



**African
Economic
Platform**

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PLENARY PANEL 1

A brief on the

***African Union Commodities Strategy
and Industrialization***

The African Union Commodities Strategy and Industrialization

1. Africa has about 12 per cent of the world's oil reserves, 42 per cent of its gold, 80–90 per cent of chromium and platinum group metals, and 60 per cent of arable land in addition to vast timber resources. Africa experienced a commodity boom since the early 2000s translating to the continent's unprecedented growth that was only disturbed by the onset of the Global Financial Crisis of 2008. Whilst the Continent was able to recover from this global shock by 2010, and rebounded with a strong growth rate of 4.6 on average, this boom did not translate to consummate economic diversification that would have led faster social development for the African people.

2. The recognition of the challenges and opportunities of Africa's commodity wealth has been reflected in different decisions of the African Union including the Arusha Declaration on African Commodities and in other frameworks such as the Comprehensive Africa Agriculture Development Program, the Africa Mining Vision (AMV) and the Strategy for the Accelerated Industrial Development of Africa (AIDA). However, the challenges arising from continually fluctuating commodities prices and Africa's limited value addition to its natural resources have necessitated a holistic rethinking and fresh approach to the question of how African commodities wealth can drive the continent's development.

3. The 2013 Economic Report for Africa produced by the United Economic Commission for Africa (UNECA) sadly notes that most African economies still depend heavily on commodity production and exports, with too little value addition and few forward and backward linkages to other sectors of the economy. The Report further notes that the limited impact of commodity-driven growth on employment and social development has been aggravated by liberalizing reforms and globalization that, in the absence of serious government policies to promote economies' productive capacities and ability to compete in international markets, have left a legacy of inappropriate incentives and institutions that threaten economic and political stability as well as social cohesion. African countries must therefore address the reasons why stronger growth and trade have not stimulated economic diversification, job creation and socioeconomic development.

4. Africa's vulnerability to external shocks partly due to the dependency on the export of raw commodities is a continuous cause of worry. It is in this regard that one of the priority Projects under the Africa Union's Agenda 2063 is the formulation of a Commodities Strategy for the Continent. This Strategy, though still at a development stage, lays out a vision for commodity-led industrialization: to use Commodities as a driver for achieving the structural social and economic transformation of Africa. It will seek to enable African countries to among others, add value, extract higher rents from their commodities, integrate into the Global Value chains, and promote vertical and horizontal diversification anchored in value addition and local content development.

5. This Strategy will aim at fulfilling the aforementioned objectives by reviewing the state of play for high-priority commodities sectors in Africa, namely agriculture, mining, and energy. It considers current trends and outlooks, as well as sector-specific opportunities and challenges. It also focuses on addressing Commodity Price Volatility and ushering Africa into an era of Commodity based Industrialization. Commodity Price volatility continues to be a critical feature of international commodity markets and this creates challenges for the macroeconomic management of and exposes developing countries to greater macroeconomic uncertainty. Commodity based industrialization can serve as a launching pad for long term diversification in new non commodity sectors, if well supported by robust industrial policies.

6. This is achievable given that Africa boasts of significant human and natural resources that can be used to promote industrialization and structural economic transformation through value-addition strategies in all sectors. With Africa's growing, predominantly young, skilled and urbanizing population, as well as the continent's aforementioned endowments in many natural resources, including plentiful land and fertile soils, oil and mineral, Commodities can play a crucial role in the drive to industrialization. However, the key challenge for African countries is to ensure the design and implementation of effective policies that promote industrialization and economic and structural transformation. This strategy therefore is of paramount importance in assisting Africa realize full benefits from its commodities for the betterment of its people.

7. A recent phenomenon amongst transnational corporations has been fragmenting their production processes, so as to efficiently exploit different countries' comparative advantages along (regional, subsequently global) value chains, forming a global division of labor. This has led to an increase in international trade in intermediate goods, which now accounts for about half of global trade. According to a recent report by UNECA, Africa accounts for only 2–3% of the global trade in intermediates, and its exports of intermediates remain dominated by mining products and resource-based manufactures. Despite its small size, intra-African trade in intermediates is far more diversified than the corresponding trade with the rest of the world. This therefore offers an opportunity for the continent to position itself strategically in line with its resource endowments to actively participate in the global value chains as compared to what is obtaining currently thereby effectively putting itself in a sure path towards industrialization.

8. For Africa to however take full advantage of this and participate effectively in global value chains, it will need to effectively address its regional value chains which could be easy to organize and then address other barriers that have led to low levels of intra-regional trade such as its inefficient trade related infrastructure and logistics, among others.

1-Agro-processing: a key element of African agricultural transformation

9. Tapping into the fast-growing intra-African market opportunities requires structural transformation of African agriculture that entails shifting from highly diversified and subsistence-oriented production systems towards more market-oriented ones. It further requires substantial investment and improved capitalization, increased productivity and competitiveness of the sector. Overall, efforts for effective transformation of agriculture seek to address the paradox of the continent's heavy dependence on increasing imports to feed its fast-growing and urbanizing population in the face of considerable potential for increased domestic production and intra-regional trade in food. Within the framework of the CAADP national and regional compacts and investment plans, and in a context of increasingly expensive, volatile and unreliable supplies from global food markets, agro processing presents an opportunity to advance agricultural transformation agenda in Africa.

10. Considerable progress made by various African countries in recent decades indicate that many have implemented reform programmes to improve the development and management of agro processing to shore up the sector. Notable increase and progress varies both among and within regions in expenditures on overall, and agro processing-specific infrastructure. This is encouraging. These initiatives include establishing agro processing plants, storage, laboratories, border control systems information systems and services, to facilitate access to regional markets and to integrate smallholders into value chains.

11. The rural infrastructural development in Africa is presently grossly inadequate because African countries have found it difficult to provide sufficient rural infrastructure. In spite of the fact that African Heads of State do realize the importance of rehabilitating their few existing rural infrastructure and building new ones to support their various national agricultural transformation agendas, they do not have definitive databases of the existing infrastructure in their countries and regions. The need to mobilize investments in rural infrastructure is thus hampered. Consequently, African countries have found it difficult to promote their agricultural and agribusiness development initiatives and to link their rural infrastructure to regional markets around them.

12. *Key Continental findings* indicate that the main constraints to rural infrastructural development and management are:

- Small investment capacities due to inadequate allocation of domestic financial resources or inability to attract adequate foreign domestic investments (FDI) for infrastructure investments;
- Lack of a dependable database of the various ventures in infrastructure that really exist in the countries and region and that subsequently hampers the mobilization of investments for the infrastructure sector;
- Limited capacities in forging Public-Private-Partnerships with local or small businesses in the private sector, especially given the high costs of infrastructure, the long-term nature of the returns to such investments, and the fact that most of the returns cannot be internalized;
- The lack of political will as reflected in the low priority given to agriculture and related infrastructural development;

- Inadequate capacities in the RECs for assisting member states to develop, coordinate, and implement policies, programs, and infrastructure projects;
- Lack of or inadequate capacities to manage farm-to-market roads and transportation systems, irrigation systems, farm processing and storage facilities and equipment's, capacities to install and manage appropriate but especially modern storage, packaging and handling systems, and input supply networks for enhancing the competitiveness in both domestic /national and export markets, and institutional capacities in agricultural research and technology development and transfer for food and animal production for increasing productivity.

2-Agro-processing and value chain development

13. Developing regional and national value chains (VCs) for strategic agricultural commodities, especially those identified by the AU Food Security Summit in Abuja 2006, provides a basis for African countries to address the challenges of poverty and malnutrition, as well as contributing to a better functioning of intra-African market for food products. Similarly, as earlier indicated, there is a need for an inclusive value-chain approach to agricultural development in which agro-industry and agribusiness stages link farmers to the market.

14. Currently, agro-processing at rural level in Africa is mainly very basic in nature. As direct consequence of Sub-Saharan countries experience huge post-harvest losses for perishable agro-commodities such as fruits and vegetables, the post-harvest losses average 35-50% of total attainable production, meanwhile for grains vary between 15 to 25%.

15. Against this backdrop and as we look forward to transforming economies of Africa, the coming decade should focus on widespread value chain promotion and well-articulated context specific agro-processing units in a way that addresses regional imbalances. This is a critical path to success and an achievable ambition for boosting intra-African trade.

16. Africa's food and agricultural market is growing fast. Fuelled by strong population growth (about 3% per annum) and recent income growth (about 5% per year), this market is currently 1 billion people strong, including some 123 million 'middle class' consumers with daily per capita expenditure levels of US\$4-20. Furthermore, rapid urbanization (at the annual pace of 5%) contributes to expanding demand for food even faster and the World Bank projects Africa's urban food markets to increase fourfold and exceed US\$ 400 billion by 2030. Africa has all it takes to meet this fast-growing demand and even go beyond.

Questions:

1. Is there broad-based political commitment on the continent to move towards a harmonized strategic approach towards harnessing mineral resources for sustainable development?
2. If so, which specific value chains will be the main drivers for industrialization and regional/ continental integration in the commodity sectors?

3. As most African economies are reliant on agriculture, what are the five most essential elements needed for boosting agro-processing industry in Africa?
4. Identify key opportunities for increasing the market for agro-processed commodities in Africa?