Betting on Africa’s Agribusiness

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TICAD follow up seminars
April 11, 2016
1. Africa 2030: The Trillion Dollar Opportunity for African Agriculture

2. Pathways to unlocking the agribusiness potential: lessons and emerging challenges

3. World Bank contribution
Africa 2030: The $Trillion Opportunity for African Agriculture
The Trillion Dollar Opportunity for African Agriculture: Transformation of Food Markets and Growing Demand

- African urban food markets up 4x by 2030
  - Escalating demand for processed foods
  - Market logistics increasingly critical

- Role of regional markets
  - Only 5-10% of trade now; huge potential growth

- Global markets: prices high
  - Higher prices
A wind of change for commercial agriculture in Africa: 

*Bright prospects, but some constraints*

- Rapid growth - GDP increase AVG 5%
- Strong demand prospects
- Better domestic policy environments
- Improved business climate
- A dynamic private sector with increased incentives to invest in agriculture
- New technologies for production and processing
- Renewed political commitment to agriculture guided by CAADP

**Food demand ~60% higher by 2030.** More than any other region

<table>
<thead>
<tr>
<th>Change in food demand in SSA by 2030</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals, food</td>
<td>56</td>
</tr>
<tr>
<td>Roots and tubers</td>
<td>47</td>
</tr>
<tr>
<td>Sugar and sugar crops (raw sugar eq.)</td>
<td>62</td>
</tr>
<tr>
<td>Pulses, dry</td>
<td>60</td>
</tr>
<tr>
<td>Vegetable oils, oilseeds &amp; products (oil eq.)</td>
<td>64</td>
</tr>
<tr>
<td>Meat (carcass weight)</td>
<td>63</td>
</tr>
<tr>
<td>Milk and dairy, excl. butter (fresh milk eq.)</td>
<td>50</td>
</tr>
<tr>
<td>Other foods (kcal)</td>
<td>48</td>
</tr>
<tr>
<td>Total foods (kcal)</td>
<td>55</td>
</tr>
</tbody>
</table>

**Shift from net food importer to exporter**

* Agricultural exports – currently $35 billion
* Agricultural imports – currently $40 billion
  - Cereal imports account for about 20 percent of cereal consumption

Food demand ~60% higher by 2030. More than any other region
Major hurdles on the road: Tackling smallholder, low productive systems

Production increases in Africa came largely from expanding the area under cultivation rather than input intensification or total factor productivity growth.

TFP growth in Africa lags behind other regions—and the gap is widening.

Source: Aparajita Goyal and John Nash. 2016 AFR Regional Study Forthcoming, World Bank, Washington DC
Hurdles on the roads: addressing infrastructure financing

Access to Water: Doubling irrigated area by 2030

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

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

Current stock of irrigated land
Public investments (including WB support)
Private investments
Investment shortfall
Target in by 2025
Potential irrigated land
Hurdles on the road: harnessing value chains and increasing value addition

Stepping stone to industrialization and structural transformation

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

Concept: Pathways to unlocking the agribusiness potential: lessons and emerging challenges
Lessons from mature large agribusiness investments

(from the practice of responsible investment principles in larger scale investments in agriculture, WB?UNCTAD, 2014)

1- Level of risks is very high – especially for green field sites, 7-9 years to play out, often bought & sold many times

2- Causes of failure – Flawed concept, bad management and issues – that are beyond the control of the investor e.g. civil unrest, Government policies & markets

3 - Significant differences between business models: Out-growers & large farms the most risky, next processing operations and Nucleus Estates the least, but because the business model well understood, and limited processed crops;

4 - A small proportion of large scale agribusiness investments can be transformational

5- Hierarchy of constraints: Good Investors are looking for clarity & consistency in policies & regulations, basic infrastructure

6- Large range in perceptions by surrounding community: pluses include jobs, markets, infrastructure, out-growers; most difficult issue is land, followed by environmental issues (water)

7-Land: The larger the land deal the more likely it is likely to be behind schedule, have low numbers of employees/unit area & to not be profitable

(Source: Grahame Dixie, 2014)
Does farm size matter for rapid agricultural commercialization?

Large-scale farming model

- When economies of scale are present:
  For example, in “plantation crops” (sugar, oil palm, tea, bananas, and many horticultural crops grown for export).

- When Africa’s producers must compete in overseas markets:
  Stringent quality requirements and demand traceability all the way back to the farm—which is difficult to obtain in contract farming.

- When relatively fertile land must be developed in areas with relatively few people:
  Without a large, local labor force, large-scale mechanized farming may be the best model, even for growing staple foods.

Alternatives to large farms

Realization of scale economies
- Contract farming with smallholders
- Mechanization hire services by the private sector
- Effective producer organizations
### Advice For Policy Makers

**Do**
- Know what development you want
- Be more choosy about the investor, Business model, enterprise
- Set up process, review investments systematically
- Encourage alternatives to large scale land investments
- Support 1st movers, but not at scale
- Have a plan B for failure.

**Don’t**
- Offer more incentives to foreign investors than local
- Do mega land deals
- Make multiple gambles on same new business model
- Allow people to have land without making productive investments
- Short cut existing land regulations

(Source: Grahame Dixie, 2014)
Exploring more inclusive agribusiness models: Agri-Spatial solutions

- Agri-spatial solutions is increasingly considered by policy makers as an efficient way to tackle major constraints to private investments in agricultural value chains (infrastructure, consistent input supply to processing unit, regulatory, capacity) and improve sector competitiveness (economies of scale and reduction of transaction costs).
- Three broad types of agri-spatial solutions with specific objectives:
  - **Assembly market** with Services and locations for some Primary value Adding activities / businesses
  - **Industrial Park**: concentrated industrial estate focused on value-addition/processing services, with no specific comparative advantage in infrastructure for a particular value chain.
  - **Special Agricultural Economic Zone (SAEZ)**: Geographically identified area with comparatively unique infrastructure assets and Regulated by a specialized authority...

...WITH SAME UNDERLINING OBJECTIVE OF ATTRACTING CRITICAL PLAYERS FROM PRIVATE SECTOR TO INDUCE DESIRED TRANSFORMATION IN AGRICULTURE

**Agri-cluster/corridor**: A concentration of companies involved in a particular activity or supply chain, sharing services and mutually benefitting from externalities, across a larger, not delineated geographical area or specific regulatory regime.
Challenges emerging from WB experience

1. **BURKINA Bagré Growth Pole**: the challenge of finding structuring investors

2. **SENEGAL River Delta**: restructuring and converting a staple-based brownfield into an emerging horticulture exports cluster

3. **TANZANIA SAGCOD**: the challenge of multispectral coordination along the corridor

4. **NIGERIA SCPZ**: the political economy first

5. **COTE D’IVOIRE**: exploring value chain institutional structure to develop regional agropoles?

(Source: Grahame Dixie, 2014)
<table>
<thead>
<tr>
<th>Factors that generally determine success or failure</th>
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<tbody>
<tr>
<td>Macro and micro location of the zone, especially linkages to markets</td>
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<tr>
<td>Land and basic infrastructure</td>
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<tr>
<td>Political leadership and oversight both at local and Governmental levels</td>
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<tr>
<td>National economic development policies</td>
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<tr>
<td>Zone development, operation, and management</td>
</tr>
<tr>
<td>Legal regulatory and institutional framework</td>
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3 THE WORLD BANK CONTRIBUTION
Opportunities exist to address main challenges

- Productivity
- Market Access
- Climate change/Disasters

The problems

The solutions

- Local governance and rural service delivery
- Development strategies and agricultural policies
- Governance reform processes
- Rural Roads
- Irrigation
- Market
- Technology Transfer
- Education

- Governance & Institutions
- Human Capital & Skills
- Infrastructure
Adjusting the WB strategy and business model

By...

- Shifting from investment lending to more focus on policy
- Shifting from national projects to a regional approach, emphasizing landscapes
- Shifting from modest and fragmented to systematic and bold land projects
- Shifting from focus on production as objective to focus on risk mitigation, resilience & CSA
- Shifting from traditional to modern information and knowledge services, including ICT applications
- Shifting from focus on farm productivity to a value chain approach
- Shifting from focus on supply side to more holistic view of food security and nutrition
- Shifting from financing mainly public investments to more focus on catalyzing private investments
- Shifting from working in parallel to working jointly with IFC and MIGA
- Shifting from investing in hardware to investing in human capital through supporting continental and regional knowledge institutions
Let's discuss... Thanks