers or individuals at home and abroad. Producers with extensive corporate networks could overcome the hurdle of fragmented and sub-optimal markets to become significant players in regional as well as global value chains.

For African agriculture, especially smallholders and small- and medium-size enterprises (SMEs), increasing competitiveness is key to ensuring access to local, national, regional and international markets. This requires increasing efficiency, mainly to reduce costs of production, and adding value in order to offer quality products at competitive prices.

The process of globalization is reducing the gaps that exist in many markets by linking local producers to regional and international markets. Globalization tends to improve market access for African farmers, but market liberalization, a key ingredient of globalization, means that African products are more open to competition and volatility, because foreign goods and services also have free access to African markets. Thus, in order for Africa to harness market opportunities for its agricultural products, it must be in a position to compete with products from other parts of the world in its local markets and in regional/international markets (Aldernburg, 2007).

In order for its products to enter and compete in any of these markets, Africa must learn to deal with a “different playing field”, where there is less reliance on selling to unknown consumers, and more emphasis on rules and standards set by a few large leading firms, including agro-processors, wholesalers and supermarkets. These firms are increasingly dominating the agricultural value chain, both upstream and downstream, essentially becoming “gatekeepers of the market”.

Increased competition as a result of globalization has resulted in lower returns for actors in African agriculture, including farmers and agro-processors, as they have continued to lag behind their competitors in innovation and the ability to set their products apart. With globalization, product distinction and branding are becoming increasingly important ingredients for market differentiation and upgrading strategies.

This is especially due to greater consumer awareness, with demand for superior and differentiated products. The major constraints in low-income countries, however, are infrastructure, research and technology which, when improved, could increase producer returns and income from agricultural commodities by lowering production and transaction costs by more than 50 per cent (Mellor, 2002; FAO, 2003a).

“Globalization presents both opportunities and challenges to African farmers”

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Business
units collaborate
in value chain
development
because of mutual
benefits
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Globalization greatly reduces the cost of access to transport, information and communications technologies, marketing information and markets. Marketing information in a value chain in turn creates new opportunities for spatial division of agricultural value chains whereby firms specialize by sub-sector and even choose where to locate different activities within an industry. Possibilities are also increased for lead firms to divide activities within the industry into differentiated segments and to locate affiliates at optimal locations within or outside national boundaries and to also use suppliers at optimal locations (Aldernburg, 2007).

Successful value chains are organized in a way that distinguishes closely related business units in an industry as a collective entity with the goal of increasing the share of benefits accruing to each business unit. The value chain is considered as a single integrated entity through which business units collaborate because there are mutual benefits achieved only through collaboration (Kotelnikov, 2008). For a specific commodity, the share of each business unit in total value added could be assessed in terms of its contribution to aggregate inputs and outputs.

This share will be influenced by several factors, including the vertical and horizontal links in the commodity chain, the nature of competition within the value chain, technological diffusion and information exchange across units. In a global economy, collaboration allows business units to respond more rapidly to changing market environments than when business units are organized as functionally independent units that interact only through inter-industry linkages.

In short, strategies for agricultural transformation need to be implemented in an economy-wide framework whereby productivity gains are accompanied by improvements in market conditions, taking into account the entire commodity value chain, from input acquisition to production, transformation, marketing and end use. Innovations along commodity value chains would be self-sustaining if agriculture forges inter-linkages with other sectors by taking advantage of reciprocal influences arising from shared infrastructure, logistics and market corridors across national borders. This logic is consistent with the express desire by African countries to establish a common market for strategic agricultural commodities and to invest in supporting facilities and infrastructure under the CAADP.

5.2 Key constraints and opportunities for value chain development

The major constraints to agro-industrial development in Africa are fragmented markets, poor infrastructure and technology dissemination, and weak institutional and policy frameworks governing agricultural development. The agricultural sectors of

most African countries are barely integrated into regional and international markets, yet all agricultural systems are linked to one another through the flow of goods and services. Agricultural market development has been pursued according to national priorities, including the promotion of national agro-processing industries and export markets.

However, the business activities that follow when commodities cross national borders are largely disregarded. The consequence is that African food and agricultural markets are extremely fragmented along regional, national and even local lines. This often results in segmented markets of sub-optimal size, which does not encourage sizeable private investments in the different stages of the commodity chain (FAO, 2007).

In addition, African agribusinesses have had to compete under unfavourable terms with lead firms in global agricultural markets. The lead firms that set the “rules of the game” in the global agricultural market, mostly due to their ability to create powerful brand names and enforce standards, are usually based in developed countries. For example, the Italian-owned company Parmalat is a major brand worldwide for milk, mainstream dairy products (yoghurt, cream-based white sauces, desserts, cheeses) and fruit-based drinks, with revenues of over 3.9 billion euros (Parmalat SpA, 2007). Similarly, McCain is a well-known brand for frozen vegetables, French fries and potato bake in the United States. McCain Foods Limited has operations in the United Kingdom, Europe, South America, South Africa, Scandinavia, Canada and the United States. Hence, the growing role of lead firms in the value chain, especially in innovation and coordination of production networks, is relegating African farmers and SMEs to the position of “standard takers” excluded from important value-creating processes.

This, in turn, has continued to shift power and added value away from Africa. As lead firms seek to ensure consistent quantity and quality of supply, smallholders and SMEs stand to gain from knowledge and technology transfers from these larger firms through, for example, increased access to farm inputs, standardization and certification bodies. This knowledge could allow for compliance with ever-increasing standards and hence facilitate market access (Altenburg, 2007).

Given the important role of knowledge-based innovations relating to design and branding in the age of globalization, it is no wonder that imbalances have continued to grow in many respects between Africa and the rest of the world, and even within Africa itself. In particular, it is increasingly the innovator or brand owner who retains the biggest portion of the rents and bargaining power associated with the brand. Poor countries remain losers in this regard as few firms in these countries have differentiated clusters or knowledgeable hubs that can provide strategic complementary service support for knowledge-intensive production, for instance.

“ African agricultural markets are fragmented along local, national and regional lines ”

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Agribusiness
development
can help increase
the competitiveness
of African agriculture
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However, even where learning from lead firms is not possible, regional value chains could develop into own-niche markets and hence provide space for reducing the power of lead firms in the global agricultural market. In this regard, regional innovations in value chains are more efficient than national piecemeal approaches to agricultural development, as they provide economies of scale for sizeable private investment at different stages of commodity value chains. As entities with a cooperative management structure, regional value chains could seize some of the power that lead firms are currently enjoying across Africa as well as other regional markets.

In many respects, with increased scale requirements and market consolidation as a result of globalization, smallholder farmers and SMEs have more barriers to overcome, reducing the markets where they can sell their products. For example, in its company profile, Parmalat (SA) states that the market for UHT milk is highly concentrated, with the top four producers accounting for 81 per cent of sales (Parmalat, 2007). This is just one line of dairy products in which SMEs cannot compete with companies for various reasons, including rigid standards that are being imposed by larger firms, governments and consumer organizations on production and value-adding processing functions along the agricultural value chain.

Some of the more costly technological standards relating to hygiene, safety and electromagnetic compatibility require that farmers/suppliers meet the costs of compliance, certification and audits. These challenges often end up crowding out less efficient market actors, forcing them to specialize in areas that have fewer scale and standard requirements, as well as limited comparative advantages. Unfortunately, these areas often offer the lowest returns in the market.

There are opportunities, however, for Africa to integrate local producers into global value chains. Globalization often facilitates the spatial dislocation of production processes at various stages of the agricultural value chain, depending on the stages' specific requirements. Larger firms (local, regional, international) can subdivide their functions and concentrate on a few core competencies. This increases opportunities for smallholder farmers and SMEs if they can meet the minimum conditions for performing these functions at lower costs. These opportunities are particularly important for small African economies, which cannot do everything in a production chain. Small economies can, for instance, find a niche/specialization in which the country can compete and then create links with the rest of the regional or world economy in order to compete effectively.

Harnessing the opportunities and managing the threats brought about by globalization require that countries increase their competitiveness in the business environment. Focusing on agribusiness development and improvement of the business environment is critical to reducing supply and transaction costs, thereby increasing the competitiveness of African economies.

Hence, African governments and development partners have a unique role to play in creating an environment that is conducive to the development of local and regional clusters. Regional value chains and markets for strategic commodities would not only increase competitiveness of agriculture at farm level, but would also trigger development of agro-processing and agribusiness ventures at the regional level.

Marketing of African agricultural products can also be improved through greater integration of regional markets, whereby producers, processors and distributors collaborate to manage the commodity delivery systems, and hence counteract the negative impact of imperfect price transmission and poor infrastructure on marketing margins (Conforti and Sarris, 2007). However, most smallholder farmers cannot improve without support from institutions that recognize their products as key to regional as well as global value chains. African farmers are disconnected from regional and global markets primarily because of the failure to develop agro-industries and agribusinesses and the necessary infrastructure and policies for linking them to the market.

Regional markets also provide opportunities for upgrading and diversification that come with shared facilities such as distribution channels and technical facilities, and the transfer of skills around a cluster of related and mutually reinforcing business units. Regional markets are by themselves closed niches, which not only increase market access for producers, but also expand choice of commodities for consumers within the region. In addition, regional value chains could foster national and regional food security through the development and management of increased production, transport, storage and marketing of food crops.

Currently, domestic markets for food staples dominate agricultural markets in Africa (table 5.1). Intra-African trade data show 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 if domestic and intra-regional markets were taken into account, contributing to rapid job creation, food security and poverty reduction.

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Regional
markets provide
opportunities for
product upgrading
and diversification
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Table 5.1
Structure and size of sub-Saharan Africa's agricultural market

	Eastern Africa	Southern Africa	Western Africa	Total Africa
Traditional exports to non-Africa (%)	10	13	15	13
Non-traditional exports to non-Africa (%)	6	15	7	9
Other exports to non-Africa (%)	2	4	3	3
Intra-African trade (%)	2	6	1	3
Domestic markets for food staples (%)	80	63	74	73
Total market value (billions of US\$)	22	19.1	27.2	68.2

Source: Diao, et al. 2006.

Notes: Figures for regional trade are based on official statistics. Figures for domestic markets include own consumption. Trade figures are from UN COMTRADE (2002) and are 1996-2000 averages; domestic-market figures are for 2000 from FAO (2003b). Domestic-market demand includes the value of own consumption.

5.3 Developing integrated agricultural product value chains for strategic commodities in Africa

Commodity market integration can be achieved in several ways. The most common is horizontal integration, where the linkage is established from the acquisition of inputs to the delivery of a final product. Markets may also be linked vertically when products (typically by-products) along a regional value chain could be developed following a mixture of both vertically and horizontally integrated markets cutting across two or more countries along agro-ecological zones and based on competitive advantage. This strategy would require upgrading of regional capacities in non-traditional exports and increasing the region's value addition component in traded commodities. A precondition for identifying products with a comparative advantage is the harmonization of regulations concerning agricultural trade, investment and movement of natural persons involved in delivering trade-related services (table 5.2). Likewise, a trade and infrastructure strategy needs to be established between neighbouring trading partners, as proximity and similarity of needs are crucial to expanding and accessing regional markets (Porter, 2008).

Table 5.2**Selected priority issues in the process of establishing a regional value chain**

Pre-requisites	Short-term regional strategy	Long-term regional strategy
<ul style="list-style-type: none"> • Refinement of the definition of strategic commodities for the region • Refinement of national agricultural and trade policies with regional agendas • Strengthening of national trade and political institutions • Improvement of agricultural productivity and local market access by smallholder farmers • Macroeconomic stability and national economic policy coordination 	<ul style="list-style-type: none"> • Rationalizing business and financial regulations, e.g., financial regulations to allow cross-border linkage of financial markets; eliminating trade and investment barriers; and simplifying regulations concerning transfer of investment funds • Simplifying and harmonizing cross-border regulations and documentation, e.g., movement of natural persons involved in delivering trade-related services. • Establishing modalities for improving regional infrastructure, including transport, energy and communication • Standardizing consumer and industrial regulations, such as environmental and safety standards 	<ul style="list-style-type: none"> • Creating regional institutions, e.g., within the REC with a view to progressing towards common monetary instruments and eventually one currency; • Identifying and developing cross-border clusters that have direct dealings with strategic value chains • Developing a regional marketing strategy

Note: Some of these ideas were adopted from Porter (2008).

The Declaration of the 2006 Abuja Summit on Food Security in Africa calls for the promotion of collaborative partnerships for expanded trade in agricultural and food commodities within the Regional Economic Communities. Cotton, one of the continent's strategic commodities, is used to illustrate the development of regional value chains in order to enhance sectoral linkages and structural transformation. Beef is also included in the list of commodities and an overview of the Eastern Africa live-stock marketing chain is given to show the intra-regional trade potential.

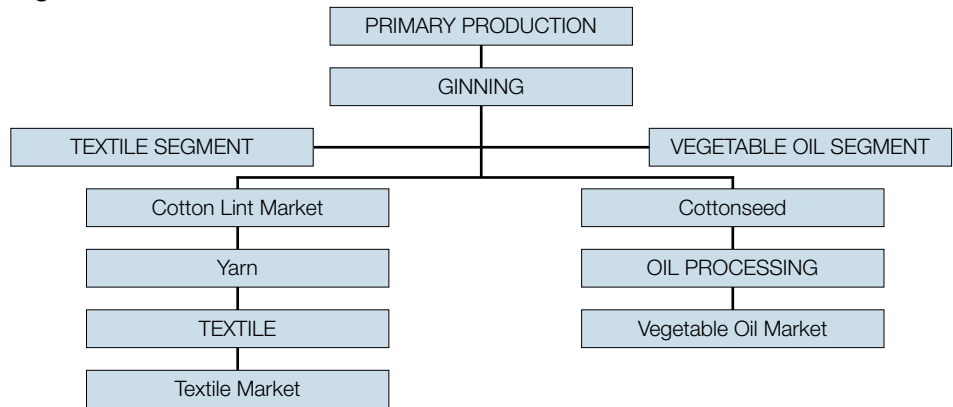
5.3.1 The African cotton value chain

The value chain can be pursued in two interrelated steps (Gow *et al.* 2002). The first one concerns productivity improvements and elimination of operating inefficiencies in the cotton sector, from the farm all the way to the cotton mill. The second step involves assessing unexploited opportunities in the cotton sector by identifying new business and market opportunities. These two conditions represent the minimum requirements for setting up regional value chains of any agricultural commodity.

Cotton is traditionally an agricultural commodity that is used almost entirely by the textile industry. Although cottonseed may account for up to 10 per cent of income for farmers, the bulk of the value from cotton is generated from the lint (Turco,

2003). The cotton value chain may therefore be considered as having two primary industries and two final products (see figure 5.2).

Figure 5.2
A generic cotton value chain



Source: Turco 2003.

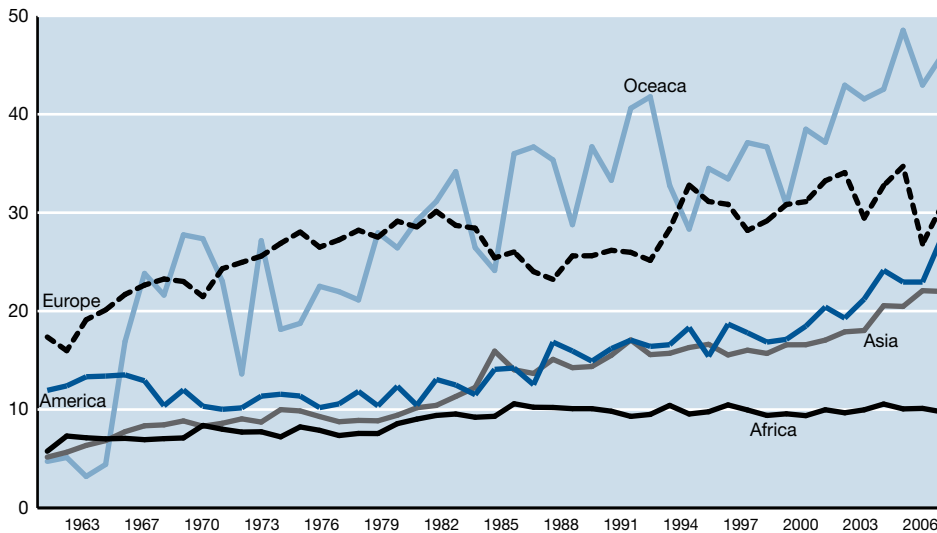
Cotton production is possible in sub-humid to semi-arid areas. The total cost of lint production includes land rents, seed, fertilizer and chemicals, harvesting and ginning. The cottonseed market can also feed back to primary production when seeds are recycled for replanting. In most African countries, the vegetable oil processing value chain segment consists mainly of domestic and regional businesses.

Africa's share in world cotton production was 6.6 per cent in 2007. Annual percentage change in yield in Africa has been relatively low over the period 1961-2007 (figure 5.3). More recently, cotton yield per hectare has been increasing at an average of about 6 per cent annually in the Americas and 4 per cent worldwide and in Asia, but it increased by only 0.5 per cent in Africa between 1998 and 2007.

There are regional differences in production and yields. In Southern Africa, cotton yields have been growing at a rate of 6.6 per cent per annum, well above those of the leading cotton-producing regions of the world, while in the main cotton-producing region of West Africa, yields have generally been flat. Cotton production has increased in all the regions in Africa, especially in West and North Africa, due to increasing acreage (FAO 2007). The reasons for the slow increase in yields include the dominance of rain-fed production, inadequate post-harvest handling technologies, and management and utilization of by-products. Efficiency has also been hampered by poor infrastructure, high cost of seeds and pesticides, and institutional barriers like single-channel monopolies for inputs and monopolistic competition among ginneries (Poulton, 2007).

Figure 5.3

Annual percentage increase in yield by region, 1960-2007 (1000 hectogramme per hectare)



Source: FAO (2007).

The vertically integrated single-channel system for input supply and seed cotton purchase in West and Central Africa enable financial institutions to advance and recover credit to and from smallholder producers, permitting them to intensify their cotton production. The national companies control prices of inputs and those of crops purchased from farmers in cotton-producing zones. They also control the purchasing of cottonseed by imposing exclusive access to the entire harvest of farmers supplied with inputs from the cotton companies (ECOWAS-SWAC/OECD, 2006).

To increase efficiency in production, West and Central African producers have diversified into organic cotton production, thereby reducing chemical and fertilizer use. Transgenic cotton is also expected to cut pesticide use while at the same time increasing yields (Bischof et al., 2007). Organic cotton value chain projects in West Africa are enabling smallholder farmers to meet export standards (Eurep Good Agricultural Practices) and have facilitated the creation of a regional certification body (AfriCert Limited).¹

SADC has extensive cross-border trade along the cotton supply chain consisting of cotton fibre, yarn, textile and clothing. This trade is supported by the SADC trade protocols on rules of origin, which to some extent restrict member States to source inputs and intermediates from the region in the production of clothes and textiles.

¹ Eurep is an association of European fresh produce retailers and importers. The Eurep GAP is a series of requirements focusing on pesticides, chemical use, fertilizers and traceability, as well as labour standards (Humphrey, 2003).

“ SADC has extensive cross-border trade along the cotton supply chain ”

Thus, the trade protocol provides a form of intra-regional import substitution for the cotton-textile-garment value chain. It has also led to increased cotton production and trade in the subregion (Visser 2001).

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Local
demand for cotton
lint is very high in
all subregions”

Local demand for cotton lint is very high in all subregions. The relatively high share of intra-regional imports of cotton lint in total cotton lint exports also indicates the extent of intra-regional trade potential in the cotton value chain in Africa. However, currently, Africa has the world's weakest textile industrial capacity compared with other cotton-producing regions of the world. The cotton sectors in Africa are predominantly export oriented, as almost all the lint is exported in fibre (raw) form. It is estimated that about 90 per cent of the fibres are exported, while only 10 per cent are processed into yarn and then textiles by local industries, partly due to the demand for foreign currencies by parastatal marketing organizations (ICAC, 2008).

Table 5.3
List of industrial units and their capacity in West Africa (2003-2007)

Country	Ginning factories				Industrial units	
	Number of factories	Cotton production (2003-2007 average in tonnes)	Ginning capacity (tonnes)	Excess capacity (shortage) (%)	Oil factories	Textiles
Benin	20	1,719,500	650,000	(164)	2	4 (inc. 1 inoperative)
Burkina Faso	15	3,135,019	535,000	(486)	1	2
Cameroon	9	1,150,400	300,000	(283)	1	5
Chad	10	1,110,725	230,000	(383)	1	1 (Closed)
Cote d'Ivoire	12	1,643,903	420,000	(291)	1	12 (inc. 8 inoperative)
Gambia	1	2,550	10,000	74.5		
Ghana	N/A	93,488	N/A		N/A	5
Guinea	1	203,000	N/A			1
Guinea Bissau	1	23,500	N/A			
Mali	17	2,592,019	600,000	(336)	3	2
Niger	2	50,400	60,000	16		2 (inc. 1 inoperative)
Nigeria	2	2,596,000	N/A		N/A	~100 (inc. 60-80 inoperative)
Senegal	5	241,648	65,000	(271)	N/A	12 (inc. 4 inoperative)
Togo	6	728,100	200,000	(264)	1	4 (inc. 2 inoperative)
TOTAL	101	15,290,252	3,070,000	(398)	10	~148 (incl. 77-97 inoperative)

Source: ECOWAS-SWAC/OECD (2006).

The industrial capacity for the textile and garments segments of the cotton value chain is much less than local cotton production in all subregions in Africa. Except for Gambia and Niger, which have higher processing capacities than actual cotton production, all West African countries with available data have less processing capacity than cotton production (table 5.3). This may be a direct result of the export orientation of the sector and the weak regional integration of cotton markets.

The textile-apparel segment of the cotton value chain consists of three types of business units. The first is a group of textile mills specialized in spinning and weaving fabrics. The second group consists of business units specializing in finishing, i.e., bleaching, dyeing and printing. The final group is made up of business units specializing in cutting garment and manufacturing fabrics for home use. WAEMU textile development strategy estimates that by processing 25 per cent of the local cotton production, the textile segment could create 50,000 industrial jobs (UEMOA, 2003).

In Uganda, the share of value accruing to spinning and weaving (up to the input level for textile segment) is 25 per cent, while knitting and crocheting of fabrics captures up to 55 per cent of the value (RATES, 2003). Thus, exporting raw fibre to destinations outside Africa is a lost opportunity as 80-90 per cent of the value goes to foreign ginners and textile industries. Still in Uganda, the value of imported second-hand clothes is estimated to exceed \$10 million per annum (RATES, 2003).

Apart from the potential of recapturing the market for second-hand garments, the textile-garment segment of the cotton value chain has many opportunities, including AGOA, which grants duty-free access and quota waivers to United States markets. The continuation of AGOA preferential treatment is, however, subject to renewal of expiring provisions by the United States Congress and to trade policies that will be implemented by the new United States administration from January 2009.

Africa also continues to benefit from the preferential treatment afforded by EU to imports from developing countries. The free trade areas (FTAs) of COMESA and the other RECs are avenues for expanding trade.

Mauritius, for example, has taken advantage of the trade preferences under the Lomé and Cotonou provisions of the European Union-Africa, Caribbean and Pacific (EU-ACP) agreements by importing raw materials and exporting finished products to European markets. Egypt is another country that has taken the lead in developing the cotton and textile sector within the framework of COMESA regional and extra-regional trade initiatives. Despite competition from second-hand textiles, there is revival in the cotton sectors of Malawi, Tanzania and Zambia because of the intra-regional trade opportunities in COMESA and SADC.

“ The textile garment segment of the cotton value chain has many opportunities ”

Thus, promoting cotton value chains in the context of the United Nations Industrial Development Organization (UNIDO) initiatives in agro-industry development and the AU-CAADP framework, among other initiatives, will depend on the willingness of the RECs to exploit their various resource endowments based on comparative and competitive advantages beyond national boundaries, since they form the basis for economies of scale at all stages of the commodity value chains. This strongly justifies the cost of relevant interventions related to infrastructure, technology and institutions that can support regional value chains development. Such development will provide an avenue for diversification away from the export of raw homogenous commodities to the export of differentiated products such as textiles and garments.

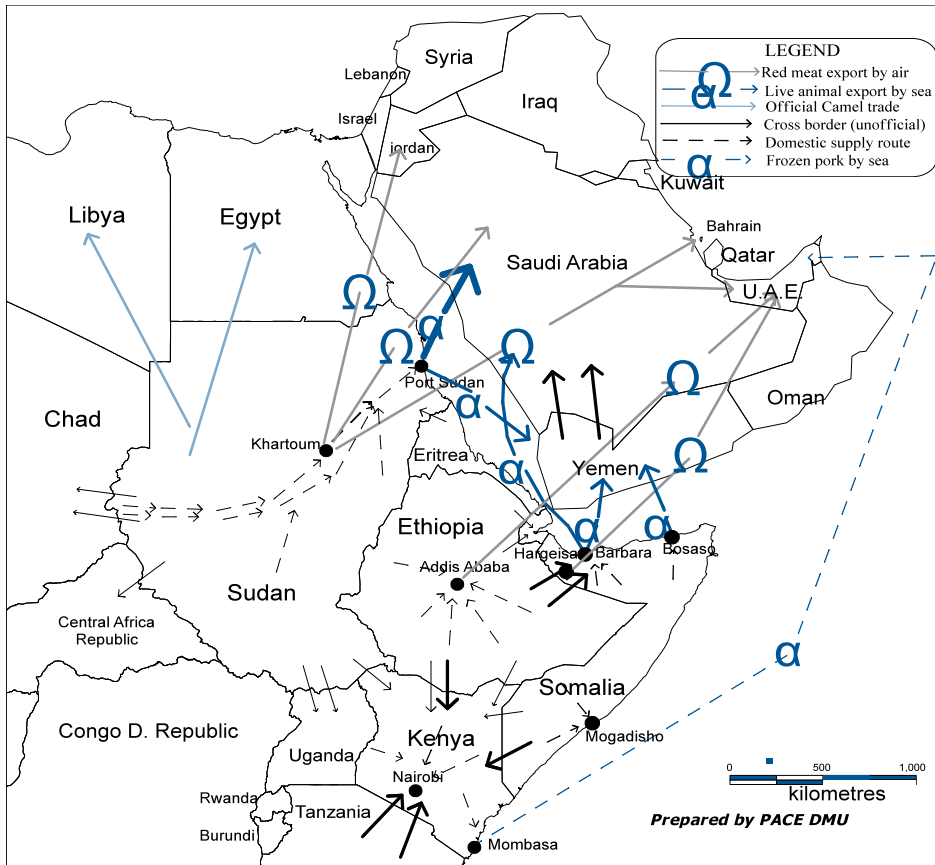
5.3.2 Livestock marketing chain in Eastern and North-eastern Africa: a pastoralist regional marketing chain

Over the years, the livestock marketing system in Eastern and North-eastern Africa has relied on cross-border movements to overcome eco-system limitations and take advantage of trade opportunities in each country. Historically, the countries involved in livestock trade include Tanzania (SADC, EAC), Kenya, Uganda, Somalia, Ethiopia, the Sudan, Egypt and Libya (COMESA), Chad (ECCAS), various countries of the Middle East (Jordan, Saudi Arabia, Yemen, UAE, Bahrain) and the Indian Ocean island of Mauritius. The trade encompasses live animals, mainly moved across porous borders, both legally and illegally (on-hoof exports and imports). There is also considerable export trade in meat to Middle Eastern countries as shown in map 5.1.

There are substantial trade flows into EAC owing to relatively high prices. Prices of live cattle in Kenya are 53 per cent above those of Somalia, 67 per cent above those of Tanzania, 29 per cent above those of Ethiopia and 50 per cent above those of the Sudan. Livestock are trekked from Somalia across the border to the primary markets of Mandera, Wajir and Liboi and then on to the secondary market of Garissa, and finally to the terminal markets of Nairobi and Mombasa.

Map 5.1

Regional livestock and trade in Africa and the Middle East



Source: European Union (2003).

Pastoralists in Northern Tanzania, mostly Maasai, trek their cattle mostly through Namanga for the Nairobi market, while an insignificant number of Dinka cattle are trekked to North-western Kenya. Cattle from Southern Ethiopia are trekked through Moyale to Northern Kenya. In the northern part, there is considerable cross-border trade especially in camels. Exports are for both live animals and livestock products, mostly meat. Kenya exports live cattle to Mauritius while Ethiopia, the Sudan and Somalia export red meat and live animals to the Middle East.

For Kenya, the importance of this regional chain is demonstrated in the following areas: (figure 5.4)²

- Out of all cattle marketed in Kenya, 35 per cent are from Kenyan pastoralists, 26 per cent from dairy culls, 3 per cent from ranches, 4 per cent from other smallholders and 22 per cent from neighbouring countries;

2 See DFID 2001, Aklilu et al 2002, Desta 2005, and Muthee 2006.

- Inside the country, about 500,000 pastoralists, 625,000 dairy smallholders and 60 ranches are involved in production;
- In transporting and wholesaling, 20,000-25,000 livestock traders and brokers are involved; and
- In slaughtering, trading and processing of meat and meat products, about 2,000 abattoirs/slaughter slabs, 10 contract/large butchers, 5,000-10,000 local butchers, 4,000-6,000 beef traders and 40 processors are involved in this segment of the chain.

In the retailing component of the chain, over 1,000 hotels, 145,000 catering institutions and 18,000 urban and rural butcheries are involved.

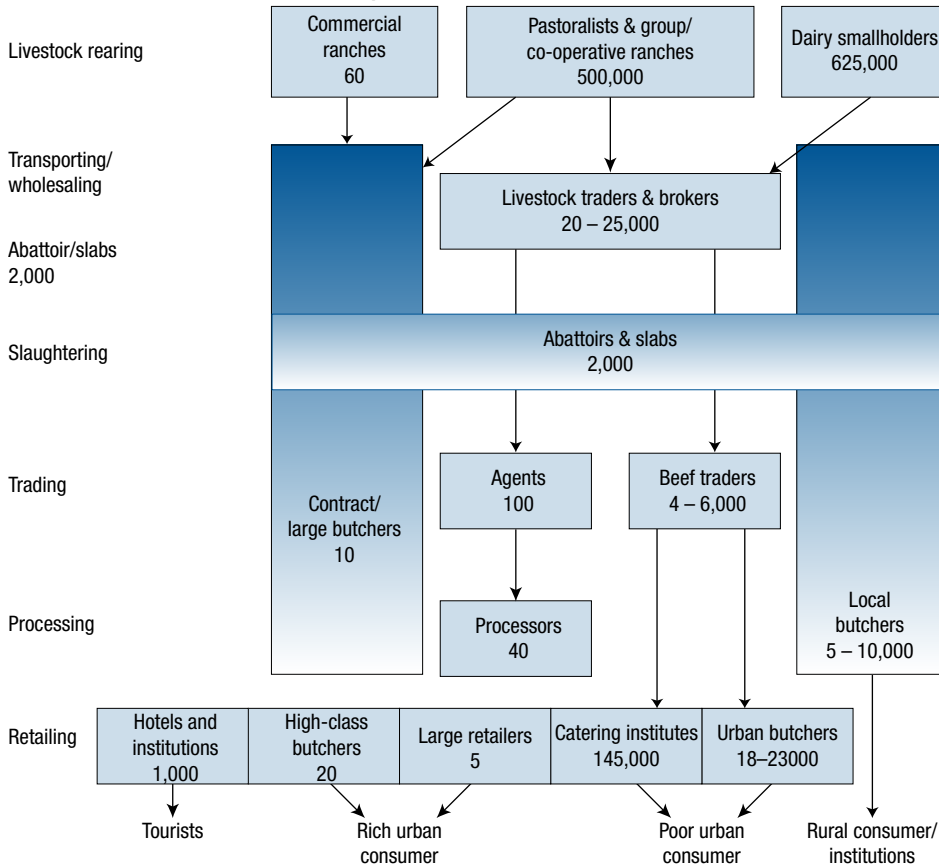
An analysis of the meat and products marketing value chains, including the revival of the Kenya Meat Commission (KMC), shows that KMC should concentrate on three market segments, namely, primal cuts (14 per cent), beef sides (77 per cent) and canning (9 per cent). The prices for these products vary significantly, but selling prices have improved, implying a better position for KMC. The margin for selling high-quality primal cuts is 28.5 per cent, with livestock purchases accounting for 65.5 per cent of total chain revenue and costs. The chain is therefore very sensitive to cost increases as these can reduce the margins. Labour contributes only 8.5 per cent of costs and slight increases in labour cost should not have significant impacts on margins. The other costs are made up of materials and overhead expenses, which should be kept at a minimum (Muthee 2007).

About 77 per cent of sales are mostly in medium or lower categories of the meat market. In particular, the bulk of sales are for meat, namely meat with bones, boneless meat (steak) and by-products. In commercial beef marketing, the margin is 17 per cent. In this case, livestock purchases account for almost 80 per cent of costs. Labour and overhead costs are directly related to the volume of animals slaughtered. These calculations are based on 28,200 animals/year, with a mean weight of 125 kg. per animal, a purchase price of Kshs.90/kg, and sales at Kshs.97/kg of meat and by-products.

It has been proposed that KMC should allocate 9 per cent of annual slaughter of cattle for canning and the rest for sale in domestic and international markets. In 2007, prices in the domestic market were Kshs.165–190 per can of 340g imported beef, while in the export markets they were \$2–2.50/kg (Kshs.138/kg), implying that importers are realizing gross margins of 10–19 per cent on import prices (excluding tax). The value chain segment for canned beef and canned beef extracts and other by-products is based on the slaughter of 9,000 heads of cattle. In this case, livestock purchases (manufacturing grade) account for about 57 per cent of costs. The cost of other materials, especially cans and labelling, accounts for 24 per cent of costs and the margin is estimated at 19.4 per cent.

Figure 5.4

Marketed beef sub-sector map



Source: DFID, 2001.

Africa imported 1.15 million tons of meat in 2005 (FAO 2006). West Africa was the largest importer, accounting for 334,240 tons (30 per cent), followed by Southern Africa at 321,490 tons (28.1 per cent). Central Africa imported 303,000 tons (26.5 per cent), while the North Africa imported 167,930 tons (14.7 per cent). The lowest importer was East Africa, which imported 8,800 tons (0.8 per cent of total African imports).

East Africa is largely self-sufficient in meat, and the major importer is Djibouti, accounting for 75 per cent of meat imports in the subregion. Djibouti and other countries also export meat or live animals. Central Africa, especially DRC and Republic of Congo, offers a potential market for East Africa. In Central Africa, the largest importer is Angola (178,820 tons), but transportation costs from Eastern Africa to Central Africa may be high. Southern Africa is another potential market dominated by South Africa, which accounts for 91 per cent of imports. Botswana,

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The meat
value chain needs
to be formalized
in order to develop
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South Africa, Namibia and Swaziland are also exporters, and hence may offer competition to East Africa. North Africa and West Africa account for 58 per cent of total African meat imports and are also a potential market for meat products, but the competitiveness of exports from the rest of Africa may be eroded by freight costs compared with imports from EU, USA and Latin America.

African meat exports are estimated at over \$204 million, with eight main exporting countries: South Africa (\$5 million), Namibia (\$57 million), Botswana (\$47 million), Zimbabwe (\$8 million), Kenya (\$5 million), Swaziland (\$4 million), Ethiopia (\$4 million) and the Sudan (\$45 million). Other countries such as Somalia have meat exports but data are not available. Exports are dominated by bovine meat (veal, boneless, dried, salted, fresh and chilled), which accounts for 85.4 per cent of all exports, followed by sheep meat (8.8 per cent), goat meat (2.7 per cent), homogenized meat (0.9 per cent), and meat extracts and sausages (2.2 per cent). The major exporters of beef products are South Africa, Botswana and Namibia, while Ethiopia, Namibia, South Africa and the Sudan are the major exporters of goat and sheep meat.

This example illustrates that there are regional marketing avenues, which have developed over time. Although the marketing system is not fully integrated regionally and has no recognized value chain management structure, the system covers EAC, IGAD, parts of COMESA and SADC (Tanzania). Hence, this market chain needs formalization with the incorporation of various facilitating elements of formal marketing chains. It also requires investment in infrastructure to support the meat industry, from production to processing and marketing. As indicated in the analysis, the marketing margins are quite high and could support large regional investments. However, such an undertaking would require regional cooperation in investment and trade at the highest level.

5.3.3 Integrating national, regional and global value chains: the case of leather in the COMESA subregion

Integration of national value chains to regional and globally significant value chains can start with an analysis of national value chains, then the promotion of regional value chains in specific RECs, and finally the analysis of global value chains to identify market niches (Muthee 2008). The livestock-meat value chain for instance can be extended to the skins and hides and leather apparels segment. To illustrate the market niches that might arise, Kenya and COMESA are analyzed in terms of their capacities, market size and growth potential.

In 2006, Kenya produced 2.6 million cattle hides, about 3.9 million goat skins, 2.5 million sheep skins and 65,000 camel skins. The hides and skins are procured from on-farm slaughters and from 2,000 slaughter slabs and slaughterhouses. Procure-

ment of hides and skins is undertaken by over 1,000 hides and skins traders who operate about 1,000 stores and drying sheds in all provinces of Kenya.

At the tanning stage, 12 tanneries are in operation with an estimated capacity of about 1.5 million hides (down from 3.3 million in 1990) and 3.6 million skins (down from 6.3 million in 1990). Leather is sold domestically to about 15 footwear manufacturers who have a capacity of eight million pairs of shoes per year. Leather goods manufacturers are estimated at 15 with a production of 300,000-500,000 pieces. Artisanal footwear and leather goods are also found in Nairobi and Thika and other urban and rural centres.

In the international value chain, Kenya is a very minor player. In exports of raw hides and skins, Kenya realized about Kshs. 0.143 billion in 2007 (down from Kshs.0.622 billion in 2006). In the case of leather, Kenya exported only Kshs.3.04 billion in 2007 (an increase of 54 per cent over 2006) in the global market of Kshs. 1225.7 billion (\$17 billion), while Kenyan exports of footwear (leather and plastic) were only Kshs.3.04 billion (an increase of 33 per cent over 2006) in the global market of Kshs. 3605 billion (\$50 billion). Leather goods exports are minimal and are mostly curiosity items for tourists, but world trade is over \$3 billion. Recorded imports of footwear are about 6.3 million pairs valued at about Kshs.0.9 billion. However, unrecorded and illegal imports may be far in excess of the recorded inputs.

The leather value chain is disjointed and its various components operate independently with high transaction costs and fail to grasp the opportunities and synergies that could be realized in a well-functioning chain. Nevertheless, there is some value addition in Kenya and in most of East Africa that is felt at the consumer end of the chain. East Africa has the largest livestock resource base in Africa capable of producing adequate hides and skins for a vibrant leather industry. However, due to poor animal husbandry, the proportion of hides and skins entering the market is low, averaging 14 per cent for cattle and 27 per cent for sheep and goats.

Hides and skins are generally of low quality due to defects in the field, in slaughtering and in preservation. The grades that are produced average less than 35 per cent of world grade. Over 80 per cent of hides and skins are exported in raw form but in some countries like Ethiopia, South Africa and Sudan, there is considerable local utilization. Prices of hides range from \$0.80 to \$1.3/kg while those of skins range from \$0.30 to \$1.0/piece. Ethiopia has internationally recognized skins, which fetch a high price of \$2.50/piece.

“ Kenya is a major player in the global leather value chain ”

“ Only South Africa and Ethiopia have significant leather manufacturing facilities ”

Table 5.4
Value addition in the Kenyan leather value chain (percentage of total)

Value addition percentages in the Kenya leather value chain			
Leather value chain component	Value addition (per cent)		
I. Hides and skins component	Hides	Skins	Total
a) Slaughterhouse – trader	16.7	-	16.7
b) Hides trader – exporter	36.7	-	36.7
II. Tanning component			
a) Raw hide to wet-blue	22	20	42
b) Raw hide to cluster	35	30	65
c) Raw hide to finished	40	38	78
III. Informal sector manufacturing			
a) Leather trader	-	-	18
b) Men shoes	-	-	25
c) Plain leather belt	-	-	63
IV. Medium-scale manufacturing			
a) Kids shoes	-	-	36
b) Moccasins	-	-	38
c) Men's derby shoes	-	-	30
d) Sandals	-	-	39
e) Laptop bags	-	-	32
f) Ladies bags	-	-	45

Source: Muthee (2008).

The subregion had 407 tanneries in 2002 but currently not many are operational, except in South Africa and Ethiopia, where all tanneries are operational. Kenya had 19 tanneries in 2002, but currently only 12 are operational. Capacity utilization is generally at a low average of 30 per cent, except in Ethiopia and South Africa, where it is over 60 per cent. The local market takes up 10-15 per cent of output, while the rest is exported. Export values are highly influenced by the degree of value addition, with South Africa's value at \$2.5 billion, Ethiopia's at \$66 million, Sudan's \$22 million and Kenya's \$15 million.

In 2002, it was estimated that the subregion had 689 footwear manufacturing enterprises but many have closed due to high importation of new and second-hand footwear. South Africa, Ethiopia, the Sudan and Zimbabwe accounted for most of the enterprises. Installed capacity is high in South Africa (32 million pairs) and Ethiopia (25 million pairs). Utilization of capacity is between 20 per cent and 80 per cent, and it is higher in South Africa and Ethiopia.

Leather goods manufacturing is not well developed, except in South Africa and Ethiopia. In 2002, the number of leather goods enterprises was estimated at 554 units,

but currently many are not operational. The utilization rate is between 20 per cent and 60 per cent and most goods are for local markets and the tourist trade. There is also considerable artisanal and handicraft production. While capacity utilization and domestic production declined over time, imports of footwear and leather goods in the COMESA subregion grew from about \$41 million in 2000 to \$78 million in 2006, at an average growth rate of 11 per cent per annum.

COMESA (2007) has prepared a comprehensive strategy for the leather sector in the subregion with four strategic objectives as follows:

- Improve raw and partially treated hides and skins quality, consistency and compliance with quality and environmental standards;
- Reinforce support organizations and leather sector associations to provide market information and help enterprises apply it to improve quality and market attractive products;
- Develop sustainable national and regional clusters of products; and
- Improve technical and management skills and equipment in tanneries and leather fashion products manufacturers to produce consistently good quality products and make better investment decisions.

There are many potential beneficiaries from the COMESA strategy. Manufacturers (including tannery operators and leather manufacturing facilities) will be enabled to meet buyers' volume and quality requirements and design attractive original products by sharing ideas, technical knowledge, skilled employees and prototyping equipment. Abattoir and slaughter slab operators and their associated communities and unions as well as sector trade and business support organizations (associations, training institutions, laboratories, etc.) are also expected to increase their operations and generate higher returns.

5.4 Strategies for promoting regional value chains in the CAADP framework

In seeking to improve agribusiness and the overall business environment in order to harness the potential benefits of globalization, value chain analysis can offer unique insights into the constraints faced by various actors of the agricultural product value chain, with a view to determining areas of intervention at various levels. How then can governments and other partners gain the necessary knowledge about value chain processes and how can they transform this knowledge into useful policy interventions?

“ Value chain analysis provides insight into constraints to value addition in African agriculture ”

5.4.1 Strategic approaches to national value chain development

“ Various approaches exist to value chain development ”

There are three possible strategic approaches for promoting value chains: (a) comprehensive planning approach; (b) participatory workshop-centred-tools approach; and (c) incentives for private-sector-driven projects approach (Altenburg, 2007).

Comprehensive planning approach

This approach includes tools to map and examine the physical flow of commodities along the chain, export potential of outputs, regional spread of the chain, inter-firm cooperation and production efficiency. Guidelines and tools in this regard are quite many (see Kaplinsky and Morris, 2000; McCormick and Schmitz, 2002). For instance, the five-step participatory value chain analysis (PCVA) developed by the United States Agency for International Development (USAID) systematically selects industries with the greatest developmental potential; conducts a value chain analysis of factors influencing competitiveness; develops a participatory competitiveness strategy; establishes an action plan; and performs monitoring and impact assessment.

Analysis that endeavours to clarify the processes and underlying causalities of complex value chain relations is vital for practical interventions. Mapping and market analysis of a value chain alone are not enough to provide insights into the best upgrading choices, distribution of gains and risks, and policy options to ensure long-term competitiveness. In this regard, it is important to also consider context-specific issues such as the structure, conduct and performance of economic sub-sectors, opportunities and risks, and interactions among actors in a sub-sector (Gereffi and Memedovic 2003); Moran, 1999).

Participatory workshop-centred-tools approach

This approach aims to mobilize the knowledge of stakeholders and enhance value chain analysis and development by adding value to mapping and market analysis. This is true for a tool such as SHAPE, which aims to combine practical planning techniques with market information to evaluate sector performance and to identify market opportunities and innovative mechanisms for value addition. Another such tool is PACA, which focuses on a review of existing reports and other activities.³

3 See <http://www.paca-online.org.html>

Incentives for private-sector-driven projects approach

This approach offers cost-sharing grant schemes for private enterprises that engage in developmental activities. Both government and donors can reduce their own transaction costs and risks of engagement while achieving meaningful results by partnering with private enterprises. Co-financing usually demands that private enterprises implement projects and also contribute at least half of the financial resources and assume the risk in case of failure. Activities in this type of arrangement are usually developmental in nature, with care being taken to ensure that public funds are not used to support the otherwise regular activities of the enterprise. Some support for value chain development under co-financing could involve direct assistance to small-scale farmers or SMEs related to technology transfer, supply of produce, labelling, training or trade. Other types of support could relate to improving the business environment through community development activities.

“A value chain marketing grant Fund enhances business development”

Some examples of co-financing schemes mainly spearheaded by donors include the German public-private partnerships (PPP) programme, which has had more than 1,700 projects, the Global Development Alliances by USAID, and the Business Linkage Challenge Fund by DFID. The German PPP programme for instance supported a project that rehabilitates former State-owned tomato-processing plants in Ghana and turns them over to farmers. It also guarantees prices for tomato products. In Kenya, the programme also supported a flower importers association by introducing a flower-label programme to certify social and environmental standards in flower production in Kenya.

The approaches that a government or donor chooses to support value chain development would benefit from a closer evaluation of the specific situation before choices are made. It may be beneficial to combine elements of the approaches in order to make the most of the advantages offered, while minimizing their weaknesses. It is especially advisable that strong collaboration is built among private firms, business associations, farmers, NGOs and other stakeholders, in order to ensure that activities that provide support to the private sector do not distort markets or privatize gains (Altenburg, 2007).

An approach using a value chain matching grant fund between the World Bank and the Government of Kenya illustrates the operational mechanisms. The objectives and purpose of the value chain matching grant fund include:

- Strengthening competitiveness and raising the added value of the selected supply chains by enhancing access to business development services (BDS);
- Strengthening linkages (between firms and between SMEs and markets);

- Stimulating demand from SMEs for BDS by providing financial incentives for eligible training and other BDS; and
- Enhancing BDS supply oriented towards servicing specific markets on a sustainable basis.

Activities that can be funded from the matching grant fund include:

- Training in all areas that help improve the competitiveness of the selected value chains, e.g., product design and development, quality control, product pricing, and agricultural extension services;
- Information services and other similar activities that would facilitate the matching of foreign buyers with selected value chains; and
- Targeted market analysis and other marketing-support services.

Expenses that can be funded include travel expenses that form part of the export marketing plans as reflected in the overall industry strategy, and repair and maintenance of equipment if included in the business plan. Areas which are eligible for matching grants include working capital, investment capital, equipment and other physical resources, vehicles if to be used to transport products from suppliers to processors, physical inputs at the farm level such as fertilizers, agro-chemicals, seeds, and staff time allocated to providing technical and expert assistance to downstream suppliers.

Cost-sharing procedures include:

- Sponsoring entities or groups of individuals making financial contributions to purchase equipment or other physical essentials for the benefit of a group; and
- For each dollar invested by the sponsoring entities or groups of individuals, the matching grant facility making available an equal amount in the form of technical assistance (TA) and other BDS, such as training to the beneficiary group.

The operation of the system is centred on an apex committee (chairman to be elected or designated by sector entity), which is responsible for:

- Convening all sector entities along the value chain;
- Leading the preparation of an industry-wide strategy that reflects issues identified by the value chain analysis and the vision, objectives and goals of the industry;
- Acting as the principal body to develop a consensus among the various sector entities in order to implement an industry-wide strategy; and
- Serving as a central body to approve project concepts prepared by sector entities.

A case involving a coffee cooperative, a private miller and a private coffee marketer is described in box 5.1. This case shows how improvements can be made at farm level.

Box 5.1

Coffee cooperative, private miller and private marketer model of matching grant funds

Kaliluni Farmers Cooperative Society in Kenya applied to be a participant in a Government of Kenya/private sector poverty alleviation programme supported by the World Bank, with the following specific objectives:

- To improve the revenue of the members by achieving higher yields of coffee and higher quality grades;
- To ensure that expenditures on fertilizer and other chemicals are appropriate for the needs of the crop and the soils;
- To enhance the technical awareness and competence of Kaliluni farmers and factory management through specific training; and
- To achieve international market recognition for the Kaliluni brand of coffee.

The objectives will be achieved through a pilot value chain-based matching grant fund programme whose objective is to strengthen competitiveness and raise added value in selected supply chains by enhancing access to business development services (BDS) and strengthening linkages between firms and between SMEs and markets.

Kaliluni, with a membership of 1,245, currently has 240,000 coffee plants, of which only 40 per cent are actively maintained. The cooperative also runs a 40-year-old coffee pulping factory from where all the farmers take their coffee. The management comprises five members, a secretary/manager and a factory manager.

There has been some concern over the poor coffee yields of the cooperative and the management is striving to improve output and quality in order to secure better payments for the farmers. The poor coffee yields have been associated with the inadequate quality and quantity of inputs and sometimes with the use of the wrong inputs such as fertilizers and chemicals. The needs of the crop and the soil are at times not known to the farmers. The poor yields have also been attributed to poor crop husbandry caused by the low technical and management capacities of individual farmers and factory workers.

SOCFINAF Company Limited, which is the lead organization (sponsor) of this project, will pre-finance the provision of essential inputs such as fertilizer and insecticides to the Kaliluni farmers using its coffee sales proceeds. The matching grant fund (MGF) will match the value of inputs by providing technical assistance for soil analysis, process audit and training in crop husbandry, coffee farming and processing management. Essential inputs such as fertilizer, fungicides and insecticides will be advanced early in the season to ensure increased coffee yields and quality. The costs of the inputs will later be recovered from the proceeds of coffee sales. The BDS providers will be selected competitively on the ground and from outside. The other partner in the value chain addition is Oakland Marketing Limited, which will be responsible for marketing Kaliluni coffee, a role now being played by SOCFINAF.

“ Regionally integrated markets expand opportunities for value chain development ”

Finally, the plan is to have Kaliluni coffee certified by one or more of the international agencies such as Utz Kapeh or Fair Trade. A well-balanced combination of the above-mentioned inputs and BDS is expected to result in increased yields of high quality, and hence, higher tonnage of coffee cherries for processing, milling and marketing at higher prices per unit. This will, in turn, result in higher payments to the farmers and higher incomes. Per capita gross income per 1 kg of cherry delivered before intervention was Kshs. 29 per year, while after intervention it is expected to reach Ksh.163, an increase of 462 per cent.

Source: Mulaa (2008).

5.4.2 Regional approach to the analysis and development of value chains

In its quest to enhance value chain development, it is imperative for Africa to employ a regional approach to value chain analysis because policies that promote productivity-enhancing technologies are meaningless if pursued without an equivalent will to expand markets. Flourishing agro-industrial development requires a system that views production and processing as involving many different countries that share common borders along agro-ecological zones. This also includes the view that agricultural markets span many countries, consistent with the structure of production and complementarities of commodity supply and demand across agro-ecological zones.

Hence, creating regionally integrated value chains and markets is not only a logical choice, but also one that is necessary for sustaining agricultural transformation in Africa. The relevance and key analytical issues in regional value chain development are summarized in box 5.2 below.

It is therefore suggested that efforts to modernize agriculture should be carried out along the strategic commodity value chains and following regional markets from the input stage /distribution systems, to the farm level and then to agro-processing and output marketing/distribution systems. As mentioned previously, agro-industrial development along regional markets or strategic commodity chains could address challenges related to sub-optimal-sized markets and low market access for African farmers.

While investment opportunities in agro-processing are directly determined by size and boundaries of accessible markets, infrastructure and institutional barriers to expanding markets within and among African countries are concerns that must be addressed by national policies and regional agreements on intra-African trade. Specifically, African countries must adopt policy and institutional arrangements for accelerating regional integration beyond the present subregional levels to the full level of a common African market for strategic food and agricultural commodities.

In this regard, the recent initiative to integrate the EAC, COMESA, and SADC is a move in the right direction. Most African countries already share this vision within the framework of CAADP.

Box 5.2

Relevance of regional agricultural value chains: a summary

Importance

- There is public interest in developing value chains since they involve activities not just of smallholder farmers, but also of agribusinesses that must be promoted because of their role in economic development.
- Increases market access for smallholder farmers and agribusinesses.
- Increases profitability of optimal-sized investments in agro-processing as markets expand.
- Keeps jobs and agro-processing industries in Africa.
- Ensures dynamic efficiency of agricultural commodities and high-value exports.

Key issues in value chain analysis

- Share of benefits and costs from regional value chains and market development.
- Distribution of added value along the chain.
- Market share of the different actors and corresponding size of sub-sector.
- Institutional and legal framework, such as regional production and processing zones, trade protocols, regulations on movement of people, agriculture marketing policies and financial institutions.
- Growth potentials (nodes with market potential).
- Infrastructure development.
- Potential for poverty reduction and rural income generation.
- Potential for sustained food supply at affordable competitive prices for African consumers.
- Potential for maximization of returns on capital investment at different levels of the value chain strategy.
- Potential for strengthening sector and regional complementarities and interdependence through implementation of horizontal and vertical integration approaches in the commodity production value chains strategy.

Source: Developed by the authors with additions by external peer reviewers. Some ideas were adopted from Altenburg (2007).

5.4.3 Promoting value chains within the CAADP framework

“ CAADP provides a framework for integrating African agriculture ”

Developing vertically coordinated regional value chains for strategic agricultural commodities would require the building of public-private partnerships to create an environment that is conducive to both the profitability and the security of private investment. In this regard, the NEPAD/CAADP framework is pertinent for integrating not only markets within subregions, but also markets across Africa, with the RECs as building blocks. Adherence to the CAADP pillars could significantly raise the competitiveness of African agricultural production and profile of businesses that are failing to break into regional markets because of infrastructure problems and low volume of primary materials from agriculture. The CAADP framework can provide a basis for equitable and mutually acceptable benefit sharing, which is essential for regional value chain development (Taylor, 2005).

Within the context of an increasingly global economy, innovations for agricultural transformation in Africa should be aimed at maximizing productivity and efficiency at each stage of production and delivery of output while minimizing transaction costs. This means broadening the strategic focus to not only improve farming sectoral yields, but also develop a vibrant regional agro-industrial and agribusiness service sector. The creation of such an environment could start with the opening of preferential subregional investment zones in those areas with the greatest unexploited production potential for selected strategic agricultural commodities. Hence, innovations to develop agriculture should be conceived from the explicit perspective that agro-industrial and agribusiness development and the green revolution must go hand in hand.

5.5 Conclusions and policy recommendations

Agricultural transformation should be broad based, starting from productivity improvements and encompassing the upgrading of infrastructure and auxiliary services and industries throughout the value chain of strategic commodities. Building common African agricultural markets that transcend national and subregional borders should offer enough incentives with regional-level economies of scale for private investments in agro-processing. The CAADP framework is particularly pertinent in that it is being implemented with a mandate from AU while utilizing regional structures in the RECs to facilitate creation of a common African food market in strategic commodities. Thus, the CAADP could facilitate the emergence of transnational agribusinesses along horizontal and vertical value chains of the various strategic commodities.

Regional value chains have the potential of expanding markets by providing incentives for private investors to make long-term investments in agro-processing and agribusiness. They also provide a context for governments to jointly address institutional and other constraints to regional investment and trade in commodities. There are significant asymmetries in perceptions of market and investment opportunities by the private agro-industry and agribusiness community between the national and the subregional and regional levels.

A sticky problem is that at national level some sectors are simply not optimal enough to provide for the economies of scale (at all stages of commodity chains), economies of vertical coordination (among the different stages of commodity chains) and economies of complementary diversification and specialization (among countries and subregional groupings) that would deliver the full competitiveness gains and intra-regional trade potential of Africa's agriculture. However, with a regional approach to agricultural development, most investments along the regional corridors would become viable.

Regional value chains could also provide incentives for product and process upgrading. With expanding markets, there will be need for improved or differentiated commodities with higher value. 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-saving opportunities to firms, including reduced coordination costs, less inventory management, and savings in logistical and other transaction costs (Reardon et al., 2004).

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 smallholder farmers in downstream activities such as processing and marketing. In addition, competition in the chain results in better returns for smallholder farmers and could lead to high-quality outputs. Process upgrading may also lead to competitive pricing of commodities as technological improvements reduce the costs of transforming and delivering products. With improved products, the African agricultural sector may compete favourably with non-African imports of processed and unprocessed agricultural commodities.

As pointed out earlier, value chains are entrenched in broader production system contexts and are affected by a wide range of policies. Because these policies determine whether, how and when economic actors engage in the value chain, any policy interventions must be carefully evaluated. We summarize below the indirect and direct policies that could support value chain development on the continent.

“
Supply chains have the potential to involve more smallholder farmers in downstream activities
”

Policies and programmes with indirect impacts on the value chain

Policies that are indirectly linked to value chain development include those aimed at:

- Creating an enabling environment for a thriving private sector; enhancing marketing, trade and investment;
- Developing skills and increasing innovation; and
- Providing financial and other business services; and promoting local economic development.

“
The development
of the
agro-processing
sector must be
market-based
”

Creating an enabling environment for private sector participation

Private sector participation is essential for the development of a vibrant agro-processing sector. Addressing constraints related to property rights and contract enforcement, business registration, availability and cost of energy, and access to finance, among other things, would encourage the establishment and sustainability of small businesses. Governments also need to overcome information and coordination failures that constrain private investment in value chain development, especially at the early stage of economic development. Government support in this regard may include research and diagnostic studies to identify profitable investment opportunities in certain value chains, and introducing incentives to increase the competitiveness of the value chains.

This may require measures to reduce production costs at each stage, and even benchmarking of local producers against competitors to monitor progress. Concrete value chain analysis is critical for appropriate policy intervention in this regard, mainly relating to cost reduction through technology transfer and skills development (Alteburg, 2007; Palmade, 2005).

Marketing, trade and investment policies

Policies and programmes that help to influence demand for end products, including branding and product differentiation, could prove effective in increasing the willingness of consumers to pay more and in creating a niche market for certain products. This could be done through the introduction of quality labels to add value to products, such as “fair trade” and “certified organic product.”

Marketing information, financing and guarantee schemes as well as subsidized trade promotion for small farmers and SMEs might also be critical for increasing both domestic and international trade, and facilitating the upgrading of firms to higher-

value activities along the value chain. Finally, there is a strong argument for carefully timed and sequenced liberalization of local markets to provide safeguards that protect local economies engaged in activities that are essential for the livelihoods of poor people.

Skills development and increasing innovation

Enhancing technical, managerial and financial skills is important and governments could, for instance, promote public-funded programmes or provide tax incentives to encourage private sector involvement, entrepreneurship development and training. Enhancing innovative capacity is key to upgrading, which in turn is critical for capturing economic rents.

Enhancing local economic development

In order to increase competitiveness and enhance value chain integration, targeted policies that facilitate local economic development and cluster development are critical. Gardner (2003) suggests that apart from macroeconomic and political stability and productivity-enhancing technology, access to competitive input and product markets and real income growth in the non-agricultural economy are the main requirements for agricultural value added and rural household income growth.

Policies and programmes directly related to value chain development

Information, awareness raising and coordination of value chain activities

Farmers and SMEs in Africa most often do not have full information regarding potential buyers, and buyers do not have information regarding their potential suppliers, because the market inherently lacks transparency, thereby limiting the establishment of key business linkages. Facilitating access to information regarding buyers, sellers and other market conditions could be achieved through special events held to disseminate/share knowledge regarding the potential benefits of such linkages, and through subcontracting exchange schemes (SES), whereby a list of potential suppliers documenting their products and processes is provided to customers (Altenburg, 2007; Ruiz Duran 2005).

“ Investment
in rural
infrastructure can
promote value
chain development ”

Supporting spillovers from lead firms

“Tax exemptions and deductions may encourage lead firms to support small firms for value chain development”

Encouraging lead firms within a value chain to provide support to farmers and SMEs can provide many needed services that advance market access, adherence to standards, and the introduction of brands. Some specific interventions by governments and donors may include co-financing of grant schemes for the private sector to engage in activities such as training and capacity-building for small farmers and SMEs. This would attract critical private sector expertise in business development and management. Providing tax and other financial incentives can also help to bring larger firms closer to local suppliers or enhance contractual arrangements among the different players in the market.

Some of these incentives could include tax exemptions and tax deductions (e.g. for expenditures related to training and skills transfer, product development and adherence to quality standards by small firms). Large firms could also be encouraged to provide support beyond their normal operations by encouraging corporate social responsibility initiatives.

Access to finance

Facilitating access to credit by farmers and SMEs can help to alleviate one of the critical challenges of value chain development. This can be done through direct credit access on the one hand, where business partners provide credit to farmers and other SMEs within the value chain. For instance, seed and fertiliser suppliers can advance these inputs to farmers, and agro-processors can provide loans and receive produce as payment at a later date, in accordance with purchase agreements, especially in out-grower schemes.

On the other hand, indirect credit access can be facilitated through increased creditworthiness (e.g. use of supply channels as collateral). As most African countries have weak banking systems, governments and donors can help to provide soft credit lines and credit guarantees to banks in the initial stages with a view to enhancing linkages.

Credit schemes can be linked to upgrading activities by SMEs, including acquisition of technologies and the establishment of out-grower schemes, in order to improve value chain integration and coordination, especially in support of farmers. Arrangements can be made to facilitate payment to suppliers by large buyers through factored loans. In this case, banks can accept a document from the buyer as collateral to advance loans to farmers and SMEs and then collect payment from the buyer. In

certain cases, warehouse receipts issued to suppliers can be accepted by banks as collateral (Altenburg, 2007; Fries and Akin, 2004).

Promoting inclusive standards

Farmers and SMEs face immense challenges in trying to adhere to standards, which are increasingly being set by industries, lead firms and NGOs, and less by government and intergovernmental agencies. The value chain is an important instrument in the enforcement of standards, with each player ensuring that the product emanating from the previous stage adheres to the standards. Governments and donors can help African farmers and SMEs to meet standards and even harness opportunities to add value to their products, for example, by supporting producers, raising awareness of consumers and building capacity to facilitate labelling of products to indicate that they meet special qualities/values such as organic standards and fair trade compliance.

However, facilitating compliance is not enough. Rather, governments and civil society need to participate in the processes that set these standards. Both sides need to ensure that they do not put a strain on poor producers and ultimately exclude them from the market.

Focus on regional integration to enhance horizontal linkages in value chain development

In order to develop viable value chains for agricultural products in Africa, more should be done to promote regional integration at each stage of the value chain. This would also facilitate entry into global value chains and promote regional development. Regional agricultural value chains can also identify efficiency gains that can be captured through integrated markets. One obvious efficiency gain is that regional value chains are built on comparative and competitive advantages offered by two or more countries in an agro-ecological zone. This would result in economies of scale in the provision of support services and infrastructure required for connecting domestic private sector service providers to regional and global supply chains. This would improve not only the competitiveness of national economies, but also regional logistics strategies and trade arrangements.

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“Agricultural transformation a key to food security and poverty reduction in Africa”

The Way Forward

Accelerating agricultural development in African countries is crucial for achieving food security and reducing hunger, as well as for job creation and trade. For the foreseeable future, agriculture remains the most important sector for accelerating economic transformation through agro-based industries. Numerous consultations and meetings on how to enhance agricultural development on the continent have resulted in wide ranging commitments by both public and private sectors at the regional, continental and global levels.

However, implementation of these commitments has not been as successful as had been anticipated. Accelerating agricultural development in the context of regionally integrated value chains advocated in this report will require:

- Operationalizing these commitments;
- Addressing key challenges to agricultural development; and
- Promoting viable regionally integrated value chains.

6.1 Operationalizing commitments to develop African agriculture

Major commitments to develop African agriculture

There have been numerous commitments from as far back as the 1980s in the Lagos Plan of Action for the Economic Development of Africa and in the early 1990s in the African Economic Community initiative. This chapter focuses on recent commitments since 2003 because they are more relevant from a practical viewpoint. These commitments are:

Maputo Declaration on Food Security (2003)

Concerned that 30 per cent of the population of Africa were undernourished, and convinced of the need to utilize the continent’s full potential to increase its food and agricultural production so as to guarantee sustainable food security and ensure economic prosperity for its peoples, African Heads of State and Government endorsed

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Many African
countries devote
less than 4 per cent
of their budget to
agriculture
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CAADP as the framework for agricultural development in Africa. CAADP consists of 4 investment pillars.

As discussed in chapter 4, these pillars are: extending the area under sustainable land management and reliable water control systems; improving rural infrastructure and trade-related capacity for market access; increasing food supply, reducing hunger, and improving risk management and crisis response; and improving agricultural research and technology dissemination and adoption.

The Heads of State and Government committed to allocation of at least 10 per cent of their national budgetary resources to CAADP implementation within 5 years. Operationalizing CAADP will accelerate agricultural and food production with diversified production structures and enhanced productivity. However, many African countries still devote less than 4 per cent of their national budget to agriculture and implementation is off-track.

Sirte Declaration on Agriculture and Water (2004)

In many parts of Africa, agro-ecological systems are characterized by frequent and recurring drought, soil degradation and water supply shortages. It is believed that agriculture and agro-ecological systems are most vulnerable to climate change, especially in Africa where the climate is already unpredictable and drought-prone in some arid areas. The problem is compounded by the fact that the sector is already under considerable stress, and African farmers have limited means to deal with the escalating problems of weather and climate change. The Sirte Declaration was conceived against this background and become very relevant to development of regionally integrated agricultural value chains in Africa.

The Sirte Declaration made several commitments to address the challenges of implementing integrated and sustainable development in agriculture, including livestock, fisheries and crops. It also made commitments on water resources, desertification and drought. It further made commitments to increase trade in agricultural products by reducing trade barriers and enhancing agricultural information systems necessary for effective regionally integrated value chains. The Declaration called for establishment of support institutions such as centres of excellence for agriculture, water and the environment and of an African Agricultural Development Fund, among other commitments.

The Abuja Declaration on Fertilizer for an African Green Revolution (2006)

The Abuja Declaration recognized that most farmers in Africa have virtually no access to fertilizer and that the poorest of them urgently need special support. The

Declaration called for a strategic investment programme to increase the availability and use of fertilizer along with other inputs to usher in the Green Revolution on the African continent. Fertilizer, from both inorganic and organic sources, was made a strategic commodity without borders. AU member States also resolved to increase fertilizer use from the current average of 8 kg. per hectare to an average of at least 50 kgs. per hectare by 2015.

For viable regionally integrated value chains, a reliable and consistent supply of basic inputs is essential. Evidence indicates that an increase in the use of mineral fertilizers has been to a large extent responsible for the substantial growth in agricultural productivity and hence in the success of the Green Revolution. Indeed, some experts have argued that fertilizer was as important as improved seed varieties in those countries where the Green Revolution has already taken place. The fertilizer input contributed as much as 50 per cent of the total yield in Asia (Tomich, 1995).

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Most African farmers have no access to fertilizers and need special support
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The Abuja Food Security Summit (2006)

The objective of this Summit was to streamline the many commitments to develop African agriculture and prioritize their implementation, starting with those that can yield critical and quick but also sustainable gains at national, regional and continental levels. On the basis of this, five themes were identified with corresponding commitments. The five themes were:

- Enhancing intra-African trade in food and agriculture;
- Resource mobilization to implement commitments;
- Integration of nutrition into all agricultural and food security programmes;
- Identification and replication of African successes; and
- Establishment of a system for selecting and prioritizing key CAADP-related Summit commitments.

Sharm el Sheikh Declaration on the High Food Prices (2008)

Concerned by the crisis caused by the high food prices and its adverse impact on African countries, particularly the poor and vulnerable households, the Summit committed to various short- and long-term measures. In the short term, the Summit committed to:

- Provide immediate assistance to the vulnerable segments of populations through targeted food assistance and safety net measures;
- Intensify agricultural production and productivity through the use of targeted input subsidies, particularly fertilizer, improved seeds, and enhanced access to water and small-scale irrigation for agricultural production; and

- Improve post-harvest crop management to minimize storage losses and increase processing.

In the medium to long term, the Summit committed to:

- Invest in appropriate social safety nets;
- Scale up investments for sustained agricultural growth including expanded public spending on rural infrastructure, services, agricultural research and technology development and transfer;
- Enhance sustainable land management practices including soil and water management and conservation;
- Enhance institutional and human capacities for agricultural development; and
- Review bio-fuel policies to make more grains and oilseeds currently used for fuel available for food and feed.

“ CAADP provides a framework for external support to African agriculture ”

Global policy reforms and financial commitments

In addition to regional commitments and declarations, there have been a number of global commitments on food security and agriculture of relevance to Africa. Prominent among these were the World Food Summit of 1996 organized by FAO, which emphasized the need to reduce the number of hungry people in the world by half by 2015. Another relevant global commitment was endorsement of the MDGs of 2000. Through MDG 1, the United Nations is calling for reducing the number of the poor by 50 per cent by 2015.

From the Rome Declaration on World Food Security and the World Food Summit Plan of Action, the main global commitments have emphasized the need to support African agriculture more or less around the CAADP pillars. In addition to policy commitments and improvements, global financial commitments have also been made to address the challenges of food security and to mitigate the impact of high food prices in Africa and other developing countries.

These include funds pledged by IFAD, funds pledged by the G-8 countries and bilateral support by the United States. Multilateral development institutions and agencies such as AfDB and World Bank have also escalated their commitments and support to help African and other developing countries increase agricultural investment and production over the long run.

While most bilateral and multilateral commitments target States, some organizations provide financial and technical assistance to individuals and specialized agencies involved in agricultural transformation in Africa. For example, the Alliance for

Green Revolution in Africa (AGRA), which advocates for policies that support all key aspects of agriculture (from seeds, soil health, and water to markets and agricultural education, is mainly supported by private, non-profit organizations, namely the Rockefeller Foundation and the Bill & Melinda Gates Foundation. The AGRA commitments cover such areas as use of improved seeds and better soil management, improved access to water, water-use efficiency, and special support programmes for small-scale farmers and rural households.¹

However, while overall development assistance to Africa has increased, donor support to agriculture has been declining, from a peak of \$8 billion in the early 1980s to just about \$3.4 billion in 2004 (UNCTAD, 2008). Evidence from 19 SSA countries shows that real agricultural expenditure grew rapidly in the 1960s, modestly in the 1970s, and stagnated in the 1980s and 1990s (UNCTAD, 1998). Besides domestic efforts, promoting African agriculture requires the scaling up of donor support, “from the current \$1-2 billion per year to roughly 8 billion by 2010,” as well as establishment of a “global fund for agriculture”.²

“Governments need to focus on implementing existing commitments to develop agriculture”

Addressing challenges to implementing the commitments

In addition to their limited human and financial capacity to implement the commitments consistently, African governments and the international community need to prioritize according to their expected contribution to the transformation of the agricultural sector on the continent. This has been cumbersome. Lack of good governance and political will also constitutes a severe constraint to implementation of commitments, by eroding confidence and generating mistrust between donors and recipient countries. Accordingly, some commitments are either not fully implemented or phased out altogether. The following are some key actions that African governments need to take to confront the implementation challenges:

Prioritizing commitments

In view of the number of commitments and the resource requirements for their implementation, it is important to define a framework for selecting and prioritizing them, taking into account country-specific priorities. Africa should use its limited resources and institutional capacity selectively, concentrating on those commitments that can best serve its accelerated and sustainable agricultural development and food security goals.

1 See <http://www.agra-alliance.org/section/about/grants>

2 Remarks by Kofi Annan, Chairman of the Board of Alliance for a Green Revolution in Africa, during his speech, marking World Food Day for 2008.

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Institutionalizing
commitments can
speed up their
implementation”

Institutionalizing commitments

It is imperative that the commitments made at the various Summits and other high-level meetings are formally adopted and institutionalized in the respective countries. Often, the commitments just remain as “declarations” and are not translated into laws domesticated in the national legal systems in the respective countries. Such formalization could provide better guarantees, that with changes in government and transfer of power and duties, adherence to commitments could still be expected.

African countries should therefore ratify the commitments by passing them through parliament and the legislative process. The commitments would therefore be included in National Development Plans and adequate financial resources for their implementation would be allocated. An example of this is the commitment of AU member States to allocate at least 10 per cent of their budgets to agriculture. Most countries are way below this target because they are not obliged to honour the commitment since it has not yet been passed as a law.

Political will is essential for implementing commitments

Most of the bilateral and multilateral aid extended to African countries is programme and reform specific. The willingness of donor countries and agencies to honor their commitments is largely dependent on the ability of African governments to follow a mutually agreed course of action or reform agenda. On this basis, SWAPs could be used more frequently in the agricultural sector. This would facilitate the use of recipient country systems, harmonization of donor programmes, strengthening of ownership and management for results, which are the main goals of the Paris Declaration on Aid Effectiveness.

Failure to adhere to accountable and transparent economic management often makes donors and agencies reluctant to honour commitments to implement proposed projects. It is important for African governments to respect and adhere to the terms of agreement and disbursement in order to increase the confidence of donors to disburse the aid and make new commitments.

Building analytical capacity

Donor agencies are paying greater attention and are more willing to offer assistance when the capacity of partner governments to undertake their own analysis and to monitor progress is well established. Frequently, lack of technical competence on the part of the host government has resulted in the failure of donor agencies to honour their commitments fully. At other times, implementing agencies have been compelled through tied-aid mechanisms to use a significant portion of donor financial

commitments to sponsor technical experts from developed countries. This results in high costs and lower aid effectiveness.

Building the capacity of technical personnel who can competently design and monitor complex agricultural projects is therefore critical to establishing a mutually agreed sequence of reform interventions that are conducive to increased and more efficient donor support. In addition, this can “buy the recipient country some implementation space” and discourage donors from micro-managing projects by introducing parallel management units with expatriate staff (Tsikata, 2001).

Budget support for sourcing areas of donor commitments and efficient management of investment proposals

Governments should provide funds to support national agencies or units that conduct analysis on prospective agricultural investment proposals that have the potential to attract commitments from donors. Such specialized agencies collect and analyse information on the social and economic returns of such proposals before donor financing and commitments can be sought. Their activities should be integrated into government budgetary processes as their work can also help government Ministries and regulatory authorities to carry out necessary reforms or to implement the investment proposals more efficiently, to the satisfaction of donor agencies.

Monitoring and evaluation

In view of Africa’s limited resources, spreading efforts and resources thinly over all possible areas of intervention has little prospect of succeeding. The commitments should therefore be accompanied by a credible monitoring and evaluation system that can effectively assess progress towards desired goals and provide feedback that can be used to improve implementation in the future. Development partners have come to realize the value of building good relationships with government, especially through the use of a well-established and strategically focused institutional framework for managing and monitoring commitments (Tsikata, 2001). Such strong institutional mechanisms for accountability and transparency build mutual trust between the donor agencies and the host governments.

Implementing commitments to develop African agriculture in a systematic manner should be a government priority in Africa. The fact that agriculture remains neglected and underdeveloped despite the numerous commitments testifies to the huge implementation gap. Operationalizing commitments would go a long way to resolving the challenges constraining viable value chain development for accelerated and sustained economic growth and transformation in Africa

“*Monitoring and evaluation of the implementation of commitments is needed at national and regional level*”

6.2 Addressing key constraints to agricultural transformation in Africa

“ Addressing general constraints to agricultural development indirectly facilitate value chain development ”

Strategies to promote integrated national and regional value chains and markets have to be designed and implemented in a policy framework that addresses the general constraints to agricultural development in Africa as outlined above. Addressing these constraints will provide an indirect stimulus to value chain development. Key policies in this regard encompass:

- **Promoting sustainable agricultural production systems:** Africa needs to promote sustainable agricultural production based on increased productivity on one hand, and conservation of the environment on the other. This requires a large increase in irrigated land, rehabilitation of degraded land through soil and water conservation measures, improved security of land tenure and equitable land distribution, measures to improve land use that restrict encroachment of cultivation into fragile ecosystems, and improved water management to protect water resources, resolve water-based conflicts, extend water utilization and raise quality.
- **Address chronic under-capitalization of agriculture:** African governments should implement the Maputo agreement and devote at least 10 per cent of public expenditure to agriculture in order to realize the projected NEPAD/CAADP goal of at least 6 per cent agricultural growth annually by 2015. There is also the need to create an enabling environment for increased access to private credit and insurance schemes for agricultural production, processing and marketing. This should include promotion of microfinance institutions that serve farmers.
- **Increased funding for agricultural research and technology:** Agricultural research continues to be under-funded at around 0.7 per cent of agricultural GDP compared to a desired rate of 2 per cent. Therefore, agricultural research funding should be increased with a continuous update of research capability in the new areas of biotechnology. Efforts in this regard should provide incentives for private sector participation and funding of agricultural research.
- **Increased use of yield-enhancing practices and technologies:** Africa lags behind in the use of yield-enhancing technologies and should set targets in order to promote their use. Fertilizer use should be raised from the current level of 125gm/ha to at least 500gm/ha, which is about half the world average and aim at reaching the world average. Similarly, the use of tractors, which now stands at 13/100km², should be increased to at least the levels in East Asia of 89/100km². The continent also needs to increase the use of

improved seeds and improved livestock to enhance yields to internationally competitive levels.

- **Additional investments in soil and water conservation:** Africa accounts for 27 per cent of the degraded land in the world, mainly due to insecurity of land tenure and lack of adequate promotion of soil- and water-conservation measures that embody high returns. Before expanding cultivated areas, governments should put emphasis on soil and water conservation measures and create incentives for the effective participation of communities and individual farmers.
- **Improved marketing and rural infrastructure:** Improved rural infrastructure and marketing are essential for Africa to promote competitiveness in agricultural products. Measures in this area include: increased road densities in rural areas; increased use of ICT; adequate energy supply with preferential treatment for farmers and agro-industries; and improved port handling facilities (both coastal and inland) with simplified and efficient customs clearance procedures.
- **Measures to mitigate the potential adverse impact of bio-fuels:** This can be done through measures to restrict bio-fuel production to non-food crops and assist governments to carefully assess and balance strategic needs for food security and bio-fuel production.

“ Value chain development also benefits from policies to improve infrastructure and the business environment ”

In addition to the above agro-specific policies, agricultural transformation and value chain development will also benefit from broad policies and reforms aimed at improving the business environment and investment climate, building infrastructure, enhancing access to education and technical skills development in rural areas and trade facilitation.

6.3 Promoting regionally integrated value chains

Policies and programmes with more direct impact on value chain development need to be systematic and sustainable. The underlying VCD strategy may vary across countries. Some countries may follow a comprehensive planning approach while others adopt an incentive-based approach to support private sector activities that promote value chain development. Direct interventions should encompass:

- **Awareness raising and coordination of activities:** This involves provision of essential information to both farmers and potential investors on profitable value chain activities. Facilitating access to information regarding buyers, sellers and other market conditions, can be achieved through

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Specific
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development need
to be systematic and
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special events or through such institutional arrangements as subcontracting exchange schemes. In this regard, a list of potential suppliers with documented products and processes is provided to customers.

- **Supporting spillovers from lead firms:** Encouraging lead firms within a value chain to provide support to farmers and SMEs can provide much needed services that advance market access, adherence to standards, introduction of brands, etc. Specific interventions by governments and donors in this regard could include co-financing of activities, with focus on the training and capacity-building of small farmers and SMEs, tax and other financial incentives and corporate responsibility initiatives.
- **Access to finance:** Facilitating access to credit by farmers and SMEs would help to alleviate one of the critical challenges of value chain development. This can be done through programmes that encourage direct lending, where business partners provide credit to farmers and other SMEs within the value chain, or improve the creditworthiness of farmers and SMEs. Governments and donors can help to provide soft credit lines and credit guarantees to banks in the initial stages with a view to enhancing linkages. Credit schemes can be linked to upgrading of activities by SMEs, including acquisition of technologies and establishment of out-grower schemes, in order to improve value chain integration and coordination, especially in support of farmers.
- **Promoting inclusive standards:** Governments and donors could help African farmers and SMEs to meet standards and even help them to harness opportunities to add value to their products. Lead firms, often multinational corporations, are increasingly setting these standards. The value chain is an important instrument in the enforcement of standards with each player ensuring that the product emanating from the previous stage adheres to the standards and specifications of the next.
- **Focus on regional integration to enhance horizontal linkages in value chain development:** Supporting regional value chain development requires strong cross-country collaboration and government commitment to implement agreed plans. These include harmonization of policies and legal frameworks, as well as institutional arrangements that promote regional infrastructure and the movement of people and goods. These arrangements should clearly indicate how the benefits and costs related to value chain development would be shared.

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Economic Commission for Africa



African Union

Economic growth in Africa declined to 5.1 per cent in 2008 and is projected to fall sharply in 2009. Despite high commodity demand and prices in the first half of 2008, continued sound macroeconomic management and commitment to economic reforms, increased domestic investment and productivity, recent debt write-offs, private capital flows, increased non-fuel exports and consolidation of peace in some parts of the continent, the global financial crisis and recession are adversely influencing medium-term growth prospects in Africa.

Progress towards meeting the targets of the MDGs has been mixed, with some noticeable gains in universal primary education but very limited headway on poverty reduction and health-related goals. In particular, Africa has to strengthen gender equality and women empowerment as factors strongly correlated with other social development goals.

Given the recurrent food shortages and slow progress in poverty reduction, the continent needs sustained investment for agricultural transformation in agricultural production systems, agricultural research and extension services, use of yield-enhancing practices and technologies, increased investment in soil and water conservation, and improved marketing and rural infrastructure.

Africa must also build linkages between agriculture and manufacturing, and with other sectors at national and regional levels. Increased investment in agribusiness and agro-processing maximizes value added, expands markets, creates jobs and enhances productivity and international competitiveness. Regional value chains and markets will help Africa overcome the constraints of small national markets and populations, and optimize its diverse but fragile agro-ecological systems. These initiatives and measures to enhance regional trade and investment are essential to stimulate agricultural transformation and broad-based growth.

