

Driving Private Investment in African Agriculture: Grow Africa

From the African Community of Practice on Management for Development Results at the African Capacity Building Foundation



Case Study
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SYNOPSIS

Grow Africa is a pioneering initiative to drive private investment in African agriculture. Founded in 2011 by the African Union, the New Partnership for Africa's Development (NEPAD), and the World Economic Forum (WEF), Grow Africa brokers collaboration between governments, international and domestic agricultural companies, and smallholder farmers, to lower the risks and costs of investing in African agriculture.

Key findings: In 2014, Grow Africa created 30,000 jobs, reached 2.5 million smallholders, and brokered investment of US\$1 billion. Governments and development partners committed to invest in African agriculture and provided essential inputs.

Main lesson: Three main factors drive private investment in African agriculture: mechanisms that support responsible private investment to prevent land grabs and protect the environment; increased engagement of the public sector; and an attractive business environment.

Key recommendations: Capacity-building organizations should strengthen the capacities of African governments in creating the right environment, through policy reform, regional integration, improved competitiveness, and so on. They should also use their experience to train African civil society to advocate for and ensure that private investment is responsible and inclusive.

Introduction

Agriculture will remain a key development driver in Sub-Saharan Africa. According to the World Bank (2014b), the agricultural sector employs 65 percent of Africa's labor force and accounts for 32 percent of its gross domestic product. Rapid population growth, along with other factors such as climate change and price volatility, put the sector in a very challenging position. Several projections suggest that global cereal and livestock production may need to increase by 60–100 percent by 2050 (such as Alexandratos and Bruinsma 2012; Tilman and Clark 2015) if the world is to remain food secure. In Sub-Saharan Africa, this will require considerable investments in agricultural research and technology, and in infrastructure development.

Private investment in Sub-Saharan Africa is seizing considerable attention due to its capacity to leverage agriculture and so to contribute to Africa's transformation. If properly managed and supported, the World Bank estimates that agriculture and agribusiness could together command a US\$1 trillion presence in Africa's economy by 2030 (Orchard et al. 2013). There are therefore strong benefits for the continent to drive such investment. The past decade has already witnessed an upsurge in interest from the private sector in African agriculture and agribusiness, including that from foreign investors and funds. However, challenges still exist, including tight access to capital, limited government capacity, inadequate land rights, legal and regulatory issues, and infrastructure constraints.

To address such challenges and foster dynamic private investment, continent-wide initiatives have been launched. The present case study is focused on Grow Africa. Founded by the African Union, NEPAD, and WEF in 2011, Grow Africa works to increase private sector investment in agriculture and accelerate the execution and impact of investment commitments. The aim is to enable countries to realize the potential of agriculture for economic growth and job creation, particularly among farmers, women, and young people.

Grow Africa brokers collaboration between governments, international and domestic agricultural companies, and smallholder farmers, to lower the risks and costs of investing in agriculture. In 2014, it created 30,000 jobs, reached 2.5 million smallholders, and brokered an investment totaling US\$1 billion (Grow Africa 2014).

Origins of Grow Africa

In 2003, African leaders in Maputo endorsed the Comprehensive Africa Agriculture Development Programme (CAADP) as the largest commitment and overarching framework to support agriculture and recognize it as instrumental in achieving the continent's transformation. The overall goal of CAADP is to "Help African countries reach a higher path of economic growth through agriculture-led development, which eliminates hunger, reduces poverty and food insecurity, and enables expansion of export[s]." One of the key commitments from African heads of states and Governments in the framework of CAADP was the continued allocation of 10 percent of the national budget to agriculture. But by 2012, only seven countries (Burkina Faso, Ethiopia, Guinea, Malawi, Mali, Niger, and Senegal) had consistently met the 10 percent target (FAO 2012). This is low, even though 25 percent of the continent's population is still undernourished (FAO et al. 2014).

Given such poor performance trends, a group of pioneering governments, companies, and partners in 2011 recognized that the private sector could be instrumental in increasing and accelerating investment for sustainable growth in African agriculture. The group also endorsed that it was essential to match public-sector leadership on improvements of the enabling environment along with private-sector leadership on inclusive investment. As a result, Grow Africa was launched.

The main goal of Grow Africa is to help impoverished smallholder farming communities shift from subsistence farming to a mixed rural economy of commercial farming and small-scale industry and services (Grow Africa 2013). This transformation will raise incomes, reduce poverty and hunger, and unleash self-sustaining private-sector-led economic growth. The result is that Africa will not only feed itself, but will help feed the world. Therefore, Grow Africa positioned itself as a pathway to increase private investment into African agriculture, to accelerate the effective realization of agricultural development objectives in participating African countries.

Grow Africa's platform and governance structure



Figure 1: Participating Grow Africa countries

Source: Designed by authors with data from www.growafrica.com (accessed March 7, 2016).

Grow Africa is an African-owned, country-led, market-based, and inclusive platform for cross-sector collaboration. The Grow Africa Partnership Platform comprised over 200 companies and governments in 12 countries (Grow Africa and NAFSN 2015; figure 1). These companies have made formal commitments with the government in their country to invest in agriculture. Ten of these countries are part of the New Alliance for Food Security and Nutrition, a partnership in which stakeholders—public and private sectors, and donors—commit to specific policy reforms and investments, outlined in cooperation frameworks that accelerate implementation of African countries’ food security strategies.

Grow Africa’s priorities are guided by a Leadership Council, an informal group of leaders

committed to realizing the investment commitments pledged by the private sector, governments, and development partners within the New Alliance and Grow Africa. It consists of high-level representatives from African governments, development partners, African and multinational private sector companies, civil society, and farmers’ organizations.

Grow Africa’s positioning on responsible investments

Grow Africa’s role is to accelerate responsible investments in African agriculture, investments that promote positive impacts and avoid negative ones (Sinha and Datta 2014). But such investments can be challenging. African agri-

businesses often operate in a weakly regulated business environment (World Bank 2014a), in which operationalizing principles of responsible investments can add costs that compromise their short-term commercial viability, especially if faced with less diligent or ethical competition.

As Grow Africa is a partnership platform, not a regulator, it does not have the scope or mandate to enforce responsible practices. Still, it promotes responsible investments by fostering an environment in which companies can achieve competitive advantage from delivering positive impacts, and from mitigating negative ones. It achieves this through (Grow Africa 2015):

- Support: strengthening the enabling environment so that agri-businesses can thrive responsibly.
- Learning: helping partners innovate and scale commercially competitive solutions to key aspects of responsibility.
- Accountability: elevating the incentives to operate responsibly.

Grow Africa's operating principles and approach

Grow Africa has defined a set of operating principles (table 1) that guide its priorities and activities, and which translate its conceptual framework into concrete support for country efforts.

Table 1 : Grow Africa's seven operating principles

African-owned and country-led
<ul style="list-style-type: none"> • Engage global partners with African leaders, in support of national agriculture investment strategies (aligned with the CAADP process) • Ensure strong involvement of African leaders from government, civil society, and business • Complement existing structures/processes at a country and continental level

<p>Market-based</p> <ul style="list-style-type: none"> • Prioritize socially equitable, market-based solutions • Facilitate the capacity, conditions, and opportunities for private-sector investments
<p>Sustainable</p> <ul style="list-style-type: none"> • Increase economic opportunity and food security in an environmentally sustainable manner
<p>Multi-stakeholder</p> <ul style="list-style-type: none"> • Promote multi-stakeholder collaboration, including engagement of farmer and civil-society leaders • Draw private-sector partners from across value chains and geographies, to enable access to new knowledge, resources, and markets
<p>Inclusive</p> <ul style="list-style-type: none"> • Enable opportunities for small-scale farmers and entrepreneurs, as well as facilitating sustainable large-scale investments • Promote integration of women into markets as a vital step to generating inclusive growth
<p>Transparent</p> <ul style="list-style-type: none"> • Practice transparency and share information, experience, and learning widely
<p>Accountable</p> <ul style="list-style-type: none"> • Promote mutual accountability in implementing the goals of the partnership with a special focus on following up on letters of intent signed by committing companies

Source: Grow Africa 2013: 8.

These principles are spearheaded and mainstreamed in the interventions of Grow Africa along agricultural value chains in African countries. Further, based on the WEF's New Vision for Agriculture and analytical work, undertaken with support from McKinsey (WEF 2012), six critical elements were identified to ensure sustainable agricultural market transformation. These elements combined with

the above principles underpin Grow Africa’s approach, which has three phases (figure 2).

Using this approach, Grow Africa plays a catalytic role in advancing transformative multi-stakeholder partnerships focusing on three stakeholder groups: people, governments, and companies. Activities of Grow Africa include (Grow Africa 2013: 10):

- *Technical assistance* to country partners as they develop their capacity for managing multi-stakeholder partnerships and catalyzing investments.
- *Building and supporting* a network of companies (international and domestic) who are committed to increasing sustainable investment in African agriculture.
- *Generating letters of intent* that articulate concrete investments and how they will contribute to broader development objectives.
- *Promoting transparency and accountability* by all partners, through annual reporting on plans and implementation progress by companies and governments.
- *Identifying best practices and emerging issues*, and promoting information exchange across the continent, such as on inclusive business models, policy issues, financing models, gender, the environment, and land tenure.
- *Working with farmers’ organizations and civil society* to ensure investments are delivering value at grassroots, and help

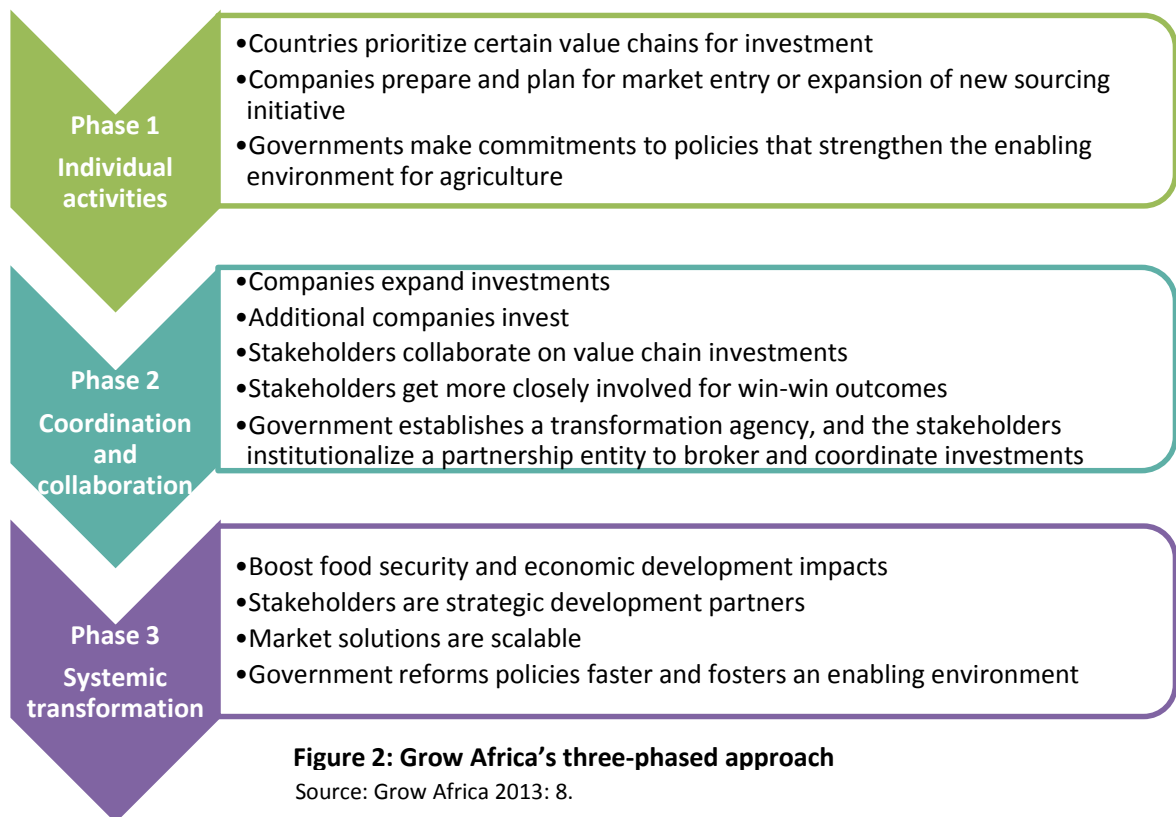


Figure 2: Grow Africa’s three-phased approach

Source: Grow Africa 2013: 8.

- *Convening an annual “Investment Forum”* as a milestone for deal-making and addressing issues in the enabling environment.
- *empower women.*
- *Elevating political leadership* to sustain a high-level of cross-sector commitment to Africa’s agricultural transformation

such as at Davos, African Union summits, and the G8.

Outcomes and overall assessment

Increasing company investments in African agricultural value chains

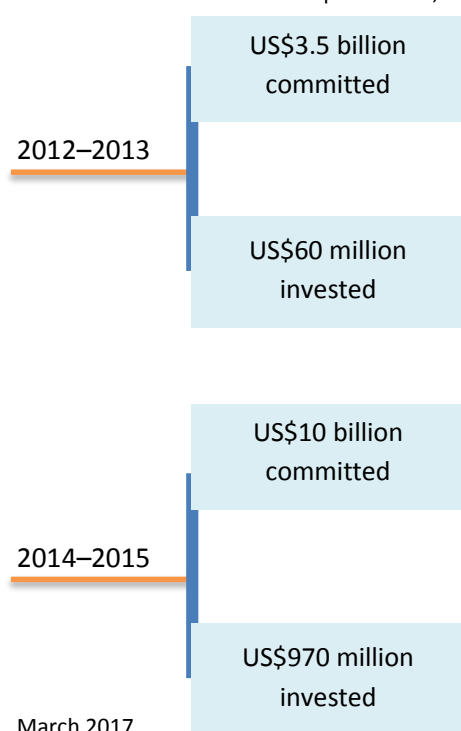
Three key indicators measure the achievement of this objective: quantity of actual investments; number of jobs created; and number of smallholders with increased incomes (Grow Africa 2013).

In the initial stages of Grow Africa's work, companies are requested to draw up letters of intent that list concrete investment commitments and how they will contribute to broader development objectives. Over the years, investment commitments have increased (figure 3).

One year after Grow Africa was launched—2012—the initiative attracted 97 commitments from 62 companies, including 39 based in Africa, for US\$3.5 billion (Grow Africa 2013). Recent reports showed that as much as US\$970 million were invested in the 12 Grow Africa countries with a total commitment of US\$10 billion as stated in letters of intent (Grow Africa 2014).

Figure 3: Private investment from 2012 to 2015

Source: Grow Africa annual reports 2013, 2014, and



According to Grow Africa (2015), participating private companies provided progress reports for 56 percent of the 292 letters of intent. Through these letters of intent, companies intended to invest close to US\$ 10.2 billion, of which more than US\$ 684 million was reported invested in 2014 in the 12 countries. Overall, 43 percent of letters of intent were on plan, 3 percent were completed in 2014, 12 percent were performing well, and 36 percent faced minor implementation problems. Only 7 percent had major implementation challenges. Most letters of intent (80 percent) were either on plan or facing minor implementation problems.

Through their investments, private companies reached over 8.2 million smallholder farmers in 2014 (box 1), two and a half times more than in 2013. Smallholder farmers were mainly reached through input products and services, financial or data services, and training. In 2014, through letters of intent, companies created 21,366 jobs, a little lower than in 2013 (Grow Africa 2015).

Box 1: Developing new value chains: Potatoes in Rwanda

With the support of the Grow Africa Secretariat, the Rwandan government has identified a number of specific investment projects to boost outputs, improve quality, and drive up revenues for different commodities. One of these is Irish potato. Grow Africa has been active in developing a project to allow 30,000 smallholder farmers in Northern Rwanda mainly in and around Musanze District to integrate into formal commercial supply chains for potatoes, using innovative access mechanisms. The objective is to increase the price farmers receive for their output by up to 50 percent and increase their productivity.

In the third quarter of 2013, Grow Africa identified potential value chain partners for two potential investment streams, one in a cold storage facility, and another in a seed potato multiplier farm. Indian crop

protection, chemical, and seeds company United Phosphorus Limited, has been particularly active in moving the project forward, committing in 2014 to three investment processes, related to potato, animal feed, and seed propagation.

Grow Africa has facilitated contact between United Phosphorus's Head of Africa and the Ministry of Agriculture to move the investments forward. The Government of Rwanda has also committed to working to making the cost of electricity more reasonable for the cold storage facility as the initial business case developed by Grow Africa showed that, at current electricity prices, the project would not be financially feasible, given that energy represents nearly 60 percent of the cost.

Source: Grow Africa 2014: 8.

Government and development partners are providing essential inputs

In addition to the committed investments from the private sector, governments and development partners have an essential role. Grow Africa 2015's progress report showed that governments across the continent are committed to making policy reforms in agriculture. The report also evidenced significant funding from development partners to African countries in support of policy reforms. In 2014, development partners committed US\$ 6.3 billion in support through Country Cooperation Framework Agreements (Grow Africa and NAFSN 2015). About US\$ 3.2 billion was disbursed by G8 and other donors, which in all accounts for 85 percent of expected funding to date (prorated funding intention) and 50 percent of original funding intentions.

The proportion of funds disbursed against expected funding varies considerably across recipient countries, ranging from 21 percent in Benin to 531 percent in Burkina Faso. The actual volume also varies widely, with the highest disbursement of US\$ 1.2 billion to Ethiopia and

the lowest of \$7 million to Benin. The proportion of disbursement against intention also varies, from 19 percent by Italy to 147 percent by Japan (Grow Africa and NAFSN 2015).

Major constraints have been identified in the investment climate

Some constraints still undermine the overall performance of the sector and have limited the scale of investments. Common constraints include limited access to finance (mentioned by all 10 countries as a major constraint). Others reported by most countries include lack of availability of agricultural inputs, infrastructure problems (including supply of electricity, rural roads), lack of market access, unskilled human resources for agribusiness, and lengthy bureaucratic procedures (Grow Africa and NAFSN 2015). Addressing these constraints would significantly strengthen the impacts and improve the investment climate for private companies, and unlock further investment opportunities.

Conclusions and policy recommendations

Grow Africa appears to be of key importance for advancing private investment in African agriculture. It creates and supports an environment where companies feel comfortable to invest in the agricultural sector. This case study suggests the following policy recommendations.

Enhance the engagement of the public sector

Private investment can hardly be leveraged if the public sector is not engaged. Through its policies and programs, the public sector has played an extremely important role addressing cross-sector issues, shaping market conditions and prospects for private sector investment. Strong political commitment expressed at the regional level in the CAADP and government support to the agricultural sector have been very important in supporting private investment. However, efforts thus far have not fully unleashed the potential of

private investment in agriculture. In some countries, the lack of such engagement of the public sector clearly undermines the intervention of the private sector to advance agriculture development. It is therefore essential to advocate and commit African leaders at regional and national levels to continue efforts in enhancing the engagement of the public sector.

Support responsible private investment that prevents land grabs

Grow Africa demonstrated that a huge amount of money can be invested by the private sector in agriculture across the continent. However, such investments can be harmful in some ways to the economy of the host country. The risk to consider is land grabs. For the primary production, investments in agriculture by the private sector require (in most cases) acquisition of large quantities of land.

Though more than half of Africa's arable land is not cultivated, there is a reasonable risk that these private companies develop their businesses on communities' lands. This can ultimately hurt the livelihoods of these communities. Land grabs by companies have been evidenced across Sub-Saharan Africa. A strategy that helps in preventing land grabs is to promote more agricultural businesses that are less demanding in land acquisition like the agro-processing industry.

Along these lines, African civil society has an important role to play by raising awareness and ensuring that these private investments are responsible and inclusive. However, it also needs to better understand the issue and develop informed advocacy campaigns. The African Capacity Building Foundation could assist in that area.

Create an attractive enabling environment

To further unleash the enormous potential for attracting private investment in agriculture, policies and regulations affecting agricultural production, non-direct constraints, as well as the overall investment climate in countries need to be revamped.

One major issue is infrastructure. Others are corruption, trade regulations, political instability, and access to finance. Consequently, capturing and sustaining private investment in agriculture requires that non-agricultural internal and external factors are favorable.

The African Capacity Building Foundation and African Development Bank can craft capacity development programs for African governments and institutions so that they can improve their business environment and drive private investment in agriculture.

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Acknowledgments

This knowledge series intends to summarize good practices and key policy findings on managing for development results (MfDR). African Community of Practice (AfCoP) knowledge products are widely disseminated and are available on the website of the Africa for Results initiative, at: <http://afrik4r.org/en/ressources/>.

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