Promoting Commercial Agriculture in Africa

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Abstract

This article looks at African agriculture from a business perspective and highlights the current status of agriculture and agribusiness. It seeks to address a number of key questions: To what extent is African agriculture becoming a business and what are the driving forces to make agriculture more market-oriented? How can the domestic and international private sector become a driver of change?

1. Introduction

Agriculture is the dominant sector in most African countries and plays an essential role in rural and overall economic development. More than 60 per cent of Africa's active labour force earns a livelihood in the agricultural sector. Thus, the future of Africa is closely intertwined with the development of its agricultural sector.

However, Africa's potential with respect to commercial agriculture is largely untapped, and the current status of agriculture is a source of major concern. The sector is dominated by poor smallholders, often solely engaged in subsistence agriculture, while the agribusiness sector is in its infancy in most countries. Smallholders face tremendous challenges in accessing input and output markets and find themselves trapped into a vicious cycle of low income, low inputs and low productivity. In 2006, the African average cereal yield was only 40 per cent of the Southeast Asian average.

African agriculture has undergone major market reforms and external liberalisation during the past two decades. All in all, however, these reforms have failed to generate sufficient supply responses to enable agriculture to play a central role as a main driver of growth and poverty reduction. Instead, food availability per capita has declined by 3 per cent in sub-Saharan Africa since 1990, in sharp contrast with increases of more than 30 per cent in Asia and 20 per cent in Latin America. Also, Africa currently imports 25 per cent of its food grains (OECD, 2006, pp. 42-45). The poor performance of African agriculture implies that the continent has been lagging behind in adapting to the structural transformation of the international agro-food market which has opened up new business opportunities for developing-country producers, while at the same time increasing competitive pressures (OECD Development Centre 2007, Chapter 3).

It is in this context that since the turn of the new millennium there has been renewed political interest in supporting agriculture as a sectoral priority. The New Partnership for Africa's Development (NEPAD) has been instrumental in bringing up agriculture on the national and international policy agenda in the 2003 CAADP (Comprehensive Africa Agriculture Development Programme) framework. Given the limited financial resources available to most African governments, it has become critically important to mobilise additional resources, including those coming from bilateral and multilateral donors and the domestic and international private sector.

Additional resources are clearly needed. Over the last two decades, with few exceptions, the allocation of public resources to agriculture has shrunk dramatically. Reversing that trend today is as important as ensuring that scarce resources are efficiently allocated to priority, productivity-enhancing investments.

Donors have already funded a wide array of projects and programmes in agriculture and agribusiness and increasingly put emphasis on the need to promote agro-based private sector development. The international aid effectiveness agenda highlights the importance of aligning donor activities to the recipient country's priorities and of improving co-ordination among donors, to minimise duplications and reduce the bureaucratic burden on the local administration. In this respect, various aid modalities have been devised, including sector-wide approaches to agricultural development. Given the cross-cutting nature of such aid that is closely connected to aid for trade and private sector development, the formulation and implementation of effective agricultural development programmes will remain a major challenge to many African countries.

This executive summary is based on a full publicatiion (about 126 pages) by the OECD available at www.oecd.org

The paper is based on the book Business for Development08: Promoting Commercial Agriculture in Africa. The books presents an overview of the evolution of world agricultural trade since the mid-1980s, with a focus on four major product groups (bulk commodities, horticulture, semi-processed and processed products) and highlights major characteristics of African agricultural trade (Chapter 1). Chapter 2 makes a first attempt at portraying Africa's corporate landscape in the agro-food sector: who are the major corporate players, both foreign and African, operating in the continent today? Chapter 3 discusses issues related to aid for agriculture in a broader Aid for Trade context. Chapter 4 looks at what governments and donors are actually doing on the ground to promote commercial agriculture in Africa and presents key policy messages emerging from five country case studies. These countries are Ghana, Mali, Senegal, Tanzania and Zambia. The detailed country case studies are available in the Business for Development website: www.oecd.org/dev/publications/businessfordevelopment.

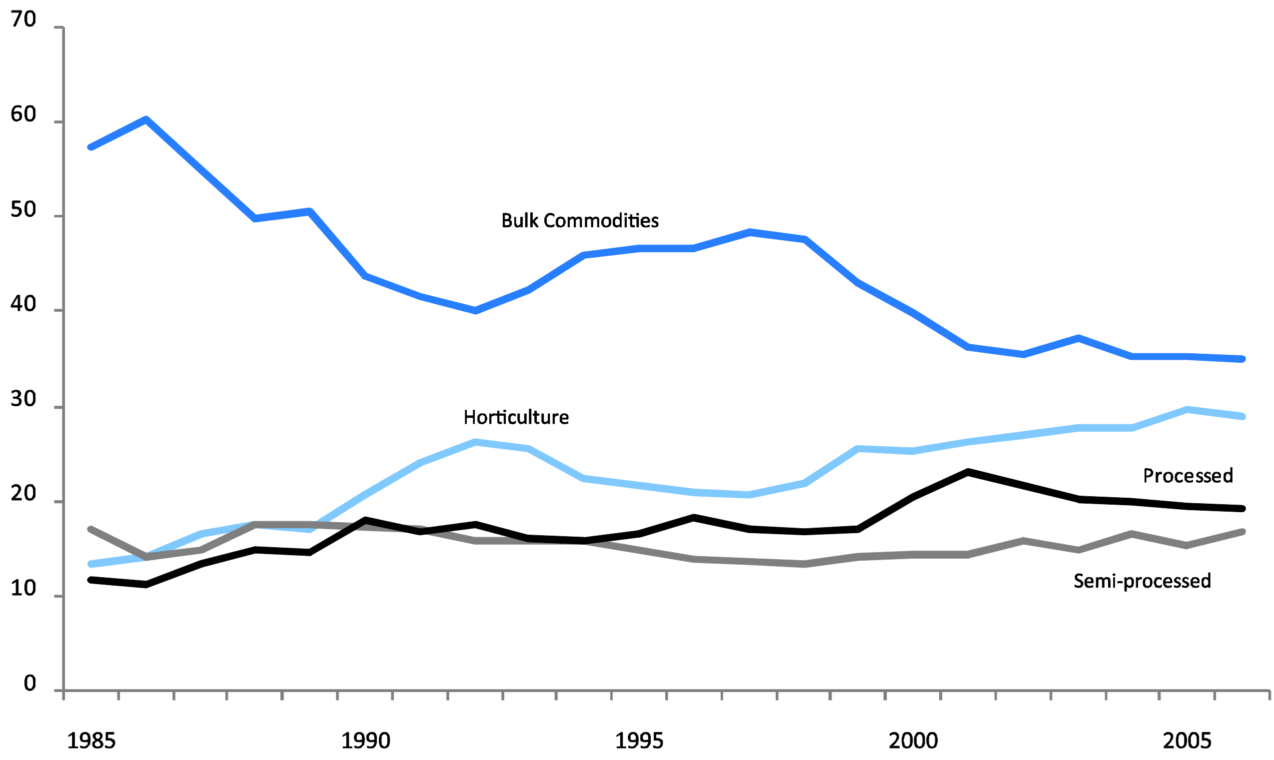
Major questions addressed in the book include: To what extent is African agriculture becoming a business? What are the driving forces to make agriculture more market-oriented and stimulate the development of specialised enterprises for agro-food products? How can the domestic and international private sector become a driver of change? What are African governments and their development partners doing to promote such transformation towards commercialisation?

In what follows, the major messages emerging from the book are highlighted.

2 Africa's declining share in world agricultural trade

African countries participate in the expansion of world agricultural trade but their contribution is relatively small. Looking at the evolution since the mid 1980s, the share of African products in world agricultural imports has actually declined from 5.4 per cent in 1985 to 3.2 per cent in 2006 (Figure 1). Moreover, agricultural exports are highly concentrated in a small number of countries. Over the 2002-05 period, the largest exporter was South Africa followed by Côte d'Ivoire and Ghana, and these three countries accounted for about 56 per cent of total exports from sub-

Figure 1. World Agricultural Imports from Africa by Product Group



Source: United Nations/COMTRADE. 2http://dx.doi.org/10.1787/334136755037

Saharan Africa. Trade in agricultural products represents less than 20 per cent of Africa's total intra-regional trade, although this figure is likely to be too low, given the high levels of informal, non-recorded cross-border trade in food products.

Africa's small share in world agricultural exports may be partly explained by the fact that world agricultural trade is no longer dominated by bulk commodities. Trade in processed food and horticulture (e.g. flowers, fruits and vegetables) has grown twice as fast as bulk commodities over the last 25 years, attaining an export growth comparable to the growth of non-agricultural products. In contrast, trade in bulk commodities has been least dynamic and its relative share in total agricultural exports has declined substantially. Such broad patterns of the evolution of world agricultural trade suggests that a significant part of global agro-food trade has become less dependent purely on natural resource endowment and has moved downstream along the value chains. On the other hand, most developing countries that remained commodity-dependent in 2003-05 have been struggling to defend historical positions in the international market. Africa is home to about two-thirds of such commodity-dependent developing countries.

Africa's specialisation in agricultural trade, although slowly changing, is overwhelmingly in bulk and horticulture, i.e. products whose production is related to geographical conditions. Achieving vertical diversification towards processed, higher value-added products has proved more difficult for Africa than for other developing countries. None of the countries from sub-Saharan Africa is among the world's leading exporters of processed products. This suggests that Africa today has a competitive disadvantage in agro-processing, since the proportion of transaction costs over total costs is higher in this segment of the agro-food sector because of poor logistics, red tape and the high cost of capital. While this is certainly a problem for Africa, better policies can help solve it through the improvement of the business environment and the creation of the conditions necessary for higher private investment in agri-business.

The rise of China and India represents a new and potentially very significant opportunity for Africa's agricultural exports. In their search for commodities, these countries have already strengthened their trade links with the continent. Rapidly growing incomes in these two giants are likely to fuel a strong surge in their demand for food, including through imports. In fact, their agricultural imports from Africa have increased rapidly over the past ten years, although from a small base. Today they represent one of Africa's most important export markets for agricultural products, accounting for about 7 per cent of its exports.

In assessing the scope for further expanding agricultural and food trade with Asia, it is interesting to note that agriculture accounts for about 10 per cent of India's imports from Africa, but it represents less than 4 per cent of Chinese imports from the continent. The product composition differs too, with bulk commodities dominating China's agricultural imports from Africa, while horticultural products account for roughly two-thirds of India's agricultural imports from the continent.

The trading opportunities in agriculture would increase further if both developed and developing countries were to reduce import tariffs and cut domestic subsidies globally and regionally. Agricultural policies of OECD countries, by supporting their farmers through cash transfers or market price supports, have been blamed for preventing developing countries, including those in Africa, from further developing their agricultural sectors. However, more recent analysis questions this conventional wisdom as many countries in Africa are net food importers. At the same time, there might be dynamic effects, where higher prices arising from trade liberalisation could trigger investment, resulting in more production and competition and lower prices in the longer term. How countries will be affected following a successful conclusion of the Doha Development Agenda depends obviously on how ambitious the final agreement will be, but also on the net trade positions and other supply-side particularities of the individual countries.

At the same time, reducing import tariffs may not result in a strong rise in exports, since non-tariff barriers play a major role in agricultural trade, especially for processed products. In addition, many African countries lack the capacity and infrastructure to meet the international standards required for them. In fact, the most valuable and dynamic segments of the agricultural sector are subject to increasingly stringent scrutiny under both international food and health regulations and private standards imposed by supermarkets. Adjusting to the new trading and regulatory environments governing agriculture poses a major challenge for Africa. This is an area where technical assistance from donors and international agro-food corporations would prove very useful.

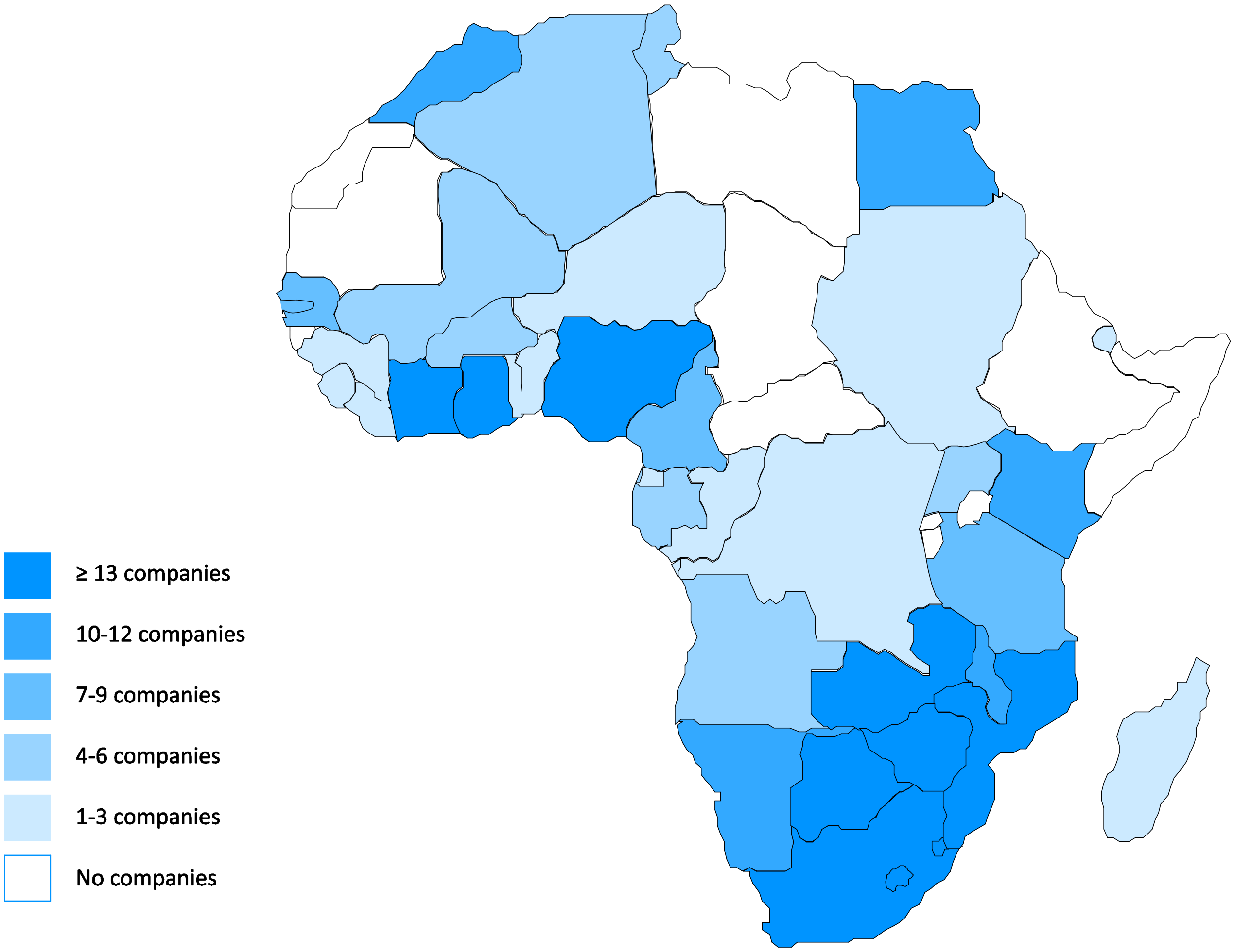
3. Africa on the radar screens of agro-food multinationals

The agro-food sector, spanning the range from input supply (e.g. seeds and fertilizers) to retail, has experienced a strong drive towards globalisation, both in terms of the reach of its sourcing — suppliers in many developed and developing countries participate in global value chains, co-ordinated by buyers and supermarkets — and in terms of the degree of internationalisation of major corporations. A relatively small group of very large multinational corporations (MNCs), spreading their reach across the globe, dominate the sector.

To what extent is Africa involved in the global agro-food system? Who are the major corporate players operating in the continent's agricultural sector today? Very little is known about private enterprises in the agro-food sector in Africa. The up-to-date company information based on *Fortune Global 500* and Jeune Afrique *Les 500*, published in 2007, provides a starting point to map Africa's corporate landscape in this sector.

African countries are gradually appearing on the radar screens of large MNCs in the agro-food sector (Figure 2). Of the 49 corporate giants from this segment listed in the *Fortune Global 500*, 25 have activities on the continent. Activities of these selected firms in the conti-

Figure 2. Geographic Distribution of African Agro-Food Companies and Their Target Markets



Note: Figures include headquarters and target markets.

Source: Based on Annex Table 2.A3. 2http://dx.doi.org/10.1787/334272541774 nent include wholly owned subsidiaries or, in the majority of cases, non-equity linkages such as franchises and licensing. These corporate giants are also present through sales offices and marketing representations.

These very large MNCs have entered the most dynamic markets by concentrating their activities in North and Southern Africa but have largely ignored the countries in between. North Africa has been gaining ground thanks to strong ties and proximity to the European Union, progress in economic liberalisation and improvements in infrastructure. Not surprisingly, in 2006 the region received about two-thirds of foreign direct investment (FDI) inflows to Africa. In the Southern region, South Africa accounted for the bulk of investments.

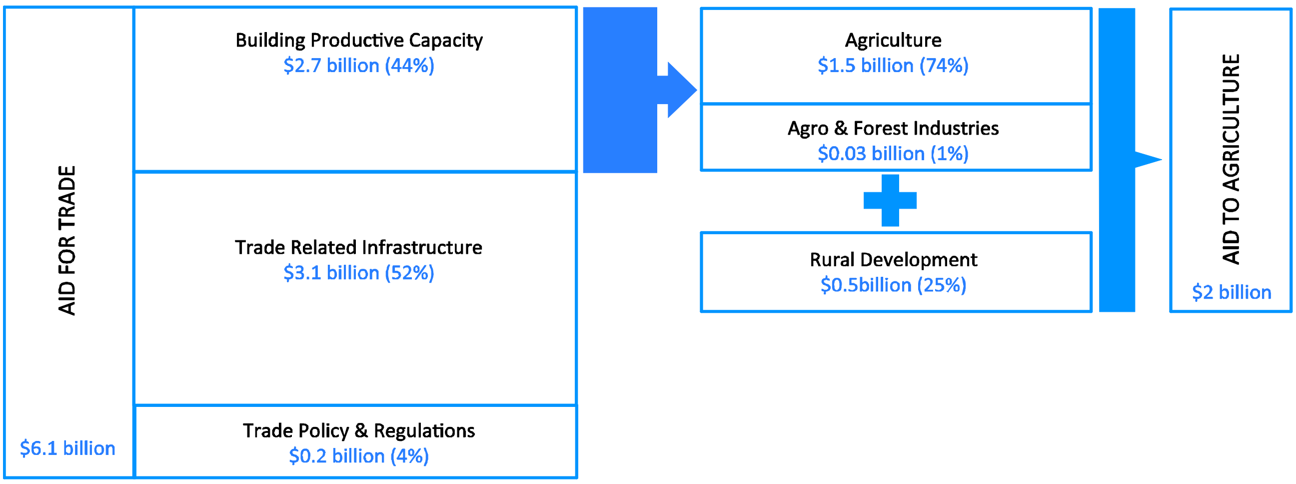
Meanwhile, indigenous African agro-food companies are slowly emerging on the continent as relevant players. Of the 500 companies listed in the Jeune Afrique ranking, 111 are active in at least one segment of the agro-food value chain. The range of income among them is extensive, from revenue of more than $11 billion to a minimum of $90 million.

The beverage sector appears as the most dynamic and developed, with a sizeable presence of both foreign and African companies, sometimes operating in partnership. These collaborative arrangements are mainly based on local licensing and franchise agreements. For instance, the internationally leading beverage company, the Coca-Cola Company, is present in the majority of African states through franchises with local firms which provide bottling and distribution services.

Interestingly, African enterprises have started internationalising themselves. Large companies, in particular retailers, are making inroads in the continent to escape saturated domestic markets. Internationalisation takes place in many forms: firms export their products through partners (e.g. Lesieur Cristal), establish their own sales representation on the spot (e.g. Nigerian Breweries) or even relocate production sites to different countries (e.g. Illovo Sugar). South African companies have been the enterprises pursuing the most proactive internationalisation strategies. Only four of the 24 South African firms present in the Jeune Afrique ranking are not engaged in some kind of international operations. Although they are still small in number, these examples underscore the large business opportunities available in the African agricultural sector.

The emergence of the indigenous agro-food private sector and the interest of non-African multinational corporations in Africa highlight that government efforts to improve the business environment are starting to pay off. Much more remains to be done, however. Private investment in the sector is still small and African producers take part in the agro-food global value chain in a rather passive way, capturing only a small share of the value generated along the chain.

Figure 3. Mapping Aid for Trade and Aid to Agriculture in Africa



Note: Annual average of 2002-2005 at 2004 constant prices.
Source: OECD, DAC/CRS. 2http://dx.doi.org/10.1787/334421462846

4. Aid to Agriculture with a stronger focus on trade and private-sector development

Faced with limited financial resources and an increasingly complex trade negotiation agenda, African countries have shown strong interest in "Aid for Trade" as a mechanism to help build trade negotiation capacities, strengthen productive capacity (particularly, but not exclusively, in the agro-food sector) and improve trade-related infrastructure, thereby realising their export potential.

Total Aid for Trade support to Africa is estimated at $6.1 billion a year (on commitment basis) over the period 2002-05 (the latest year of the OECD/WTO statistics), representing almost one-third of global aid for trade (Figure 3). Support to trade-related infrastructure accounts for over half this amount. Overall, the European Commission and World Bank/International Development Association are by far the largest donors to Africa in all Aid for Trade activities, followed by the African Development Bank/African Development Fund in supporting trade-related infrastructure and building productive capacity. Altogether, these three multilateral donors accounted for over half of the total Aid for Trade commitments to Africa during 2002-05.

In Africa, more than half the support for building productive capacity goes to the agricultural sector and covers a wide range of activities. Donor support to this area averaged about $1.4 billion a year in real terms over 2002-05.

However, until recently aid to agriculture in Africa had been on the decline. Over the last 15 years, the volume of aid to agriculture in Africa decreased both in absolute terms (from $2.6 to $2.0 billion), and as share of total official development assistance (ODA) (from 11 to 5.4 per cent). This trend reflected a worldwide pattern. Limited success of aid to agriculture and a shift towards structural adjustment lending (connected with a stronger focus on economic liberalisation), led to a sharp decline in aid to agriculture since the early 1990s.

Also, an increased proportion of ODA has flowed to social infrastructure and services. Assistance to health and education offers development agencies a number of attractions. Aid can be channelled through large public-sector entities, either as programme support to ministries or as general budget support. Transaction costs are therefore minimised. More importantly, assistance can be clearly linked to increased delivery of basic services, which in turn can be relatively easily associated with progress towards achieving internationally agreed development targets such as the Millennium Development Goals (MDGs). On the other hand, aid to agriculture (and indeed to other productive sectors) often has long gestation periods and lacks the same clear relationship between aid expenditure and outcomes.

Table 1. The Role of Agriculture in the Five Countries

Country	**Share of Agriculture in GDP** (2005, %)	**Real GDP Growth Rate** (2006, %)	**Real Growth Rate of Agricultural Sector** (2006, %)	**Share of Agriculture in Exports** (average 2000-05)[d]	**Major Agricultural Exports**
Ghana	37	5.8[b]	6.5[b]	51	Cocoa, timber, horticulture
Mali	38	5.0	5.1[b, c]	77	Cotton, livestock, horticulture
Senegal	14	2.9	- 2.9	20	Groundnuts, horticulture
Tanzania	45[a]	6.2	4.0	36	Cotton, tobacco, coffee
Zambia	22	6.2	2.4	13	Cotton, tobacco, horticulture

.*Source:* ANSD (2007), EIU (2007), GRZ (2007), ISSER (2006), OECD/AfDB (2007), URT (2007).
2http://dx.doi.org/10.1787/335330015231
Note: a. 2006; b. 2005; c. Growth in volume; d. Agricultural exports do not include fish and fish products

Since the beginning of this century, there has been a renewed awareness among both African policy makers and donor agencies of the vital contributions of agriculture to long-term growth and poverty reduction. African countries have come to realise that the underperformance of agriculture has been a major drag on their economic and social development. The donor community, too, has begun to refocus policy attention on the vital contribution that trade and private sector development, especially in the agricultural sector, can make to development.

However, aid to agriculture varies considerably across countries in the region in terms of policy focus, the mode of delivery and the nature and degree of donor harmonisation. In order to gain a more accurate picture of aid to African agriculture and to assess what is actually working on the ground in terms of donor-assistance programmes, the OECD Development Centre conducted five country case studies between 2005 and 2007. Ghana, Mali, Senegal, Tanzania and Zambia were selected because of the particular importance of agriculture in their economic development and their governments' commitment to promote agricultural modernisation and diversification. Moreover, they are among the largest recipients of agricultural aid in Africa and offer a wide spectrum of donor-supported programmes (The country case studies can be viewed at: www.oecd.org/dev/publications/ businessfordevelopment).

5. Structural transformation of agriculture has yet to occur

Although they have been on the policy agenda of the five countries almost since independence, the transformation of agriculture and the development of agro-based industries have yet to materialise. The agricultural sector is characterised by a dualistic structure, with few commercial farmers and a large majority of smallholders, engaged in subsistence or quasi-subsistence agriculture. Food crop productivity has been stagnating and even countries that could be food secure, such as Ghana and Tanzania, continue to experience food security problems. While the Senegalese agro-processing industry is quite active, it nevertheless generates little value added and is only weakly linked to the rest of the economy because of its high dependence on imported inputs.

On the other hand, horticultural exports have emerged as a new driver of agricultural growth. Contract farming (e.g. outgrower schemes) has proved to be an effective mechanism for involving smallholder farmers in export crop production and achieving economies of scale. These interlocking arrangements have proved to be more difficult to set up for staple food crops, mainly because of widespread free-riding on the side of contracted growers.

6. New approaches to support agricultural commercialization

Donors are increasingly adopting a value chain approach to promote private sector development in agriculture and are trying to tackle various bottlenecks simultaneously. Previous interventions mainly focused on production, and did not pay adequate attention to the development of market linkages and the role of support entities. Many new projects now rely on value-chain mapping to identify competitiveness bottlenecks and make sure that all relevant segments are dealt with, including support actors. Some promising examples include projects focusing on demand-driven agricultural services (e.g. veterinary services in Zambia) and other supportive industries (e.g. packaging in Senegal and Mali). This represents a significant improvement on the past, even though projects remain limited to specific export commodities or areas.

Nonetheless, some segments of the agricultural value chain still receive little donor attention. In particular, more consideration needs to be given to the role of input suppliers, the involvement of market intermediaries (including small-scale traders) and the specific needs of agribusiness companies. In this respect, donor efforts seem more advanced in Senegal than in the other four countries. Also key areas for market access, such as marketing and quality standards (e.g. sanitary and phytosanitary standards), receive little attention.

An important lesson emerging from the application of the value-chain approach is that the promotion of private sector development in agriculture goes well beyond the sector itself and cuts across several policy domains. For instance, the promotion of outgrower schemes cannot be separated from the improvement of the overall business environment, in particular contract enforcement, and the development of business service providers.

In the five countries, donors still tend to privilege stand-alone, area-based projects, which are often executed outside government structures, through local or international non-governmental organisations (NGOs). These projects have met some success in raising production volumes and facilitating market access, mainly in export-oriented commodities, although their longer term impact and sustainability remain to be assessed. While these projects are important sources of experimentation and innovation, the challenge is to scale them up in terms of both resources and geographical coverage and to mainstream them into government strategies and structures.

Scaling up and mainstreaming require a thorough assessment of local implementing capacities, both within government and in the private sector. Persistent capacity weakness may call for a gradual approach to transferring management responsibilities. Meanwhile, the NGOs executing donor projects (e.g. supporting outgrower schemes) must play a facilitating role and should not become competitors to private providers of business services or undermine the commercial viability of processors.

Positive project results can be found in all countries, but their long-term sustainability is at stake. Evaluations suggest that donor interventions have often paid inadequate attention to local capacities. In fact, few projects have an explicit exit strategy to facilitate the handover of the project to local counterparts and to ensure that services continue to be supplied to farmers in a sustainable manner. Where impact assessments have been conducted, the observed results on income levels and business sustainability are mixed. Sustaining achieved benefits at the farm level after the withdrawal of donor support remains a challenge which should already be receiving more consideration during the project design.

In fairness, governments have not always been coherent with respect to their commitments, both in terms of counterpart financing and in terms of policies to promote private sector development in agriculture.

6. Investing more effectively in agriculture

Despite the political commitment to agricultural development, actual government funding to agriculture has been on a declining trend over the last two decades. Limited and unstable public resources for the sector are undermining the implementation of agricultural strategies. None of the countries, except Mali, is close to achieving the target of 10 per cent set by the CAADP.

However, reversing the trend will not be enough to achieve higher agricultural growth. Governments also need to improve the allocation of resources within the agricultural sector and to set more resources aside for productivity-enhancing investments. For instance, evidence from Zambia suggests that the decline in resources has disproportionately affected capital equipment and recurrent departmental charges, resulting in lack of equipment and personnel to conduct research and provide extensions services and training to farmers.

7. Strengthening public sector capacity is crucial

Government structures in charge of agriculture suffer from significant capacity weaknesses, which reduce their ability to play a leading role in the sector, co-ordinate with other ministries and effectively oversee donor projects. Outflows of high-qualified staff moving to private sector positions or donor projects is frequent, reflecting not only low salaries but also the absence of proper human resource development policy to keep qualified staff in-house.

Capacities are particularly limited at the local level. All five countries have embraced decentralisation strategies to make public sector interventions more responsive to local needs. But so far the decentralisation of responsibilities has not been matched with a corresponding endowment of financial and human resources at district and village level. Not only national but also local capacity building needs to receive more attention to make demand-driven public service delivery a reality.

8. Donor co-ordination needs to be improved

Although improving, donor harmonisation and alignment to government priorities in the agricultural sector is less advanced than in the social sectors. The predominance of stand-alone projects and the involvement of several line ministries (e.g. agriculture, infrastructure, land, trade) dealing with agriculture make progress difficult. This holds true even for countries which are considered to be quite advanced with respect to donor harmonisation, such as Ghana and Tanzania.

Donor co-ordination is mainly taking place at the central level, and primarily concerns policy-related issues. Operational co-ordination, especially at field level, occurs only on an ad hoc basis. It is quite common to observe different projects being implemented in the same area within a country, sometimes with the same farmers participating in more than one project. Co-ordination on the ground should be ensured by the government authorities, but they often lack resources and capacity to do so.

A co-ordinated, sectoral approach could help tackle more effectively the multiple constraints that are hindering agricultural commercialisation. However, the experiences of Zambia in the late 1990s and more recently of Tanzania highlight the challenges of setting up multi-donor sectoral programmes. The establishment of sector-wide programmes in agriculture requires significant political will and patience, as well as strengthened government capacity.

9. Ways forward: setting more balanced action programmes

The over-reaching objective of donor and government assistance to the agricultural sector is to lift smallholders out of poverty and create more off-farm rural employment. In this regard, the market potential of staple foods should not be overlooked. Traditional food crops are often better adapted to local agro-ecological conditions, and rising local and regional demand presents a great opportunity to expand production and develop food-processing industries. Currently donors and governments tend to put too strong a focus on export crops and too little on staple foods.

While contract farming schemes have been successfully established for export crops, examples of such commercialisation programmes are still rare for staple foods. Greater involvement of the private sector in designing and implementing commercialisation programmes may be more demanding for food crops, but this is necessary to develop and sustain local food industries. More donor support for innovative approaches to commercialisation programmes in this segment of the agricultural sector is needed.

Increasing the productivity of food crops is a top priority for Africa today, given the strong prospect of world food prices. This requires sizeable investments in irrigation, storage, transport infrastructure, as well as access to input markets (fertilizers, seeds, planting materials and credit). It also requires better functioning markets and stronger linkages to buyers and processors.

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