

Findings



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Promoting Private Agribusiness Activity in Sub-Saharan Africa

In a break from past policies, many countries of Sub-Saharan Africa are moving away from state-controlled agricultural marketing systems. Agricultural sector and broader economic policy reforms are being implemented, one objective of which is to enhance the incentives for private entrepreneurs and companies to undertake investments and expand and diversify agro-processing and trading activity. The supply response has not been overwhelming. While some investments and initial structural changes have occurred in certain countries and particular sub-sectors, the expected surge in private agribusiness activity has yet to materialize.

While the policy reform process is certainly not complete, there is growing recognition that such reforms alone will not generate an efficient and broad-based supply response by private traders and processors. This is leading both African governments and international donors to move toward more direct measures to promote private sector agribusiness development. To intervene successfully in this area, a greater understanding of the private sector in Africa is needed-- the constraints it faces, its modes and strategies of operation, and its varied responses to trade and market liberalization. This improved understanding will facilitate the design of interventions which are consistent with private sector strategies while also promoting broader development objectives.

This study, *Africa's Agro-Entrepreneurs: Private Sector Processing and Marketing of High-Value Foods*, was undertaken in order to strengthen the empirical understanding of private agribusiness activity in Africa and thereby enrich on-going policy discussions and program initiatives in this area. The paper concentrates on private processing and marketing of such

products as fresh and processed fruits and vegetables, meat and dairy products, fresh and processed fish, oilseeds/edible oils, nuts and spices. These higher value foods have had an increasingly important role in African economies in terms of household consumption and expenditures, agricultural and manufacturing value added, and international trade.

Key Findings

Generic barriers. Despite the extended or more recent process of policy reform in many African countries, the operating environment for private agribusinesses is still not conducive for major investments. Firms face considerable non-commercial risks and relatively high costs for intermediate goods and services which weaken their scope for international competitiveness. *The legacy or persistence of macroeconomic instability in Africa has deterred private agribusiness investment*, especially of an 'irreversible' kind, as in specialized agro-processing facilities, cold stores, and tree crop orchards. High rates of inflation and shortages of foreign exchange have contributed to investment uncertainty and to problems in accessing spare parts and other intermediate inputs. In the short term, macroeconomic stabilization programs have adversely affected many traders and processors geared toward the domestic market, since tight monetary policies, public employee layoffs, and other measures have temporarily decreased consumption expenditures, particularly for high-value foods.

Another source of uncertainty for private agribusiness operators has been the *uneven implementation of agricultural market reforms and the varied forms of residual market controls*. In many cases where commodity markets have been liberalized, licensing systems continue to inhibit private trader entry (and raise costs), sudden trade bans have been imposed, or other measures adopted which impede the development of effective market networks and the fulfillment of commercial contracts by the private sector. Some residual market controls are applied in the name of public objectives (i.e. quality control, monitoring of trade), yet quite frequently, the application of such controls serves to protect established interests, restrict the activities of certain ethnic groups, and supplement the salaries of public officials.

While macroeconomic instability and residual market controls have weakened the incentives for private agribusiness investment, other dimensions of the operating environment-- *including weak physical infrastructure and weak financial market development*-- continue to inhibit the capacity of private firms and entrepreneurs to respond efficiently to those market opportunities which are available. The study highlights the relatively inefficient transport and communications infrastructure in Africa which contributes to major logistical problems and high transaction costs. The study also highlights the weak state of financial markets in Africa, which translates into very limited access to formal sources of credit by small-scale firms and relatively high costs, high collateral requirements, and limited (term) finance options for larger enterprises.

Private sector characteristics. Private agribusiness operators in Africa exhibit wide variation in terms of enterprise size and management, mode of operation, and technology. The study describes the continuum of informal to formal sector activity and reviews broad patterns with regard to the ownership, ethnicity, gender participation, and conglomeration/ specialization of African agribusiness operations. Throughout Africa, there is much public and political *concern that the liberalization of markets and the reduction of parastatal activity will result either in*

renewed foreign dominance or a disproportionate role for certain ethnic minority groups. These concerns form the basis for much of the resistance to privatization programs and for many of the residual market.

The study indicates that in almost all African countries, a large proportion of processing and trade geared to the domestic food market is undertaken by 'indigenous' firms and individuals. Such operators predominate in small-scale and informal activities which service the majority of local consumers. Among medium and larger scale enterprises the patterns are more varied. Despite macroeconomic reforms and changes in investment codes, there has been relatively little new foreign investment in African agribusiness in recent years. That investment which has occurred has usually involved firms with long-standing experience in the region which are seeking to diversify or re-direct existing operations. Most of the incremental involvement of foreign companies with high-value foods has been through management and marketing contracts, equipment supply, and consultancy services rather than direct investment. Certain African and non-African ethnic groups do play a major role in particular markets and are predominant in cross-border and other regional trading activities. There can be no single explanation for the relative trading success of such diverse groups as the Hausa, Bamileke, and the East African 'Asians'. Many of the explanations advanced by concerned politicians and disgruntled competitors are little more than prejudices. The available evidence points to a combination of explanatory factors-- their development of mutual credit and information-sharing institutions, their capacity for innovation, their long association with specific commodities, the conditions in their region of origin, and their resistance to extra-economic pressures.

Market and extra-market institutions. The study examines the diverse array of market and extra-market strategies employed by private processors and traders in Africa to procure raw materials and sell their goods and to generally overcome the policy uncertainty, infrastructural deficiencies, and other constraints which characterize their operating environment. Extended families, formal and informal associations, seasonal and longer term contracts, and various forms of conglomeration and integration are among the most common frameworks in which African agribusinesses organize their commercial relations, both backward to primary producers (ie. farmers, herders) and forward to the final consumer. For example, a large proportion of Africa's expanding export trade in fresh and processed horticultural and fishery products is governed by joint venture operations or other forms of long term collaboration with overseas companies. The study draws upon available data and case study material to outline major structural features and performance indicators for Africa's processing and trade of high-value foods.

Conclusions

Given the mixed experience of private sector high-value food processing and trade and the generally slow supply response to macroeconomic and sectoral policy reforms, it is important that policy-makers find ways to boost the confidence of the private sector, especially by increasing the transparency of the processes of policy-making and implementation. At the same time, policy-makers need to look beyond market reforms only and address many of the additional constraints faced by private agribusiness operators. The study emphasizes needed initiatives in three main areas:

- *Improvement of public/collective goods and services.* Public investments in roads, ports, telecommunications, and water supply have an important bearing on private agribusiness investments and competitiveness. The same can apply to government support for or direct provision of agricultural, post-harvest, and food technology research, training, and dissemination. Agro-related trade can be enhanced through selective public or collaborative initiatives related to market intelligence/information services, product/packaging standardization, and quality/phytosanitary control.
- *Development and spread of agribusiness management skills.* Agribusiness management skills are not widely developed in Africa as a result of the past dominance of processing/marketing activity by parastatal (and/or foreign) enterprises and the concentration of trade in unprocessed standard commodities. Especially weak are marketing management skills: market research, promotion, pricing strategies, marketing channel management, etc. Such limited skills inhibit the ability of African entrepreneurs to penetrate international markets for non-traditional products and to compete with established companies in domestic and regional markets. Based on need assessments, there is scope for beneficial programs of training, internships and technical assistance in this area, either on a country or sub-regional basis.
- *Support more complex forms of contracting, organization, and collective action.* Programs of market liberalization are typically designed with an eye toward improving the functioning of spot markets for commodities and inputs. While this approach is suitable in markets for storable, relatively low-value homogenous commodities (i.e. staple grains), it is less appropriate for many perishable, high-value commodities which need more complex forms of contracting and association in order to control for quality and stimulate and coordinate specialized production, trading, and processing activities. It is therefore vital to design an effective legal basis and provide training and other support for the development and implementation of more complex institutional arrangements such as outgrower schemes, franchising agreements, producer and trade associations, management/marketing contracts, agency agreements and joint venture agreements.

Steven Jaffee and John Morton. 1994. *Africa's Agro-Entrepreneurs: Private Sector Processing and Marketing of High-Value Foods*. AFTES Working Paper # 15. Agricultural Policy and Production Series. Technical Department, Africa Region, The World Bank, Washington, D.C. An associated study is *Marketing Africa's High-Value Foods: Comparative Experiences of an Emergent Private Sector*, edited by Jaffee and Morton. Dubuque, Iowa: Kendall/Hunt Publishing Co. 1995. This study was prepared as a joint product of the World Bank (AGRAP/AFTES) and the Overseas Development Administration, U.K. Steven Jaffee is in the Agriculture and Environment Division, Southern Africa Department, World Bank. John Morton works with the Social Sciences Group of the Natural Resources Institute (U.K.).
