



Developing agri-business regional value chains under the AfCFTA?

Introduction

Agriculture plays a significant social and economic role in most African countries. As a sector it can therefore contribute towards major continental priorities, such as eradicating poverty and hunger (contribute to food security), boosting intra-Africa trade and investments, industrialisation and economic diversification, sustainable resource and environmental management, and creating jobs, human security and shared prosperity. The sector contributes about 33% of Africa's gross domestic product and it is estimated that more than 50% of Africa's population depend on agriculture for their livelihood¹. Yet, Africa's full agricultural potential remains untapped. Achieving agricultural development is a necessary condition for reducing food insecurity but is not sufficient by itself².

The Comprehensive Africa Agriculture Development Programme (CAADP) and commitment by member States has demonstrated how important agriculture is to the continent's economic transformation. Evidence suggests that where countries have increased investments in agriculture as per CAADP targets (or have exceeded the targets), over the last decade, there have been reductions in hunger and poverty, and increases in productivity. Examples include countries such as Burkina Faso, Burundi, Congo, Ethiopia, Ghana, Malawi, Mali, Niger, Senegal, Togo, and Zambia which have shown positive outcomes³.

¹ WEF, 2023. *How Africa's new Free Trade Area will turbocharge the continent's agriculture industry*, Blog, World Economic Forum. [online]: <https://www.weforum.org/agenda/2023/03/how-africa-s-free-trade-area-will-turbocharge-the-continent-s-agriculture-industry/>

² Goedde, L. Ooko-Ombaka, A. Pais, G. 2019. *Winning in Africa's agricultural market*. McKinsey. [online]: <https://www.mckinsey.com/industries/agriculture/our-insights/winning-in-africas-agricultural-market>

³ NEPAD, 2013. *African agriculture, transformation, and outlook*. NEPAD, Johannesburg, [online]: <https://www.tralac.org/images/docs/6460/agriculture-in-africa-transformation-and-outlook.pdf>

Importance of agri-business in Africa

Agribusiness is the complete value chain in agriculture, from the raw materials and resources necessary to create biological products to distributors and retailers that get products to end consumers. It can be separated into four links: input providers, producers, processors, and other service providers (such as marketers, distributors, etc.). Each link adds value to the output of the previous link until the biological material is consumed or used by the end consumer⁴.

The Food and Agriculture Organisation (FAO) estimates that global value addition in agriculture is worth over US\$3.5 trillion annually, 4% of the world's GDP, and 27% of the total workforce⁵. To boost investments and productivity, intra-African trade and regional agrifood value chains, ECOWAS, SADC, ECCAS and EAC have put in place regional agricultural policies to boost agricultural development. The African Continental Free Trade Area (AfCFTA) has identified agribusiness as one of the sectors for developing RVCs for the soya bean; cocoa; livestock; leather value chains among others⁶.

Developing and participating in regional value chains in Africa

The AfCFTA is now recognised as a framework the development of regional value chains in Africa. For the AfCFTA to achieve its liberalisation and integration objectives, effective implementation is essential.

Development of regional value chains (RVC) will be supported by the implementation of the trade facilitation agenda of AfCFTA through reducing the time and cost of transacting across borders, enabling resources and skills to be shared across the continent, as well as the creation of new market opportunities, and an enhanced regulatory environment for business. The CAADP together with the AfCFTA can provide an opportunity to transforming agriculture from subsistence production to farming as a business where specific needs especially of women and smallholders are clearly prioritised⁷.

⁴ Lip, G. 2022. *Agribusiness*. Corporate Finance Institute. [online]:

<https://corporatefinanceinstitute.com/resources/commercial-lending/agribusiness/>

⁵ FAO. 2021. *World Food and Agriculture – Statistical Yearbook 2021*. Rome. [online]: <https://doi.org/10.4060/cb4477en>

⁶ UNDP, 2021. *Futures Report 2021 – Which Value Chains for a Made in Africa Revolution*, UNDP/AfCFTA. [online]: <https://www.tralac.org/documents/resources/cfta/4669-afcfta-futures-report-2021-which-value-chains-for-a-made-in-africa-revolution/file.html>

⁷ ActionAid, 2011. *Making CAADP work for Women Farmers – A review of progress in six countries*. ActionAid. [online]: https://actionaid.org/sites/default/files/making_caadp_work_for_women_farmers_april_2011_final.pdf

A tralac analysis of the soya value chain

tralac has undertaken a study looking at the soya-bean value chain (SVC)⁸. The SVC is important for several reasons i) as a source of animal protein soya beans are usually the main source of raw materials for animal feed, which accounts for between 50-70% of livestock production costs in closed feed systems, ii) soya is a strategic crop which is key to reversing the growing animal protein import trend due to the expanding livestock sector and securing food availability, job creation and agro industrialisation within Africa, iii) as an input in other non-food sectors for use as feedstock for biofuels, ingredients in chemical and personal care and iv) provide smallholder farmers in Africa an opportunity to diversify their household income and enhance food and nutrition security.

The analysis reveals that East and Southern African countries have a comparative advantage across all but one of the stages in the SVC. Upstream, West African players also feature. Further downstream North African players feature, with Nigeria being the only West African country, albeit with an RCA of 1 in soya oilcake exports. Mapping the players that may take part in the development of a soya RVC is important in that it gives policymakers a workable tool to understand where to position national AfCFTA competitiveness strategies, as well as how to channel capacity-building for increased exports. By mapping countries which can be part of a soya RVC at each stage of the soya RVC, the analysis shows that East, and Southern African countries will play an important role in the development of the soya RVC, acting as not only suppliers of raw materials, but also that processing and manufacturing networks are developed on the continent.

Realising agriculture's full potential in Africa

Agriculture's poor performance has often been due to underinvestment in physical, institutional, and human capital, as well as by attempts to bypass agriculture through isolated industrialisation, often at the cost of agricultural stagnation and worsening poverty. Realising Africa's full agricultural potential will require significant investment. Much investment will be needed in technology and research and development, basic infrastructure, such as roads, ports, and electricity, plus improvements in policies and regional trade flows. This amplifies the role of the private sector in driving agricultural productivity, opening markets, and facilitating increased private investment in the sector.

⁸ Fundira, T. 2023. *Developing Value Chains in Africa – mapping the soya value chain*, Trade Report, tralac, Cape Town. [online]: <https://www.tralac.org/publications/article/15927-developing-value-chains-in-africa-mapping-the-soya-value-chain.html>

As the processing sector grows, it will create value addition and markets, but it will need and seek more raw material supply – something the right policy and regulatory framework can help with⁹. The AfCFTA can create more certainty in such environments as it can act as an overarching framework for opening markets and regulatory harmonisation, so that State Parties move away from ad hoc protective measures like export or import bans.

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⁹ Demmler K. M. *The Role of Small and Medium-sized Enterprises in Nutritious Food Supply Chains in Africa*. Global Alliance for Improved Nutrition (GAIN). Working Paper Series #2. Geneva, Switzerland, year. DOI: <https://doi.org/10.36072/wp.2>