Financing African Agriculture
Key Trends and Implications for the Future

Outline

- Overview of African agriculture and the need for more investment
- Current and historical sources of funding trends
- Implications for the way forward

African Agriculture

- A large sector contributing close to 50% of GDP and remains a significant employer (60%)
- Demand for food is expected to increase driven by increasing population and increase income
- Agricultural production projected to increase at a rate of 2.3 % per annum – the highest among all other developing regions between 2005/07 - 2050
- Projected to create a potential trillion-dollar regional market for African producers by 2030
- Abundant land and labor but serious shortage of capital (working capital as well as fixed capital)

…. to meet the increase demand, capture market potential, and improve productivity, Africa needs to put more investment into agriculture

Cumulative investment over 2005/07 to 2050 by region

	gross				
	crop production	livestock production	support services	total	share in total
	billion 2009US$				%
93 developing countries	3505	1683	3986	9174	100
excl. China and India	2184	966	2447	5596	61
sub-Saharan Africa	319	178	444	940	10
Latin America /Caribbean	528	316	960	1804	20
Near East / North Africa	619	152	422	1193	13
South Asia	1024	368	894	2286	25
East Asia	1015	669	1266	2950	32

What does this mean ?

- Lower capital requirements in Africa relative to other regions, while growth rates are projected to be higher, reflects very gradual shift to a more capital-intensive form of agriculture from generally labor-intensive, capital-saving forms of production
- The majority of the investment is required to support capital expenditures for agribusinesses and related industries – storage, market facilities, processing, equipment and mechanization for primary production
- Support will also be needed to create drivers of investment into agribusinesses and industries – such as, skills and technologies for post production, institutions and services to support businesses, financing and risk mitigation mechanism etc

Source of Funding : Public or Private ?

..the <u>**remaining 30 percent**</u> would need to be provided by public sources, both foreign (ODA) and domestic

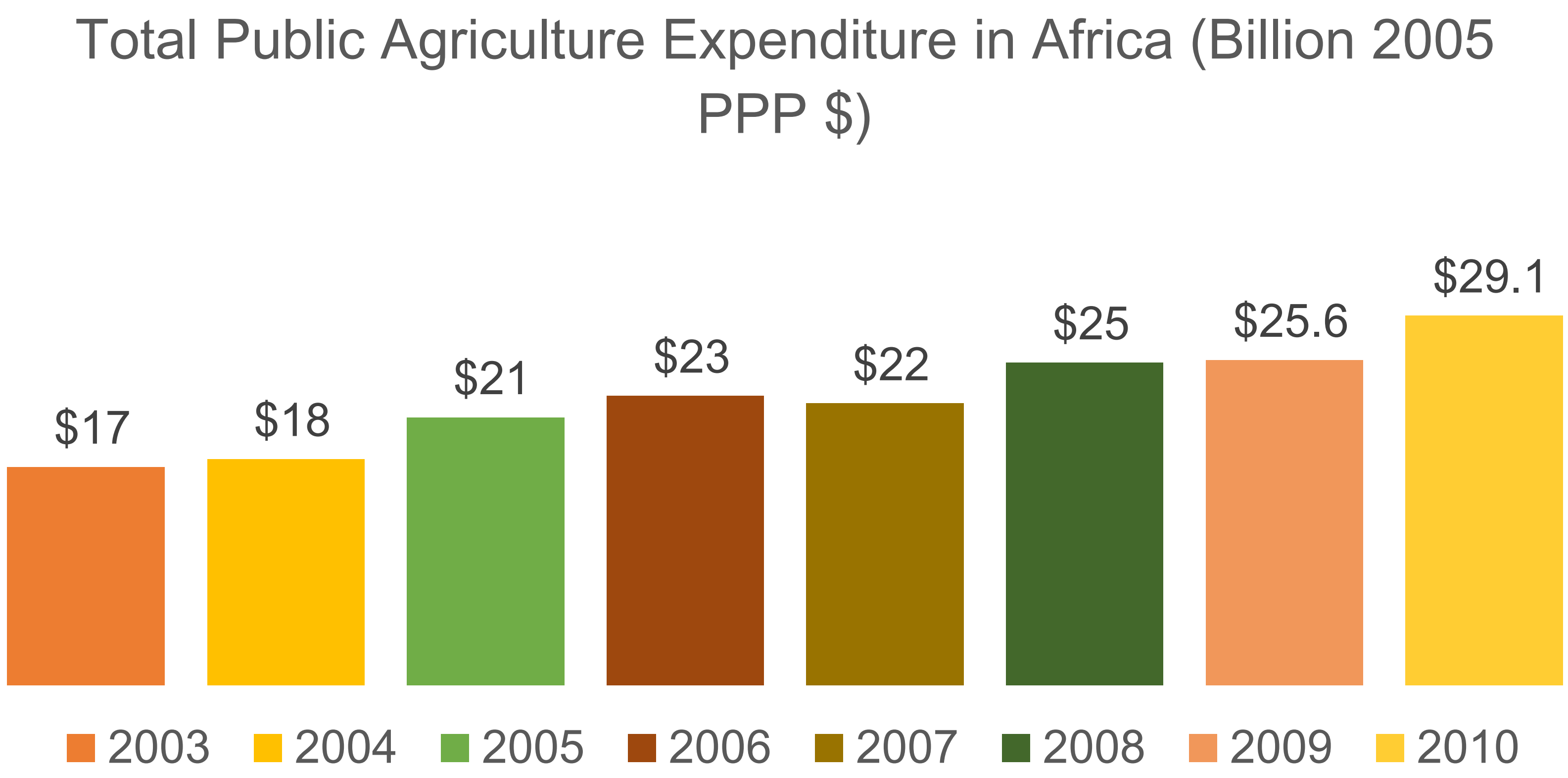
<u>**70 percent**</u> would come from private sources

Funding Sources and Trends

- Public Agriculture Expenditure
- ODA
- Private Sector

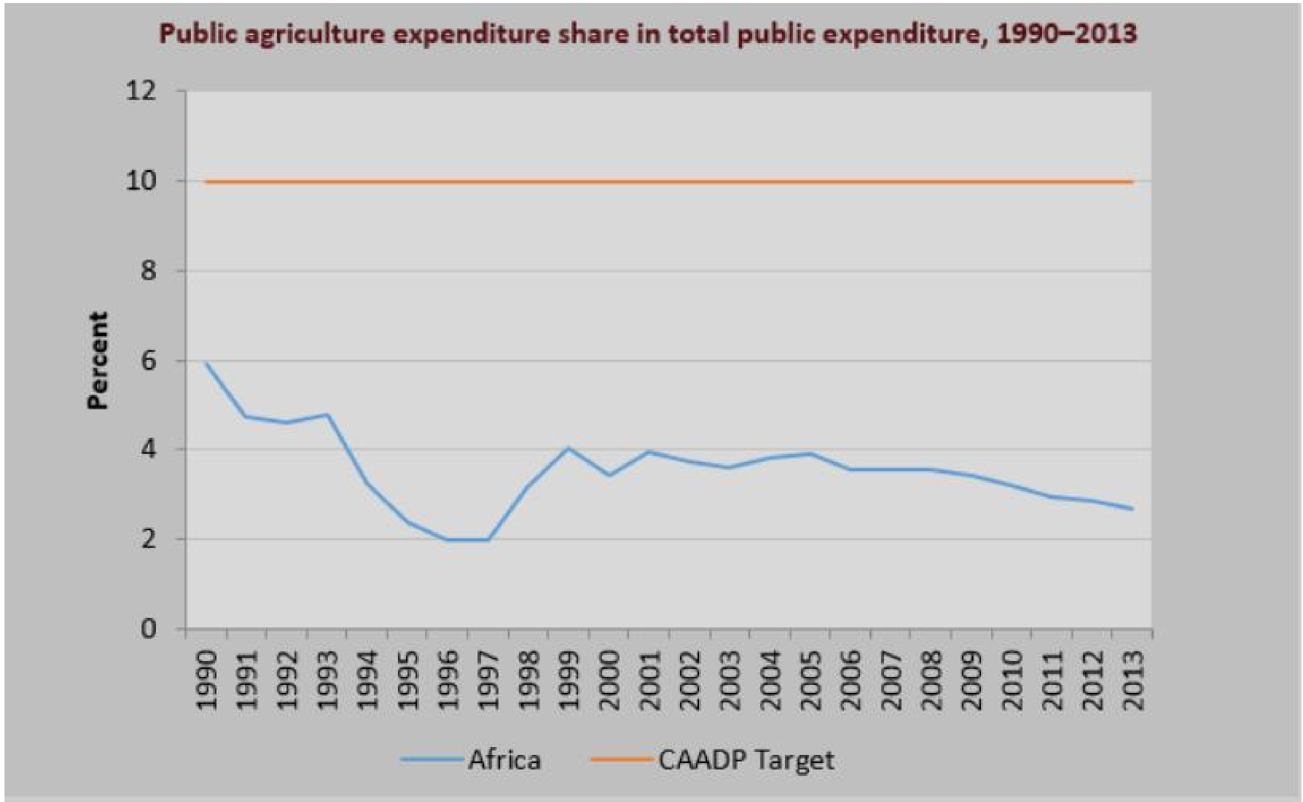
PUBLIC AGRICULTURE EXPENDITURE

Government Public Agriculture Expenditure



Source: 2012 Resakss Annual Trends and Outlook Report

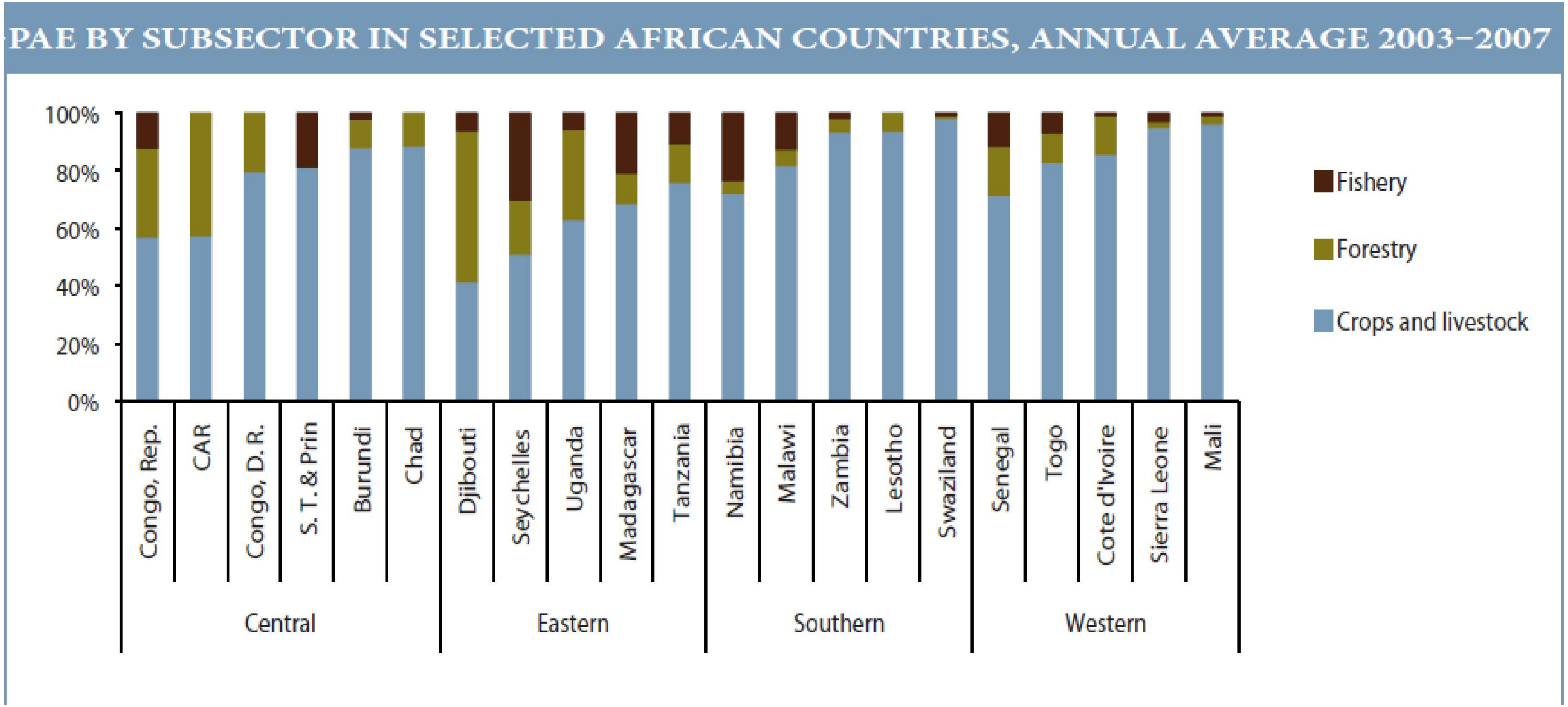
Share of Public Agriculture Expenditure to Total Expenditure



Source: ReSAKSS, based on national sources, IFPRI 2013, and AUC 2008.

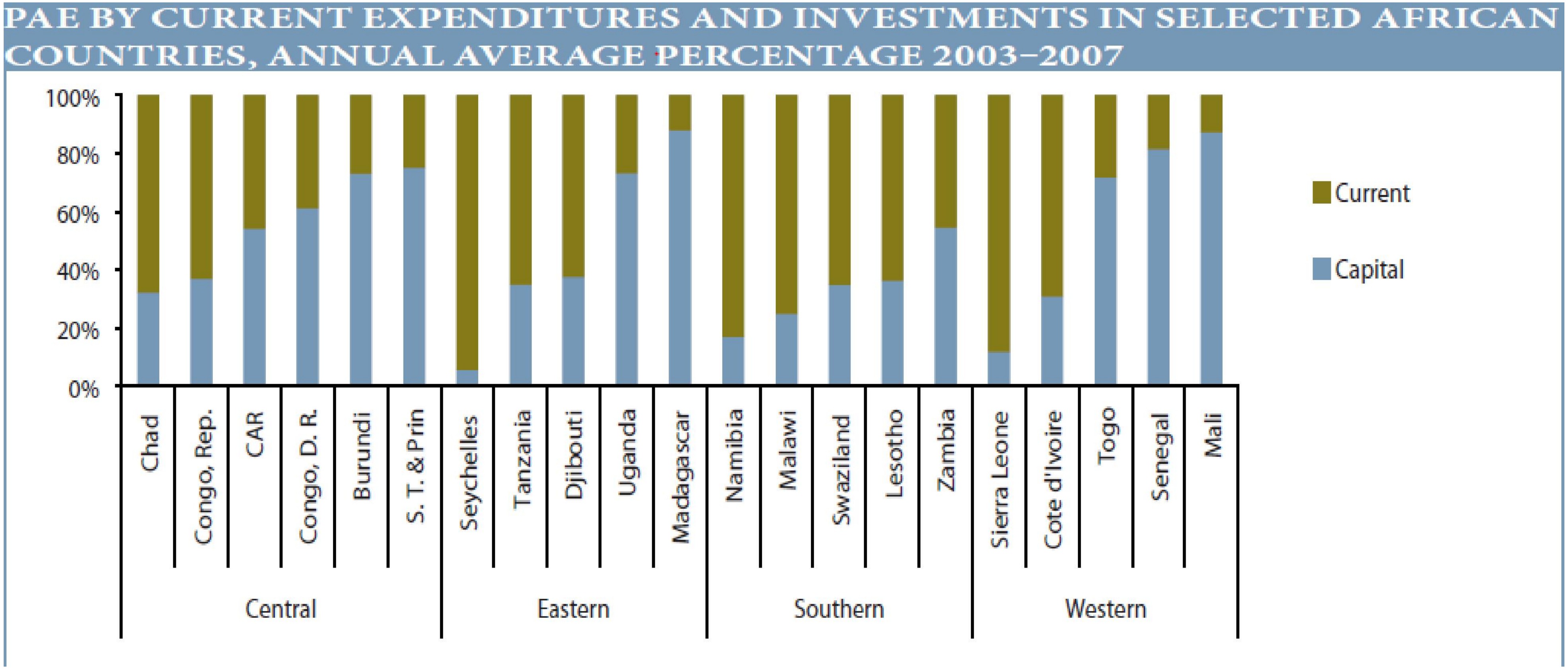
What is being funded by PAE ?

Mainly for crop and livestock production



Source: 2012 Resakss Annual Trends and Outlook Report

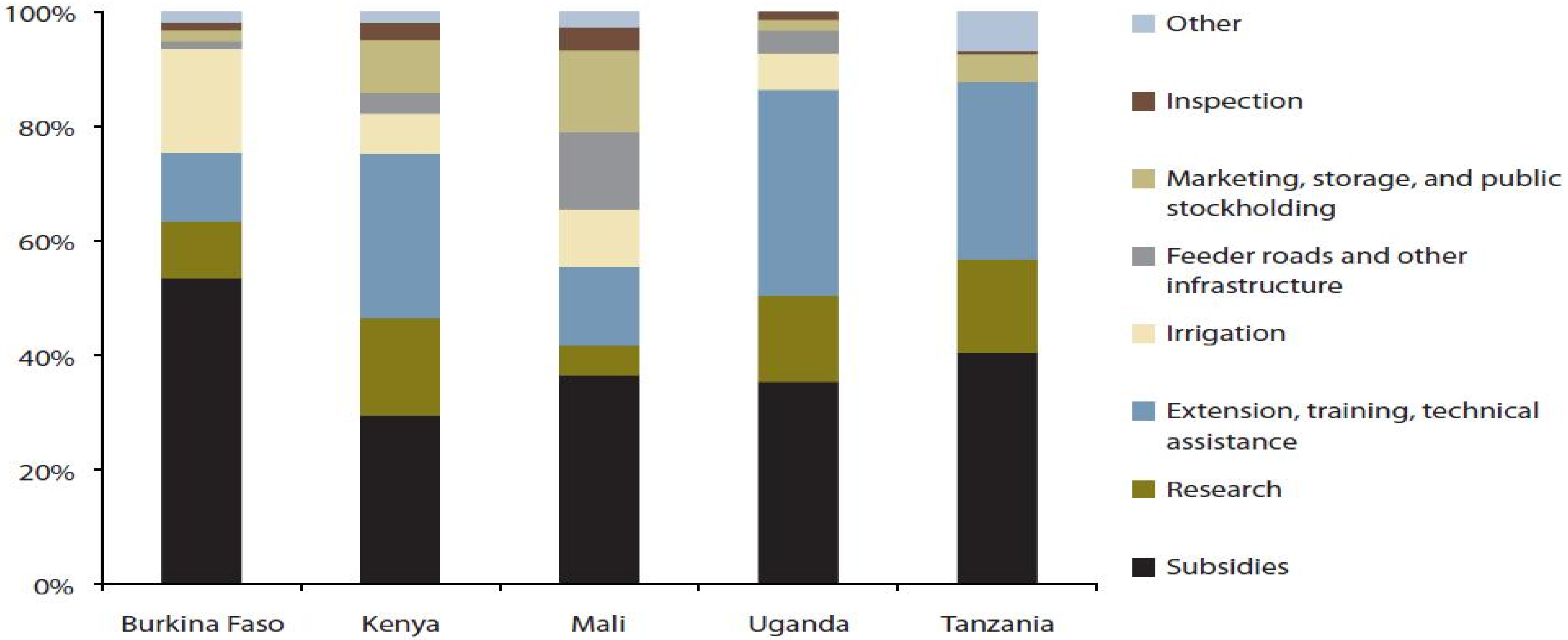
Just about half of the countries PAE finances capital expenditures, including subsidies



Source: 2012 Resakss Annual Trends and Outlook Report

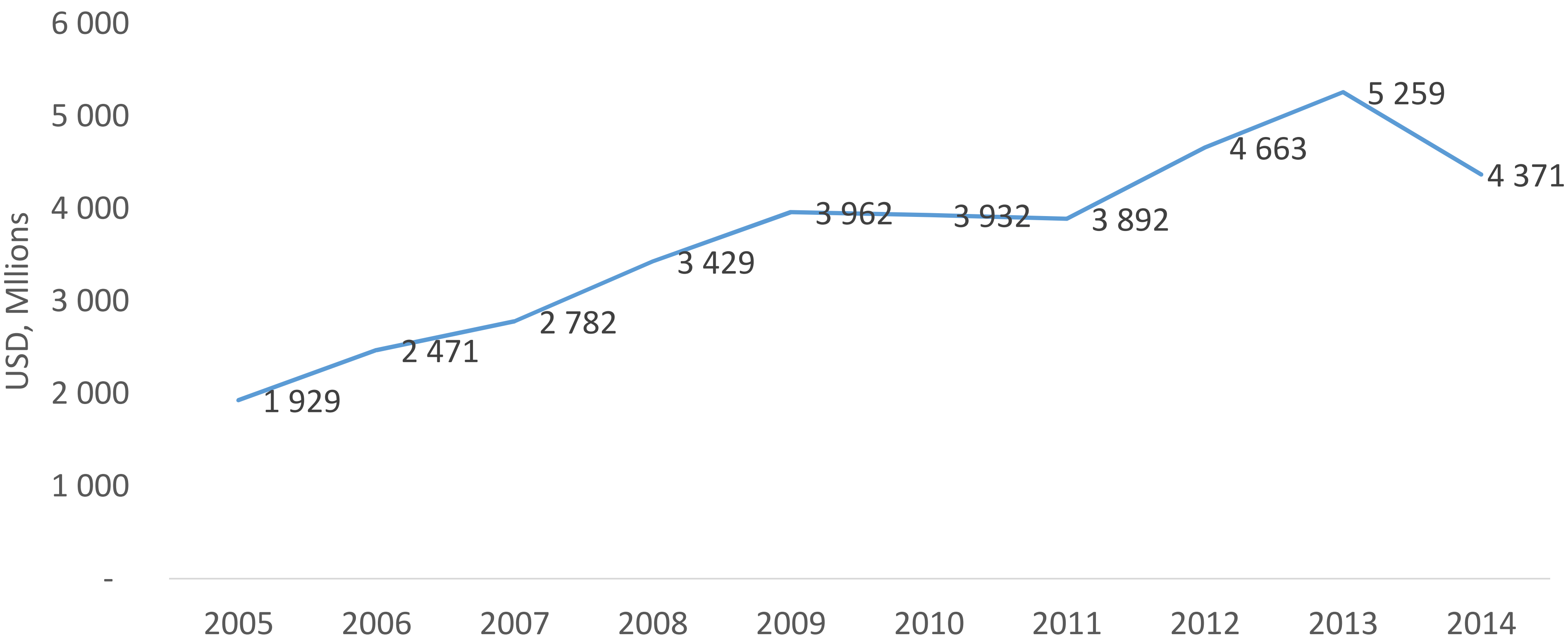
Large share of annual PAE was spent on subsidies, followed by extension, training/TA AND moderate spending on R&D

PAE BY FUNCTION IN SELECTED AFRICAN COUNTRIES, ANNUAL AVERAGE PERCENTAGE 2006–2010



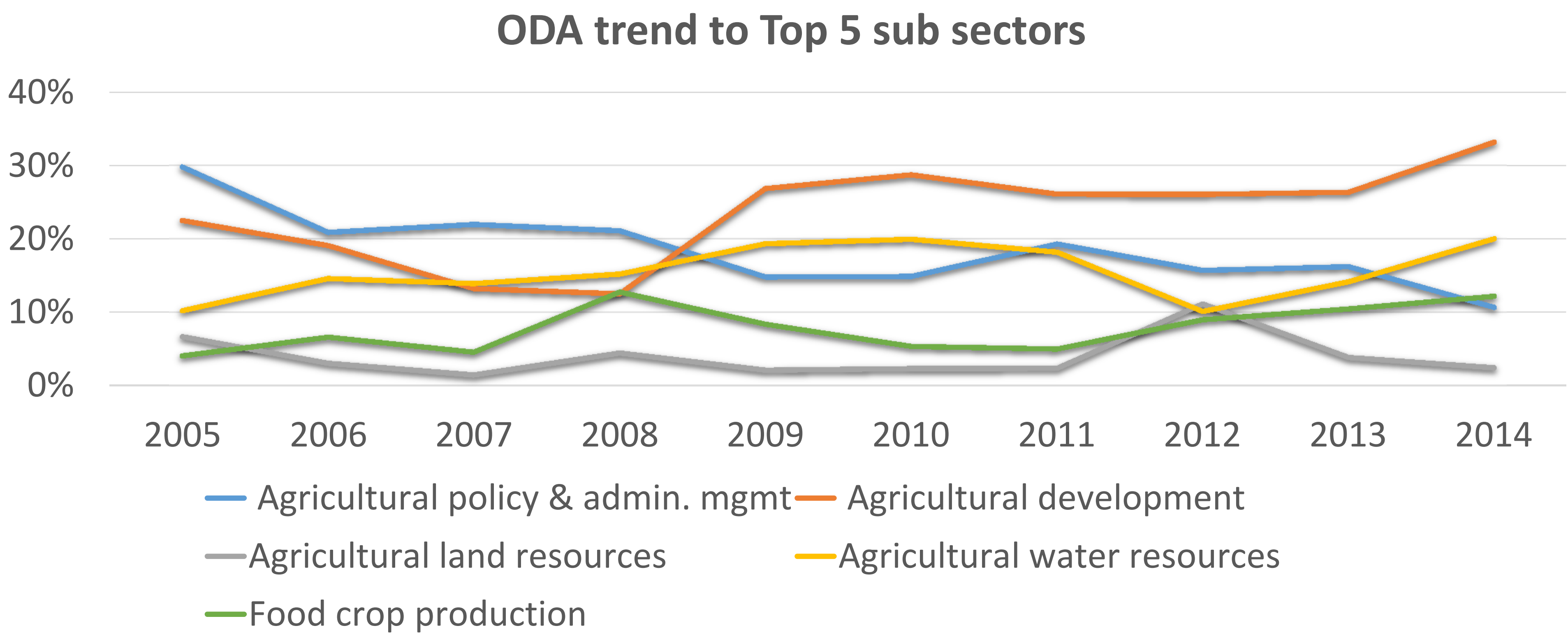
ODA

ODA to African Agriculture



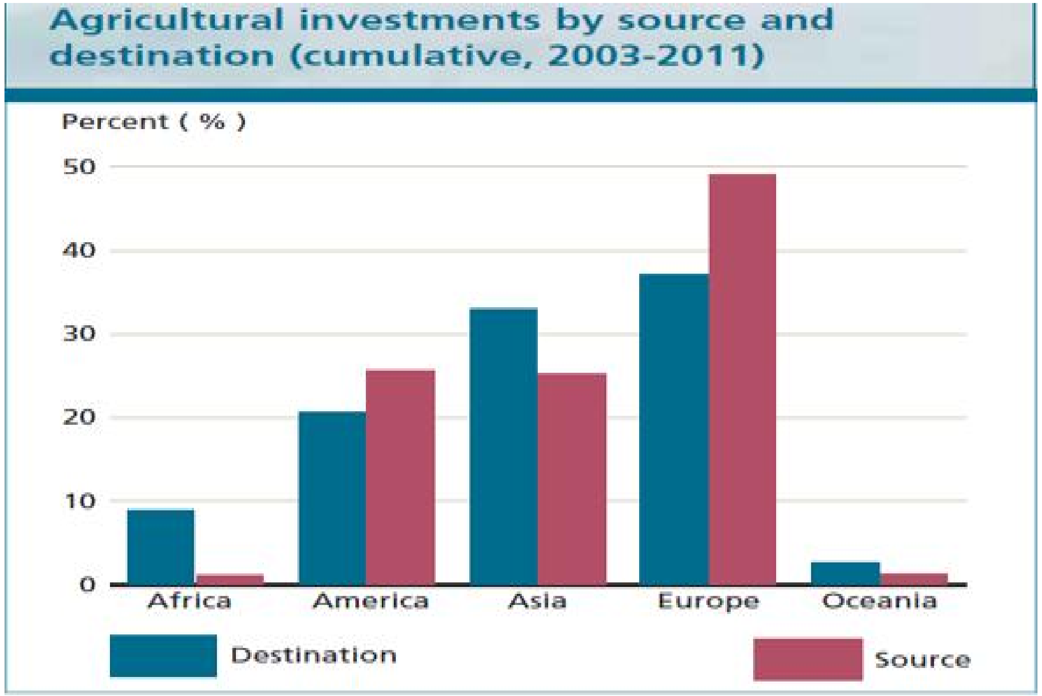
Source: OECD Stat, 2016

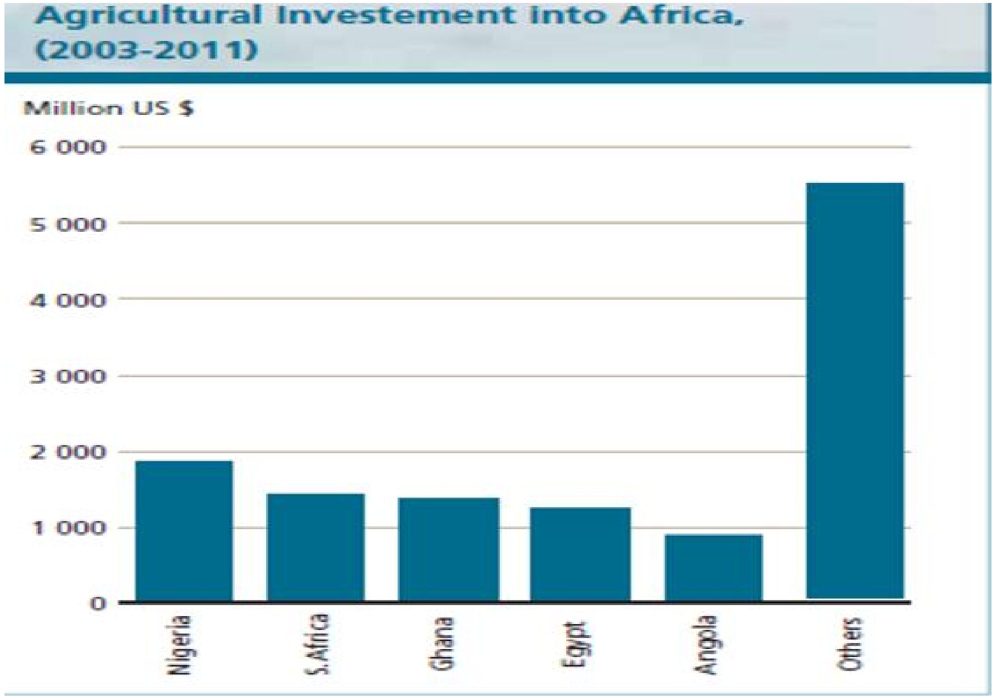
Donor support for agriculture is shifting away from ag policy and admin support to integrated projects; farm development ag water development and food crop production



Source: OECD, CRS 2016

PRIVATE SECTOR INVESTMENT





8 % (US$ 11billion) of total Agricultural FDI went to Africa

- Most investment flow is outside the region compared to significant intra regional investments for agriculture in other regions.
- Most important recipients include, Ghana, Nigeria, Uganda, Zambia, Tanzania, Mali, South Africa, Egypt and Angola.

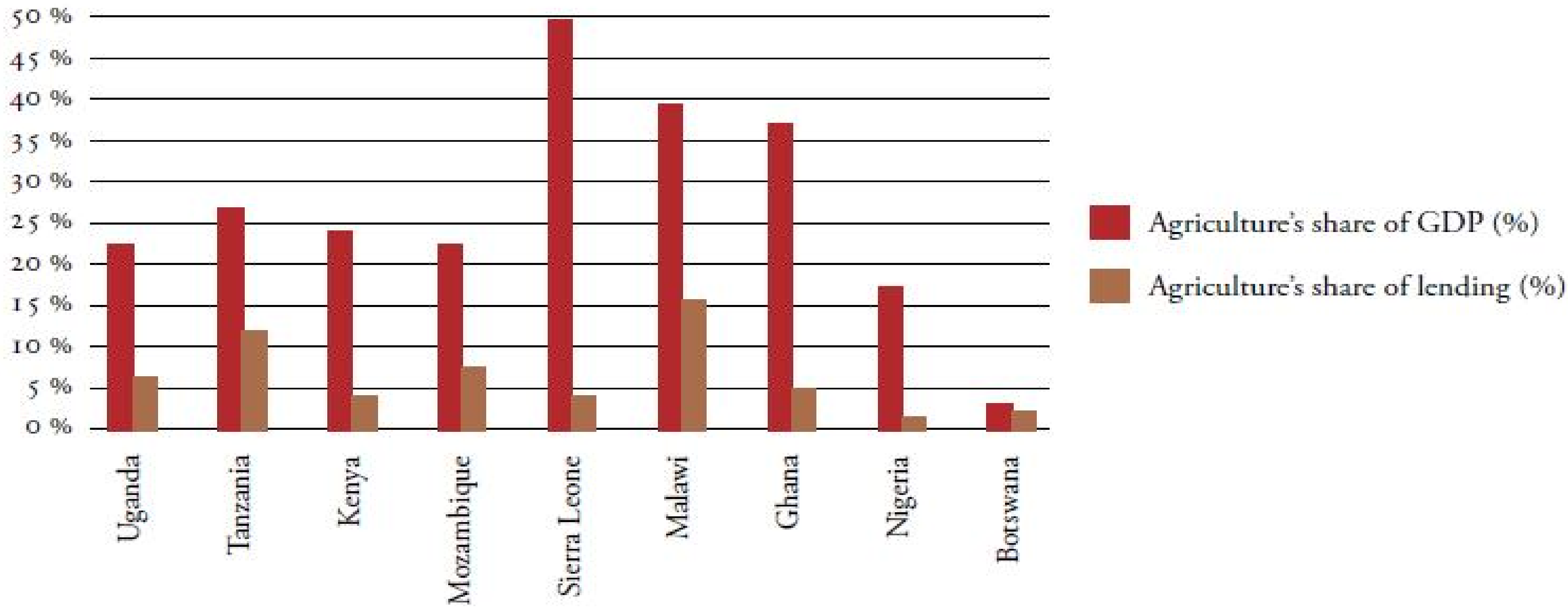
Source: FAO, 2013

The largest subsector in terms of number of enterprises are in food production and processing

Subsector	Percentage
Food producers and processors	32.94
Textiles	19.12
Forestry and paper	14.41
Beverages	11.47
Input supply	6.47
Fisheries	5.00
Rubber and leather	4.41
Horticulture	3.53
Tobacco	2.65
Total	100

Source : Mhlanga, 2010

Domestic credit to agriculture is low – below 10% of total commercial bank lending in many countries



Source: UNIDO 2010, in World Bank 2013

The Way Forward: **The private sector (foreign and domestic) will need to be the prime source of funding investments**

What can be done ?

- ❑Strengthen public sector funding for R&D, large scale irrigation, roads, storage, market facilities
- ❑Increase public sector effort to enhance the profitability of the sector and reduce risks and cost to catalyze private funding. Partial guarantee schemes, legal and regulatory instruments to support innovative financing instruments – WRS, leasing, value chain finance.
- ❑Public investments to aggregate small farmers into associations and cooperatives to overcome financing and technology constraints. This can also create opportunities for joint venture with foreign investors
- ❑Facilitating distribution of inputs and technology by removing policy barriers and restrictions
- ❑Building skills and entrepreneurship to enhance competiveness
- ❑Improving domestic financial institutions capacity to finance agriculture through product innovations, improved risk management practices, efficient delivery channels, capable human resources

Thank You