

OVERVIEW

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Growing Africa

Unlocking the Potential
of Agribusiness



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Overview

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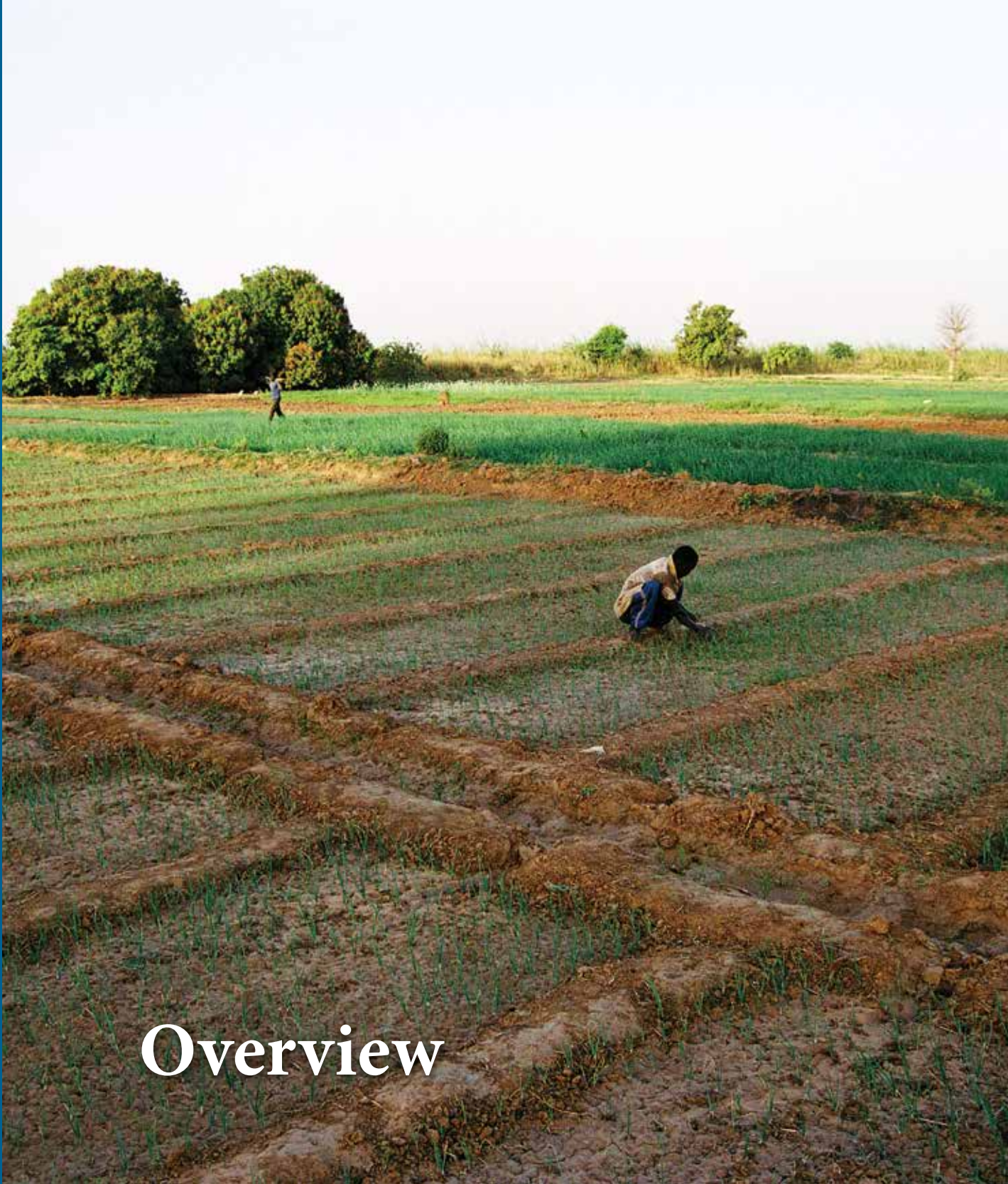


Financial and Private Sector Development Department
Agriculture, Irrigation and Rural Development Unit, Sustainable Development Department
Africa Region



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Overview



Why agribusiness?

Agriculture and agribusiness¹ together are projected to be a US\$ 1 trillion industry in Sub-Saharan Africa (SSA) by 2030 (compared to US\$ 313 billion in 2010), and they should be at the top of the agenda for economic transformation and development. Agribusiness can play a critical role in jump-starting economic transformation through the development of agro-based industries that bring much-needed jobs and incomes. Successful agribusiness investments in turn stimulate agricultural growth through the provision of new markets and the development of a vibrant input supply sector.

After decades of neglect, agriculture is again receiving attention from African governments, investors, and other partners, but their attention should extend to agribusiness. The attention focused on production agriculture will not achieve its developmental goals in isolation from agribusinesses, ranging from small and medium enterprises to multinational companies. The challenge is thus threefold: (1) develop downstream agribusiness activities (such as processing) as well as upstream activities (such as supplying inputs), (2) develop commercial agriculture, and (3) support and link smallholders and small enterprises to productive value chains.

This report highlights the great potential of the agribusiness sector in Africa by drawing on experience in Africa as well as other regions.

The report offers practical policy advice based on the experience of countries from within and outside Africa. The huge diversity of Africa's agro-ecological, market, and business environments, however, necessarily means that each country (and indeed regions within countries) will need to adapt the broad guidance provided here to the local context. (Full report available at www.worldbank.org/africa)

Agribusiness in Sub-Saharan Africa—A large sector

Agriculture and agribusiness, including food retailing, together account for nearly half of GDP in Africa. Agricultural production is the most important sector in most African countries, averaging

¹ In this report "Agriculture" refers to on-farm production. It includes crops and livestock but not floriculture, fisheries, or forestry. Although much agriculture in Africa is oriented to sustaining livelihoods, this report focuses on commercial farming, recognizing that the commercial farmers in Africa are overwhelmingly small and medium scale. "Agribusiness" denotes organized firms—from small and medium enterprises to multinational corporations—involved in input supply or in downstream transformation. It includes commercial agriculture that involves some transformation activities (even if they are basic). It includes smallholders and micro-enterprises in food processing and retail to the extent that they are market oriented—indeed these producers and enterprises make up the bulk of agribusiness activity in Africa today. "Africa" is used as shorthand for Sub-Saharan Africa, excluding South Africa, where agriculture is based on large-scale farming and agribusiness is well developed.

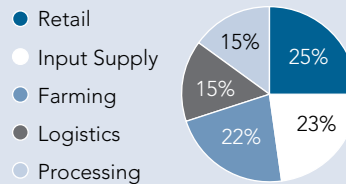


Globally agribusiness is big business

Agribusiness upstream and downstream from farming accounts for about 78 percent of the global value added in all agricultural value chains, with farming making up the remainder. Value added is largest in the downstream activities of processing, logistics, and especially retailing. Input supply accounts for about a quarter of value added.

Source: Brookfield Agriculture Group 2010.

Percent value added shares in the global agricultural value chain



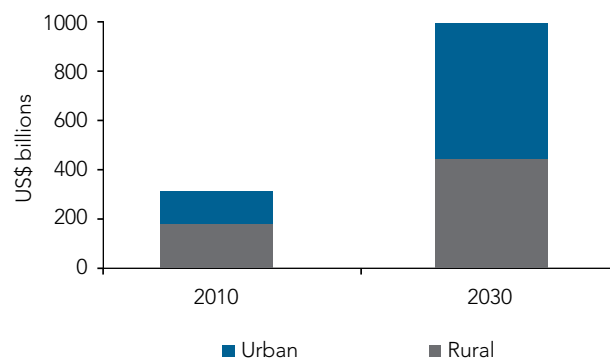
24 percent of GDP for the region. Agribusiness input supply, processing, marketing, and retailing add about 20 percent of GDP. Global experience suggests that with growing incomes and urbanization driving the commercialization of agriculture, the shares of both downstream and upstream agribusiness activities are poised for rapid growth.

Agricultural value chains are very diverse. Many value chains have dualistic structures serving different markets—an informal sector often serves low-income consumers and a formal sector accommodates high-income consumers and exports. Major opportunities exist to drive agribusiness development by upgrading informal value chains and linking them to formal value chains.

Strong growth opportunities for agribusiness

Both domestic and global markets are experiencing strong demand, which is likely to continue even as domestic demand accelerates. Most African countries have a comparative advantage in agriculture that provide an opportunity to respond to this burgeoning demand. Africa has more than half of the world's agriculturally suitable yet unused land,² and its impressive water resources have scarcely been tapped.

Projected value of food markets in Sub-Saharan Africa



Source: Authors' calculations.

² This land does not include forests and conservation areas.

Private sector interest in African agribusiness is unprecedented. The challenge is to harness investors' interest in ways that generate jobs, provide opportunities for smallholders, respect the rights of local communities, and protect the environment.

Agriculture and agribusiness are underperforming

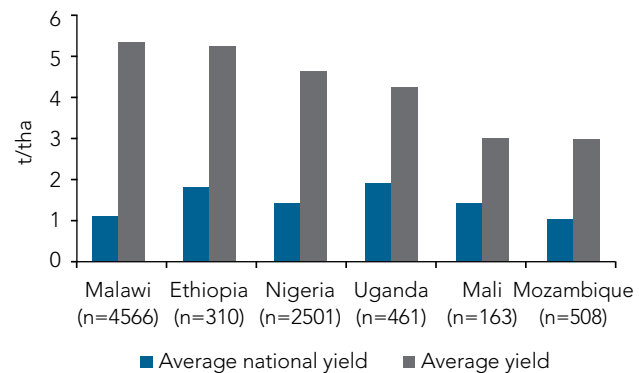
Despite great potential, in most African countries, agriculture and agribusiness have been losing in the competitiveness race. Competitiveness as crudely measured by Africa's share of global agricultural exports has fallen for most countries and for many export commodities, even as higher commodity prices have stimulated a commodity boom over the current decade. Many developing countries, such as Brazil, Indonesia, and Thailand, now export more agricultural products than all of Sub-Saharan Africa combined.

Poor competitiveness in turn relates to low and stagnant productivity. Even since the start of liberal-

ization in the late 1980s, productivity of almost all agricultural subsectors has performed poorly in Africa relative to regions with similar agro-ecological potential. Crop and livestock yields are often half of averages in Asia and Latin America, largely reflecting Africa's very low use of modern inputs such as improved seed, fertilizer, and irrigation water. Africa's agricultural growth derives largely from opening new land to agriculture, with negative consequences for biodiversity, forests and soils.

These adverse trends can be reversed through good policies, sustained public and private investments, and public-private partnerships backed by open, transparent procedures and processes along the entire value chain. Africa already has a number of bright spots of good productivity growth and competitiveness, such as horticulture, tea, and in some cases rice. A number of countries, including Kenya and Côte d'Ivoire (until 2005) and (more recently) Cameroon, Ethiopia, Ghana, Malawi, and Zambia, have performed relatively well in tapping buoyant markets.

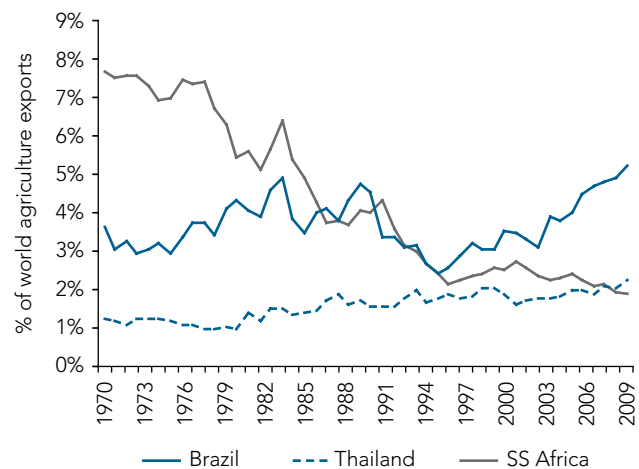
Exploitable yield gaps are high for maize in Africa



Source: World Bank 2007c.

Note: n = number of plots.

Shares of world agricultural exports (1960–2009)



Source: FAOSTAT.

Many constraints are specific to value chains

To realize the opportunities of agriculture and agribusiness, Africa has to overcome a legacy of state intervention in agricultural markets, weak land markets, and the neglect of public investment in agriculture. It must also confront new risks from environmental degradation and climate change. Constraints to the development of agribusiness in Africa have been studied extensively and can be classified into four broad categories:

1. Erratic policies in agricultural output and input markets and trade (see Brenton 2012).
2. Limited access to land and respect for community land rights (see Deininger and Byerlee 2011).
3. Poor infrastructure and high transportation costs; see the World Bank flagship report on Africa's infrastructure (World Bank 2010).
4. Difficulties for smallholders and small firms to access technologies, information, skills, and finance; see the World Development Report on agriculture (World Bank 2007d).



To better understand how constraints apply to different sub-sectors, five value chains were analyzed:

Rice in Senegal and Ghana—producers lack seed, irrigation, and machinery. Rice is Africa's largest and fastest-growing import, valued at US\$ 3.5 billion in 2009 or nearly half of total consumption. Rice is substituting for traditional staples as urban consumers seek more storable and easily prepared foods.

The prospects for competitive import substitution were investigated for two large importers, Senegal and Ghana. Costs along the value chain were benchmarked against those in the world's leading rice exporter, Thailand, for both white rice and aromatic rice. In Senegal, rice from the Senegal River Valley is produced under irrigation and partial mechanization at costs only slightly above those in Thailand. With relatively efficient milling and transportation, local rice can be quite competitive—even more so if the aromatic rice varieties now being tested can be produced commercially. In fact, Senegal has made major progress in increasing yields to reach 3.6 tons per hectare nationally (more in irrigated areas). Any expansion in competitiveness is held back, however, by the difficulty of accessing secured, tradable land rights, which discourages significant private investments in irrigation systems. Ghana produces rice at a significantly higher cost and faces a greater competitiveness challenge than Senegal, even though tariffs and other charges add 40 percent to the price of imported rice. High production costs are partly caused by low yields and low levels of mechanization. Low milling ratios and high transport costs further disadvantage local rice, especially rice from the main producing area in the North.



Dairy in Kenya—upgrading informal value chains. Although much of Eastern and Southern Africa is well suited to dairy production, only Kenya has established a competitive dairy industry. Kenya's industry is based partly on a formal sector for processed milk and other dairy products, but its dynamic informal sector (based mostly on raw milk) is even more important, supplying over 80 percent of the market. Kenya's success largely comes from smallholders' progress in adopting cross-bred cattle, in improving feeding and animal health, and in improving their linkages to the formal sector through cooperative milk collection and cooling centers. Strong donor support and government policy, especially recent flexibility in setting quality and safety standards for the informal chain, have also been important in engaging smallholder chains. Further progress depends on measures to support smallholders in more remote areas, on regulatory measures to upgrade milk handling in the informal sector to meet rising demand for processed milk and other dairy products, and linkages between the formal and informal sectors.

Cocoa in Ghana—better-organized and more skilled smallholders are needed to add value. Cocoa is Sub-Saharan Africa's most important agricultural export, valued at about US\$ 6 billion in 2009 and providing livelihoods for an estimated 20 million people. Africa's share of both raw and processed cocoa exports has increased from the 1990s. As middle-income countries such as China consume more chocolate, the industry projects that demand will grow by an additional 25 percent in the next

decade. That demand will be difficult to meet, given current production trends.

Ghana has been the star performer in cocoa exports in recent decades, aided by reduced export taxation, a program to upgrade technology and management, and close attention to quality, spearheaded by a reformed parastatal, Cocobod. Yet productivity is still far below potential, so concerted strategies will be needed to maintain competitiveness and ensure sustainability by reducing forest encroachment. With aging farmers and aging trees, substantial investment will be needed to upgrade plantations and engage a new generation of more professional farmers.

These snapshots of a range of value chains reveal many well-known generic constraints but also big differences in constraints across value chains and over time. Two other value chains (maize and green beans) were analyzed to capture the constraints of emerging non-traditional sectors. An overview of the five value chains shows that each value chain is subject to specific constraints (see table on next page).

Overcoming constraints: An agenda for getting agribusiness moving

While this report provides an optimistic view of the potential role of agribusiness in generating growth and employment in most African countries, it also recognizes the challenges in realizing



Summary of major constraints by value chain

Constraint	Rice: Ghana and Senegal	Maize: Zambia	Cocoa: Ghana	Dairy: Kenya	Green beans: Kenya
Output markets					
Policies distorting markets	*	***	*	**	
Quality issues	**		*	**	***
Food safety		*	*	**	***
Social and environmental issues			**		***
Regional integration issues	**	***		**	
Price risk	**	***	**	*	*
Inputs and technology					
Policies distorting markets	**	***	*	*	
Access issues	***	***	***	*	
Land access issues	***	**	**		
Infrastructure issues					
Transport	**	**	**	*	
Other	*** (irrigation)	** (rural roads)	* (energy for grinding)	* (collection points)	* (cold chain)
Access to finance issues	**	**	***	*	
Skill issues	*	*	**	*	***
Issues with engaging smallholders				*	***

Source: Authors.

Note: Number of asterisks denotes relative importance as a constraint, with *** as the highest priority.

that potential. The report does not pretend to provide a blueprint for moving forward, as constraints are so specific to countries, regions, and value chains. Rather, based on international experience, it discusses ways of removing some of the more pervasive constraints.

Improving the performance of output markets

Despite marked improvements, policies that hinder the functioning of output markets still constrain market access, transaction costs, and risks for agribusiness. Modern information and communication technologies offer exciting new ways to improve market integration, reduce transaction costs and risks, and guard against fraud and corruption. In an increasingly “buyer-driven” environment, food markets can grow by upgrading processing, packaging, quality, and branding in value chains. For higher-value products, the priority is to build capacity and coordination along the chain to





meet increasingly stringent standards. Supermarkets are poised to take off, with implications for traditional retail chains and smallholders. A priority is to accelerate the regional integration of markets by implementing trade liberalization schemes.

Facilitating access to inputs and technology

The growth of competitive agribusiness in Africa is severely constrained by the low use of modern inputs and limited access to improved technologies. A top priority is to reform seed policies and regulations. Another top priority is to reform fertilizer policies to reduce the high cost of fertilizer. Input systems must be backed by a dynamic research system with the ability to develop and adapt new technology to local conditions and demands.

Enhancing access to land and tenure security

Agribusiness will falter unless communities' and individuals' land rights are formalized and governance of land resources improves. Recent media attention devoted to "land grabs" has highlighted the poor governance of Africa's large and underutilized land resources as well as the lack of secure land tenure for smallholders and investors. Sometimes quick wins can come from clarifying the tenure status of abandoned state or private farms and auctioning the rights to that land to investors. For the longer term, governments urgently require a decentralized, transparent, and participatory process to allocate land, rapidly formalize community and individual rights, build community capacity to negotiate fair deals with investors, and reduce the transaction costs and tenure insecurity that discourage investors. In return, investors must give greater attention to the rights of local users and the potential impacts of their investments on local livelihoods, including holding wide, meaningful and participatory consultations with stakeholders.

Upgrading infrastructure using public-private partnerships where possible

Inadequate infrastructure is a major constraint to agriculture and agribusiness. At the same time, the nature of these investments (large upfront capital investments in private goods) often makes them suitable for public-private partnerships. Irrigation is one example. Given the severe constraints on public sector resources and capacity, tapping private capital and management skills will be essential to accelerate much needed investment in irrigation. At the same time, the size and sometimes the risk of the investment encourage public sector involvement and risk-sharing in such projects. Public-private partnerships can also fill other infrastructural gaps, such as storage, cold chains, logistics terminals, and wholesale markets. Similarly, while all-weather rural roads are crucial for rural areas to gain access to markets, the incentives for the private sector to build rural roads are few,



so it is an important responsibility of the public sector, combined where possible with community initiatives. Beneficiaries are often prepared to support road construction and maintenance by contributing their labor.

Financing agribusiness

The lack of finance is widely recognized as a perennial constraint on agricultural performance, whether among large agribusinesses or smallholders. Formal lending to agriculture is severely limited by agriculture's seasonality and high risk, the absence of formal land titles, the heterogeneity of agriculture across commodities and regions, and bankers' inexperience with agribusiness.

There are now much better opportunities to tap private sector financing. Although formal banks currently lend little to the sector, recent experiences show that agricultural and agribusiness lending can become a profitable business for established banks. Other approaches focus on overcoming the risks of lending to the sector. Innovative ways of providing collateral, such as the use of movable assets (animals, for instance), warehouse receipts, partial credit guarantees, and equipment leasing, all reduce the risk of agricultural lending.



Building skills and entrepreneurship

A major constraint on competitive commercial agriculture and agribusiness is the lack of skills at all levels. With few exceptions, vocational and university programs need a major overhaul to focus on unmet demand from the private sector for operational, technical, and managerial skills. Experiences with developing entrepreneurship through training in business models and practical hands-on training also show promise in helping to create a new generation of entrepreneurial farmers and businesspeople.

Ensuring inclusive investments

A range of approaches can be used to involve smallholders and communities. Africa has many good examples of successful contract farming, especially in sugarcane, cotton, and horticultural crops. Experience shows, however, that contract farming works best in specific industries, where the smallholder and the buyer share common interests and contracts can be easily enforced. Other models for inclusive agribusiness are through granting shares in agribusiness companies to local communities.

Africa has a huge challenge to create jobs, especially for the 25 million young people who will enter the labor force each year by 2025. While agriculture and agribusiness can generate important employment, certain sub-sectors are more labor intensive than others both at the farm level and further up the value chain.





Implementing the agenda

The favorable market outlook on both the demand and supply side provides a unique window of opportunity for many countries. Yet major market and government failures entail serious risks for agriculture and agribusiness. Government policies to unleash Africa's agribusiness potential should be implemented following careful analysis and piloting within a transparent and inclusive consultation process.

Agriculture and agribusiness should be at the top of the agenda for much of Africa. While agriculture and agribusiness can generate important employment, certain sub-sectors are more labor intensive than others both at the farm level and further up the value chain.

The state has an important role in promoting agribusiness. Most governments have paid insufficient attention to agribusiness and have little experience in nurturing a private sector. Agribusiness programs initially need to focus carefully on a few cross-cutting interventions and/or on a few value chains and locations.

Specific steps are required to limit the risks associated with implementing agribusiness strategies. The choice of locations and value chains should be driven by detailed, evidenced-based analysis involving the identification of the main opportunities and constraints using international benchmarking and a careful assessment of investors' demands and needs. Often a strong case can be made to support strategic first movers, provided it occurs under a transparent and rule-based system.

Development partners are mobilizing to help Africa seize its agribusiness opportunity. The Comprehensive Africa Agriculture Development Programme (CAADP) is articulating the central role of private investors and agribusiness through CAADP's Pillar 2. Several international agencies have partnered with the African Union in the African Agribusiness and Agro-Industries Development Initiative (3ADI).

World-class, dedicated, and empowered implementation units can help achieve the necessary focus and intensity.

Finally, these mechanisms will have a key role to play in generating and leveraging four types of knowledge to motivate and inform actions from both the public and private sector:

- Identification of the main agribusiness opportunities based on agro-climatic surveys (including irrigation potential) and demand analysis.
- Identification of the main constraints through in-depth productivity/cost benchmarking, interviews of leading players with international exposure, and comparative analysis.
- Identification of practical solutions to remove the main constraints based on the experience of similar successful countries.
- Monitoring and evaluation of progress to correct/terminate failing initiatives and scale up or replicate successful ones.



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