Agribusiness and Development:
How investment in the African agri-food sector can help support development

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Foreword by Commissioners Cioloş and Piebalgs

Agriculture is crucial to poverty alleviation and wealth creation. In Africa, agriculture accounts for 65% of total employment and 32% of GDP. Therefore agribusiness is strategically placed to drive Africa’s future economic development. Agribusiness creates important linkages and encourages investment in a way that can have strong multiplier effects on growth. It is key to fighting food insecurity, not only because it stimulates increased production but also due to its potential to create wealth for smallholders and rural communities. Developing a viable and vibrant agri-business sector in Africa is a development challenge, but it is also a significant market opportunity for companies and particularly small and family farmers who are the largest private investors in African agriculture.

There is a growing political consensus regarding the role of the private sector in revitalising the African agriculture sector and developing a vibrant agri-food industry. This is reflected in the commitment made by African governments and their development partners to increase growth and investment in agriculture through initiatives like the Comprehensive Africa Agriculture Development Programme (CAADP). This programme was launched in 2003 and hence we celebrate the 10th anniversary this year. A number of EU initiatives supportive of African agribusiness have also been launched in recent years. At the heart of these lie smallholder farmers. Helping them to prosper and move across the agri-food chain is one of the EU’s key aims.

Developing a competitive and sustainable agribusiness sector will require focusing on various components of the agri-food chain. This will include a wide spectrum of initiatives from boosting productivity at farm level, to upgrading value chains by empowering farmers’ organisations and involving them in strategic partnerships. We must look at how to respond to local, regional and international demand by adding value to commodities, and enhancing the roles of research, technology and innovation in the food chain. Facilitating access to capital and credit is also essential, as is the role of the private sector and public-private partnerships. Productive public investments that focus on rural infrastructure and access to energy and water use also need to be encouraged.

The challenges ahead are significant, but we are extremely optimistic. The obstacles we face can be overcome. The EU will remain committed to building the capacities that African agribusiness needs to flourish as this will be a vector to reduce hunger and poverty and create jobs and sustainable growth,
Introduction

Africa has an enormous agricultural potential. If harnessed, it could help drive the sub-continent’s economic growth, stimulate development and improve global food security. There are considerable opportunities for accelerating the development of agriculture and the related agri-food value chain in Africa. Nevertheless, most African countries are still net importers of food. The situation is symptomatic of severe and long-term under-investment in African food and agricultural systems. This is a major concern and it must be addressed. The need to reinvest in agriculture to reverse this neglectful trend has become increasingly evident and is recognised by African governments under CAADP.

Creating the right conditions for an agri-revival is increasingly seen as a priority when discussing the future of agricultural development in Africa. For the agri-food sector to trigger growth and development, it needs to have the right framework to operate in and it needs to be a sustainable vehicle for poverty alleviation. Improving small producers’ livelihood sustainably and equitably is central to achieving this. Evidence shows that investment in agricultural small-holdings provides the greatest returns in terms of poverty reduction and growth. This focus on small holders is one of the cornerstones of EU food and nutrition security and agricultural development cooperation. Through a number of programmes and initiatives, the EU is playing an active role in supporting African countries to develop their agri-food sector by contributing to value chain development, market integration, environmental sustainability, equitable social development and gender inclusion.

Since the 2012 G8 meeting at Camp David and the G20 Agriculture Ministerial process in France and Mexico, the role of the private sector in stimulating the development of agri-industry has been emphasised. The African Union-NEPAD’s CAADP also highlights the importance of attracting responsible private investment into the sector and putting in place quality control systems. The EU fully supports this and has been at the forefront in providing support to small-scale farmers who want to become more integrated into global agri-food markets.

1 Throughout this publication, ‘Africa’ refers to sub-Saharan Africa and excludes North Africa.
2 New Partnership for Africa’s Development
Opportunities in African Agribusiness

Arable land and water resources

Africa has the most undeveloped fertile land of any continent in the world. It is home to 25% of the world’s fertile land but accounts for only 10% of global agricultural output. It also has substantial water resources, but only 4% is used, irrigating 6% of fertile land.

Demographics and demand

On average, 64% of the African population lives in rural areas and works in small-scale agriculture, indicating the importance and potential of agricultural development as generator of employment.

Africa’s population is growing steadily and will require an increase in food availability. A middle class with higher purchasing power is also emerging. This combination will boost the demand for processed foods and high-value commodities and may lead to a shift away from staple food products.

A competitive and underproductive sector

Africa’s agro-industry remains primarily small-scale. SMEs are predominantly informal and there are relatively few multinationals compared with other regions. There is also an increasingly large gap between regional demand and supply, and between regional supply and global demand. These factors suggest that the situation is conducive to the development of a nascent African agri-food sector that can deliver significant returns on investment. However, for prosperity to be genuine, these gains must be inclusive and they must benefit smallholder farmers, along with other private-sector stakeholders.

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3 Agribusiness is defined here as a broad concept which covers crop and livestock production, upstream activities (input suppliers) and downstream activities (agro processing, distributors, exporters and retailers).
5 World Bank, 2011, Agriculture and Rural Development.
6 UNIDO, 2011, Agribusiness for Africa’s Prosperity.
Overcoming the challenges

A number of challenges can have a severe impact on production and output. They discourage potential investors and damage existing ventures. These include:

- Low productivity in farming and in the entire agri-food chain.
- High post-harvest losses, resulting in higher prices.
- Lack of market information and market access.
- Limited availability of, or access to, extension services, research, technology and expertise.
- Poor governance of land tenure systems.
- Unfavourable weather, pests and disease.
- Lack of financial safety nets such as agri-insurance.
- Insufficient financial resources, access to credit and productive assets for smallholders.
- Poor infrastructure for transport, storage, electricity and water supply.
- Weak political institutions and the lack of trusted regulatory frameworks in some countries.

For African agribusinesses to make the most of the opportunities in the agri-food sector, there needs to be a structural transformation in the agricultural sector. This would involve a sustainable shift from subsistence agriculture to a productive agricultural industry that allows farmers to take part in the market economy.

To achieve this, productivity must be increased in an environmentally and socially sustainable way. This can be done by increasing access to sustainable agricultural methods that are suitable for smallholders. It also requires technical training, facilitating access to extension services, investment in agricultural research, and improving technology transfer and access to credit. It is also crucial to address production factors such as the distribution of seeds, fertilisers, crop protection products, irrigation systems and machinery.

In addition to productivity, value chains must be upgraded to produce high value agro-food products. This will significantly boost global competitiveness and will help to match domestic, regional and international demand. There is also a need to improve logistics and transport services, as well as access to energy and water. An enabling regulatory and legal framework that gives investors security while reducing bureaucratic bottlenecks is also necessary. Engaging the private sector, smallholder farmers, producer organisation and cooperatives will help to accelerate this transformation.
Evidence shows how GDP growth that originates from agriculture ‘is at least twice as effective in reducing poverty as GDP growth originating outside agriculture.’ In sub-Saharan Africa, around 70% of the population depend on agriculture for their livelihoods and food insecurity remains widespread. Agriculture makes up a significant share of most countries’ GDP, accounting for 20% in 29 countries and over 50% in 4.

As the State of Food and Agriculture (SOFA) 2012 report showed farmers in low-middle income countries invest more than four times as much as the public sector and 50 times more than development assistance in their own farms. Returns on these investments can be extremely high, especially if channelled through productive investments that focus on scaling up weak points all along the agri-food chain. In this way increased sustainable public and private investment in the agricultural sector is directly linked to the sustainable growth and development of African economies. Agribusiness investment can help to scale up agricultural value chains through direct inputs like quality seeds, fertilisers, irrigation systems, improved post-harvest infrastructure, like refrigeration and transport systems. Agribusiness can also contribute to value addition through branding and certification schemes, and by helping smallholders to meet quality and safety regulations. This is a vital contribution that can increase distribution for farmers typically excluded from world markets.

For local entrepreneurial interest to materialise the right conditions must prevail. If the right policy framework is created, agriculture and agribusiness can have a strong multiplier effect on development.

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A sustainable **agri-food sector** in Africa

**Public-private partnerships (PPPs)**

Private-sector investment and involvement in strengthening all points of the agricultural value chain is crucial to achieving a sustainable boost to productivity. But the public sector is also crucial to create an enabling framework for the private sector to function, by adjusting policy and making public investment. PPPs allow both sectors to cooperate, align their agendas and share the risks of investing in challenging environments to help develop an African agri-food industry. True public-private cooperation involves the private sector in national priorities to unlock industry growth potential sustainably.

**Value chain development**

African economies are over-reliant on primary commodities, which account for the majority of their exports. Strengthening links with industry at each point of the value chain is key to stimulating a shift to higher value, value-added goods. The provision of quality farm inputs, up-scaled post-harvest infrastructure, improved storage and distribution systems all help to add value, meet quality standards and reduce post-harvest losses, thus encouraging distribution.

**Involving and organising smallholders**

70% of African farmers are smallholders, therefore improving the quality and quantity of their production is crucial to the sector’s sustainability. Creating cooperatives and other forms of producer and processor organisations is important to give smallholder farmers access to the benefits of increased agri-investment. Cooperatives can help increase linkages between smallholders and other actors in the value chain. They improve farmers’ access to markets, increase smallholders’ bargaining power and give investors security of supply.

Rural development
Improved rural infrastructure, access to energy and water can encourage the expansion of agribusiness into rural areas, link rural populations to markets, reduce production and transport costs and minimise post-harvest losses.

Supplying national, regional and international demand by adding value
Changes in national, regional and international markets reward value-addition. Over the coming years, demand for processed, high-value food products in developing countries is projected to rise in an unprecedented way. Supplying this demand is a major opportunity and will be fundamental to building a sustainable agri-food sector in Africa.

Regional integration
Africa has the lowest levels of formalised intra-regional trade in the world, estimated at only 10%. Addressing this by building on current regional integration agendas to facilitate cross-border trade, develop regional infrastructure is important to build a sustainable agri-food sector that is responsive to regional demand.

Innovation and technology
To develop a competitive agricultural sector, it is crucial to invest in agricultural research and technology. This must be coupled with access to knowledge, and technology inputs for small-scale farmers to help improve their capacity. Agribusiness that contributes to innovation can strengthen the sector’s ability to adapt and engage in product development, allowing the industry to remain competitive.

Access to financial resources
Capital constraints seriously impede productivity and hinder innovation. It is therefore important to give SMEs and smallholders financial resources to make the sector sustainable and inclusive. Insurance schemes can help to mitigate risks inherent in the agri-sector and improve access to finance for smallholders by giving financial institutions a safety net.

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The main players and processes in Africa’s agribusiness

There are a number of major global players involved in accelerating the development of a competitive, sustainable and inclusive agribusiness in Africa.

African-led initiatives

CAADP, a programme set up by the African Union Commission (AUC) and NEPAD, aims to raise agricultural productivity by at least 6% and increase public spending on agriculture to 10% of national budgets per year. With other donors, the EU actively backs the CAADP process.

‘Grow Africa’ is a partnership platform created by the AUC, which aims to stimulate agricultural-based investment in Africa in line with national strategies. It seeks to increase private-sector investment through innovative finance and risk management tools; to enable multi-stakeholder partnership and to expand knowledge and awareness of best practices and initiatives. Seven countries participate in the platform: Burkina Faso, Ethiopia, Ghana, Kenya, Mozambique, Rwanda and Tanzania.

International organisations

The Food and Agriculture Organisation of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the United Nations Economic Commission for Africa (UNECA), the United Nations Industrial Development Organisation (UNIDO), the Conference on Trade and Development (UNCTAD) and the World Bank are all contributing to building up agricultural value chains.

Amongst other initiatives organised by international organisations, UNIDO, FAO and IFAD have joined forces to launch the African Agribusiness and Agro-Industries Development Initiative (3ADI). The initiative aims to facilitate and increase private-sector investment flows into the agri-sector by mobilising resources from domestic, regional and international financial systems.

Bilateral cooperation

Major global players are also investing bilaterally in the African agribusiness sector, to varying degrees. The United States, Japan, China, Brazil and India, amongst others, are all involved though their donor organisations and private-sector networks.

G8/G20 process

The G20 Action Plan on Food Price Volatility and Agriculture is a bold strategy, agreed on by agriculture ministers in 2011, that puts agriculture and food security high on the international agenda. The Plan aims to enhance sustainable agricultural production and improve productivity, market information, transparency, and better policy coordination globally. It focuses on private-sector development and its potential impact on upgrading value chains.

The New Alliance launched by G8, as the next phase of the L’Aquila initiative, focuses on combining aid with private capital, creating tools to scale up innovation and developing risk management strategies.

Both these initiatives seek extensive involvement of agri stakeholders in order to achieve the development goals. The EU is fully engaged with both. However, foreign investors and donors can only complement funds that should be mobilised locally and regionally. It is crucial for local entrepreneurs to invest in Africa’s growth.

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12 Through the Multi Donor Trust Fund.
The EU sees agricultural development as a key driver for growth and poverty reduction. It contributes to this process through a number of initiatives, programmes and funds, all of which aim to support the development of a sustainable African agri-food sector.

**Agenda for Change and the European Development Fund (EDF)**

The EU’s Agenda for Change initiative prioritises agriculture and food security in EU development financing. Sustainable agriculture and agribusiness have therefore been identified as key sectors to be funded in many African countries. Around € 1 billion per annum was invested in agriculture during the period 2008 to 2013 and Africa will continue to benefit from considerable EU support for the period 2014 to 2020.

**Regional and global programmes**

EU support for agriculture and rural development is also financed by the Food Security Thematic Program (FSTP) and the Food Facility. Running from 2007 to 2013, the FSTP aims to improve food security of the most vulnerable in the medium and long term and develop sustainable solutions. Financed by the Development Cooperation Instrument (DCI), the FSTP addresses food security at global, continental and regional levels and complements geographical programmes. From 2008 to 2012, regional activities in the African continent funded by the FSTP amounted to more than € 140 million. A further € 45 million is earmarked for 2013.

The Food Facility 2009-2011 — the first major financial response to the 2008 food crisis — also contributed to agricultural development. The Facility provided € 1 billion towards long-term agricultural management and increased production, benefiting over 59 million people in 49 developing countries. It directly financed measures to improve access to microcredit, equipment, infrastructural support, storage, training for agricultural professionals and agricultural inputs like fertilisers and seeds. In response to the food crisis, the EU also launched two other initiatives specifically targeting the Horn of Africa and the Sahel (SHARE and AGIR).13

**Trade and Growth Communication**

The ‘Trade, Growth and Development’ Communication14 redefines how the EU’s trade and development policy will aid the development of lower-income countries — in particular, the Least-Developed Countries (LDCs) — ensuring they can increasingly enjoy its benefits. Proposals for improving the effectiveness of the EU’s trade and development tools include: reforming the EU’s preferential trade schemes to focus more on the poorest countries, stepping up negotiations of Economic Partnership Agreements (EPAs), increasing the use of EU instruments to promote foreign direct investment, helping developing-country exporters — especially small operators — to enter the EU through, for example, the Export Helpdesk and assisting developing countries to improve governance and meet international standards so that they can take trade more on the global markets.

**Small Farmers’ Organisations in Africa Programme (SFOAP)**

EU cooperation aims to promote the equitable distribution of investment returns and to help small farmers overcome their systemic weaknesses. Through the Small Farmers’ Organisations in Africa Programme (SFOAP), the EU helps to boost the institutional capacities of the four regional African farmers’ organisations.15 It helps them represent the interests of smallholder farmers and influence policy processes.

The EU also provides direct assistance under the SFOAP to improve the competitiveness of African farmers’ commodity chains. This is mainly achieved by scaling up support services at regional and producer level, providing links to competitive markets and strengthening partner countries’ capacity to implement commodity chain strategies. 55 organisations over 38 African countries are involved in the SFOAP. The EU has provided € 5 million towards the programme.

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15 East African Farmer’s Federation (EAFF), Regional Platform of Central African Farmers’ Organisations (PROPAC), West African Network of Farmers’ Organisations and Agricultural Producers (ROPPA), Southern African Confederation of Agricultural Unions (SACAU).
Resilience Communication

The Commission Communication on Resilience\textsuperscript{16} links emergency and development programmes. The Communication focuses on mixing short- and medium- to long-term funding aimed at making the most vulnerable populations more resilient. It supports the design of national resilience strategies, disaster management plans and efficient early-warning systems in disaster-prone countries. It also recommends developing creative new approaches to managing agricultural risks, particularly through collaboration with the insurance industry.

The Global Index Insurance Facility (GIIF)

The EU has provided €3.5 million in direct support for the Global Index Insurance Facility (GIIF), an International Finance Corporation (IFC) programme that aims to provide smallholder farmers with agricultural insurance.

Safety and standards

Through support to the Standard and Trade Development Facility (STDF) the EU is actively involved in raising sanitary and phyto-sanitary conditions in African countries. Technical cooperation for this includes improving food safety, animal and plant health capacity. As a donor the EU also participates in STDF working groups and Policy Committees.
Conclusion

A vibrant agriculture sector is crucial to generating sustainable economic prosperity in Africa. It is also a key part of the solution to improving food security and alleviating poverty.

There are significant opportunities in the African agri-food sector that can encourage private-sector involvement, while simultaneously working for the developmental agenda. By creating added value, agro-processing and by forming key links between agriculture and industry, agribusiness can provide the impetus for economic growth and also for inclusive and sustainable development.

Long-term capital investment must be made a priority if the sector is to grow competitively and sustainably. Public-private partnerships designed to help mitigate risk can encourage long-term investment. But for these investments to lead to a truly sustainable agri-food sector, it is crucial to develop the value chain and include smallholders in the process and in the gains. Evidence shows that investments that boost the capacity of smallholder farmers and integrate them into local and regional markets yield significantly higher returns than those that don’t. Such investments increase farmer productivity and can link producers to national, regional and international markets in a way that responds to current and growing global demand. Access to finance, technology, innovation, expert knowledge and rural development are also crucial if the agro-industry is to grow competitively.

The EU will continue to support initiatives and partnerships that work towards sustainably developing African agro-food industry in ways that can stimulate growth, enhance food security and alleviate poverty.
Agribusiness and Development:

How investment in the African agri-food sector can help support development