

# Private sector agribusiness investment in sub-Saharan Africa



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by **Nomathemba Mhlanga**



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# Contents

<b>ACKNOWLEDGEMENTS</b>	<b>v</b>
<b>EXECUTIVE SUMMARY</b>	<b>vii</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>ix</b>
<b>1. INTRODUCTION</b>	<b>1</b>
<b>2. AGRIBUSINESS INVESTMENT IN SUB-SAHARAN AFRICA</b>	<b>5</b>
2.1 MAJOR COMPANIES IN AGRICULTURE AND RELATED ACTIVITIES	5
2.2 PATTERNS AND TRENDS IN PRIVATE SECTOR AGRIBUSINESS INVESTMENTS	7
2.3 INVESTMENTS IN SUB-SAHARAN AFRICA ARABLE LAND	20
2.4 AGRIBUSINESS INVESTMENT FUNDS	21
<b>3. FACTORS INFLUENCING PRIVATE INVESTMENTS IN AGRIBUSINESSES</b>	<b>23</b>
3.1 HOST COUNTRY FACTORS	23
3.2 HOME COUNTRY FACTORS/ EXTERNAL FACTORS	29
3.3 BUSINESS ENVIRONMENT ASSESSMENTS	30
<b>4. AGRIBUSINESS INVESTMENTS WITH RESPECT TO BUSINESS CLIMATE INDICATORS</b>	<b>33</b>
<b>5. PUBLIC SECTOR POLICIES, PROGRAMMES AND INSTITUTIONS FOR ATTRACTING PRIVATE SECTOR AGRIBUSINESS INVESTMENT</b>	<b>35</b>
5.1 REGIONAL LEVEL EFFORTS	35
5.2 COUNTRY-LEVEL EFFORTS	37
<b>6. CONCLUSIONS AND POLICY RECOMMENDATIONS</b>	<b>41</b>
6.1 STRATEGIES FOR STIMULATING PRIVATE SECTOR INVESTMENT IN AGRICULTURE	42
6.2 RECOMMENDATIONS FOR IMPROVING AGRIBUSINESS INVESTMENT DATA	43
6.3 RECOMMENDATIONS FOR FURTHER RESEARCH	44
<b>REFERENCES</b>	<b>45</b>
<b>APPENDICES</b>	<b>47</b>

**FIGURES**

FIGURE 1.	THE SUB-SAHARAN AFRICAN AGRO-FOOD SUPPLY CHAIN: THE PRESENCE OF LARGE FOREIGN AND LOCAL FIRMS	7
FIGURE 2.	DISTRIBUTION OF ENTERPRISES BY SIZE OF ORIGINAL INVESTMENT	13
FIGURE 3.	DISTRIBUTION OF ENTERPRISES BY FOREIGN INVESTOR PROFILE	14
FIGURE 4.	CUMULATIVE VALUE OF INVESTMENTS BY SUBSECTOR, 1994–2006	15
FIGURE 5.	A TYPICAL AGRIBUSINESS SUPPLY CHAIN	28
FIGURE 6.	CORRELATION BETWEEN THE EASE OF DOING BUSINESS RANKING AND THE NUMBER OF COMPANIES IN THE [SSA] COUNTRIES, 2006	33

**TABLES**

TABLE 1.	SHARE OF COMMERCIAL BANK LENDING TO THE AGRICULTURAL SECTOR, 1995–2008 (PERCENTAGE OF TOTAL PORTFOLIO)	9
TABLE 2.	VALUE OF COMMERCIAL BANK LENDING TO THE AGRICULTURAL SECTOR, SELECT COUNTRIES, 1995–2008 (USD MILLION)	9
TABLE 3.	AGRO-INDUSTRY CREDIT AS A SHARE OF THE MANUFACTURING SECTOR CREDIT IN UGANDA, 1993–2008	10
TABLE 4.	DISTRIBUTION OF ENTERPRISES BY COUNTRY	11
TABLE 5.	DISTRIBUTION OF ENTERPRISES BY SUBSECTOR	12
TABLE 6.	BREAKDOWN OF AGRIBUSINESS INVESTMENTS BY SUBSECTOR	16
TABLE 7.	AGRIBUSINESS INVESTMENTS BY INDUSTRIAL SECTOR, 1994–2006	17
TABLE 8.	SECTORAL COMPOSITION AND NUMBER OF PROJECTS REGISTERED WITH THE GHANA INVESTMENT PROMOTION CENTRE	17
TABLE 9.	AUTHORIZED INVESTMENT IN AGRICULTURE IN MOZAMBIQUE, BY YEAR AND TYPE, (USD MILLION)	18
TABLE 10.	CORRELATION CO-EFFICIENTS BETWEEN THE NUMBER OF COMPANIES IN AFRICAN COUNTRIES AND VARIOUS ASPECTS OF EASE OF DOING BUSINESS MEASURES	34
TABLE A1.	GROSS DOMESTIC PRODUCT BY SECTOR	47
TABLE A2.	EXPORTS AND IMPORTS OF FOOD IN SUB-SAHARAN AFRICA	48
TABLE A3A.	COMMERCIAL BANK LENDING, BY SECTOR AND COUNTRY, 2008 (PERCENTAGE SHARE OF TOTAL)	50
TABLE A3B.	COMMERCIAL BANKS LENDING, BY SECTOR AND COUNTRY, 2008 (USD MILLION)	50
TABLE A4.	VALUE OF CROSS-BORDER MERGERS AND ACQUISITIONS (M&A) BY TARGET REGION, 1987–JUNE 2008. (USD MILLION)	51
TABLE A5.	AGRIBUSINESS SECTOR PROJECTS GUARANTEED BY THE MULTILATERAL INVESTMENT GUARANTEE AGENCY, 1994–2008	52
TABLE A6.	COUNTRY COVERAGE FROM PREVIOUS RELATED STUDIES	53
TABLE A7.	PUBLIC AND PRIVATE SECTOR OPTIONS FOR STRENGTHENING FARMER LINKAGES TO THE MARKET	53
TABLE A8.	PUBLIC AND PRIVATE SECTOR ROLES TO ENHANCE TRADE-RELATED SANITARY AND PHYTOSANITARY COMPLIANCE AND QUALITY MANAGEMENT CAPACITY	54

**BOXES**

BOX 1.	THE IMPACT OF THE KENYAN POST-ELECTION VIOLENCE ON THE KENYAN FLOWER EXPORT INDUSTRY	26
BOX 2.	THE USE OF ICT IN AGRICULTURE – THE CASE OF DRUMNET IN KENYA	27
BOX 3.	MOZAMBIQUE’S GREEN REVOLUTION STRATEGY BEARS FRUIT	38

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## Executive summary

This study is an appraisal of private sector investment in agribusiness and agro-industries in sub-Saharan Africa (SSA). It forms part of a larger analysis and work plan of agricultural investment by the Rural Infrastructure and Agro-Industries Division (AGS) of the Food and Agriculture Organization of the United Nations (FAO) and other divisions of the Organization. The study aims to provide a holistic and comprehensive overview of private sector participation in the agricultural sector beyond the involvement of transnational corporations (TNCs) in primary production, which was the focus of the recent World Investment Report of the United Nations Conference on Trade and Development (UNCTAD, 2009). Specifically, the objectives of the study are:

- to take stock of private agribusiness investment in SSA;
- to analyse factors that propel or constrain investments in the sector, which includes a synthesis of policies and strategies relevant to the sector; and
- to appraise and describe innovative public sector policies, programmes and institutions for stimulating additional private sector agribusiness investment.

### **PRIVATE SECTOR AGRIBUSINESS INVESTMENTS IN SUB-SAHARAN AFRICA**

There are limited data on private sector investment at the sector level, most of which are focused on foreign direct investment (FDI). To this end, several sources of data were consulted in an effort to map out the landscape of private sector agribusiness investment in the region. Allowing for data limitations, the main finding is that private sector agribusiness investment in the region is low but has been increasing over time, particularly in value-adding processes. Commercial bank lending to the primary agricultural sector is small, accounting for less than ten percent of total commercial bank credit in a number of SSA countries. However, such lending has also shown a general upward trend in absolute terms. The players in the sector include a number of large foreign and African enterprises. Private investments in the agriculture sector are mainly directed towards high-value crops and non-traditional products such as cut flowers destined for markets in industrialized countries. Fruit and vegetable exports, especially from East Africa, are experiencing relatively high growth. Activities linked to agricultural production are also attracting FDI, including food processing, transport and marketing. The study notes the recent wave of interest in purchasing farmland in some SSA countries, primarily driven by the need of investor countries to ensure their long-term food and biofuel supply, and agro-climatic conditions in host countries. These deals are a potential source of increased investments in the sector, but to date, most have not resulted in actual investment. Another recent development is the proliferation of private agribusiness investment funds targeting African agriculture. Similar to the case of land purchases, most of the funds have recently been set up and are still in the fundraising stage of their development.



## **FACTORS AFFECTING AGRIBUSINESS INVESTMENTS**

A broad review of the literature suggests that private sector agribusiness investments are responsive to most of the factors influencing investments in other sectors of the economy. These factors include access to markets and natural resources, good infrastructure, and a stable macroeconomic and political environment. However, there are sector-specific factors constraining investments such as the interdependence of businesses along the supply chain and the need for specialized infrastructure such as cold storage facilities. Additionally, due to the political nature of the sector, it is highly impacted by external factors such as trade protectionist measures, commodity price trends and market volatility.

## **PUBLIC SECTOR SUPPORT FOR PRIVATE SECTOR AGRIBUSINESS INVESTMENTS**

Regarding innovative public sector policies, programmes, and institutions for stimulating additional private sector agribusiness investment, there have been encouraging developments at both regional and national levels. At the regional level, African Heads of State and Government have made commitments to increase budgetary resources in the agricultural sector and to promote development of agriculture and related sectors through programmes such as the Comprehensive Africa Agriculture Development Programme (CAADP) and the Alliance for a Green Revolution in Africa (AGRA). At the national level, many policies favourable to agricultural development have been formulated. A number of countries have taken a proactive role in attracting private sector agribusiness investments by offering various incentives geared to the sector, such as tax holidays within the first few years of an agribusiness establishment (Nigeria) and zero duty on agricultural machinery (Ghana, Nigeria).

In compiling this information, it became apparent that there were a considerable number of national initiatives for advancing agribusiness that could not be adequately covered in the scope of this study. Another study is therefore underway to capture innovative national strategies for supporting agribusiness development and investments in the region. It will also look at private sector initiatives as well as initiatives involving collaboration between the public and private sectors geared to agribusiness sector development and increased investment in the sector. However, what is important and must be emphasized is not the mere quantity of initiatives, but their effectiveness in mobilizing agribusiness investment and moving the agribusiness sector forward. In this regard, the study concludes with policy recommendations for further stimulating private sector investment in agribusiness and agro-industries in SSA countries.

## Abbreviations and acronyms

AGRA	Alliance for a Green Revolution in Africa
CAADP	Comprehensive Africa Agriculture Development Programme
COMESA	Common Market of Eastern and Southern Africa
ECOWAS	Economic Community of West African States
FDI	Foreign direct investment
GAIF	Global Agro Industries Forum
GCI	Global Competitiveness Index
GDP	Gross domestic product
ICT	Information and Communication Technology
IMF	International Monetary Fund
M&A	Mergers and acquisitions
MNC	Multinational corporation
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
SADC	Southern African Development Community
SME	Small- and medium-sized enterprise
SSA	Sub-Saharan Africa
TNC	Transnational corporation
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USD	United States dollar
WDI	World Development Indicators
WDR	World Development Report
WEF	World Economic Forum
WIR	World Investment Report



# 1. Introduction

After years of neglect, agricultural development is now an agenda item in many international forums such as the recent 2009 G8 Summit held in L'Aquila, Italy, in July 2009. This awakening has in part been a response to the current food crisis, debates on which have resulted in policy-makers worldwide calling for increased and sustained investments in the agricultural sector, among other actions. Increased investment in the sector is especially urgent in sub-Saharan Africa (SSA), where approximately 70 percent of its people derive their livelihoods from agriculture and where hunger and poverty are still prevalent. The relative importance of agriculture for these countries is primarily reflected in the share of the sector in their gross domestic product (GDP). For at least 29 countries, its share relative to GDP exceeds 20 percent, and for some countries, such as Central African Republic, Ethiopia, Liberia and Sierra Leone, agriculture accounts for more than 50 percent of total output (Appendix Table A1). Even in countries where the sector contributes less than ten percent of GDP, agricultural development has the potential to stimulate growth in other sectors of the economy through backward and forward linkages. For example, in many SSA countries, agro-industries constitute a significant share of the manufacturing sector. Furthermore, agricultural development is regarded as a vital tool for achieving Millennium Development Goal No. 1, which calls for a 50 percent reduction in the share of people suffering from extreme poverty and hunger by 2015 (World Bank, 2007). In countries such as the Democratic Republic of the Congo, agricultural investment has been equated to investments in peace (Bavier, 2008). Moreover, the growing dependence of African countries on global imports for food,<sup>1</sup> combined with the projected global food demand and increased demand for agricultural feedstocks for biofuels require improvements in agricultural productivity. As such, the sustainable development of SSA countries is directly linked to the success of the agricultural sector, which in turn is dependent on sustained investments in the sector (Rosegrant *et al.*, 2007). The Food and Agriculture Organization of the United Nations (FAO) estimates that net annual investments of approximately USD 11 billion in agriculture are needed if the region is to address its food security concerns by 2050 (FAO, 2009).

Given the resource constraints of governments in SSA and the tight budgetary conditions in many donor countries, the private sector, both domestic and foreign, has a potentially important role to play in financing agricultural investments in the region.<sup>2</sup> Currently, there is no comprehensive record of the levels and patterns of private sector participation in agriculture and agribusiness. Yet, such information is critical in the formulation and design of effective policies for mobilizing private sector participation and investment in agriculture. This study is therefore an attempt to fill this research gap and examines patterns and driving forces of private sector agribusiness investments in SSA. It has three objectives:

1 Africa imports 25 percent of its food grains (OECD, 2006, pp. 42–45). See also Appendix Table A2.

2 There has been a sharp decline in external resource flows to the agricultural sector in Africa. Official development assistance (ODA) to agriculture as a percentage of total ODA to SSA decreased from 13.4 percent for the 1991–93 period to 5.4 percent for the 2003–05 period. Moreover, aid data show that aid to agro-industries including forest industries has been almost negligible (OECD, 2008).

- to take stock of private agribusiness investment in SSA. Specifically, the study assembles data and information on patterns and levels of both domestic and foreign private investments going directly to the agribusiness sector in SSA countries;
- to analyse factors that propel or constrain investments in the sector, including a synthesis of policies and strategies relevant to the sector; and
- to appraise and describe innovative public sector policies, programmes and institutions for stimulating additional private sector agribusiness investment.

Ultimately, the goal of the study is to contribute towards a better understanding of the agricultural and agribusiness sector in SSA countries.

By definition, agribusiness is a sector that includes the sum total of all operations involved in: the manufacturing and distribution of farm supplies; production operations on the farm; and storage, processing and distribution of farm commodities and items made from them (Davis and Goldberg, 1957). Accordingly, agribusiness can be thought as consisting of four main subsystems: (i) input delivery; (ii) farming/ primary production; (iii) post-harvest and processing (agro-industry); and (iv) marketing and distribution. For the purposes of this study, the agribusiness sector also includes commercial business activities in forestry and fisheries. This definition is similar to the one used by FAO (1977) and Henson and Cranfield (2008). Private sector investment refers to commitments of capital by individuals or private institutions such as companies with the anticipation of realizing a future return. Private investors could be residents or entities incorporated in the host country, in which case they are “domestic private investors” or they could be resident in another country, thus “foreign investors”. Here, consideration will be given mainly to foreign direct investment (FDI) and domestic private sector investment.

Sector-level data are fragmented for SSA countries and even more so for the agribusiness sector, which is spread across primary, secondary (manufacturing) and tertiary services (marketing and distribution), which are the common classification of goods and services. However, there is relatively more information available on FDI than domestic private investment. Domestic private agribusiness investment data are difficult to collect, since most players are small- or medium-scale producers. Despite the paucity of data, the general indication is that domestic private sector participation and foreign investment in agribusiness are very limited but have been increasing in recent years.

In general, private sector investments seem to be motivated by expected returns relative to perceived risk and uncertainty, which in turn are shaped by both external and internal factors. Many of the critical components of a supportive agribusiness environment are identical to those that apply to other sectors of the economy. These encompass access to markets and natural resources, good infrastructure, and a stable macro-economic and political environment. Recently, the upwards trend of food prices has increased interest of the private sector in the agricultural sector, which anticipates higher returns to their investment. However, beyond these elements, there are factors that are specific to the agribusiness sector such as risk management and supply chain coordination, specialized infrastructure and support services related to compliance to international food safety and standards, as detailed in section 3. Business climate assessments show most SSA countries to be at the tail end of the environment assessments, suggesting the need for more public sector reforms to foster competitiveness of their economies.

Through its policies and programmes, the public sector has played an extremely important role in shaping market conditions and prospects for private sector investment in the agribusiness and agro-industries sectors. These have included regional level initiatives such as the African Union's New Partnership for Africa's Development (NEPAD), the Comprehensive Africa Agriculture Development Programme (CAADP) and the Alliance for a Green Revolution in Africa (AGRA). However, efforts thus far have not fully unleashed the potential of private investment in agriculture. SSA governments should give greater emphasis to rural infrastructure development at both national and regional levels to help meet the needs of the agricultural sector.

The rest of the study is structured as follows: Section 2 collates data on agribusiness investment in SSA from various sources, illustrating emerging trends and patterns, where possible. Section 3 provides a review of the literature, highlighting enabling and constraining factors for agribusiness investment. Investment levels and patterns are analysed in relation to business climate indicators for select countries in Section 4. Section 5 documents the current incentives and investment policies for agribusiness investments, highlighting innovative public sector policies, programmes and institutions to increase incentives for private sector investment, while Section 6 concludes the study.



## 2. Agribusiness investment in sub-Saharan Africa

Despite the importance of agriculture to the economies of SSA, there are no published sources of data or readily accessible databases that provide accurate and comprehensive data on investment in the sector. In an attempt to paint a representative picture of private investment in the agribusiness sector, this section draws information from numerous sources. First, the major players are discussed followed by a presentation of levels and patterns of the investment. Domestic private agribusiness investment data are approximated by commercial banks lending to the agricultural sector. To illustrate trends and patterns in foreign private agribusiness investments, the study uses sector-level data drawn from two databases of foreign investors: the United Nations Industrial Development Organization (UNIDO) Africa Foreign Investor Survey (2005) data and BusinessMap Foundation data. In general, there is relatively more information on FDI than domestic private investment in the agribusiness sector. The recent wave of interest in purchasing farmland in SSA countries is also relevant to the agribusiness sector. Most of the land deals have not materialized into investments, but will nonetheless be discussed briefly towards the end of this section. The proliferation of investment funds targeting African agriculture is also noted.

### 2.1 MAJOR COMPANIES IN AGRICULTURE AND RELATED ACTIVITIES

In their 2008 publication on commercialization of agriculture in Africa, the Organization for Economic Co-operation and Development (OECD, 2008) provides a systematic documentation on private enterprises in the agro-food sector in SSA. In the study, information on large foreign and local<sup>3</sup> companies involved in agribusiness operations was compiled from Fortune Global 500 and Jeune Afrique Les 500 rankings. While informative on companies involved in the agribusiness sector, the rankings fall short of creating a complete picture on private enterprise participation in the sector for several reasons. Fortune Global 500 and Jeune Afrique Les 500 rank companies on a revenue basis. Consequently, the analysis excludes small- and medium-sized enterprises (SMEs), which are omitted in the rankings. For the same reason, it fails to capture participation of multinational corporations (MNCs) from other developing countries, particularly those in Asia that are emerging as important players in the agribusiness sector of SSA countries. For instance, Karuturi, an Indian firm, has invested in floriculture production in Kenya and is now diversifying its operations into rice and wheat production in Ethiopia. Such investors are significant yet omitted in the rankings. Moreover, rankings provide data on revenues of the company but not on the actual investment undertaken in the SSA target country; therefore, they do not inform on the level of investment in the target countries.

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3 “Local” in this context refers to African companies and not necessarily companies from within the host country.



Bearing the aforementioned limitations, the study was able to identify a number of large MNCs and even a greater number of local enterprises active in the agribusiness sector in the region. These companies are widespread across the supply of inputs and farm equipment and machinery, agricultural production, manufacturing and processing (value addition), and retailing. Their activities include wholly owned subsidiaries, or in the majority of cases, non-equity linkages such as franchises and licensing. Of the 49 large MNCs in the agro-food sector listed in the Fortune Global 500, 21 were found to be active in SSA, while 94 African companies in the Jeune Afrique ranking were active in at least one segment of the agro-food value chain (OECD, 2008).<sup>4</sup> Some of the companies listed in the Jeune Afrique ranking were associated with the dominant foreign MNCs, for example, BAT Kenya, Nestle Ghana and Unilever Nigeria.

Inclusive of companies with operations in North African countries, African companies in all agro-food sectors accounted for 18.5 percent of the total revenue of all 500 listed companies. This placed the sector second behind the oil, gas and fuel industry in Africa (*ibid.*). At the regional level, southern African countries have the largest number of both foreign and local companies, followed by West Africa. While some companies target countries in all regions, others appear region-specific. A case in point is Archer Daniels Midland of the United States of America, which is present in three West African countries (Cameroon, Côte d'Ivoire and Ghana) but does not have subsidiaries in other SSA regions. In these countries, it mainly processes cocoa beans and shea nuts. However, large African companies are more dominant in West Africa than MNCs in the agro-food sector. At the country level, South Africa and Nigeria are the main hubs of agribusiness activity, hosting the largest number of companies. In general, country comparisons seem to suggest that size of the target economy is a major determinant of agribusiness investment activity. In East Africa, for example, Kenya is the number one destination for foreign multinationals and also dominates in terms of size.

Southern Africa also excels in nurturing domestic enterprises, although most of its enterprises are headquartered in South Africa. Among the 20 leading African companies, 16 have their headquarters in South Africa. The major players include Nigerian Breweries and Illovo Sugar of South Africa, making advances in other African countries to escape their saturated domestic markets. Other significant private firms include supermarkets such as Shoprite (South Africa) and Nakumatt (Kenya), which are often engaged in contract farming for their fresh produce. Contract farming has been the choice model for retail companies needing to ensure their product quality and competitiveness.

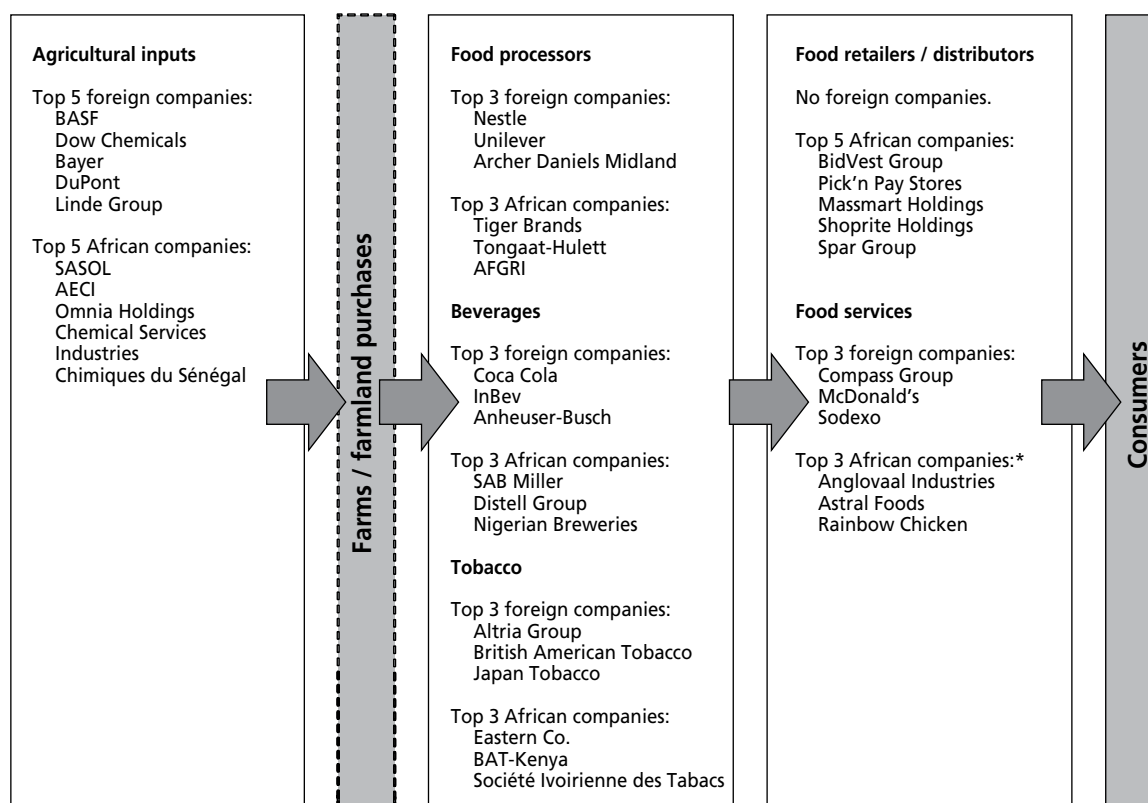
The beverage sector appears as the most dynamic and developed subsector with a sizeable presence of both foreign and African companies, sometimes operating in partnership (OECD, 2008). These collaborative arrangements are mainly based on local licensing and franchise agreements. For instance, the internationally leading beverage company, the Coca-Cola Company, is present in most SSA countries through franchises with local firms, which provide bottling and distribution services (*ibid.*).

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4 Information only applicable to North African countries is excluded in this study; otherwise, the total would be 25 foreign-owned and 111 African companies.

Figure 1 traces the presence of large foreign and local companies along the agro-food supply value chain in SSA countries.

**Figure 1. The sub-Saharan African agro-food supply chain: the presence of large foreign and local firms<sup>5</sup>**



\* The data source does not provide a record of African companies in food services. The listed companies are classified under food processing but their ISIC codes match those of the foreign companies listed.

Source: OECD. 2008. (Modified to reflect SSA)

## 2.2 PATTERNS AND TRENDS IN PRIVATE SECTOR AGRIBUSINESS INVESTMENTS

Historical data on domestic private investment are difficult to come by in SSA countries, particularly at the sectoral level. Scarcity of data at the domestic level is mainly due to under-developed information and data management systems, but also the scale of operations of agribusiness operations. A significant proportion of them are small- to medium-scale producers and enterprises and tend to be informal, thus not captured in national statistics. Most rely on personal savings to finance their business entities. However, as part of their efforts to monitor the economic activities of their economies, central banks in many countries compile annual statistical bulletins, which contain information on commercial banks lending to major real sectors of their economies. In this study, commercial bank lending to the agricultural

<sup>5</sup> For further details, see OECD (2008), Chapter 2 Annex.

sector is used as a proxy for domestic private agribusiness investment, albeit an imperfect measure since it fails to capture the informal agribusiness sector. However, such disaggregated information is missing for a significant number of countries, particularly those in West and Central Africa that have established regional central banks instead of individual ones. Banque Centrale des États de l'Afrique de l'Ouest (BCEAO, The Central Bank of West African States) serves eight West African countries, namely Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, while the Banque des États de l'Afrique Centrale (BEAC, the Bank of Central African States) serves six Central African countries, namely Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon and Republic of Congo. These two banks provide mainly aggregated data for the countries they serve and exclude information on credit disbursed by commercial banks in their respective member countries. Accordingly, data are presented for only 11 countries. For the countries studied, the bulk of commercial bank lending goes to the sector comprising "other services and personal loans", followed by "trade credit", with "agriculture" receiving less than 10 percent. (See Appendix Tables A3a and A3b for a comparison of credit to agriculture relative to other sectors for 2008.)

FDI is assessed using foreign investor survey data from UNIDO and data from BusinessMap Foundation. BusinessMap data capture investment announcements by foreign individuals or enterprises and thus allow for assessment of investor sentiments, even though some announcements may not result in concrete investments. Both sources illustrate that most of the investors come from countries with direct historical and/or geographical links with SSA economies.

### **Commercial bank lending to the agricultural sector**

The share of lending to agriculture relative to total credit from commercial banks is displayed for select countries in Table 1, while Table 2 shows the magnitude of the annual investments in United States dollar terms. In most cases, the raw data for commercial banks lending by sector are given in terms of the local currency, thus a sensible cross-country comparison is the share of the agriculture sector relative to total funds committed. For the countries studied, the bulk of commercial bank lending goes to the sector "other services and personal loans", followed by "trade credit". With the exception of Malawi, United Republic of Tanzania and Uganda, commercial banks in SSA lend less than 10 percent of their total credit to the agricultural sector. Most of the investment in Malawi can be attributed to the fertilizer and seed subsidy programmes. The decline in agriculture sector's share in total credit in 2007 and 2008 for Uganda partly reflects the negative impact of floods experienced in the eastern and northern parts of the country following heavy rains in the first and second quarter of 2007/08 and continued structural transformation of the economy (BOU, 2008). On average, commercial banks in Botswana invest the least share of their credit into the agricultural sector. In 2008, they invested less than 1 percent; in fact, credit to the agricultural sector in Botswana has never exceeded 2 percent of the total credit. However, in monetary terms, there are more loans and advances to the agricultural sector in Botswana than in countries like Sierra Leone and Lesotho.

To obtain the dollar value of commercial banks lending to the agricultural sector, exchange rates prevailing at the reporting time were used. Although no clear trends can be discerned, there are indications that credit to the sector is on the rise. On average, Nigeria and Kenya have provided the most credit to the sector.

**Table 1. Share of commercial bank lending to the agricultural sector, 1995–2008 (percentage of total portfolio)**

Country	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana	1.40	0.61	0.93	0.67	0.76	1.42	1.42	1.13	1.06	0.68
Gambia	–	–	–	–	–	–	–	–	7.20	5.53
Ghana	–	9.65	9.56	9.38	9.45	7.65	6.71	5.37	4.41	4.28
Kenya	–	6.57	6.01	6.07	6.20	6.00	6.25	5.38	4.08	3.60
Lesotho	–	–	–	–	–	–	–	0.31	1.90	8.17
Malawi	28.62	7.55	8.63	3.23	10.40	12.11	9.90	15.25	16.27	14.60
Mozambique	–	–	17.87	15.97	12.37	10.69	8.66	6.39	9.42	8.05
Nigeria	–	–	–	–	5.16	4.46	2.44	1.96	3.11	1.37
Sierra Leone	–	4.84	8.29	1.12	1.75	1.93	1.97	0.88	2.49	2.95
Uganda	22.54	10.71	8.57	11.14	9.69	11.07	10.05	9.13	6.67	5.88
United Republic of Tanzania	8.10	6.30	9.60	17.1	12.0	13.90	12.40	13.94	11.01	12.35

Note: These are loans and advances to the agricultural sector.

Source: Author's calculations based on data from central banks.

**Table 2. Value of commercial bank lending to the agricultural sector, select countries, 1995–2008 (USD million)**

Country	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana	6.83	5.90	8.74	6.99	11.18	25.60	23.42	20.30	23.79	15.50
Gambia	–	–	–	–	–	–	–	–	9.12	7.96
Ghana	–	69.03	80.28	75.95	109.42	108.13	131.71	146.62	188.38	210.19
Kenya	–	320.40	290.93	322.99	360.78	388.83	455.87	465.06	436.80	381.54
Lesotho	–	–	–	–	–	–	–	0.19	2.04	9.31
Malawi	22.91	10.50	8.21	1.47	9.84	16.89	14.24	31.97	42.76	47.17
Mozambique	–	–	100.37	94.81	72.17	74.18	74.82	64.87	118.28	133.28
Nigeria	–	–	–	–	454.95	511.82	377.90	390.43	1286.16	814.76
Sierra Leone	–	0.72	1.58	0.31	0.77	1.04	1.14	0.60	2.32	3.33
Uganda	55.91	40.05	30.42	40.55	41.34	60.82	65.61	72.90	74.11	103.10
United Republic of Tanzania	–	–	–	–	–	141.05	152.14	231.37	289.48	422.24

Note: These are loans and advances to the agricultural sector.

Source: Author's calculations based on data from central banks.

The data presented in Tables 1 and 2, however, are not fully indicative of lending to the broader agribusiness sector, since agro-industries occupy a dominant position in manufacturing activities. In agriculture-based countries, most of which are SSA countries, agro-industries contribute up to 61 percent of total manufacturing sector output (GAIF, 2008). Uganda is such a case in point. In addition to sectoral statistics, the Bank of Uganda provides a further break-down of commercial bank lending by subsector. Two subsectors under manufacturing – foods, beverages and tobacco, and leather and textiles – can be

classified as agro-industry, and account for a significant share of manufacturing sector credit. As illustrated in Table 3, from 1993–2008, these subsectors together have always received more than a quarter of the lending to the manufacturing sector. Similar data for Mozambique indicate that the share of credit to the agro-industry relative to the manufacturing sector ranged between 40 and 60 percent during the 2003–07 period. As such, the aggregate figures presented above should be interpreted with this limitation.

**Table 3. Agro-industry credit as a share of the manufacturing sector credit in Uganda, 1993–2008**

Year	Foods, beverages, tobacco	Leather/textiles	Agro-industry (total)
June 1993	19.59	7.03	26.63
June 1994	27.98	5.04	33.02
June 1995	41.83	4.69	46.52
June 1996	35.70	1.63	37.33
June 1997	64.62	2.59	67.21
June 1998	64.52	2.45	66.97
June 1999	61.75	3.19	64.94
June 2000	64.13	1.89	66.02
June 2001	64.70	8.10	72.80
June 2002	64.60	1.18	65.79
June 2003	56.45	2.30	58.75
June 2004	53.91	5.51	59.42
June 2005	56.15	6.27	62.42
June 2006	52.96	4.24	57.20
June 2007	41.71	5.89	47.60
May 2008	30.96	2.38	33.35

Source: Author's calculations based on data from Bank of Uganda.

The data from the Bank of Mozambique have separate entries for a number of crops (tea, sugar, cashew, sisal, copra, cotton and others), livestock and fisheries; hence, it is possible to determine which crops or agribusiness entities are financed from loans and advances from commercial banks. As at the end of 2007, the largest recipients of lending to agriculture were fisheries, cotton, sugar and cashew.

### Foreign private agribusiness investment

On the foreign private investment frontier, there are a few data sources or studies that one can draw from in order to assess agribusiness investments. This section discusses in detail trends and patterns in FDI from two databases – UNIDO Africa Foreign Survey data and BusinessMap Foundation data – and offers a brief discussion of information from other sources.

### **A) Africa Foreign Investor Survey 2005 data, United Nations Industrial Development Organization**

Between May and November 2005, UNIDO conducted a survey of foreign investors in 15 African countries. The survey focus was on foreign investment in all sectors of the economy – primary, manufacturing, and services sectors excluding oil and mineral extraction. The survey generated usable information for 1 216 enterprises broken down by country, as shown in Table 4. For the purposes of this study, data related to agribusiness investments were extracted from the database for further analysis and comparison with the findings from the broader study. These data include all enterprises classified under the primary sector (agro-business sector) as well as manufacturing and service sector enterprises incidental to agricultural production and agro-processing.<sup>6</sup>

**Table 4. Distribution of enterprises by country**

Country	No. of enterprises surveyed	Agribusiness enterprises	Percentage of enterprises surveyed (%)
Burkina Faso	99	18	18.2
Cameroon	64	21	32.8
Côte d'Ivoire	52	12	23.1
Ethiopia	76	31	40.8
Ghana	42	6	14.3
Guinea	50	14	28.0
Kenya	104	27	26.0
Madagascar	86	44	51.2
Malawi	80	20	25.0
Mali	62	9	14.5
Mozambique	140	39	27.9
Nigeria	118	24	20.3
Senegal	61	9	14.8
Uganda	94	27	28.7
United Republic of Tanzania	88	39	44.3
<b>Total</b>	<b>1 216</b>	<b>340</b>	<b>28.0</b>

Source: UNIDO, 2007.

The enterprises were aggregated into nine subsectors: beverages, fisheries, food producers and processors, forestry and paper, horticulture, input supply (e.g. seeds, fertilizer production and agricultural equipment), rubber and leather, textiles, and tobacco. The largest subsector in terms of number of enterprises was food producers and processors. There was also a sizable number of enterprises in textiles manufacturing and distribution as well as in the forestry and paper subsector (Table 5). At the country level, the number of enterprises by subsector reveals some interesting patterns. In Ethiopia, almost a third of the surveyed agribusiness enterprises were in the horticulture subsector, a reflection of the recent development of the

<sup>6</sup> The data file from UNIDO had no information on industrial classification of projects, and therefore to obtain agribusiness investments, the business sector and main product or service of the operation stated in the survey responses were used to identify projects of interest. From the original file, only 4.2 percent (51 cases) were classified in the agro-business sector.

floriculture sector in the country. Similarly, for Madagascar, the data show a high proportion of enterprises in the textile and apparel industry, reflecting the high growth experienced in the subsector between 2001 and 2005, because of the African Growth Opportunities Act (AGOA). Numerous forestry enterprises were recorded for Mozambique, also evidence of the recent logging activity in Zambezia Province.<sup>7</sup> Although the subsector classification in this study differs from the one used in the UNIDO report, an interesting observation is that all countries had at least one agribusiness-related subsector in their top five foreign investor subsectors (except Malawi, Mali and Senegal).

**Table 5. Distribution of enterprises by subsector**

Subsector	Frequency	Percentage	Cumulative percentage
Food producers and processors	112	32.94	32.94
Textiles	65	19.12	52.06
Forestry and paper	49	14.41	66.47
Beverages	39	11.47	77.94
Input supply	22	6.47	84.41
Fisheries	17	5.00	89.41
Rubber and leather	15	4.41	93.82
Horticulture	12	3.53	97.35
Tobacco	9	2.65	100.00
Total	340	100	

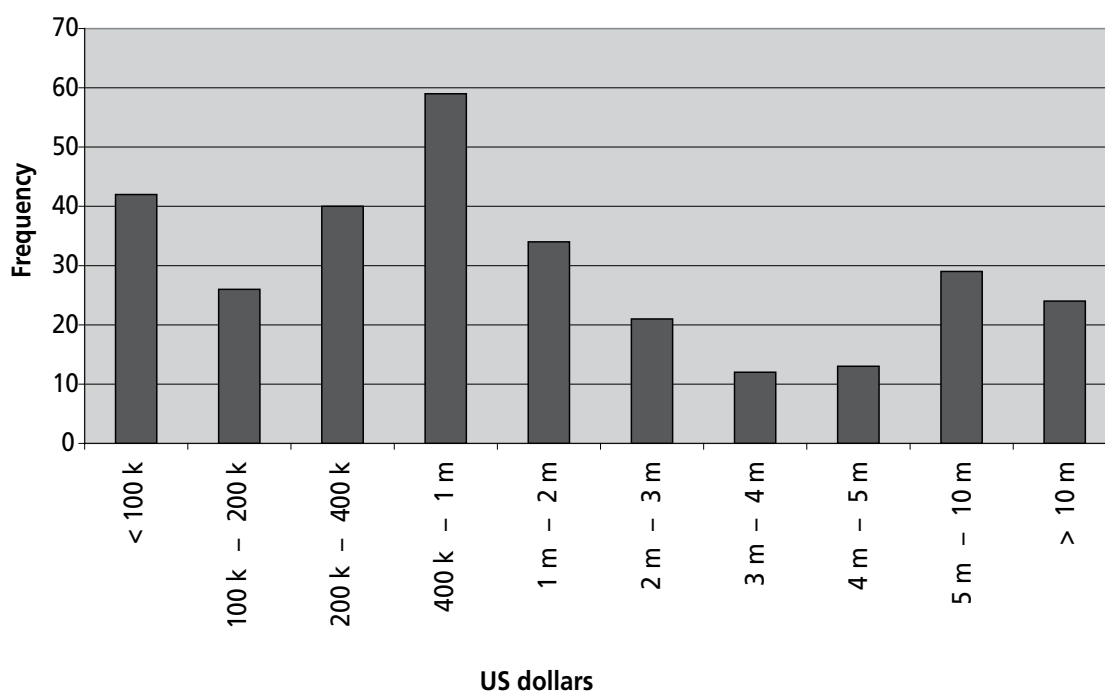
Source: UNIDO, 2007.

### *Mode of entry and investment size*

Data on the percentage of foreign ownership were also obtained from the enterprises. The percentages range from zero to complete foreign ownership: 65 percent of the agribusiness enterprises are wholly owned by foreign investors; 28 percent are joint ventures; and the remaining either have unknown mode of entry or lack this information. Within the wholly foreign-owned projects, 77.4 percent were established as new operations (Greenfield), while 14.9 and 7.7 percent were acquisitions of private assets and state-owned assets (privatization), respectively. In line with its total number of enterprises, the food producers and processors sector has the highest proportion of number of establishments across the three entry mode classifications. More than half of the joint ventures were established jointly with a local partner.

In terms of size of the original investment, most of the establishments in the agricultural sector are small, involving amounts less than USD 2 million. However, there are a significant number of very large projects (Figure 2).

<sup>7</sup> [www.wrm.org.uy/bulletin/96/Mozambique.html](http://www.wrm.org.uy/bulletin/96/Mozambique.html)

**Figure 2. Distribution of enterprises by size of original investment**

Source: UNIDO, 2007.

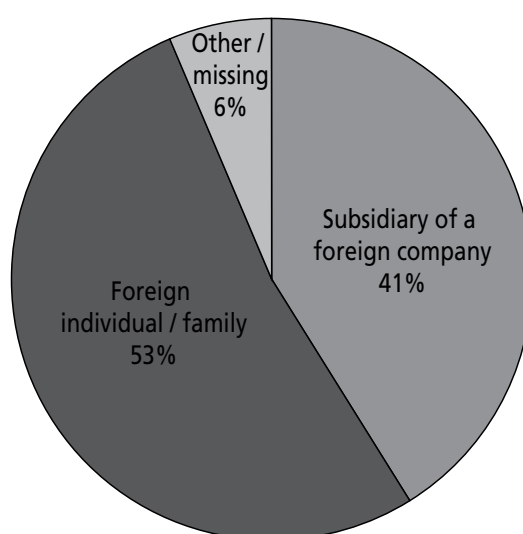
### **Start-up date**

Following the methodology used in the UNIDO study, enterprises were grouped according to whether the foreign investor started operations in the host country on or before 1980, between 1981 and 1990, between 1991 and 2000, and after 2000. In numbers, the bulk of the enterprises were established between 1991 and 2000, accounting for slightly more than 40 percent. Approximately 20 percent of enterprises started operations on or before 1980, less than 10 percent between 1981 and 1990, and about 30 percent after 2001. The distribution of enterprises by start-up date, particularly the ranking order of the ranges, is similar to that of the broader study.

### **Investor origin**

Enterprises were separated by whether they were a subsidiary of a foreign company or owned by a foreign individual or family. Foreign individuals or families own 178 agribusiness enterprises out of the 340 total, while 140 enterprises were subsidiaries of foreign companies (Figure 3). Between the two investor categories, a higher proportion of enterprises in the beverages, input supply and tobacco subsectors were subsidiaries of companies domiciled abroad. This pattern suggests that these subsectors were more resource-intensive and could require large-scale operations. The influence of colonial ties and proximity is evident in the sample with France, United Kingdom and South Africa in that order major home countries for the investment. By subsector, European companies dominated food production and processing, while Asian companies were mainly in textile and apparel sectors.



**Figure 3. Distribution of enterprises by foreign investor profile**

Source: UNIDO, 2007.

### ***Market orientation***

With respect to enterprises that export at least 10 percent of its output to be export oriented, approximately 60 percent of the agribusiness enterprises produce for the export market; of the remaining ones, 32.4 percent produced exclusively for the local markets.

### ***B. BusinessMap Foundation data***

The analysis in this section is based on a database of announced enterprise/project-level investments collected from public sources and own research by the BusinessMap Foundation<sup>8</sup>. The database captures FDI activity in African countries for the period 1994–2006. BusinessMap Foundation defines FDI along the lines of the United Nations Conference on Trade and Development (UNCTAD) definition: international investment in which one resident in one economy obtains a lasting interest in an enterprise resident in another country. The database provides information on the type and value of investment, date of investment announcement, target (host) country and company, source country and company and the economic and industrial sectors for the investments. This dataset complements the information on major players very well, providing information on both the value of the investment and additional information on other firms involved in the sector.

A few limitations of the BusinessMap data can be identified. First, the data captured announced investment that is not the same as actual investment. Some plans do not materialize, while some investments are spread out over a couple of years. Moreover, the BusinessMap data sometimes understate the amount of FDI flows due to missing values in the dataset for investments in which the public announcements did not make mention of figures involved. Related to this limitation is also the inability of the dataset to capture intra-company loans that by definition make up FDI

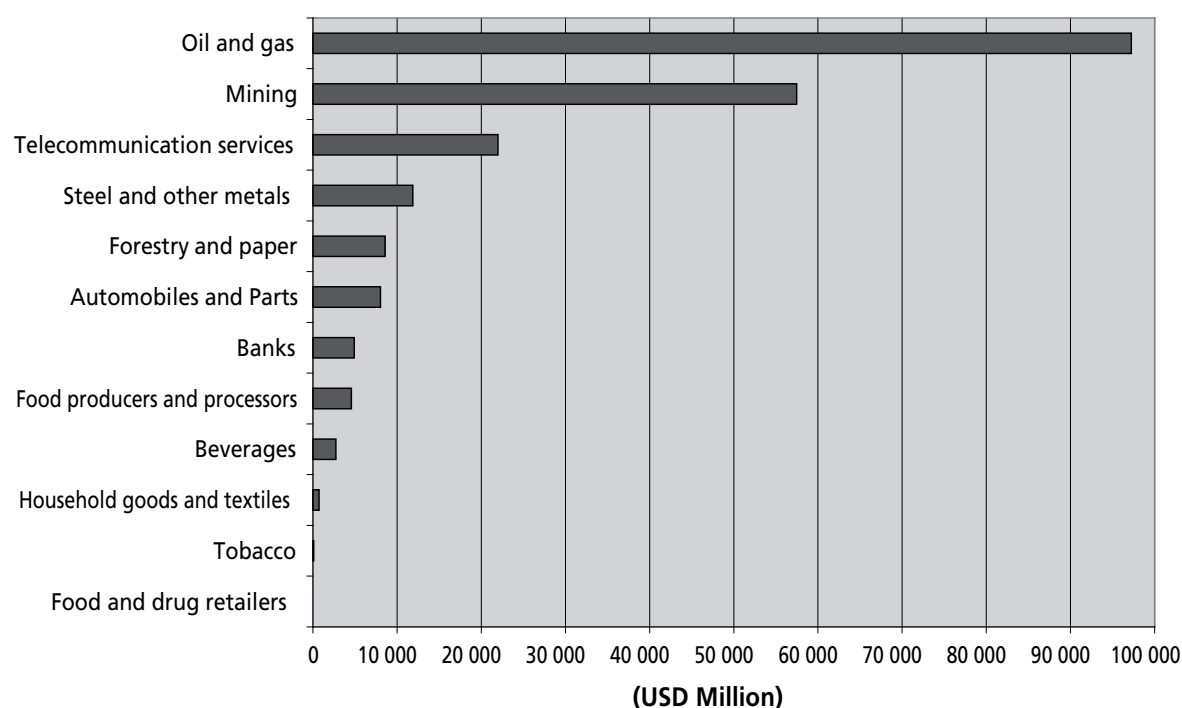
<sup>8</sup> BusinessMap Foundation was a South African-based, not-for-profit research organization and think tank whose focus was on Black Economic Empowerment, development finance, globalization and investment. It ceased operations in September 2007.

flows. Consequently, limiting analysis of such data to the monetary value of investments could be misleading. The strength of the data may lie more in their ability to inform on other aspects of the investments, such as the number of projects, commodity or product type, and the major players. Such information is useful for further informing on the segments that are of interest to investors and understanding the driving factors behind the investments. Moreover, since resource-intensity or initial capital outlay differs by sector, comparisons based only on monetary value do not give a complete picture. For the purposes of this study, the data fell short due to their higher level of aggregation in classifying the industrial sector of projects. For instance, none of the investments are in “input supply”, yet it is logical to assume that some of the investments classified under the “chemicals” sector produce chemicals used in agricultural production.

All these caveats notwithstanding, the data provide insightful information about patterns at the subsector and country level. Six industrial sectors (subsectors) related to the agribusiness economic sector are considered in this study: beverages; food producers and processors; food and drug retailers; forestry and paper; household goods and textiles; and tobacco. These industrial sectors yield a total of 356 projects out of 2 699 projects recorded in the database—approximately 13.2 percent of the total projects in the database.

The data show that most of the investment has gone into extractive industries such as mining, and oil and gas production (Figure 4). Among the investments in the agribusiness-related sectors, the forestry and paper subsector is in the lead, with investments worth approximately USD 8.6 billion. Nevertheless, these investments are ten times less than the investments in oil and gas exploration. The data therefore demonstrate that investments in the agribusiness sector are very low compared to other sectors.

**Figure 4. Cumulative value of investments by subsector, 1994–2006**



Source: BusinessMap Foundation, 2006.

Analysing the number of projects, the key industrial sector is food producers and processors, accounting for 45 percent of the recorded agribusiness projects across 20 African countries (Table 6). This subsector includes investments in farming and fishing in addition to food processing. East African countries seem to have a comparative advantage in fishing and seafood processing. For the production and processing subsector, the dominant investors are CDC Capital Partners, Illovo Sugar Ltd, Parmalat Food and Tongaat-Hulett Group Ltd., with 18, nine, six, and six investments, respectively.<sup>9</sup>

**Table 6. Breakdown of agribusiness investments by subsector**

Industrial/subsector	Frequency	Percentage	Cumulative
Beverages	81	22.75	22.75
Food producers and processors	160	44.94	67.70
Food and drug retailers	6	1.69	69.38
Forestry and paper	30	8.43	77.81
Household goods and textiles	73	20.51	98.31
Tobacco	6	1.69	100.00
Total	356	100	

Source: BusinessMap Foundation, 2006.

Figure 4 and Table 6 imply that the forestry and paper subsector tends to have larger firms, with an average project size of approximately USD 285 million, while food producers and processors tend to be smaller but numerous firms, with an average project size of USD 28.6. There have also been significant investments in the beverages industrial sector owing largely to investments by SABMiller Plc (formerly South African Breweries Ltd.) and The Coca-Cola Company. Shoprite Holdings Limited is responsible for the majority of investments under the food and drug retails subsector, although the recorded investments are only a handful compared to the total number of operations of the company in the region.<sup>10</sup> In line with the dominant players, most of the investment in the agribusiness sector emanates from the United Kingdom, the United States of America and South Africa (intra-regional FDI flows).

Over time, investments from the two prominent sectors (food producers and processors, and beverages) have continued to dominate flows, with significant increases after 2000 in household goods and textiles, which is a response to the African Growth Opportunity Act (Table 7).

According to the BusinessMap Foundation database, South Africa has attracted more than one third of the investments in the region. FDI investments have taken the form of acquisitions of, or mergers with existing domestic ventures (mergers and acquisitions, or M&As), joint ventures, or newly established (Greenfield) investments. For the purposes of this study, M&As were defined to include joint ventures and privatizations, while Greenfield operations include expansions of existing enterprises (improvements to productive capacity, e.g. a new wing of a factory, or upgrade of machinery).

<sup>9</sup> CDC Capital Partners is a UK Government fund of funds with investments in the agribusiness sector. Tongaat-Hulett Group Ltd. is an agro-processing business, which includes integrated components of land management, property development and agriculture.

<sup>10</sup> According to the company website, Shoprite Holdings Ltd. operates 984 corporate and 256 franchise outlets in 17 countries across Africa.

**Table 7. Agribusiness investments by industrial sector, 1994–2006**

Year	Industrial sector						Total
	Beverages	Food producers and processors	Food and drug retailers	Forestry and paper	Household goods and textiles	Tobacco	
1994	2	8	0	0	2	0	12
1995	5	18	0	1	5	0	29
1996	0	9	0	0	8	0	17
1997	11	15	2	3	8	1	40
1998	15	20	0	4	5	0	44
1999	8	10	0	4	2	3	27
2000	6	5	0	0	5	0	16
2001	6	8	2	1	11	0	28
2002	9	15	1	1	0	0	26
2003	9	15	0	7	10	1	42
2004	3	11	0	3	5	0	22
2005	4	12	1	4	7	0	28
2006	3	14	0	2	5	1	25
Total	81	160	6	30	73	6	356

Source: BusinessMap Foundation, 2006.

### **C. Other sources of information on agribusiness investment**

Investment promotion agencies (IPAs) usually keep record of investments registered through their offices. Examples of such cases are the Ghana Investment Promotion Centre (GIPC) and the Centro de Promoção de Investimentos (CPI, Mozambique Investment Promotion Centre).

**Table 8. Sectoral composition and number of projects registered with the Ghana Investment Promotion Centre**

Sectors	2004	2005	2006	2007	2008
Manufacturing	52	78	63	96	50
Service	48	41	68	54	85
Tourism	24	15	19	31	25
Building and construction	11	19	20	32	26
Export trade	6	8	13	12	19
Agriculture	9	9	6	15	17
General trading	33	42	49	65	73
Total	183	212	238	305	295

Source: Various GIPC quarterly reports: [www.gipc.org.gh/home.aspx](http://www.gipc.org.gh/home.aspx)

The data show a growing number of investments in agriculture. The last quarter of 2008 in particular, recorded solid increments in agribusiness investments. Hazel Mercantile Ghana Ltd. invested USD 45 million for cultivating and producing edible and non-edible oil and exporting of biofuels, while Precious Textiles Ltd. invested USD 1.62 million for manufacturing textiles

and garments for local and international markets. Other companies in the sector noted in the various GIPC quarterly reports in 2007 are: Bio Fair Fruits Ltd. (cultivation, processing and export of pineapples); Asutuare Poultry Farm Ltd.; Afdal Ltd. (provision of butchery services, farming, poultry and livestock); Singa Ghana Ltd. (export of cashew nuts, shea nuts and wood products); Sailo Foods and Drinks Company Ltd. (manufacture of soft drinks); and Q-Power Ltd. (manufacture of alcoholic and non-alcoholic beverages for export).

Similar to GIPC, the Mozambique Investment Promotion Centre (CPI) produces regular reports on authorized investments by sector. What is unique is that it gives a further breakdown into domestic and foreign investment. Table 9 shows investment in agriculture as authorized by CPI over the past five years.

**Table 9. Authorized investment in agriculture in Mozambique, by year and type, (USD million)**

Year	Total	Domestic investment	Foreign direct investment	Other capital (loans and aid)
2003	69.51	4.03	27.16	38.33
2004	137.31	11.46	27.67	98.18
2005	232.67	3.52	38.24	190.91
2006	159.18	16.50	29.02	113.67
2007	594.31	17.01	95.64	481.65

Source: USAID, 2008.

Total investment in agriculture increased more than eight-fold, from USD 69.5 million in 2003 to USD 594.3 million in 2007. The statistics show that most of the gains were in foreign investment and other capital. Nonetheless, domestic investment increased from USD 4 million in 2003 to USD 17 million in 2007.

### **The United Nations Conference on Trade and Development**

Through its various investment reports, some data can be extracted on multinational corporations (MNCs) involved in FDI in the food sector. Nestle, Unilever, Diageo Plc, Philip Morris Co. Inc., the Coca Cola Company, Danone Groupe SA and British American Tobacco Plc are some of the large MNCs in the agribusiness sector. The World Investment Report (UNCTAD, 2009), which focused on transnational corporations (TNCs) in agriculture production, shows that the share of FDI in agriculture in total FDI flows or stocks is relatively significant for some SSA countries. While it is less than 1 percent for 17 of the 40 economies in one of the figures in the report (*ibid.*, p.113), it is relatively significant in the United Republic of Tanzania and Mozambique, at almost 10 percent and 4 percent for Ethiopia. Similarly, while agriculture's share in total FDI stock does not exceed one percent in 21 of the 40 economies shown in the report, it is approximately 16 percent in Swaziland, 13 percent in Malawi and almost 12 percent in Zambia (*ibid.*, pp. 112–113). Furthermore, the United Republic of Tanzania features as the only African country on the list of the 20 largest recipients of inward FDI flows and stocks; its 2005–07 average was USD 40.5 million, and its 2007 agriculture stock was USD 252.4 million. These statistics reflect the relatively high share of agriculture in GDP, availability of agricultural land and national policies favourable to agriculture (UNCTAD, 2009).

According to the same report, the importance of FDI and participation of TNCs also vary by commodity. FDI is usually minimal in staple food items such as cereals, but is relatively important in some cash crops such as cut flowers (ibid). UNCTAD data on cross-border mergers and acquisitions (M&As) show that relative to primary agricultural production and services related to food and agriculture, food processing has been the most dynamic industry, more than doubling in value from 664 million dollars in 2006 to 1.4 billion dollars in 2007 (See Appendix Table A4). However, compared to developed countries or other developing regions, the figures for Africa are very small. For instance, while the value of M&As in food processing is 1.4 billion in Africa, it is 2 billion in Latin America and the Caribbean, and 6.7 billion in South, East and Southeast Asia.

A related source is The Investment Map, which is a product of the International Trade Centre (ITC) and UNCTAD in partnership with the World Association of Investment Promotion Agencies (WAIPA) and the Multilateral Investment Guarantee Agency (MIGA). It documents information on the location, sales and parent company for around 60 000 foreign affiliates located in developing countries and economies in transition. The sector of investment by the foreign affiliate is included in the information, which could be a useful resource for identifying players in the agricultural sector at the country level.<sup>11</sup> However, there are limited data on actual investments made by the identified companies.

Additionally, MIGA plays the role of guarantor for agribusiness projects in SSA. Underwriting agribusiness projects mitigates perceived agribusiness investment risks. For example, in its role in FDI facilitation, MIGA provided USD 3.11 million coverage to Afriproduce Limited for its investment in a coffee processing facility in Uganda. Also, the insurance often adds value to the project by enhancing the credit, giving better access to finance and often reducing the cost of the finance. From 1994 to 2008, it had guaranteed a total of 17 agribusiness sector projects in SSA (Appendix Table A5). In 2006, MIGA studied the competitiveness of FDI in SSA, covering the textile, apparel, horticulture, food and beverage processing, call centre and hotel sectors. According to the Snapshot Africa report (World Bank MIGA, 2007), investments in the agriculture sector are mainly directed towards high-value crops and non-traditional products, such as cut flowers destined for markets in industrialized countries. Fruit and vegetable exports, especially from East Africa, are experiencing relatively high growth. Activities linked to agricultural production are also attracting FDI, including food processing, transport and marketing. Products such as canned pineapple and bananas are dominated by transnational companies. The report also sheds some light on the key criteria for investors. In the horticulture, and the food and beverage sectors, favourable factors include access to market and supplies, and the general business environment. An additional consideration in the case of horticulture is the availability and cost of arable land.

In general, information on levels of FDI flows in SSA countries going to the agribusiness sector is sparse, but available statistics indicate low but increasing FDI flows to the sector. Overall, there appears to be a wealth of information for select countries such as Ghana, Kenya, Madagascar, Mali, Mozambique, Senegal, United Republic of Tanzania, and Uganda, on which

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11 Investment map: [www.investmentmap.org](http://www.investmentmap.org)

further research could build upon. Appendix Table A6 shows the prevalence of these countries in three major studies.

Although not a focus of this study, the next section briefly reviews investments in SSA arable land.

### **2.3 INVESTMENTS IN SUB-SAHARAN AFRICA ARABLE LAND<sup>12</sup>**

Recently, some countries that are land- and water-constrained but rich in capital such as the Gulf States have either purchased or announced their intentions to purchase or lease huge quantities of land in African countries for agricultural production. These agricultural land investments are an opportunity for increased investment in SSA agriculture. Driven primarily by the desire to secure long-term supplies of food or biofuels for investor countries, the proposed purchases have been structured in most cases as deals between the foreign governments or foreign private investors and the targeted host governments. For example, Daewoo Logistics (Republic of Korea) in a now-failed deal had indicated interest to lease 1.3 million ha of Madagascar's land for 99 years in order to produce maize and palm oil. This would have amounted to approximately half of the host country's arable land. Similarly, United Arab Emirates, through the Abu Dhabi Fund for development, is preparing to develop more than 28 000 ha of land in Sudan. Saudi-based Hail Agricultural Investment Co. is investing around USD 100 million to grow wheat, vegetables, and animal feed on 25 000 ha of land in Sudan. UK biofuel company, D1-BP Fuel Crops, recently acquired 3 000 ha in Ethiopia to grow jatropha. It is also actively planting jatropha in Madagascar, Swaziland and Zambia. Flora EcoPower of Germany, through a local subsidiary, leases 8 000 ha in Oromia Province of Ethiopia for the cultivation of castor seeds. Odebrecht from Brazil announced plans to invest in Angola's sugar and ethanol sector, while Dole Food Company and Chiquita Brands of the United States of America were in talks with the Angolan authorities to revive the banana industry in Vale Do Cavaco. Further, Qatar is considering leasing 40 000 ha of farmland in Kenya (Borger, 2008). In the deal, Qatar will fund the construction of a new multi-billion-shilling port in Lamu in exchange for the land.<sup>13</sup>

Together with corporations, investment banks and private equity funds have also jumped on board in land purchases. For instance, Emergent Asset Management, based in the United Kingdom, announced that it was raising USD 450 million to USD 750 million to invest in farmland in SSA.<sup>14</sup> Cru Investment Management, another UK-based investment company, has already piloted a farming scheme in Malawi and launched another fund called Africa Invest (Borger, 2008). Such investments were also attracted by the increasing rate of return in agriculture backed by rising agricultural commodity prices, philanthropy/social returns, or speculative investments based on land values. Some of the investment in farmland has been encouraged by SSA countries themselves. According to Polity (2008), land-rich countries like Zambia have already demarcated thousands of hectares of land into farm blocs for sale to

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12 For more information on land deals in Africa, refer to Cotula *et al.* (2009) and Hallam (2009).

13 Also see [www.nation.co.ke/News/-/1056/513528/-/u190px/-/index.html](http://www.nation.co.ke/News/-/1056/513528/-/u190px/-/index.html).

14 [www.africanagriculture.blogspot.com/2008/06/investment-funds-pour-money-into.html](http://www.africanagriculture.blogspot.com/2008/06/investment-funds-pour-money-into.html); [www.alertnet.org/thenews/newsdesk/L6139470.htm](http://www.alertnet.org/thenews/newsdesk/L6139470.htm)

foreign and local investors.<sup>15</sup> Similarly, the Ethiopian Government has been actively soliciting more land deals with the Middle East (Borger, 2008).

In addition to home country factors, there are also host country factors that have made land purchases attractive. The first factor is the availability of under-utilized land and crops. Arable land is one of Africa's most significant natural resources. Most of the soil is fertile and the climate in most countries is suited for production of a diverse number of crops. Moreover, land values in Africa are low compared to other agriculture-based economies. With a large proportion of its population still residing in rural areas, many SSA countries have a steady supply of low-cost labour for the proposed farming operations. Against the background of increasing food demand and scarcity of arable land and water in most parts of the world, arable land values are expected to rise. As such, some of the deals are thought to be speculative (von Braun and Meinzen-Dick, 2009).

Foreign investment in agricultural land has nonetheless been controversial. A major concern has been whether it is sensible to allow foreign nations to buy large chunks of land to secure their own food security while the host countries themselves were food insecure. Another concern has been the environmental impacts of the investments, particularly when production entails the use of chemicals and machinery, given the heavy impact of agricultural production on the climate. The clearing of land to make way for farming can cause deforestation and lead to reduction of biodiversity. The social cost could also be great, especially if local communities are evicted to make way for the foreign investors, or if agricultural land is used for biofuel production at the expense of food production. An unequal bargaining power in negotiating purchase agreements can also have a great social cost. Some investors have justified their investments and dismissed latter allegations. Indeed, biofuel crops such as jatropha are grown in sandy soil unsuitable for food production. However, land investments with proper design could offer some benefits for host governments, including revenue generation; for the rural poor, they could include job creation, development of rural infrastructure, increased food security and spillover effects in terms of transfer of agricultural technologies and practices (IFPRI, 2009).

Land acquisitions by private domestic investors have largely been ignored by the international media. A collaborative study between the International Institute for Environment and Development (IIED), FAO and the International Fund for Agricultural development (IFAD) found that private domestic investors accounted for most agricultural projects. The agricultural projects by private domestic investors covered a total of 362 000 ha for a value of USD 54 million, compared with 240 000 ha for a value of USD 24 million for FDI (Cotula et al., 2009).

## 2.4 AGRIBUSINESS INVESTMENT FUNDS

The proliferation of agribusiness investment funds is another recent, noteworthy development in the agribusiness investment space. For instance, in August 2008, Agri-Vie, a USD 100 million private equity fund, was formed by Sanlam Private Equity and the investment group Strategy

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<sup>15</sup> [www.polity.org.za/print-version/zambia-says-higher-food-prices-poor-nations-opportunity-2008-07-29](http://www.polity.org.za/print-version/zambia-says-higher-food-prices-poor-nations-opportunity-2008-07-29). Treasury data show that Zambia, which accounts for nearly half of total water resources in southern Africa, uses only 10 percent of its more than 40 million ha of arable farmland.



Partners for the sole purpose of investing in businesses operating along the agribusiness value chain. Similar to the case of land investments, most of the funds are in the fundraising stage of their development and hence have not resulted in increased investments in the sector. However, there are some funds with a relatively long history such as Actis Africa Agribusiness Fund and African Agricultural Capital that are fully invested in projects in SSA countries. Principally, funds offer investors (public or private) the ability to pool capital and take advantage of larger investment opportunities that the individual investor cannot do alone. Additionally, this modality of investment is combined with technical assistance offered in businesses in which investment is undertaken. Such technical assistance is pertinent for the sustainable development of the agriculture sector in SSA.

Notwithstanding lack of detailed and complete information on private agribusiness investment in SSA countries, the above analyses have illustrated various aspects of the sector's capitalization. In general, the phenomenon of land purchases is targeted towards countries where land and water are abundant and where production costs are much lower. It has also been linked to economies that have grown fast in recent years, such as the Republic of Korea and China, hence the food security and fuel sustainability motives behind such investments (UNCTAD, 2009). The next section analyses the business environment needs of the agribusiness sector, highlighting the most widely cited constraints and enablers.

### 3. Factors influencing private investments in agribusinesses

Lack of profitable opportunities and high (actual and perceived) business risks that cannot be mitigated in a cost-effective manner are the main reasons for low agribusiness investment in Africa. These were the key findings of a synthesis report prepared by Cambridge Economic Policy Associates Limited (CEPA) for DFID (CEPA, 2005). However, in recent years, agriculture is being perceived as a sector that offers investment opportunities for the private sector and as a prime driver of agriculture-related industries and the rural non-farm economy (World Bank, 2007). This section discusses these two views and provides an in-depth analysis, through an extensive literature review, of the elements leading to opportunities (or lack thereof) and risks for agribusiness investments in the region- The literature review goes beyond host country factors to consider external factors. Consequently, the factors are subdivided into two main categories: host country factors; and home country factors, or more generally, external factors.

#### 3.1 HOST COUNTRY FACTORS

##### Size of the market

The size of the market, usually measured by the GDP of a host country or its population size, has been found to be a major determinant of investment. Many FDI studies find a significant relationship between market size and FDI flows.<sup>16</sup> A large market size implies better prospects for an investor since it equates to a greater demand for its goods and services, and offers the investor economies of scale. OECD (2008) found high correlations between the level of concentration of agro-food-related firms and a host country's GDP. In the study, South Africa and Nigeria, the largest countries in the region, had the highest number of large companies. However, the market-seeking hypothesis is true only for investment projects that target the domestic market and where the local people have the purchasing power.

##### Natural resources

The abundance of natural agricultural resources is a major pull factor for investment in the agribusiness sector. In East Africa, fisheries are an expanding subsector due to the presence of some of the largest fresh water lakes in the world. Lake Victoria, half of which is in

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<sup>16</sup> For a comprehensive review of the literature on the determinants of FDI, see Jenkins and Thomas (2002).

Uganda, is the second largest freshwater lake in the world. Similarly, Ghana, Côte d'Ivoire and Cameroon have attracted investments in cocoa processing as a result of suitable agro-climatic conditions for cocoa production. Recent land purchases have also been driven by availability of excess arable land and water.<sup>17</sup> Closely related to natural resources is the availability and quality of human resources. Most African countries have an abundant, low-skilled labour force for agricultural farming purposes. However, with processed foods gaining prominence in both domestic and global markets, skilled labour is becoming highly significant in the development of agro-industries and other value-added services.

## **Infrastructure**

The level of infrastructure development in an economy influences the cost and efficiency of business operations. The limited availability and poor quality of roads and bridges in most SSA countries have been a major handicap to effective transportation of produce from the rural areas to various markets, resulting in high post-harvest losses and rendering agribusiness investments less profitable. For instance, trader surveys in Benin, Madagascar and Malawi found that transport costs accounted for 50–60 percent of total marketing costs (World Bank, 2007). Similarly, access to other basic infrastructure such as electricity and telephone lines in rural areas is limited. Irrigation infrastructure is essential for investments in primary production, particularly in the horticultural sector, yet only 4 percent of the area under production in SSA is irrigated, compared to 39 percent in South Asia and 29 percent in East Asia (World Bank, 2007). Transportation and information and communications technology (ICT) infrastructure are a precondition for the development of agro-industries; where absent or inadequate, value-addition is curtailed in the sector (Henson and Cranfield, 2008). Data from the World Development Indicators show low levels of ICT penetration for most SSA countries (World Bank, 2009a). For export-oriented agribusinesses, storage facilities, railroads and ports are crucial. In addition to these basic infrastructural needs, the perishability of agricultural products requires special facilities such as cold storage and refrigerated transport. Moreover, agriculture-specific infrastructure such as laboratories for product testing and certification purposes is a must if the sector is to be competitive, particularly in compliance with the sanitary and phytosanitary standards for world food trade. Dependability of infrastructure is also important, particularly for key utilities, notably electricity and water. Lack of adequate infrastructure in the United Republic of Tanzania is blamed for high energy and transportation costs, which have caused the country's commodities to be less competitive (Msuya, 2007; World Economic Forum, 2009). On the other hand, South Africa's superior infrastructure has helped lower its production and distribution costs, hence made its products competitive in the global economy. Poor infrastructure is in fact found to be more constraining to agriculture prosperity than trade barriers (Msuya, 2007).

## **Macroeconomic environment**

Agriculture, like other sectors of the economy, needs a supportive macro-economic environment, in which inflation is contained and exchange rates are stable. Such stability fosters competitiveness of agricultural exports in world markets and would further attract investments

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<sup>17</sup> Land use rights in some SSA countries are not clearly defined. Restricted tradability of land has been cited as a barrier to investments in the agricultural sector in some instances.

in agro-processing plants. Related to the macro-economic environment is tax regulation and administration. A number of enterprise surveys in the region have cited tax issues as a key constraint to their investments and productivity. Investors are dissatisfied not only with the level of taxes, but also with the multiplicity of taxes to be paid. In the United Republic of Tanzania, for instance, high taxes are levied on fish exports. Moreover, export commodities are taxed as a percentage of the sale price, while local taxes are levied on product volume. This implies that more taxes are collected during times of low prices due to increased supply than during the high price period, further reducing the return on the investment (Koroma and Mosoti, 2009). However, there are some countries in which the tax regime is largely favourable to agriculture. Such is the case for income tax in Mozambique, which is extremely favourable to agriculture, with the exception of tax on raw cashews. Compared to the standard company tax rate of 32 percent, agricultural enterprises face an income tax of 10 percent through 2010. Furthermore, the Code of Fiscal Benefits provides an 80 percent reduction in this rate through 2012 for approved investments in agriculture, leaving a tax rate of just 2 percent. Regarding the cashew industry, the Government levies a special 18 percent tax on the export of raw cashews. While the tax implicitly reduces the cost of procuring nuts for local cashew processors and provides funds for the National Cashew Institute (INCAJU), with the aim of supporting development of the local cashew industry, it also depresses the farmgate price of cashews and impairs incentives for investment in replanting and orchard maintenance.

### **Corruption and trade regulation**

Corruption and bureaucratic customs processes add costs to doing business and thereby reduce profitability of investments. For the agribusiness sector, given the perishability of most agricultural products, efficiency in moving produce is of essence. Through investor surveys, private investors have confirmed making informal payments to either receive or expedite provision of services. In some cases, these payments have been as significant as 5 percent of annual sales. What makes it worse is that the courts and legal system are unreliable, increasing the risk and uncertainty of doing business. The poor ranking of most SSA countries on Transparency International's Corruption Perception Index (CPI) is of concern to investors: Angola, Burundi, Republic of Congo, Gambia, Guinea-Bissau, Sierra Leone, Zimbabwe, Democratic Republic of the Congo, Equatorial Guinea, Chad, Guinea, Sudan and Somalia ranked in the bottom 25 of the CPI in the 2008 rankings. In some cases, investors have had to deal with illegal imports of agricultural products.

### **Political instability**

The economic literature on private capital formation in developing countries has also emphasized issues of *uncertainty and risk* as disincentives to investment (Jenkins and Thomas, 2002). Political instability is the worst when it comes to feeding into uncertainty and risk. Several countries in SSA have experienced conflicts in the recent past, causing the region to be seen by investors as having high incidences of wars and civil conflicts. Uncertainty has further been blamed for lags in investment despite policy reforms in many developing countries, particularly those of Africa. Firms have an incentive to postpone irreversible investment while they wait for new information that makes the future less uncertain (Jenkins and Thomas, 2002). Political instability can destroy a flourishing firm or industry overnight, and the recovery process can be very prolonged (Box 1).

**Box 1.****The impact of the Kenyan post-election violence on the Kenyan flower export industry**

Kenya is generally politically stable and has enjoyed more than four decades of independence from colonial rule. However, it experienced two outbreaks of violence following the general elections in December 2007, which lasted a total of five weeks. The consequences were felt throughout the country, with a particularly strong impact on the export-oriented flower industry that had flourished in the past decade. The conflict reduced Kenyan exports by 24 percent overall and reduced exports by 38 percent for firms located in the conflict areas, mainly through displacing workers. In fact, the displacement of semi-skilled labour had impacts beyond the duration of the violence.

Source: Ksoll, Maciavello and Morjaria, 2009.

**Access to finance and technology**

Financial constraints in agriculture remain pervasive in many SSA countries due to an array of structural constraints particular to the sector and are severely limiting for smallholders. The factors involved include, *inter alia*: the physical absence of banking facilities in rural areas; the lack of financial products tailored to the risks and cash flow patterns in agriculture; weak business management skills in all but the largest agricultural enterprises; inherently high transactions costs for providing traditional financial services in small doses to low-density areas with poor transportation and communications infrastructure; and underlying problems with business environment, which greatly increase the lending risks and limit the scope for viable lending to finance agricultural investments (USAID, 2008). For smallholder farmers, financial constraints originate in the lack of asset ownership to serve as collateral and lack of access to affordable finance (World Bank, 2007). This constraint has been addressed partly by microfinance, but both micro-credit and micro-insurance have not reached most agricultural activities, particularly those with long-term maturities. As a result, few agricultural enterprises have access to finance, and those that do, incur high interest rates in both real and nominal terms. For instance, the loan interest rates to the agribusiness sector from commercial banks in The Gambia range from 20 to 25 percent, while deposit rates are relatively low, at 9 to 11 percent (FAO, 2008). There is also empirical evidence that both the paucity of term-lending to the agribusiness sector and high interest rates constrain investment in the sector. From an analysis of 193 firms operating in various sectors in Mozambique, lack of access to, and high cost of, finance were cited by 78 percent of the sample (World Bank, 2003). Limited access to technology has also led to underdevelopment of the sector, although recent developments such as the DrumNet Project in Kenya have broken the ground for ICT use in agriculture and proven successful (Box 2). Other innovations such as value chain finance and warehouse receipts are allowing extension of financial resources to the agriculture sector.

**Box 2.****The use of ICT in agriculture – the case of DrumNet in Kenya**

Launched in 2002, DrumNet is a project implemented by Pride Africa that uses a mobile phone interface to link smallholder farmers to banks, farm input suppliers and agricultural buyers. The project's premise is that information on the market is one of the key elements that keeps farmers from getting the full market value for their products. This lack of information keeps the farmers in a disadvantageous financial position, making it difficult for them to obtain the financing and resources they need to grow their business. DrumNet provides marketing, financial and informational services aimed at stimulating wealth creation and the economic integration of smallholder farmers. After the success of the pilot project in central Kenya, DrumNet is now moving into a beta phase in other parts of the country.

Source: Pride Africa, [www.drumnet.org/index.htm](http://www.drumnet.org/index.htm)

**Institutions and support services**

Agriculture in SSA relies on public goods and services such as extension services, agricultural information and plant protection services. Where such services have been missing, investments in the sector, particularly by smallholder producers, has been limited. The increased mechanization of agricultural processes demands additional support services such as machinery repair services. Due to the high risk characteristic of rainfed agricultural production, there is a demand for market-based tools to mitigate risk such as crop or weather insurance, and forward commodity markets. In SSA, the absence of these risk-mitigating mechanisms prevents some entrepreneurs from investing in the sector. In addition, the long-term nature of agricultural investments makes secure property rights paramount. Uncertainty of land ownership and tenure has hampered investment in agriculture, specifically FDI.

**Agriculture supply chain coordination**

High actual and perceived risks stem from coordination failures along the agriculture supply chain (CEPA, 2005). Agribusiness enterprises tend to be interdependent. For example, investment in improved storage and distribution services for agricultural inputs and produce will often only be more profitable if agricultural production increases. Similarly, investments in processing facilities will only be profitable if an expanded supply of high quality and competitively priced produce is available. This does not necessarily imply that large-scale farming operations are preferable to small-scale operations, but simply that there are large quantities of high quality produce to source. Furthermore, quality of produce is dependent on every player in the supply chain, an aspect that is also critical for meeting the international standards. Yet in many SSA countries, the supply chain is not well coordinated. In this regard, producer organizations and cooperatives have valuable roles in building networks between farmers, and between farmers and other players in the value chain, thus increasing the flow of produce along the supply chain. Exacerbating these risks is the lack of risk-mitigating

mechanisms such as crop or weather insurance, and forward commodity markets. Contract farming has been adopted in particular in high-value crops to ensure good coordination between buyers and farmers after harvesting, quality control and timely delivery.

**Figure 5. A typical agribusiness supply chain**



Source: World Bank, 2005, p. 155.

### Farmer / producer organizations

Lack of organization of smallholder activities leads to high production and distribution costs mainly because individually they are unable to take advantage of economies of scale. Farmer/producer organizations make it easier for smallholder farmers to access inputs and markets. Additionally, they can enhance the access of smallholder farmers to agricultural credit, by reducing client analysis and selection costs for lenders, thus making them more attractive as borrowers. Moreover, both quality and quantity constraints in most SSA countries indicate that there is a need to improve linkages between farmers and other players along the supply chain. FDI patterns in the agriculture of the United Republic of Tanzania offer some insights into additional requirements for agribusiness investment. Records from the Tanzania Investment Centre show that most of the investment went to sectors with well-organized farmers. Examples of such projects are sugarcane production in Mtibwa and Kilombero, and tea production in Rungwe, where Wakulima Tea Company (WATCO) and the Rungwe Small Tea Growers Association (RSTGA) are joint investors under Tanzania Tea Packers (TAPETA) (Msuya, 2007). In some instances, producer organizations have been stakeholders in agro-based clusters aimed at taking advantage of synergies among different players.

### Other factors

Active privatization programmes (dismantling of parastatals), agglomeration economies (agro-based clusters),<sup>18</sup> liberalized FDI policies and active sector-specific investment promotion activities have also boosted agribusiness investment in recent years. On the other hand, policies that restrict foreign investment and ownership have limited foreign private investment in some subsectors. For instance, while foreign and domestic investors are generally treated equally in Ethiopia, foreign investment is restricted in the export trade of raw coffee, chat, oil seeds, pulses, hides and skins bought from the market. However, there are often valid social reasons for such restrictions, such as development of an infant industry.

<sup>18</sup> This is basically herding behaviour, whereby investors are attracted by the existence or concentration of related businesses. For more information on agro-based clusters, see FAO (forthcoming).

Furthermore, critical factors constituting a conducive business climate differ based on the location of the enterprise within a host country. A rural investment climate assessment by the World Bank, applied in six countries, three of which are in SSA (Benin, Ethiopia, and the United Republic of Tanzania) showed that there are differences between rural and urban constraints. Rural-based enterprises ranked inadequate transport and power infrastructure, limited access to and high costs of financial services, and weak product demand/marketing problems among the five most significant investment climate constraints in rural areas. On the other hand, urban enterprises saw unreliable electric power, policy uncertainty, macro-instability, and labour regulations as the major constraints (World Bank, 2006a). Thus, while the challenge in rural areas was quantity or availability of infrastructure, in urban areas, the quality aspect of infrastructure was more constraining. Since most primary agricultural activity takes place in rural areas in SSA, this suggests the need to tackle rural constraints if investment in farming activities is to be increased. In the same way, urban constraints could be more binding for agro-industry development.

In summary, the discussion in this section identifies critical components of a supportive agribusiness environment, many of which are identical to those that apply to other sectors of the economy. However, there are factors unique to the agribusiness sector, as articulated in this section. Moreover, the literature on the determinants of private sector investment does not distinguish important factors among foreign and domestic investors.

### **3.2 HOME COUNTRY FACTORS / EXTERNAL FACTORS**

External factors such as protectionist measures mainly in developed countries and agricultural commodity price volatility are a challenge to mobilization of private investments in the sector.

Tariffs and non-tariff barriers on agricultural commodities, particularly on processed food, may discourage private sector investments in food processing for exports. Posing the greatest challenge among non-tariff barriers is the proliferation and stringency of international sanitary and phytosanitary standards, adopted in export markets to address food safety and health risks. In SSA countries, most of the participants in the agribusiness sector are smallholder farmers, who find compliance to the standards very costly.

Subsidies given to producers in industrialized countries make the playing field uneven, often rendering products from SSA economies less competitive in the world markets. According to the World Bank, agricultural subsidies in developed countries have contributed to years of under-investment in the agribusiness sector in developing countries (World Bank, 2007). Far-reaching changes in consumption patterns in industrialized countries and other developing countries, particularly pertaining to increased demand for processed foods, are creating opportunities for farmers and agribusiness entrepreneurs in SSA through higher-value exports and agro-industries development. Furthermore, investor country factors such as the need to secure its long-term food security play a major role in driving investments in agriculture and related activities, while increased globalization has led to increased competition, resulting in some investors seeking alternative markets in SSA countries.



### **3.3 BUSINESS ENVIRONMENT ASSESSMENTS**

In addition to considering individual factors discussed in the preceding section, investors are increasingly relying on business climate assessments to inform their investment choice. These assessments are composite measures generated by some international institutions and entail combining a number of factors to yield a ranking of a country's competitiveness relative to other countries. Examples of such assessments include: the Ease of Doing Business Index by the World Bank, the Index of Economic Freedom by Heritage Foundation, the Global Competitiveness Index (GCI) by the World Economic Forum (WEF), and UNCTAD's Investment Compass. The most widely monitored and applied assessments are the Ease of Doing Business Index and the GCI. Business climate indicators tend to be non-sector-specific, but to the extent that the business climate of a country is improved, most sectors will benefit.

In general, a business environment constitutes a set of government policies, factors, laws and regulations (institutions), and how they are implemented.<sup>19</sup> It is widely accepted that the extent to which a given country provides an enabling business environment strongly shapes costs and risks of doing business and thus influences the decisions of domestic and foreign private investors. A good business climate provides opportunities and incentives for firms to develop and thrive.

#### **The Global Competitiveness Index**

The GCI calculated by WEF provides an overview of critical drivers of productivity and competitiveness, categorized into 12 pillars: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size, business sophistication, and innovation. In total, the GCI is made up of over 113 variables combining data from the Executive Opinion Survey with hard data from various international organizations. All the variables are scored on a scale of one to seven, with seven representing the best possible outcome; thus, the higher the score, the more competitive the country. The overall score is a weighted average based on the stage of development of a country. Since 1998, WEF has published the Africa Competitiveness Report (ACR), which it currently produces in collaboration with the World Bank and the African Development Bank. ACR mainly uses information from the Global Competitiveness Report (GCR), but offers deeper analysis of issues pertinent to Africa. Twenty-six SSA countries are analysed in the 2009 ACR/GCR reports. South Africa tops the rankings among SSA countries, with a score of 4.4, whereas Chad scores lowest at 2.8 and ranks last in the Index, indicating the wide dispersion in country performance. Out of the total 134 countries covered in the 2008 GCI, only South Africa, Botswana and Mauritius in SSA (ranked 45, 56 and 57, respectively) figure in the top half of the overall ranking. However, in addition to the top three SSA countries (South Africa, Botswana and Mauritius), Namibia, Gambia, Kenya, Nigeria, Senegal, Ghana and Benin did better than the regional average.

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<sup>19</sup> WEF uses a similar definition for competitiveness (WEF, 2009, p. 4).

Given that SSA countries are largely factor-driven economies and hence compete based on their factor endowments, the main obstacle to competitiveness in SSA identified by the GCI is under-developed infrastructure.

### **The Ease of Doing Business Index**

Initiated in 2003 by the World Bank, the Ease of Doing Business Index is tailored to assessing the regulatory environment across countries as applied to the life cycle of a domestic small- to medium-size firm (typical of agribusinesses in the region). This index provides a quantitative measure of regulations in ten stages of a business: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. A country's ranking on the index is based on the simple average of its percentile rankings on the ten sub-indices. The latest edition of the index ranks 181 countries relative to each other, with first place being the best. Favourable rankings indicate better, usually simpler regulations for businesses and stronger protection of property rights (World Bank, 2009b). The various subcomponents of the index provide concrete suggestions for improvement. Forty-six SSA countries are included in the most recent rankings. Similar to the GCI, Mauritius, South Africa and Botswana lead the SSA rankings and are positioned in the top half of the global ranking, while seven SSA countries are at the bottom of the list, with the worst-ranked country being the Democratic Republic of the Congo.

The poor performance of SSA countries in both assessments, suggests lack of or inadequate government policies, laws and regulations (institutions) to foster investments.

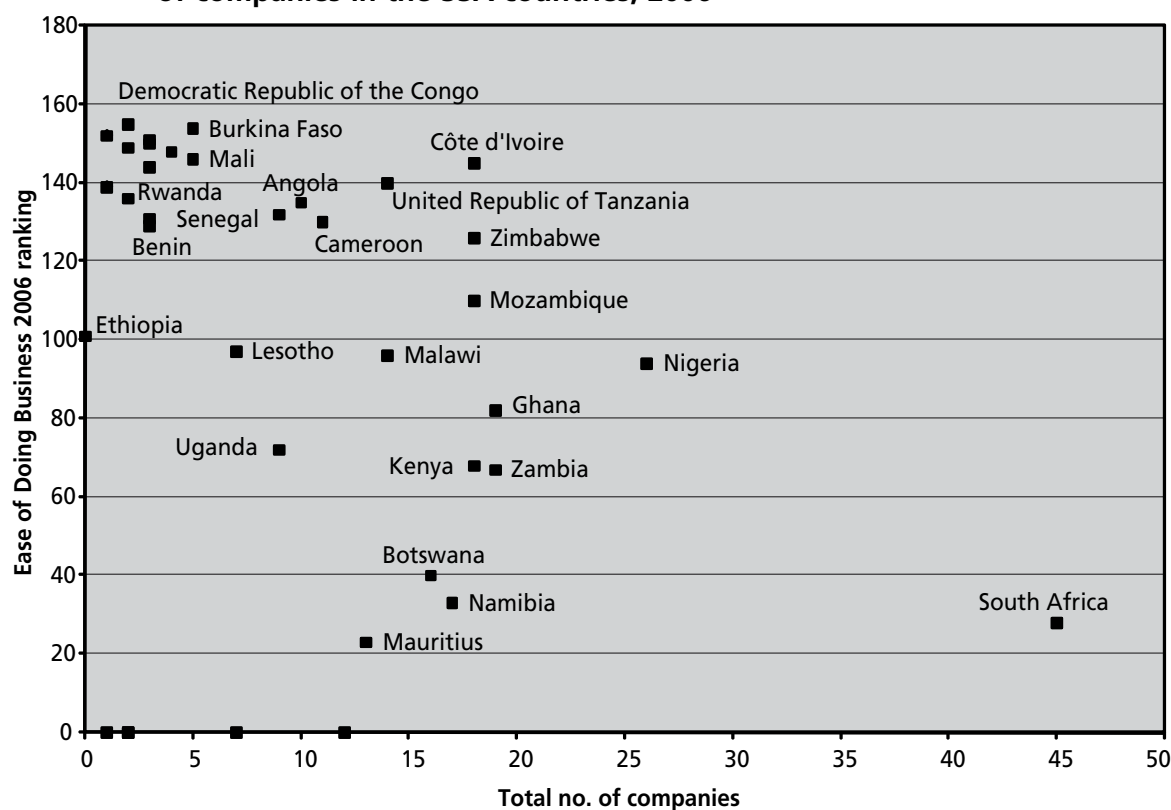


## 4. Agribusiness investments with respect to business climate indicators

This section uses the Ease of Doing Business Index to appraise the performance of SSA countries with respect to the observed levels of private sector investment in the agribusiness sector.

Figure 6 plots the total number of agribusiness enterprises from the OECD data against the Ease of Doing Business ranking for 2006. As discussed in the preceding section, the country ranking is a final score of the position of the country relative to other countries in the ranking, with first place assigned to the country with the best business climate. A negative trend in the graph therefore implies a positive relationship between business climate and number of agribusiness enterprises; i.e. on average, countries with a better investment climate attract more enterprises. In 2006, Mauritius had the best ranking followed by South Africa, Namibia and Botswana. South Africa stands out in the lot and has the greatest number of establishments, while the limited number of firms for Mauritius, Namibia and Botswana could be explained by the small size of their economies.

**Figure 6. Correlation between the Ease of Doing Business ranking and the number of companies in the SSA countries, 2006**



Note: On the diagram, countries with a ranking of zero were basically not ranked in 2006.

Source: Author's compilation.

Table 10 shows the correlation between the number of enterprises and six components of the Ease of Doing Business Index. Two measures of getting credit (the Legal Rights Index and private bureau coverage) and the Investor Protection Index are highly correlated with the presence of agribusiness enterprises. The Legal Rights Index measures the degree to which collateral and bankruptcy laws facilitate lending. The index ranges from 0–10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit. A private credit bureau is a firm that maintains a database on the credit-worthiness of borrowers, implying that governance matters.

**Table 10. Correlation co-efficients between the number of companies in African countries and various aspects of Ease of Doing Business Measures**

East of Doing Business indicator	Measures	African companies	No. of multinational corporations	Total no. of companies
<b>Starting a business</b>	Procedures (no.)	-0.218	-0.0951	-0.1805
	Time (days)	0.1509	0.0234	0.108
	Cost (% of income per capita)	-0.4901	-0.2669	-0.4268
	Min. capital (% of income per capita)	-0.4317	-0.3435	-0.4191
<b>Registering property</b>	Procedures (no.)	0.1698	0.1587	0.1743
	Time (days)	-0.0833	-0.1206	-0.1025
	Cost (% of property value)	-0.0941	-0.0666	-0.0881
<b>Getting credit</b>	Legal Rights Index	0.6761	0.5488	0.6607
	Credit Information Index	0.345	0.4688	0.4123
	Public registry coverage (% adults)	-0.2155	-0.2022	-0.2214
	Private bureau coverage (% adults)	0.5676	0.6874	0.6449
<b>Protecting investors</b>	Investor Protection Index	0.6093	0.6271	0.6482
<b>Paying taxes</b>	Payments (no.)	-0.2921	-0.2622	-0.2955
	Time (hours)	0.131	0.1445	0.1432
	Total tax rate (% profit)	-0.3671	-0.2312	-0.3322
<b>Trading across borders</b>	Documents for export (no.)	-0.1008	0.0552	-0.044
	Time for export (days)	-0.4082	-0.1934	-0.344
	Cost to export (USD per container)	-0.3239	-0.2143	-0.2971
	Documents for import (no.)	-0.1051	0.0232	-0.0596
	Time for import (days)	-0.3262	-0.1653	-0.2792
	Cost to import (USD per container)	-0.3059	-0.2485	-0.299
<b>Enforcing contracts</b>	Procedures (no.)	-0.4364	-0.2677	-0.392
	Time (days)	0.0197	-0.082	-0.0197
	Cost (% of debt)	-0.247	-0.2065	-0.2438

Source: Author's compilation.

## 5. Public sector policies, programmes and institutions for attracting private sector agribusiness investment

Public sector policies and programmes play an extremely important role in shaping market conditions and prospects for successful private investment. Efforts to stimulate private sector investment have been undertaken by SSA countries at both regional and country levels.

### 5.1 REGIONAL LEVEL EFFORTS

In 2003, during the Maputo Declaration on Agriculture and Food Security, African Union Member States committed themselves to allocating at least 10 percent of national budgetary resources to agriculture and rural development policy implementation within five years. At the same summit, African Heads of State and Government also adopted the Comprehensive Africa Agriculture Development Programme (CAADP) to spur development of the agricultural sector. CAADP aims to achieve a 6 percent sustained annual growth of agricultural GDP by 2015. For Africa, CAADP is one institution that embodies governmental commitment to the development of the agro-based private sector. It operates under four strategic pillars for improving Africa's agriculture:

- Extending the area under sustainable land management.
- Improving rural infrastructure and trade related capacities for market accesses.
- Increasing food supply and reducing hunger.
- Improving agriculture research, technology dissemination and adoption.

New Partnership for Africa's Development (NEPAD), the Regional Economic Communities (RECs) and the African Union (AU), together with a number of donors and African governments, collaborated to further harmonize support, which culminated in the formation of the CAADP Multi-Donor Trust Fund (MDTF), hosted at the World Bank. MDTF provides a mechanism for channelling financial support for CAADP processes at the regional and country levels. One of CAADP commitments is to create a common African food market that will tackle the market size disadvantage faced by many SSA countries, but it is yet to be implemented.

Working in close partnership with the NEPAD is the Alliance for a Green Revolution in Africa (AGRA), a public-private sector partnership that strongly endorses CAADP and is working to promote sustainable agricultural growth based on smallholder farmers. AGRA recognizes that lack of access to credit for Africa's smallholder farmers, input suppliers, farmer cooperatives and/or agro-processors is a major impediment to increasing productivity in SSA. To address

this, AGRA is working with financial institutions to make low-interest loans available to key agro-dealers, fertilizer wholesalers and seed companies — and to make financing available for warehouse receipt systems, farmer groups and agro-processing facilities. For instance, AGRA, in partnership with Equity Bank, IFAD and the Kenyan Ministry of Agriculture, created a loan facility of USD 50 million, which was backed with a USD 5 million cash guarantee fund. As a result, affordable credit was made available to 2.5 million farmers and 15 000 agricultural value chain operators, such as rural input shops, fertilizer and seed wholesalers and importers, grain traders and food processors. A similar loan facility was established with the National Microfinance Bank in the United Republic of Tanzania. AGRA currently supports nearly 100 programmes and partnerships in 13 African countries: Burkina Faso, Ethiopia, Ghana, Kenya, Malawi, Mali, Mozambique, Niger, Nigeria, Rwanda, United Republic of Tanzania, Uganda and Zambia.

To increase the participation of the private sector and help meet the continent's infrastructure challenges, the African Business Roundtable (ABR) and NEPAD, with support and funding from the World Bank, have developed the NEPAD Infrastructure Investment Facility (NIIF). NIIF is a private sector-led facility providing capacity building and other services to African businesses and public authorities to develop successful infrastructure projects.

Regional entities have also introduced investment promoting measures geared particularly towards FDI. The Common Market for Eastern and Southern Africa (COMESA)<sup>20</sup> established the COMESA Common Investment Area, which aims to establish a free investment area by 2010 to help its members attract national and regional integration projects. The ultimate objective is to harmonize investment rules, regulations and procedures, which will entail granting investors national treatment and most-favoured nation treatment. COMESA has also created a number of institutions to support investors. For instance, in 2000, the Africa Trade Insurance Agency (ATI) was established to provide multilateral political and credit risk cover. Among the products on offer is insurance to the foreign direct investor against loss of equity due to expropriation or any other political force majeure. Additionally, COMESA launched the Regional Investment Agency (RIA) in 2006 with the objective of promoting the entire region as a favourable investment destination. The Economic Community of West African States (ECOWAS)<sup>21</sup> created a department to promote cross-border investment and joint ventures in order to promote investment and public-private partnerships. It is working towards deeper financial integration of the subregion through its Finance and Investment Protocol. The Southern African Development Community (SADC)<sup>22</sup> is implementing the Finance and Investment Protocol, a key instrument for deeper regional integration, which has already been signed by ten of its 14 members. SADC is also undertaking a joint investment promotion programme with the European Union to facilitate various workshops, meetings and seminars.

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20 COMESA countries are Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

21 ECOWAS countries are Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

22 SADC countries are Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

## 5.2 COUNTRY-LEVEL EFFORTS

Some countries in Africa actively encourage foreign private sector participation in agriculture, even in the production of their staple crops. This section highlights policies by select countries that influence directly agribusiness investment as well as innovative public sector policies, programmes and institutions with potential to increase incentives for private sector investment.

### Ethiopia

Since agriculture is considered an important motor for the development of the country, Ethiopia has chosen to pursue Agricultural Development Led Industrialization (ADLI) as its long-term policy strategy. The importance of the sector is also reflected in the country's medium-term strategy, The Agricultural and Industrial Development Strategy (IDS) and its current development plan, Plan for Accelerated and Accelerated and Sustainable Development to End Poverty (PASDEP). Under Ethiopia's Industrial Development strategy, launched in 2003, efforts have concentrated on creating an enabling environment for the private sector to be a driving force for economic development. PASDEP aims to promote the commercialization of agriculture (both small- and large-scale) by making agricultural production market-oriented. Furthermore, PASDEP has identified private sector development, especially in the export and agro-processing sectors as top priority for the country. In collaboration with Ministry of Trade and Industry, the Ministry of Agriculture and Rural Development, UNIDO, FAO and the United Nations Development Programme (UNDP), the Government of Ethiopia is developing an Agro-Industry Development Master Plan to aid development of the agribusiness sector.

### Ghana

Overall, Ghana has a liberal investment climate and offers key advantages for investors with its abundant uncultivated arable land and human resources. Moreover, the country allows 100 percent ownership in local companies and joint start-ups, corporate tax rebates of 40–75 percent, investment allowance of 7.5 percent and full repatriation of earnings in the currency of investment. As regards agriculture, foreign investors are: (i) permitted to lease land for a period of up to 50 years with an option for renewal; (ii) exempt from customs import duties on plant and machinery, equipment and accessories imported exclusively and especially for establishing enterprises; and (iii) depreciation or capital allowance of 50 percent in the year of investment and 25 percent in subsequent years for plant and machinery and 20 percent in the first year and 10 percent in subsequent years for buildings. In 2000, the Ministry of Food and Agriculture formulated the Accelerated Agricultural Growth and Development Strategy (AAGDS). The strategy includes promoting the production and marketing of selected agricultural and increasing access to rural finance. Based on the AAGDS, the Food and Agriculture Sector Development Policy (FASDEP) was developed in 2002. Currently, the agricultural sector development is guided by the Agriculture Sector Plan (2009–15).

### Malawi

The Government of Malawi formulated the Agricultural Development Programme (ADP 2008–12) aimed at increasing agricultural productivity, contributing to 6 percent growth



annually in the agricultural sector, improving food security, diversifying food production to improve nutrition at household level and increasing agricultural incomes of the rural people. The ADP has since been revised and renamed the Agriculture Sector Wide Approach (ASWAp). ASWAp is a unified agricultural sector investment programme based on the priority agricultural elements of the Malawi Growth and Development Strategy (MGDS), and is also consistent with CAADP. The ADP is led by the Ministry of Agriculture and Food Security (MoAFS) and envisages a single comprehensive programme and budget framework with the aim of improved donor coordination, harmonization of investment, and alignment of government and donor programmes and activities. It emphasizes close partnership with the private sector.

## **Mozambique**

Agriculture, fisheries and industry head the list of economic development priorities in the Government of Mozambique's Action Plan for the Reduction of Absolute Poverty (PARPA). PARPA, now in its second phase, places great emphasis on entrepreneurial initiatives and private sector growth as the drivers for economic and social development. Areas of intervention prioritized in agriculture are: extension, rural infrastructure development (irrigation, storage and roads), dissemination of market information, regulation and certification, rural financing mechanisms, the promotion and capacity building of farmer organizations and value chain development. Operationally, these interventions are facilitated by the ongoing transfer of competencies and financial resources to provincial and district authorities through decentralization. Additionally, income tax in Mozambique is extremely favourable to agriculture. Compared to the standard company tax rate of 32 percent, agricultural enterprises face an income tax of 10 percent through 2010. Furthermore, the Code of Fiscal Benefits provides an 80 percent reduction in this rate through 2015 for approved investments in agriculture, leaving a tax rate of just 2 percent. In 2007, the Government of Mozambique launched a Green Revolution Strategy (Box 3) to improve and diversify agriculture.

### **Box 3: Mozambique's Green Revolution Strategy bears fruit**

The vision and effectiveness of Mozambique's Green Revolution Strategy (GRS) was recognized by the Food Security Policy Leadership Award in September 2009 by the Food, Agriculture and Natural Resources and Policy Network (FANRPAN). The country launched GRS in 2007, in response to high food and fuel prices. The strategy targets smallholder farmers directly, as well as medium- and large-scale farmers. The action plan aims to: (i) increase agriculture production and productivity; (ii) improve access of farmers to new technologies, market, information, training and financial services; and (iii) develop local agriculture and forestry-based processing industries. The strategy also seeks to rehabilitate infrastructure such as roads. The country's Action Plan saw cereal production rise by 15 percent in 2008–09. Additionally, new roads and bridges have been built, which contribute to strengthening links between farmers and consumers.

Source: FANRPAN 2009, [www.fanrpan.org/documents/d00752](http://www.fanrpan.org/documents/d00752)

## Nigeria

The Government of Nigeria has introduced several incentives geared towards encouraging investment in the agricultural sector, including: (i) zero duty on agricultural machinery; (ii) unrestricted capital allowance for agribusinesses, and up to 50 percent for agro-related plants and equipment; (iii) guarantees of up to 75 percent of all loans granted by commercial banks for agricultural production under the Agricultural Credit Guarantee Scheme Fund (ACGSF); (iv) 60 percent repayment of interest provided by the Interest Drawback Program Fund paid by those who borrow from banks under the ACGS for the purpose of cassava production and processing, provided such borrowers repay their loan on time; and (v) pioneer status incentive (100 percent tax exemption – tax holiday – for a period of five years) for the agro-processing industry. In addition, several export incentives are also available for manufacturers in the agricultural sector and certain food items—including frozen foods such as juice<sup>23</sup>—are prohibited from importation in order to encourage local production.

## United Republic of Tanzania

The Government of the United Republic of Tanzania readily acknowledges the importance of agriculture for the overall development of its economy. Consequently, several reforms targeted at revamping the agricultural sector have been undertaken and are broadly designed to liberalize the sector and foster private sector participation. For instance, the private sector has been granted permission to compete in the processing and marketing of cash crops, and land laws have been revised to allow for long-term leases of up to 99 years for foreign companies. Specific programmes to promote the agriculture sector include the Agricultural Sector Development Programme (ASDP), which focuses on export promotion of cash crops, and the Integrated Road Projects (IRP), whose goal is to open up transport networks including rural roads in key agricultural areas. Additionally, the Business Environment Strengthening for Tanzania (BEST) incorporates a land registration component under which the Government proposes to provide land titles. The Government has also established the Export Credit Guarantee Scheme.

## Uganda

The Government of Uganda has put in place the Plan for Modernization of Agriculture (PMA), a strategic framework for agricultural transformation.<sup>24</sup> PMA is a holistic plan aimed at addressing various aspects of agriculture: research, extension, finance, infrastructure, marketing, trade, and environmental sustainability. It requires collaboration and coordination across a number of ministries.

The deliberate efforts to promote agriculture in some countries have started to yield positive results. For instance, the Tanzania Investment Centre indicates that an average of approximately 169.3 TZS (or USD 125.0 million as of February 2010) of new direct investments was annually ploughed into primary farming and livestock production between 2001 and 2005 by the private sector (FAO, 2008).

23 Nigerian Investment Promotion Commission (NIPC), Investment incentives, [www.nipc.gov.ng/investment.html](http://www.nipc.gov.ng/investment.html)

24 <http://www.pma.go.ug/about.php>

Investments in agriculture have also benefited from broad policy reforms adopted by countries in SSA to boost their inward FDI flows. A large number of African countries have sought to standardize entry and operating conditions for FDI with those of other countries and to reduce the risk of investing in their countries (UNCTAD, 2008). In this context, many of them are now parties to international investment agreements and conventions. Many countries have set up investment promotion agencies (IPAs) to offer domestic and foreign investors a one-stop shop for their investment. However, an evaluation of IPAs by MIGA revealed that the main areas of weakness among developing country IPAs were customer care and quality of response to investors' questions. They noted that, in general, there was a lack of follow-up after providing information and of sector-specific knowledge. Furthermore, although many countries have implemented major policy reforms over the past decade, the business environment is still far from being conducive for agribusiness, particularly with regard to factors peculiar to the sector, such as feeder roads linking areas of production with markets.

## **6. Conclusions and policy recommendations**

This study used a combination of quantitative and qualitative analyses to appraise agribusiness investments in SSA. The available data show low private sector agribusiness investment in the region, but reveal that such investments have been increasing over time, particularly in value-adding processes. FDI data show diversity of investments within the agribusiness industry. Some of the investments are resource-seeking, particularly the land purchases, while other investments are either market-seeking or efficiency-seeking. Commercial bank lending to the pure agricultural sector is small, accounting for less than ten percent of total commercial bank credit in a number of SSA countries. However, such lending has also shown a general upward trend in absolute terms. The players in the sector include a number of large foreign and African enterprises. Private investments in the agriculture sector are mainly directed towards high-value crops and non-traditional products such as cut flowers destined for markets in industrialized countries. Fruit and vegetable exports, especially from East Africa, are experiencing relatively high growth. Activities linked to agricultural production are also attracting FDI, including food processing, transport and marketing. The study notes the recent wave of interest in purchasing farmland in some SSA countries, primarily driven by the need by home countries to ensure their long-term food and biofuels supply and agro-climatic conditions in host countries. These deals are a potential source of increased investments in the sector, but to date, most have not resulted in actual investment. Another recent development is the proliferation of private agribusiness investment funds targeting African agriculture that have raked in USD millions worth of investments in the sector. Similar to the case of land purchases, some of the funds have recently been set up and are still in the fundraising stage of their development; more investments can therefore be expected in the sector.

In general, private sector investments seem to be motivated by expected returns relative to perceived risk and uncertainty, which are in turn shaped by both external and internal factors. Many of the critical components of a supportive agribusiness environment are identical to those that apply to other sectors of the economy. These encompass access to markets and natural resources, good infrastructure, and a stable macroeconomic and political environment. However, beyond these elements, there are factors that are distinct for the agribusiness sector, such as risk management and supply chain coordination, specialized infrastructure and support services related to compliance to international food safety and standards, as articulated in section 3. Business climate assessments show most SSA countries to be at the tail end of the rankings, suggesting the need for more public sector reforms to foster competitiveness of their economies.

## **6.1 STRATEGIES FOR STIMULATING PRIVATE SECTOR INVESTMENT IN AGRICULTURE**

To maintain the upward momentum and to further unleash the enormous potential for attracting private investment in agribusiness and agro-industries, policies and regulations affecting agricultural production, the legal environment of the investment as well as the overall investment climate in the respective country need to be addressed.

Infrastructure underdevelopment is one of the substantive constraints to private sector investment in the region. There is need to improve and expand key infrastructure for transportation, telecommunications, energy and water. For small-scale farmers, most of whom reside in rural areas, the limited availability and poor quality of rural roads and bridges, marketing and storage facilities, and irrigation systems greatly increase their cost of establishing and operating commercial agriculture enterprises. While SSA governments have a significant role to play in increasing investments in the agricultural sector, the investment needs of most SSA countries far exceed the available public resources. Accordingly, significant scaling up will only occur with increased participation by the private sector (both local and foreign). Sustained investments in infrastructure development can be boosted by strategic partnerships between the public and the private sector. There are examples of successful partnerships in infrastructure development, such as the construction of the Maputo-Witbank Highway in Mozambique (USAID, 2008). As part of the strategy to develop food-processing infrastructure, the public sector can set up food parks to provide common facilities such as cold storage, food testing and analysis laboratories and other common processing facilities/packaging centres. Food parks would mostly benefit small- and medium-scale entrepreneurs who often find it difficult to invest in capital-intensive activities. The international community can also play a role in creating an enabling environment for agribusiness development by channelling financial resources towards agribusiness-supporting infrastructure.

The challenge of agricultural lending is that, despite the disproportionate concentration of smallholder farmers in rural areas, financial institutions including microfinance institutions have tended to be urban-based. One of the challenges in addition to the small financial transactions is low population density. Many farmers need credit to purchase seeds and other inputs, as well as to harvest, process, market and transport their crops; this makes value chain financing more ideal. The overwhelming failure of state development banks that provided billions of dollars in subsidized agricultural finance to farmers in the 1970s and 1980s, combined with scant rural penetration by risk-averse commercial financial institutions have led to a widespread dearth of agricultural credit. Yet, new approaches are increasingly being developed to fill the agricultural credit gap in a sustainable and efficient manner. Equity Bank Ltd. (Kenya) and the Co-operative League of the United States (CLUSA) (Mozambique) were selected among microfinance providers in SSA by the Consultative Group to Assist the Poor (CGAP) for their ability to serve as illustrations of a particular institutional or methodological approach to agricultural microfinance: CLUSA establishes linkages among farmer associations, agribusiness companies and financial institutions to meet farmers' needs; and Equity Bank Ltd. uses high-tech mobile banking to reach its rural clientele.

Due to the high risk associated with agricultural production, innovative risk mitigation mechanisms are needed. Index-based insurance for drought risk has the potential to reduce risks to borrowers and lenders, thereby unlocking agricultural finance (World Bank, 2007).

The United States Agency for International Development (USAID) uses the Development Credit Authority (DCA) to mitigate the perceived risk of lending to underserved clients in a wide range of sectors including agriculture. It covers up to 50 percent of a private lender's risk in providing finance. USAID combines the guarantee with training and technical assistance to both borrowers and lenders to maximize developmental impact. Furthermore, investment modalities such as agricultural investment funds offer a way of investing with reduced risk.

Public-private partnerships can also be employed in addressing the export challenges of compliance to sanitary and phytosanitary (SPS) standards by smallholder farmers as well as ensuring their access to markets. Public and private sector roles for strengthening farmer links to market and for compliance to these standards are outlined in Tables A7 and A8 of the Appendix. Another important issue to be addressed is the facilitation of the formation of farmer organizations. Producer organizations can reduce transaction costs in markets through collective action, thus enhance competitiveness of smallholder farmers.

Many countries in SSA, which offer very promising investment opportunities, have long suffered from the poor image of the continent as a whole. Political instability and violent conflict in a number of countries are among the factors that have led to a sorry perception of the region; boosting investments in the region should therefore be a concerted effort of all countries. Additionally, since the agribusiness sector cuts across many ministries, there is need to strengthen inter-ministerial collaborations to ensure unified support of agribusiness development.

Ultimately, devising approaches to stimulate greater agribusiness investment must take into account the specific circumstances in each country. It is not enough to have policies on paper; governments must be committed to creating and implementing more agricultural policies that will boost competitiveness of the sector and enhance its attractiveness to private investors.

## **6.2 RECOMMENDATIONS FOR IMPROVING AGRIBUSINESS INVESTMENT DATA**

There is need for a concerted effort by countries in SSA to build databases of investments at the sectoral level. Such information is not only needed as a matter of principle, but can be utilized for sector-specific investment promotion. Several entities can serve as a starting point for gathering the historical data. Listed below are some of the institutions that could be consulted in compiling the data:

- Investment Promotion Centres have registries of foreign investors and legally registered local investors, but may lack a significant portion of domestic investment.
- Central Banks provide Balance of Payments (BOP) statistics on FDI and commercial bank lending to the agribusiness sector.
- Ministries of Agriculture provide data on public expenditures on basic support services such as roads, which can stimulate private sector investment in the agribusiness sector; in cases with specialized directorates, information could be provided on private sector engagement in the sector.
- Ministries of Industry and Commerce could provide investment data in agro-industries;

- Enterprise surveys could provide additional data by varied organizations such as UNIDO and the World Bank.

The governments of respective economies will need to ensure and enforce good record-keeping by its different ministries and to co-ordinate such efforts. In addition to a lack of comprehensive data, another constraint is the inconsistency in the sectoral classification by various institutions. Use of ISIC codes could provide a common definition and improve data quality. Institutions such as FAO can use commodity and country case studies to provide a more in-depth sector-specific analysis. Data sources must aim to provide the data in their most disaggregated form.

### **6.3 RECOMMENDATIONS FOR FURTHER RESEARCH**

During the data collection exercise, it became evident that there is a predominance of policies and strategy documents emphasizing the importance of agricultural development. Further research is needed to identify best practices in national strategies concerning their ability to mobilize private sector investment in the agribusiness and agro-industries sectors. Case studies could then be used to detail the best practices for replication in other countries where possible.

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## Appendices

**Table A1. Gross domestic product by sector**

Country	Share of GDP (%)							
	Agriculture		Industry		of which Manufacturing		Services*	
	2000–06	2007	2000–06	2007	2000–06	2007	2000–06	2007
Angola <sup>1</sup>	7.4	6.6	61.5	54.2	3.6	3.4	31.0	39.2
Benin	37.0	37.0	14.8	15.1	9.0	8.9	48.2	47.8
Botswana <sup>2</sup>	2.3	1.9	55.0	53.5	4.2	3.4	42.7	44.5
Burkina Faso	35.2	34.5	21.6	24.1	13.9	14.9	43.3	41.3
Burundi	38.7	35.4	19.3	21.1	13.2	13.5	42.1	43.5
Cameroon	21.4	20.6	32.4	31.8	19.8	17.9	46.2	47.6
Cape Verde	10.4	8.5	15.3	16.0	4.9	4.8	74.3	75.5
Central African Republic	55.8	57.8	16.7	16.1	4.4	2.6	27.5	26.1
Chad	32.0	21.4	26.1	44.7	2.2	1.7	42.0	33.9
Comoros <sup>1</sup>	50.3	52.2	11.7	11.1	4.4	4.5	38.0	36.7
Congo	5.5	4.3	69.8	64.4	4.6	3.6	24.6	31.3
Côte d'Ivoire <sup>1</sup>	24.1	23.1	24.1	25.8	17.2	16.2	51.8	51.1
Democratic Republic of the Congo	50.2	43.2	22.3	26.2	5.3	5.9	27.5	30.6
Djibouti	3.6	3.7	16.5	17.9	2.6	2.7	79.9	78.4
Equatorial Guinea	4.1	1.8	91.2	95.6	0.1	0.1	4.7	2.7
Eritrea	14.8	18.6	25.0	31.6	11.5	15.4	60.2	49.8
Ethiopia	45.0	51.9	13.6	13.1	5.6	4.9	41.4	35.0
Gabon	6.2	5.5	59.5	62.9	5.2	5.4	34.3	31.5
Gambia	32.2	31.4	13.2	12.7	5.3	4.9	54.6	55.9
Ghana <sup>1</sup>	36.5	36.6	24.9	23.8	8.8	8.2	38.6	39.6
Guinea <sup>1</sup>	20.1	15.6	29.9	24.0	3.4	2.6	50.0	60.5
Guinea Bissau	42.9	44.2	16.2	16.6	12.1	12.4	40.9	39.2
Kenya	29.2	26.2	18.0	17.6	11.3	10.5	52.9	56.2
Lesotho	16.8	14.6	41.4	38.2	17.8	13.4	41.8	47.2
Liberia	71.9	63.5	12.3	15.7	9.4	12.4	15.7	20.7
Madagascar	28.9	27.0	15.2	16.0	12.1	12.7	55.8	57.0
Malawi	38.0	35.2	17.4	18.6	11.7	11.6	44.5	46.2
Mali	37.0	36.9	23.9	23.7	8.3	8.4	39.1	39.4
Mauritania	25.0	19.9	30.3	47.0	6.1	4.4	44.7	33.1
Mauritius <sup>2</sup>	6.4	4.7	29.6	28.1	21.7	19.9	64.0	67.1
Mozambique	26.4	28.8	25.5	25.8	15.0	15.6	48.1	45.4
Namibia <sup>2</sup>	11.1	11.5	30.0	33.2	11.7	12.1	58.9	55.3

Country	Share of GDP (%)							
	Agriculture		Industry		of which Manufacturing		Services*	
	2000–06	2007	2000–06	2007	2000–06	2007	2000–06	2007
Niger	44.5	45.4	12.5	11.2	6.4	5.6	43.0	43.4
Nigeria	26.2	23.2	50.6	55.5	3.9	3.8	23.2	21.2
Rwanda	40.8	43.8	14.5	14.2	7.0	6.3	44.7	42.0
Sao Tome & Principe <sup>1</sup>	16.9	11.6	15.1	14.5	3.8	3.1	68.0	73.8
Senegal	16.9	15.6	23.8	21.7	15.5	13.6	59.3	62.7
Seychelles <sup>1</sup>	2.8	2.5	29.0	28.1	16.9	14.4	68.2	69.4
Sierra Leone	48.0	52.5	12.3	13.8	2.7	2.3	39.7	33.7
Somalia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa <sup>2</sup>	3.3	2.8	31.7	31.6	19.0	18.5	65.0	65.6
Sudan	31.8	25.9	25.5	34.2	8.3	6.4	42.7	39.9
Swaziland	12.5	9.2	47.1	50.3	37.0	35.3	40.4	40.5
Togo <sup>1</sup>	39.5	43.0	20.6	23.1	9.3	10.8	39.9	33.8
Uganda	33.1	29.2	20.8	21.7	9.4	8.9	46.0	49.2
United Republic of Tanzania	32.4	33.2	21.4	23.9	8.9	9.7	46.2	42.8
Zambia <sup>2</sup>	22.4	21.3	28.1	35.3	11.5	11.0	49.5	43.4
Zimbabwe	18.1	40.0	14.7	40.4	11.4	33.7	67.2	19.5
Sub-Saharan Africa	17.7	15.1	30.1	31.5	13.8	14.6	52.2	53.5
Africa	15.4	14.0	37.5	41.7	12.6	10.9	47.1	44.3

1/ GDP at market prices.

2/ GDP at basic prices.

\*Including statistical discrepancy

Notes: Share is based on value-added calculations. Value added is the net output of an industry after adding up all output and subtracting intermediate inputs. The industrial origin of value added is determined by the International Standard Industrial Classification (ISIC) revision 3. Agriculture corresponds to ISIC divisions 1–5 including forestry and fishing.

Source: African Development Bank Statistics Department and World Development Indicators.

**Table A2. Exports and imports of food in sub-Saharan Africa**

Country	Cereal			Agricultural trade		
	Exports	Imports	Net exports	Exports	Imports	Net exports
	('000's of metric tonnes) 2005	('000's of metric tonnes) 2005	('000's of metric tonnes) 2005	(USD million) 2005	(USD million) 2005	(USD million) 2005
Angola	1	639	-638	2	1 018	-1 016
Benin	15	398	-383	262	262	0
Botswana	2	33	-31	48	96	-48
Burkina Faso	14	288	-274	274	258	16
Burundi	n.a.	64	n.a.	54	34	20
Cameroon	0	767	-767	604	453	151
Cape Verde	0	76	-76	1	133	-132
Central African Republic	n.a.	38	n.a.	16	33	-17
Chad	n.a.	131	n.a.	105	90	15

Country	Cereal			Agricultural trade		
	Exports	Imports	Net exports	Exports	Imports	Net exports
	('000's of metric tonnes) 2005	('000's of metric tonnes) 2005	('000's of metric tonnes) 2005	(USD million) 2005	(USD million) 2005	(USD million) 2005
Comoros	3	49	-46	14	41	-27
Congo	2	242	-240	54	285	-231
Côte d'Ivoire	21	1 177	-1 156	3 021	672	2 349
Democratic Republic of the Congo	0	493	-493	34	406	-372
Djibouti	1	238	-237	11	151	-140
Equatorial Guinea	n.a.	19	n.a.	3	57	-54
Eritrea	1	510	-509	2	139	-137
Ethiopia	n.a.	n.a.	n.a.	1 643	951	692
Gabon	0	134	-134	43	269	-226
Gambia	0	171	-171	17	168	-151
Ghana	0	927	-927	1 165	1052	113
Guinea <sup>1</sup>	2	319	-317	74	276	-202
Guinea Bissau	n.a.	71	n.a.	87	47	40
Kenya	20	1 617	-1597	1 545	689	856
Lesotho	0	27	-27	4	64	-60
Liberia	3	229	-226	105	171	-66
Madagascar	0	417	-417	134	255	-121
Malawi	3	170	-167	445	142	303
Mali	10	165	-155	240	225	15
Mauritania	n.a.	403	n.a.	17	148	-131
Mauritius <sup>2</sup>	42	309	-267	397	417	-20
Mozambique	3	919	-916	158	404	-246
Namibia <sup>2</sup>	7	42	-35	156	240	-84
Niger	1	404	-403	69	258	-189
Nigeria	20	4 966	-4 946	655	2 436	-1 781
Rwanda	0	38	-38	51	60	-9
Sao Tome & Principe	n.a.	11	n.a.	4	5	-1
Senegal	16	1 313	-1 297	149	19	130
Seychelles	n.a.	18	n.a.	2	881	-879
Sierra Leone	n.a.	123	n.a.	17	77	-60
Somalia	0	360	-360	72	104	-32
South Africa	2 209	2 279	-70	3 925	254	3 671
Sudan	3	2 184	-2 181	504	2 679	-2 175
Swaziland	14	182	-168	254	798	-544
Togo	36	184	-148	95	347	-252
Uganda	76	555	-479	416	1 171	-755
United Republic of Tanzania	128	596	-468	531	285	246
Zambia	69	177	-108	321	365	-44
Zimbabwe	1	235	-234	449	183	266

Source: African Development Bank Statistics Department and World Development Indicators.

**Table A3a. Commercial bank lending, by sector and country, 2008 (percentage share of total)**

2008 figures	Botswana	Ghana	Kenya	Malawi	Mozambique	Nigeria	Sierra Leone	Uganda	United Republic of Tanzania	Average
Agriculture	0.68	4.28	3.60	14.60	8.05	1.37	2.95	5.88	12.35	5.97
Manufacturing	2.33	11.89	10.95	11.66	13.19	11.96	7.60	12.16	14.00	10.64
Trade	8.58	32.72	11.90	13.94	25.62	—	27.69	12.32	16.84	18.70
Transport, electricity & water (oil & gas)	2.74	6.94	6.93	16.49	11.15	25.47	10.39	7.6	12.04	11.08
Building and construction	1.82	6.78	3.55	2.65	4.24	—	18.95	9.52	3.27	6.35
Mining and quarrying	4.60	2.89	1.25	0.11	—	10.86	1.28	0.34	0.86	2.77
Other services and personal loans	79.26	34.51	61.84	40.55	37.74	50.35	31.14	52.19	40.63	47.58
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Author's calculations based on data from central banks.

Notes: these are loans and advances to the real sectors of the economy

**Table A3b. Commercial bank lending by sector and country, 2008 (USD million)**

2008 figures	Botswana	Nigeria	Ghana	Malawi	Sierra Leone	Mozambique	Kenya	Uganda	United Republic of Tanzania
Agriculture	15.50	814.76	210.19	47.17	3.33	133.28	381.54	103.10	422.24
Manufacturing	53.04	7 134.23	584.22	37.68	8.58	218.44	1 161.02	212.52	478.54
Trade	195.68	n.a.	1 607.85	45.06	31.27	424.20	1 261.57	215.32	575.72
Transport, electricity & water (oil & gas)	62.41	15 190.52	340.89	53.30	11.73	184.54	734.78	132.78	411.67
Building and construction	41.52	n.a.	333.33	8.56	21.40	70.22	376.36	166.35	111.69
Mining and quarrying	104.88	6 477.55	142.22	0.36	1.44	n.a.	132.13	5.97	29.47
Other services and personal loans	1 807.97	30 034.19	1 695.90	131.03	35.16	624.87	6 557.82	912.31	1 388.99
<b>Total</b>	<b>2 281.00</b>	<b>59 651.24</b>	<b>4 914.59</b>	<b>323.17</b>	<b>112.92</b>	<b>1 655.55</b>	<b>10 605.21</b>	<b>1 748.34</b>	<b>3 418.30</b>

Source: Author's calculations based on data from central banks.

Notes: these are loans and advances to the real sectors of the economy.

**Table A4. Value of cross-border mergers and acquisitions (M&A) by target region, 1987–June 2008. (USD million)**

Target Industry	Target region	1987–1990	1991–1995	1996–2000	2001–2005	2006	2007	2008 <sup>a</sup>
<b>Food Industry</b>								
	World	14 923	15 950	41 131	47 833	39 705	79 140	38 781
	Developed economies	14 129	14 091	33 713	41 541	29 382	60 374	34 377
	Developing economies	793	1 800	7 364	5 720	9 674	16 999	3 776
	Africa	4	43	402	294	855	1 589	6
	Latin America and the Caribbean	410	1 157	4 759	3 082	2 550	5 639	877
	Asia and Oceania	380	600	2 202	2 344	6 269	9 772	2 893
	Asia	379	600	2 189	2 340	6 269	9 694	2 893
	West Asia	-	14	43	83	929	648	1 656
	South, East and Southeast Asia	379	586	2 146	2 256	5 339	9 045	1 236
	Oceania	1	-	13	4	-	78	-
	Southeast Europe and the CIS	-	58	54	573	650	1 767	628
<b>Agriculture production (Primary)</b>								
	World	534	571	966	2 229	2 235	4 453	360
	Developed economies	439	365	503	2 117	1 950	3 009	331
	Developing economies	95	206	462	109	281	1 041	28
	Africa	4	-	3	-	-	-	-
	Latin America and the Caribbean	86	93	161	49	152	376	-
	Asia and Oceania	5	113	298	60	129	666	28
	Asia	5	113	298	60	129	621	28
	West Asia	-	-	-	4	4	14	3
	South, East and Southeast Asia	5	113	298	55	125	607	26
	Oceania	-	-	-	-	-	45	-
	Southeast Europe and the CIS	-	-	-	4	4	402	-
<b>Food processing</b>								
	World	11 588	13 253	29 016	36 934	31 044	53 701	26 996
	Developed economies	10 971	11 843	24 487	32 003	23 333	41 286	24 945
	Developing economies	617	1 352	4 475	4 386	7 065	11 135	1 441
	Africa	-	27	361	228	664	1 411	6
	Latin America and the Caribbean	283	952	2 474	2 203	2 348	2 085	474
	Asia and Oceania	333	372	1 641	1 955	4 053	7 640	961
	Asia	333	372	1 628	1 951	4 053	7 606	961
	West Asia	-	2	11	50	925	634	-
	South, East and Southeast Asia	333	370	1 617	1 901	3 128	6 972	961
	Oceania	-	-	13	4	-	34	-
	Southeast Europe and the CIS	-	58	54	545	645	1 280	610
<b>Services related to agriculture and food processing</b>								
	World	2 802	2 125	11 150	8 670	6 426	20 986	11 426
	Developed economies	2 720	1 883	8 723	7 420	4 099	16 078	9 101
	Developing economies	82	242	2 427	1 225	2 328	4 823	2 306
	Africa	-	16	38	67	191	178	-
	Latin America and the Caribbean	41	112	2 125	830	50	3 179	403
	Asia and Oceania	41	114	264	329	2 087	1 466	1 903
	Asia	40	114	264	329	2 087	1 466	1 903
	West Asia	-	12	32	29	-	-	1 654
	South, East and Southeast Asia	40	102	231	300	2 087	1 466	250
	Oceania	1	-	-	-	-	-	-
	Southeast Europe and the CIS	-	0	-	24	-	85	18

<sup>a</sup> Up to June 2008. - Source: UNCTAD Secretariat. Cross-border M&A database (available at [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

**Table A5. Agribusiness sector projects guaranteed by the Multilateral Investment Guarantee Agency, 1994-2008**

Financial year	Guarantee holder	Investor country	Host country	Gross (USD million)*	Status
2009	African Company for Oil Derivatives Freiha Feed Company Ralph Freiha Yousef Freiha and Sons	Lebanon Virgin Islands (British)	Democratic Republic of the Congo	10	P
2007	Mauritius Commercial Bank Limited	Mauritius	Mozambique	22.1	A
2007	Industrial Development Corporation of South Africa Ltd.	South Africa	Kenya	7	A
2006	DAGRIS S.A.	France	Madagascar	2.94	A
2006	Industrial Development Corporation of South Africa Ltd. Mr. R. S. Chatthe	South Africa United Kingdom	Kenya	6.7	A
2006	MILLco Limited	St. Kitts and Nevis	Uganda	2.97	A
2005	Afriproduce Limited	Switzerland	Uganda	3.11	A
2004	Mozambique Rice Growers Pty. Ltd.	Australia	Mozambique	0.45	N
2003	Industrial Development Corporation of South Africa Ltd.	South Africa	Zambia	3.6	N
2001	Agro-Industrial Investment and Development S.A.	Panama	Guinea	9	N
2001	Industrial Development Corporation of South Africa Ltd. Sena Development Ltd. Sena Holdings Ltd. Societe Marromeu Ltd.	Mauritius South Africa	Mozambique	65	A
2001	Banque Belgolaise S.A. Joseph Fermon	Belgium	Togo	7.4	N
1999	Touton S.A.	France	Côte d'Ivoire	16.4	A
1999	Afriproduce Limited	United Kingdom	Uganda	6.5	N
1998	Tilda Holdings (Africa) Limited	United Kingdom	Uganda	3.45	N
1995	France Commodities S.A.	France	Uganda	1.7	N
1994	Societe Internationale de Plantations D'Heveas	France	Cameroon	0.37	N

\*Amount of guarantee coverage issued at original contract signing. Modifications are not reflected in data.

Notes: Project Status: A-Active (8), N-Not Active (8), P-Proposed (1);

Source: MIGA, [www.miga.org/sectors/index\\_sv.cfm](http://www.miga.org/sectors/index_sv.cfm).

**Table A6. Country coverage from previous related studies**

FAO Global Agro Industries Forum (GAIF) (16)	UNIDO AfriPANet (15)	World Bank Snapshot Africa (9)
Benin	Burkina Faso	Ghana
Botswana	Cameroon	Kenya
Cameroon	Côte d'Ivoire	Lesotho
Côte d'Ivoire	Ethiopia	Madagascar
Eritrea	Ghana	Mali
Ethiopia	Guinea	Mozambique
Kenya	Kenya	Senegal
Madagascar	Madagascar	Uganda
Malawi	Malawi	United Republic of Tanzania
Mauritius	Mali	
Niger	Mozambique	
Nigeria	Nigeria	
Senegal	Senegal	
South Africa	Uganda	
Uganda	United Republic of Tanzania	
United Republic of Tanzania		

**Table A7. Public and private sector options for strengthening farmer linkages to the market**

Issue	Public sector		Private sector
	Public investments	Policy environments	
Lack of access to markets	Invest in education, rural infrastructure (roads, markets, electricity, irrigation); support formation of producer organizations.	Liberalize domestic trade; foster development of input and credit markets.	Assist farmers in forming producer organizations.
Weak technical capacity	Support market-oriented extension.	Foster environment for private extension to emerge.	Provide extension and key inputs to farmers.
Meeting quality standards	Support farmer training on good agricultural practices for quality enhancement and food safety.	Establish grades and standards.	Supply inputs and train farmers on quality management and food safety.
Meeting contract conditions	Train firms in contract design and management; train farmers on their rights and obligations.	Foster institutions for dispute resolution; strengthen producer organizations.	Foster trust; develop contracts that are self-enforcing.
Farmer exposure to risk	Foster development of commodity and futures exchanges; train firms on use of market instruments to hedge risk.	Create an enabling environment for insurance market.	Use contracts that share risk equally among parties; assist farmers to access insurance.

Source: World Bank, 2007.



**Table A8. Public and private sector roles to enhance trade-related sanitary and phytosanitary compliance and quality management capacity**

<b>Public sector</b>	<b>Private sector</b>
<p><b>Policy and regulatory environment</b> Pursue international dialogue; adopt domestic food safety legislation and standards consistent with local conditions and preferences, the World Trade Organization (WTO) and other trade obligations.</p>	<p><b>Good management practices</b> Implement appropriate management practices (hazard analysis and critical control point, "good" agricultural practices); obtain formal certification where viable.</p>
<p><b>Risk assessment and management</b> Strengthen national and sub national systems for pest, animal disease and market surveillance; support research on food safety and agricultural health concerns.</p>	<p><b>Traceability</b> Develop systems and procedures to enable traceability of raw materials, intermediate and final products.</p>
<p><b>Awareness building and promoting good practices</b> Support consumer-awareness campaigns on food safety; promote good agricultural hygiene, and food processing practices to be integrated into extension programmes; invest in appropriate laboratory infrastructure; accredit private laboratories.</p>	<p><b>Develop training, advisory, and conformity assessment services</b> Strengthen human capital, physical infrastructure and management systems to supply support services to agriculture, industry and government related to quality and food safety management.</p>
<p><b>Infrastructure investments</b> Improve water supply and sanitation and marketing facilities.</p>	<p><b>Collective action and self-regulation</b> Self regulate through adoption and oversight of industry "codes of practice"; alert government to emerging issues; advocate for effective government services.</p>

Source: World Bank, 2007.