Growing Africa: Unlocking the Potential of Agribusiness

AFTFP/AFTA1
April, 2013
Unlocking the Potential of Agribusiness...
Why Agribusiness in Africa, why now?

- Improving macro policy environment
- Increased attention (on agriculture) from governments, investors and other partners
Why Agribusiness in Africa, why now?

Global markets for agribusiness will expand with income growth

Why Agribusiness in Africa, why now?

1 trillion dollar industry in Sub-Saharan Africa by 2030...
Why Agribusiness in Africa, why now?

Major opportunity: African urban food markets

- Population growth
- Income growth
- Urbanization

Potential to:
- Increase yields
- Reduce losses
- Transform

Agricultural production in SSA

Food consumption in SSA

$ Bn

Years

2000 2010 2030
Why Agribusiness in Africa, why now?

Potential: Sub-Saharan Africa has half of world’s uncultivated land suitable for crop production.
Why Agribusiness in Africa, why now?

Potential: Africa’s irrigation possibilities

Source: IFPRI
If the future is so bright...
Why are we still frustrated with progress – performance gap?

African agriculture and agribusiness are underperforming

Source: FAOSTAT.
Why are we still frustrated with progress – performance gap?

Low yields…

Figure 4.12: Sub-Saharan Africa maize yields relative to non-African countries with rainfed maize production (1961–2010)

Source: FAOSTAT.
Why are we still frustrated with progress – performance gap?

Despite its great potential SSA agribusiness lags due to lagging TFP growth, irrigation and distortionary policies

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<tr>
<td>Agricultural output</td>
<td>3.16</td>
<td>2.61</td>
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<td>Land area</td>
<td>1.88</td>
<td>1.77</td>
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<td>Irrigation</td>
<td>0.03</td>
<td>0.00</td>
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<td>Output per unit area</td>
<td>1.25</td>
<td>0.83</td>
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<td>Of which:</td>
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<td>Inputs</td>
<td>0.10</td>
<td>0.37</td>
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<td>TFP</td>
<td>1.15</td>
<td>0.46</td>
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Source: Fuglie 2011.
Why are we going the wrong direction?...

1. A legacy of state intervention in agricultural markets
   - Erratic/distorting policies on inputs and outputs
   - Trade barriers

2. Weak land markets
   - Difficult/unsecured access to land – land grab/violation of community rights

3. Neglect of Public Investment in Agriculture
   - Limited irrigation
   - Inadequate transport infrastructure
   - Difficulties for small farmers to access technologies, information, skills, and finance
Why are we going the wrong direction?

**Table A: Summary of major constraints by value chain**

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<td><strong>Output markets</strong></td>
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<td>Policies distorting markets</td>
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<td>Quality issues</td>
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<td>Regional integration issues</td>
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<td>Price risk</td>
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<td>Policies distorting markets</td>
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<td>Land access issues</td>
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<td><strong>Infrastructure issues</strong></td>
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<td>Access to finance issues</td>
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<td>Skill issues</td>
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<td>Issues with engaging smallholders</td>
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*Source: Authors.*

*Note: Number of asterisks denotes relative importance as a constraint, with *** as the highest priority.*
Where do we go from here – what to do and reasons to feel optimistic?

We only started scratching the surface in terms of:

- regional integration and markets
- urbanization and “supermarket revolution”
- ICT and what it can do
- agricultural finance
- PPP in African agriculture context
What can agrifinance do – opportunities and limitations

- 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.

- Whether enhanced access to credit will unlock growth potential will depend on the local conditions and specific value chains. For example our report finds that while access to finance is one of the main constraints in cocoa value chain in Ghana its role is more limited in dairy value chain in Kenya.

- Moreover – creative methods to finance production and productivity improvements are not always supply side driven – e.g. Collective action by industry associations to implement a small levy on production offers a promising way to finance R&D for the products of commercial agriculture, as demonstrated in several countries of Latin America. The limited efforts at industry R&D financing in Africa, such as tea research in Kenya and research on export crops in Côte d’Ivoire, have also generally performed well.
What can agrifinance do – opportunities and limitations

- Where it is the answer agrifinance can help unlock the potential of agribusiness

- There are now much better opportunities to tap private sector financing.
  - Companies can provide financing directly through interlinked value chains, provided that contracts can be enforced, especially for high-value exports and some products that require immediate processing
  - Interest in Africa among foreign investors, pension funds, and foreign banks in direct investments and loans is at an all-time high, but tapping that potential requires the identification of viable projects and attention to mitigating social risks.
  - An unprecedented number of funds employ public–private partnerships with donors and foundations to provide patient capital to African agribusiness firms.

- We have only started scratching the surface in terms of possibilities in improving financing for productivity growth – capacity building, new e-banking technologies, incentives to open rural offices or mobile banking, and targeted value chain approaches are likely to induce further creativity in this space and improve and develop new financing schemes
What can agrifinance do – opportunities and limitations

- Banks can play an important role on the production side, as part of or through:
  - Warehouse receipts systems
  - Guarantee schemes
  - Investments funds for agriculture

- Or complement:
  - Microfinance
  - Specialized agricultural development banks through supply chain financing

- Banks will however will also be an important partner in supporting commercialization of agriculture:
  - Traditional commodity markets remain important, yet over 80 percent of the value in the global food industry is in value-added components in increasingly “buyer-driven” value chains.
  - Although value-adding activities can require skills, financing, and scale, often higher value can be captured through relatively simple changes, such as canning, fruit drying, milk cooling, packaging, and even simple labeling. These additions can be an important step for a farmer or SME to expand commercial activity and access higher-value markets. The growth of the urban population and the establishment of supermarkets will propel demand for such products.
  - These will require overall developments in business environment, as well as understanding and supporting agriculture as “business” both on the side of the borrowers (developing management and business development capacity) and the lenders (enhancing risk evaluation capacity)
What can agrifinance do – opportunities and limitations

A case in point: Developing WRSs in Nigeria

- Importance of conducive and regulatory frameworks
- Cooperation and addressing information asymmetries across many layers of public and private stakeholders
- Importance of a private sector–lead process
- Critical role for banks
- Vast potential for reducing transaction costs, increasing credit supply and achieving demonstrative effects in building private sector confidence in agricultural trading
Where do we go from here – implementing integrative strategies

1. Help build capacity in strategic task forces
2. Invest in infrastructure (irrigation specifically)
3. Improve business environment and promote investments
Where do we go from here – identifying investments

Access to Water: Doubling irrigated area by 2030

US$ 40 billion irrigation investments required to double irrigated area by 2030

IDA 25%
Private Sector 20%
Investment Funds 18%
Other donors 20%
Governments 17%

Current stock of irrigated land ~3 million ha.
Public investments (including WB support) 0.3
Private investments 0.2
Investment shortfall 2.5
Target in by 2025 ~5 million ha.
Potential irrigated land 15 million ha.
Business as usual
Where do we go from here – what motivates us?

Stepping stone to industrialization and structural transformation

Agro-industry share of total manufacturing value, mid-2000s

Where do we go from here – what motivates us?

Engine for poverty reduction...

Thailand, Indonesia, Brazil, Colombia and Ukraine... pulled millions out of poverty with developments in agribusiness

Africa can do better...