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Agro-industry: Engine for economic development in Africa

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Bonn, 16 November 2009. "African Industrialization Day," which the United Nations proclaimed on 20 November 1989, has, sadly, not become one of the international community's red letter days. The "Second Development Decade for Africa 1991-2000," proclaimed at the same time, has likewise nearly fallen into oblivion, for in Africa for the last decades have been marked more by de-industrialisation, with the manufacturing share of Sub-Saharan Africa's gross domestic product (GDP) shrinking, between 1970 and 2006, from 11% to 7.5%. In this period it was extraction of raw materials that kept the GDP share of the industrial sector at a level of roughly 30%. The primary reason why African economies have grown in recent years is rising prices, not productivity gains. Without South Africa, which accounts for roughly one third of Sub-Saharan Africa's economic output, the data would be even poorer.

Rarely are doubts expressed as to whether Sub-Saharan Africa should industrialise – indeed, it would be hard to name a country anywhere in the world that has reached an acceptable level of quality of life without industrialising. However, the industrialisation policies pursued thus far in Sub-Saharan Africa may, with very few exceptions, be said to have failed. Following phases of government-regulated import substitution and unregulated liberalisation, the search is now on to find a new balance between liberalisation, improvement of framework conditions, and active industrial policy.

A priori, industrialisation may be said to have as good as no chance of success in today's Sub-Saharan Africa. For some 50 years now, countries with low labour costs have been able to manufacture cheap mass-produced goods for export, a strategy with which above all Asian countries have proven highly successful. In view of the stiffening of global competition today, it would be largely pointless to seek to emulate this strategy. Wage costs in many Asian countries are lower than in Sub-Saharan Africa, a region that is dogged, in addition, by lower labour productivity and capital availability. African infrastructure is poor, transport costs are high, and energy supply is costly and unreliable. In short, in Africa industrial production is not internationally competitive.

So why is it, precisely, that agro-industry should be a viable option for Africa's development?

First, Sub-Saharan Africa will develop successfully only if it makes prudent use of the few strengths it has. This would include, to start out with, an optimal exploitation of the comparative advantages currently offered, above all, by agriculture and use of indigenous raw materials.

Second, efforts restricted to boosting efficiency within the structures presently given will not be sufficient. What Sub-Saharan Africa needs for long-term growth and higher living standards is broad-based industrialisation and development of modern services. The agro-industrial sector would, for the following reasons, be well suited for the purpose:

Aside from South America, Africa is the continent with the world's largest land reserves. No more than 10% of Africa's savannah regions alone, with an area of 600 million hectares (twice as large as the total world area under wheat cultivation), is used for agriculture production. Nowhere near all of these reserves are forests in need of protection; indeed, much of this is land that has been seriously degraded by extensive livestock farming, shifting cultivation, and insufficient mineral fertilisation.

While African producers are faced with a competitive disadvantage when it comes to crops like wheat or soy, which can be mechanised to high degrees, manual labour continues to play a major role in many agricultural production processes, and here African farmers can hold their own. To cite an example, small West African cotton farmers are quite able to compete with large-scale US cotton farms, provided they are given fair terms of competition.

In Sub-Saharan Africa higher and more stable urban household incomes and growing remittances from migrants are leading to a rise in purchasing-power-backed demand for more and higher-quality foods. In local markets domestic producers tend to have an edge over foreign imports, because consumers are familiar with these locally produced goods. Many African staple foods, including e.g. tubers, millet, plantains, many different vegetables, etc., are not traded internationally. Since eating habits are slow to change, this would present an opportunity for African farmers, one they could turn to advantage against international competitors - if it will be possible to keep abreast of changing needs by improving and modernising their processing, packaging, and distribution techniques. The food market is both huge – even in middle-income countries the share of income spent on food is in excess of 40% - and labour-intensive, and this means that it is excellently suited for efforts to promote broad-based growth.

Even today, many agricultural products are processed in at least simple ways, and here we find cores of agro-industrial growth than can be built on. What is needed to realise these potentials is good economic framework conditions, good governance, and selective support for individual sectors. On their own, typical small farmers, medium-size food processors, and informal networks of traders are unable to shoulder the innovations required for the purpose. Marketing, too, is in need of support, for it is, at present, easier for large food distributors to buy in the world market than to invest in the efforts needed to organise production and processing in the African hinterland, even though there are comparative advantages to be found there when it comes to production. Access to capital, sustainability of production, support for innovations across the whole of the value chain, and improvements to marketing, quality, and quality control – these are the elements of a coordinated agricultural and industrial policy that has the potential to make a privately organised agro-industry into an engine of Africa's economic growth.


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