Global Agro-Food Supply Chain: Is There Space for Africa?*

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- Large African agro-food companies are moving beyond national borders and challenging globally leading multinational corporations (MNCs).
- Internationalisation of these African firms is not confined to continental borders; moreover, co-operation with foreign MNCs is increasingly sought.
- Investors' interests are rising both within the continent and beyond, thus offering indigenous companies easier access to finance.

Internationally active corporate giants such as British American Tobacco, Unilever and Coca-Cola are not the only companies leveraging the African agro-food market. A growing array of medium to large indigenous companies is moving beyond national borders to operate in neighbouring countries.

African Companies on the Rise

African companies demonstrate enormous potential: the turnover of the leading 100 African firms, ranked by *Jeune Afrique*, has increased by 12.3 per cent in only one year (2005-2006). And this is not all: in the Global 2000 ranking published by the American *Forbes* magazine, 17 South African companies, five North African and one from West Africa were listed among the top global firms, revealing the rise of African multinationals. Today, food services supplier Bidvest plays in the same league as France's SODEXO; African SASOL competes in the chemical and fuel industry with internationally known Chevron and Dutch Royal Shell.

In the agro-food industry, the combined revenue of the 111 largest African companies places the sector second after the oil, gas and fuel industry in the continent. To escape saturated domestic markets, the rising challengers to foreign corporate giants are exploring new frontiers in neighbouring countries. Thus, the oils and soaps produced by the Moroccan Lesieur Cristal are also used by households in Burkina Faso, Côte d'Ivoire, Gabon and Gambia. Namibian Breweries supply beverages to 10 other countries in Southern and Eastern Africa. Additions to this list are easy to find.

The lion's share among indigenous companies remains that of the South Africans. The globally successful brewer SABMiller originated in South Africa and now has brewing and beverage interests (e.g. bottling services for Coca-Cola) in 30 African countries. The company at present outperforms the Distell Group, ranked second in the beverage sector, four times by revenue. The South African Illovo Sugar, which cultivates and refines sugar, manages factories in Malawi, Tanzania and Zambia. It has recently opened a new establishment in Mali.

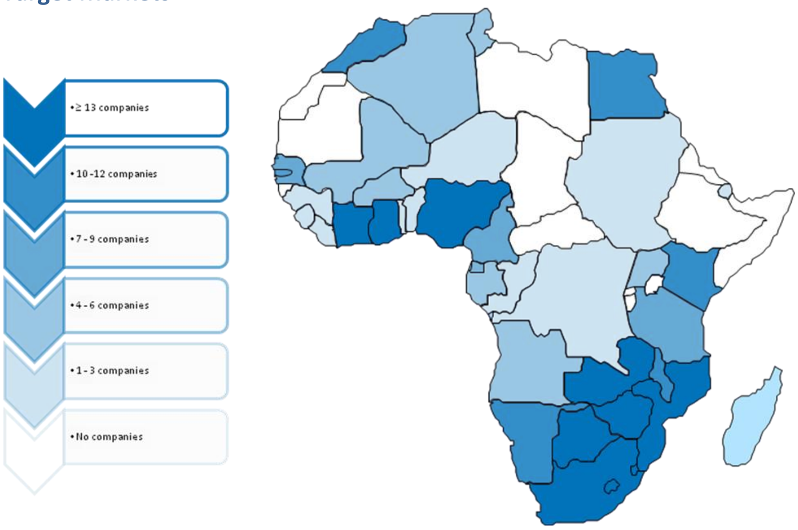
Regional Concentration of Growth

While South Africa boosts the entire region, West Africa also attracts many domestic firms in the agro-food sector (see illustration). In terms of the total number of leading African companies present, the region followed Southern Africa and overtook North Africa in 2007. Within West Africa, Nigeria is the most important hub of economic activities.

East Africa encounters difficulties in nurturing strong domestic enterprises but excels in attracting companies from other African countries. The region is a favoured destination of FDI partly because of the ongoing regional integration initiative, the East African Community (EAC) of Kenya, Uganda and Tanzania. Following implementation of the customs union protocol in 2005, intra-regional trade barriers have been largely eradicated.

Central Africa is seriously lagging behind in terms of successful domestic agro-food enterprises. Only a few companies have their headquarters in this region, although agriculture constitutes a major source of GDP. However, Central Africa is still a small and fragmented market and its regional integration efforts are among the least developed.

Geographic Distribution of African Agro-Food Companies and Their Target Markets



Note: Figures include headquarters and target markets
Source: OECD Development Centre (2008), based on *Jeune Afrique* (2007)

Local Markets, International Growth

The growth of African agro-food companies is nurtured primarily by local and regional demand. A good example is that of retailers: while independent small-owner operated shops have been slowly disappearing, large supermarket chains have extended their geographic reach. Following market liberalisation and, to a greater extent, urbanisation, supermarket chains are spreading rapidly throughout Africa.

Furthermore, local companies are taking advantage of the scarce foreign presence in retail and distribution – of the top foreign retailers only Metro and Carrefour are physically present in the continent – and are rapidly expanding. Pick'n Pay, Massmart, Shoprite and Woolworths head the league. They not only shield their domestic markets from foreign distributors but they are also speedily spreading to neighbouring countries where they either invest in new supermarkets or license their brand to franchise partners in competition with local informal market places.

Yet other local companies also seek their share of the pie: the Moroccan Marjane, the Ghanaian Produce Buying Company and Prosuma of Côte d'Ivoire are becoming aggressive players. The supermarket Nakumatt, headquartered in Kenya, is pursuing investment interests in Rwanda, Uganda and Tanzania. The emergence of these important actors underlines the strengthening of the food production chain in the continent.

The African consumer markets bear many other niches to be explored by local companies. Major beer brewers have ventured into local markets by substituting imported barley malt with locally grown sorghum. The final products, such as SABMiller's Eagle Lager, are cheaper than other beers and reach poorer households. However, the impact of rising food prices on consumption and market opportunities is difficult to predict.

Reaching beyond the Continent

Internationalisation need not remain within continental borders. SABMiller has established its brand across the globe. Several foodprocessing companies, e.g. Cameroon's Société Nouvelle des Plantations du Haut-Penja and Cairo Poultry Ltd., readily export their products worldwide. This flexibility marks the emergence of successful agro-food business from Africa.

Moreover, co-operation with companies from outside Africa is increasingly sought. Morocco's ONA group partners Lesieur France, while the Tunisian Régie Nationale des Tabacs et des Allumettes collaborates with British American Tobacco. Nigeria's Dangote Sugar Refinery imports raw sugar from Brazil to process it at home for industrial and domestic consumption (see Box 1).

Box 1: Dangote — Nigerian Ventures in Foreign Markets

Dangote Sugar Refinery Plc from Nigeria is a case in point when it comes to internationalised African business. The company imports raw sugar from Brazil, refines it into Vitamin A-fortified white sugar and sells the finished product to consumers across Nigeria and beyond. Dangote also supplies unfortified sugar to large industrial users, including Nestlé, Cadbury, Seven-Up Bottling Company and Nigerian Bottling Company.

Dangote's products rapidly found their way into neighbouring West African countries through informal cross-border trading. In December 2007, the company officially entered the West Coast market with a successful first consignment to Ghana. The firm's exports are expected to grow between 15 and 20 per cent over the next five years. Offices in Congo, Ghana and Liberia will open soon.

Yet the company is following an even more ambitious vision: plans to open a sugar refinery in Algeria are already underway. Not only sugar consumption levels in Algeria consistently exceed home market figures – despite the country's population being smaller than that of Nigeria – but also its presence in North Africa would grant access to European customers. Timing could not be better for the Nigerian company: subsidies on domestic sugar production are progressively being removed by the European Union (EU) as ruled by the WTO in 2005.

Africa: A New Frontier for Investors

Additional proof of the progress made by indigenous firms towards internationalisation is provided by the higher outflows of investments recorded recently: FDI outflows surged in 2006 to $8 billion, quadrupling from the year before. According to estimates by UNCTAD, South Africa was the top investor in 2006, accounting for four-fifths of the total outflows across sectors. Nigeria, Liberia and Morocco followed with outflows ranging from $0.2 to $0.4 billion.

Likewise, increasing quotations in local stock exchanges have been making the headlines among brokers and traders. Firms across the agro-food value chains are quoted not only in the Johannesburg Stock Exchange – the principal market in Africa – but also in "non-traditional" territories across the continent: from Egypt to Namibia, from Kenya to Côte d'Ivoire.

These positive developments facilitate access to financial resources for African private companies and spur the rise of indigenous investors. The African Venture Capital Association, a global knowledge-sharing network of private equity organisations, counts more and more members from Africa. For sure, the interest of international investors towards the continent is rising. In a nutshell, "where others see bottlenecks and gaps, we see investment opportunities", explains Allan Kamau, Managing Director of Africa Investor.

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

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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