3ADI
AFRICAN AGRIBUSINESS AND AGRO-INDUSTRIES DEVELOPMENT INITIATIVE

A PROGRAMME FRAMEWORK
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List of acronyms

3ADI  African Agribusiness and Agro-industries Development Initiative
AfDB  African Development Bank
AGRA  Alliance for a Green Revolution in Africa
AU  African Union
AUC  African Union Commission
CAADP  Comprehensive Africa Agriculture Development Program
EGM  Expert Group Meeting
ERA  Economic Report on Africa
FAO  Food and Agriculture Organization of the United Nations
GAIF  Global Agro-Industries Forum
GDP  Gross Domestic Product
HLCD-3A  High-Level Conference on the Development of Agribusiness and Agro-Industries in Africa
ICT  Information and Communications Technologies
IFAD  International Fund for Agricultural Development
IFC  International Finance Cooperation
IFPRI  International Food Policy Research Institute
ISO  International Organization for Standardization
NEPAD  New Partnership for Africa’s Development
REC  Regional Economic Commissions
SME  Small and Medium Enterprises
SPS  Sanitary and Phytosanitary
UN  United Nations
UNECA  United Nations Economic Commission for Africa
UNFPA  United Nations Population Fund
UNIDO  United Nations Industrial Development Organization
WTO  World Trade Organization
EXECUTIVE SUMMARY

With a vision to spur the development of competitive, sustainable and inclusive agro-industries and agribusinesses in Africa as a pathway to increased economic growth and food security in the continent, the African Union Commission (AUC) and its New Partnership for Africa’s Development (NEPAD) through the Comprehensive Africa Agriculture Development Program (CAADP), are partnering with the African Development Bank (AfDB), the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the United Nations Economic Commission for Africa (UNECA) and the United Nations Industrial Development Organization (UNIDO), to launch the **African Agribusiness and Agro-industries Development Initiative (3ADI)** during the High-Level Conference on the Development of Agribusiness and Agro-Industries in Africa (HLCD-3A), which will be hosted by the Government of the Federal Republic of Nigeria in Abuja, Nigeria, in March 2010.

Towards this end, a Program Framework with an integrated Financial Facility to support agribusiness and agro-industrial development in Africa has been designed through a series of consultations with African experts and organizations. Together, the Programme Framework and Financial Facility constitute the backbone of the 3ADI which is expected to be considered and endorsed by African Heads of State and Government during HLCD-3A.

Embracing the principles of the Comprehensive Africa Agriculture Development Programme (CAADP), the 3ADI emerges as a timely initiative, in the light of the recent AU Summit Sirte Declaration of July 2009, wherein African Heads of State and Government explicitly acknowledge the need for proactive measures and interventions to increase investments in agriculture and the continued improvement of sector policies for accelerated economic growth. The Sirte Declaration also expresses the commitment of African leaders to one of the keystones of the 3ADI, namely the provision of support to promote institutional reforms that will stimulate and facilitate accelerated expansion of agriculture related market opportunities.

The 3ADI is consistent with the emerging consensus in Africa that if agriculture is to be the main sector to stimulate economic growth then investments should go beyond improvements in on-farm productivity to also cover agribusiness and agro-industrial development. It also capitalizes on the positive economic, social and political forces that are prompting a renewed impetus for growth and development in Africa. These forces encompass the potential offered by domestic and regional agri-food markets, the opportunities for import substitution of higher-valued foodstuffs and the rapid rates of urbanization in the continent. Moreover, the Initiative builds on the existing political commitment to the role of agro-industries and agribusiness as economic engines for reducing poverty in Africa, as recognized by CAADP.

The goal of the 3ADI is to have an agriculture sector in Africa which by the year 2020 is made up of highly productive and profitable agriculture value chains that effectively link small and medium size agricultural producers to markets, supply higher-valued food, fibre, feed and fuel products, contribute to increasing farmers’ incomes, utilize natural resources in a sustainable manner and generate increased and high quality employment.

The major objective of the 3ADI is to increase private sector investment flows into the agriculture sector in Africa by mobilizing resources for agribusiness and agro-industrial development from domestic and international financial systems. The Initiative will support a well-coordinated effort by African governments, regional bodies, relevant UN and other international agencies, as well as the private sector to share knowledge and harmonize programmes in ways that capture synergies, avoid fragmented efforts and enhance developmental impacts. It will also support an investment programme that will significantly increase the proportion of Africa’s agricultural produce that is transformed into differentiated high-value products, such that by 2020 more than 50 percent of the continent’s food products sold in local and national markets will be in processed form.

According to FAO estimates, over the 44 year period from 2006 to 2050, the cumulative global investments required in Sub-Saharan Africa in agriculture and downstream support services amount to US$940 billion [in 2009 US$]. Of this amount, about 66 percent will be required for agribusiness
and agro-industries capital outlays, covering items such as cold and dry storage (US$ 78 billion), rural and wholesale market facilities (US$159 billion), first stage processing (US$207 billion), mechanization (US$59 billion) and other power sources and equipment (US$115 billion). These investments will have to be made primarily by the private sector. The public sector will thus be confronted with the need to create and maintain conditions that favour investment in agribusiness and agro-industries by the private sector [including farmers]. It is to the end of assisting African countries meet this challenge that this programme framework and its financial facility that together shape the 3ADI were designed.

The expected results of the 3ADI fall into four main areas of support:

- Skills and technologies needed for the post-production segments of agriculture value chains;
- Innovative institutions and services;
- Financing and risk mitigation mechanisms; and
- Enabling policies and provision of public goods.

Four to five specific intervention areas are identified for each of these four major areas of support. For example, with respect to enabling policies, the 3ADI would provide support to African countries relating to sector strategies development, regulatory frameworks, grades and standards, agricultural mechanization, markets and trade infrastructure, and agricultural trade policies. Taken together, the programme’s interventions are expected to re-orientate agricultural institutions and support services so as to create a versatile network of institutions capable of dealing with the needs of agribusinesses and agro-industries.

As highlighted above, the development of agribusiness and agro-industries in Africa will require a substantial infusion of fixed investment and working capital. Private investors and the financial sector in Africa have the capacity to provide the resources needed, but for many reasons, the agriculture sector is not attractive to private sector investors and financial institutions. The key to unleashing these resources is to increase the profitability and reduce the risks in any investments undertaken. The 3ADI will support interventions that improve the profitability-risk ratio by increasing productivity and efficiency and reducing the costs of doing business. Furthermore, the 3ADI will promote mechanisms to mobilize additional resources and mitigate the costs and risks for prospective investors and providers of financial services. These mechanisms include: support to public-private partnerships; loan guarantees; investment funds targeting African agro-enterprises; value chain financing mechanisms; and risk mitigation products such as insurance and warehouse receipt systems.

The program framework for the 3ADI has a strategic orientation that prioritizes African markets, resources, enterprises and governance structures. With its focus on agro-industries and agribusiness, the 3ADI uniquely complements current efforts that focus on the agricultural sector as the engine of growth and socio-economic development in the continent. As earlier indicated, the Initiative adheres to CAADP, in particular its Pillar II, as an overarching institutional framework. It is also designed to integrate into Africa’s regional organizations and alliances and to be synergistic and complementary to existing financial facilities.

The 3ADI will have a financial facility to support interventions envisaged in the programme framework. The definition and agreement on the specifics of the facility are being developed and discussed as part of the ongoing consultative process for development of the 3ADI. One option being considered is a financial facility having two financing windows that would respectively support public and private sector interventions envisaged in the programme framework. The public sector window would consist essentially of loans and technical assistance funding, while the private sector window would entail a commercial investment fund, the provision of partial loan guarantees and matching grants which should enable the leveraging of additional resources from domestic, regional and international financial institutions. Other options being considered for the financial facility include:

i. a financial facility that targets specific aspects of the programme framework which are not covered by existing facilities for public sector lending (e.g. IFAD and AfDB’s public sector window) and private sector lending (e.g. AfDB’s private sector window and the World Bank’s IFC);
ii. a monitoring and evaluation framework that ensures that existing mechanisms address the
programme areas identified in the 3ADI;

iii. development of country-specific mechanisms that facilitate increased investments in the agribusiness
and agro-industries sector (e.g. through initiatives of central banks).
1. INTRODUCTION

With a vision to spur the development of competitive, sustainable and inclusive agro-industries and agribusinesses in Africa as a pathway to increased economic growth and food security in the continent, the African Union Commission (AUC) and its New Partnership for Africa’s Development (NEPAD) through the Comprehensive Africa Agriculture Development Program (CAADP), are partnering with the African Development Bank (AfDB), the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the United Nations Economic Commission for Africa (UNECA) and the United Nations Industrial Development Organization (UNIDO), to launch the African Agribusiness and Agro-industries Development Initiative (3ADI) during the High-Level Conference on the Development of Agribusiness and Agro-Industries in Africa (HLCD-3A), which will be hosted by the Government of the Federal Republic of Nigeria in Abuja, Nigeria, in March 2010.

The HLCD-3A is being organized as one of the follow-up actions to the Global Agro-Industries Forum (GAIF), which FAO, UNIDO and IFAD, in partnership with the Government of India, organized in New Delhi in April, 2008. The objectives of the Forum were to learn from key lessons and success stories on promoting competitive agro-industries in the developing world, to foster collaboration and joint activities among multilateral organizations working on agro-industrialization and to clarify the roles of the public sector, multilateral organizations and the private sector in agro-industrial development. Over 500 participants from some 110 countries, comprising senior level government officials, food industry leaders, UN agency officials, civil society organization representatives and agro-industry specialists, attended the event.

During the GAIF representatives of 44 African countries met to consider regional trends and priorities and called on the participating UN agencies to organize a regional forum that will deliberate on concrete actions for promoting agribusiness and agro-industries development throughout Africa. In the joint declaration of the GAIF, the UN co-organizing agencies accepted to undertake to consult with regional leaders and organizations in order to define the best way forward.

This HLCD-3A is expected to help raise awareness in Africa about the pivotal role of agribusiness and agro-industries in the sustainable economic development of the Continent. It is also expected that the Conference will reinforce the recognition by African governments of the need to prioritize agribusiness and agro-industrial development strategies that reach beyond traditional agricultural growth promotion efforts, considering innovative approaches that give due holistic attention to the modernization, competitiveness, sustainability and inclusiveness of African food and agricultural systems.

These purposes are consistent with the views expressed in the recent Economic Report on Africa 2009 (ERA 2009)\(^1\), which explicitly recognizes the potential to advance African economies through the development of agribusiness, particularly agro-processing, and calls attention to the need to strengthen the linkages of agriculture with agribusiness and agro-industries as a pathway to an agriculture-led economic transformation in Africa.

They are also consistent with the recent AU Summit Sirte Declaration of July 2009 wherein African Heads of State and Government explicitly acknowledged the need for proactive measures and interventions to increase investments in agriculture and the continued improvement of sector policies for accelerated economic growth. The Sirte Declaration also expressed the commitment of African leaders towards the provision of support to the promotion of institutional reforms that will stimulate and facilitate accelerated expansion of agriculture related market opportunities. This is one of the keystones of the 3ADI, the initiative that will be launched in Abuja during the HLCD-3A of March 2010.

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During the planning process of HLCD-3A and 3ADI, a resource paper was developed as backdrop for an Expert Group Meeting (EGM) held in Vienna, Austria from 27-29 April 2009. The EGM brought together experts in agribusiness and agro-industry development from 19 countries of Africa, as well as resource persons from development agencies, research and academic institutions, bi- and multi-lateral agencies and finance institutions working on agribusiness and agro-industries development in Africa. The EGM’s objectives were to discuss the key constraints impeding the development of agribusiness and agro-industries in the Continent and to consider a programme framework for agribusiness and agro-industries development in Africa.

A further preparatory step has been the development of the present document, which presents the program framework for the 3ADI, outlining its goals, objectives, expected results, and programme approach. This document is based on the above mentioned resource paper. A team of six African experts who attended the EGM was convened to assess priorities, taking into consideration the resource paper and deliberations of the EGM, and prepare the first draft of this document. In preparing the document, the team of experts was supported by technical divisions of FAO and UNIDO, which further refined the draft and circulated it for the team’s review and endorsement.

The purpose of this document is to inform senior officials from African ministries with mandates for the development of agro-industry and agribusiness about HLCD-3A and 3ADI, seeking their advice to refine and improve the proposals herein put forward and providing a basis for consideration of institutional endorsement.

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2. THE CONTEXT

Meeting the goals of income growth, increased food security and improved social well-being in Africa remains a major commitment of African governments and their regional and international development partners. Various strategies and programmes to improve the present economic and social indicators are being implemented across the continent. Positive strides have been observed, but recent developments in the international economic scenario have shown that there is still scope for additional, innovative initiatives that can help accelerate economic growth and social development in the continent.

Africa’s efforts to promote social and economic development have been hampered by a number of recent events, chief among which are the soaring food prices crisis and the global economic recession. Because of high food prices, the import bill for cereals of African countries rose substantially to 49 percent in 2008 alone. Despite a decline since the second half of 2008, current levels of food prices continue to be above average and their volatility remains high. As a result, the challenges of achieving food security and the slowed pace of poverty reduction resulting from high food prices persist as a concern for most African countries. The global financial crisis of late 2008 has led to a slowdown of world economic growth, reduction in trade, and recession in many countries. The crisis has affected Africa countries, whereby economic growth has dropped from 6.0 per cent to 5.1 percent between 2007 and 2008. In the near future remittances are likely be reduced, foreign direct investments are expected to decline, the demand for imports and oil-based agricultural inputs such as fertilizer will likely be affected by weakening exchange rates, while official development assistance is expected to be reduced.

To cope with its developmental challenges, Africa needs to consider innovative initiatives that not only prioritize the achievement of food security and social inclusiveness, but also promote economic growth and integration into regional and global markets that would lead to sustained poverty reduction. Globalization and the increasing interdependence of the world economy have created opportunities to both expand and diversify Africa’s economic base, which in many countries hinges on the agricultural sector. Indeed, agriculture remains a key sector in African economies, accounting for 70 percent of the employment and contributing to about 25 percent of the GDP in many countries.

Agriculture will remain an important source of livelihoods in Africa in the years to come. For the foreseeable future, the role of agriculture as the cornerstone of food security in the Continent will continue to be vital. This has been underscored by the recent studies carried out by FAO in preparation for the High-Level Expert Forum on How to Feed the World in 2050 which was held in Rome in October 2009 as a prelude to the World Summit on Food Security 2009. The studies indicate that to meet the projected growth in the demand for crop and livestock products, cumulative global investments required in Sub-Saharan Africa in agriculture and downstream support services over the 44 year period between 2006 and 2050 amount to US$940 billion [in 2009 US$]. For 93 developing countries worldwide, the estimates indicate that the cumulative amount of investments needed over the same period is a staggering US$9.2 trillion (Table 1). Noticeably in Sub-Saharan Africa, about 66 percent of these needs will be required for agribusiness and agro-industries capital outlays, covering items such as cold and dry storage (US$ 78 billion), rural and wholesale market facilities (US$159 billion), first stage processing (US$207 billion), mechanization (US$59 billion) and other power sources and equipment (US$115 billion). These are investments that will have to be made primarily by private sector players. The public sector will thus be challenged to create and maintain the conditions whereby investments in agribusiness and agro-industries can be forthcoming.

In fact, while the central role of agriculture in Africa’s economic development has been widely accepted, policy makers and development planners increasingly are recognizing the need to focus more attention to agribusiness and agro-industries in their strategies to promote economic development of the continent. Many ministries of agriculture, for instance, openly acknowledge in their mission statements and strategic plans the key role of agricultural value chains, commercial farming and value addition in contributing to economic development.

3  Capital Requirements for Agriculture in Developing Countries to 2050, FAO, Rome, 2009
There has emerged a general consensus that investments in agriculture should go beyond improvements in on-farm productivity to cover agribusiness and agro-industrial development, if agriculture should be the engine of economic growth. As highlighted in the African Economic Report 2009, agriculture has not been sufficiently linked to agribusiness and agro-industries in the Continent. Consequently, innovative programmes for strengthening these linkages are needed. In this respect, two specific aspects are particularly important in forging the growing policy commitment to agribusiness and agro-industries development in Africa, namely:

- the potential role of agribusiness and agro-industries in accelerating economic growth and the overall contribution of the agriculture sector to economic development; and

- The unsatisfactory performance in international trade and markets, but growing opportunities in domestic markets and regional trade.

The potential of agribusiness and agro-industries as growth engines is well known. The World Development Report 2008 called attention to the fact that the share of agribusiness and agro-industries in GDP tends to grow as countries move from lower to higher levels of income. Through their forward and backward linkages, investments in these sectors produce significant multiplier effects, generating demand for agricultural products and associated inputs and services, creating on- and off-farm employment, enhancing incomes and contributing to value addition and increased public sector revenues. Through the development of agro-industries and agribusiness, access to markets, finance and technical assistance can be facilitated for smallholder farmers, promoting their inclusion into more modern and efficient value chains.

Agro-processing of food commodities increases food security in four major ways; (a) by reducing post-harvest losses which estimates show could be as high as 30 percent in cereals, 50 percent in roots and tubers, and up to 70 percent in fruits and vegetables; (b) by extending the shelf-life of food, making it easier to reach urban areas where most of the population is concentrated; (c) by adding value to commodities and therefore increasing incomes and creating employment along the food chain from production to consumption; and (d) by improving the quality and safety of foods through establishing appropriate certification, traceability systems and harmonization of standards, thus increasing access to markets. In sum, the combined effects of employment gains, income enhancement, inclusiveness and food security promoted through an agribusiness and agro-industries development strategy can effectively contribute to reducing overall poverty in Africa.

With regard to trade, despite the growing international demand for higher-value processed agro-industry products, Africa is yet to make significant progress locally toward adding value to her primary agricultural commodities and to achieve compliance with international standards. Indeed, African countries contribute less than 10 percent to global value addition. Africa’s international trade is dominated by primary commodity exports, which represent almost 60 percent of total export value, with the remaining 40 percent being accounted for by fuels. Among non-fuel primary commodity exports,
agricultural products account for more than 25 percent of trade revenues.

Regional and local markets offer growing opportunities for the African agri-food sector. According to the African Union Commission (AUC) statistics on trade and markets, demand for agricultural commodities and high-value products from Africa is expected to grow from US$50 billion in 2000 to US$150 billion by 2030. The collective potential income that farmers could derive at the farm level from increased trade in domestic and cross-border markets alone is expected to be as much as US$30 billion; developing the necessary market links could raise rural incomes by up to another $60 billion.

African markets are of sub-optimal size to ensure profitability of sizeable private investment. Intra-regional exports are relatively low (averaging $3.8 billion between 2000 and 2005) while imports of agricultural commodities from outside the region average US$33 billion. There is therefore a need to strengthen agriculture-led growth, but this will be difficult to achieve without strengthening linkages and generating mutual benefits across countries through the development of agro-processing industries and profitable agribusinesses. The latter should focus on national and regional priorities, given the fact that regional food and agricultural markets are extremely fragmented.

In addition to the above economic forces, a number of social and political drivers are conducive to the development of agribusiness and agro-industries in Africa. A key social force is the rapid urbanization of the African continent, where the rates of urban population growth are the highest in the world. According to UNFPA’s State of the World Population 2007, Africa’s urban population is expected to increase from 349 million to 759 million between 2005 and 2030. By 2035, urban areas will account for 53 percent of Africa’s population. Urban growth is a potential benefit to agribusiness and agro-industries because it offers producers and processors access to expanding urban markets and demand for agro-products, especially in processed form. Additionally, the urbanization trends make it necessary to increase agricultural productivity and modernize agri-food chains so as to allow efficient production and supply of foodstuffs to the growing number of urban dwellers.

Another relevant social force stems from the demographic profile of the African continent, where the population is mostly young. Indeed, more than half of Africans are under 20 years of age. The youth constitute both a pool of labour and a source of entrepreneurial potential that can be tapped in support of agribusiness and agro-industries development. Equally important, many younger Africans do not see traditional farming as an attractive occupation; the prospects are higher for attracting these young talented Africans to productive and profitable agro-enterprises.

Politically, Africa is experiencing a period of relative stability, which is a critical factor in the implementation of effective public policies that facilitate economic growth and unleash investments in agribusiness and agro-industries. Moreover, regional integration through trade agreements has shown some progress in the Continent in spite of constraints related to infrastructure and non-tariff barriers.

Another important political driver is the recognition of agro-industries and agribusiness as economic engines for reducing poverty in NEPAD’s Comprehensive Africa Agriculture Development Programme (CAADP). CAADP’s Pillar II, in particular, is directly related to a policy agenda and programme
initiatives for accelerating Africa’s agribusiness and agro-industries. Improving infrastructure and gaining market access to local, regional, and extra-regional supply chains are essential to agribusiness and agro-industry development, and in turn, are key to this sector’s contribution to economic growth and poverty reduction goals.

Spurred by the CAADP vision, a noteworthy initiative is the Alliance for a Green Revolution in Africa (AGRA), established by the Rockefeller Foundation and the Bill and Melinda Gates Foundation in 2006 as a comprehensive approach to raising the productivity and incomes of African smallholder farmers. While focusing on smallholders through its work on seed systems, soil nutrients, and water, the Alliance also has broader interests in improving access to input and output markets and encouraging government policies that support small-scale farmers.

The recent decision by the African Union to select “Investing in Agriculture for Economic Growth and Food Security” as the theme for its Thirteenth Ordinary Session held in July 2009 in Sirte, Libya Arab Jamahiriya, is a further, strong indication of the level of commitment that exists for an agriculture-sector centred economic transformation in the Continent. As noted earlier in this document, the Sirte Declaration expresses the pledge of African Heads of State and Government to undertake

“...relevant policy and institutional reforms that will stimulate and facilitate accelerated expansion of agriculture related market opportunities... increasing access by smallholders farmers to inputs and the necessary commercial infrastructure and technical skills to fully integrate them into the growing value chains”.

These are priorities which are fully consistent with the rationale for and interventions proposed by the 3ADI which will be launched during the HLCD-3A. With its focus on agribusiness and agro-industries, the 3ADI is thus a very timely addition to the ongoing efforts and commitments to accelerate agriculture and rural development in Africa.
3. PROGRAMME FRAMEWORK

This section characterizes a programme framework that African Governments might consider and implement in order to accelerate progress in making agriculture an engine of economic growth. The Framework identifies objectives and priority interventions to increase financing for agricultural development through concerted support to agribusiness and agro-industrial development. The Framework provides a basis for defining specific achievable expected results to be reached through the 3ADI.

3.1 GOAL

The goal of the 3ADI is to have an agriculture sector in Africa which, by the year 2020, is made up of highly productive and profitable agricultural value chains that:

- effectively link small and medium size agricultural producers to markets;
- contribute effectively to increasing farmers’ incomes through value-addition processes;
- supply higher-valued and differentiated food, fibre, feed and fuel products to consumers at local, regional and global markets;
- lead to retention of a higher proportion of the consumer price in the communities or countries where the primary production takes place;
- utilize natural resources in an overall sustainable manner; and
- act as an effective basis for industrialization and generation of increased and high quality employment.

In the medium to long term the Initiative will lead to the emergence of:

- Efficient agribusiness and agro-industries which are profitable and competitive, provide inputs and services to smallholder farmers, and are able to mobilize investment resources from domestic, regional and international financial institutions; and
- Public sector policies and institutions which facilitate increased investments in the agriculture sector and efficiently provide services and inputs to the sector on their own or in collaboration with the private sector.

3.2 OBJECTIVES

The major objective of the 3ADI is to increase private sector investment flows going into the agriculture sector in Africa by mobilizing resources for agribusiness and agro-industrial development from domestic, regional and international financial systems. Specifically the Initiative will:

i. leverage the current attention to agriculture for development in Africa to accelerate the development of agribusiness and agro-industries sectors that ensure value-addition to Africa’s agricultural products, respond to domestic market requirements and contribute to intra-Africa trade;

ii. enhance the governance of agribusiness and agro-industry and support a well coordinated effort by African countries, African Regional Economic Commissions (RECs), relevant UN and other international agencies, and the private sector to share knowledge and harmonize programmes in ways that capture synergies, avoid fragmented efforts, and enhance developmental impacts;
iii. support an investment programme that will significantly increase the proportion of agricultural produce in Africa that is transformed into differentiated high-value products, such that by 2020 more than 50 percent of Africa’s food products sold in local and national markets are in the processed form and such that the proportion of Africa’s agricultural exports that are processed into final consumer products more than doubles, fully meeting food safety standards demanded by consumers in the Continent and in the global market.

3.3 EXPECTED RESULTS
Expected results from the 3ADI fall into four main areas of support essential for agribusiness and agro-industries development:

- skills and technologies needed for the post-production segments of agricultural value chains;
- innovative institutions and services;
- reinforced financing and risk mitigation mechanisms; and
- enabling policies and provision of public goods.

The rationale and priorities for these interventions are briefly discussed below.

3.3.1 Skills and Technologies for Post-harvest Components of Value Chains
At the moment, agricultural research, education and extension systems are heavily focused on production systems issues such as breeding, agronomy, and soil management. Many special programmes and initiatives also focus mainly on primary production, and as a result while there is ample skills set in the breeding and agronomic part of value chains, there is paucity of the same when it comes to post-harvest components of the chain. To accelerate agricultural sector development and enhance its contributions to overall economic development, there is an urgent need to build skills and technologies that improve efficiency and productivity along value chains as a complement to the support being provided to increase productivity in primary production.

The main intervention areas relating to value chain development would include integrated interventions focussing on the following:

Producer, Commodity and Industry Associations
As agribusiness and agro-industries develop, there inevitably are impacts on traditional farming and marketing systems. Indeed, an important element of the rationale for agribusiness development is to enhance market opportunities and increase services for farmers. Nevertheless, rapid agro-industries development can pose risks to smaller scale farmers, traders, processors, wholesale markets and retailers. To mitigate the risks and maximize opportunities, it is important to strengthen and support the development of producer, commodity, location, and industry associations. Such associations have valuable roles in supporting joint action, networking among members, facilitating linkages with other enterprises and organizations, and enhancing participation in policy and planning.

Producer organizations, in particular, can strengthen the capacities of farmers to understand and meet market requirements, and can help small producers achieve economies of scale in buying inputs and marketing their products. Commodity and industry associations are particularly important for improving sector coordination and for representing private sector interests in policy dialogue.

The programme would provide support to producer, commodity and industry associations in order to improve their effectiveness in providing services to their members and enhance their viability and sustainability.
**Value Chains Facilitation**

Facilitation of business and organizational linkages is the central activity of value chains development. Facilitation and information provision help in developing productive partnerships between producers and firms and among firms in value chains. Facilitation of linkages is particularly important for ensuring the inclusion of smallholders and small and medium enterprises (SMEs) in value chains. Facilitation is needed because it is not easy or costless to develop the trust and commitment that are crucial for achieving partnerships and chain integration. Over the past decade, a diversity of public, profit and non-profit organizations have taken on value chains facilitation as an important area of service provision. The programme would provide support to organizations that provide value chain facilitation services, and would help ensure that services are sustainable and can be delivered on a cost recovery basis to the extent possible.

In addition, the program would promote business development services in support of producers and agro-based enterprises. Support to producers and agro-enterprises must include appropriate management assistance and services that help farmers and firms to improve product quality and efficiency, reduce costs, and expand operations. Business services are important to all firms, but are especially critical to smallholder farmers, small firms and new start-ups, whose transaction costs are large relative to the size of their output. Business services providers give support and build competencies relating to a number of areas such as finance, accounting, marketing, enterprise management and economics.

To enhance the access of farmers and SMEs to essential services, the programme would provide support for the replication and scaling-up of successful models for business development services provision.

**Producer and SME Capacity Building**

In order to ensure broad based developmental benefits from agribusiness and agro-industries development, farmers and other smaller scale value chain actors must have the capacity to understand and meet the timing, quality and safety requirements of processors, transporters, exporters, and retailers. All chain participants must have the skills and technologies to adapt to changing market conditions by innovating, diversifying or exiting as markets change.

The programme would provide capacity building support to producers and SMEs, as well as their chain partners, in order to improve capacity of producers to be reliable suppliers and to improve productivity and efficiency along value chains. Special attention would be given to training programmes to encourage and enable the participation of women and youth in agribusiness and agro-industry.

**Technology Development and Transfer**

Many potentially useful technologies are “sitting on the shelves” while the private sector is struggling to commercialize a limited range of outdated technologies. Means to effectively and efficiently transfer technologies are needed in order to increase the capacities of producers to provide high quality raw materials and fresh products in agricultural value chains. Technology transfer to producers is far from being sufficient to support value chains development. There is often a gap between the supply of technologies and the specific requirements of farmers and firms. Increased attention is needed in developing and transferring improved agricultural and food engineering technologies, and operational and logistical technologies for improving efficiency along value chains. Public-private collaboration and partnership in research and dissemination of research results can improve the technologies available to small scale producers, processors and other value chain actors.

The programme would provide support for product and process innovation and for effective and efficient transfer of technologies to farmers and firms, including institutional arrangements for public-private partnership.

**University and Vocational Training**

To attract investors in agro-industries and ensure that these investments lead to decent jobs, there is need for a labour force that is highly skilled in all technical aspects of agro-industries. Dynamic private entrepreneurs are also important for successful agricultural value chains, agribusinesses and agro-industries. However, the teaching of entrepreneurial skills and know-how is not yet accepted in several countries as a full academic discipline.
The programme will provide support for re-focusing and reinforcing university and vocational training in agriculture and engineering in order to mainstream the building of capacities in post-harvest handling, value-adding processing, agribusiness development and management, and agro-industrial skills.

### 3.3.2 Innovative Institutions and Services

Similar to the situation with value chains, most agricultural sector institutions and services are focused on supporting producers and production systems. There is a need to establish new or re-orient existing agricultural institutions and support services to create a versatile network of institutions capable of dealing with the needs of agribusinesses and agro-industries. There is a need to further validate, upscale and replicate these innovations through pilots and prototypes, combined with evaluation and capacity building.

The main intervention areas relating to innovative institutions and services would include the following:

**Contract Farming and Out-grower Schemes**

There are by now many experiences with contract farming and out-grower schemes in Africa and other regions. Based on global and regional patterns, it is near certain that future development of agribusiness and agro-industries will be closely associated with increasing reliance on contract farming and other ways of linking farmers to agribusiness. The potential advantages of contract farming are well known – including improved access of farmers to technical support, inputs and markets, and improved reliability of raw material supplies to agro-processing enterprises. The difficulties and constraints in successful and sustainable contracting are, unfortunately, equally well known – such as inconsistent supply, inputs diversion, potential abuses of unequal power, and late payments. There is a need to build on the accumulating experiences with contracting and out-growing schemes in order to maximize potential
benefits for producers and other value chain partners.

A further motivation to a focus on contract farming stems from the current debate on large scale land acquisitions in Africa. Renewed attention is being given to the importance of contract farming as an institutional arrangement that can address some of the concerns with the potential adverse consequences of this type of investments in the Continent.

The programme would promote innovative ways of supporting contract farming and other ways of linking farmers to markets. It also would provide capacity building support to reinforce managerial and technical capacities for contract negotiation and compliance targeting farmer organizations, specialized intermediaries, and providers of technical assistance.

Business Incubators, Hubs and Clusters
In Africa and elsewhere, several innovative models have been introduced to promote and support agribusiness development while also addressing some of the critical constraints that impede individual farms and firms from developing efficient and competitive enterprises and value chains. Three examples of well known models include business incubators, business hubs, and clusters:

- Piloting through business incubators can help countries and value chain stakeholders to better understand and address necessary conditions for creation of sustainable agribusiness and the agro-industries. The benefits of incubators include reduced start-up costs, organization of services provision, training in business practices, and connection with networks of other entrepreneurs.

- Business hubs, generally established by multiple stakeholders, act as an “knowledge and information” engine for identifying opportunities and generating business plans that have commercially viable levels of profitability. Business hubs and related information services can be vehicles for strengthening south-south partnerships, developing franchising focal points for multinational companies, and enabling the development of regional enterprises.

- Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions. There has been much more attention to clusters development in other industries, but there is a growing body of promising experiences in developing agro-industry clusters.

The programme would provide support for piloting, up-scaling and replicating the above and related models for supporting business planning and start up, improving services provision, and strengthening inter-firm communication and cooperation.

Research, Technology and Agro-Food Parks
Research, technology and agro-food parks are institutional innovations that seek to establish a critical mass of inter-linked enterprises, services, investment and infrastructure development. In most cases, the public sector creates incentives to attract diverse firms and services providers through a combination of tax concessions, reduced rates for utilities, and infrastructure investments. The most promising and relevant models for Africa could provide support for developing value chain activities linking smallholders and processors with other key partners such as financial institutions, research and extension, transporters, etc.

The programme would provide support for appraisal and planning of necessary investments, including infrastructure requirements, development of financing proposals, complementary development of management and coordination units, and improvement of technical and managerial skills.

Product Labelling and Certification Schemes
For agribusiness to have desired developmental impacts, it is imperative to create new opportunities and maintain market access for small scale farmers and SMEs. One key strategy for doing so is to build capacity to respond to growing market opportunities for labelled and certified food and agricultural products. Labelling and certification provide a basis for differentiating products, thereby increasing value beyond conventional products sold in local markets. While prices are usually higher for labelled and
certified products – though not by as much as is sometimes thought – costs are generally higher as well. Nevertheless, the prospects of getting higher returns by entering niche markets and supplying modern retailers, has led to a proliferation of labelling and certification schemes. While this process is at a relatively early stage in Africa, there is widespread and growing interest in many countries.

The programme would contribute to developing the institutional support required for introducing and adapting such schemes, and would help build necessary capacities for all participants in such schemes – with a particular emphasis on ensuring viable and sustainable participation of smaller scale producers and processors.

Commodity Exchanges and Market Information
Agricultural market information such as commodity prices, trade volumes, and weather conditions plays an important facilitating role in improving the performance of agribusiness and agro-industries. While there is a mixed record for public sector market information systems, recent experiences with innovative approaches based on cooperation of the public, private and non-profit sectors, and often taking advantage of emerging information and communications technologies (ICTs) appear more promising. Commodity exchanges offer prospects for integrating the provision of market information, facilitation and reduced costs of transactions between suppliers and buyers, and risk mitigation.

The programme would provide support for piloting and up scaling of commodity exchanges and market information systems, building on recent promising experiences and guided by the practicalities of ensuring commercial viability and the sustained support of private- and public-sector actors.

3.3.3. Financing and Risk Mitigation
The development of agribusiness and agro-industries will require a substantial infusion of fixed investment and working capital. Private investors and the financial sector in Africa have the capacity to provide most of the resources needed. For many reasons, however, the agricultural sector is not attractive to private sector investors and commercial financial institutions. The key to unleashing private and financial sector resources is to increase profitability and reduce risk. Other components of the programme can be expected to improve the profitability-risk ratio by improving productivity and efficiency and reducing the costs of doing business. But, there is only so much that can be done during the early stages of building vibrant agribusiness and agro-industrial sectors. Fortunately, there are relevant and useful mechanisms to mobilize additional resources and mitigate the costs and risks for prospective investors and financial services providers.

The main intervention areas relating to financing and risk mitigation would include the following:

Public-Private Partnerships
Many types of public private partnerships have been developed to share the costs and risks of activities that are viewed as being beneficial from both a public and private sector viewpoint. In support of agribusiness and agro-industries, partnerships have been developed in research and development, for infrastructure development, and to ensure that the specialized management competencies and technical expertise of private sector firms are directed at benefiting small farmers and processors. While there is increasing knowledge of and experience with public-private partnerships, the capacity to develop and implement such partnerships is still relatively underdeveloped.

The programme would provide a range of support for the development and implementation of public-private partnerships, including appraisals and proposal preparation, strengthening of institutional capacity and, when appropriate, partial funding for well-planned initiatives directly supporting development of agribusiness and agro-industrial sectors.

Loan Guarantees
One way to promote lending to agribusinesses and agro-industries is to guarantee loans to agro-enterprises. Loan guarantees can be offered by private or public sources to support increased and sustained bank lending to agro-enterprises. Loan guarantees are often provided in conjunction with matching grants for capacity enhancement and are used in combination with other financial instruments.

The programme would mobilize resources and help create institutional capacities and appropriate management capacities for loan guarantee programmes targeted to agro-industries, agro-enterprises and agricultural value chains.
Investment Funds
Investment funds specifically targeted to African agribusiness and agro-industries can help spur needed growth of agro-enterprises. Investment funds can be used to increase the size of investments and allow firms to leverage additional capital. Most investment funds, however, must deliver attractive rates of returns and as a consequence tend to benefit large agro-enterprises. This has led to a gap that is sometimes referred to as investments for the “missing middle” of local, middle sized agro-enterprises. To address this gap, smaller agribusiness-targeted investment funds have been launched in several African countries. There is also a growing array of social and environmental funds that are potential sources for investment in African agro-enterprises and agro-industries.

The programme would help ensure adequate capitalization of well performing funds, including through financial wholesaling. It would also seek to develop and operate investment funds to provide complementary support for investment in agribusiness and agro-industry.

Value Chain Finance
Value chain finance covers a variety of mechanisms for providing resources to enterprises taking into account the involvement of those enterprises in commercially viable value chains, and provision of resources by one value chain partner to another partner. One simple example of value chain finance is a contract under which an agribusiness buyer provides producers with inputs or other pre-financing and recovers what is owed when the products are delivered. There have been rapid developments in the field of value chain finance and there are now many specific mechanisms and schemes to mobilize value chain financing. Aside from many types of contract farming, these schemes include warehouse receipt systems, forward contracting, lead firm financing, and trader receivables financing.

The programme would provide support for the piloting, further development and scaling-up of value chain financing schemes. The programme would also support the setting up of proper legal frameworks, policies and institutional capacity to support replication of effective models.

Risk Mitigation Products
Reducing the risk for farmers, small and medium agro-enterprises and agro-industries is one of the most important factors for mobilizing sustained investment in the sector. It is therefore critical to develop sustainable risk mitigation products specifically targeted at the needs of these actors. Innovations like revenue and index-insurance, warehouse receipts systems and forward contracting have promising prospects for agro-enterprises and agro-industries in Africa. As with various forms of value chain finance, the programme would provide support for piloting, further development and scaling-up for various risk mitigation products including but not limited to insurance. The programme would also help improve the capacity of financial institutions to develop and support risk mitigation products, and capacities of the public sector to create enabling policies and regulatory frameworks and provide appropriate oversight.

3.3.4 Enabling Policies and Public Goods
Most African countries have relatively well defined agricultural and rural development policies but in many cases these give insufficient attention to agribusiness and agro-industries. During the next five to ten years, there will be a need to formulate and implement policies and provide public goods that can enhance profitability and competitiveness, while ensuring that agribusiness and agro-industries contribute to the development of smallholder farming, food security and nutrition, job creation and poverty alleviation. Whereas the following policy measures are proposed as intervention priorities under the prospective programme, it is clear that the programme will need mechanisms for considering and taking into account the great diversity of economic, social and political conditions throughout the continent.

The main intervention areas relating to enabling policies and provision of public goods include the following:

Sector Strategies and Plans
Most countries regularly prepare and update agricultural sector strategies and plans. It is important that these plans encompass the agro-industrial and agribusiness sectors as well as the primary
production sectors, and identify priorities for accelerating development of strategic agro-industries in specific regions. Because different ministries quite often have responsibility for agro-industries and agricultural development, strategy development, planning and policy implementation can be enhanced by strengthening the capacity and linkages among public agencies responsible for agriculture, agribusiness and agro-industries, and by reinforcing mechanisms for multi-stakeholder consultation.

The programme would provide support for agribusiness and agro-industry strategy development, and for incorporating these strategies into agricultural sector policies, plans and programme frameworks.

Legal and Regulatory Frameworks
A legal and regulatory framework, establishing obligations, rules and rights, is a necessity for doing business. While regulations are essential, they have to be developed and implemented in ways that do not impose undue costs and burdens if they are to facilitate doing business and attract investments that promote economic development and ultimately reduce poverty. Many regulations impact on all economic sectors and, as a consequence, regulatory reform is generally considered to be a macro economic issue. However, some regulations have specific implications for agribusiness and agro-industries. For example, the potential profitability of agro-processing firms can be substantially affected by domestic content requirements, food quality and safety standards, customs valuation and clearance procedures, and licensing requirements.

The programme would support regulatory reforms relating to economic, social and administrative regulations that most specifically impact on agribusiness and agro-industries.

Grades and Standards
The development of dynamic and competitive agribusiness and agro-industry sectors needs standardized products. Similarly, food safety is a must for public welfare and consumer confidence. The expectations, standards and assurance systems for basic quality and safety increasingly are becoming similar for national, regional and global markets. There is therefore a need to develop and build capacity relating to food standards that are responsive to domestic needs and, as needed, comply with international requirements and standards. In the light of the rapid proliferation of public and private food standards, there is growing interest in harmonization of standards.

The programme would support development and harmonization of standards, and strengthening of capacity for compliance with and enforcement of norms and standards – including internationally recognized ones such as the ISO series (ISO 22000 in particular) and GlobalGap.

Agricultural Mechanization
In many parts of Africa, land preparation is carried out by the hand hoe on well over half of the cultivated land. In sub-Sahara Africa, land preparation is being carried out using draft animals and tractors on only 30 percent of the area cultivated. To mitigate food crises for consumers, increase productivity and income for producers and generate reliable raw material inputs for agro-industries, African agriculture has to move away from centuries old technologies like the hand hoe to more mechanized and sustainable farm operations which could be offered through service providers who are commercially viable. Attention is also needed to the development, manufacturing and effective utilization of agro-processing machinery and equipment, and to building capacities for effective maintenance of equipment. At present, African agro-industries experience long lead times for imported machinery and spare parts, long downtimes, and high maintenance costs.

The programme would support the development of mechanization strategies and programmes, and would play a role in correct selection of appropriate mechanization systems suitable for African conditions. The programme would also help to establish local capacity to adapt available technologies and local manufacturing of the necessary equipment.

Markets and Trade Infrastructure
The improvement of market and trade related infrastructure at the national and regional levels is essential to lower costs and boost the development of agribusiness and agro-industry, particularly in the light of growing opportunities in regional markets. Market and trade infrastructure underlying transportation and
communication systems, as well as electricity, water and sanitation services, etc., are public goods and as a consequence, governments have a leading role in ensuring adequate investment.

The programme would provide support for undertaking appraisals, developing financing proposals and as appropriate helping to establish public-private partnerships to accelerate development and ensure maintenance of infrastructure impacting on the agricultural sector, with particular attention to market and trade related infrastructure.

**National and Regional Trade Policies**

The productivity and efficiency of agribusiness and agro-industries often requires that companies access inputs and sell products regionally or internationally. There is therefore a need to ensure that trade policies create appropriate incentives for companies that operate regionally and globally, and to continue making progress in eliminating tariff and non tariff barriers to intra-regional trade. There is also a need to harmonize national investment codes at regional level. To succeed in establishing enabling trade policies, policy makers and technical officers need to be able to consider and respond to a wide range of technical issues covered by World Trade Organization (WTO) agreements, sanitary and phytosanitary (SPS) agreements, and related agreements that could pose potential barriers or provide opportunities for trade.

The programme would provide support for development of agricultural sector related trade policies and agricultural sector related trade agreement negotiations, including capacity building support.
African agribusiness and agro-industries development initiative (3ADI): a programme framework
4. PROGRAMME APPROACH

The initiative hereby proposed builds on ongoing efforts in Africa to support the economic transformation of the continent, particularly those that focus on the agriculture sector as an engine of economic and social development. With its focus on agribusiness and agro-industries and with a strategic orientation that prioritizes African markets, resources, enterprises and governance structures, the 3ADI uniquely complements current development efforts in the Continent. As discussed next, the programme approach characterized in this section underscores this complementary role and adherence of the 3ADI to institutional frameworks already endorsed by African regional governance bodies.

4.1 CAADP PILLAR II AS OVERARCHING INSTITUTIONAL FRAMEWORK

The Comprehensive Africa Agriculture Development Programme (CAADP) of the African Union’s New Partnership for Africa’s Development (NEPAD) is an Africa-led initiative that aims to help countries in the Continent reach a higher path of economic growth through agriculture-led development. CAADP’s work is organized under four pillars, namely:

i. Extending the area under sustainable land management and reliable water control systems;

ii. Improving rural infrastructure and trade-related capacities for market access;

iii. Increasing food supply and reducing hunger;

iv. Agricultural research, technology dissemination and adoption.

While contributing to the overall objectives of CAADP, 3ADI addresses primarily Pillar II, which aims to accelerate growth in the agriculture sector by raising the capacities of private entrepreneurs to meet market requirements. Pillar II also seeks to promote the regulatory and policy framework needed to facilitate the emergence of regional economic spaces that would spur the expansion of regional trade and cross-country investments.

Pillar II calls for improving local infrastructure (transportation, storage, packaging and handling systems, retail facilities, information technology and overall supply chains) for better connections to markets by African farmers. It also calls for improvements in transportation, improvements in competitiveness through sound trade policies at the national, regional and continental level, expansion of domestic and foreign direct investment in agriculture, strengthening of capacities to participate in trade negotiations and meet markets access requirements for world trade, and strengthening capacities among the agribusiness community.

The 3ADI has been designed to be coherent and in harmony with the overall strategy proposed for the implementation of CAADP’s Pillar II. All elements of Pillar II’s strategy are considered in the programme framework. Significantly, most of the actions identified in the prospective programme framework described above have already been endorsed during the “African Agriculture Ministers’ Conference” held in Addis Ababa in April 2009, which focused on “Regional Agriculture Trade and Market Systems”. They are also consistent with the views and commitments expressed in the AU Summit Sirte Declaration of July 2009.

4.2 INTEGRATE INTO REGIONAL ORGANIZATIONS, ALLIANCES AND INITIATIVES

A comprehensive and complex programme such as 3ADI cannot successfully operate only at the continental or national levels, as it deals with issues that transcend national boundaries but also needs to account for the diversity of the different African regions. Fortunately, the existence and growing importance of regional organizations in Africa offers an institutional setting in which the programme can be inserted. The initiative will work closely with the African regional organizations and Regional Economic Communities (REC) throughout all stages of its design, inception and implementation.
An additional principle to be followed in the programme approach is to ensure that 3ADI benefits from and is complementary to ongoing initiatives led by regional organizations that support the strengthening of market linkages and regional trade capacities in Africa. These initiatives will not be by-passed; synergies will be built and efforts will be made to ensure strong complementarity.

Finally, the programme will ensure stakeholder involvement through engagement with existing entities that represent agribusiness and agro-industries in Africa, including producer organizations, commodity associations, and trade federations.

4.3 PRIORITY TO DOMESTIC AND REGIONAL MARKETS

There is widespread policy consensus in Africa that domestic markets offer potential but underutilized opportunities for expanding incomes and reducing poverty in Africa. The International Food Policy Research Institute (IFPRI) estimates that domestic food staples, roughly a US$50 billion industry, will double by 2015. The rapid rate of urbanization is a key factor in shaping this growth. Urbanization is also a major factor influencing the modernization of agri-food systems, the rise of supermarkets being perhaps its most noticeable facet. In sub-Saharan Africa, the supermarkets trend is in the early stages but is growing rapidly. This trend reflects the perception of investors about the growing potential of domestic agri-food markets in Africa, a vision that is shared by 3ADI. Consumption trends in Africa suggest that the continent will become increasingly a net importer of foodstuffs. This offers opportunities for import substitution, particularly for value added products, further increasing the attractiveness of domestic markets.

Regional trade will likewise be prioritized under 3ADI. As earlier mentioned in this document, increased trade in domestic and cross-border markets alone is expected to reach as much as US$30 billion by 2030. Intra-regional exports are still relatively low, averaging $3.8 billion between 2000 and 2005, but the potential growth is substantial, as indicated from the high level of non-African imports of agricultural commodities, estimated at US$ 33 billion. Indeed, the importance of regional trade was highlighted during the recent African Agriculture Ministers’ conference of April 2009, which included a sub-theme that dealt specifically with this issue. By emphasizing more on domestic and regional markets, the 3ADI would directly focus on priorities identified and pursued by African organizations and policymakers.

4.4 PUBLIC SUPPORT FOR ENGAGING THE PRIVATE SECTOR

The success of the 3ADI depends upon a number of factors, among which a central one is the engagement and cooperation of actors from both the public and private spheres of the African agri-food economy. Public-private cooperation will be instrumental to the implementation of the programme framework proposed here, including its management and oversight.

In order to attract the private sector into the types of investments promoted by the programme, African governments will need to provide facilitation and support functions in several areas characterized above, especially in the:

- identification and dissemination of investment opportunities in the agri-food sector;
- actions to reduce the risks of private sector investments in the agribusiness and agro-industrial sub-sectors;
- improvement of the regulatory and policy frameworks, or the enabling environment, for investments in agro-industries and agribusiness development
- support for institutional innovations that are conducive to entrepreneurship development; and
- co-funding and guarantees to reduce start-up investment costs.
Chapter 4 - Programme approach

4.5 SYNERGISTIC AND COMPLEMENTARY FINANCIAL MECHANISMS

In the recent past, a number of financial facilities have been initiated to increase investment in agricultural development in Africa. By and large, they privilege investments for increasing agricultural production and farm productivity. The 3ADI has been designed to complement and act in synergy with the existing financial facilities, bridging the known gaps and unleashing newer financial opportunities, primarily those that can be supported by the African financial system itself.

A unique feature of the 3ADI is indeed the focus on agro-enterprises and agribusinesses that add value to agricultural production through activities such as agro-processing, post-harvest handling, supply chain management and trade promotion, effectively linking farmers to the growing markets for higher value food and agricultural products in Africa.

Another distinctive characteristic is the strategic emphasis on leveraging financial resources from African banks. There is increasing evidence of the existence of liquidity in the continent’s commercial banking system. However, in a sample of nine countries in Sub-Saharan Africa (Tanzania, Uganda, Nigeria, Ghana, Malawi, Sierra Leone, Mozambique, Kenya and Botswana), the average commercial bank loans and advances to the agriculture sector in 2008 was less than 6 percent of the total loan portfolio, compared to 47 percent for services and personal loans. Overall, private banks tend to find the return/risk ratio for investments in African agriculture not commensurate with their financial attractiveness benchmarks. By acting upon many of the factors that impact on private investors’ perceptions of risks and returns, the present initiative is expected to contribute to an increased willingness of private banks to lend to agro enterprises and to increasing entrepreneurial attention to Africa’s agri-food investment opportunities.

A further singular feature of the 3ADI is its wider geographical coverage, when compared to existing programs and financial facilities that cover the agri-food sector in Africa. Indeed, the present Initiative is intended to have continental reach, without any pre-exclusion of particular countries and or regions as potential beneficiaries.

To ensure complementarity and synergies with existing initiatives, African multilateral organizations and financial institutions would need to play an active role in any governance structure to be established for the 3ADI and the proposed financing facility that will be integrated to it. A draft concept note for this facility has been prepared and is undergoing a consultative process that should lead into a more elaborate proposal. One of the options being considered is a financial facility which would have two financing windows that would respectively support public and private sector interventions envisaged in the programme framework.

The public sector window would cover loans and technical assistance while the private sector window would consist of a commercial investment fund, partial guarantees and matching grants. The objective of the public sector window would be to provide African governments with funding support for strategic, well-planned initiatives to further promote their agribusiness and agro-industrial sectors focussing on leveraging increased private sector investments for their development. The objective of the private sector window would be to leverage the expertise and resources of commercially viable banks, leasing companies and investment funds to invest in agribusinesses and agro-industries in Africa. In addition, it would aim to reduce the risk for participating institutions by offering risk sharing instruments, such as partial guarantees on their agribusiness and agro-industry portfolios. Lastly, it would seek to enhance the capacity of the banks, leasing companies and investment funds to better serve agribusiness and agro-industries.

Other options being considered for the financial facility include:

i. A financial facility that targets specific aspects of the programme framework which are not covered by existing facilities for public sector lending (e.g. IFAD and AfDB’s public sector window) and private sector lending (e.g. AfDB’s private sector window and the World Bank’s IFC);

ii. A monitoring and evaluation framework that ensures that existing facilities address the programme areas identified in the 3ADI;

iii. Development of country-specific mechanisms that facilitate increased private and public sector investments in the agribusiness and agro-industries sector (e.g. through initiatives of central banks).

These options for the financial facility are still under development and will be considered during the HLCD-3A.
3ADI AFRICAN AGROBUSINESS AND AGRO-INDUSTRIES DEVELOPMENT INITIATIVE

A PROGRAMME FRAMEWORK

AFRICAN UNION
AFRICAN DEVELOPMENT BANK
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
UNITED NATIONS ECONOMIC COMMISSION FOR AFRICA
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION