

Policy, Institutional Governance and Entrepreneurial Ecosystems for Developing Competitive Agro-food Systems in Africa¹

Value chain development is about “creating tangible improvements in smallholders production and marketing practices benefitting smallholders as well as other market participants (larger-scale producers, input suppliers, processors, transporters, wholesalers, exporters, traders and retailers)”. Small farmer/producer-focused value chains can help rural populations to transition out of subsistence farming and reap the more lucrative gains and income opportunities that well-functioning value chains offer. Micro, small and medium enterprises (MSMEs) supply value chains and are major source of employment and income, particularly in rural areas. Integrating rural MSMEs in value chains can help increase their economic performance, boost employment creation and improve working conditions.

Elements Critical for the Successful Development of Pro-poor Inclusive Agricultural Value Chains

- *Support for a policy, regulatory, and institutional framework that enables AVCs to become stronger*
- *Creation of opportunities for increased private sector engagement including through the formation of public–private partnerships and multi-actor innovation platforms for developing synergies*
- *Provision of access to credit for participants along the value chain*
- *Provision of rural infrastructure that reduces postharvest losses and transport costs, and shortens transit time, while increasing overall rural mobility*
- *Support for innovations and technology for developing competitive value chains*
- *Provision of access to value-responsive markets*
- *Provision of access to timely information to improve bargaining power*
- *Establishment of organizations to reduce transaction costs*
- *Inclusion of women, poor, and/or marginal groups into value chains*

Recipes for Inclusive Innovation and Value Chain Development

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The central development question in African agriculture is how to catalyze a more competitive, equitable and sustainable agricultural growth within the context of smallholder production systems, inefficient agricultural marketing, inefficient investments by private sector amidst degradation prone natural resources base. The generation, diffusion and application of impactful innovations critically depend on systemic integration of knowledge systems that promote communication, interaction and cooperation between agricultural research, education, extension, farmers, private sector and policy regulatory systems.

Institutional innovations arising from various permutations of linkages and interactions of VC actors based on multi-institutional, multi-disciplinary approaches to pool knowledge across the agricultural business, education, research and extension systems have been shown to effectively generate, diffuse and apply innovations to reduce transactions costs and create value chain based “win-win” situations. Such innovations include public goods, market binding contracts, registered brands and/or certification processes, diversity, density and quality of networks/collective action, bulking centres, ICT application and depth of knowledge pools. Major breakthroughs include bringing on board non-traditional private sector and policy maker partners, overcoming the predominant “farmer handout syndrome”, building consensus and addressing common interest challenges, making markets work, bringing various stakeholders together, appreciation of indigenous knowledge system, propelling collective soil and water conservation and demand/utilization of technologies. This requires “functional institutions” that can undertake the social enterprise of organizing farmers and traders, facilitating/brokering linkages by using multi-media to build social capital to overcome emergent knowledge, credit, market, technology and resource degradation challenges under different policy regulatory systems.

A sustainable food value chain (SFVC) is defined as: “... the full range of farms and firms and their successive coordinated value adding activities that produce particular raw agricultural materials and transform them into particular food products that are sold to final consumers and disposed of after use, in a manner that is profitable throughout, has broad-based benefits for society and does not permanently deplete natural resources”. The core VC typically consists of production, aggregation, processing and distribution; the extended VC consists of input provision, finance and other service provision (agricultural extension, IT support, marketing services, etc.). The extended VC provides necessary support for the core VC to function effectively.

Besides technological innovations, transformation of policies, key institutions or markets are necessary to improve food and nutrition security. Such organizational

and social innovations require investments in the enabling policy and business environment. Strengthening the capacity of farmers and other stakeholders in the food system to develop innovations based on their knowledge and experience also depends on the enabling environment. Smart solutions are often the result of complex interactions between entrepreneurs, research institutes, NGOs and governments. Such institutional and organizational innovations include:

- ***Improving the policy environment and influencing the incentives and constraints*** faced by large-scale retailers and buyers for them to more effectively engage with smallholder producers and build mutually beneficial business relationships able to stand the test of time.
- ***Alleviating resource constraints*** – especially for marginalized actors in the value chain. Women and youth often face disadvantages in terms of mobility, access to inputs, productive resources, and market information and are thus particularly challenged to access and maintain profitable market niches and economic gains in value chains.
- ***Building local capacity for responding to changing technological and economic challenges and opportunities.*** An alarming 30 percent of agricultural produce in rural areas is wasted because of constraints in weak rural value chains. Value adding off-farm activities in rural areas, such as processing and packaging, increase the worth of a product and can increase the economic gains for rural producers.
- ***Adopting holistic approaches that address challenges and opportunities all along the value chain*** from input suppliers and farmers’ fields, through the various stages in the market chain, all the way to the ultimate consumers. Small producers face multiple obstacles in entering local value chains, from high transaction costs, to insufficient access to financial and other assets such as adequate storage and processing facilities, communication networks, marketing, infrastructure, increasingly demanding consumer and health standards, and traceability requirements. Limited access to financial and business services make it difficult for small rural enterprises to become suppliers to larger firms, compete in global value chains, and enter higher-value markets.
- ***Need for policies and approaches which recognize that climate risks affect the entire value chain*** hence solutions for climate-resilient Agricultural Value Chains: climate change impacts extend beyond just production: they affect the entire agricultural value chain, from the quality of seeds through to how food is processed, transported and consumed.

- ***Eliminating persistent trade barriers and capacity challenges*** that continue to constrain trade competitiveness hence iAVCD, vis: deficient infrastructure, inefficient customs and ports services, inadequate use of information and communication technology (ICT), poor access to insurance and trade finance, and pervasive non-tariff barriers.

Development Scenarios for Agro-Industrialization in African Countries

- ***Modern/large-scale enterprises*** highly visible in and around major urban centres employing many workers and serving largely urban consumers.
- ***Micro, Small-scale and Medium-sized agro-enterprises (MSMEs and family-run businesses)*** located in rural areas and small towns, whose integration in value chains can help increase their economic performance, boost employment creation and improve working conditions.

Institutional Innovation and AVC Governance Issues

Agricultural Innovation System (AIS) approaches generally assume the engagement of diverse stakeholders. Collective action involving diverse stakeholders strengthens bridging social capital, enables smallholder farmers and small- and medium-size market agents to represent their interests, acquire external resources, and connect with professional knowledge systems to improve their production and marketing practices. By strengthening interaction among diverse actors toward common goals, we foster communication, social learning, and trust, which in turn facilitate joint R&D activities and co-innovation. Engaging commercial entrepreneurs and market agents from early in the innovation process is most critical for effective VCD.

Institutional innovations are premised on reducing transaction costs within the value chain, not only in the joint activities, but also in core mandates. This has an effect of improving on the profitability of business for both the producers and traders. Successes in the application of institutional innovations depend critically on the quality of linkages and interactions and are highly context specific; successful institutional innovations depend on the quality of facilitation and strong market-led and knowledge-based interactions with a strong need for a “public social enterprise body” to foster linkages and interactions, broker innovations and collective action within the broader public-private partnership framework.

Furthermore, institutional innovations evolve at different speeds depending on the interests of the different stakeholders and the involvement of stakeholders in the

learning cycle leads to increased interaction and trust amongst them. Evidence-based governance based on institutional innovation: multi-stakeholder platforms, farmers' organisations, contract farming arrangements, independent bodies for product quality verification, etc. – helping rural producers and other AVC actors capture market opportunities, obtain fair deals, and produce higher-quality products thus improving value chain performance while increasing rural incomes and employment and harnessing economic growth for rural areas:

- **Support the establishment of farmer groups, producer organizations or cooperatives** that help increase the bargaining power of rural smallholders.
- **Contract farming arrangements, as an institutional innovation**, with public–private partnerships that combine the expertise and profitability goals of the private sector with the enabling policies of governments has demonstrated positive impacts. Even smallholders can benefit: by reducing - if not eliminating - transaction costs, CF provides markets, finance and technology to smallholders.
- **Promote partnerships among small enterprises and producers** that are too small to act alone to meet the quantity and quality requirements set by large firms. Large companies may be more interested in partnering with cooperatives instead of individual enterprises to get better quality goods and higher volumes.
- **Ensure that economic gains in value chains are fairly distributed among various actors**, including rural producers. In most AVCs, it is not a single firm controlling all activities and making business decisions, but it is a range of actors from producers, through intermediaries, processors and retailers. How they are organized and managed under their governance structure has great implications for VC upgrading. The power dynamics between actors impact the decisions made and the follow through for the implementation of upgrading actions. The actors are all involved in the value-adding process to produce and distribute VC products to the end market. From the market side, the consumer and market-related information (e.g. retail prices, consumer choices and preferences, etc.) is fed back to the VC actors. In the ideal situation, this two-way information exchange contributes to transparency and drives the decision-making processes to ensure competitiveness, profitability at all levels of the value chain and the chains' overall sustainability.
- **Ensure diversity, inclusiveness and gender equality** throughout the chain and prioritize women in education, training and credit support. Investments in the development of sustainable agricultural value chains offer immense

opportunities for youth in rural and urban areas. The engagement of young people in agricultural value chains and agrifood systems development is key to addressing the significant untapped potential of this sizeable and growing demographic. Young people are indeed best placed to rejuvenate the sector, acquire the knowledge and skills needed to innovate, uptake new technologies, foster the competitiveness of the agriculture sector and spearhead its digital transformation. With their ability to learn fast and their innovative spirit, youth can drive change and accelerate the transition to more sustainable production and consumption patterns. In their school-to-work transitions, youth are driven by economic opportunities and the value chain development approach can help to identify these opportunities and promote decent youth employment within the sector. With a focus on youth, their heterogeneity, inequalities and unique talents, the value chain approach can therefore assist with the dual objective of creating new jobs and improving the existing ones for youth

Key Policy Issues and Messages

Small-scale farming in most African countries is characterized by a low level of investment and unequal access to key resources. With regard to market governance, small-scale farmers often suffer from the oligopsonistic abuses of marketing agents who prevent them from having a voice in determining the prices of their products. Several policies including output expansion through agricultural projects, investment promotion policies, agricultural finance policies, land tenure policies, input subsidies, tax policies and agricultural insurance have been severally designed to shape agricultural and agribusiness investments in a positive direction; although during implementation, discrimination against small-scale farmers is still a common phenomenon.

Most of these policies have not been fully effective due, in part, to infrastructure bottlenecks. For improved agricultural investment and market governance there is a need to entrench youth and women's access and entitlement to resources, promote greater access by all value chain actors to formal credit facilities, encourage private sector involvement in delivering extension and business development services and link small-scale farmers to agribusiness firms through appropriate contract farming arrangements.

Areas of good practices aimed at improving agricultural value chain competitiveness and regional trade expansion that serve as policy and program options to enhance business development by increasing productivity, which is an important driver of

competitiveness; and also increase efficiency which reduces the costs of production, processing, and trade, and expedites overall processes:

- ***Creating an effective enabling environment for sustainable agribusiness and agri-food value chains requires well-established legal and institutional frameworks as well as inter-institutional coordination and collaboration on policy development, legislation and policy implementation.*** Subsequently, interventions to develop a specific value chain should aim at increasing the efficiency of existing links or establishing new ones: (1) strengthening the weakest link to address a possible bottleneck in the chain, (2) improving flows of knowledge and resources to make all firms in the chain more productive, (3) improving specific links between firms, again to improve the efficiency at an identified bottleneck and (4) creating new or alternative links in the chain, which e.g. aim at linking local firms in developing countries to global value chains or linking to new, additional lead firms.
- ***Adding value to agricultural production in rural areas through processing will boost rural employment, generate income, reduce poverty and improve nutrition.*** This requires appropriate policies, incentives and frameworks for modernization and commercialisation of production, and creating and promoting agro-industries and farmer and agribusiness SMEs. Importantly, interventions should encourage the development of interlinked vertical contracts between smallholders and buyers and investments to improve the operations of actors downstream based on expectations, scaling up of activities to reach a significant portion of the population, technology transfer, and participatory development of value chain strategies.
- ***Private sector investment has a key role to play in supporting climate risk management along value chains.*** The question is: What can governments do to promote private sector investment in climate-resilient agricultural value chains? Two examples of action: Finance for climate risk management; Promoting climate-resilient seeds.
- ***Multi-stakeholder platforms that foster commercial, technical, and institutional innovation have more significant and lasting impacts than those focused on value-chain governance issues.*** Effective participation in VCD requires a minimum set of assets - land and financial capital, knowledge, skills, social capital, and access to sources of technical support - which the poorest of the poor lack. So, while successful interventions broaden participation in VCD, benefitting the poor, they should not be expected to produce significant direct benefits for the poorest of the poor. Inviting stakeholders such as decision makers and citizens to engage in multi-actor

initiatives together encourages a deeper understanding of other perspectives and interests, bringing this diversity of views together in a meaningful and productive way. And when decision makers take on challenges alongside other stakeholders, desired advocacy changes in agenda setting, policy making and practices are often achieved. As a rule, is it not promising to undertake SME promotion that bypasses the respective relevant lead firms.

- **Promoting technology adoption and innovation along agricultural value chains:** Facilitate investment in training, technology and management systems by chain actors to improve the ability of farmers' and other rural producers to create a better quality product; Develop training programs in collaboration with chain actors like BDS providers that help farmers meet the standards of the specialty market through improved growing and processing techniques; Facilitate the creation of support structures that enable enterprises and poor rural producers to access information about market requirements, product standards, knowledge on innovative technologies and new production methods; Support technological development and innovations to improve productivity - working with mobile phone service providers, for instance, can help rural entrepreneurs to better access market information and capture buying and selling opportunities.
- **Promoting competition and competitive business environment in the economy:** Encourage institutions that facilitate administrative policies, regulations, standards and laws so rural enterprises can establish reliable and transparent value chains; Improve infrastructure in rural areas so transport and intermediation costs are reduced; Advocate trade laws that encourage and allow development of manufacturing capabilities and participation at the higher-value added sections of the value chain; Engage diverse stakeholders in co-innovation processes in the context of private-sector development to stimulate a range of interlinked commercial, technical, and institutional innovations that benefit smallholders as well as MSMEs along the value chains; Work to eliminate trade barriers and improve market access in markets for manufactured goods – in particular focusing commercial innovation to trigger broader systemic and inclusive innovation. The value chain approach as a measure to promote economic development and employment has chances of success only if it systematically takes into account the structural embeddedness of each economic activity, in other words, the question of forward and backward linkages, including the competition and dominance structures.

- **Strengthening trade logistics and facilitation measures** - cost of delays, transport of goods over long distances, inefficient clearing of commodities at harbors or border control points, bureaucratic inefficiencies and, in some instances, corruption. Development impacts of value chains are also dependent on the income distribution within the chains. Building up information systems that are also accessible to weaker links of the chain can help reduce information asymmetries and thus contribute to greater retention of income, while drawing up locational policies that work toward the targeted acquisition of linkage-relevant direct investments and a systematic improvement in the competitiveness of local SMEs is also critical.
- **Investment in quality, productive infrastructure including energy, water, telecommunications, ICT and roads.** The “value chain readiness” of firms can only be strengthened and their upgrading possibilities increased, if they can access specific, knowledge-based inputs where they are. Thus, corresponding institutions for training, applied research, standardization, measurement, quality control, etc. must be strengthened.
- **To promote agriculture as a business that can generate a surplus for smallholder producers, it is imperative to facilitate commercial partnerships, particularly between producers' organizations and downstream value chain actors, mobilize investments by the domestic private sector by promoting co-financing, risk-sharing mechanisms and other financial products and services to foster the development of private initiatives.** Facilitating access to finance to allow for greater investment in productive capacities and trade logistics, reduce production and transaction costs, increase businesses activities, start-up new businesses or scale-up an existing ones. Improve financial services in rural areas by, for instance, building on existing relationships in the value chain; providing finance or increasing the capacity of financial institutions to serve small-scale producers in rural and remote areas by linking informal providers to formal financial institutions, and encouraging cooperation among different actors in the value chain and combining financial and non-financial services, such as training with credit.
- **Enhancing professional, technical, business management, and enterprise and artisanal skills of actors participating in agricultural value chains and trade** – in addition to tailor-made ‘up-skilling’ programs, enterprise-based training, and apprenticeships to address short-term gaps: Improve small farmers’ entrepreneurship skills by facilitating their access to technical training in business management and finance skills; Extend Business Development

Services (BDS) to rural enterprises and adapt these services to rural-specific needs by working with existing service providers; Make agricultural business services more accessible through outreach programmes to rural areas that enable first-time entrepreneurs to conquer the entry barriers in value chains.

- ***Elimination of harassment at borders*** - including bribery, intimidation, and solicitation of sexual favors.
- ***Sound trade promotion frameworks that empower rural entrepreneurs and strengthen value chains:*** Facilitate collaboration among value chain actors in order to meet market requirements and standards; Partner with cooperatives to disseminate information regarding standards, product quality, and consumer preferences; Work with farmer associations to identify and understand commodity value chains and market access opportunities and challenges; Promote dialogue between actors and supporters - find out how stakeholders communicate with each other and improve communication along the value chain; Take an inclusive approach to value chain development and note inequalities within chains; Develop a regulatory environment for public and private sourcing relationships so profit margins are distributed fairly among different actors in the value chain; Enhance value chain transparency, which will help identify bottlenecks and improve the efficiency and profitability of value chains; Strengthen communication along the value chain to raise awareness about international labour standards along the whole value chain using transparency and social dialogue, among others.

Conclusion - Going Forward in Support of AVC Development

There are nine elements critical for the successful development of pro-poor AVCs: (i) support for a policy, regulatory, and institutional framework that enables AVCs to become stronger; (ii) creation of opportunities for increased private sector engagement including through the formation of public-private partnerships for developing synergies; (iii) provision of access to credit for participants along the value chain; (iv) provision of rural infrastructure that reduces postharvest losses and transport costs, and shortens transit time, while increasing overall rural mobility; (v) support for innovations and technology for developing competitive value chains; (vi) provision of access to value-responsive markets; (vii) provision of access to timely information to improve bargaining power; (viii) establishment of organizations to reduce transaction costs; and (ix) inclusion of women, poor, and/or marginal groups into value chains:

- **Enabling policies, regulations, and institutions:** An enabling environment must be established for value chain development through policies, regulations, and supporting institutions. Support should not be fragmented and should be specifically directed at the key constraints for value chain development. Countries need to adopt a comprehensive approach to policy, regulatory, and institutional reform to address key constraints for AVC development. A cross-sector policy review of agriculture, trade, infrastructure, and fiscal control needs to be undertaken to determine the support provided to value chains through the existing policy, regulatory, and institutional framework. Public–private sector forums can be formed and used to identify areas for policy reform. Policy reforms need to be linked with appropriate and implementable regulatory institutional frameworks.
- **Private sector engagement and public–private partnerships:** In general, the trend has been toward greater private sector involvement in agriculture, which contributes to value chain development. To facilitate increased private sector engagement, greater clarity is needed between the evolving and expected roles of the public and private sectors. Public–private partnerships can support the development of AVCs, but require significant input to identify opportunities and implementation arrangements.
- **Access to credit:** Access to credit is a key requirement for all participants in a value chain. Most credit is often targeted at farmers, using a variety of approaches to deliver credit for production-related activities with limited attempt to provide credit to other value chain participants.
- **Rural infrastructure development:** Road and market infrastructure are important, as they provide critical linkages for connections and transactions between value chain participants aside from the other rural functions they perform that indirectly support value chain development. While roads are useful for value chains, they must connect agricultural areas that have a competitive advantage with strategic markets. The development of transport hubs can be an integral part of the development of rural roads and markets. This has not always been the case. Likewise, the locations of markets and storage facilities are critical for value chain development. The construction of markets needs to be based on form and function design features, and the markets need to be strategically positioned to encourage links with high-value markets.
- **Innovation and technology:** Value chains require constant innovation and technology inputs to become and remain competitive.

- **Market access:** An understanding of market demands and requirements is necessary to take advantage of market opportunities. Many projects have supported market access through capacity development and training inputs to build basic business skills. While important, these skills often do not go far enough in providing the specific market information required for selected value chains. Other initiatives for improving market access through contract farming exist - primarily by linking producers with agro-processors.
- **Information services:** Access to timely market information, such as prices, is essential for a functioning value chain. This helps participants in the chain, such as producers, to respond to changes in market prices and improves their negotiating power with traders and processors. The market information produced should be provided in a timely manner.
- **Organizations and linkages:** Functioning farmer organizations and linkages can reduce transaction costs within value chains. Supporting the formation and development of farmer organizations for establishing or strengthening networks, and improving connections between markets and participants should not be limited to support for producer organizations to link them to processors and help with the delivery of services but also for other key aspects of value chain development, such as grades and standards, direct marketing, and value chain finance. Public–private sector forums and multi-actor innovation platforms (MAIPs) can be established to identify constraints and synergies to provide cost-effective services. Clear guidelines can be developed on roles and responsibilities for government and the private sector in specific value chains. Models can be developed for public enterprises to commercialize services for value chain development. Formal linkages can be developed between the private sector, institutions, and government departments relevant to specific value chains. Alternative models can be considered that can offer inclusive growth, increase farmer power, reward innovation, and allow captured efficiencies to deliver benefits to producers.
- **Models for including the poor and marginalized groups in value chains:** A staged approach is needed to improve the skills base of target beneficiaries to meet the requirements of simple supply chains. Introducing changes over time can allow for the participation of marginal groups in the development of value chains.

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Panel Discussion – Guide Questions:

- Q1: The term value-chain development describes a type of intervention that aims to address poverty through improved linkages between businesses and poor households, increasing the benefits for the poor, enhancing the prospects for sustaining operations and benefits - often targeting marginalized actors in a value chain. ***From the sub-regional perspective and reference value chain, what specific measures and policies have been used and what would you advise governments in your country/region to emphasize to promote iAVCD and scale-out and up working institutional innovations?***
- Q2: Smallholder producers and MSMEs often find it difficult to exploit the opportunities presented by expanding markets because of their limited access to resources such as land, credit, technical advice, and current information on market prices and conditions - These limitations restrict entrepreneurs capacity to invest, expand their market surplus, and add value to their products and services. ***What are some of the appropriate interventions adopted by agro-business to mitigate the policy and institutional challenges and address these limitations?***
- Q3: The AU Guidelines for iAVCD identified several domains of good practice, policy focus and institutional arrangements for developing competitive value chains/agro-food system transformation. ***What are some of the key services and sectors that enhance or impede the competitiveness of the reference crop value chains and the actions being undertaken to mitigate the identified policy and institutional challenges?***
- Q4: Diversity, equity, and inclusion are essential for iVCD. When different actors at the various stages of the value chain feel respected and represented (in policy formulation and decision-making), they can be more creative, innovative, and successful. ***What are the existing national/regional policies or measures in place to support women and youth involvement in the reference value chains?***
- Q5: A cross-sector policy planning approach is essential to accelerate growth of agri-business so as to develop sustainable, inclusive and competitive foods systems in Africa. Two types of intervention appear critical for allowing VC actors to participate in growing markets: (i) ones that provide physical infrastructure and information technologies to improve connectivity to markets and services; and (ii) ones that create or strengthen complementary institutions that reduce the high marketing risks and transaction costs faced

by VC actors. Finance, trade, infrastructure development, monetary and fiscal policies are some regulatory measures used by national governments to protect and support agribusiness to develop competitive advantages. ***From your experience as a food system actor (use the maize/dates/cocoa/tea/coffee value chains) what specific measures have been used and what would you advise governments in your country/region to emphasize?***