

## FOREIGN DIRECT INVESTMENTS IN AFRICA'S FOOD AND AGRICULTURE SECTOR

### How understanding and channeling FDI better could unlock a powerful development tool

Despite African governments' efforts to attract Foreign Direct Investment (FDI) into their food and agriculture sector and the counter-criticism this has provoked, surprisingly little research has been conducted to better understand the scale and impact of these investments. Such information is crucial to be able to harness FDI as a tool for poverty reduction and development, including where investments flow, what drives them, and their long-term effects on the local population.

Related research at ZEF has highlighted a number of key insights:

- FDI flows into Africa's food and agriculture sector come from diverse sources and are less concentrated than is often thought.
- FDI projects in the food and agriculture sector are implemented mainly to serve local and regional markets.
- Areas with larger supplies of agricultural land, higher population density, better infrastructure, regulatory quality and previous investment projects are more likely to attract FDI in this sector.

Although significant knowledge gaps about the direct effects of food and agriculture FDI on the welfare of the local population remain, past studies suggest that foreign private-sector investments create more stable, higher paying jobs than domestic investments and that new wage employment opportunities benefit poor and marginalized populations. While the findings are important, these studies are still limited in number and often present methodological issues. Further research on the effects of existing food and agriculture FDI projects is needed, with a particular focus on the long-run impacts on various stakeholders. This is essential in helping policy-makers, non-governmental organizations and other societal groups make informed decisions on how to attract the best kind of investments and how to maximize the beneficial impacts of these investments for the people they serve.

### A Small Slice of the Pie: Foreign Direct Investment in African Food and Agriculture

FDI is often presented as a boon to emerging economies because the injection of money through multinational companies can lead to job creation, increased wages, the development of expertise and better infrastructure. Although Africa is the second most populated continent and home to 17% of the global population, the continent only receives 10% of global food and agriculture FDI. Over the last 15 years, the total amount of FDI inflows into African countries' food and agriculture sector sums to USD 27.4 billion (excluding investments in fertilizers and other agro-chemicals). FDI inflows have not been constant over time, seeing a steep increase after the agricultural commodities shock of 2008-2009. The low levels have spurred public-private initiatives, such as Grow Africa and the New Alliance for Food Security and Nutrition, to bolster food and agriculture investments on the continent and to increase agricultural productivity and strengthen regional food security.

#### Food and agriculture FDI in Africa in numbers

- From 2003 to 2017, total FDI in the African food and agriculture sector amounted to USD 27.4 billion (excluding investments in fertilizers and other agro-chemicals).
- Average yearly FDI amounts to about USD 2 billion
- Average capital investment per project is USD 44.4 million
- Per capita yearly investment is USD 1.6
- In 2011, the year with the highest investments, FDI exceeded USD 6 billion.
- On top of that, FDI in the African fertilizer and other agro-chemicals subsector amounted to USD 21.3 billion from 2003 to 2017.



## The four Ws of Food and Agriculture FDI in Africa

### Who?

A total of 308 companies were responsible for all foreign direct investments into the food and agriculture sector of African countries between 2003 and 2017. Out of the five companies who have invested the most during this time, four are beverage companies: Diageo, SABMiller, Coca-Cola, and Heineken. Due to a palm oil project in Cameroon worth USD 2 billion, the Indian company Siva Group was the leading investor on the continent. Meanwhile, Nestlé is the single company with the largest number of projects (see Table 1).

The companies investing into Africa's food and agriculture sector are based all over the world:

- **European** companies are responsible for 45% of all food and agriculture FDI,
- Companies based in **Asia and Oceania** are responsible for another 15%,
- **North American** companies have a 15% share, and
- 10% of all investments are from **African** companies.

There does not appear to be a strong monopoly in food and agriculture FDI in Africa; 17 companies account for half of the FDI inflows between 2003 and 2017, while 291 companies account for the remaining half of all investments.

### What?

The sectors receiving the largest share of food and agriculture FDI in Africa are:

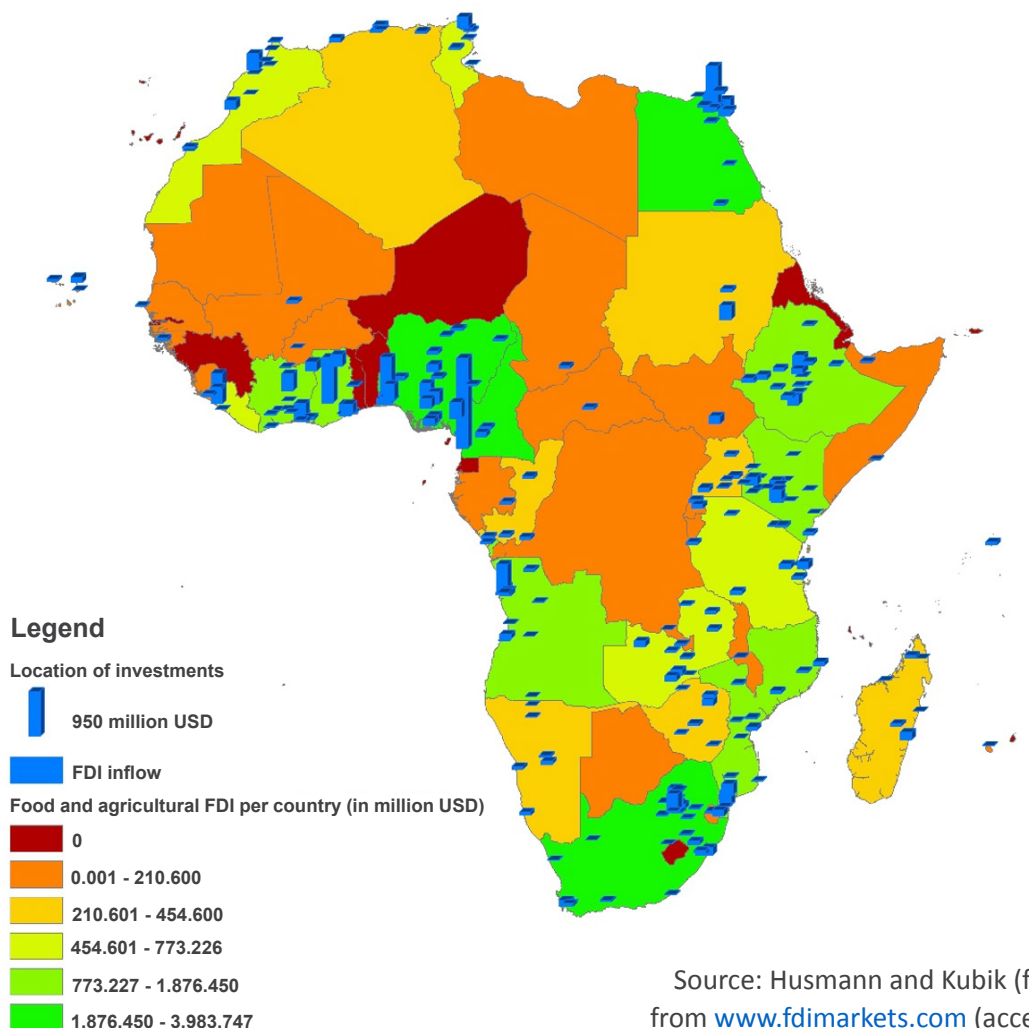
1. Crop production (18.5%)
2. Breweries and distilleries (16.1%)
3. Sugar and confectionary products (14.9%)
4. Soft drinks (8.4%)

In each subsector, most of the funds are directed at production rather than at other nodes of the value chain.

### Where?

There are large regional differences in investment inflows in Africa. Western, Eastern and Northern Africa receive the most investments. Within these regions, a few countries emerge as the main recipients: Nigeria, Egypt, Cameroon, South Africa, Ghana, Angola and Ethiopia (see Figure 1).

Figure 1: Location of food and agriculture FDI projects (excluding fertilizer) and investments per country



Source: Husmann and Kubik (forthcoming) using data from [www.fdimarkets.com](http://www.fdimarkets.com) (accessed January 16, 2018)

**Table 1: The 10 foreign companies with highest investments in African agricultural value chains**

Name of company	Source country	Capital investment (in million USD)	Number of projects
Siva Group	India	1907.24	1
Diageo	UK	1457.39	13
SABMiller	UK	1426.52	29
Coca-Cola	United States	1278.01	27
Heineken	Netherlands	1265.39	13
Olam International	Singapore	1079.45	14
Nestle	Switzerland	984.29	33
Sime Darby	Malaysia	640	1
Savola	Saudi Arabia	515.98	8
Anheuser-Busch InBev (ABInBev)	Belgium	493.20	4

### Why?

Though the investing companies are multiple and diverse, many do share one thing in common: they are primarily driven by the potential that a domestic emerging consumer class represents. The investment motives provided by companies themselves show that their target markets are mainly regional and local markets rather than global markets.

Other determining factors for investment include:

- **a country's supply of agricultural land**, because many investment projects within the past 15 years were related to crop production.
- **quality of infrastructure** to facilitate production and transportation of goods to market.
- **regulatory quality**, including institutional credibility and the ability of local governments to implement laws and policies (to decrease risk for the private sector).
- **the existence of prior investments in the sector**, indicating that investment projects create pockets of expertise, better infrastructure, and access to inputs, which increases the value for other projects to operate nearby.

### How much can food and agriculture FDI benefit African countries?

Theoretically, by injecting money and capital into an economy, FDI creates jobs and increases wages, while potentially increasing productivity and improving infrastructure. Policy-makers will be interested in knowing the size of these effects and under which conditions they occur. This is necessary in order to weigh the benefits of incentivizing FDI against potential costs. ZEF research has estimated possible employment and other effects of FDI in food and agriculture. However, the authors also highlight the major gaps that remain in our current understanding of food and agriculture FDI's contribution to economic

### Economic Impacts of Investment Projects

**Direct effects** capture the economic activity directly related to a project, including hiring labour and paying wages, purchasing inputs and investing in capital.

**Indirect effects** capture the economic activity resulting from the project throughout the supply chain. The initial investment can create a chain of spending reaching to different sectors of the economy. For example, it includes the additional economic activity of input suppliers as a result of the project and the wages of the additional workers they hire to increase production.

**Induced effects** are the economic activity created by the additional spending of workers receiving a wage as a result of the project. They also include the economic activity caused by reinvesting profits into increased capacity or capital stock.

development and welfare and the need for further research. Nevertheless, a number of insights can be gained regarding FDI's contribution to employment and income generation.

Food and agriculture FDI contributed to job creation in Africa over the last 15 years. In measurable terms, this translated directly to an estimated **39,000 jobs** across the continent. Beyond direct job creation, investment projects create a ripple effect through the economy which supports the creation of additional jobs. For example, a project may require a large supply of raw material, which adds jobs in upstream industries, and the additional income from new jobs and the consuming behaviour of workers can increase demand economy-wide. Counting direct, indirect and induced effects (see Box), the impact of the last 15 years of food and agriculture FDI is estimated at **14.7 million jobs**.



Though beneficial, many more investments would be required to make a meaningful dent in the **18 million new jobs required per year in Africa**, given current growth in the size of its working-age population.

### FDI in fertilizer and other agro-chemicals in Africa

On top of the figures for food and agriculture FDI discussed above, **USD 21.3 billion** were invested in the fertilizer and other agro-chemicals subsector. 86% of this amount is related to several large-scale projects in fertilizer production, out of which a USD 3.7 billion project in Ethiopia stands out in terms of its value. Other recipient countries include Algeria, Mozambique, Angola, Ghana, Gabon and Egypt where the deposits of natural resources used as inputs in fertilizer production can be found. Given historically low fertilizer production rates in Africa, at barely 3.9% of the world production, these new investments have the potential to reduce Africa's reliance on fertilizer imports and enhance the use of fertilizer by African farmers.

### Bottom Line

FDI in food and agriculture is a potential tool for development, which if properly harnessed, can help create stable employment, raise incomes, boost agricultural productivity and encourage food security. Much more of this type of investment is needed if these gains are to be achieved, considering that Africa is currently receiving a far smaller share of FDI than is commensurate with its share of the global population. But for policy-makers to create the right incentives to attract the types of FDI best suited to their country, further research is needed to better understand what drives FDI investment.

Equally important is understanding the system-wide effects of large agriculture and food investment projects, including their potential downsides, so as to ensure that gains from investment projects do not come at the expense of certain segments of the population.

#### Policy Recommendations:

- **Involve various stakeholders, including local governments, communities and non-governmental organizations** in order to make sure that the benefits of new investment initiatives will be fairly distributed and that the potential costs will be reduced.
- **Invest in infrastructure and governance**, not only to attract more FDI, but also to create conditions under which these investments will benefit society as a whole.
- **Include an evaluation mechanism in all initiatives** aimed at increasing agriculture and food FDI to Africa in order to monitor progress and measure impacts over time.
- **Invest in further research on the welfare, employment and economic impacts on communities** located near large FDI projects.

This Policy Brief is based on the study:  
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#### IMPRINT

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