Big Players in African Fields*

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- Large foreign agro-food companies in Africa do not limit their activities to trading but manage entire integrated supply chains.
- Foreign private companies are increasingly adopting a business model which favours the integration of small-scale farmers into their supply chains.
- The agro-food industry is a key enabler of economic and social development in the continent by creating opportunities, including employment, along the value chain.

There is finally a good business story coming from Africa: the continent's agro-food industry is becoming an important player in the supply chains of multinational corporations (MNCs).

African markets are gradually appearing on the radar screens of large MNCs in the agro-food sector. These very large corporations have entered the most dynamic economies of the continent through a variety of activities including wholly owned subsidiaries or, in the majority of cases, non-equity linkages such as franchises and licensing. They are also present in the continent through sales and marketing offices.

The sub-sector in the agro-food industry displaying the highest exposure to multinationals is that of beverages. For Coca-Cola – present in the majority of African states – the continent constitutes a major market, averaging 5 per cent growth since 2002 and employing 16 per cent of its labour force. Anheuser-Busch InBev conducts licensed production in five African markets and works with distributors in several other countries, while the brewer SABMiller, which started in South Africa and grew globally, has brewing and beverage interests, e.g. bottling services for Coca-Cola, in 30 African countries.

Chemicals and seeds are another area of high activity: seven companies in this sector operate in Africa. BASF, Dow Chemicals and Bayer are the three most important. However, agricultural input demand in the continent is still too low to be considered an attractive market. Africa plays only a marginal role in the rise of global fertiliser consumption, projected to increase by 3 per cent in 2007-2008 with most demand (about 70 per cent) coming from East and South Asia as well as North America.

Small Farmers: Important Players in the Supply Chain

The majority of these foreign agro-food corporate giants – from the input side along the value chain to retailers – have adopted a particular business model in Africa: linking small-scale farmers into their supply chain. Contract farming schemes provide security of supply – and integrity of the product – by planning better cycles and limiting exposure to fluctuations in the global market.

Yet not all smallholders can get on board since strict standards are imposed. In the case of SABMiller, both brownfield and greenfield suppliers are benchmarked according to their business acumen, set of skills, pricing, service level and technical accreditation, i.e. quality of machinery owned, explains Eric Leong, Supply Chain Manager for Africa and Asia.

Three markets stand out in SabMiller's portfolio: Uganda, Zambia and South Africa. In these three countries the company has put over 10 000 subsistence farmers into job creation schemes. An analysis of SABMiller's economic footprint in South Africa demonstrates that beyond the 9 000 direct permanent employees of the corporation in the country, an additional 378 000 jobs are created through the company's operations along the supply chain.

There are 40 markets in Africa where British American Tobacco (BAT) has a presence. Altogether 77 per cent of the tobacco produced in these countries comes directly from smallholder farmers, all managed through contract farming schemes (the remainder comes from third parties). In the six countries where BAT sources tobacco leaf, the company has signed contracts with 50 000 farmers.

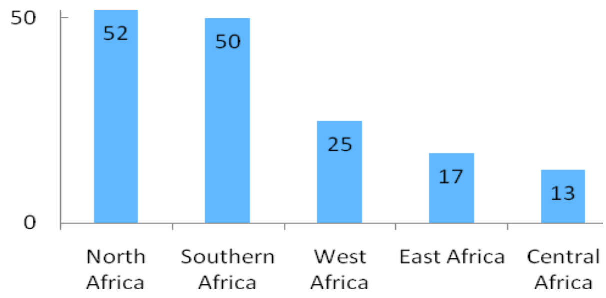
BAT assesses its suppliers by their historic performance. Profitability, quality of supply and payback rates are crucial indicators. For new farmers, land availability, the size of the family working unit and membership of tobacco unions count the most.

Most foreign companies do not invest financially in their business partners, but may provide them with services in kind (e.g. seeds and fertilisers), advice on cultivation techniques or preferential financial terms, especially in the case of greenfield suppliers. Therefore, local sourcing translates into benefits for both sides: it keeps costs down for a foreign corporation and scales up opportunities for farmers. Overall "the economics of doing it locally are better", summarises Richard Morgan, Corporate Relations and Communications Director at Unilever.

Inter-regional Differences: Market Size Matters

While some areas on the continent seem to attract intensive business activity, others are completely marginalised from economic dynamism. North Africa leads with the highest number of foreign agro-food companies present on site (see illustration). Relatively high levels of economic growth, reinforced by strong ties with the European single market, progress in economic liberalisation and improvements in the infrastructure system, have positioned the region as the main competitor to South Africa's long established business market.

Spread of Foreign Agro-Food MNCs in Africa



Note: The number of companies present in each region covers only those listed in Fortune Global 500 and may include multiple subsidiaries of the same firm.
Source: OECD Development Centre (2008)

Southern Africa as a whole also ranks as very popular among foreign MNCs, second only to North Africa. By contrast, the economies of West, East and Central Africa are less attractive to foreign corporations. Yet within these regions, individual countries are perfect fields for foreign agribusiness multinationals.

The level of concentration of agro-food related firms appears to be higher in countries recording above-average GDP (size of an economy) and GDP per capita (proxy to the level of development of a country) (see chapter 2 of *Business for Development 2008*). Thus Nigeria – a country with 47 per cent of the entire population of West Africa and a GDP of more than one-and-a-half times the aggregate GDP of the rest of the region – is the most important hub in West Africa hosting about one-third of the leading international agro-food corporations.

In East Africa, Kenya is the number one destination for foreign MNCs and it dominates in terms of market size. The geographical concentration of large agro-food enterprises in major regions and countries of Africa underscores the importance of the size of a target economy as a criterion for doing business.

Asia Venturing into African Fields

Petroleum and metals from Africa have been in high demand from Asia, boosting Africa-Asian trade relations. At the same time, agro-related products have taken an increasing share in the trade flows between the two continents. The world's two most populous countries, China and India, are among Africa's most important export markets for agricultural products, accounting for about 7 per cent of world agricultural imports from Africa.

Their relationship, though, goes beyond that of mere imports and exports: Asian agribusiness companies invest directly in the African continent. Such a strategy has been adopted by the Currimjee Group, based in Mauritius. From a commodity-trading company back in 1890 when it was founded by an Indian entrepreneur, the Currimjee Group later diversified into the distribution and services sector across various African countries. Bottling, marketing and distribution of Pepsi Cola and mineral water are some of the activities carried out by the group.

Olam International, founded by the Indian diaspora in Singapore, spreads across 24 countries throughout Africa and "plans to expand its coverage to 10 more countries in the next three years and to the whole continent in the next 10 years", envisages M.D. Ramesh, President and Regional Head – South and East Africa. Not only does the company span the globe, it also integrates entire supply chains into its management strategy. Olam taps into sourcing, processing and distribution of raw materials such as cocoa, sugar, beans and nuts. The potential of the continent is well recognised and reflected in the company's portfolio: 27 per cent of total sourcing volume comes from Africa where 29 per cent of sales turnover is generated.

Rice extension farming in Nigeria and outgrowers' programmes in cashew processing in Tanzania and Mozambique exemplify Olam's approach in linking farmers to its supply chain. In these countries, the company supports farmers through extension services, providing training, buying back produce, acquiring farm equipment, etc.

Olam boasts of the employment it generates: 5 200 outgrower farmers are employed in Nigeria (compared with only 1 000 in 2005); 5 500 women work in cashew processing in Tanzania and 3 000 employees are based in Mozambique (in both these cases, thousands of incremental jobs have been created since 2005). In addition, Olam plans to "support 50 000 farmers through rice-farming initiatives by 2010", says Ramesh.

Further reading:

OECD DEVELOPMENT CENTRE (2008), *Business for Development: Promoting Commercial Agriculture in Africa*, OECD Development Centre, Paris.

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

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