Business for Development 2008:

Promoting Commercial Agriculture in Africa

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Promoting Commercial Agriculture

What Do We Mean?

The Agro-Food Sector

Food Crops
- Cassava
- Millet
- Sorghum

Export Crops
- Cocoa beans
- Cotton
- Groundnuts

Livestock
- Cattle
- Poultry
- Sheep

Fisheries
- Catfish
- Nile perch
- Tilapia

Horticulture
1. Fruits/Vegetables
- Mango
- Pineapple
- Shea nuts

2. Cut Flowers
- Ferns
- Roses
- Tulips

Non-Traditional Agriculture

Semi-Processed / Processed Products
- Cocoa butter
- Prepared tuna
- Tomato paste

Aquaculture
- Fish cultivation
- Prawn farming

Source: OECD Development Centre 2008.
Presentation

1. World Agricultural Trade and Africa

2. Mapping Big Business: Agro-Food Enterprises in Africa

3. Aid for Trade and African Agriculture

4. Lessons from Five Countries: Ghana, Mali, Senegal, Tanzania, Zambia
• **Africa has lost its market share in international trade since the mid-1980s**
  - The share of African products in world agricultural imports declined from 5.4 per cent (1985) to 3.2 per cent (2006).

• **Three countries account for more than 50% of Africa’s agricultural exports**
  - Over 2002-2005, South Africa, Côte d’Ivoire and Ghana accounted for 56 per cent of the total exports of SSA

• **Bulk commodities continue to dominate, despite some growth in horticulture**
  - In 2005, Africa’s major export products were cocoa, cotton, wine, sugar, tobacco and tea
Share of Exports by Product Group (1985 - 2006)

- **Declining Bulk Commodities**
- **Emerging Horticulture**

*Source: United Nations / Comtrade.*
World Agricultural Trade and Africa

Missing the Train?

- **World agricultural trade is no longer dominated by bulk commodities**
  - Global agro-food trade has moved downstream along the value chains

- **Africa has found it difficult to move into processed, higher value products**
  - No SSA country is among the world’s leading exporters of processed goods

- **China and India: New markets for Africa?**
  - Already today, China and India account for 7 per cent of Africa’s agricultural exports
Mapping Big Business in Africa:

Foreign and Domestic Agro-Food Firms

Spread of Agro-food Enterprises across Africa

- Southern Africa leads the field
- North Africa shows a large presence of MNCs also thanks to ties and proximity to the EU
- Central Africa appears to be the least attractive region so far

Source: OECD Development Centre 2008.

Note: The number of companies present in each region may include multiple subsidiaries of the same company.
Mapping Big Business in Africa:
Distribution of African Agro-Food Enterprises

- Agro-food firms among African Top 500
- Country headquarters and subsidiaries

Source: OECD Development Centre 2008.
• **Few hubs for large agro-food firms**
  - South Africa and Côte d’Ivoire host most company headquarters

• **Market size matters**
  - Nigeria’s population and sheer market size are appealing

• **African firms move beyond borders**
  - South Africa’s agro-food firms spread to neighbouring countries

• **Company presence does not guarantee food security**
  - Ghana attracts companies from other countries but relies on food imports
• **Beverage companies have the most developed business network**
  - The beverage segment is the most integrated between multinational firms and African companies

• **Input products: insufficient demand => insufficient supply**
  - Low fertilizer usage means too small a market for MNCs

• **Regional integration could foster agro-food business**
  - Firms struggle with the limited movement of goods and people as well as differing quality and standards which increase production and transaction costs
Aid for Trade (AfT)

Some Stylised Facts

• **Africa received 1/3 of global AfT**
  - Over the 2002-05 period total AfT to Africa amounted to $ 6.1 bn

• **Top 3 donors are: EU, World Bank and AfDB**
  - They provided half of total AfT to Africa during the same period

• **Infrastructure investments received most of the funds**
  - Trade-related infrastructure received $ 3.1 bn, followed by productive capacity building ($ 2.7 bn) and trade policy and regulations ($ 0.2 bn)

**Where is the link between Aid for Trade and African agriculture?**
Aid for Trade and African Agriculture

Defining the Links

- Productive Capacity Building
  - $2.7 billion (44%)
- Trade Related Infrastructure
  - $3.1 billion (52%)
- Trade Policy & Regulations
  - $0.2 billion (4%)

$6.1 billion

- Agriculture
  - $1.5 billion (74%)
- Agro & Forest Industries
  - $0.03 billion (1%)
- Rural Development
  - $0.5 billion (25%)

$2.03 billion

- Broad definition of aid to agriculture

Source: OECD, DAC/CRS.
Aid to Agriculture in Africa  
Making its Way back on the Agenda

- **Aid to agriculture declined in the past 15 years**
  - Aid to agriculture decreased in absolute terms from $2.6 bn to $2.0 bn and as a share of ODA (from 11 to 5.4 per cent)
- **Why did aid to agriculture decline?**
  - 1990s: A shift to structural adjustment lending and limited success of aid to agriculture
  - More ODA flowed to social infrastructure and services due to lower transaction costs and link to Millennium Development Goals
- **But: Aid to agriculture is back on the agenda!**
  - African countries have committed to increase spending in the framework of NEPAD/CAADP
  - More international support to agriculture has been promised
Promoting Commercial Agriculture

Lessons from Five Countries

• Ghana, Mali, Senegal, Tanzania and Zambia

• Transformation of the agricultural sector has yet to occur, despite political commitment

• Among the largest recipients of aid to agriculture
  ➢ Between 2002-2005, the five countries received over 20 per cent of total commitments of aid to agriculture in Africa

• Donors are shifting towards promoting agribusiness

• Interesting donor interventions
  ➢ Zambia: pioneer of a sector investment programme in agriculture
  ➢ Tanzania: moving towards a sector-wide approach
  ➢ Ghana, Mali, Senegal: agribusiness promotion in horticulture
Lessons from Five Countries

Aid to Agriculture – Back on the Agenda?

Aid to Agriculture in the Five Countries
(1980 - 2006)

Source: OECD DAC, CRS Database.
Lessons from Five Countries

Productivity of Food Crops Has Been Stagnant

(A) Cereals Yields

(B) Roots and Tubers Yields

Source: ProdSTAT, FAO Statistics Division.
• **Example of Zambia:**
  - Only 15 per cent of arable land is cultivated
  - Only 10 per cent of suitable land is irrigated
  - 40 per cent of households active in subsistence agriculture

• **Traditional smallholder production dominates**
  - Rain-fed agriculture => dependent on weather conditions
  - Little acreage => no economies of scale
  - Limited intensification => low yields per hectare

• **Dualistic structure**
  - Small commercial sector, large number of subsistence farmers
Lessons from Five Countries

Positive Developments in the Export Sector

- **Emerging horticulture in Ghana, Senegal, Mali and Zambia**
  - In Tanzania horticulture is still very small
  - Donor support has been crucial, especially in Senegal; lately in Ghana

- **Success due to contract farming schemes**
  - Costly, but helps to overcome the scale problem
  - Private sector involvement helps to ensure sustainability
  - Risk: can create new dependencies

- **Is it possible to extend the models to food crops?**
  - First pilot projects launched for example in Ghana
• **Financial resources are below the CAADP target**
  - Mali is the only country where the government budget for agriculture is above 10 per cent

• **Too little is spent on R&D and extension**
  - In the five countries, resources have declined in the past 3 decades
  - R&D and extension have been crucial for the green revolution in Asia

• **Inter-Ministerial coordination needs to be improved**
  - Responsibilities are split between various ministries: trade, infrastructure, environment, rural development, agriculture
  - No coherent strategy on how to promote private sector development in agriculture

• **Strengthening public sector capacity is crucial!**
• **Donor coordination should be improved**
  - Coordination happens only on an *ad hoc* basis
  - Ghana, Mali, Tanzania register over 100 projects which can be classified as promoting private sector development in agriculture
  - 12 donors are active in the Malian mango sector

• **Positive: Value chain approach is becoming a standard**
  - Trying to tackle several bottlenecks may lead to greater coordination
  - Commercial approach brings sustainability into focus

• **Sector-wide approaches in agriculture still remain a challenge**
• **Emerging horticulture needs to be sustained**
  - Outgrower schemes have proven to be successful as a mechanism to connect smallholders to the market and realise economies of scale

• **Local food industries need to be developed**
  - Food security problems in some African countries, due to underdeveloped marketing infrastructure (transport and information)
  - Agro-processing is in its infancy, despite sizable local and regional markets

**Commercial potential of food crops needs to be recognised.**
Thank you!

For more information and the five case studies:

www.oecd.org/dev/publications/businessfordevelopment
African Agriculture 2008
The Agro-Food Supply Chain

AGRICULTURAL INPUTS
Top 3 foreign firms:
- BASF
- Dow Chemical
- Bayer

Top 3 African firms:
- SASOL
- AECI
- Omnia Holdings

FOOD PROCESSORS
Top 3 foreign firms:
- Nestlé
- Unilever
- Archer Daniels Midland

Top 3 African firms:
- ONA Group
- Tiger Brands
- Cévital

BEVERAGE
Top 3 foreign firms:
- Coca-Cola
- InBev
- Anheuser-Busch

Top 3 African firms:
- SAB Miller South Africa
- Distell Group
- Nigerian Breweries

FOOD RETAILERS/DISTRIBUTORS
Top 3 foreign firms:
- Carrefour
- Metro
  (not available)

Top 3 African firms:
- BidVest Group
- Pick’ n Pay Stores
- Massmart Holdings

FOOD SERVICES
- TOBACCO
  Top 3 foreign firms:
  - Altria Group
  - British American Tobacco
  - Japan Tobacco
  Top 3 African firms:
  - Altadis Maroc
  - Eastern Co.
  - SNTA