Value Chain Analysis for Development: providing evidence for better policies and operations in agricultural value chains

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PRIVATE INVESTMENT FOR INCLUSIVE GROWTH IN FOOD VALUE CHAINS IN AFRICA: EVIDENCE FROM SELECTED VCA4D STUDIES

Authors: Gideon Onumah (Corresponding author) **and Pamela Katic**

UNIVERSITY OF GREENWICH

Natural Resources Institute

Question and issues

- ❑ **Attracting private investment in African agriculture a key objective of African governments pursuing agriculture-led economic growth for food and nutrition security as well as shared prosperity.**
- **Target set under the Malabo Declaration (made during Summit of Heads of State and Governments of the African Union held in Malabo, Equatorial Guinea, 26-27th June 2014).**
- ❑ **Main questions addressed in synthesis paper and presentation are:**
  a. **Whether private investments can have significant impacts in agricultural value chains (VCs), including driving sustainable and inclusive growth;**
  b. **Whether inclusiveness requires that the investments should exclusively target smallholder producers and/or small/medium-scale enterprises (SMEs); and**
  c. **Identify success factors in achieving sustainable and inclusive growth through private investment in agricultural VCs.**

VCA4D materials

- **Analysis based on evidence from three VCA4D studies, representing different segments in VCs as follows:**

i. Upstream investment in upscaling production capacity of a large-scale eggs producer in Zambia;

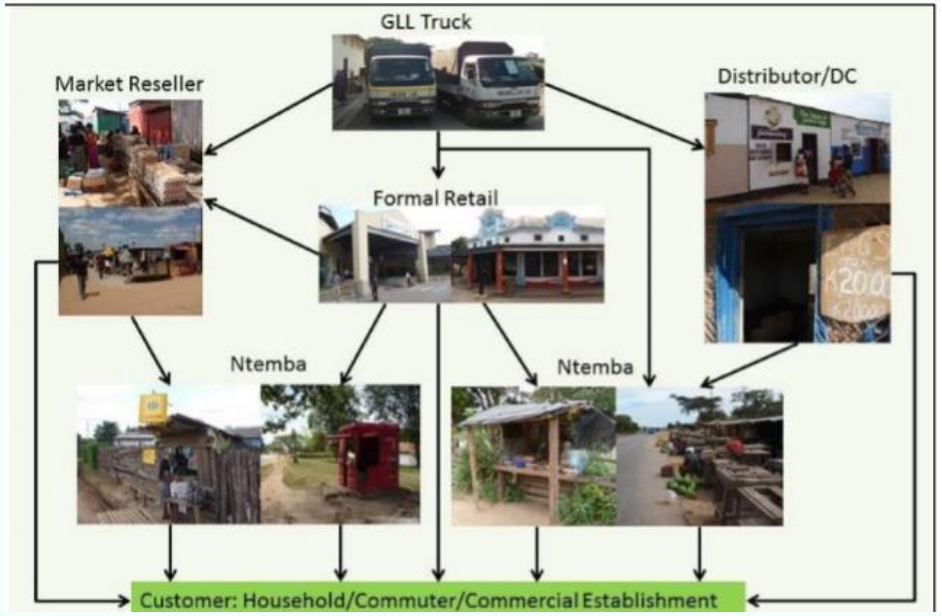
ii. Midstream investment by medium/large-scale aggregators to improve food grain supply in Nigeria; and

iii. Downstream investment in transformation of sorghum grain in Ghana.

Finding 1

❑ Upstream investment in upscaling egg production capacity in Zambia

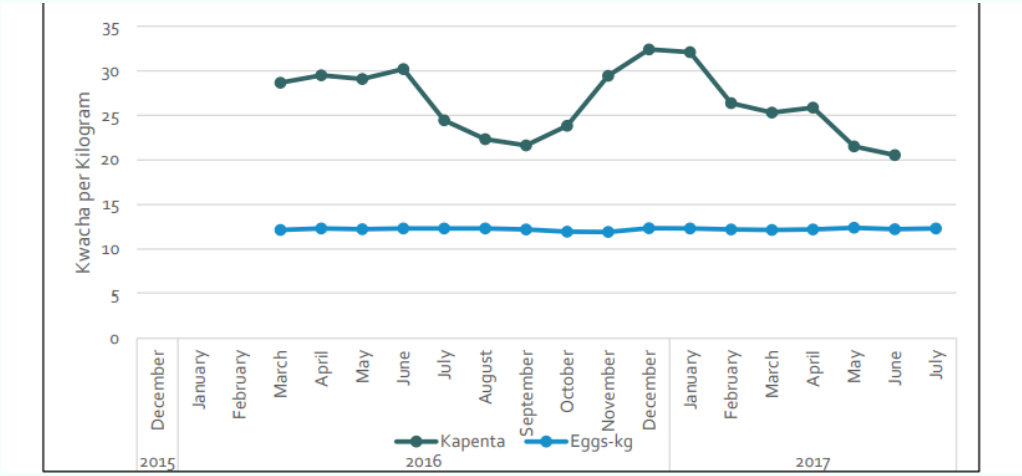
- **In 2012 the Leading egg producer in Zambia obtained equity investment by the African Agriculture Fund (AAF), which invests in food value chains across Africa.**
- **Enabled the egg producer, established in 2005, to more than double its production capacity, reaching 750,000 in-lay hens; making it more than 3 times bigger than closest competitor and accounting for over 20% of Zambia's egg production capacity**
- **Investment complemented by Technical Assistance Facility (TAF) to develop distribution system targeting relatively poor urban consumers**
- **TAF also supported piloting of smallholder soya producers**
  - **Smallholders organised by commodity trader**
  - **Supplied with inputs on credit**
  - **Output sold through aggregator to egg producer**



Finding 2

❑ Result: An "*eggcellent*" means to pro-poor nutrition security :

- **Large-scale egg producers have become even more dominant – i.e. VC has become less inclusive at the level of production**
- **However, micro/small-scale traders rather than supermarkets and other large-scale traders more dominant in egg distribution**
- **Consumption in relatively poor urban communities spiked; when**
- **Eggs became lowest cost animal protein source in Zambia due to:**
  - Economies of scale gained by leading producer;
  - Competitive pressures it created in the VC; and
  - Response to changing demand; by
  - Developing appropriate distribution system;
  - The bottom-of-pyramid (BOP) network,
  - Highly inclusive of micro/small-scale retailers.



Finding 3

❑ Midstream investment in modern maize grain aggregation in Nigeria:

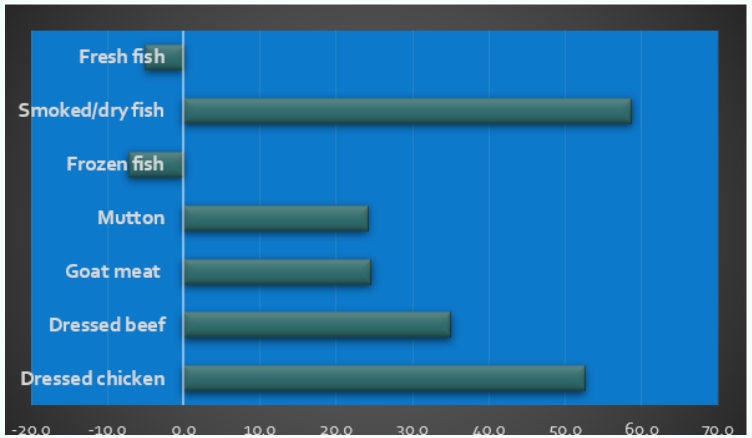
- **Medium/large-scale companies investing in grain aggregation/distribution in Nigeria maize VC:**
  - Target mainly large-scale offtakers (e.g. millers, breweries, food processors and poultry farmers). Adopt/enforce trading standards/practices preferred by offtakers and/or regulators.
  - Requires significant investment in modern/efficient grain handling, storage and transport facilities; **plus** substantial working capital (usually buy on cash basis but offer trade credit, up to 3 months)

- **Invests in promoting ties smallholder linkages to assure consistent supply of quality grains:**
  - Involves providing inputs credit; farm extension (doubles as monitoring system); postharvest handling equipment; and offering competitive prices (reflecting quality of grains and bulk sales).
- **Funding from multiple sources, including :**
  - Domestic and offshore commercial finance (often secured against forward contracts and/or track record with offtakers); government schemes; donor blended finance.

Finding 4

❑ Results: the aggregation “anchor” holds promise

- **Package of support to smallholder maize producers:**
  - Significantly boosted smallholder productivity; household income (taking them above national poverty line); and improved household food security (in terms of food availability) - discussed in more depth in paper on Inputs Subsidy Programmes in Africa by Onumah et al. (forthcoming).
- **Supply of quality grains:**
  - Critical in reducing pressure to import grains by processors and poultry industry, something that often triggers ad hoc policy interventions, often with adverse economic consequences
  - Sustaining poultry industry critical in Nigeria’s nutrition security
  - Benchmark egg price against cost of other protein sources



Finding 5

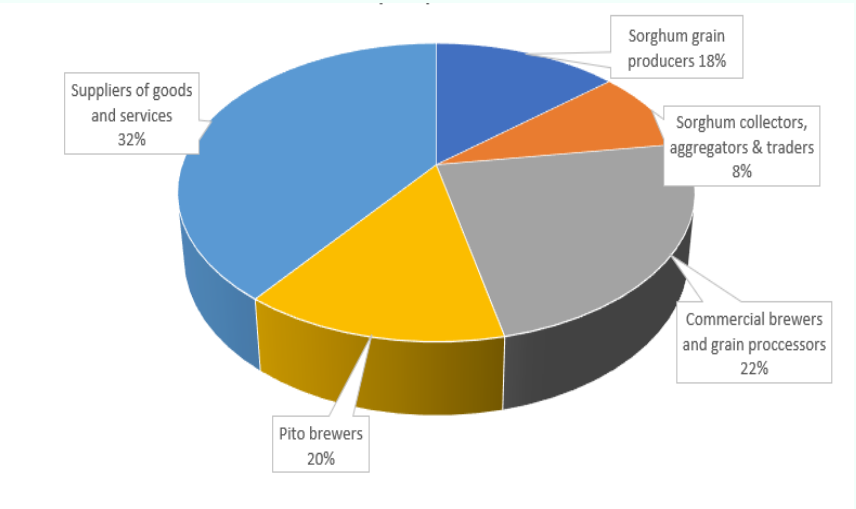
❑ Downstream investment in sorghum processing in Ghana

- **Sorghum: major staple grain produced in Northern Ghana (incidence of poverty relatively higher in producing communities than Southern Ghana**
- **Drought-tolerant: important as evidence shows reducing precipitation and more erratic rainfall, especially in the northern regions of Ghana**
- **Important not only in food systems but also as a high potential industrial crop – one of the most processed in Ghana (volume processed versus total output)**
- **Processing dominated by micro-scale *pito* brewers, predominantly women. Activity entails:**
  - Significant health hazards (smoke inhalation, risk of scorpion & snake bites – hide in firewood); and adverse environmental impacts due to reliance on firewood as energy source
- **Investment by leading brewery – replacing barley with sorghum**
  - Research into varietal selection and multiplication by public sector;
  - Funded by donor (Common Fund for Commodities)
  - Complemented by investment by private aggregators/suppliers
  - Farmer network development aided by GIZ project

Finding 6

❑ Downstream investment in sorghum processing in Ghana

- **Smallholder producers integrated into supply to brewery had income boost due to:**
  - Becoming more productive and expanding farms as a result of access to inputs financed provided by aggregators; and assured uptake at prices set during planting
  - Attracting youth into sorghum production; away from unregulated mining (*"… more rewarding but highly risky"*)
- **Micro-scale *pito* brewing remain resilient; absorb extra output from smallholders producing for the brewery**
- **Benefits from entry by brewery include:**
  - Foreign exchange savings – about €6.6 million per year
  - Substantial contribution to value added and public finance
  - Creating supply chain for other sorghum processors
  - Significantly lower processing-linked environmental impacts;
  - Due to compliance with environmental regulations; though
  - Pito brewing involves very low transport-related emissions



Implications for decision making process 1

- **All three private investments driven by "for-profit" motives e.g.:**
  - Upscaling to increase competitive edge (e.g. egg producer)
  - Taking advantage new opportunities (e.g. providing modern aggregation and distribution services)
  - Exploiting cost-saving opportunities (e.g. shift by brewery to local raw materials)
- **Generated economic, social and environmental benefits:**
  - May not directly lead to inclusiveness; but
  - Economic benefits: contribution to value added and public finance (important as most actors in agriculture are tax exempt)
  - Social benefits: increased incomes for smallholders (taking some out of poverty); contribution to improved food and nutrition security; and job creation
  - Environmental: adverse impacts reduced through increased crop yields (more without expanding area under cultivation); compliance with environmental standards and procedures which minimise adverse impacts

Implications for decision making process 2

- **Addressing risks and constraints in VCs proved critical in attracting private investments, including the following:**
  - Adjusting to change in demographics in consumer demand for eggs in Zambia
  - Lack of physical infrastructure to support efficient commodity trading
  - Free rider issues which hamper private investment in research and development for innovation (especially at the level of processing)
  - Financing constraints: both supply and cost of borrowing (often driven by public sector borrowing)
  - Policy actions which heighten market uncertainty
- **Public goals (inclusiveness and sustainability) and private motivations are not necessarily mutually exclusive**
  - Aligning these provide opportunities to optimise positive externalities from strategic private investments
  - VC development frameworks need to pay more attention to identification and mitigation of risks and constraints which impede private investment – adopting an approach which is as robust as methodology used in economic, financial, social and environmental analysis in VCA4D.

Thank you for your attention!

https://europa.eu/capacity4dev/value-chain-analysis-for-development-vca4d-/events/conference-value-chain-analysis-development-providing-evidence-better-policies-and-operations