

Issue Brief

# Agro-Processing and Equitable Economic Growth in the Global South

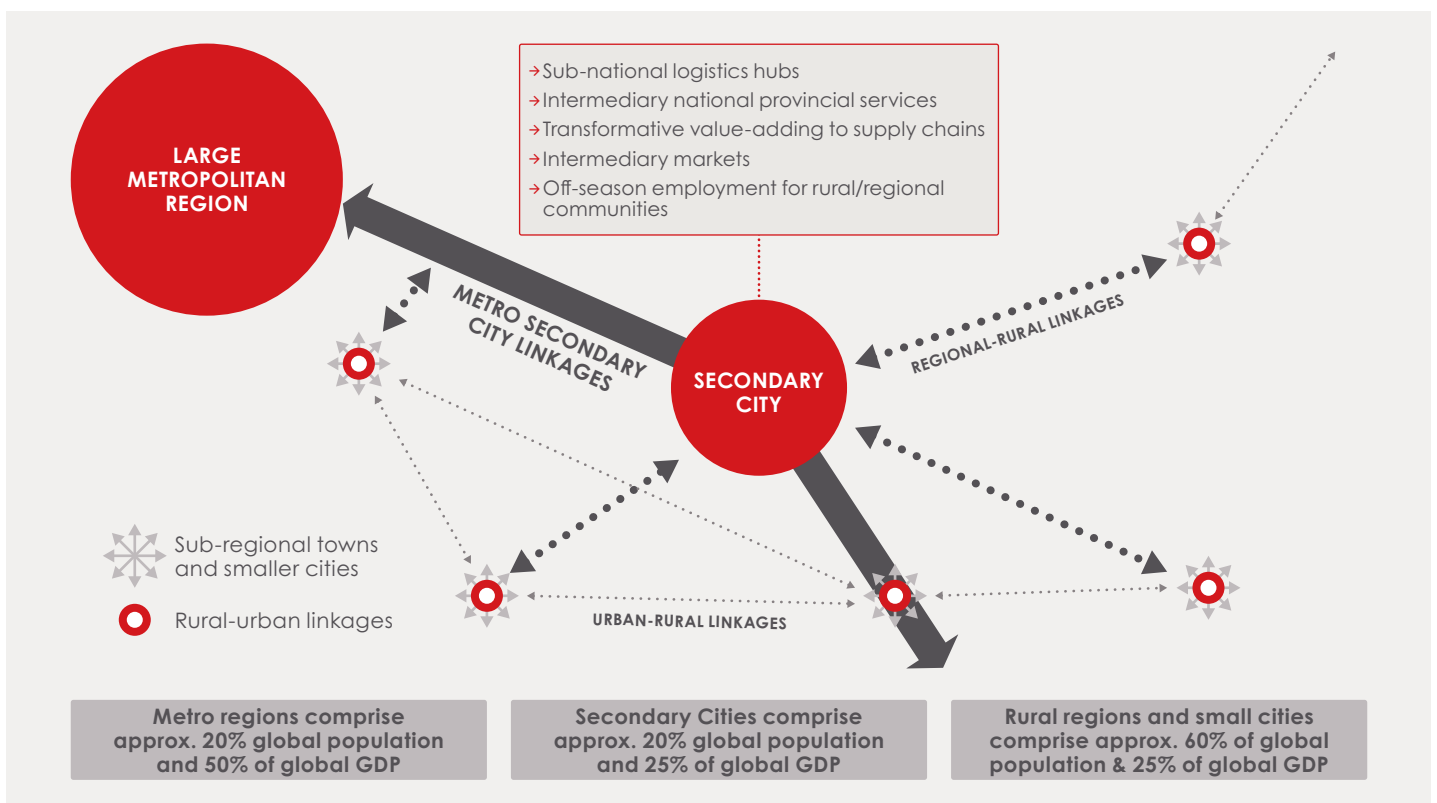
**With the strengthening of agro-industrial processing activities in many secondary cities the sector has the potential to generate employment and galvanise business creation, and in so doing foster Equitable Economic Growth (EEG).**

The JWP-EEG Campaign Cities initiative in Ghana, Uganda and Kenya, and the knowledge product on *Connecting Systems of Secondary Cities* highlighted the importance of secondary cities to agricultural and resource-based industrial activities of their hinterlands.

The Food and Agriculture Organisation (FAO) defines agro-industrial processing as “a subset of manufacturing that processes raw materials and intermediate products derived from the agricultural sector.” It broadly translates as post-harvest activities involved in the transformation, preservation and preparation of products that originate from agriculture, forestry and fisheries for intermediary or final consumption.<sup>1</sup>

Secondary cities increasingly play a pivotal intermediary role in the operations of regional and national supply chains, and are the site of numerous value-adding and logistical operations, as well as sub-national government systems (Figure 1).<sup>2</sup>

**Figure 1: Key roles of secondary cities in agro-processing and supply chain logistics**  
Source: Adapted from Cities Alliance, 2019



## Agro-industrial processing and EEG

For secondary cities to fully realise their potential as engines of EEG, movement to higher productivity manufacturing and service sector activity is required. One way to capture productivity gains is to focus on the development of priority sectors, namely those characterised by firms with the greatest potential for expansion into both domestic and export markets.<sup>3</sup> One such sector commonly located in secondary cities is agro-industrial processing.

The development of agro-industrial processing in secondary cities can act as an effective driver of inclusive economic growth in both urban and rural areas. This is because economic activities in secondary cities can 'unlock' the potential of the wider regional economy and agro-industrial value chains can better link urban and rural economies, and thus underpin economic and social welfare improvements in rural areas.<sup>4</sup>

Agro-industry is a sector that can generate a large number of jobs, and creates important market and entrepreneurship opportunities, especially for the burgeoning youth population in both rural and urban areas of the Global South. Over time, the growth in agro-industrial processing can foster the development of the agricultural sector, the poverty reduction

impact of which has been shown to be at least twice as great as investment in any other sector.<sup>5</sup>

Poverty reduction impacts are largely due to three characteristics of agro-industrial processing:

- It is a more decentralised activity compared to manufacturing;
- It is a common characteristic of secondary cities; and,
- Its value and supply chains directly link rural and urban areas.

Food manufacturing, a key sub-sector of the agro-processing sector, for example, has significant potential for reducing poverty because it is less spatially concentrated than other sectors. Moreover, it can generate backward and forward linkages with non-farm sector of services, manufacturing and construction in both the informal and formal sectors.<sup>6</sup>

The case study below shows how Cities Alliance worked with local partners in Agona West in Ghana to develop a local economic development strategy based on the potential of agro-processing.

## Challenges

The 2019 World Bank *Enabling the Business of Agriculture* report shows that agro-industrial processing in Sub-Saharan Africa faces the most significant constraints to productivity in the world. Many countries are striving to improve the business climate, including through regional agreements facilitated by their membership to regional political and economic unions such as the Economic

Community of West African States (ECOWAS). Sierra Leone, Burundi, Mozambique and Malawi are among the ten countries that improved the most globally, although they have a long way to go.<sup>7</sup>

Challenges faced by secondary cities in the Global South in realising their agro-industrial processing potentials include:

### Sector level

- Lack of integrated value chains;
- Lack of incentives for private sector investment in agro-industrial processing;
- Inadequate energy, water management systems and other infrastructures, including lack of investment in rural-urban linkages;
- Weak access to quality and affordable inputs;
- Weak access to finance and risk management products.

### Firm level

- Lack of viable business models for agro-processing
- Weak industrial capacities and capabilities, including technology know-how;
- Supply-side constraints resulting in low labour productivity;
- Poor product quality control and compliance challenges related to industry standards and quality requirements.

## Case study: Agona West, Ghana

The agro-processing sector has a tremendous potential to become a driver for income growth and job creation in the Ghanaian Municipality of Agona West. This is highlighted in the municipality's Medium-Term Development Plan (MTDP), which calls for agriculture to lead local economic development, and link to broader agro-industries through the supply of agricultural raw materials.

This is encouraged by the promotion of outgrower schemes in demarcated agrarian areas. However,

to date the value chain management of agricultural products in Agona West has been inefficient. Lengthening the agricultural and agro-processing value chain could lead to the creation of employment and livelihood opportunities.<sup>8</sup>

Figure 2 provides examples of practical measures that could be implemented in order to lengthen the Cassava and palm oil value chains.

Figure 2: Measures to develop agro-processing in Agona West





Source: © Cities Alliance / 2019 / Charlotte Hallqvist

## Agro-industrial processing as an opportunity for EEG in secondary cities: policy recommendations

International experiences from agro-industrial processing support programmes point to several core elements of successful city-led agro-industrial development initiatives. These elements include:

- Planning the wider **regional infrastructural investment** to support growth of agro-industrial processing activities and associated value chains. Linking towns and cities more effectively to their rural hinterlands and natural resource base;
- **Improving market infrastructure and facilities** (e.g., basic services, establishing basis for food processing);
- **Firm-level support** to increase productivity and strengthen competitiveness of agro-processing firms

and Small and Medium-sized Enterprises (SMEs) in priority value chains;

- **Enhance the productivity and economic viability of agro-industry processing** by improving access of farmers and industries to training, technical advice, and credit, and supporting rural/urban farmers associations; and,
- Introduce measures that prevent or **reduce health and environmental risks** associated with agro-industrial processing, including sectoral coordination between health, agriculture and environmental departments, education and training.

### End notes

1. United Nations. 2017. *Global Expert Meeting on Agriculture and Agro-industries Development towards Sustainable and Resilient Food Systems to Inform the 2017 ECOSOC Special Meeting on Innovations for Infrastructure Development and Promoting Sustainable Industrialisation*, 24-26 April 2017, Background Report.
2. Cities Alliance. 2019. *Connecting Systems of Secondary Cities*. Cities Alliance/UNOPS, Brussels.
3. Cities Alliance. 2016. *Equitable Economic Growth in your Town or City. A Diagnostic Toolkit*. Prepared for Cities Alliance and UNOPS by IPE Triple Line.
4. Ibid.
5. World Bank. 2007. *Agriculture for Development. World Development Report 2008*. Washington, DC: World Bank.
6. Cazzuffi, C., Pereira-López M. and I. Soloaga. 2014. *Local poverty reduction in Chile and Mexico: The role of food manufacturing growth*. Proyecto Cohesión Territorial e Inversión Privada Agroindustrial.
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8. Cities Alliance. 2019. *Ghana Local Assessment Report (LAR) and Policy Brief and Recommendations*.