Delivering on Regional Agricultural Trade in Africa: Considerations for Investors on Inclusive Supply Chains

CASA, EPIC and Malabo Montpellier Panel

February 2021
The Commercial Agriculture for Smallholders and Agribusiness (CASA) programme is a flagship programme of the UK Foreign, Commonwealth & Development Office (FCDO) and is intended to increase global investment in agribusinesses that trade with smallholders in equitable commercial relationships, increasing smallholders’ incomes and climate resilience. The programme aims to help agribusinesses to scale up and trade in larger commercial markets. As part of its work CASA generates new evidence and analysis that supports a stronger, fairer and greener agribusiness sector.

CASA is a consortium of organisations (CABI, NIRAS and Swisscontact) working with associate partners (IIED, Malabo Montpellier Panel and TechnoServe).

This briefing was produced in collaboration with the Smallholder and Agri-SME Finance and Investment Network (SAFIN).

2021 ©FCDO
Introduction: Capital providers can play a critical role in promoting inclusiveness in regionally traded value chains

The majority of Africa’s exports are raw materials, which offer low value addition to support economic growth and job creation. Maximising agricultural production and strengthening the competitiveness of the agricultural sector offers the potential to promote smallholder farmer inclusiveness while increasing food security and reducing reliance on imports of processed food products. Yet, the recent changes in continent level trade policy combined with the strengthening of advisory support to local enterprises and better understanding of the importance of balanced contractual arrangements is improving opportunities for investing in traded crops that deliver smallholder inclusivity in African agri-food value chains.

This briefing has been supported by the Smallholder and Agri-SME Finance and Investment Network (SAFIN) and it draws on analysis produced by the Commercial Agriculture for Smallholders and Agribusiness (CASA) Programme, the Empowering Producers in Commercial Agriculture (EPIC) programme, and the Malabo Montpellier Panel. The briefing provides advice and ideas for capital providers around three critical dimensions for promoting inclusivity of smallholder farmers in agriculture value chains in Africa:

- Opportunities for the investor community to capitalise on emergent intraregional trade policies
- The use of technical assistance for making regionally and internationally traded crop production more inclusive
- The role of contractual relationships throughout the value chain for balancing risk and reward whilst ensuring inclusiveness and fairness for sustainable business relationships

This briefing highlights the role that investors and other stakeholders can play in addressing these issues while contributing to strengthening the competitiveness, inclusivity and efficiency of Africa’s agri-food sector.

Opportunities emerging from intraregional trade policies

The newly created African Continental Free Trade Area (AfCFTA) is one of the largest free trade areas globally, covering a market of more than 1.2 billion people and valued at up to US$3 trillion in combined GDP, with the potential of increasing intra-African trade by over 50 percent and adding an estimated US$76 billion to global income. Simply by removing tariffs on goods, the value of intra-African trade in 2040 is expected to increase by 15 to 20 percent, equivalent to US$50–70 billion. Intra-African trade in agricultural products, especially sugar, vegetables, fruits, nuts, beverages and dairy products is also expected to benefit from improvements in customs procedures and logistics and is projected to rise by 20 to 30 percent by 2040. This presents an incomparable opportunity for investors to tap into a flourishing agricultural sector and contribute towards sustainable and inclusive development on the continent.

The largest share of agricultural trade across Africa is currently channelled through regional economic communities (RECs), which have a wide array of tools and policies to deepen regional integration and increase the intensity of agricultural trade. The Malabo Montpellier Panel’s report “Trading Up: Policy innovations to expand food and agricultural trade in Africa” provides options for sustainably, yet rapidly, increasing intraregional agricultural trade in Africa and draws on the experience of COMESA (Common Market for Eastern and Southern Africa), ECOWAS (Economic Community of West African States) and SADC (Southern African Development Community) in terms of institutional and policy innovation as well as programmatic interventions. There are several opportunities for governments and the investor community to facilitate and influence trade across borders in Africa and contribute toward greater regional integration.
Given the continent’s growing population, urbanisation, and the potential to tap into high value markets, raising the competitiveness of Africa’s rapidly growing agro-processing sector has become an urgent priority and significant opportunity for investors. The food processing sector can drive value addition in a way few other sectors can, but it needs investments into the design and development of technologies that improve both the quantity and quality of food. Investments in good quality, accessible trade infrastructure will drive agricultural trade in Africa. Potential growth opportunities for investors under AfCFTA include:

- Effective public-private partnerships (PPPs) that support trade and transport corridors and provide an opportunity to leverage infrastructure and cluster investments around processing, packaging and storage infrastructure both for inputs and outputs
- Harnessing the true potential of regional agricultural trade by combining investments in infrastructure with investments into strengthening logistics, service provision (such as trucking services, distribution, nutrition enhancement and quality management) and other market integration mechanisms
- Exploring creative approaches that engage the private sector in workforce training and education, promoting higher product standards and leveraging regional distribution networks to advance regional integration programmes

Maximising inclusion in regional and global value chains – the role of investors

The agribusiness sector has the potential to not only drive export incomes and job growth, but also to provide inclusive economic and food security benefits to farmers and consumers throughout the value chain. Issues with ensuring sufficient raw materials at consistent quality and inefficient multi-stage aggregation are major bottlenecks that inhibit investment in secondary processing, production and export of higher value products. And, while smallholder sourcing can strengthen agribusinesses’ long-term health and profitability, an efficient system can be complex, costly and/or risky to set up in the short-term. Inclusive business models engage small-scale farmers fairly which contributes to sustaining the relationship between producer and processors, thereby generating both commercial as well as development impact. To invest with confidence and drive attractive returns, investors and enterprises require specialist Technical Assistance (TA) to develop cost-efficient inclusive business models that assure continuity of production along with sustainable smallholder participation.

In recent years, there has been growing funding of TA to strengthen the commercial and development impact of agribusinesses in emerging markets. TA has been used to help bring smallholders into higher value domestic and regional value chains from low value commodity crop production. This support is being funded both from Development Finance Institutions’ (DFIs’) own resources and through support from donors. However, relatively little is known about the nature and effectiveness of these initiatives. Designed to address this knowledge gap, CASA’s TA Facility (TAF) produced “A Review of Inclusive Technical Assistance in Agriculture Deployed by Development Finance Institutions” in 2020 which focuses on efforts by DFIs to provide TA to agribusinesses, which (while comprising only a small share of overall DFI investment portfolios) receive 30% of all TA.

The research highlights that DFIs expect the provision of inclusive TA in agriculture to rise, citing increasing focus on agriculture investment, increasingly ambitious targets for development impact from these investments and growing recognition of the role of TA to achieving impact potential as the key drivers of the change. However, 58% of the surveyed
DFI TA projects were dedicated to core business support\(^1\), compared to 42% for inclusive projects\(^2\). And 73% of DFIs predominantly provided core business support to agribusinesses. The research identified three reasons for this:

- Competing business priorities mean that companies and investment managers often put a stronger focus on financial performance
- Limited DFI and company bandwidth for surfacing projects as fund managers are often less development impact oriented and thus less inclined to design inclusive projects
- The perceived burden of impact measurement holds back inclusive TA projects

Taken together, these three specific reasons speak to the broader underlying challenge of how inclusive TA is often perceived as being in tension with rather than in service of commercial objectives. There is also a lack of clear sector-wide evidence on the commercial and social value generated from this kind of support. There are three opportunities for investors and TA practitioners to advance the case for inclusive business support:

- The use of consistent ‘outcome level’ economic indicators, so that development institutions understand commercial and social value generated by TA investments
- Rapid and cost-effective impact assessments, coupled with training to improve clients’ capacity to work with data and analytics
- Harmonising TA typology to enable industry practitioners and DFIs to document, compare and evaluate approaches to inclusive TA

### Improving the contractual terms of trade for producers

The majority of investors engage in commercial agriculture, where contracts coordinate both production and trade, and legal support is a critical component of core business TA. Although contract farming has received extensive attention in academic and policy debates, the world of commercial agriculture contracts is considerably broader and largely underexplored by capital providers. Trade is based on contracts, with the higher-level international trade contracts influencing the terms of trade throughout the value chain, including down to the level of smallholder producers. When engaging in contracts, especially at this smallholder producer level, ensuring that they involve inclusion and agency supports the development of equitable and fair agreements that are both more likely to be honoured and provide greater development impact.

The EPIC programme have recently produced a report on “Contracts in commercial agriculture: enhancing rural producer agency”. The research analysed a pool of 40 contracts related to commercial agriculture to provide insights towards developing a typology more reflective of contract diversity and their interconnectedness within value chains. The pool included diverse types of contracts from different segments of agricultural value chains, from contracts between farmers and their immediate buyers to contracts imposed by end buyers. The pool also included contracts between governments and companies that, while located outside the value chain, may have a bearing on the terms agreed within it.

---

\(^1\) Core Business TA has its focus on reducing risk and catalysing growth of the business. This type of TA provides businesses with sector-specific and functional business support (i.e. strategy, finance, marketing, and legal). This type of TA can have positive impacts on low-income communities that supply or source from the business, however the main focus of the TA is the business, its systems and processes; and impact is typically mostly quantified at the core business level.

\(^2\) Inclusive Business TA has its focus on enhancing direct impact around investments specifically towards low-income communities, quantifying impact and the benefit beyond the businesses. The focus of the TA can be at the business level (to ensure viable and impactful inclusive model design and implementation) and/or focused towards low-income communities (e.g. smallholder or micro-enterprise capacity building, access to finance or market linkages).
The analysis identified how contracts distribute both risks and rewards among various actors, as well as defining standards on key issues. Contracts also intersect with public regulation, including national legislation and international treaties like cross-border trade, which reinforces their importance for promoting inclusive regional supply chains.

The process through which contracts are developed and implemented—including who has what say, and at which stage—can affect producers’ choices when it comes to deciding whether and with whom to contract, as well as their ability to shape the terms of these contracts. Contractual provisions can inherently curtail the parties’ agency, as they mandate certain behaviours while restricting others, and contracting parties often accept these restrictions in exchange for lower risks or higher rewards. Contractual provisions can also enhance opportunities for agency, such as enabling economic activities that would otherwise be beyond the reach of small-scale producers.

Investors (both concessional and commercial) will benefit from enhancing inclusiveness and rural producer agency in regionally traded commodities where they are engaged, as this leads to stable and sustainable value chains. They should:

- Consider contracts, not just international treaties, when providing TA and tracking how agricultural trade affects small-scale producers in low- and middle-income countries
- Promote transparency through public repositories for lead firms to systematically disclose contract templates
- Intervene beyond contracts to enable producers to negotiate from a position of greater strength, for example through investments in post-harvest infrastructure or organisational capacity
- Offer producers support in weighing the costs and benefits of different market options before discussing any contractual formulations, based on the fact that contracts are largely a function of value chain structure and trading relationships
- Comprehensively reconsider contract terms and process by scrutinising provisions, favouring incentives over sanctions
- Develop and implement sustainability standards that promote agency throughout the chain of contracts, including guidance on contractual practice, and facilitating producer agency in the design and governance of standards and verification systems
- Consider social differentiation and how it affects contracts in commercial agriculture—not only between farmers and their value chain partners but within the farming family, considering gender, age and other factors

**Conclusions: The opportunity to invest in productive and inclusive value chains**

The new AfCFTA offers a unique opportunity for capital providers to invest in the design and development of technologies that improve the quantity and quality of food traded, as way for contributing towards sustainable and inclusive development on the continent. Investments in good quality, accessible trade infrastructure will drive agricultural trade in Africa if they are made in tandem with investments into strengthening logistics, service provision and other market integration mechanisms. Engaging investors throughout the processes of trade facilitation as well as jointly developed investment plans can ensure that risks and rewards are shared and that investments are viable and sustainable over the long-term.

Inclusive Technical Assistance is critical in ensuring that enterprises deliver both return on investment and a positive impact at the producer level. Balancing business imperatives with impact expectations is based on engendering the understanding that inclusivity is not a
threat to business processes but fundamental to sustainable enterprise. However, for that to happen, there needs to be consistent measurement of impact at the farmer, portfolio company and investment fund levels. This can demonstrate the value of inclusive TA and also highlights the specific factors that support viable and sustainable inclusive sourcing models to inform future TA deployment and investment decisions.

Contracts distribute risks and rewards, as well as determine standards, making them critical for achieving market compliance and returns on investment. They also intersect with public regulation, including national legislation and international treaties like cross-border trade, which reinforces their importance in promoting inclusive regional supply chains. The crafting of fair contracts, by ensuring producer agency in the process, is a key component for promoting sustainable growth and producer inclusiveness in regionally traded value chains.
