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## BACKGROUND PAPER

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# Strengthening Institutions for Agricultural Transformation

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## **EXECUTIVE SUMMARY**

The Agricultural transformation agenda in the African context must encompass at least two inter-related components. These are the imperatives of modernising agricultural production systems and transforming the agricultural products through the promotion and expansion of agro-industries and agribusinesses. These are absolutely necessary for increased sustainable production and productivity, creation and expansion of decent jobs and incomes for improved livelihoods and for shared prosperity.

There are a number of opportunities for achieving agricultural transformation in Africa including positive food and agriculture supply and demand prospects, the emerging political commitment for change and transformation, the emerging global convergence around key transformation goals and evidence on Africa's own encouraging agricultural performance over the past few years. Africa can and should convert these opportunities to tangible possibilities.

Institutions are at the centre of facilitating and driving the transformation agenda. They have the functions of ensuring delivery of key inputs, resources and services both for modernising agriculture and for product transformation as well as ensuring an optimal and desirable distributional outcome among disparate groups of actors so that the benefits of enhanced growth are shared equitably.

While it is true that lack of institutional capacities generally defines the African landscape (both public and non-public), the importance of carefully identifying and strengthening transformative institutions and according primacy to strengthening the institutional capacities of the key real actors and stakeholders (i.e. farmers and producers) cannot be overemphasised. The quest for transformative institutions is about addressing agricultural modernisation, fixing the broken value-chains in Africa as well as fixing the 'African paradox' of extreme vulnerability.

Strengthening institutions for agricultural transformation in Africa is essentially about nurturing and harnessing strategic leadership at all levels. It spans across sectors because the agricultural transformation agenda is not the exclusive remit of ministries of agriculture and rural development. It requires substantial investments but it is worth investing in, given its centrality and because the cost of doing nothing could be much higher.

## **1. BACKGROUND**

### ***The African Agricultural Transformation Agenda***

The agricultural transformation agenda, in the African context, should essentially address at least two inter-related key integral components. These are (1) transformation of the system of agricultural production (that is, modernizing it) to achieve increased productivity on a sustainable basis; and (2) transformation of the agricultural product to achieve increased value for effort through expanded rural employment opportunities.

These two processes are quite evident when we look at the experiences of countries in other regions where major agricultural transformations have successfully occurred. Those experiences attest that through modernizing the production system, high productivity levels have been achieved, which allowed surplus production and export of agricultural products. The process has also led to a significant lowering of average cost of production, contributing to stability of local food prices – and thus urban wages – which is an important condition for the competitiveness of industries and the service sectors in those countries, hence facilitating structural transformation.

The transformation of production and exchange systems: – where successful transformation has occurred, has led to a situation where agriculture is organized as ‘business’ – not just improving livelihoods but becoming a viable source of prosperity. Agricultural value-chains have been developed through promotion and expansion of agro-industries and agribusinesses, creating and expanding job opportunities and incomes.

### ***Challenges and Opportunities for Agricultural Transformation in Africa***

Reflecting on what obtains in the African realities, we are confronted with a number of conundrums.

The system of agricultural production has not been transformed in Africa, which means it has not been modernized. Although agriculture has been growing on average by about 4% per annum over the last few years, evidence indicates that much of the source of this growth came from expansion of cultivated area rather than increased productivity. Average yield levels are still low, levels of cereal yields are only about 25% of the

corresponding figures for developed countries. There is excessive dependence on rainfall, which is unreliable, forcing operation below capacity.

The Transformation of agricultural products has not been happening in Africa either; this is effectively blocking the way for specialization opportunities – Africa continues to export its products, unprocessed, as raw materials. There is little or no value addition along the value-chains, in the process forgoing opportunities in terms of lost jobs, incomes, and value of products.

There are legitimate concerns over the impacts of growth, particularly that they have not been inclusive of the vulnerable and the disadvantaged. In fact this constitutes what could be dubbed as Africa's paradox: Africa is among the fastest growing regions in the world – agriculture also growing – yet, Africa is the most food insecure continent with a quarter of its population categorized as undernourished.

Africa's dependence on food imports has risen from about 12% in 2000 to about 18% in 2010 for crops; and from 4% to 8% for meat during the same period. Agri-food imports have been claiming 40-50 billion US\$ per year. Note that Africa has been able to pay for such huge and rising import bills, so the problem has not been lack of effective demand!

## **2. OPPORTUNITIES AND POSSIBILITIES OF AGRICULTURAL TRANSFORMATION IN AFRICA**

*Supply and demand prospects:* on the supply side, estimates suggest that more than a quarter of world's arable land is located in Africa, but generates only less than 10 percent of global agricultural output. Africa has the potential to increase the value of its annual agricultural output by three-fold, from \$280 billion today to around \$800 billion by 2030. Looking at demand prospects, according to the World Bank projections, by the year 2050 African urban food markets are set to increase 4 fold to exceed US\$400 billion. There is going to be a significant rise in demand for processed foods and market logistics. Hence, transformation of the food markets offers immense opportunities. Agriculture and Agri-business are projected to become a multi trillion dollar business in Africa by 2030. These will have enormous impact on jobs, incomes, and livelihoods.

***Emerging political commitment:*** through CAADP, which is a framework for advancing Africa's agricultural transformation agenda, the African leaderships has been able to articulate a vision for agricultural transformation and expressed commitment to rally collective efforts around it. The AU Summit Declaration on Accelerated Africa Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods that was adopted in July 2014 in Malabo, Equatorial Guinea, contains specific targets to be achieved by the year 2025. According to this AU Declaration, the agricultural transformation agenda, facilitated through enhanced investment, must lead to (1) ending hunger and malnutrition; (2) significantly contributing to poverty reduction through embracing an inclusive strategy; (3) tripling intra-African trade in agriculture; and (4) building resilience towards significantly reducing vulnerability of production and livelihood systems. It calls for concrete actions and results on the ground, and provides for enhancing mutual accountability for results through a regular biennial review and reporting of progress to be made against those specific goals.

***Emerging global convergence around key goals:*** It is also remarkable that there is an emerging convergence of Africa's and global transformation agenda on agriculture. Africa's 2025 vision on agricultural transformation, though seemingly more ambitious, is evidently consistent with the 2030 SDGs adopted in September 2015 at the UN General Assembly. Similarly FAO's strategic framework on ending hunger and malnutrition, enhancement of agricultural productivity and sustainability, poverty reduction, inclusive and efficient agriculture and food systems, and resilience building, parallels that of Africa's agricultural transformational agenda. Such a convergence and consistency around key goals should enable better alignment of investments and harmonization of efforts with Africa's priorities as defined by the African stakeholders at various levels, but most importantly at national and local levels where the actual change and transformation takes place.

***Emerging evidence on Africa's performance:*** Evidences on the performance of Africa's agriculture registered in a number of countries over the last few years suggest that indeed agricultural transformation is not only feasible but is also within reach.

### **3. INSTITUTIONS AS LINCHPIN FOR AGRICULTURAL TRANSFORMATION IN AFRICA**

It is evident that institutions play a crucial role in facilitating and driving the process of transformation, hence the necessity to embark upon strengthening of institutional capacities on a continuous and sustainable basis. However, while there exist few controversies over the significant roles of institutions in driving agricultural transformation, there seems to exist some vagueness in the concept of ‘institutions’ and how the functioning of those ‘institutions’ either individually or through their mutual interface and interaction facilitate change and transformation process.

An important part of the difficulty is related to the varied nature and types of the entities that are defined by the category of ‘institutions’. The latter varies from public/government institutions (such as sector ministries; agencies of inputs supply and distribution; research and extension organisations; financial institutions such as government owned and operated banks, etc.) to non-government institutions (including private sector operators such as agro-dealers, financial institutions such as private banks, etc.), to farmers organisations, producers cooperatives and community-based organisations (including formal and non-formal), to civic society organisations (youth groups, women organisations, etc.). And all these operating at local, national, sub-regional, regional and global levels.

Institutions may facilitate or hinder the effectiveness of policies, strategies and implementation arrangements – hence playing important roles in terms of determining policy outcomes and impacts. Following from the foregoing discussion on agricultural transformation agenda, institutions may have the functions of either (a) ensuring delivery of key inputs and resources both for modernising agriculture and for product transformation – in order to facilitate enhanced sustainable productivity and growth, and/or (b) ensuring an optimal and desirable distributional outcome among disparate groups of actors so that the benefits of enhanced growth are shared equitably - i.e., facilitating the achievement of shared prosperity (contributing to goals of ending hunger, poverty eradication, reducing vulnerability, etc.). A summary of the various roles that different types of institutions may play to achieve the goals under the respective components of the transformation agenda, is provided in the following table.



	<b>Agenda of Agricultural Transformation (components)</b>		<b>Roles of Institutions</b>
	<b>1. Modernising Agriculture</b>	<b>2. Product Transformation</b>	
Goal	<ul style="list-style-type: none"> <li>increased productivity and production</li> </ul>	<ul style="list-style-type: none"> <li>Value-addition and loss reduction</li> </ul>	<ul style="list-style-type: none"> <li>Facilitate achievement and sustenance of high level of productivity;</li> <li>Facilitate an optimal distributional outcome for shared prosperity</li> </ul>
Inputs/services	<ul style="list-style-type: none"> <li>yield enhancing inputs (seeds, fertiliser, animal breeds, feed, machinery, etc.)</li> <li>plant and animal health services</li> </ul>	<ul style="list-style-type: none"> <li>Agricultural products (crops, livestock, fisheries, forestry, etc.) – generates demand for agric products</li> <li>technology and trained/skilled human resources</li> </ul>	<ul style="list-style-type: none"> <li>ensure delivery of key inputs, resources and services</li> </ul>
Producers	<ul style="list-style-type: none"> <li>Farmers, herders, fisher-folks, foresters, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Agro-processors; agro-dealers, agropreneurs, industrialists</li> </ul>	<ul style="list-style-type: none"> <li>Facilitate and streamline the ‘rules of the game’ for predictable and optimal outcomes</li> </ul>
Policies	<ul style="list-style-type: none"> <li>Agric, land tenure, credit, S&amp;T, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Land, industry, trade, health, energy, infrastructure, innovation, finance</li> </ul>	<ul style="list-style-type: none"> <li>Facilitate formulation and implementation of policies</li> </ul>
Institutions	<ul style="list-style-type: none"> <li>R&amp;D, extension services providers, inputs/agro dealers, etc.,</li> <li>financial service providers (micro-finance?),</li> <li>producers’ organisations (farmers, herders, fisher-folks,</li> </ul>	<ul style="list-style-type: none"> <li>markets, energy and infrastructure service providers, quality assurance and regulatory agencies, etc.,</li> <li>financial service providers (e.g., banks, insurance companies, )</li> <li>private sector enterprises/companies</li> </ul>	<ul style="list-style-type: none"> <li>Complex and varied roles! empowering rural communities, safeguarding and promoting ownership, responsibility and accountability</li> </ul>



Such an identification of the specific roles of respective core institutions (public, private and community-based) helps to guide interventions including capacity strengthening. Ultimately transformation is about setting priorities right and getting things done on the ground for impacts – hence, the importance of according primacy to strengthening the institutional capacities of the real actors and stakeholders (i.e., farmers, producers, agropreneurs).

In the African context, what defines nearly all institutions, both public and non-public, is lack of capacity on the one hand, and weak arrangements for a functioning inter-institutional interaction and synergy on the other hand – hence the agenda should be on strengthening of the institutions as well as streamlining the arrangements and mechanisms. At the same time it is important to recognise the fact that the role of public sector institutions cannot be over-emphasised, both directly as in formulation and implementation of policies and strategies for agricultural transformation, or indirectly through influencing the functioning of the other institutions (private, producer organisations, civil society, etc.).

#### **4. THE QUEST FOR TRANSFORMATIVE INSTITUTIONS IN AFRICA**

Africa's agenda on agricultural transformation cannot be perceived without harnessing the transformational power of institutions, which determines the supply of quality inputs and services with corresponding impacts on policy outcomes. It is possible to outline some key drivers of such a transformation process, and how they could be linked with the quest for strengthening of institutions.

Government policies and strategies need to be more comprehensive, and the government institutions delivering on the policies need to be more effective. One of the challenges has been the total neglect and marginalisation of the rural space in development policy, including neglect of the agricultural sector. There seems to emerge now a better appreciation for transformation in rural areas, partly because of emerging evidences on the returns to investment on agriculture and rural development, or the costs of inaction. It is worthy of note that CAADP has helped in raising the profile of agriculture on the policy landscape in Africa over the last decade or so. But transformation in rural areas must be accorded primacy in terms of policies and

investments. Agricultural transformation can hardly be achieved when the state of rural infrastructure is so poor that road density in Africa is 2.5 times less than in Latin America and 6 times less than in Asia – with transport cost per km averaging almost 2-3 times that of developed regions. This applies to power, water, telephone, internet services, etc., which clearly undermines productivity and competitiveness.

Transformative institutions need to facilitate increased agricultural production and productivity in Africa. This is because the most important economic preoccupation of the people in rural areas is agriculture (crops, animal resources, fisheries, forestry, etc.) and needs to be organised as a viable business so that it becomes productive, competitive, profitable, rewarding, and attractive to the people who live on it, but also for viable non-farm enterprises to flourish.

Transformative institutions must also help fix the broken value-chains in agriculture taking advantage of the huge opportunities associated with the process. Growth in agricultural production and productivity is determined by the extent to which the rural economy generates opportunities for product transformation – particularly the development of the value-chains – as well as for economic diversification. This requires investments in technology and innovations, skills and education, health, soft and hard infrastructure, energy and so on.

Increased agricultural productivity and developed value-chains can only be sustained in an environment of expanding market demand – domestically and through exploiting regional and global markets. While it is true for example that 2/3 of cereal consumption (rice and wheat) in West Africa is imported, this dependence should not, however, hide the fact that the products found on African market are predominantly local or regional (maize, manioc, yam, plantain, meat, fish, oil, vegetables, fruits, etc.). This needs to be strengthened. But still, the fact remains that Africa trades more with the rest of the world than within itself – imports of agricultural products to Africa claim tens of billions of dollars annually, which shows that market demand actually exists. Transformative institutions need to facilitate access to such markets.

Transformation of the food markets offers immense opportunities as mentioned above, and Africa with its rapid urbanization is set to benefit from this trend. For Africa the “demographic dividend” appears to be favorable to growth; but this requires policies

and transformative institutions to tap on the considerable potential of the domestic market through a territorial economic consolidation: forging regional economic integration, connecting cities to their hinterland, strengthening the economic attributes of small and medium-sized towns, stimulating rural demand through greater support for the agricultural sector, and strengthening capacities.

Transformative institutions must also help fix the ‘African paradox’ in terms of addressing the challenges of vulnerability of production and livelihoods to different kinds of shocks.

Transformative institutions should facilitate inclusiveness and cater for the differentiated needs and aspirations of its current and future actors and beneficiaries – women and men constituencies, both young and not-so-young ones. The number of young job seekers was 15 million in 1995; now it stands at about 20 million and probably is expected to reach about 30 million in 2030. A better educated, better informed, energetic workforce resides in rural areas, which at the moment does not quite see a future in rural areas. Part of the reason why the youth is not interested in the kind of agriculture that obtains in much of rural Africa is that the production system is characterized by drudgery that is not-rewarding. As such, rural areas are not fascinating at all for the youth – no electricity, no clean water, no health centres, no internet and communication facilities, etc. This could, however, be changed if agriculture is modernized so that it is less onerous and more rewarding and if the rural economy is transformed through development of rural agro-industries, agri-business, etc. with significant potential for value-addition, employment and income generating opportunities – which are key for improving rural livelihoods, but also for generating shared prosperity. Stakeholders such as the CSOs, producers’ organisations, interest groups such as women and the youth associations, and the private sector could play important roles in championing the cause of transformation in rural Africa, but also in holding public authorities accountable.

Transformative institutions need to nurture and harness strategic leadership at all levels – this makes the real difference. After all, transformation is about setting priorities right and about getting things done. Transformations have a better chance of success where real political commitment is demonstrated. But the issue is not only about getting champions, it is also about providing effective leadership. Many of agriculture’s

problems hindering transformation are seen as lying outside of the agricultural sector: in roads and telecommunications infrastructure, in health and education, and in governance, for example<sup>1</sup>. Hence, there is a legitimate case for seriously considering a more comprehensive and inclusive approach accommodating relevant stakeholders. Agricultural transformation should be a multi-sectoral agenda (agriculture, water, energy, transport, health, education, etc.), which implies that it cannot be an exclusive remit of ministries of agriculture. It should be co-owned and co-driven by all the relevant sector ministries. And there is not a better place for enhancing inter-sectoral coordination, effectiveness and mutual accountability than the office of the Chief Executive.

Strengthening of institutions for transformation is an investment worth undertaking. But the justification for increased investment should be underpinned by considerations such as (a) demonstration of alignment of the purposes and roles of institutions with the strategic priorities and needs of the transformational agenda; (b) demonstration of impacts of such an investment on development and transformation, supported by evidences justifying increased public investment in strengthening institutions<sup>2</sup>; and (c) demonstration of how institutions can facilitate multi-sectoral approaches and multi-institutional engagement, hence streamline coordination.

In summary at least two strategic outcomes can be achieved through strengthening institutions (1) institutions can change the manner in which agriculture is organized by modernizing it so that it is less onerous and more rewarding, and (2) transformative institutions can dynamise the rural economy through development of rural agro-industries, agri-business, etc. with significant potential for value-addition, employment and income generating opportunities, which are key for improving rural livelihoods, but also for generating shared prosperity. Clearly, the institutional capacity strengthening task involves, essentially, transforming institutions and the institutional

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<sup>1</sup> Dorward et al, 2002

<sup>2</sup> For example, Calestus Juma (2011) estimated that the average rate of return to investments in African R&D between 1970 and 2004 was 33%; and according to Bertini and Glickman (2013) agricultural research has the impact of reducing the number of poor by 0.8% annually. And, according to von Braun and others, a doubling of investment in public agricultural research in SSA would increase growth in agricultural output from 0.5% to 1.1%, and reduce poverty by 282 million people (note that this is more than a quarter of Africa's population).

arrangements for them to play crucial roles in modernizing agriculture as well as dynamising the rural economy for optimal and desirable outcomes.