



Agricultural Policy Research in Africa



AGRIBUSINESS INVESTMENT IN AGRICULTURAL COMMERCIALISATION: RETHINKING POLICY INCENTIVES IN AFRICA

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ACRONYMS

AAF	Africa Agriculture Fund
AAI	ActionAid International
AECF	Africa Enterprise Challenge Fund
AGRA	Alliance for a Green Revolution in Africa
AIS	Agricultural Innovation Systems
APRA	Agricultural Policy Research in Africa
ASWAp	Agricultural Sector Wide Approach (Malawi)
ATA	(Ethiopian) Agricultural Transformation Agency
CAADP	Comprehensive Africa Agriculture Development Programme
CAP-F	Country Agribusiness Partnerships Framework
CEO	Chief Executive Officer
CFC	Common Fund for Commodities
DANIDA	Danish International Development Agency
DCED	Donor Committee for Enterprise Development
DFAT	Department of Foreign Affairs and Trade
DFI	Development Finance Institute
DFID	Department for International Development
DISS	Department of Social Sciences
EIC	Ethiopian Investment Commission
EMQAP	Export Marketing and Quality Awareness Project (Ghana)
FAO	Food and Agriculture Organization
FASDEP	Food and Agriculture Sector Development Policy (Ghana)
FDI	foreign direct investment

FISP	Farm Input Subsidy Programme (Malawi)
GAFFSP	Global Agriculture and Food Security Programme
GBA	Greenbelt Authority (Malawi)
GBI	Green Belt Initiative
GCAP	Ghana Commercial Agriculture Project
GDP	Gross Domestic Product
GIPC	Ghana Investment Promotion Centre
GTP I&II	Ethiopian Growth and Transformation Plan (I &II)
IAPRI	Indaba Agricultural Policy Research Institute
ICAI	Independent Commission for Aid Impact
ICT	information and communications technology
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
IIED	International Institute for Environment and Development
IMF	International Monetary Fund
KFW	Kreditanstalt für Wiederaufbau
MAFAP	Monitoring and Analysing Food and Agricultural Policies
METASIP	Medium Term Agriculture Sector Investment Plan (Ghana)
MITC	Malawi Investment and Trade Corporation
MoAFS	Ministry of Agriculture and Food Security (Malawi)
MoFEC	Ministry of Finance and Economic Cooperation (Ethiopia)
NBER	National Bureau of Economic Research
NEPAD	New Partnership for Africa's Development
ODA	official development assistance
OSS	One-stop shop service
PASDEP	Plan for Accelerated and Sustained Development to End Poverty

PPP	Public–Private Partnerships
SME	small and medium-sized enterprises
SSA	sub-Saharan Africa
TA	technical assistance
TIPCEE	Trade and Investment Promotion for Competitive Export Economy
TJA-A	Tax Justice Network-Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank

ABSTRACT



Since 2000, African governments and their donors have increasingly made business investment in agriculture a major policy goal in support of agricultural growth, transformation, and food security. Employing a plethora of incentives including import, export, and income tax exemptions or reductions, facilitated land access, and concessionary financing, policymakers have sought to incentivise agribusinesses to invest. However, the effectiveness of these incentives remains an open question. While the challenges and constraints to agribusiness in sub-Saharan Africa are well documented, little is known about what is really driving businesses to invest and, particularly, whether government and donor policy incentives have played a role. Furthermore, there is little understanding of how policy incentives shape different pathways of agricultural commercialisation that arise from investment.

This working paper thus explores the motivations of business investment, the effectiveness of government and donor policy incentives, and the relevance of these incentives for four different commercialisation pathways. Empirical evidence is drawn from three countries: Ethiopia, Malawi, and Ghana, involving 14 agribusiness case studies, in-depth interviews with 18 business leaders, and 25 key informant interviews. Core findings are that the main drivers of agribusiness investment are market potential for growth and profit, a perception of abundant resources and good agro-ecological conditions, as well as investors' personal motivations and experiences. Business and policy incentives offered by governments and donors are having an effect on investors, particularly in the case of finance, as well as investment promotion and support for investors to access land. Businesses have responded through faster investment, enhanced production capacity, or investment in new activities.

However, these incentives often allow larger agribusinesses to accrue advantages over smaller firms and farms. The result is changing landholding patterns, where public and/or customary lands are shifting towards private businesses. Where agribusinesses have been unable to secure land, outgrower or contract farming arrangements with small-scale producers are

more likely, especially if encouraged through policy incentives. Fiscal incentives, however, were generally not found to be critical in triggering investment. These funds would be better directed towards addressing infrastructural constraints and improving agricultural finance, which remain major obstacles for agricultural growth, particularly for small-scale farmers.

1 INTRODUCTION

1.1 Overview

This working paper examines the role of agribusiness investment as a driver of pathways of agricultural commercialisation, and the effectiveness of efforts by African governments and donor agencies to influence this investment towards public policy aims. Recognition of the importance of business investment in agricultural policy and development discourses is not new (Cabral and Scoones 2006; Hallam 2009; Liu *et al.* 2013). Yet, the importance of agribusiness within public initiatives in Africa has waxed and waned in the post-colonial period.

In the last two decades, however, African governments have increasingly made business investment in agricultural commercialisation a major policy goal. The 2014 Malabo Declaration commits to 'create and enhance necessary appropriate policy and institutional conditions and support systems for facilitation of private investment in agriculture, agri-business and agro-industries, by giving priority to local investors' (African Union 2014: 3). The Comprehensive Africa Agriculture Development Programme (CAADP)'s Country Agribusiness Partnerships Framework (CAP-F) is intended to help governments stimulate greater agribusiness investment and orient it towards increased developmental benefits such as value addition and employment (CAADP and NEPAD 2017).

Many governments, including Ethiopia, Ghana, and Malawi covered in the study, have been promoting agri-business investment through incentives such as exemptions from paying income tax and import duties, and leasing land at concessionary prices. International donors are also promoting agricultural commercialisation. In 2018, the Department for International Development (DFID) in the UK had a portfolio of 70 agricultural commercialisation projects with a total DFID budget of £3.5bn, just under 60 per cent of which are in Africa (Cantrill, Pinto and Lwamba 2019). The private sector window of the donor-funded Global Agriculture and Food Security Programme (GAFSP), managed by the International Finance Corporation (IFC) and specialising in early-stage

agribusiness projects with development potential, has supported 61 agribusiness investment projects deploying approximately US\$311 million of funds, again mostly in Africa.¹

As set out by the CAADP, the first strategic question for policymakers is to identify the specific actions needed to stimulate private investments in the context of the country's aspirations (CAADP and NEPAD 2017). These policies are to be based on an understanding of key constraints and impediments to agribusiness investment within the agricultural context of the country. To this end, there have been numerous efforts to identify and document constraints across Africa generally, and in the context of specific countries. However, while these challenges are generally well documented (World Bank 2013, 2016, 2017; New Alliance for Food Security and Nutrition and Grow Africa 2015; Saghir and Hoogeveen 2016; Schmidhuber, Bruinsma and Boedeker 2009; Hallam 2011), policy solutions are less clear cut, particularly given political, financial, and practical constraints. So this paper turns the question on its head. Instead of starting from the constraints to agribusiness investment, it focuses on understanding what is already encouraging businesses to invest, and what role government and donor policy incentives have played.

This question of the effectiveness of policy incentives in influencing investment in agricultural commercialisation is under-researched. While there is relevant literature on the effectiveness of different (fiscal and non-fiscal) investment incentives (Klemm 2010; Klemm and Van Parys 2012; PWC 2016; DFAT 2015; Spratt, O'Flynn and Flynn 2018; Lederman Olarreaga and Payton 2006, 2010; Pernechele, Balié and Ghins 2018; Tinarwo 2018), it does not generally focus on agribusinesses or the context of Africa, or only in very limited ways. And if the effectiveness of incentives is uncertain, far less is known about how incentives influence the commercialisation pathways that emerge. Is policy incentivising medium- or large-scale farms? Are investors linking with smallholder farmers, either through supplying them with inputs or as a market for their output via agro-processing or exporting?

This working paper therefore seeks to respond to three core questions:

- What are the factors influencing agribusiness investment in Africa?
- How effective have agricultural commercialisation policies and associated incentive structures been?
- Which commercialisation pathways have emerged as a result of the investments incentivised by the policies?

1.2 Methodology and research design

As a strategy, we took an in-depth case study approach to the research, rooted in the empirical narratives of investors in three countries: Ethiopia, Ghana, and Malawi. A largely qualitative approach was appropriate for this study given the focus on investment decision-making and experiences of business leaders (see Robson 1997; Teye 2012). Focus countries are drawn from countries in the Agricultural Policy Research in Africa (APRA) consortium,² with the aim of reflecting contextual differences in the level or trajectory of economic development, the political economy context, and the land tenure systems, as these factors are likely to have a bearing on both policy approaches and business investments. We selected:

- **Ethiopia** – which has been pursuing a state-led/developmental state approach; and where land is publicly owned and managed by the state at federal and regional levels;
- **Ghana** – a mainly entrepreneurial economy, politically stable with a predominantly customary land tenure system;
- **Malawi** – a country with a relatively volatile investment environment and low agricultural productivity growth; with mixed customary, public, and private land tenure.

In each country, we generated the requisite data via (a) a thorough desk review, to understand the breadth, depth, and types of policy incentives within and between the case study countries, including investment

incentive packages and institutional arrangements and donor policy incentives; and (b) case studies of 14 medium- to large-size agricultural enterprises³ from the input supply, agricultural production, and agro-processing sectors which had relatively recent (since 2000) investments in these countries.

Table 1.1 summarises the primary data sources, which include interviews with business leaders and other key informants. Our findings were also then substantiated through engaging 33 authoritative individuals from agribusinesses, state agencies, donor communities, and academia who participated in validation workshops. We also attempted to collate macro-level statistical data on agribusiness investment in the respective countries, but this has been less successful as accurate and reliable data were hard to come by.⁴

For the case studies, the unit of analysis was medium and large enterprises,⁵ both domestic and foreign, representing the main firms that were in a position to invest and to benefit from investment incentives. Other inclusion criteria were that the enterprises 1) were registered as businesses; 2) were involved in producing crops or rearing livestock, or involved in input supply, agro-processing, or agricultural trade or exporting; 3) had made new investments (start-ups and/or expanded business) between 2000 and 2015; and 4) were the intended target of policy/instruments (sector, location, size). A matrix of potential cases was developed in each country which reflected these criteria, as well as showing a diversity of ownership models (foreign or domestic) and including at least some which donors or international development agencies had supported.

Based on this matrix, companies were approached for participation in the study. Where first choices were unwilling or unavailable, alternatives were selected from the matrix (see Table 4.1 in Section 4.1 for a breakdown of the case study companies, using pseudonyms to protect the identity of respondents and businesses selected).

Transcripts from the interviews and validation workshop were analysed to identify recurring themes on the influence of policy incentives on business investment

Table 1.1 Number of interviewees and validation workshop participants

Source of data	Country			Total
	Ethiopia	Ghana	Malawi	
Interviews with business leaders	5	9	4	18
Key informant interviews	10	10	5	25
Participants in validation workshop	13	13	7	33

Source: Authors' own.

and consequent agricultural commercialisation pathways. Statements regarding investment incentives (a list of incentives is provided in Table 3.2) by the business leaders were identified, along with the interviewees' views on whether and how different incentives influenced their investment decisions. In each case, the different commercialisation pathways which each business engages in or supports were also identified. This primary data was triangulated with secondary sources to draw the final conclusions in this paper.

1.3 Organisation of paper

Section 2 of this working paper reviews and synthesises the literature. It presents key concepts relevant to investment incentives and commercialisation pathways (Section 2.1), summarises current literature on agribusiness investment and the drivers of and barriers to investment (Section 2.2), and reviews the state of knowledge on the effectiveness of policy incentives in shaping this investment (Section 2.3). Section 3 presents the policy rationale and incentives designed to encourage business investment in agriculture in Ethiopia, Ghana, and Malawi. Section 4 presents empirical evidence of businesses' responses to policy incentives from the 14 case studies, and discusses the effectiveness of these incentives in influencing business investment. Section 5 discusses the implications of policy incentives for the agricultural commercialisation pathways that emerge. Section 6 provides the conclusions and recommendations of the study.

2 LITERATURE OVERVIEW: POLICY INCENTIVES AND BUSINESS INVESTMENT

2.1 Key concepts

Agricultural policy in Africa has gone through major changes since a large number of countries became independent. From the early 1960s, many African countries pursued state-led and import-substituting industrialisation strategies (Page 2017). While manufacturing was given prime importance to reduce dependence on imports of consumer goods from colonial powers, commercial agriculture was also supported to increase food availability and boost foreign exchange earnings. Even as import substitution industrialisation ran out of steam in the 1970s, some African countries promoted estates, state farms, and collective farms with a view to ‘modernising’ agriculture and the non-agriculture sectors, but many of these failed to become profitable (Djurefeldt *et al.* 2005; Birner and Resnick 2010). Following the resurgence of neoliberal policies in the 1980s and 1990s, structural adjustment programmes became the order of the day, and development policy emphasised macroeconomic factors such as exchange rates, taxation, and trade policies (Page 2017; Birner and Resnick 2010).

Over the 1990s and early 2000s, however, there was a major policy shift in favour of smallholders, for at least two major reasons: the ‘reverse productivity’ thesis that all things being equal, smaller farms have higher yields than larger farms, and the positive relationship between agricultural growth and poverty reduction (World Bank 2007; Barrett, Bellemare and Hou 2010; Collier and Dercon 2014; Poulton 2017; Irz *et al.* 2001). However, this focus on smallholder production shifted policy attention away from upstream and downstream agribusiness activities – such as supplying inputs and agro-processing. It also neglected the development of commercial farming (World Bank 2013). Yet as population, urbanisation, and incomes continue to grow, the ability of smallholder agriculture to meet the ever-increasing demand for food and nutrition, and for industrial inputs, has been seriously questioned (Collier and Dercon 2014).

While smallholder agriculture still dominates the policy space, since 2000, governments and donors have increasingly been offering agribusinesses a plethora

of investment incentives (Table 3.2). These reflect the multiple roles that African countries have assigned to commercial agricultural development: as an engine of growth, as a source of food and nutrition security, and as the source of new knowledge and technology. Before reviewing the literature on these incentives, three concepts that underlie the empirical study need to be clarified. These are: agribusinesses, investment incentives, and agricultural commercialisation.

Agribusinesses: are organised businesses (enterprises or farms) ranging from small and medium-sized enterprises (SMEs) to multinational corporations, involved in input supply, agricultural production, or downstream transformation activities such as agro-processing and the provision of services (World Bank 2013: 3). Agribusinesses operate on commercial principles, with operations and decisions based on or influenced by market signals.

The unit of analysis in this paper is medium or large *agribusinesses* which may have benefited from investment incentives. Many of the case study companies own land and are involved in farming, but some case studies also include fertiliser companies, and processing and export companies, which do no farming. The paper analyses the ways in which policy incentives shape the investment decision-making of these firms.

Investment incentives: These are instruments of policy to influence enterprise behaviour with regard to the size, speed, location, and sector of an investment (UNCTAD 2003; Ayele 2006). They are meant to affect the relative cost or potential for profit, or alter the risks attached to it (UNCTAD 2003: 1–2), compensating investors for some deficiencies in the business environment, and in doing so, to capture wider societal benefits from externalities of investment. The literature identifies three types of investment incentives (UNCTAD 2003):

- **Fiscal incentives:** tax-based concessions, for example on investment, profit, value added, import of goods such as machines, equipment, and raw materials. The main

instruments of fiscal incentives are duty and income tax exemptions. Levels of concessions are often expressed in terms of per cent and number of years (holidays).

- **Financial incentives:** these are direct grants and subsidies to enterprises, such as grants for the purchase of machines and equipment, and training subsidies. Upper/lower limits to the size of financial incentives may be set as a per cent of investment capital or profit, for example.
- **Other incentives:** these include the provision of specific infrastructure, as in enterprise zones, and subsidising training, preferential access to foreign exchange, or investor assistance, such as through investment promotion agencies or land banks.

Donors, including bilateral (e.g. USAID, DFID) and multilateral (e.g. World Bank/IFC) agencies, and private donors (e.g. Gates Foundation), also use a set of instruments that are designed to induce investment by addressing deficiencies in the business environment in ways that contribute to poverty reduction, including by bringing small-scale farmers into commercial value chains. The literature identifies three levels of donor incentives (Miyamoto and Chiofalo 2017; DCED n.d.):

- **Supporting productive capacity of individual businesses:** through subsidies, concessional loans, risk-sharing arrangements, partnerships, technical assistance (TA), and training.
- **Addressing market constraints:** addressing missing business or financial services, missing infrastructure, supporting the development of weak or missing value chain functions, and facilitating value chain linkages.
- **Creating enabling conditions for growth:** through the business environment or more general macroeconomic reform.

Since the 2007/8 food price spike, some food-importing countries such as Saudi Arabia are also incentivising their home businesses to acquire land in Africa in order to produce food for home markets (Wiggins, Kirsten and Llambí 2010).

For government or donor incentives to be effective, they need to overcome a barrier or constraint to productive investment, and businesses need to know about and access them, and to see them as sufficiently valuable to take them up. Effectiveness also implies

that incentives generate social benefits through greater, faster, or qualitatively different forms of investment than would otherwise have taken place. Many factors also affect the uptake and impacts of investment incentives. These factors, as outlined by Ayele (2006), include:

- level of tax rates: whether a tax exemption is based on tax rates of, say, 5 or 50 per cent of value determines the value of the incentive offered;
- relative costs (or substitutability) of resources: the relative costs of labour, capital, and raw materials influence the options for import and domestic acquisition of these resources;
- attractiveness of a particular sub-sector of agriculture and location for investment: political stability is also a factor;
- time lag for the policy to work: the time period for which tax incentives are granted, for example, depends on assumptions regarding how quickly it is feasible for enterprises to be established and make profits;
- availability of associated services: including access to enterprise sites and utilities.

It is also important to note that, among other things, the effects of fiscal incentives are contingent upon or follow investors' actions and results. This means that exemptions from import duties and income taxes depend on actually importing and making profits.

Agricultural commercialisation: Agricultural commercialisation is a complex phenomenon which occurs when farmers and agribusinesses increasingly engage with and rely on the market:

Agricultural commercialisation occurs when agricultural enterprises and/or the agricultural sector as a whole rely increasingly on the market for the sale of produce and for the acquisition of production inputs, including labour. It is an integral and critical part of the process of structural transformation, through which a growing economy transitions, over a period of several decades or more. (Poulton 2017: 4)

It embodies two dynamics: smallholder farm households shifting from semi-subsistence agriculture to production primarily for the market, and smallholder farm households being complemented or partially replaced by medium- or large-scale farm enterprises that are commercial in nature (*ibid.*). However, these processes are not inevitably linear, involve complications

when compared against traditional agrarian practices and landholdings, and may require a long time horizon (Nadkarni and Vedini 1996; Hall, Scoones and Tsikata 2017). As observed by Scoones, Mavedzenge, and Murimbarimba (2018) in Zimbabwe, the prevailing political economy, economic fundamentals (crisis vs booms), demography, and agro-climatic situations may favour one size over the other. Some farms may start small and grow while others may start large but break into smaller sizes (and may even turn into semi-subsistence farms). However, in general, as structural economic change proceeds, market forces mean that medium- and large-scale farm enterprises will increasingly replace smallholder production. However, this replacement may also happen 'early' with respect to the state of development in the rest of the economy, especially where those with capital or connections gain access to land; likely with negative distributional consequences (Poulton 2017).

In Section 5, this paper explores how policy incentives and subsequent business investments influence agricultural commercialisation dynamics in the three countries, based on four contrasting pathways (Table 2.1) of agricultural commercialisation (Smalley 2013; Jayne *et al.* 2016; Poulton 2017). It is important to emphasise the difference between these four agricultural commercialisation *pathways* and the 14 cases of *agribusinesses* (medium or large). The pathways relate to agricultural production (i.e. farming or livestock raising), and shifts in a country or region from semi-subsistence to commercial agriculture. The activities of agribusinesses may constrain or enable

different pathways. These *agribusinesses include farm enterprises but also other firms in the value chain*, such as input suppliers and agro-processors, which may play no role in production.

2.2 Who invests in African agriculture, why, and what challenges do they face?

2.2.1 Investors in African agriculture

A variety of actors from public and private spheres are involved in agricultural investment in Africa, typically seeking to increase the level of agricultural production, create added value, generate profits, contribute to rural development, and/or address food security and nutrition (FAO 2014; Mengoub 2018). Investors include:

- Agribusiness companies (e.g. input suppliers, agricultural producers, aggregators, food processors, and energy companies);
- Other private companies (e.g. logistics companies and retailers);
- Smallholder farmers;
- Financial investors (e.g. investment funds, pension funds) who take ownership stakes in firms;
- Public sector actors (e.g. governments, wealth funds, and state-owned companies);
- Donor agencies (e.g. bilateral donors, development finance institutions, multilateral agencies);
- Diaspora communities involved in both financial investment and philanthropic activities.

Table 2.1 Agricultural commercialisation pathways

	Type	Characterised by
1	Large-scale farm (estate or plantation)	Large landholdings with professional management and often vertically integrated production of a single cash crop, with a high level of mechanisation, and permanent or seasonal hired labour
2	Medium-scale farm	Landholdings of 5–100 hectares, ⁶ which may emerge through expansion of pre-existing smallholder farms or be set up by those able to acquire land through purchase or lease agreements from traditional or state authorities; may be managed by owners/members of a family or professional managers that hire labour.
3	Small-scale producer commercialisation (contract farming or outgrower scheme)	Small-scale producers individually or in a group supply products on a contractual basis to a central buyer. Contractual arrangements often involve producers receiving technical assistance, inputs supply, or market arrangement.
4	Independent commercialisation (small-scale producers)	Smallholder households that increase total agricultural production with most of the incremental production marketed; or that increase production for market by reducing land or labour devoted to food production for own consumption.

Source: Authors' own (based on Smalley 2013; Jayne *et al.* 2016; Poulton 2017).

The focus of this working paper is on the first group – the agribusiness companies investing in African agriculture, both foreign and domestic, although these may be backed by different public and private financial investors.

There is a lack of comprehensive disaggregated data on agribusiness investments in Africa (Syed and Miyazako 2013; Mengoub 2018). However, Lowder, Carisma and Skoet (2015) analyse data for a set of 76 low- and middle-income countries, and find that domestic farmers are by far the largest investors in agricultural production, with annual investment in on-farm agricultural capital stock exceeding government investment by a ratio of 4:1, and exceeding other capital flows (public spending on agricultural research and development, official development assistance (ODA), and FDI) by a substantially larger margin.

Foreign Direct Investment (FDI) in agriculture represents a very small percentage of total FDI flows to Africa (less than 2 per cent), with land acquisition for food production being the main form of investment (Hallam 2011; Faye, Gajigo and Mutambatsere 2013). Kabongo and Okpara (2017) looked at the rise of home-grown national agribusinesses, and cite their relative success as being their better ability to cope with both the political and regulatory environment. Domestic investors benefit from greater knowledge and understanding of both formal and informal arrangements.

2.2.2 Investment drivers and challenges

Two dominant investor narratives are exerting opposing forces on the rate of investment in African agriculture. One narrative highlights the ‘win-win’ possibilities arising from the convergence of investor capital with available land and abundant labour in Africa (FAO 2009). The other narrative cautions of the relative risks of investment in African agriculture, and a poor investment environment. Although this investment climate is improving (World Bank 2013) and, as noted, domestic investors are relatively better able to manage its challenges, it still presents significant obstacles.

Factors boosting investment include strong demand for agricultural products both within Africa and internationally, linked to population growth, increasing urbanisation, changing diets, and the demand for alternative energy sources (Cotula *et al.* 2011; Schoneveld 2014; World Bank 2013). Over the course of this century, Africa’s population is predicted to quadruple, from just under 1 billion in 2015 to nearly 4 billion by 2100 (AGRA 2016), bringing concerns about regional food security that propel investment (Challinor *et al.* 2007; Lobell *et al.* 2008; Connolly-Boutin and

Smit 2016). The global food prices increase of 2007/8 and the subsequent unrest in many parts of the world, also triggered business investment in African land and agriculture, sometimes leading to what is referred to as ‘land grabbing’ (Hall, Scoones and Tsikata 2015). A lower market capitalisation in Africa compared with developed economies also attracted foreign investors seeking long-term returns with low correlations to other markets (Miller *et al.* 2010); although the subsequent financial crisis drove some investors to revert to less risky assets. Other intangible investment drivers include historical and political relations between host and home countries, business networks, and crop-specific factors (Schoneveld 2014).

On the other hand, the World Bank’s *Enabling the Business of Agriculture* report (World Bank 2017: x), based on the ‘Doing Business’ methodology,⁷ finds that in sub-Saharan Africa (SSA), ‘poorly-designed regulations impose high transaction costs on firms thus reducing trade volumes, productivity and access to finance’. Average tariff rates for agriculture are higher in SSA than elsewhere in the world (Balié *et al.* 2017), affecting both the cost of inputs and the cost of agricultural produce, and weakening Africa’s competitiveness on global markets. For example, Saghir and Hoogeveen (2016) demonstrate that the cost of fertiliser is 80 per cent higher in Uganda and Mozambique compared to Thailand. Balié *et al.* (2017) find that bilateral trade protection significantly affects backward and forward participation in global value chains in agriculture and food.

Both *Enabling the Business of Agriculture* and a similar survey by the New Alliance for Food Security and Nutrition and Grow Africa in 2014–15 point to a lack of infrastructure as the greatest bottleneck. Over half of domestic and foreign agribusiness investors surveyed by the New Alliance and Grow Africa⁸ said that their needs with respect to electricity, transport, and irrigation were not being met, increasing their price of production and reducing margins. As an example, freight costs in Africa range from US\$0.05 to US\$0.13 per tonne, compared with US\$0.01 to US\$0.04 elsewhere (UN 2017). The other major gap identified in the survey is access to finance (New Alliance and Grow Africa 2015), both in terms of investment finance and working capital. Collateral demands are too high, interest rates are unaffordable, and terms and conditions, particularly those imposed by commercial banks (such as expecting repayments prior to harvest) are inappropriate (Schmidhuber *et al.* 2009; Aerni *et al.* 2015; Wiggins 2014; World Bank 2017). In part, lending terms are driven by tight capital requirements imposed on banks, but they also reflect the opportunity cost of

agriculture when compared with often lucrative urban-based real-estate projects that can be conducted with much greater ease. Agribusinesses also lack access to other financial products, such as insurance, warehouse receipt systems, or leasing (World Bank 2016: 8).

Larger and often foreign agribusiness investors are able to overcome some of these bottlenecks. They have access to international sources of finance at much more favourable rates, and may be in a position to support development of infrastructure (Hallam 2011), such as feeder roads. However, there are persistent concerns with respect to foreign acquisition of large tracts of land in Africa, threatening formal and informal property rights, and displacing poor farmers and communities (Cotula *et al.* 2009, 2011; Hall 2011; Vermeulen *et al.* 2010; Toulmin 2009; Saghier and Hoogeveen 2016). In some cases, land has been acquired for speculative purposes, rather than for agricultural development. In response, a portion of investors have sought to uphold international principles for responsible investment, which include respecting land rights and creating socially and environmentally sustainable investments (FAO 2016a, 2016b; Faye *et al.* 2013). Some governments, such as in Tanzania and Zambia, have encouraged foreign investors to work with smallholders through outgrower contracts (Da Silva and Mhlanga 2009), in order to ensure that conflicts are less likely to arise.

While much high-profile media focus has been on foreign land acquisition, domestic investors are more highly associated with land investment, although there is a lack of good quality data. Jayne *et al.* (2016) demonstrate across six countries that urban households (who have made money in the cities) are now investing back in rural areas, forming medium-scale farms, which own 10 to 35 per cent of total agricultural land, and that this share is increasing. This trend, however, has been associated with elite capture (IEG 2011).

2.3 The effectiveness of investment policies and incentive structures

In the context of the opportunities and challenges described above, policy incentives are intended to correct market failures in order to induce investment with social benefits. If these positive externalities do not materialise, then incentives are merely a net transfer from taxpayers⁹ to investors (Tuomi 2012). Yet with insufficient evidence available, there is a tendency for policymakers to assume that spillovers will emerge and be sufficiently large to justify the incentives (Blomström and Kokko 2003).

2.3.1 Fiscal incentives

Although there is scant information on the specific impact of fiscal incentives on African agriculture, studies have assessed their effectiveness in other contexts, finding the results to be mixed at best. Tax incentives (which can be split into cost-based and profit-based) rank lowly in investment climate surveys, and there is an opportunity cost in their use, i.e. that the funds foregone could have been used to build infrastructure or finance value chain development (World Bank 2015). In the case of Uganda, fiscal incentives are estimated to account for 5–6 per cent of potential trade taxes foregone (TJN-A and AAI 2012: 10).

Klemm and Van Parys (2012) use a dynamic panel data set, and find that lower corporate income tax rates and longer tax holidays are effective in attracting FDI to some developing regions (primarily Latin America and the Caribbean), but not SSA. Their interpretation is that investor perceptions of the risks of investing in African agriculture outweigh these benefits. This is echoed in Klemm (2010: 22):

The overall conclusion ... is that tax incentives are often ineffectual, either because the particular incentives offered are not very valuable to firms or because important preconditions are not met, such as a relatively stable macroeconomic environment and satisfactory public infrastructure. (Klemm 2010: 22)

Morisset and Pirnia (2000) find that tax incentives cannot make up for faults in a country's investment environment, although when controlling for other core factors (infrastructure, transport, political stability), taxes can be a determinant.

Studies focused specifically on African countries reach similar conclusions. Mwachinga (2013) present findings from the World Bank's Investor Motivation Survey across four African countries (Burundi, Rwanda, Tanzania, and Uganda) and find that tax incentives only have some effect at the margins. Fifty-four out of 683 companies sampled (only 7.4 per cent overall) stated that they would not have invested without tax and fiscal incentives. The authors find that market fundamentals are more important. Another study focused on Malawi found that tax incentives had not been instrumental in changing investor decision-making processes, and were unclear, opaque, and prone to abuse (PWC 2016).

The attractiveness of fiscal incentives for policymakers rests in part in the fact that, unlike financial incentives, no immediate resources are required to offer or grant

fiscal incentives. Their relative flexibility of use has additional advantages within political economy, as they can be used at governments' (or leaders') discretion (Purohit 2007). However, they are less flexible and timely for the businesses involved, and do not provide immediate cash flows that may be employed in different ways (Ayele 2006).

2.3.2 Financial incentives

Despite the pressing finance gap experienced by many agribusinesses, the literature on the effectiveness of financial incentives in increasing investment is mixed. FAO research on public and private agricultural investment funds in 2010, and followed up in 2018 (Miller *et al.* 2010; Miller, Ono and Petrujleskov 2018) does find that such funds 'can play a strong role in fostering agricultural development in developing countries, contributing to growth, productivity increases, poverty reduction and, hence, sustainable development' (Miller, Ono and Petrujleskov 2018: xiii). Similarly, an evaluation of Swedfund, the Swedish development finance institution, found that it delivered greater poverty impacts in agribusiness than in other sectors, and recommended a reallocation of capital financing there (Spratt *et al.* 2018).

However, the size of company that benefits from such financing depends on fund parameters, particularly with respect to grant or investment sizes. Smaller companies are generally in greater need of finance, but smaller grants are costly for funders to manage so financial incentives are often biased to larger and better managed companies. For instance, for the Futuregrowth African Agricultural Fund, an impact investment fund, the minimum initial investment per farm is ZAR 30 million – or £1.5m (Schweer Rayner 2015). Yet companies at this scale are more likely to be able to take risks or make new investments without additional support. Another example is the Africa Agriculture SME Fund, which has smaller investment sizes (US\$150,000 to US\$4,000,000) (CFC 2013), but is still not at a level that is manageable for most smallholders to benefit from commercialisation approaches.

Another question for public financiers is the 'additionality' of the support provided: whether or not the intended social benefits need support to materialise or would have happened anyway. In the UK, the Independent Commission for Aid Impact has found that the additionality of DFID-supported challenge funds (which offer grants or loans) are low when compared to equity investments and guarantees, which it found to be generally additional (ICAI 2015).

Finally, Freeman *et al.* (2016) stress the correlation between macroeconomic factors and bank-lending rates, with negative impacts for access to finance, against which public financing volumes provided through public-private initiatives, development finance institutes (DFIs), and other public actors pale in comparison. Overall, the literature suggests that the public sector has a minimal role to play in increasing investment through making finance more available, although through targeting efforts to areas with a high poverty reduction effect, they may have an important impact (Wilhelm and Fiestas 2005).

2.3.3 Non-fiscal incentives

Beyond fiscal and financial incentives, agribusiness investment decisions are also shaped by other areas of agricultural policy and expenditures. Pernechele *et al.* (2018) look at multi-level indicators to understand the underlying effects of agriculture policies on price incentives for farmers. They find that from 2005–2016, this policy effect grew, which they attribute to import tariffs and price support for the domestic production of politically sensitive food staples in the wake of the food crisis of 2007–2011. However, they caution that as these policy incentives become more erratic, they risk undermining investment due to uncertainty and concerns about government interference.

With respect to government expenditure, von Cramon-Taubadel *et al.* (2009) show that the agricultural capital stock per worker increases alongside greater government spending per worker in the sector. In several countries, agricultural funding relies heavily on donor funding. For Ethiopia and Ghana, for example, donors fund 71 and 73 per cent of public expenditure in agriculture respectively¹⁰ (Pernechele *et al.* 2018). Donors have sometimes been more willing to fund public goods than national sources driven by political considerations to support private goods, such as input subsidies.

Jayne and Rashid (2013: 547) finds that ten African governments spend approximately US\$1 billion on input subsidy programmes (28.6 per cent of their public expenditures to agriculture), and that the costs of such programmes exceed the benefits. Xu *et al.* (2009) look at whether input subsidy programmes 'crowd in' or 'crowd out' commercial market development by modelling fertiliser demand, and find that the answer depends on initial market conditions. Where there is already a strong and robust private sector, input subsidies (which are primarily targeted at rural households) crowd out commercial market development. But where such institutions are weak,

subsidies can crowd in private retailers. Input subsidy programmes also have a high opportunity cost on the ability to remove other agricultural bottlenecks related to infrastructure, storage, marketing, research and development, and value chain development (Jayne and Rashid 2013; Pernechele *et al.* 2018).

Lederman *et al.* (2006, 2010) have analysed the role of export promotion agencies, which help exporters navigate challenges and reduce informational asymmetries. The authors find that on average these agencies have a statistically significant effect on exports. However, they also find that larger export promotion agencies do not produce significantly better results; in fact, there is a diminishing return. Investment promotion agencies – which often share similar mandates to export promotion agencies, or are the same agency – appear to increase FDI (Charlton and Davis 2007; Morriset 2003), but not in all cases, depending on implementation issues. These agencies are most effective in countries which already have a relatively good investment climate, and may actually be counter-productive in countries where the investment climate is poor (Morriset 2003).

Tinarwo (2018) explores the role of special economic zones for agriculture, which involve both fiscal and non-fiscal incentives, as an effective mechanism for growth. He cites the role of such zones in Mozambique, Mauritius, and Zimbabwe as a means of effectively attracting investment, and while primarily used as part of industrialisation policy, he assesses that similar effects are likely to be found in agriculture.

Finally, public–private partnerships (PPPs) are another mode of non-fiscal incentive through which public actors seek to encourage private investment aligned with policy goals, with donors often acting as either key promoters or as the public partner, rather than the state

(Poulton and Macartney 2012). Studies have found that relatively limited evidence is available to assess the effectiveness of PPPs in incentivising private investment and supporting development outcomes, due in part to the difficulty of implementing PPPs successfully (Rankin *et al.* 2016; Poulton and Macartney 2012; Schoneveld 2014). The evidence that does exist suggests that PPPs have been able to respond to market failures in ways that leverage investment; however, with insufficient attention to additionality and to creating arrangements that are viable long term (Poulton and Macartney 2012; Thorpe 2018).

2.4 Summary

Table 2.2 summarises the evidence from this literature review, with respect to policy incentives and their influence in overcoming constraints to attract capital into agricultural commercialisation in Africa. What is particularly noted is the relative importance of the macroeconomic policy environment and relative weakness of fiscal incentives, except where well targeted. More positive evidence of effectiveness emerges with respect to some of the non-fiscal incentives, such as investment promotion agencies. In the case of financial incentives and risk-sharing arrangements, these can play a role in overcoming financing constraints, but are hard to get right. Even where they are implemented effectively, they are unlikely to compensate sufficiently for the lack of accessible commercial finance.

A number of research gaps are identified. First, much of this knowledge, especially in the area of fiscal incentives, relates to investment in general and has not particularly been applied to the context of agriculture in Africa. More recently, the International Food Policy Research Institute has produced the Ag-Incentives Database (IFPRI 2019), so this knowledge is improving,

Table 2.2 Evidence on how policy affects agricultural investment

Type of policy	Influencing agricultural investment?	Evidence from literature review	Core sources
Macro-level			
Government trade and market policies in agriculture	Yes	Appear to be key in influencing investment volumes, but disaggregated evidence is weaker	Pernechele <i>et al.</i> (2018); Kabongo and Okpara (2017)
Government expenditure	Yes	If spent on removing the barriers to investment (for instance, infrastructure)	von Cramon-Taubadel <i>et al.</i> (2009); Pernechele <i>et al.</i> (2018)

Operational			
Fiscal incentives	Evidence is mixed at best	If targeted effectively, can be effective; if not, can act as transfer from taxpayers to firms	PWC (2016); Klemm (2010); Klemm and Van Parys (2012)
Financial incentives through challenge funds; DFI	Yes	Important poverty reduction impacts but insufficient for systemic change. Needs to ensure additionality	Spratt <i>et al.</i> (2018); ICAI (2015); Wilhelm and Fiestas (2005)
Input subsidy programmes	Evidence is mixed	Yes – if not in direct competition with private sector; applied ad hoc or without clear guidelines	Xu <i>et al.</i> (2009); Dorward and Chirwa (2011); Jayne and Rashid (2013)
Investment or export promotion agencies	Yes	Generally attract and more effectively allocate FDI, but implementation issues	Lederman <i>et al.</i> (2006, 2010); Charlton and Davis (2007); Morriset (2003)
Special Economic Zones for Agriculture	Yes	Yes for attracting capital, although evidence mainly from Asia (where used more effectively)	Tinarwo (2018)

Source: Authors' own

but its footprint in Africa is limited to East Africa only, and this is only looking at nominal rates of protection within industries. Second, often the evidence is based on investor surveys which lead to a fairly consistent list of constraints but provides few insights into feasible and effective policy options. Third, while a few of the studies consider poverty or development outcomes, most focus only on the impact of incentives on investment, rather than broader welfare concerns. None of these studies assess the agricultural commercialisation pathways that arise from the investment incentivised. Yet assessing how policy incentives shape pathways of agricultural commercialisation is a crucial step in understanding how they affect socioeconomic outcomes such as livelihoods, employment, or food security. These are the subject of the rest of this working paper, with the aim of informing government, donor and investor policy, and practice.

3 MAPPING POLICY INCENTIVES FOR AGRIBUSINESS INVESTMENT: ETHIOPIA, GHANA, AND MALAWI

This section systematically identifies and reviews governments' rationales for seeking investment in the context of African agriculture, and the ways in which governments put these goals into practice, through specific codes or regulations for incentive packages, and the respective implementing agencies. It focuses on Ethiopia, Ghana, and Malawi, the countries from which the agribusiness case studies are drawn. In order to properly understand policy goals and incentives, the section starts by briefly profiling key features of these three countries.

3.1 Country agricultural profiles and policies

Ethiopia, Ghana, and Malawi, although not intended to represent all of Africa, nevertheless reveal many common features relevant to business investment in agriculture in the continent. Among the striking similarities between the countries, and much of Africa, is the fact that agriculture is the backbone of the economy. In all three, the sector contributes to more than 20 per cent of gross domestic product (GDP), with over 50 per cent of the countries' nationals living in rural areas. Moreover, agriculture is the major source of foreign exchange earnings. In Ghana, for example, the major export crop, cocoa, accounts for 20–25 per cent of total foreign exchange earnings. Coffee in Ethiopia and tea in Malawi are also major sources of foreign exchange.

In all three countries, smallholder farmers are the major producers of food and nutrition, largely based on subsistence and rain-fed agriculture that is vulnerable to erratic rainfall and drought. Like many parts of Africa, they face food and nutrition shortages. Ethiopia and Malawi in particular have faced successive food shortages, hunger, and even famine. Ghana for its part is a net food importer. The nutritional status of the countries is far from satisfactory, with a significant proportion of the population stunted, and many under-fives underweight. Agriculture has been the main employer in all three countries; however, with huge demographic transitions and a rapid increase in the youth population, there is a need to create more employment, both on and off farms.

With differences in geography, population, economy size, ease of accessing land, and perhaps most importantly, political economy, understanding differences in the relevant context is also critical. Table 3.1 presents key economic and political variables for the three countries, while the major agricultural features, policies, and plans for each country are summarised below.

Ethiopia: Agricultural policy is led by the Ministry of Agriculture. Ethiopia's drive towards commercial farming came around 2001, as it moved to attract foreign capital into agriculture and catalyse a rural transformation from subsistence to commercial farming. The strategy was two-pronged: first in the cut flower sector, and second in large-scale commercial farming. The latter focused on three areas: export-oriented food crops including rice and maize; biofuel crops including palm oil and castor beans; and industrial crops, notably sugar cane and cotton (Rahmato 2014).

In 2005, a major shift towards agribusiness came through the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (MoFEC 2006). Unlike its predecessors, PASDEP included a particular focus on promoting niche high-value export crops, a focus on selected high-potential areas, facilitating the development of large-scale commercial agriculture where feasible, and better integration of farmers with local and global markets. However, apart from the cut flower sub-sector where success was demonstrated, broader participation of the private sector in agricultural development was limited to a few sub-sectors such as cotton and horticulture. Thus, as part of the Growth and Transformation Plan II (National Planning Commission 2016), multifaceted and integrated support was offered to investors with land holdings as high as 100,000 hectares out of the 3.1 million hectares of land suitable for investment.¹¹ Although all land in Ethiopia is under public ownership, it can be accessed through long-term lease for private development (Rahmato 2014; Alemu and Birhanu 2018).

Ghana: Similar to Ethiopia, the Ministry of Food and Agriculture has initiated a number of policies and strategies to transform and modernise the agriculture

Table 3.1 Key macro and agricultural indicators of Ethiopia, Ghana, and Malawi

Indicator	Ethiopia+	Ghana++	Malawi+++
General			
Population in millions (2018)	109	29.6	18.1
Geography	Landlocked	Direct sea access	Landlocked
GDP (in billion US\$, 2018)	84.3	65.5	7.0
GNP per capita (US\$)	790 (2018)	2130 (2018)	340 (2017)
GDP Growth 2019	7.9%	7.6%	4.5%
Population head poverty count – (World Bank 2020)	23.5 (2015)	23.4 (2016)	51.5 (2016)
Political system and stability	Federal parliamentary republic; affected by conflict	Multi-party; politically stable	Multi-party; politically stable
Agriculture			
Agriculture contribution to GDP	35%	20%	30%
Agriculture contribution to employment	70%	50%	64%
Land tenure system	Public ownership	80% customary tenure	Mixed

Source: Authors' own, based on: Ethiopia:+ World Bank (2020): (www.worldbank.org/en/country/ethiopia/overview); Ghana:++ World Bank (2020) (www.worldbank.org/en/country/ghana); Malawi:+++ World Bank (2020) (www.worldbank.org/en/country/malawi/overview), National Statistical Office (2019).

sector in Ghana. In 2002 and then updated in 2007, the Food and Agriculture Sector Development Policy (FASDEP 1 and 2) sought to balance food security concerns with the production of agricultural raw materials for local industry and for export. In 2008, in response to rising input prices, the government brought in a direct fertiliser subsidy, available for farms of less than five acres. In 2011, the Medium Term Agriculture Sector Investment Plan (METASIP 1 and 2) focused more explicitly on creating a climate to attract private investment, including establishing private sector-led mechanisation centres and providing support to investors. In addition, the country has endeavoured to align its national programmes and activities with the CAADP pillars, specifically the Maputo and the Malabo declarations.

The government has introduced a number of tax incentives (including tax holidays) to entice foreign entrepreneurs to establish agro-processing firms in Ghana. Crop diversification was also pursued for the purpose of increasing export earnings and diversifying away from dependence on cocoa. Some programmes were implemented to facilitate export of non-traditional crops, such as pineapple, mango, pawpaw, kola nuts, orange, ginger, banana, avocados, and guava. To attract investors into food processing, Export

Free Zones were established and given various tax incentives.

Malawi: In Malawi, the Ministry of Agriculture, Irrigation and Water Development is the lead agency. In 2005, it developed the Farm Input Subsidy Programme (FISP) to boost input use by smallholders producing food crops (maize); a response to both low input usage (inorganic fertiliser use per hectare is only around 43kg on average) and low per capita land availability (as low as 0.4ha/person), which led to severe food shortages. In 2006, the government formulated the Agricultural Sector Wide Approach (ASWAp) to harmonise investment and support programmes in agriculture based on their potential to contribute to food security and agricultural growth over a five-year period.

Then, starting in 2010, there was a stronger focus on both expanding production and boosting private investment. Policies included the National Agricultural Policy Framework (2010–16), which aimed to reduce dependency on rain-fed agriculture, and also aimed at 'building the capacity of the different cadres of the private sector involved in the fertiliser industry such as agro-input dealers and the middle scale private traders' (MoAFS 2010: 9–10). In parallel, the Green Belt Initiative (GBI) aimed at expanding land under

irrigation, and promoting a move away from rain-fed agriculture. Through the GBI and later the Greenbelt Authority (GBA), the government promoted local and foreign investment in agriculture (Chinsinga and Chasukwa 2015: 133), as well as promoting agricultural export. However, in a land-constrained country such as Malawi, granting access to land has significant limitations, given an already high population density and low land availability (*ibid.*: 136), as well as complexities with respect to land tenure. Malawi has a mixed land tenure system, in which private ownership can be acquired through rent or purchase agreements with traditional and state authorities (Jayne *et al.* 2016).

3.2 Policy drivers of agricultural commercialisation and business investment

3.2.1 Goals of agricultural commercialisation and business investment policies

Assessing the narratives within each country's agricultural policies and plans reveals a relatively common set of interrelated goals that are at the heart of the drive for greater investment in African agriculture:

First, economic growth imperatives: the vision of attaining a higher level of income is ingrained in all national policies and plans. Malawi's V2020 is to attain a middle-income economy and, along the way, become democratically mature, environmentally sustainable, and self-reliant. Ethiopia's vision is to achieve lower middle-income status by 2025. Similarly, Ghana, one of the richest countries on the continent, already having attained lower middle-income status, aspires to become a more industrial economy. The national agricultural policies also emphasise reducing the appalling levels of poverty in the respective countries, while seeking economic transformation through industrialisation.

Agriculture is seen as an 'engine' of growth – producing export commodities to generate foreign exchange that supports industrialisation and provides raw material for agro-processing industries. In Ghana, private investment is encouraged in agro-processing industrial enterprise zones. Similarly in Ethiopia, business investment is sought in the cotton and livestock sectors to feed into manufacturing, processing, and exporting businesses located within the growing industrial parks. Finally, to increase the potential for economic growth, all three countries also used their incentive schemes to attract new and/or improved technologies, skills, and management into the sector.

Second, food and nutrition security: to address food and nutrition security challenges, national policies and plans are increasingly framed in terms of private investment complementing government efforts to bring in improved farm inputs and production methods – such as irrigation – to sustainably increase productivity and production. The FISP and GBI in Malawi are examples of such policies.

Third, employment: generating more on-farm and off-farm jobs for the growing youth population has been the focus of agricultural policies and plans. Investment in agribusinesses that hire more lower skilled youth and women have been prioritised in some of the national plans (for example, Ethiopia's cut flower sector – Wossen and Ayele 2018).

Fourth, creating market opportunities for smallholders: for example, Ethiopia's PASDEP has sought to support business investment that creates linkages with smallholder agriculture: 'supporting the development of large-scale commercial agriculture where it is feasible, and better integrating farmers with markets – both locally and globally' (MoFEC 2006). To support this goal, practical steps were taken for smallholders to supply barley for malt factories and wheat grains to flour and food industries.

Fifth, commitments to continental and global initiatives and agendas: Ethiopia, Ghana, and Malawi's agricultural plans and policies are aligned with the CAADP, which has become the basis of the development of the sector in many signatory countries. Ethiopia is one of the few African countries which has exceeded the CAADP target of a 6 per cent growth rate, and halved rural poverty, carefully patterning its strategy and plan on the CAADP model. Ghana emphasised its large tropical export potential (AGRA 2018). Other key regional and global references for the countries' agriculture plans include the UN sustainable development goal targets; the donor-led New Alliance for Food Security and Nutrition; the New Partnership for Africa's Development; and the World Economic Forum's Grow Africa.

3.2.2 Incentives and institutional arrangements

With the aim of achieving these goals, governments employ investment incentive packages, administered through government departments and agencies. First, while the ministries responsible for agriculture take the lead roles in policy development in all three countries, a number of allied agencies and actors are involved, including the president or prime minister's offices, ministries of finance, planning, trade and investment,

and revenue authorities. These include investment commissions or agencies that are entrusted with the power to develop and administer investment packages:

- the Ethiopian Investment Commission (EIC) (formerly the Ethiopian Investment Agency);
- the Ghana Investment Promotion Centre (GIPC);
- the Malawi Investment and Trade Corporation (MITC).

Second, investment packages in these countries include a mix of fiscal, financial, and other, non-fiscal incentives. Table 3.2 provides a short overview of common government and donor incentives packages being implemented in the case study countries. The most common incentives across all three countries are exemptions from paying corporate income tax and import and export duties.

In Ethiopia, typical incentives are exemptions from paying income tax, and import and export duties.¹²

Table 3.2 Typical investment incentives offered by case study countries and donors

Type of incentives	Ethiopia	Ghana	Malawi
Fiscal incentives: <ul style="list-style-type: none"> • Exemptions from paying income taxes • Exemptions from paying import duty • Exemption from paying export duties 	Corporate income tax exemption: 30%; income tax exemptions for a period ranging between 1 and 9 years, depending on specific activity and location of investor 0–35% customs duty exemption no export tax except for raw or semi-processed hides and skins	Holiday from corporate income tax for five years, after which businesses engaged in agro-processing in Accra and Tema are taxed at 25% (lower elsewhere in the country); Tax concessions rise to ten years for tree crop farming, commencing from first harvesting.	Exemption from paying corporate income tax (tax holiday) Exemption from paying import duty on new machinery (excluding spare parts) Exemption from paying export duties
Financial incentives: <ul style="list-style-type: none"> • Government direct grants • Government loans at concessional interest rates 	Concessionary loans from Development Bank of Ethiopia	Government direct grants	Loans at low interest rates through the Export Development Fund
Other incentives: <ul style="list-style-type: none"> • Land incentives, including location-specific incentives • Regulatory facilitation – OSS • Training and technical assistance • Subsidised access to infrastructure 	Subsidised access to land Regulatory facilitation – OSS	Regulatory facilitation – OSS Training and technical assistance	Support to access land Regulatory facilitation – OSS
Donor incentives: <ul style="list-style-type: none"> • Grants • Development finance (debt or equity) • Value chain coordination • Training and technical assistance • Support for infrastructure • Public–private partnerships 	Development finance investment FDI home government incentives Training and technical assistance Rural infrastructure	Financial grants Training and technical assistance Support for warehouse, storage, and irrigation Public–private partnerships	Donor grants Development finance investment Training and technical assistance Public–private partnerships

Source: Authors' own.

As Section 4 will show, however, what is distinct about Ethiopian business incentives is the provision of subsidised access to land. As part of the GTPII (National Planning Commission 2016), the total area of land allocated to investors will increase from 2.4 million hectares in 2014/15 to 3.1 million hectares by the end of 2019/20 (*ibid.*: 127). Investors are encouraged to participate in the production of export goods and industrial inputs – crop, flower, horticulture, and livestock development sub-sectors. While land lease prices vary from region to region, and within regions, land was leased, on average, at 169 birr (around US\$6) per ha per year, most commonly for a duration of 35–50 years (Ayele *et al.* 2019). Ethiopia also set up an entirely new agency, the Ethiopian Agricultural Investment Land Administration Agency, mandated to administer agricultural investment land above 5,000ha and create favourable conditions for the production of agricultural investment products in sufficient quantity for export and local markets. Ethiopia also offers a one-stop shop (OSS) service for investors.

Since the 1980s, the government of Ghana has created various fiscal and non-fiscal incentives, which are generally available to all investors (both domestic and foreign).¹³ In addition to corporate tax holidays, and locational tax incentives, Ghana offers a reduced tax rate, and import and export duty exemptions for registered free zone enterprises. In 2000, the government established financial incentives through the Export Development and Investment Fund, which offers finance for the development and promotion of export trade. Due to predominantly customary land tenure arrangements, the government does not provide subsidised access to land, although it has been trying to improve land governance and assist investors with guidelines on land acquisition. Foreign investors also enjoy the right to full repatriation of dividends and net profit attributed to investment; no restrictions on remittance transfers back home; and protection of investments from arbitrary deprivation of property, with a Commercial Division of the High Court established in 2005 to deal with investment disputes.

Malawi's tax incentives and privileges are detailed in its 2012 Investment and Export Promotion Act, and incentives include a 100 per cent investment allowance for new buildings and machinery and up to 40 per cent for used machinery, free repatriation of dividends, profits and royalties, and no minimum tax based on turnover.¹⁴ Additionally, there are numerous manufacturing incentives that may influence agriculture investment – such as an export allowance accounting for 12 per cent of revenue for non-traditional exports. Furthermore, there are no duties on capital equipment,

no surtaxes, and no excise duty on raw material inputs (Savjani and Co. 2017). With respect to land, efforts were made by the Ministry of Lands, Housing, and Urban Development to release 'underused' estate land for new commercial agricultural investment. All trade and investment opportunities in Malawi are provided through a one-stop shop service facilitated by Malawi's Investment and Trade Corporation (MITC).

Finally, as noted in Section 2, donors also provide a variety of business incentives. Examples from the three countries include:

- Finance: the Malawi Innovation Challenge Fund, supported by UNDP, DFID, IFAD, and KFW, has provided grants for innovative and inclusive business in the agricultural, manufacturing, and logistics sectors. Development finance is available from agencies such as Norfund, the Norwegian development finance institution, and the CDC Group, the UK's development finance institution (DCED 2019; Smith 2013).
- Technical assistance: in Ghana, DFID has provided assistance targeted at female farmers. In Malawi, donors have provided technical support for businesses adopting inclusive/pro-poor approaches (Smith 2013; DCED 2019).
- Value chain coordination: in Ethiopia, seed sector development and resolving bottlenecks have been supported by the Dutch government and the Alliance for a Green Revolution in Africa (AGRA); rural infrastructure development has been supported by the World Bank (Smith 2013). Similarly, in Ghana, donors have established milling, warehouse, and storage facilities; and supported small-scale irrigation.

What do businesses make of these plethora of incentives across the three countries? As already noted, our efforts to generate accurate and reliable macro data was largely unsuccessful, as such data are dispersed and vary by different agencies and at different levels of government. Nonetheless, statistics obtained from the EIC and reported in Ayele *et al.* (2019), for example, showed that:

- Between 2000–17, 11,210 agricultural investors were licensed. Over 90 per cent of these were small to medium farms (defined as below 25ha; and 25–5,000ha). Many are domestic investors or from the Ethiopian diaspora. In the Gambela region alone, some

- 200 farms were licensed to the diaspora.
- Of the total licensed investment projects from foreign investors, at least 700 were above 5,000ha, originating from emerging economies such as India, Saudi Arabia, and Turkey. At least two of these large projects were leased at 100,000ha each. One was Karaturi Global whose concession for 100,000ha of land was revoked for reasons including significant under-development of the leased land.
- Of the total licensed projects, only 20 per cent (or 2,242) went on to partly or fully start operation.

Moving from investment numbers to policy response, the cut flower sub-sector can be pointed to as an example of responding to policy changes. Between 2002 and 2016, the number of flower farms increased from five to over 100, taking Ethiopia from a relatively unknown country in the sector to the second most important African exporter (after Kenya). This growth was in part due to favourable government policies such as subsidised access to land, and infrastructural and logistical support to export flowers. Over the past 15 years, the flower farms, along with fruit and vegetable farming, have created an employment opportunity for more than 180,000 individuals (Wossen and Ayele 2018).

Statistics we were able to generate for Ghana were similarly shaky. Nonetheless, some indicators show that between 2000 and 2017, there were at least 185 FDI agricultural investment projects that generated a total investment flow of US\$40.3 billion. The number of investment projects registered per year was 8 in 2000 and increased to 16 in 2008 but, on average, about ten projects were registered per year. Investment capital also showed ups and downs.

4 BUSINESS INVESTMENT AND THE EFFECTIVENESS OF POLICY INCENTIVES

Moving from the country overviews, this section presents empirical findings on the factors influencing agribusiness investment in Africa and the effectiveness of policy incentives within these factors, based on primary evidence from agribusinesses and other key informants and experts (Table 1.1). Following a brief overview of the 14 agribusiness case studies, it presents the results in two parts. First, it explores key investment drivers, as identified by business leaders and other key informants, as well as factors that have discouraged investment. Second, it presents case study evidence regarding the uptake and investment effects of policy incentives.

4.1 Overview of agribusiness case studies

The core empirical evidence for this section is drawn from 14 case studies of medium and large firms engaged in input supply, agricultural production, and agro-processing, which have made investments in Ethiopia, Ghana, and Malawi between 2000–2015. Table 4.1 presents an overview of these companies.

4.2 Why do businesses invest in agriculture in Africa?

4.2.1 Key motivating factors

Across the three countries, businesses unequivocally cited their expectation of profit as the key trigger for investment, based on their assessment of supply and demand dynamics (Table 4.2). Long-term trends such as urbanisation, population growth, and rising consumption leading to higher demand for food, fuel, and raw materials domestically, regionally, and globally were the drivers. Periods of high commodity prices and a narrative of rising food insecurity, added to these expectations.

While demand was the most frequently cited driver, several respondents also highlighted supply-side factors that affected the ability to sustain production, along with the prevalence of good agro-ecological conditions (soil, climate). However, while the *perception* of abundant resources and factor endowments *drive* investment, reality has not always lived up to expectations and factor constraints (particularly land

Table 4.1 Case study overview¹⁵

	Company	Ownership	Sector(s)	Number of employees	Agricultural land*	Key market(s)
GHANA	ABA Fertilisers	Foreign, publicly listed	Fertiliser import, blending, marketing	40 permanent 100s of casual staff	0ha	Ghana and West Africa
	ABM Oil	Foreign, privately owned	Primarily biofuel crop production, marketing	180 permanent 1,400 casual	1,300ha 500 outgrowers	Export, primarily to Italy, India, Singapore
	ABO Fruits	Owner-managed with foreign and domestic shareholders	Fruit production, marketing	205 permanent	500ha	Europe, Middle East, North Africa, some domestic
	ABK Farms	Owner-managed (no shareholders)	Rice (major crop) + other crops such as oil palm, maize, cocoa, horticulture, and livestock production, processing, marketing	32 permanent Over 200 casual	Initially 10ha; growing to 1,000ha for rice 3,223 outgrowers	Domestic, plus export market for some crops

ETHIOPIA	ABE Maize	Owner-managed (no shareholders)	Maize production, aggregation, processing, farm services	70 permanent 2,000 casual	60ha 2,000 outgrowers	Ghana and West Africa
	BCA Rice	Domestic privately owned	Rice production, processing, marketing	400 permanent	100,000ha	Export and domestic market
	BCC Pulses	Joint venture: foreign, privately owned, and local	Pulses processing, marketing	350 permanent 50 casual	10,000ha 40,000ha contract farms	Europe
	BCO Seeds	Domestic, privately owned	Maize, teff and chickpea seed production, marketing	>100 permanent	5,000ha >2,000 outgrowers	Domestic, with some export
	BCL Meats	Foreign, privately owned	Meat processing, marketing	600 permanent	0ha for ranching (75ha for feedlot, animal holding, abattoir)	Export
	BCE Beef	Owner-managed with foreign shareholders	Feed production, feedlot, meat processing, marketing	450 permanent 2,500 casual	0ha for ranching (1,300ha for feedlot and silage production)	Export
MALAWI	CDZ Coffee	Domestic, co-operatively owned	Coffee production, processing, marketing	75 permanent 125 casual	1,540ha + production from six cooperatives	Export and domestic
	CDC Rice	Owner-managed (no shareholders)	Rice production, processing, marketing	70 permanent 130 casual	Aim to develop 3,000ha + 5,000 outgrowers	Export market with some domestic
	CDT Oil	Domestic, privately owned, joint venture	Biofuel processing, marketing	68 permanent	0ha 209 contract farmers on 2,216ha	Domestic
	CDA Fruit	Foreign, privately owned	Fruit production, processing, marketing	270 permanent 330 casual	2,200ha including factory 5,000 outgrowers registered	Middle East, South Africa, USA, Europe

Note: *Landholdings for other purposes (e.g. for factories, abattoirs, and warehouses) are not included.

Source: Authors' own

availability and suitability, but also labour availability, productivity, and capacity) are frequently cited barriers. Table 4.2 provides illustrative quotes from the companies in response to questions about the factors that motivated their investment.

From Table 4.2, it is also clear that, while market factors are the main drivers of investment, there are nuances. In particular, the owner-managed or cooperatively-run enterprises in Ghana and Malawi tended to cite non-financial and non-market factors alongside market drivers. These include a background of growing up in a farming community, their desire to support farmers to improve

livelihoods and quality of life, and pride in high-quality natural and nutritious products. The quote from ABE Maize is illustrative in this respect. For foreign firms, the regulatory framework, and general peace and stability of the country were influential. Especially in Ghana, foreign-owned companies invested because of the country's record of rule of law, political stability, and public security. In Ethiopia, the role of investment incentives, while not the main driver, came out more strongly.

These agribusinesses' perceptions of the investment opportunities in African agriculture were echoed by other informants:

Most [companies] are not even able to meet the demand of their customers. You know, the agriculture sector is very lucrative. Once you have money and you also practise good agriculture measures... the returns are very good. So that is the main reason why most investors have showed interest in the agriculture sector, not because of the incentives that we give them...
(Key informant, government agency, Ghana)

Good climate and availability of land are major drivers of investment in Ethiopian commercial agriculture. The government has created a good enabling environment and provides incentive packages. These have resulted in a better response to, and increase in, investment as seen, for instance, in investment in floriculture.
(Key informant, government agency, Ethiopia)

There are available export opportunities that farmers or entrepreneurs can exploit. So the availability of market facilitates investments...
(Key informant, civil society, Malawi)

4.2.2 Investment barriers

While the interviews focused on understanding the factors that positively motivate investment, inevitably the interviewees also discussed constraints and challenges. The list of barriers cited by the interviewees will resonate with other studies in this area. They include principally poor infrastructure, bureaucratic delays and arbitrariness, difficulties in accessing land and land conflicts, and difficulties in accessing finance.

Poor infrastructure: good infrastructure is an incentive that investors seek but generally find lacking. Despite recognition of government and donor efforts in a few cases, business leaders and informants mostly highlighted challenges. The lack of transport infrastructure was one major concern. As explained by the CEO of ABE Maize, 'I rather consider access to finance, market availability, and also the infrastructure that is there. The market is good but infrastructure is very poor.' Also in Ghana, a former government official highlighted that 'energy and energy cost for irrigation and processing is key', suggesting 'a need for preferential pricing for energy used by agribusinesses'. In Malawi, all four companies complained that regular electricity cuts force them to work below capacity, while in Ethiopia, two of the five companies pointed to the lack of transportation infrastructure as a major obstacle to their operations and growth opportunities.

Policy inconsistency, arbitrariness, and delays: investment in Ethiopia is hindered by policy gaps (in

communication, knowledge, implementation) between the centre and the regions. District-level officials were said to lack policy understanding related, for example, to leasing and administration of land, managing tax issues, or handling conflicts. In Ghana, successful businesses worried that they would be side-lined if taking up certain incentives means that they are perceived to be aligned with one political party. As a result, some business leaders refuse on principle to implement any programmes jointly with the government. In Ethiopia and Malawi, business leaders also complained about policy contradictions. For instance, while the Malawi National Export Strategy encourages the production of crops such as rice and legumes for export, legislation on the Control of Goods allows the government to ban these exports at any time, leading to uncertainty that discourages investment. These contradictions reflect both political considerations and conflicting policy goals. The following story from a key informant/exporter in Ethiopia is illustrative:

I took an investment licence and secured land for a large-scale production of cotton to supply the export market. Nevertheless, after I made a huge investment and started operation, there was a sudden change in policy, which banned cotton exports. The justification was that the local garment industry is in short supply of raw cotton and suppliers of cotton cannot export it before local demand is met. This adversely and severely affected my ambition as an investor.
(Key informant, business, Ethiopia)

Difficulties in accessing appropriate land and other resources: it has already been noted that land and other resources are sometimes more constrained than investors expect (or were led to believe); a mismatch of expectations that has resulted in conflicts between companies and communities in all three countries (regardless of their different land tenure arrangements). For ABM Oil in Ghana, for instance, significant investment in 2012 was stalled the following year due to land litigation problems that led its investors to pull out. Policy inconsistency also plays a role in these conflicts.

Alongside land conflicts, investors complained about a lack of information on the quality of land, and its appropriateness for different uses. As explained by a policy expert in Ghana, 'It's also important to have adequate knowledge and information on soils and their micronutrients, weather conditions, and land suitability. They are incentives businesses look for.' In Ethiopia, the lack of detailed information on the suitability of millions of hectares of land earmarked for commercial farming

was an issue highlighted in the validation workshop. The result has often been a failure to develop land in line with stated intentions and/or rapid exit by foreign investors:

It is very true that incentive packages have attracted many meat processing foreign investors to Ethiopia. Likewise, there has been huge investor interest in areas like Humera, Metema, Gambella, Afar, and Benishagul... However, the public support to enhance these investments was very limited. Some [investors] could not get [land that] was licensed, while some managed to own land beyond what was licensed.
(Key informant, business, Ethiopia)

In Ethiopia, of 11,210 agricultural investors licensed between 2000–17, only 20 per cent went on to partly or fully start operations (Ayele *et al.* 2019).

Limited access to finance and foreign exchange: a number of business leaders across the case study countries also underlined access to finance and foreign exchange as major barriers to investment. They noted high interest rates and unfavourable collateral requirements and terms of bank loans:

If you are a farmer taking a loan from the bank and you are paying 27 to 30 per cent interest annually and... assuming someone is planting mango which might take four to five years to bear fruits, by the time the mango bears fruit, the money would have tripled or quadrupled. So it is just not possible.
(ABO Fruits, Ghana)

Likewise, business leaders noted a lack of or limited access to foreign exchange as deterring their investment. In response to such concerns, Ethiopia has started selectively providing access to foreign exchange particularly to exporting businesses, and eased collateral requirements to encourage business investment. That said, we also found that some investment license holders abuse these rights and privileges, engaging instead in lucrative business such as real-estate development in cities. Some loans and foreign exchange permits to purchase farm machinery were switched to other activities not covered under the incentives (see Ayele *et al.* 2019).

4.3 The effects of policy incentives on agribusiness investment

As already described (Section 3.2.2), there is a lack of statistical information in the three countries which would

support an assessment of incentive effectiveness using secondary data. However, in the 14 agribusiness case studies, we discussed with interviewees the types of incentives each company took up, and whether and how these have influenced investments (Figure 4.1). The findings indicate that, in general, fiscal incentives have been taken up by companies but show limited evidence of incentivising or influencing investment, although the impacts are somewhat stronger in Ethiopia. On the other hand, incentives that have encouraged new, faster or different types of investment include: financial incentives from both government and donor sources, regulatory facilitation (one-stop shop services) and land-based incentives. For other non-fiscal incentives, including training and TA, export and trade promotion, and input subsidies, there is little evidence of impact.

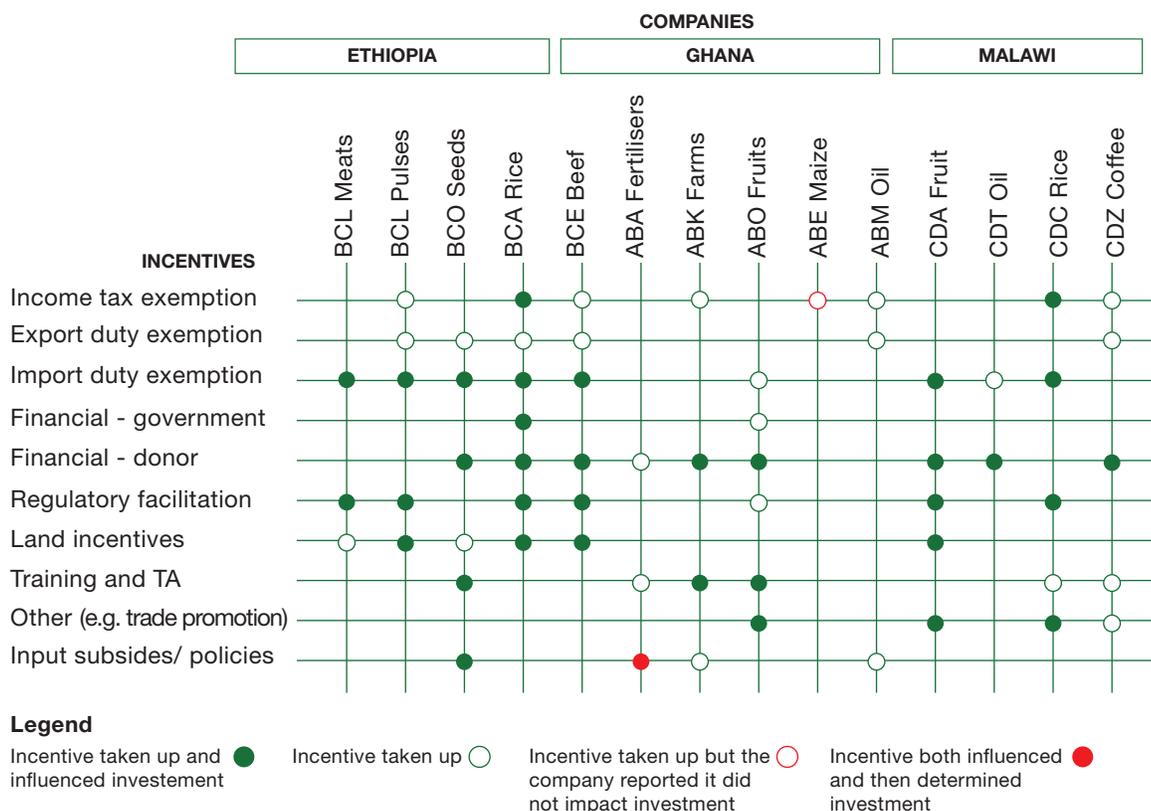
4.3.1 Fiscal incentives

All but one company (ABA Fertilisers) said that they had received and taken up some form of fiscal incentive, and generally companies acknowledged that these tax reductions were beneficial. However, they have not changed the nature of business investments. Other than import duty exemptions (discussed further below), only two out of 14 companies reported a relationship between fiscal incentives and their investment decisions. BCA Rice in Ethiopia benefited from a 15-year tax holiday for investing in a remote region of the country, which it listed alongside land availability as key to its choice of investment location. CDC Rice in Malawi also reported that funds saved through a seven-year tax holiday enabled them to reinvest in their operations.

In other cases, business leaders made no connection between fiscal incentives and their investments, or explicitly said that they had no impact. For example, BCC Pulses described Ethiopia's tax arrangements as encouraging for exporters, but added that, on their own, these incentives are an insufficient inducement. 'The policy incentives do not match the investment and motivate the sector... It was the suitability and conducive agroecology, which encouraged us to establish this company ...' In Ghana in particular, several business leaders were vocal in saying that fiscal incentives did not motivate or influence their investment. For example, when asked about investment incentives in Ghana's agricultural sector, ABE Maize responded:

[I]f I rate [the incentives] from 1 to 100, I will give them about 2 per cent... So far the government has been concentrating on tax holidays and tax exemptions to influence where people invest. The government also thinks that if people are exempted from paying import duties, then investors will come to Ghana. But these are not

Figure 4.1 Incentives that influenced investment



Source: Authors' compilation of statements by company managers and executives of (a) incentives received; and (b) how incentives influenced their investment decisions.

really good incentives... The tax reduction for locating in rural areas is not working because the cost of constructing roads to your farms will be more than the tax reduction. (ABE Maize, Ghana)

Another informant in Ghana observed that, 'you realise that most of these companies will enjoy the tax holidays, but after five years they will close up and you see another one coming in. So it has not been helping the country a lot'.

Similarly, according to ABM Oil:

Tax incentives didn't influence our decision to come to Ghana. As I said, the peace that the country is enjoying is one factor that our foreign investors consider strongly. They also think the climate is good.... As for the tax, nobody considers it as an important factor.

Import duty exemptions were found to be an exception to this pattern however, with seven out of the nine companies which received these exemptions reporting that they supported greater investment, including all of the Ethiopian companies. For BCA Rice in Ethiopia, for example, the duty-free import of farm machinery (valued at \$US80 million) was described as an 'enormous incentive', and one of the points that attracted the company to invest. CDC Rice in Malawi also benefited from duty-free imports of processing and irrigation equipment, and admitted that without tax incentives, it would not have purchased the machines and equipment at the time they did. However, this case also highlights the lack of transparency and arbitrary decision-making sometimes associated with fiscal incentives. To claim these benefits, CDC Rice had to rely on support from the MITC, due to a lack of transparency on approval procedures, which led to stock initially being held by the revenue authority, delaying operations. Eventually, after a protracted battle with the authorities and petition directly to the president, the exemption was granted. Other less well-

We also heard from key informants that even though fiscal incentives are beneficial to business, they are often unnecessary or generate unsustainable results. According to one key informant in Malawi:

[T]he story we have heard from so many stakeholders and we have seen in literature on these tax incentives is that companies come, enjoy a tax holiday, they will apply for extension or they will fold up and go, and they do that without paying a single cent in tax when in the first place, they could have done the investment while paying tax.

resourced companies are likely to give up or be denied approval under such circumstances.

4.3.2 Financial incentives (government and donor)

Financial incentives, particularly from donors, were identified by several business leaders as having a clear effect. The majority of the companies (10 out of 14) reported receiving some form of government or donor financial incentive, often in conjunction with technical assistance (in the case of donors) or investment facilitation (especially in the case of Ethiopia). Nine of these companies described the incentives as influencing their investments, particularly for expansion, including through contract farming schemes, and upgrading through investment in machinery and equipment. For example, the CEO of ABE Maize describes how his initial investment came from his own personal savings, but that financial incentives enabled him to expand and upgrade the business, with 2014 being a key turning point. In this year, the company collaborated with the Ghana Commercial Agricultural Project (GCAP), a Ministry of Agriculture project jointly funded by the World Bank and USAID. Through a 50:50 matching grant, the company implemented a two-year land development, warehousing, and capacity-building project worth US\$2 million, resulting in a maize processing factory and warehouse. While this collaboration made funds available for investment, the company complained about poor access to working capital. Similarly, CDZ Coffee received donor financial support early on, but complained of difficulties in accessing working capital.

In Ethiopia, BCO Seeds identified donor grant-funded financial and technical support as critical to its investments, allowing the company to expand and increase the volumes it produces through implementing a contract farming scheme; crucial for growth as the company was unable to access land to expand its own farms. BCE Beef received an investment of US\$7.4 million from a development finance institution, enabling it to construct a state of the art abattoir and meat-processing facility, as well as providing working capital. BCA Rice cited the availability of credit from external and domestic sources as a 'major incentive' supporting rapid business start-up.

However, interviewees also reported that funds are not available to all, and certain types of firms are favoured. In Ethiopia, exporting firms receive preferential treatment when compared to those producing for the local market. In Ghana, business leaders who are in the patronage networks of ruling party officials are believed to have better access to incentives. In contrast, small firms or entrepreneurial farmers seeking to 'step up' into

commercial agriculture, and those looking for relatively small-scale funding are marginalised, as the CEOs of ABK Farms and ABE Maize explain:

If you are an entrepreneur and you are starting, no bank will come and look at your proposal and give you money. In this country, especially in agribusiness, they will tell you it is risky... I had to struggle through my own way to make sure that I succeeded.

(CEO of ABE Maize, Ghana)

There are young entrepreneurs who have very good, innovative ideas that could also [benefit from] support but they do not have any track record. Some do not even have a registered place of abode, they don't have a registered business because this all costs money which they don't have.

(CEO of ABK Farms, Ghana)

While donor funding can be more transparent than government grants, it is difficult for smaller and newer companies to access these sources, due to bureaucracy and the significant expertise required to meet complex financial and operational reporting requirements. In addition, one company complained of donor interference:

Incentives by donors are very transparent. But... the donor will come down with their own people to come and dictate; they don't leave you to do what you've written in your proposal or your concept... So I think, I prefer Ghana beyond aid. If our own government can boost agriculture, Ghana beyond aid will be possible.

4.3.3 Non-fiscal incentives

The findings with respect to non-fiscal incentives were mixed, reflecting in part the variety of types of incentives under this broad heading. However, two of the non-fiscal incentives stood out as influential. These were:

- Regulatory facilitation and one-stop shop services: seven companies received regulatory facilitation, of which six reported that it influenced their investment. Similarly, four companies referenced export or trade promotion, of which three reported that it motivated investment or removed barriers. As with financial incentives, this represents the highest rate of influence among the fiscal and non-fiscal incentives.
- Land-based incentives: six companies received land-based incentives, of which

four reported an impact. Given that difficulties in accessing land is a consistently cited constraint for agribusinesses, it is not surprising that companies have responded to this support. Land availability or unavailability, which are affected by land-based incentives, is an important determinant of commercialisation pathways (Section 5).

The combination of these two incentives can be particularly influential. In Ethiopia, three of the five companies cited the role of land-based incentives along with support from the Ethiopian Land Investment Authority and one-stop shop services as positively affecting their interest to invest and the pace at which they did so. For example, BCA Rice described the role of Ethiopia's one-stop shop in facilitating land access and enabling the company to quickly secure a business licence as being 'instrumental' in its decision to invest in the country, and speeding the pace of investment.

BCL Meats also identified securing a business licence in a short time, and the investment guarantee and one-stop shop as influencing its investment in a modern meat-processing and export facility in Ethiopia, including the pace of the investment:

It was on Sunday when BCL Meats delegates met with Ethiopian officials for the first time but, despite being on a Sunday and a weekend, the Minister was waiting for the delegates in his office, and the team were inspired and immediately sent a message to the owner [who] was as excited about the interest on the Ethiopian side. From that time onwards, BCL Meats has had a close relationship with and support from the Ministry and other concerned officials.

(BCL Meats, Ethiopia)

In Malawi, the efforts of investment promotion by the MITC to support and speed investment are in tension with challenges posed in land acquisition. A case in point is CDA Fruit. The company benefited from government support to overcome trade barriers, plus facilitation by the MITC to acquire export status. This status qualified the company for duty-free imports of vital but specialist packaging materials, as well as machinery and irrigation equipment to accelerate production. Without these, the company says, there would have been significant restrictions around the development of the farms and factory. However, three years after the initial investment, business expansion was severely affected by land conflicts. Although the MITC and the GBA intervened to support the company, a lack of

process clarity, poor communication between central and local levels, and frequent personnel changes led to community distrust and resistance to the company's investments, and a key CDA Fruit investor pulling out.

In Ghana, investment facilitation and particularly land-based incentives are much more restricted, although investors do recognise that they benefit from effective legal and investment protection. However, a complex land tenure system, with most land under customary tenure, means that the government plays a very limited role in assisting investors to acquire farm land. Key informants also noted that foreign investors often have a distorted perception regarding land availability in Ghana. As one government official put it, 'I think one major challenge we've had with these investors, especially the foreign ones, is that they think the land is there for free'. Efforts in Ghana focus instead on improving land governance.

Across all three of these widely differing contexts, we find ongoing instances of conflict between businesses and communities, as attested in the quotes below. Inconsistent implementation of policies between different authorities or levels of government exacerbates these issues in some cases.

Sometimes it is also difficult to be sure of who decides what and to what level. This is particularly a concern with accessing land to lease, given contradictory policy implementation among various authorities and officials from federal to regional, and all the way to kebele level. Each has its own interpretation of the law and regulation. Sometimes the local people consider investment as an enemy of the people rather than a development venture. (BCO Seeds, Ethiopia)

I will give you an example where... we were told the land could be acquired unencumbered... We got notified of the lease which we thought to be agreed and then the Commissioner of Lands found that there was another piece of land which was basically covering 50 per cent of the land we acquired... I think there is lack of information at regional level but also at central level. I think although we were moving ahead with the support of the TA, the DC [District Commissioner] central-level information was being held or not being fed back down. (CDA Fruit, Malawi)

Finally, the research found a relatively weak relationship between other non-fiscal incentives and investment, although these were important in particular cases. For example, Ethiopia's policy to give preferential access

to foreign exchange to investors, in a context where the limited availability of foreign currency acts as a significant business constraint, was a clear investment incentive, according to BCC Pulses.

In the case of training, half of the six companies that took up training and TA reported that it influenced their investments. ABK Farms received donor support for extension services and the training of outgrowers, including 120,000 euros per year for three years through the Competitive African Rice Initiative, and a grant from DFID's Market Development project, which pays for extension support officers, as well as the hiring of machinery. According to the CEO, training incentives are a significant motivation: 'If the farmer is trained and everything is fine, marketing will also be fine, because if you produce something that is very good everybody will buy it. Training is the best.' Similarly, BCO Seeds cites technical assistance as crucial to business expansion through contract farming.

In the case of ABO Fruits, training alongside trade promotion played a significant and direct role in firm survival. Shortly after the company was established, the international market collapsed for the fruit variety it was producing, forcing them to switch to a new and entirely unfamiliar one. With a US\$200,000 grant from the government's Skill Development Fund, financed by the World Bank and DANIDA, the company was able to hire consultants to acquire the necessary technical capacity. Through USAID-funded Trade and Investment Promotion for Competitive Export Economy (TIPCEE) and the government's Export Marketing Awareness Project (EMQAP), the company was also able to acquire the necessary planting material that had previously been unavailable in the country.

Input policies and subsidies were (unsurprisingly) most important to the two input companies: ABA Fertilisers Ghana and BCO Seeds. For ABA, the country's fertiliser subsidy scheme was a 'major factor of motivation', and the company supplies fertiliser to smallholder farmers under this scheme. However, arbitrariness in the awarding of supply quotas is a disincentive, and perceived by the company to be distorting the market: 'The input subsidy itself was an incentive, but the manner it was implemented was a disincentive'. In Ethiopia, the 2013 seed proclamation marked a step change which incentivised private sector participation in seed production and marketing for the first time. This directly motivated BCO Seeds to expand its business from hybrid maize production (which had been liberalised earlier), into other crops.

5 DISCUSSION: INVESTMENT INCENTIVES AND COMMERCIALISATION PATHWAYS

While primarily framed as encouraging productive investment in African agriculture, policy incentives which influence investment also inevitably affect the dynamics of commercialisation processes, whether these effects are intended or not. This section explores what types of agricultural commercialisation pathways have emerged as a result of the agribusiness investments incentivised through government and donor policy. Section 5.1 provides an overview of the commercialisation pathways identified in the 14 case studies, while Sections 5.2 to 5.5 discuss policy incentives in light of the available literature on the implications of these different pathways.

5.1 Overview of commercialisation pathways associated with case studies

Figure 5.1 identifies the commercialisation pathways which are associated with the 14 agribusiness case studies,¹⁶ based on the definitions presented in Table 2.1. Note that these companies often relate to or support more than one commercialisation pathway, due to either changes over time, or different pathways

for different crops, segments, or activities managed by the business.

Large-scale vertically integrated farms: two companies only operate their own large-scale farms, and do not rely at all on smallholders: ABO Fruits and BCA Rice. In addition, ABM Oil had only operated its own estate until 2018, when it began to develop an outgrower scheme.

Medium-scale farms: the cases include two businesses that originated from owner-managed medium-scale farm enterprises in Ghana: ABK Farms and ABE Maize. ABK Farms has now grown to large scale, while ABE Maize remains under 100ha.

Small-scale producer commercialisation through outgrower or contract farming arrangements: seven of the agribusinesses work through outgrower or contract farming arrangements, although none depend entirely on smallholders to supply their factory. CDT Oil purchases all its feedstock, although it mostly uses molasses from another company’s sugar mill. However, as this supply only meets half the factory’s demand, the

Figure 5.1 Commercialisation pathways identified in each case study

		COMPANIES													
		ETHIOPIA					GHANA					MALAWI			
		BCL Meats	BCL Pulses	BCO Seeds	BCA Rice	BCE Beef	ABA Fertilisers	ABK Farms	ABO Fruits	ABE Maize	ABM Oil	CDA Fruit	CDT Oil	CDC Rice	CDZ Coffee
Large scale farm															
Medium scale farm															
Small-scale producer commercialisation: contract farming/outgrower scheme															
Independent commercialisation (small-scale producers)															

Source: Authors' own.

company has been developing an outgrower scheme to enable it to boost production. For BCC Pulses, land under contract farming arrangements exceeds company-owned land by four to one.

Independent commercialisation (small-scale producers): five companies described buying from independent small-scale producers, in particular, the two meat-processing companies in Ethiopia. ABK Farms, ABE Maize, and CDA Fruit work, or have worked, with independent smallholders to 'top up' production at particular times, such as while waiting for other land, trees, or contract farming schemes to develop, or for particular crops.

All pathways: the two input suppliers, ABA Fertilisers and BCO Seeds, are relevant to all commercialisation pathways, although their actual reach will depend on the relevance, availability, and affordability of specific products for different farm segments.

5.2 Large-scale farms

Generally speaking, incentives that enable investors to gain access to lands formerly under public or customary tenure arrangements encourages large-scale, vertically integrated farms. BCA Rice in Ethiopia is an example. Supported by land-based incentives, the company has acquired 100,000ha of land at low lease prices, and does not need to rely on outgrowers. In contrast, ABM Oil, which had preferred to produce all its own feedstock, has begun to develop an outgrower scheme motivated by the difficulty in acquiring land in Ghana.

There are well-documented dangers in offering very easy access to excessively cheap land, however, including the risk of speculative land grabs that fail to generate agricultural commercialisation (Cotula *et al.* 2011; Hall *et al.* 2015). Another issue is land suitability. Where investors are encouraged to acquire land but soil conditions are not appropriately matched with the intended crop and management capacity of investors, outcomes fail to live up to policy intent. An example is the case of SUN Biofuels in Ethiopia, which was forced to stop investment after clearing only 60 out of 80,000ha of land allocated in Benshangul Gumuz regional state, since the land was not suitable for growing *Jatropha* (Wendimu 2013). Key informants in both Ghana and Ethiopia pointed to insufficient information on land quality and appropriateness for different crop uses as undermining the sustainability of investments.

However, the relationship between land-based incentives and large farms is not linear, and other

financial and non-fiscal incentives play a role. In particular, large farms of a more modest scale (e.g. 500–3,000ha) may be enabled by regulatory facilitation or financial incentives rather than relying on land-based incentives. Elites with access to capital and political connections have also been shown to play a significant role (Scoones *et al.* 2018; Jayne *et al.* 2016).

In areas where suitable land is available but overall land is scarce, investment incentives are likely to displace smallholders, although in principle these farmers will be compensated for the dislocation. Given limits to the availability of productive land and the fact that very small landholdings cannot generate medium or higher incomes for farmers, this type of consolidation of landholding, rural–urban migration, and rising incomes for those who remain in farming is inevitable (Poulton 2017). However, there are distributional issues if incentives are primarily directed at already better resourced and politically connected investors, who then gain further significant advantages over smaller farms, shifting landholding patterns in advance of economic forces. In addition, Morriset (2003) finds that investment promotion efforts that also put resources towards policy advocacy are more effective than those which concentrate on bespoke policy fixes for specific businesses. These agencies, he argues, are in a particularly strategic position to improve the general investment environment, as they sit at the interface between public and private sectors.

Where land is relatively plentiful, as in parts of Ghana and Ethiopia, smallholders and large or medium farms are more likely to co-exist or complement each other (Poulton 2017). These complementarities or spillovers from large-scale investments to the local agricultural sector are often part of the stated intent of agribusiness investment incentives. However, research by Ali, Deininger, and Harris (2016) also finds that large farms are not necessarily generating positive externalities, such as knowledge spillovers to surrounding smallholders, or that the results generated are insufficient to justify the incentives received.

In general, our findings support the view that policy incentives, both land-related and other incentives, are giving large farms an advantage over smaller ones, with distributional and societal consequences. The frequency of land-related conflicts cited by investors is one indicator. The fact that the ease of land acquisition, as influenced by investment incentives, shaped companies' choice of farm model (vertically integrated versus outgrower) is another. Furthermore, there is a lack of sufficient understanding among policymakers in all three countries regarding the uptake of incentives (of

all types), and the degree to which they are generating intended policy outcomes.

5.3 Medium-scale farms

The study included two examples of successful medium-scale farms in Ghana: ABK Farms¹⁷ and ABE Maize. These farms did not grow from the ranks of small-scale farmers. Rather, they follow the trend identified in Jayne *et al.* (2016) of urban households investing into agriculture. In the case of ABK Farms and ABE Maize, initial investments came from the owners' own funds generated through non-farm activities. For example, the CEO of ABK Farms used personal savings of GHS5,000 (just under US\$1,000) to start her farm in 2005. She did not apply for a loan because of the difficulties that new farmers face in accessing finance, including high interest rates and unfavourable terms of payment; challenges that were echoed by the CEO of ABE Maize. Several studies confirm that domestic commercial finance in Africa is often ill-suited for agriculture, and that banks are reluctant to lend to farm businesses due to high opportunity costs and high perceived risks (Schmidhuber *et al.* 2009; Aerni *et al.* 2015; Wiggins 2014; World Bank 2017).

Unless appropriate finance is made available, it is hard to see how emergent small-scale farms will be able to 'step up' into commercial production on medium farms (DFID 2015), which will be dominated by those with access either to their own capital or with personal connections to willing investors. That said, both ABK Farms and ABE Maize show how smallholders and medium farms can work together. In both cases, these businesses invested in land for their own farms, but over time also developed facilities to process and store their own production and that of smallholders. In both cases, finance through donor and government sources supported this upgrading – once the owners had an established track record. For ABK Farms, for example, success in a challenge fund competition in 2010 brought GHS15,000 (US\$2,800 – equivalent to 60 per cent of the company's annual budget at that time) and mentorship to support the development of processing facilities. For ABE Maize, collaboration with GCAP led to a two-year land development, warehousing, and capacity-building matching grant to set up a factory and warehouse.

Given their smaller landholdings, medium-scale farms are less likely to displace smallholders, particularly where land is relatively plentiful. More specifically, evidence from these two cases shows how subsidised finance which enables medium-scale farms to invest in

processing and warehousing capabilities can support positive spillovers. In both cases, the agribusinesses were able to offer improved inputs and improved market access for smallholders, with technology that is suitable to local production.

Despite this positive potential, such outcomes cannot be assumed in all cases, and more research is needed to understand the conditions that enable complementarities between medium-scale farms and smallholders. In addition, public sector financial incentives targeted to individual businesses can be expensive to administer and hard to get right. There are also obvious scale limitations. Even if donor finance is blended with private sources or uses returnable capital (i.e. loans rather than grants), the supply is likely to remain insufficient (Freeman *et al.* 2016), and fail to meet some needs, such as working capital. Public support needs to be complemented by better commercial agricultural finance.

The other significant challenge which affects the pace and scale of investment in medium farm development is poor infrastructure. Greater public spending on improved and appropriate transport, energy, and irrigation infrastructure is particularly relevant for medium-scale farms, as they have less capacity to develop private alternatives than their larger counterparts do. Improving infrastructure would reduce costs, enabling medium- as well as small-scale farms to better access inputs and markets, and improve their overall competitiveness (Poulton 2017). Increasing tax revenue by cutting unproductive and arbitrary fiscal incentives could provide the necessary funding. Across shown in Section 4, there is little evidence that fiscal incentives are effective at generating investment, and several investors dismissed tax holidays as failing to compensate for a poor investment environment. However, countries often feel compelled to continue to use fiscal incentives because their neighbours do (Tuomi 2012), setting up a regional race to the bottom (Keen and Mansour 2009). Measures at regional or continental level may therefore also be needed.

5.4 Small-scale producer commercialisation through contract farming and outgrower arrangements

The findings suggest that business investors engage in contract farming and outgrower arrangements for a variety of interrelated reasons. First, for companies ranging from ABE Maize to CDC Rice to CDZ Coffee, supporting local farmers was cited as an integral part of their business mission, driven by a combination of

social purpose and reputational concerns. A second factor cited by several companies is a lack of access to sufficient land, as described above. In this case, a *lack of* (land-based) incentives supports this pathway. Third, policymakers may require or facilitate contract farming and outgrower arrangements in exchange for financial or technical support. The GCAP in Ghana, for example, makes financial support to companies contingent on working with smallholders. It provides smallholders with inputs, supports smallholders to form farmer-based organisations, and links them to agribusinesses, in order to maximise the benefits of private investment towards smallholder commercialisation (Teye and Torvikey 2018). GCAP have also developed more generalised guidance in the form of a national outgrower framework and contract farming document, intended to improve the quality of these arrangements across Ghana. Ethiopia and Malawi also encourage contract farming as a means to link export-oriented businesses with smallholders, and to support technology transfer and agricultural transformation, although these policy goals are not visible in the structure of their agribusiness policy incentives.

A common business concern with contract farming and outgrower arrangements, cited by BCC Pulses and ABO Fruits, is that they pose a risk to quality and security of supply. According to ABO Fruit's CEO, these risks are particularly a concern for exporters, as accessing US or European markets often requires higher standards than domestic markets. Thus, policy incentives that target export crops may discourage the development of outgrower arrangements unless governments and donors actively support them and/or offset risks. Conversely, policy incentives linked to domestic or regional markets can have the opposite effect. One example is the Farm to Market Alliance¹⁸ led by the World Food Programme and supported by other donors and companies in Rwanda, Tanzania, and Kenya. The initiative takes a value chain approach to agricultural commercialisation, focusing on domestic food staples. It also reduces risks for both buyers and farmers, through measures to facilitate higher quality and more regular supply, and more predictable markets for farmers.

Note, however, that while outgrower and contract farming arrangements enable smallholder commercialisation, the benefits to smallholders have been widely contested over the years. A recent meta-analysis of studies on contract farming (Ton *et al.* 2018) does find income improvements for smallholders, although only the better off farmers tend to be included. Evidence from Malawi, on the other hand, suggests that these schemes have not generated

beneficial spillovers for smallholders (Chinsinga 2018). The literature also cautions of the risk of 'agribusiness normalisation' (Simmons 2002; Singh 2002), in which smallholders are trapped in schemes with initially attractive terms that are eroded over time.

The longer-term viability and effectiveness of contract farming and outgrower schemes will depend in part on whether the farmers engaged see them as beneficial. If not, farmer neglect or exit is likely to lead to scheme underperformance and sub-optimal outcomes for business as well as for farmers (Thorpe 2018). Therefore policy incentives intended to promote contract farming and outgrower schemes, should include measures designed to generate (and monitor) positive externalities. Smallholders are more likely to benefit if processing facilities depend on smallholder production for a majority of the feedstock, rather than working with smallholders only to top up production or to fulfil government or donor expectations (Jelsma, Giller and Fairhurst 2010).

5.5 Independent commercialisation (small-scale producers)

We do not find a direct relationship between policy incentives targeting agribusiness investment and commercialisation of independent small-scale producers. Indirectly, of course, incentives that enable investment in upstream (procuring and distributing farm inputs) or downstream activities (buying, bulking, and processing farm outputs) can support independent smallholders to commercialise their produce. For example, through their investments in processing and warehouse facilities, ABK Farms and ABE Maize offer markets to independent smallholders. Input subsidy schemes such as those in Ghana and Malawi can incentivise investment by input companies, although interviewees cite their politicised nature as undermining their effectiveness (see also Poulton and Chinsinga 2018).

Incentives that more directly enable independent smallholder commercialisation are likely to support improved market coordination. Prior to the 1980s, for example, parastatal marketing boards played a coordination role, governing prices between farmers and trading companies and often organising inputs, credit, information, and extension (Robbins 2011). Problems with corruption and inefficiency led most to be disbanded, with notable exceptions such as Ghana's Cocoa Board (Vorley, Cotula and Chan 2012). More recently, private sector-owned commodity exchanges, such as the Ethiopian Commodity Exchange and the

Malawi Agricultural Commodity Exchange, enabled in part by US donors, have been seen as playing this role (Robbins 2011). However, studies have found these to be under-developed and under-performing so far, due to constraints in the operating environment (Robbins 2011; Sitko and Jayne 2012; Jayne *et al.* 2014). Although Jayne *et al.* (2014) find that there is little that commodity exchanges can do to address critical barriers to smallholder commercialisation, such as price volatility and low technology adoption, they can play a role alongside other measures, including holistic value chain development. More generally, measures such as infrastructure development and a stable policy environment, which are relevant for all investors as discussed above, would also support independent smallholder commercialisation.

6 CONCLUSION AND RECOMMENDATIONS

Investment in agriculture contributes to growth and productivity increases, as well as having important poverty reduction effects (Miller *et al.* 2010; Spratt *et al.* 2018). While African agriculture is dominated by smallholders, the agribusiness sector plays a significant role. No less than 30 per cent of Africa's agricultural GDP is accounted for by agribusinesses (World Bank 2013). Given the opportunities (land, water, low input use base, growing markets), many predict that African agriculture can grow rapidly. As a senior UNECA official described it, agribusiness is the 'next growth frontier' (Lopes 2014). Recognising this potential and the need for greater investment to develop it, African governments and their donors have put in place an array of policy incentives aimed at promoting agribusinesses. The findings in this study show, however, that these incentives have influenced agribusiness investment in different and uneven ways.

While financial and non-fiscal incentives have generated greater and faster investment, boosting production capacity or enabling investors to move into new activities, these findings call into serious question the high use of fiscal incentives on the part of African governments. With the exception of import duty exemptions, fiscal incentives have generally failed to induce investment in commercial agriculture. Investor feedback across the three countries makes it clear that putting funds towards addressing missing transport, electricity, and irrigation infrastructure would be more effective at enhancing country competitiveness, with impacts felt across all commercialisation pathways.

The findings also suggest that bespoke benefits targeted at better resourced investors allow them to accrue advantages over smaller firms and farms, but with insufficient evidence to justify these benefits based on spillovers to the wider agricultural economy. Depending in part on the availability or scarcity of land, the net result may be that small-scale producers are 'prematurely' displaced or that different modes of large, medium, and small farms may co-exist. Contract farming and outgrower arrangements are means through which investors support smallholders' commercialisation, but are more likely to emerge when certain conditions are in place including: investor

orientation, including a focus on domestic food crops, the need to work with smallholders in the absence of land-based incentives, donor or government conditionalities, and technical and risk management support.

Together, the findings of this report suggest ten recommendations for African governments and their development partners seeking to incentivise agribusiness investment.

1 Severely restrict fiscal incentives. While they may be beneficial to agribusinesses, they are rarely effective in attracting investment. Ineffective fiscal instruments should be revised or scrapped and increased tax revenue used instead to support infrastructure development, related to transportation, as well as electricity and irrigation. These efforts will attract investment by lowering the cost of production, improving the competitiveness of African industry and improving market opportunities, the key driver of investment. In addition, the benefits are likely to be more widely spread, offering positive distributional consequences.

2 Make import duty exemptions more transparent and predictable. The findings show these fiscal incentives do have a direct relationship with investment, since they offer immediate benefits to investors when acquiring new equipment. In addition, they can only be taken up when the intended impact, in terms of investment in capital goods, materialises, making them easier for authorities to monitor.

3 Take measures to ensure that tax privileges are not abused. Governments need to provide strict directives to enforce rules, and address any loopholes that lead to the diversion or misusing of tax privileges, notably loans and foreign exchange permits meant for agribusiness investment.

4 Offer investment promotion but broaden impact. One-stop shop services have been effective at removing specific bottlenecks, enabling faster investment. Where these demonstrate responsiveness to investors and their actual needs, they also build trust

with investors. Ethiopia's approach has been effective in this respect. However, facilitation tends to reach a minority of investors, while underlying constraints remain unchanged. Mandating investment promotion agencies to work with all firms in target sectors (e.g. through sectoral bodies) can improve performance, especially where agencies press for wider policy reforms.

5 Implement land-based incentives with care.

Lack of access to land and land conflicts do constrain investment. However, offering large blocks of land for leasing and an excessively low lease price have largely represented transfers of public wealth for private gain. Improving land governance is key to avoid conflicts that arise from policy inconsistency, lack of transparency, and poor policy implementation. Improving quality and availability of information on land suitability, e.g. for different crops, can also reduce failed investments. Ghana, for example, has been making efforts in both these directions. There are also opportunities to work with traditional authorities to address land acquisition and tenure insecurity challenges.

6 Bridge gaps in financial services for agriculture.

Development partners and financial institutions can offer loans to agribusinesses at appropriate interest rates and terms which allow farmers to start servicing such loans only when they start harvesting crops. Where appropriately targeted, finance can also enable smallholder commercialisation, by strengthening access to markets through supporting agribusiness investment in processing or warehousing capacity. At the same time, public financing of agriculture will never be sufficient, so attention must be paid to building more sustainable sources of commercial agriculture finance.

7 Facilitate more inclusion of smallholders in the emerging agribusiness sub-sector. Increasing linkages between smallholders and agribusinesses (for example, through contract farming and value chain development) is likely to increase commercialisation and growth in agricultural production and value addition. Policy incentives that enable investment in domestic, rather than export crops, can mean lower risks for both smallholders and agribusinesses active in these chains, as well as addressing domestic food and nutrition priorities.

8 Offer technical assistance for better contract farming and outgrower schemes.

These arrangements play a key role in smallholder commercialisation. However, there is a risk that they trap smallholders in unfavourable trading

relationships. Governments and donors should provide support to address this risk through offering model contracts, providing technical assistance in setting up the schemes, ensuring that the design builds interdependence between the nucleus estate and farmers, monitoring their ongoing implementation, and offering dispute resolution mechanisms. For example, GCAP, a donor-funded programme in Ghana, has developed a national outgrower framework and contract farming guidance document.

9 Develop consistent, systematic, and efficient market and trade policies. Across Africa, working towards these efforts can support a 'race to the top' as countries compete to attract high quantity, quality, and diversity of investment, rather than a low tax race to the bottom.

10 Be much more attentive in regularly gathering information to track the uptake of policy incentives and their implementation. Better monitoring will ensure that incentives are not abused, check for intended positive externalities, and generate lessons on the effectiveness of different incentives. Clawback provisions should be employed for the misuse of privileges related to tax concessions or resources such as finance and land.

Finally, to be effective, the increasing political commitment for agribusiness development will need to go beyond policy statements and appropriate incentive packages. It will need to be supported by well-resourced and coordinated institutions that are able to align these policy incentives with national visions for agricultural transformation, balancing the competing demands on agriculture as an engine of growth and source of domestic food and nutrition security.

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ENDNOTES

- 1 See GAFSP: www.gafspfund.org.
- 2 The APRA consortium is a DFID-funded five-year research programme that aims to produce new information and insights into different pathways to agricultural commercialisation in order to assess their impacts and outcomes on rural poverty, empowerment of women and girls, and food and nutrition security in sub-Saharan Africa. It works in six focal countries: Ethiopia, Ghana, Malawi, Nigeria, Tanzania, and Zimbabwe, with two additional countries, Kenya and Mozambique see: www.future-agricultures.org/apra.
- 3 Five cases were selected in each country; however, one case from Malawi dropped out at a late stage, leaving 14 cases in the final analysis.
- 4 The main challenges were that (i) available data were aggregated under national investment data and/or foreign direct investment (FDI) data, without breakdowns by sectors and subsectors, hence disaggregating data by subsectors proved difficult; ii) some useful analysis of agribusiness investment in the literature (e.g. Mhlanga 2010) tends to be either out of date or account for only a small fraction of agribusinesses in our case study countries.
- 5 Based on domestic enterprise size definitions. These definitions unsurprisingly vary between and within countries. They tend to be land-based for farm enterprises, but based on employees or other factors for non-farm enterprises. For example, Ethiopia largely uses land-based farm size definitions, with farms below 25ha, between 25–5,000ha, and above 5,000ha classified as small, medium, and large farm enterprises respectively. Ghana uses a combination of employment and land-based size definitions: 21 to 100 employees or 5 to 25 hectares for medium, and over 100 employees or over 25 hectares for large enterprises.
- 6 Following Poulton (2017), we use the definition of landholdings of 5–100 ha as “medium-scale” farms. However, different countries are likely to have their own definitions which may vary from the one given here. For example, in Ethiopia, farm sizes between 25 and 5,000 ha are classified as “medium”.
- 7 The report presents legal and efficiency indicators (reflecting time costs imposed by regulation) across 12 topics: seed, fertiliser, machinery, finance, markets, transport, water, ICT, land, livestock, environmental sustainability, and gender.
- 8 The survey included 154 companies in 12 countries in the Grow Africa Partnership.
- 9 Or, in the case of private donors (e.g. foundations) that provide incentives, funds would be shifted from public benefit to private gains.
- 10 The figure for Malawi is just 20 per cent. Figures are based on the average share of Donor and National Expenditure from 2006–2015 recorded in the Monitoring and Analysing Food and Agricultural Policies (MAFAP) public expenditure database, and presented in Pernechele et al. (2018). The figure in Ethiopia is likely to be elevated partly because some recurrent expenditures are not covered by the MAFAP data set.
- 11 Along with incentivising business investment, the government also set up the Ethiopian Agricultural Transformation Agency (ATA) in 2011 to catalyse transformation in agriculture (www.ata.gov.et).
- 12 See www.investethiopia.gov.et/index.php.
- 13 See www.gipcghana.com/.
- 14 See www.mitc.mw.
- 15 Company names are changed for anonymity.
- 16 As explained in Section 2.1, agricultural commercialisation pathways are defined around particular features of farms, and are not to be confused with the definition of medium and large agribusinesses as our unit of analysis, despite the fact that both ‘pathways’ and ‘firms’ are distinguished by size (medium or large). Our case study companies are drawn from a wide range of agribusinesses including not only farm enterprises but also input suppliers and agro-processors. These farm and non-farm agribusinesses may support one or more pathways.

- 17 ABK Farms is currently a large farm by our categorisation, holding 1,000ha of land. However, this business is discussed here as the initial investment was in 10ha of land, i.e. a medium-scale farm, before growing to large-scale status.
- 18 <https://ftma.org/>.

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