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## FAO STATEMENT

BY

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AFRICAN MINISTERS OF INDUSTRY,**

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*Mr Chairman,*

*Distinguished Delegates,*

*Ladies and Gentlemen*

Thank you for the opportunity to address the 17<sup>th</sup> session of the Conference of African Ministers of Industry.

Before reviewing the measures being taken by FAO to assist member countries grow competitive agro-industries, let us review the landscape in which these efforts take place.

Mr Chairman, the environment for development of agro-industries in Africa is relatively weak. The enabling environment can be problematic; Africa remains a high-cost, high-risk

place to do business. Overall, the cost of doing business in Africa is 20-40 percent above that for other developing regions. Legal protection in many jurisdictions is weak.

Africa's export competitiveness has declined. Global trade has increased at unprecedented rates over the last three decades, but Africa's share of world exports has dropped from 3.5 percent in 1970 to 2.0 percent in 2003. The key reasons include weak basic market institutions, poorly performing customs and trade related services, and constrained access to finance.

In many countries the post-primary education system is not building skills for growth and competitiveness and there is limited ability within industry to absorb technology and to innovate. National innovation systems are weak and few links exist between firms and local repositories of knowledge and skills, such as universities, centres of excellence, technical and vocational training institutes. FAO has noted a lack of sufficient national human resources with adequate skills in quality management and business management.

Reliable raw material supply for agro-industries is a critical success factor. Too often farmers cannot deliver suitable raw material to agro-industries in the quantities and time schedules that their processing facilities demand. This seriously affects the efficient operation of the processing facility and the profitability of the venture.

The smallholder farming sector is ageing. Due to its subsistence, traditional, and laborious nature, farming is not popular among youth and they move to the cities. There are then less farmers to produce for more city dwellers; increased food importation and inability to meet the needs of agro-processors is the logical result with its negative affects on the economy.

Numerous recent reports have highlighted the lack of infrastructure in Africa and the constraint that this represents to the development of agro-industries. To achieve the 7 percent growth rates needed to halve income poverty will require investment of around \$20

billion per year together with complementary measures to cover operations and maintenance.

The constraints I have outlined are also highlighted by the low level of foreign direct investment in agro-industries in much of Africa.

Mr Chairman, distinguished delegates, there are some bright spots. As a result of reforms undertaken by most African countries during the 1980s and 1990s there are conducive macro-economic environments in many countries. There is an abundance of natural resources available for agricultural production and trade. Varied climatic and agro-ecological zones are ideal for the production of a wide range of crops, almost year-around. The individual Regional Economic Organizations (REO) constitutes markets having significant numbers of consumers of food and agricultural products. Urbanisation increases the African markets for processed products.

Turning now to the specific case of agro-industries; agro-industries are one part of modern agrifood systems. Modern agrifood systems are characterized by their strong backward and forward linkages among agricultural enterprises, strong synergies between domestic and export sectors, and perhaps most importantly high production and service value addition relative to primary production. These systems are subject to change that is driven by a number of factors. In particular we note that per caput incomes are increasing in developing countries. We are advised of significant demographic changes most notably, urbanization, with 99% of additions to population up to 2050 projected to be in the urban areas of developing countries. We observe that globalisation has brought increased trade and capital flows, particularly FDI, and also convergence of diets. We have previously reported on changing purchasing habits showing increases in away-from-home food expenditures, increased expenditures on pre-processed foods, and increased concern with health and food safety. We are aware of the diminishing role of the public sector with many classic instruments for public intervention having disappeared, for example marketing boards,

national cooperative unions, international commodity agreements; in addition we have seen the end of policies to set official commodity and input prices and withdrawal of the state from direct involvement in agribusiness. Finally, we take note of a dramatic decline in costs for international transport and communication.

These drivers are producing a number of noticeable trends. Firstly, rapidly changing consumer requirements and purchasing habits. Meeting these expectations from diverse sources of supply and managing commercial risk has led to the second trend, which is a rapid rise in private sector standards and the internationalization of these. To achieve economies of scale the sector has increased concentration at all levels, particularly in the retail sector where the growth of supermarkets is tangible evidence of this. Concentration has widened the nature of competition to include non-price attributes such as on service, variety, quality, consistency, etc. Finally, we see a substantial increase of value addition through agribusiness and agro-processing relative to primary products supply.

Turning to commodity trade, we note a trend towards sourcing from a few reliable supply markets, with product differentiation, particularly through branding, becoming a key competitiveness factor. This has been complemented by the phasing out of special programmes and non-tariff measures designed to protect trade. We, along with many others, observe a secular decline on commodity prices. Farm-gate prices of many commodities are now lower than they were 20 years ago and there are widening spreads around prices together with increasing distinctions in terms of price and rules of the game between bulk and speciality markets. The overall effect of these is to squeeze the prices received by producers of bulk or anonymous quality commodities.

It is becoming increasingly clear that these trends are impacting on growth, poverty and food security. So far, our agrifood systems are not ensuring an abundant supply of food for all people and there is slow progress in reducing food insecurity, notably in Africa. In many instances we observe unstable supply and high price variability in food and there appears to

be increased vulnerability of local food systems to externally driven events. The changes in agrifood systems are not benefiting the majority of farmers in Africa. The farmer share of the food value has declined and continues to decline. Supermarkets and agro-enterprises have been exerting control over farmers and their decisions through the imposition of standards and other requirements that they require to meet their consumer expectations. These represent a barrier to participation by farmers in modern agrifood systems. The logical extension of these effects is that entire countries and sub-regions risk being left behind. We have noted increased global capital flows, but these are heavily concentrated in relatively few countries. As product specifications advance rapidly, poorer countries are unable to keep up and benefit from their lower labour costs. There is a substantial “adding up” problem when several countries increasing exports simultaneously leads to price collapse. There is also anecdotal evidence of a decline in trader interest in countries with fragmented and poorly performing supply channels.

Mr Chairman, distinguished delegates, how can we improve the performance of agrifood systems such that member countries can grow competitive agro-industries? FAO has identified five key areas of intervention that focus on value chain creation in the agro-industrial sector. Firstly, it is necessary to build strong backward and forward linkages among agro-enterprises in a value chain. These linkages must enable the delivery of crucial inputs and services to farmers and thereby reduce costs, including transactions costs, and ease uncertainty of inputs supply. Efforts must be made to disseminate technology, capital and knowledge to induce and support productivity gains. It is essential to improve logistics through standardization and to reduce product losses and improve product quality and safety.

Secondly, there must be a focus on product innovation, differentiation and branding. Particularly important are novel processing and packaging techniques. Value chain partners must differentiate their chain to offer specific value added products and services to particular market segments. The value chain leaders must maximize use of local assets and

link into new markets without pre-empting attention that must be devoted to local needs and markets.

Thirdly Mr Chairman, we suggest that attention is given to building skills for growth and competitiveness throughout the value chain. This includes, training smallholder producers to be able to supply high quality products in timely manner, building business management skills in enterprises to improve decision making and capacity for managing change, improving understanding of markets and how to base production planning on market requirements, and technical skills to increase value addition.

Fourthly, the role of producer and marketing associations must be strengthened. It is essential to consider consolidating these associations to achieve economies of scale and building their capacity so that they can efficiently negotiate and explain contracts, act as service intermediaries, provide organization and information needed to enter markets, and empower farmers and agro-enterprises to deal with highly concentrated sellers and buyers.

Finally, we must not lose sight of the importance of agribusiness institutions and services. Value chains require risk management and sharing schemes, including index insurance. It is also essential that they have access to information and knowledge management systems for food systems, including information about evolving international requirements for quality and safety.

Mr Chairman, distinguished delegates, as I draw my intervention to a close, permit me to touch on the key policy changes that flow from the interventions that I have just outlined. Governments face a number of policy challenges to create an enabling environment for competitive agro-industries. I shall briefly outline four main themes. They are sectoral co-ordination, governance and asymmetric power, public-private partnerships, and quality and safety assurance.

Successful value chains rely on co-ordination. There may be a need for legal, policy and regulatory reform to improve competitiveness, reduce coordination costs and enforce contracts. Consideration must be given to how to set and enforce fair “rules of the game” and to ensure that there are systems of incentives and institutional arrangements that will help local farmers, traders and agribusiness without undermining market forces.

Attention must be directed to governance and the problem of asymmetric power. Value chains can be negatively impacted by free rider problems and transaction costs. Policy makers must consider when and how to compensate for market failures and asymmetric power. There is a need to ensure that there is clarity in terms of policies for FDI, acquisitions mergers, and intellectual property rights.

Finally, there is the matter of quality assurance and management systems which include GAP, GMP, HACCP, segregation, identity preservation, and traceability, among other tools. The harmonization of national food quality systems with international requirements is an important consideration as are legislative and institutional frameworks for standards compliance.

We wish to conclude by stressing the need to strengthen the linkage between agriculture, industry and trade; add value to Africa’s primary agricultural products and to develop the local manufacturing capacity for agricultural inputs, especially fertilizers. While African soils are depleted and can hardly support crop production on sustainable basis, Africa continues to export the raw materials needed for fertilizer manufacturing. While Africa is sitting on vast phosphate deposits, African farmers lack phosphate fertilizers. While gas is being flared in the process of crude petroleum extraction, African farmers lack the ammonium fertilizer needed to feed the continent. Post-harvest losses account for about 40 per cent of Africa’s total fruit production yet Africa spends huge foreign exchange importing packaged juice. Indeed, the paradox of Africa’s agro-industrial development is

worrisome and must be addressed in poverty reduction and food security strategies in order for the continent to make faster progress.

Mr Chairman, distinguished delegates, FAO is committed to supporting the growth of competitive agro-industries because they can contribute to poverty reduction by raising the income of rural poor and accelerating broader economic development. We look forward to continued collaboration with UNIDO, FAO's great partner in this endeavour and to serving the needs of our member countries.

Thank you.