Africa can Develop Domestic Agribusiness Better*
Yoshiko Matsumoto-Izadifar

- Higher primary commodity and food prices in the global marketplace could transform the African food market, including processed foods.
- Private enterprises and entrepreneurs are rapidly exploiting new business opportunities in domestic food markets, as seen in Senegal.
- More public support is needed to sustain the private sector’s business initiatives.

Surging world food prices have highlighted Africa’s heavy dependence on food imports. Fifty-two per cent of sugar and sugar products, 30 per cent of vegetable oils and 10 per cent of milk products consumed in the countries of sub-Saharan Africa between 1996 and 2003 came from abroad. Moreover, the hike of basic food prices directly affects African consumers. For example, Senegal experienced a 29 per cent increase in the price of milk powder and a 17 per cent increase in the price of oils between 2006 and 2007 (Figure 1).

Higher primary commodity and food prices in the global marketplace could transform the landscape of the African food market, including processed foods. Following a number of demonstrations and even riots against high food prices, African governments are turning their attention to the potential of domestic agriculture to meet food requirements at home. Private enterprises and entrepreneurs are rapidly adapting their business strategies to the new market conditions.

This geo-economic situation has resulted in renewed political attention being paid to the overall potential of African agribusiness. Meanwhile, however, it seems that discussions are focusing mainly on upstream activities (the production segment of the value chain) rather than downstream (the processing and marketing segments); the latter have not fully received the attention they deserve, especially in view of developing small, local, food-processing industries.

Figure 1: Evolution of Food Price Index in Senegal (annual average, 2002-2008)

Poor Incentives to Develop Local Processing

Rapid urbanisation in sub-Saharan Africa presents great business opportunities. Since the 1970s, the urban population in Africa has grown, and will continue to grow, at a much faster pace than in any other part of the globe (3.4 per cent annually in 2010-15 – 40 per cent more rapidly than in Asia). According to United Nations estimates, more than half the population of sub-Saharan African countries will be living in towns in 2030. And these urban consumers will

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* Index as of February.
Source: Ministry of Economy and Finance of Senegal, 2008.


demand better and more diversified food products.

However, African economic and political circumstances have not been favourable for the development of the domestic food-processing sector, for three reasons.

First, incumbents tend to discourage new entrants in the domestic food sector, and enjoy monopolistic rents.

Second, rapidly growing urban food markets have resulted in massive food imports. Benefiting from an economy of scale (and partly from subsidies in developed countries), food imports tend to be cheaper than domestically produced foods. Moreover, because imported foods are marketed better, African consumers prefer them, associating them with high product quality.

Third, African domestic politics have been historically biased in favour of export crops. Consequently, exploiting domestic and regional market opportunities for food crops has been neglected in policy formulation (see the next article). At the same time, massive numbers of local micro- and small-scale agro-food processors remain small and unstructured and miss opportunities to develop their business.

Private Sector Leads in the Global Market Change

How can sub-Saharan African countries reverse these traditional tendencies? Answers have started coming from the private sector. Even though the market is not large, private companies, relying on domestic or foreign capital, and micro- and small-scale food processors have found domestic food processing profitable.

Case 1 - Expanding Businesses in Domestic Markets:

ADVENS, of French origin, is the leading export-oriented company in the food-processing industry in Senegal. Starting its business as a company exporting food from Europe to Africa, ADVENS has gradually engaged in local processing of groundnuts and cotton.

The current global context has favoured the company. Not only is it benefiting from surging demand for groundnut oils from China, but ADVENS also sees a growing domestic business opportunity and plans to introduce new products such as groundnut milk and flour into the Senegalese market in the coming years.

Case 2 – Re-boosting Local Processing Capacity:

With decades of history in Senegal, Senegalese company SOCAS produces tomato paste by processing local fresh tomatoes. The company represents a rare example of vertical integration in sub-Saharan Africa (following South Africa) by linking production to processing at the local level.

SOCAS has also experienced reduced marketing constraints. Soaring global agriculture prices have stopped mass smuggling of imported products which used to erode the company’s profit margin. Benefiting from the results of its years of investment in local fresh tomato production by outgrower schemes, the company plans to increase local processing capacity. It has invested in producing local packaging to reduce production costs and foresees exporting tomato paste to neighbouring countries in future.

Case 3 – Turning Attention back to Domestic Sourcing:

Besides these industries, a large number of micro and small food processors coexist and engage in processing of local products. A recent study (Broutin and Bricas, 2006) revealed that these processors have succeeded in developing niche markets despite a large flow of imported foods, even without support from the government.
High food prices have turned urban consumers’ attention to locally processed cereals (i.e. millet, maize and sorghum) as well as fruits and vegetables, fish and daily consumables that are sourced domestically. Moreover, the high nutritional quality of domestic produce has recently been recognised by foreign investors such as ADVENS. Whereas the majority of local processors have reasons for staying small and in many cases informal, scaling up their processing capacity is foreseeable.

Maria Distribution, a small-scale domestic company, is a successful case, having expanded its business in local fresh fruit processing.

**Public Support: Key to Sustaining Private Initiatives**

From large food industries with foreign capital to small-scale local food processors, the private sector needs to collaborate with the government to make its business much easier and more profitable. To increase the capacity of local agricultural production, ADVENS works with the Ministry of Agriculture to provide groundnut producers with technical assistance. Micro- and small-scale domestic food processors worked closely with the public food research institute (ITA) to improve the quality of their product under the Canadian International Development Agency (CIDA)-financed Agro-Food Operators Support Project (PAOA, 2002-2007).

The food-processing sector has had a strong impact on employment creation. In Senegal, the food-processing sector accounted for 57 per cent of the total turnover in the industrial sector in 2004 and employed half of industrial workers and one-third of seasonal workers in 2003 (Table 1). Given the importance of the food-processing sector, in its Accelerated Growth Strategy (SCA, 2007) the government has made developing domestic food-processing one of its top priorities. Implementation of the SCA started in 2008.

<table>
<thead>
<tr>
<th>Final products (domestic inputs use)</th>
<th>Food Industry</th>
<th>Micro- and Small-scale Food Processors</th>
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<tbody>
<tr>
<td>Groundnut oil [(Yes)]</td>
<td>(Yes)</td>
<td>Juice and jams [(Yes)]</td>
</tr>
<tr>
<td>Canned fish [(Yes)]</td>
<td>(Yes)</td>
<td>Dried fish [(Yes)]</td>
</tr>
<tr>
<td>Cotton oil [(Yes)]</td>
<td>(Yes)</td>
<td>Processed cereals [(Yes)]</td>
</tr>
<tr>
<td>Flour</td>
<td>(No)</td>
<td>Palm or other edible oils [(Yes)]</td>
</tr>
<tr>
<td>Beer and other beverages [(No)]</td>
<td>(No)</td>
<td>Dairy products [(No)]</td>
</tr>
</tbody>
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<thead>
<tr>
<th>Targeted markets</th>
<th>Exports</th>
<th>Domestic (Import substitution)</th>
<th>Domestic (niche markets)</th>
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<tr>
<td>Economic impacts</td>
<td>57 per cent of the total turnover in the industrial sector (2004)</td>
<td>n.a.</td>
<td></td>
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</tbody>
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Source: Compiled by the author based on field interviews and BROUTIN C. and N. BRICAS (2006).

**Further reading:**


Five detailed case studies (Ghana, Mali, Senegal, Tanzania and Zambia) are available at: [www.oecd.org/dev/publications/businessfordevelopment](http://www.oecd.org/dev/publications/businessfordevelopment)

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