



AIM Africa.  
Agribusiness investment and opportunity in Sub-Saharan Africa

## About the research

The Linklaters' Agribusiness Investment Matrix (*AIM Africa*) identifies overall agribusiness potential in 21 countries in Sub-Saharan Africa. It is based on approximately 40 variables selected on the basis of extensive academic work, identifying correlations between agricultural investment, market size, growth and productivity.

For most variables, there is a 'momentum' indicator reflecting progress since 2005. This momentum approach is important in environments where there are poor levels of data availability, identifying potential through the direction – and amount – of change.

The rankings are indicative of the extent to which a country lends itself to agribusiness investment considering environmental, geographical, economic, political, regulatory and operational factors.

The index does not consider external factors such as food price variations or global demand patterns. It should be considered as a 'snapshot' of agricultural dynamism, and would complement an in-depth country assessment which investors should undertake when considering investment in a particular jurisdiction.

## Data sources

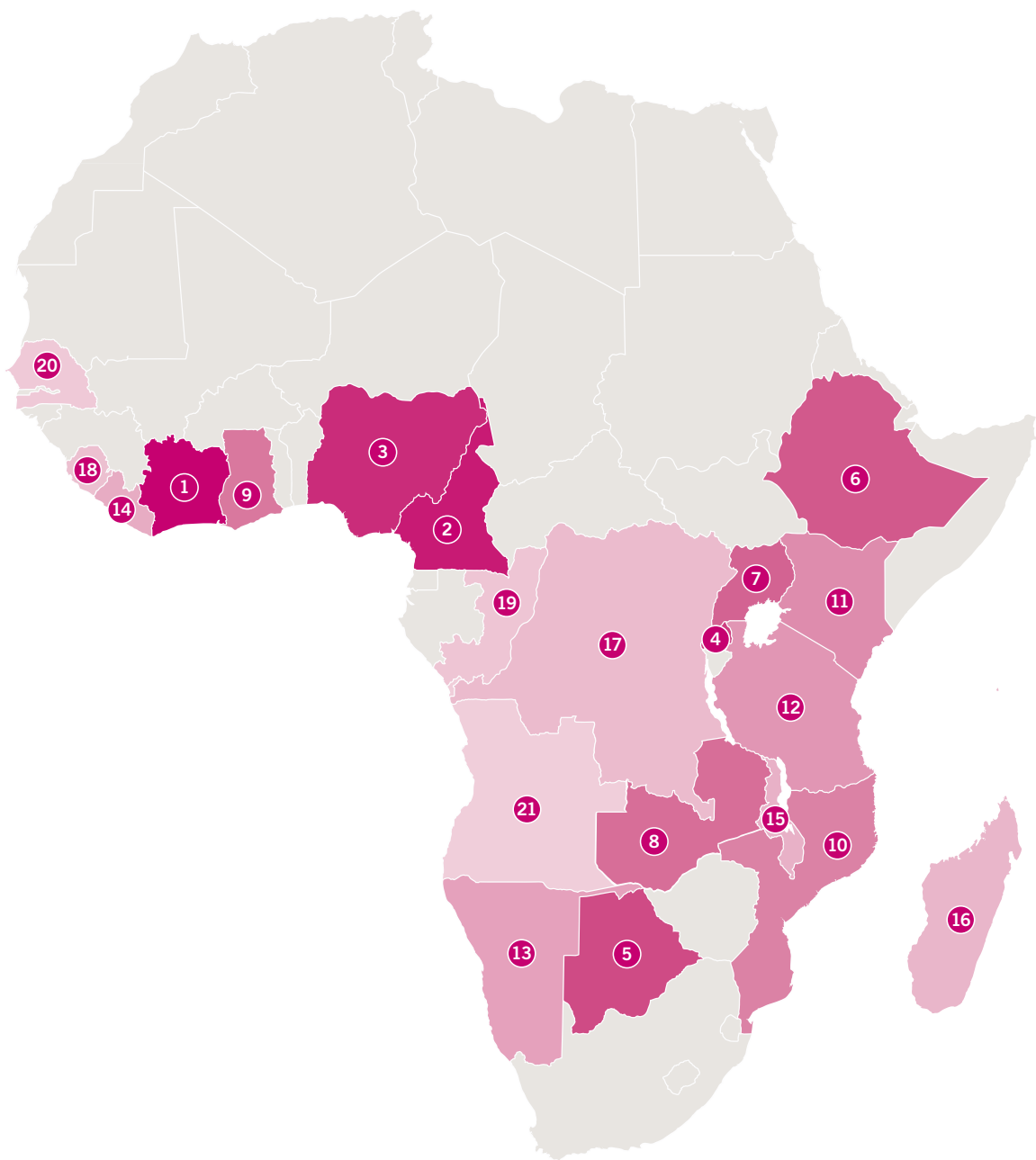
The data in this report is a combination of publicly available data from a variety of sources (including but not limited to, the World Bank, the Food and Agriculture Organization and the International Monetary Fund) alongside independent assessment from an extensive expert network within Sub-Saharan Africa.






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# The rankings

Overall rankings for agribusiness investment and opportunity in Sub-Saharan Africa



	 Overall Rank	 Agribusiness Attractiveness	 Business and Regulation	 Agribusiness Environment	 Agribusiness Infrastructure
Ivory Coast	1	4	16	1	4
Cameroon	2	1	17	17	5
Nigeria	3	2	18	7	9
Rwanda	4	5	1	18	16
Botswana	5	9	2	16	3
Ethiopia	6	3	15	4	20
Uganda	7	6	5	12	14
Zambia	8	7	9	2	12
Ghana	9	14	3	19	2
Mozambique	10	12	8	9	10
Kenya	11	8	11	8	18
Tanzania	12	13	6	3	13
Namibia	13	17	4	14	1
Liberia	14	11	7	21	7
Malawi	15	16	12	11	8
Madagascar	16	19	13	5	11
DRC	17	10	21	10	17
Sierra Leone	18	15	14	20	19
Congo	19	18	20	6	21
Senegal	20	21	10	13	6
Angola	21	20	19	15	15

# 01.

## Introduction

Sub-Saharan Africa is fast becoming a hot spot for investment, driven by a positive economic outlook, improved business environment and fiscal governance, and abundant natural resources.

According to the UN Food and Agriculture Organization (FAO), up to 60 per cent of the world's unused or under-used arable land lies in Africa alone, where some 240 million hectares suitable for crop production remain uncultivated. At the same time we are seeing a great rush for land, with a booming middle class shifting to a more meat-based diet. Concerns over food security are bringing new types of investors into the market for large land deals and an increasingly global supply chain is connecting local producers to lucrative export markets.

We have never seen such a buoyant market for agricultural assets and the need to expand in Sub-Saharan Africa has not escaped investors.

# 240 million hectares

Africa has some 240 million hectares of unused arable land, the equivalent of all arable land in India and China combined.



However, a one-size-fits-all, region-wide approach to agribusiness investment, will fail to unlock Sub-Saharan Africa's agribusiness potential. Different types of investment will be better suited to particular regulatory, economic and infrastructure environments. As our rankings attest, the size of the agricultural sector alone is no measure for successful investment and operations.

The fact that the top five economies based on the size of the agricultural sector include both Angola and the Democratic Republic of Congo, two countries which have experienced significant conflict and instability recently, highlights the need for a more nuanced view of opportunities in the region.

The Linklaters' Agribusiness Investment Matrix (*AIM Africa*) seeks to offer solutions to the Sub-Saharan African agribusiness puzzle by identifying overall agribusiness potential in 21 countries. *AIM Africa* ranks countries according to agribusiness attractiveness, quality of investment, infrastructure, environment, and business and regulation to help investors determine the kinds of opportunities that are financially viable now and in the future.

This report breaks our key findings into the following types of investment opportunities:



#### Fertile Grounds:

##### Countries with a strong agricultural sector

Focusing on the size of the agriculture sector, land tenure and openness to foreign investment, Fertile Grounds highlights opportunities in countries with existing strength and the capacity to expand, such as Cameroon and Nigeria. It uncovers the potential pitfalls that could limit growth in big markets.



#### Reliable Harvests:

##### Mature business and regulatory environments

For those attracted by low risk opportunities, Reliable Harvests examines countries that enable steady investments and protection of assets and reputation, such as Rwanda and Ghana. It reveals countries with strong business and regulatory frameworks and where barriers to operations and red tape are minimised.



#### Shoots of Growth:

##### Emerging opportunities

As a region in flux and with potential for investors playing the long game, Shoots of Growth highlights opportunities in underdeveloped markets, including Ivory Coast and Mozambique. It signposts emerging economic influences such as subsidies, land availability and major infrastructure projects planned in the region.

Sub-Saharan Africa agribusiness trends highlight the problem with investors applying the same approach across their portfolio. Given the complexities, opportunities, and risks of this market, investors would do well to balance risk by seeking opportunities in a diverse portfolio of mature Sub-Saharan African markets, combining more traditional agricultural powerhouses with jurisdictions with emerging potential.

Linklaters' Africa practice has focused on the continent for over 30 years. Over that period we have witnessed Africa becoming of increasing strategic interest to the global economy and have worked on numerous landmark transactions in almost every African country. Our market-leading agribusiness practice has worked on a broad range of deals across Anglophone, Francophone and Lusophone Africa.

In addition, our relationship with Webber Wentzel, a top full-service South African law firm, both complements and strengthens our pan-African offering, enabling us to provide clients with a unique combination of international and local experience, know-how and resource.

As the Sub-Saharan investment wave continues, we hope that this report provides practical insights into the opportunities on offer in the agri-commodities sector.

**Stuart Bedford**  
Agribusiness Sector Leader







## \$60m

In 2010, the World Bank financed the Agricultural Competitiveness Project (PACA) in Cameroon. This seven year project, valued at \$60 million, seeks to develop rural infrastructure and boost agricultural productivity.

### Top five: Agribusiness Attractiveness



- 1 Cameroon
- 2 Nigeria
- 3 Ethiopia
- 4 Ivory Coast
- 5 Rwanda

### Positive policy

While investment opportunities are often linked to booming commodity prices or macro-economic shifts, more often the strength of the sector in a country is a reflection of policy efforts to improve the value of existing export specialisms. This makes the assessment of a country's agricultural policy a significant indicator of agribusiness attractiveness and support.

From a foreign investor viewpoint, analysis of a country's agricultural policy provides a long-term view of investment security, highlighting bottlenecks in a sector's processing capabilities, the scope for policy interventions, and governmental capacity to implement any plans. Botswana, for example, is a high scorer for sector policy priority. Reacting to a lack of economic diversification – specifically its large diamond mining industry – the country is focusing on developing its agricultural sector to reduce its reliance on imports of agricultural products that can be viably produced locally. Botswana is focused on assisting commercial farmers to improve their level of management and technological application through on-farm water distribution systems and the design and supply of machinery.

### Country focus: Cameroon

Foreign direct investment is a key driver of agricultural growth in Cameroon. Coffee, sugar and tobacco are all important crops, while the coastal climate also supports the production of cocoa, sugar, bananas, palm oil, rubber and tea.

Agricultural potential is further enhanced by Cameroon's enviable geographical location which facilitates its access to nearby major markets in Sub-Saharan Africa such as Nigeria, Chad and Gabon.

Although Cameroon is among the world's top five producers of cocoa, the country is looking to revive its once booming coffee sector. In February 2014, the European Union and Cameroon signed a €30 million agreement to boost coffee production as part of the Coffee Sector Re-Start Emergency Plan. The aim is to create 3,600 hectares of coffee plantations over the next six years, raising production to about 120,000 tonnes by 2020 and significantly boosting Cameroon's planned development by 2035.

Domestic sugar production is also expected to rise as a result of a government ban on the importation of sugar. While this will impact exporters to the country, producers such as the French company SOSUCAM and other local players are likely to benefit from the measure.

Understanding the regulatory and political landscape is key to maximising return on investment in Cameroon.

"Cameroon's legal system is unique in that it emanates from two distinct legal systems, the English common law and the French civil law," says Bertrand Andriani, Linklaters partner and Africa specialist. "While nowadays the civil law system has overtaken most aspects of business law, especially since the introduction of the OHADA Uniform Acts, Cameroon is the only Francophone jurisdiction where laws are systematically published in both the French and English languages and where language is not a significant barrier."

Infrastructure is another paramount consideration for foreign investors. Port delays have been associated with a fall in exports and poor roads leading to ports are seen as a contributing factor in smuggling. The Cameroon Association of Cocoa and Coffee Producers (ANCCP) states this to be a major factor in the region's lower than expected output.

There are, however, measures in place to boost output and develop infrastructure. In 2010, the World Bank financed the Agricultural Competitiveness Project (PACA). This seven year project, valued at \$60 million, seeks to boost the country's agricultural productivity by developing rural infrastructure facilities, and investing in value chains such as rice and maize cultivation, as well as in the production of pork meat. Deemed to be one of the most significant projects in the region, it signals a key economic direction for the country.

### Attracting investors

Foreign direct investment has long been a crucial indicator of the health and attractiveness of an emerging economy. The World Bank estimates that overall FDI into Sub-Saharan Africa has expanded more than 30-fold in the last 20 years, 7.5 times faster than in high-income countries and nearly 10 times faster than global GDP. More importantly for investors, FDI flows into African countries are considered more stable than equity and debt portfolio flows.

Although tracking data for agriculture-specific FDI in this part of the world can be hard, FDI remains a key mechanism

to rapidly grow agribusiness, and certain governments have been quick to court potential investors. The government of Cameroon was one of the first in Africa to take active steps towards the encouragement of FDI (including the creation of the Investment Code in the early nineties aimed at investment liberalisation) and is one of the top scorers for its current approach.

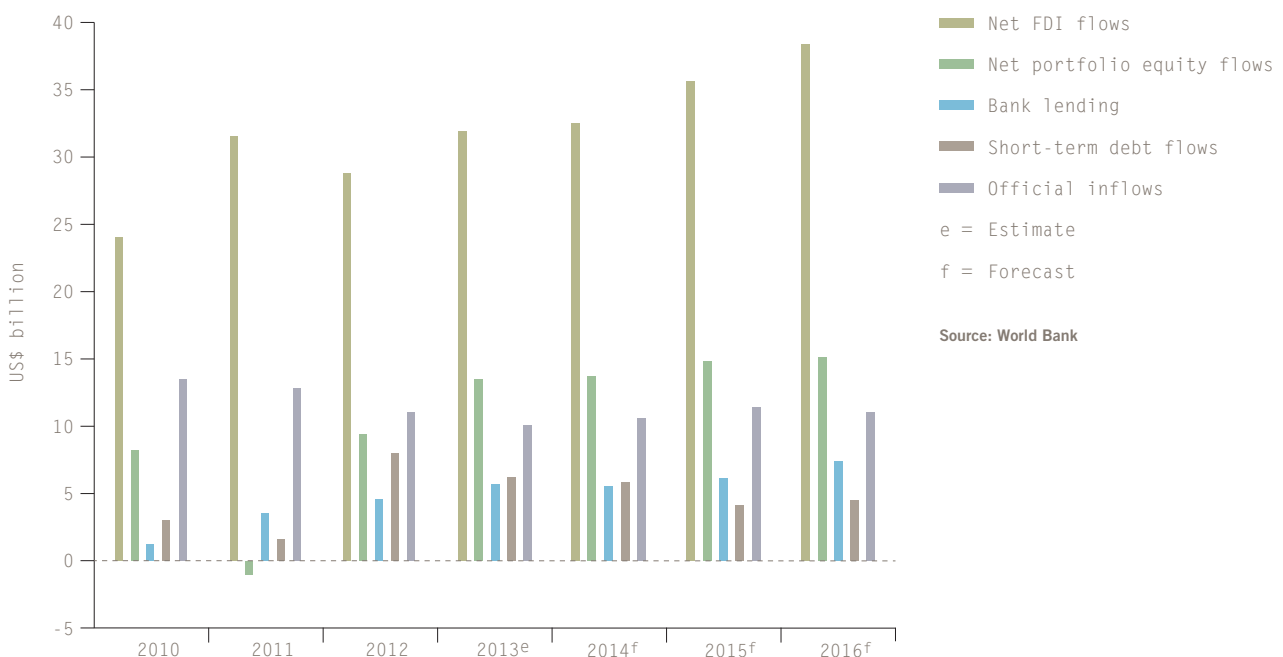
While recent headline-grabbing data has highlighted a rise in foreign deals on land lease, land acquisition and agribusiness ventures, many transactions or project deals have failed to materialise, often collapsing at the due-diligence stage.

### Land acquisition and appropriation

Land title and tenure systems have particular significance for agribusiness ventures in Sub-Saharan Africa and highlight a need for clarity in land ownership and rights. Knowledge of security, availability, and competition for use are essential for both long-term investments and for scaling up operations that may require additional land usage.

In countries such as Liberia, where land tenure struggles are ongoing, agricultural investments by foreign companies need to be accompanied by a thorough analysis of the risk of expropriation.

Net capital flows to Sub-Saharan Africa



“

The potential attractiveness of a country will vary considerably depending on the proposed form of investment, such as cash crops versus food crops, or livestock compared to cultivation, with the regulatory system playing an important part securing return on investment.”

**Michael Honan**

Partner, Corporate

We have already witnessed the renegotiation of major contracts in Zambia and Zimbabwe and the detrimental effect of these cases, both economically and reputationally, is a threat businesses need to be keenly aware of. This threat is particularly acute in agriculture where investments often rely on complex supply chains and fragmented suppliers.

Secure tenure can be linked to economic growth. Countries such as Rwanda, Kenya and Ghana, where a good proportion of land is protected by title deeds, are more likely to draw investors attracted by land security.

For investors concerned with the risk of expropriation, Cameroon has extensive legal guarantees that prevent both foreign and domestic investors from losing revenue. These are broadly in line with international standards, offering full and prior compensation, which is paid in terms similar to the Hull Formula<sup>1</sup>. This states that compensation of expropriated foreign investment property will be prompt, adequate and effective. Compensation is generally equivalent to the market value of the land immediately before the expropriation took place and also includes interest at a commercially reasonable rate (see Country focus: Cameroon, page 9).

# 10x

The World Bank estimates that overall FDI into Sub-Saharan Africa has expanded nearly 10 times faster than global GDP.

1. Advanced by the US in the 1930s, the Hull Formula outlines compensation measures for expropriation.

## Country focus: Nigeria

As Africa's largest market and one of the world's fastest growing economies, the growth potential for agriculture in Nigeria is enormous. It has more than 80 million hectares of arable land and agriculture contributes over 42 per cent of Nigeria's GDP.

Through its Agricultural Transformation Agenda (ATA), the Federal Ministry of Agriculture and Rural Development is aiming to reposition agriculture as the primary sector to grow the Nigerian economy. Keen to attract private sector investors by treating agriculture as a business rather than a government development project, ATA is improving investment and infrastructure frameworks by creating Staple Crops Processing Zones and developing an Agricultural Investment Code. The government is particularly focused on increasing production of rice, sorghum, cassava, maize, soybeans and fish.

Following funding commitments to boost African agriculture by G8 countries in 2013, several multinational agribusinesses, including Cargill, Syngenta and Unilever, signed letters of intent to invest in Nigerian projects.

“The Nigerian government's push to expand agriculture along with unstable oil and gas prices are presenting investors with new opportunities from full scale acquisitions to smaller investments,” says Stuart Bedford, Agribusiness Sector Leader. “The continued evolution of the Nigerian food industry has knock-on effects on associated sectors. A large population and the emergence of a middle class with higher disposable income are driving fast growth in retail and demand for canned produce

and drinks. For example we advised Standard Chartered Private Equity on the acquisition of a minority stake in GZ Industries, a Nigerian packaging manufacturer.”

Yet, despite the opportunities that abound for global businesses, there are many challenges when operating in Nigeria, including security issues, poor power supply, government bureaucracy, and corruption. Many of the practices that have evolved are not technically compliant with the existing regulations but are tacitly blessed by the regulators. Regulatory compliance matters arising on investment deals are increasingly more common. A number of international businesses operating in Nigeria have faced costly fines from their own governments for taking part in practices that contravene the regulations of their home jurisdictions. Investors need to ensure their advisers have the experience to plot a course through the issues, and at times reach a pragmatic solution.

“Because the legal framework has strong roots in English law, international investors will be familiar with many of the concepts. However, understanding local context and getting a clear interpretation of the law can be challenging. Our approach to Nigeria is to build excellent working relationships with the government and key organisations on the ground. We work very closely with leading local law firms,” says Bedford.





# 03.

## Reliable Harvests: Countries with robust business and regulatory markets

**R**eliable Harvests examines countries that offer agribusinesses and their investors protection of assets and reputation by fostering strong business and regulatory frameworks particularly in relation to:

- > a positive macroeconomic outlook;
- > a robust and independent regulatory system; and
- > a political system of relative security and a transparent, business-friendly climate.

For many years investors have viewed Sub-Saharan Africa as a frontier market. The investment environment is now progressing, with multiple jurisdictions emerging with robust business and regulatory environments. Rwanda, for example, is currently ranked as the second best country in which to do business on the African continent, with FDI ballooning in the past five years, reaching \$159.8 million in 2013. Reflecting this improving business outlook, Rwanda tops our rankings for the Business and Regulation sub-index, followed by Botswana and Ghana.

Top five:  
**Business and Regulation**



- 1 Rwanda
- 2 Botswana
- 3 Ghana
- 4 Namibia
- 5 Uganda

### Growing economies

GDP growth trends pinpoint the countries that have an improving business and economic climate, not to mention the many countries in Sub-Saharan Africa with growth looking to accelerate in the next few decades. This is the case for countries such as Nigeria, Ghana and Cameroon, which defied past GDP drops to establish a recent positive growth pattern. Other countries, such as Ethiopia and Liberia, have benefited from a longer period of steady growth. Both have increased GDP per capita (with purchasing power parity) by well over 5 per cent every year since 2005.

Export concentration is another key indicator of the health of a nation's economy and has often been an issue for developing economies. Many Sub-Saharan African economies dependent on a single commodity, whether due to an abundance in natural resources or cash crops, are attempting to diversify to ensure future momentum. For example, Tanzania is diversifying exports as a result of agro-processing and production of 'cash crops' such as coffee, tea, cashew nuts, sugar and cotton. It is also focusing on public investment in infrastructure and regional trade links as well as expanding into tourism and the exploitation of natural resources such as minerals and gas.

# 80%

Rwanda's agricultural sector currently employs 80 per cent of the population.



### Country focus: Rwanda

Politically stable and secure since the mid-1990s, Rwanda ranks highly against other African nations for its ease of doing business. In recent years the country's Economic Development and Poverty Reduction Strategy (EDPRS) defined a large number of programmes in the agriculture sector in an effort to shift focus away from subsistence to commercial agriculture and boost its exports. This includes the intensification of sustainable production systems in crop cultivation and animal husbandry; building the technical and organisational capacity of farmers; promoting commodity chains and agribusiness; and strengthening the institutional framework of the sector at central and local level.

Rwanda's agricultural sector currently employs 80 per cent of the population. The sector meets 90 per cent of the national food needs and generates more than 70 per cent of export revenues. While the steep slopes and acidic soils of Rwanda's highland areas make them unsuitable for growing food crops, the temperate climate makes them ideal for growing tea. Historically, it has been sold to blend with lower-quality tea from other countries, but for the future, Rwandans hope to be able to carve a more upmarket proposition. Rwanda's other main high-quality crop is coffee, which alongside tea makes up nearly four-fifths of the country's agricultural exports.

Another avenue for agribusiness growth in Rwanda is organic agriculture. Some organic crops have been in place since the late 1990s with government policy acknowledging that they can play an important role, side-by-side with conventional agriculture.

Paul Lignières, Linklaters partner and a specialist in Francophone Africa, comments: "Rwanda's international economic development generated a legal system that combines civil law and common law influences. As a result, Rwanda is pioneering a system which is a synthesis of the best of these two traditions."

Yet, broader infrastructure is lacking and its landlocked status makes exporting difficult. Despite ambitions to be a regional trade hub, Rwanda is hemmed in by difficult neighbours – Uganda, Burundi and Democratic Republic of Congo – and lacks vital access to key ports.

However, the government has introduced a broad range of reforms to attract foreign investment and has made huge leaps in combatting corruption, reducing levels of red tape and, more fundamentally, instilling the rule of law.

These measures are expected to go a long way in improving investor confidence and overall economic outlook.

# 70%

Rwanda's agricultural sector generates more than 70 per cent of the country's export revenues.



“

Although the regulatory framework of most Sub-Saharan countries is largely based on Anglophone, Lusophone and Francophone legal systems, navigating the complex web of local customs and government stumbling blocks can be daunting even for large global players. Expert advice and a deep understanding of customs and culture are key to unlocking investment value.”

**Andrew Jones**

Head of Linklaters' Africa Group

### Regulatory quality

*AIM Africa* uses a comprehensive set of national policy measures to rank the ability of each country to sustain and grow a burgeoning agribusiness sector. This includes availability of credit, tax burdens, trade restrictions and regulatory quality.

Regulatory quality captures the ability of a government to formulate and implement sound policies and regulations that permit and promote private sector development. Scores vary greatly across Sub-Saharan Africa but many post-independence economies score particularly well. For example, Namibia enjoyed a successful independence transition from long-term South African occupation in 1992. From the South African era, it inherited and continues to maintain a strong judicial system and other institutions.

The importance of finance and trade policy is hard to overstate. The growth in agribusiness is dependent on a vibrant market for small-scale producers, the scaling up of which is hugely dependent on the availability of credit.

Trade restrictions pose a significant problem for export-minded agriculture. In certain countries, including Mozambique, Tanzania and Zambia, export bans have a negative impact on agribusiness. For example, some private companies in Malawi reported sizeable losses after being unable to export maize. In general, such decisions are driven by domestic political agendas.

### Investor security

Indicators of investor protection, as well as financial, investment and labour freedom, highlight the security of both assets and reputation when operating in a country. Perhaps unsurprisingly, Rwanda scores highly here again, with Botswana, Ghana, Tanzania and Malawi also performing well.

Rwanda has transitioned from being one of the lowest regional scorers for investment freedom in 2005 to one of the leaders. Reflecting this continuing improvement, it also tops the rankings for investment agreements and bilateral investment treaties. As a result, Rwanda ranks highly in the World Bank's "Doing Business 2015" report (and is currently the highest placed of the countries in *AIM Africa*) at 46 globally.

Rwanda's strategy to attract investors throughout the last decade includes regular reforms to bring regulations in line with best practice from both the global business and development communities. The 2009 Companies Act, for example, offers a range of measures to protect investors and strengthen business laws, such as the requirement that all companies use International Accounting Standards for reporting financial information.

Many firms will still be able to operate in jurisdictions that appear challenging. "Ethiopia, for example, scores poorly, yet investors with the appetite and ability to assess and manage the risk/opportunity trade-off are getting deals done," says Paul McNicholl, Linklaters partner.

"We have recently advised a global consumer brand company on the acquisition of production and distribution facilities in Addis Ababa. Although the structuring advice and due diligence can be more complex, the process and challenges will be reassuringly familiar to investors in other emerging markets."

Some markets, such as Sierra Leone, merit a degree of caution regarding long-term security of investment and exposure to reputational risk and mandate. There are many barriers to investment in Sierra Leone including high tariffs and taxes, shipping fees, and restricted access to ports due to a lack of infrastructure. In contrast, its neighbours, Guinea and Liberia, operate free ports, offering a more competitive option. Exports are also restricted and cumbersome due to health and safety and environmental concerns.

## #46 globally



Rwanda ranks highly in the World Bank's "Doing Business 2015" report (and is currently the highest placed of the countries in *AIM Africa*) at 46 globally.



# 16%



Ghana is the world's second largest cocoa grower after Ivory Coast, with cocoa beans and related products accounting for 16 per cent of total merchandise exports in 2013.

## Political unrest

Several countries in Sub-Saharan Africa have experienced conflicts in the recent past. While many register promising scores for political stability and absence of violence, only Botswana, Rwanda and Namibia receive positive scores for control of corruption. Similarly, only Botswana and Namibia score well for implementing the rule of law.

Uncertainty has long been blamed for lags in investment despite policy reforms, but a simplistic view of corruption and political stability is unhelpful for investors. In Namibia, for example, although the independence party (SWAPO) dominates politics and shows some single ethnic-group domination, it is in effect an inclusive umbrella organisation and the political environment is benign with low levels of political instability or unpredictability. While SWAPO faces internal dissent from younger generations deploying populist political rhetoric around redistribution of commercial farming land, these forces are largely managed within the rule of law.

## Country focus: Ghana

Many food companies interested in cocoa are drawn to Ghana for good reason. Ghana is the world's second largest cocoa grower after Ivory Coast, with cocoa beans and related products accounting for 16 per cent of total merchandise exports in 2013. Recently, Linklaters advised a global chocolate producer on its philanthropic partnership to provide technical services and funding to create and operate a facility for the local production of ready-to-use therapeutic food (RUTF) in Ghana.

The country's other principal industrial crops include palm oil, coconuts, coffee, cotton, kola nut and rubber. Ghanaian President John Mahama is eager to increase production of rice and maize to decrease the country's food import bill, estimated to be over \$1 billion.

"Ghana's economy has remained buoyant despite the economic downturn and the country is very well-positioned as an entry point to West Africa. As a member of the Economic Community of West African States (ECOWAS), Ghana benefits from integrated regional value chains," says Andrew Jones, head of Linklaters' Africa Group.

To drive agricultural growth, Ghana's Ministry of Food and Agriculture developed the Medium-Term Agriculture Investment Plan to be implemented between 2011 and 2015. The plan was focused on improving food security as well as increasing competitiveness and incomes along the supply chain.

The government is also working with the World Bank and USAID on the Ghana Commercial Agriculture Programme (GCAP) to increase private sector financing and access to land for commercial agriculture projects in the Accra Plain and the Savannah Accelerated Development Authority (SADA) zone. Like many Sub-Saharan African countries, Ghana faces a considerable infrastructure fund gap – to the tune of \$1.5 billion a year – as well as a lack of irrigated land. Only 6 per cent of potential irrigable land area has been developed. As a result, the government has made infrastructure an integral component of the GCAP.

"Apart from direct involvement in agriculture, there are many other investment opportunities for banks and other financial institutions in the financing of agriculture inputs, related technology and services and storage. We advised Citibank International, for example, on a \$40 million facility to finance the Agricultural Development Bank of Ghana's end-user foreign exchange requirements for agricultural uses and other corporate purposes," says Jones.



# 04.

## Shoots of Growth: Rising powers and expanding markets

Shoots of Growth makes the case for countries with the potential to rapidly expand their underdeveloped agribusiness sector due to their ability to take commodities to market more quickly. Growth factors include:

- > the agribusiness environment, such as land availability and climate conditions;
- > sector productivity;
- > the ability to diversify crops; and
- > existing infrastructure.

Top five:  
**Agribusiness  
Environment**



1 Ivory Coast

2 Zambia

3 Tanzania

4 Ethiopia

5 Madagascar



## Yields per hectare



Ivory Coast's high-quality arable farming techniques give a yield of 3,054 kg per hectare, almost double the study's average (1,571) and almost 10 times that of arid Namibia (351).

### Looking beyond land

The most obvious indicator of the existing environment is the amount of agricultural land in a given country. Nigeria tops this list by some way with 72 million hectares, well above the second largest in the study, Angola, with 59.2 million hectares. However, this indicator also highlights the limitations of raw commodity production in certain countries. For example, Rwanda has only 1.9 million hectares of agricultural land, despite the potential for value-added industries, refinement and processing. However, there are many potential opportunities in Rwanda based on a broad range of government reforms aimed at attracting FDI by reducing corruption, red tape and improving legal processes and infrastructure (see Country focus: Rwanda, page 13).

Structural processing capacities and crop yield gains indicate the ability of these countries to offer a higher value export or higher productivity. Nigeria, for example, has an agriculture value added per worker of \$4,575 compared to Malawi's \$221. Ivory Coast's high-quality arable farming techniques give a yield of 3,054 kg per hectare, almost double the study's average (1,571) and almost 10 times that of arid Namibia (351).

Tanzania is another country that has a large amount of available land with over 40 million hectares. This is significantly under-farmed in terms of large-scale commercial enterprises, yet it also has undoubted potential for local and sub-regional demand. Tanzania's drawback is the country's inconsistent rainfall, weak water infrastructure and very low levels of irrigation.

### Country focus: Ivory Coast

Agriculture is crucial to Ivory Coast. In 2012, it accounted for around 25 per cent of the country's GDP with the sector currently employing 70 per cent of the population. As such, the government has invested heavily in agriculture over the last few years, not least by creating the \$21 billion National Development Plan (2012–2015), which aims to improve the rate of production and create further growth.

However, despite growing a variety of other crops such as coffee, rubber, fruit, cotton and palm oil, Ivory Coast is still heavily reliant on cocoa for investment and security, with this crucial crop providing 38 per cent of agricultural value added.

In 2014 it produced a record 1.74 million metric tons of cocoa and is a strategic base to the US chocolate powerhouse Hershey Co. This vital industry has experienced several reforms in the past 15 years. In response to pressure from the World Bank and International Monetary Fund, the cocoa authority revamped the system in 2012, regulating the sector and guaranteeing minimum cocoa prices for farmers. This ended the liberalised approach introduced 13 years earlier and means that much of the harvest is now purchased in advance, creating financial and regulatory stability.

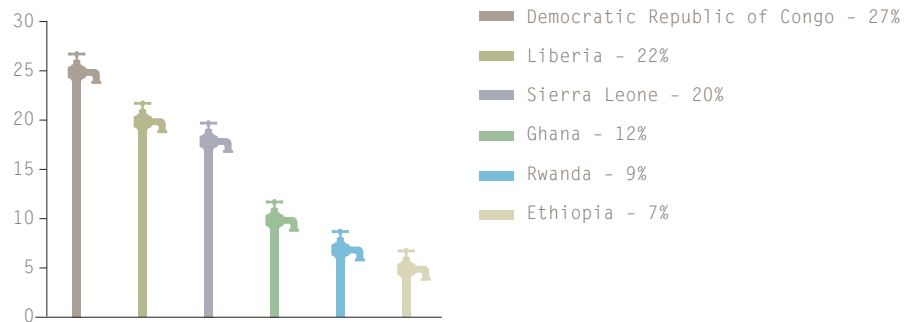
"Ivory Coast is one of the most sophisticated Sub-Saharan jurisdictions in economic terms. This is reflected in its legal system and the quality of local counsel," says Bertrand Andriani, a Linklaters partner and Francophone Africa specialist who has been active on some of Ivory Coast's largest deals, such as the equity step-up of Globeleq in the Azito Plant and the financing of its expansion. "Still, international counsel retains a significant role when it comes to structuring and implementing transactions, in co-operation with local counsel."

Human rights breaches, however, have been a sore point with many multinationals facing questions over the use of children in their supply chain. Estimates of child labour on cocoa farms from organisations such as Unicef and the International Cocoa Initiative range from 300,000 to one million children between 2007 and 2013. This highlights the need for human rights due diligence to remain an essential part of the transaction process to mitigate risks of unknowingly fuelling the illegal practice of child trafficking and child labour.

# 1.74m

A record 1.74 million metric tons of cocoa were produced in 2014.

## Markets with highest irrigation potential

**Logistics leaders**

Export infrastructure is critical for agribusiness to access external markets that often provide better terms of trade than domestic sales. The capacity for countries to reach consumers abroad can be measured in their logistical performance. This figure has shown a steady average rise across the region since 2007, with Botswana, Malawi and Ivory Coast scoring highly.

Along with its regulatory climate and institutions, Namibia inherited very good transport and logistical infrastructure from the period of South African occupation. Momentum indicators also point to emerging 'gateway' terminals, as landlocked countries find access to the ports and wider trade routes. Namibia and Botswana, for example, are building the long-awaited Trans-Kalahari Railway that will connect Botswana to the Atlantic Ocean.

Top five:  
**Agribusiness  
Infrastructure**



- 1 Namibia
- 2 Ghana
- 3 Botswana
- 4 Ivory Coast
- 5 Cameroon

Before commodities can make it to the market, or raw materials can be processed, they need to be preserved using artificial means such as freezing. Access to electricity is crucial to processing and preserving agricultural products. Ethiopia has ambitious plans to have a total installed generation capacity of 37,000 megawatts (MWs) – currently at 2,000 MW – and to become a major power exporter by 2037.

**Water stress and climate shocks**

Irrigation infrastructure constitutes a limiting factor to agricultural production and productivity across Sub-Saharan Africa. For example, the proportion of irrigated arable land in the region is still below 7 per cent, compared to 37 per cent in South-East Asia.

Access to water will perhaps be the defining factor in agribusiness in coming years. The amount of land that could feasibly be irrigated – a combination of freshwater resources and the ability to disperse this around the country – can highlight both the areas of the region that could sustain major arable agriculture as well as highlighting wider water infrastructural issues where normal operations may be difficult.

Some of the countries with the highest irrigation potential come from the most underexploited markets, with the Democratic Republic of Congo (27 per cent of total land potentially irrigable), Liberia (22 per cent) and Sierra Leone (20 per cent) having the highest rankings. However, this indicator also points to opportunities in more secure markets such as Ghana (12 per cent), Rwanda (9 per cent) and Ethiopia (7 per cent).

Many countries in Sub-Saharan Africa are particularly sensitive to water-related issues, with the biggest potential loss to cereal yields from agro-climatic changes in Malawi, Angola, Botswana and Cameroon. This should be of particular concern for those with arable interests in countries that rely on high rainfall for maize, rice, banana, sweet potato and sugar cane production. However, it does not account for all agribusiness scenarios. Botswana, for example, is predominantly arid yet the country performs well in livestock production. It has great potential to diversify the economy and is shifting focus on the promotion of vertical diversification and beef by-products through agro-processing.

Climate stresses and shocks are causing countries with an overdependence on a few crops to diversify. National investment plans for Ghana, Senegal and Zambia, for example, are emphasising crop diversification and exportation.

# 500%

FDI in Mozambique rose from \$1.258 billion in 2010 to \$6.697 billion in 2013, an increase of over 500 per cent.

## Country focus: Mozambique

Mozambique has historically been a major producer of cash crops, such as bananas, maize, soybeans, cashew nuts and cotton, benefiting from diverse climates and a coastal location. The country has almost 36 million hectares of arable land – of which only about 16 per cent has been cultivated. There is overall tremendous interest in investing in Lusophone Africa, particularly Mozambique. FDI in the country rose from \$1.258 billion in 2010 to \$6.697 billion in 2013, an increase of over 500 per cent.

“Mining and energy companies drawn to Mozambique’s rich mineral resources are helping to facilitate infrastructure improvements that will prove advantageous for agribusiness development in Mozambique. Mozambique also benefits from a GDP which increased by 8.1 per cent in 2014 – nearly double the average for Sub-Saharan Africa,” says Francisco Ferraz de Carvalho, Linklaters partner and a specialist in Lusophone Africa. “Both of these factors, combined with an overall increased demand for food production, signal exponential growth in agriculture in the next five to ten years.”

According to the Ministry of Agriculture’s National Investment Plan for the Agricultural Sector, Mozambique still requires an investment of \$3.1 billion between 2013 and 2017 to ensure that the country is self-sufficient in food and to provide a launch-pad for exports.

Aware that unmet infrastructure improvements in roads, electricity, ports, rail and irrigation will stunt agricultural growth, Mozambique’s strategy is to apply a ‘corridor’ development approach.

Partnerships between foreign governments, international finance institutions, local companies and global corporations are used to develop land for industrial agriculture and in the process make each corridor accessible by building infrastructure. The aim is to transform predominantly subsistence-based agriculture into commercial agriculture.

The most well-known of the six corridors in the country is the Beira Corridor, which includes Rio Tinto, Sun Biofuels, Vale and the World Bank as partners. Linklaters has advised Olam International as a sponsor on the \$17 million construction and construction supervision contracts for a 300 tons-per-day palm oil refinery and packaging complex and a 12,000 metric tons bulking facility in Beira.

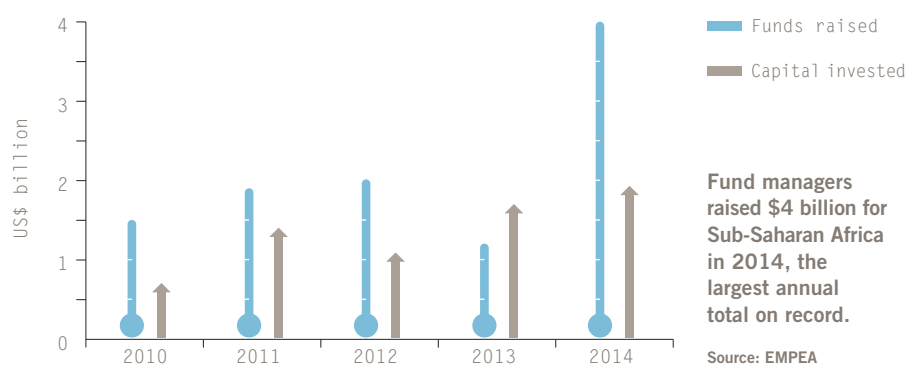
“We’ve seen an uptick in agribusinesses coming to us for advice on how to manage their investment strategies. Clients who recognise the vast potential of Mozambique aren’t just interested in one-off projects; they are looking to establish themselves as leading international players in the country,” says Ferraz de Carvalho. “Most recently, we advised AgDevCo on the production of a suite of template documents in connection with its various planned investments. We also advised BXR on the development of two farming concessions to produce soybeans and sunflowers for the Mozambican market, including for oil extraction.”

New players in the country should be aware that the legal and regulatory frameworks in Mozambique, based on Portuguese civil law, are very different from its neighbouring countries which are based on Anglo-Saxon and Roman-Dutch systems. Confusing geographical proximity with similarity in legal systems is a mistake that should be avoided. A good example is the land law regime, with complex rules regarding ownership of rural land and title transfer. The tax regime applicable to total or partial divestments in companies or assets has several particularities.





Sub-Saharan Africa fundraising and investment, 2010-2014



1

### Ongoing development of regulatory environment:

The World Bank's "Doing Business 2015" report revealed that Sub-Saharan Africa accounted for the largest number of regulatory reforms globally in 2013/2014 with 39 measures to reduce the complexity and cost of regulatory processes. A key new regulation by the Competition Commission of the Common Market for Eastern and Southern Africa (COMESA) is the merger control regime which establishes thresholds to determine which mergers need approval. Because the established thresholds are quite low, many deals in the region will be affected and we expect a significant increase in the number of filings. A number of Sub-Saharan African nations have tightened merger controls, with Mozambique being the latest to create a Competition Regulation Authority in 2013.

2

### Increasing investments by alternative finance providers:

Private equity investors are renewing their focus on opportunities in Sub-Saharan Africa. PE funds raised over \$4 billion in 2014, a substantial increase from 2013 as well as from previous years. Whilst many of the smaller funds have been targeting African agriculture investment opportunities for some years, we are increasingly seeing the larger US-based funds acquiring agriculture assets for their portfolios. The Carlyle Group invested \$210 million in 2012 in the Tanzanian-based agri-commodities trader Export Trading Group. The \$200 million acquisition of Ethiopia-based flower business Afriflora in 2014 was US investment firm KKR's debut African investment.

3

### Diversification:

Sub-Saharan countries, even the most resource-intensive, are working to diversify their economies. This includes expanding agriculture and branching out into manufacturing, services and construction. Angola, Africa's second-largest oil producer, saw its fishing industry expand by 10 per cent and its agriculture sector by 9 per cent in 2013, highlighting the government's desire to become less reliant on oil-dominated revenue sources.

4

### Tapping into bond markets:

The African Development Bank estimates that the continent requires infrastructure financing of around \$93 billion annually, of which only \$60 billion can be met from the countries' own resources and multilateral development banks. One way that Sub-Saharan African countries are addressing their funding shortfall is through accessing bond markets. From 2006 to 2014, at least 14 countries issued a total of \$15 billion or more in international sovereign bonds. Funds from Zambia's debut \$750 million Eurobond in 2012 are being used to develop power projects, roads and railways. Some countries are also targeting investors through the issuance of infrastructure bonds, green bonds, and Islamic securities such as sukuk. The Kenyan government, in particular, has sold five infrastructure bonds since 2009. The latest offering in October 2014 worth \$168 million will be used to finance road, energy, water and irrigation programmes. We also expect increasing trade relations between China and Africa to give rise to the issuance of renminbi-denominated bonds in the near future.

5

### Intra-regional investment:

Foreign investors now compete with African players looking to extend their reach across the continent. In 2012 Algerian food processing company Cevital chose Ivory Coast as its first major operation outside of Algeria. The company plans to invest around \$1 billion over the next five years to produce rice and other crops. In more mature countries, such as South Africa, corporates, buoyed by success in their home countries, are re-positioning themselves as regional champions.

"For primary producers in South Africa or companies with so-called 'farm-to-fork' agribusiness operations (meaning from growing to packaging and retail) there are big incentives to expand into the rest of Africa," says Hendrik du Preez, agribusiness sector head at Webber Wentzel. "It is easier and more cost-effective for them to open up shop in African countries in close proximity. Agribusinesses needing to procure raw materials find it more easily accessible to source from neighbouring African countries. As existing players in the region, South African companies have a deep understanding of the market and are more comfortable and accepting of the jurisdictional risks involved than foreign players."

The rise of Sub-Saharan Africa as an agribusiness investment destination has long been hailed, but this report draws out the factors around governance, policy, infrastructure and regulation that need to be balanced in any investment destination.

As Sub-Saharan Africa continues its economic progress over the next decade, the real battleground for investors will be spotting where and how this potential can be realised.

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Demystifying the sometimes conflicting signs of development and seeking out the diverse opportunities needs a granular knowledge of the available opportunities, the legal and regulatory framework and on the ground realities. While some countries offer more complex jurisdictions and less secure investments, the right opportunity is available for those that take the necessary precautions. ”

**Stuart Bedford**

Agribusiness Sector Leader

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