

GCC Agro-Investments in sub-Saharan Africa Synthesis Report

By Bart Hilhorst
March 2015
Doha, QATAR

ACKNOWLEDGMENTS

This report was prepared at the request of the Ministry of Economic Affairs of the Netherlands. The author would like to thank Dr. Hans van der Beek - agricultural counselor at the Embassy of the Kingdom of the Netherlands in Riyadh, KSA – for providing thoughtful and valuable guidance.

DISCLAIMER

The views and conclusions contained in this publication are those of the author and should not be interpreted as representing the official views and policies, expressed or implied, of the Ministry of Economic Affairs of the Netherlands.

Table of Contents

1	Introduction	1
1.1	The Assignment: Scope and Objective.....	1
1.2	Description of the Methodology.....	1
1.3	This Report	2
2	The Gulf Perspective	3
3	The Global Context: Feeding 9 Billion in 2050.....	4
4	Modernizing the Agricultural Sector in sub-Saharan Africa.....	5
5	Agro-investments from the GCC in sub-Saharan Africa.....	7
5.1	GCC Investment Motives	7
5.1.1	Enhancing Food Security by Hedging Supply Sources.....	7
5.1.2	Vertical Integration of the Supply Chain.....	7
5.1.3	Profit Maximization.....	8
5.1.4	Asset Management	9
5.1.5	Charity.....	10
5.2	Investor Characteristics.....	12
5.3	Current Status	12
5.3.1	Sudan	13
5.3.2	Ethiopia	19
5.3.3	South Sudan	23
5.3.4	Remaining Agro-investments by GCC Actors in sub-Saharan Africa.....	23
5.3.5	Egypt and Morocco	26
5.3.6	Initial Notes regarding GCC Agro-Investments in sub-Saharan Africa.....	29
5.4	Factors Constraining Agro-Investments.....	29
5.4.1	Infrastructure and Natural Resources.....	29
5.4.2	Administrative Factors	31
5.4.3	Political Factors	33
5.4.4	Financial Factors.....	34
5.4.5	Maintaining the Social License to Operate	36
5.5	GCC Agro-investments: Observations.....	37
6	Closing Comments	40

Annex 1: Background Document for a Round-Table Discussion

ABBREVIATIONS

AAAID	include Arab Authority for Agricultural Investment and Development
ACPC	Arab Crop Production Company
FAO	Food and Agriculture Organization of the United Nations
GCC	Gulf Cooperation Council
GERD	Grand Ethiopian Renaissance Dam
GoQ	Government of Qatar
GoS	Government of Sudan
IFAD	International Fund for Agricultural Development
KAISAIA	King Abdullah Initiative for Saudi Agriculture Investments Abroad
KSA	Kingdom of Saudi Arabia
MENA	Middle East and North Africa
OECD	Organization for Economic Cooperation and Development
RSA	Republic of South Africa
SSA	Sub-Saharan Africa
SWF	Sovereign Wealth Fund
UAE	United Arab Emirates
WFP	World Food Program

EXECUTIVE SUMMARY

The 2008 food crises strengthened the conviction of the Gulf Cooperation Council (GCC) nations that food security cannot be left to international markets. Among other measures, the countries responded by encouraging national actors to step-up their transnational agro-investments, which would provide privileged access to food production in times of global supply shocks or market disruption.

According to media reports, a high concentration of targeted farmland is located in sub-Saharan Africa. Governments in African host countries are acutely aware of the need to modernize their agricultural sector in order to enhance domestic food security and meet other development objectives. They are keen to attract Gulf investments in the hope this will support the agricultural modernization process.

This report has examined the current status of GCC agro-investments in sub-Saharan Africa. It was found that there is a huge discrepancy between investments that have been announced and what is actually been implemented. At the time of writing this report, less than a dozen green-field development projects in sub-Saharan Africa by GCC actors are being implemented, most at a relatively modest scale. Delays in project implementation are caused by a combination of three main constraining factors: 1) sovereign risk, 2) the absence of sizable areas of farmland with secure and uncontested tenure, and 3) poor infrastructure.

It was observed that there is growing awareness among GCC investors that a concession agreement with the host government does not guarantee the ability to operate. Without the consent from the local communities, the long-term viability of the enterprise is not guaranteed. A number of GCC actors expressed their unwillingness to get involved in local land politics and the associated negative publicity. As a result, the majority of active GCC agro-investment projects in Africa are focused on desert areas with low population density (e.g. in northern Sudan) or former state farms (e.g. in Ethiopia).

In light of the above, rather than investing in emerging markets in Africa, GCC actors have in recent years rebalanced their investment portfolio towards politically stable countries that have good infrastructure, a stable business environment with an established land tenure system, and are recognized agro-surplus producers such as Australia, USA, and Argentina.

Nevertheless, both GCC actors and countries in sub-Saharan Africa express a keen interest in further exploring agro-investment opportunities. The proximity of eastern Africa to the GCC should represent a logistic advantage because of lower shipping costs.

It is recognized that infrastructure in large parts of sub-Saharan Africa is gradually improving, and that a number of key factor that increase marginal production costs - such as electricity shortages and poor condition of road networks - are being sorted out in a number of promising target destinations. It is therefore expected that the economic viability of agro-investments in many parts of sub-Saharan Africa is steadily improving.

However, Africa's population is expected to grow by about 1 billion to some 2 billion in 2050. Because of rapidly growing domestic demand for agricultural commodities, a proper balance needs to be found between producing for export and domestic consumption. It is noted that producing for import substitution for emerging markets in Africa offers attractive business opportunities. This would support the GCC investment objectives of asset management and profit maximization. In

regular food-deficit countries, export opportunities remain for niche markets – such as tropical fruits – and selected commodities for which the countries have an overwhelming comparative advantage. An example is livestock in Sudan.

Sudan is by far the most prominent target destination of GCC agro-investments in sub-Saharan Africa. Probable reasons include the geographic proximity, cultural similarity, the well-established business and investment relations, and the huge agricultural potential of the country. It is noteworthy that there are currently no active large-scale GCC agro-investments in East Africa or Mozambique.

Value chain infrastructure is still virtually absent or in poor condition in many parts of sub-Saharan Africa. It encourages export of low-value bulk produce rather than high-value processed agro-products and thus adversely impacts on the profitability of the investment projects, as well as on the benefits for the host country.

With regard to the absence of sizeable landholdings, alternative arrangements can be explored. Other modalities include nucleus farm with out-grower scheme, contract farming, or the 'land-as-equity' model in which local smallholders use their plots as shares while the investor provides the funding.

In view of the importance of modernizing the agricultural sector in sub-Saharan Africa, it is recommended to promote transnational agro-investments – including from the GCC - by screening development options in selected target countries in close cooperation with national governments. It should result in a portfolio of profitable investment opportunities across the value chain that are environmentally sustainable and socially inclusive, and make a positive contribution to the agricultural support infrastructure in the host country. In order to also attract larger investors, projects could be aggregated in consistent packages.

1 Introduction

1.1 The Assignment: Scope and Objective

Since the 2008 food crises, the Gulf Cooperation Council (GCC) nations have encouraged national actors to step-up their transnational agro-investments. There are two main reasons for this development: 1) the conviction that food security cannot be left to international markets alone, and 2) the policy of Saudi Arabia and the United Arab Emirates (UAE) to phase out wheat and fodder production, for which alternative supply sources need to be identified.

This development is part of a wider trend. Worldwide, the recorded agricultural transactions involving foreign investors have been growing rapidly since early 2000, with an accelerating trend after 2008. The investors are both private actors – especially from America and Europe – and public and state-owned companies – especially from the Gulf States. It is noted that an increasing number of actors originate from emerging economies such as Brazil, China, India, and Malaysia.

According to media reports, a high concentration of the targeted farmland is located in sub-Saharan Africa. Governments in African host countries are acutely aware of the need to modernize their agricultural sector in order to enhance domestic food security and meet other development objectives. They are keen to attract Gulf investments in the hope they will support the agricultural modernization process, build-up essential infrastructure, provide rural employment, and generate export revenue. It is noted that the transnational agro-investments are controversial. A number of publications report that the benefits do not accrue to local communities, who – in some cases – have been deprived of their land and livelihood by the large-scale foreign investments.

A key question, therefore, is how Gulf investments can contribute to modernizing the agricultural sector in sub-Saharan Africa in an inclusive and sustainable manner, while taking into account the food security and commercial interests of the investors. A related question is what the role could be for countries such as the Netherlands – itself a major investor in transnational agricultural projects through its private sector – which has widely recognized experience and expertise in agricultural development in developing and emerging economies, sustainability concepts, and knowledge transfer.

As a first step in responding to these questions, the Ministry of Economic Affairs of the Netherlands - through the Agricultural Department of the Embassy of the Kingdom of the Netherlands in Riyadh, Kingdom of Saudi Arabia (KSA) - has initiated an exercise to map the transnational public & private agro-investments from the GCC nations in sub-Saharan Africa. Information is collected on ongoing and planned projects, investment ambitions, drivers, and constraining factors.

The mapping exercise aims to inform a dialogue on how the transnational agro-investments originating from the GCC can contribute to sustainable and inclusive agricultural modernization on the African continent.

1.2 Description of the Methodology

It is noted that data on transnational land acquisitions and investments are scattered and sometimes of limited reliability. This report draws on a wide range of information sources, including the Land

Matrix database, FAO and World Bank, media announcements on the internet, evidence of activities on the ground that can be viewed in Google Earth, company websites and interviews with company executives, the linked-in website and web sites of recruitment agencies in the agricultural sector, interviews with government officials in target countries, and interviews with knowledgeable insiders. The information collected is complemented with material from the emerging body of literature on the subject.

While it is acknowledged that the information gathered is probably still incomplete, a picture is nevertheless emerging. We have made an attempt to ‘connect the dots’ and triangulate the various information points. The set of preliminary insights that resulted from this exercise was tested in a series of follow-up interviews and presented to a Round Table. The latter event was organized in January 2015 by the Embassy of the Netherlands in Riyadh, KSA, with participation of some twenty knowledgeable individuals including Ambassadors of a number of African and South American countries, executives of large GCC companies active in the agribusiness sector, and representatives from relevant government agencies in KSA that aim to promote transnational investments.

The Round Table accepted most of the observations from the mapping study and supported the conclusions. It provides a good indication that the exercise has produced a realistic picture of the current status of GCC transnational agro-investments.

1.3 This Report

Chapter 2 presents the perspective of the Gulf nations and the historic course of events that have shaped their concern about domestic food security. Chapter 3 discusses the global food security context in which the GCC states have to operate. Chapter 4 presents a concise discussion on the need to modernize the agricultural sector in sub-Saharan Africa.

Paragraph 5.1 examines of the main objectives of the GCC agro-investors. Paragraph 5.2 distinguishes four investor-classes and provides a concise description of their motives and mode of operation.

The next paragraph – 5.3 – lists the ongoing GCC agro-investments on the African continent. It also includes a brief description of the agricultural sector of the most prominent host countries. Paragraph 5.4 presents the factors constraining transnational agro-investments in sub-Saharan Africa. They have been clustered into four categories: 1) infrastructure and natural resources, 2) administrative, 3) political, and 4) financial.

Paragraph 5.5 lists the observations that have been made based on the material presented in this report. This paragraph could be considered as the essence of this study.

Lastly, chapter 6 presents a few closing comments and recommendations on how GCC agro-investments can contribute to agricultural modernization on the continent.

2 The Gulf Perspective

“The Middle East as a region ran out of water in the 1970s.” Tony Allan

Vulnerability to food import disruptions has been part of the collective consciousness in the GCC throughout the twentieth century (Woertz, 2013). Due to its harsh climate and limited water resources, the Gulf States have always imported staple foods such as wheat and rice (with a brief exception in the late 20th century, when Saudi Arabia became a large wheat exporter using fossil groundwater, a situation that proved unsustainable).

Throughout the Ottoman era, cereals were brought in from India and the Fertile Crescent, while supply sources became more globalized after the British Empire developed into the dominant regional power in the early twentieth century. During the Second World War, the Arabian Peninsula experienced a serious supply disruption when the Allied Middle East Supply Center rationed food supplies. The ensuing food shortages – with people reportedly dying of hunger – are still remembered by elderly Saudis and Qataris, and continue to shape national food security policies.

In the 1970s, the USA contemplated a food embargo as retaliation to the Arab oil boycott (Woertz, 2013). Although never implemented because of practical considerations and objections from senior policy makers, it highlighted the vulnerability of the GCC nations as net food importers without domestic production. The episode shaped the Sudan bread-basket strategy in the 1970s and initiated efforts to achieve food self-sufficiency using non-renewable (fossil) ground water resources in the 1980-2000s.

The subsidized agricultural schemes in Saudi Arabia and other Gulf States that were established to counter the threat of a food embargo, however, proved economically unfeasible and ecologically unsustainable (Woertz, 2013). Growing wheat or alfalfa in a hot and arid environment is highly water intensive, and the countries were using water far above replenishment rate. With reducing agricultural production the easiest way to save water, Saudi Arabia and the UAE duly decided to phase out wheat and fodder production in order to conserve local resources. Wheat production in KSA is set to terminate in 2016, by an eight-year scheme to gradually stop purchasing locally produced wheat by the government. Hence alternative supply sources for staple food and feedstock are needed, and the GCC is once again mostly dependent on imports. Trade – as in the past - plays a pivotal role in achieving food security.

However, export restrictions – albeit temporary - during the global food crisis in 2008 served as a reminder about the limitations of global markets to provide food security. The assumption was that oil revenue would provide adequate financial means to procure food from international markets. Yet, when food prices skyrocketed in 2008 and domestic shortages occurred in a number of countries, traditional surplus producers such as Argentina, Russia, Vietnam, and India imposed export restrictions. It coincided with a period of low oil prices and thus low government revenue. Although the bans did not last long, it reawakened a deeply engrained sense of vulnerability, and put food security high on the agenda of GCC policy makers. The episode strengthened the conviction that food security could not be left to international markets.

Among other measures, GCC countries responded by augmenting storage facilities and creating strategic food reserves, introducing water-use-efficient technology, and by encouraging national actors to engage in transnational investment in agricultural land. They would provide privileged access to food production in times of supply shocks or global market disruption.

The Gulf perspective is further illustrated by a number of key figures presented in figure 1.1.

Figure 1.1: GCC by Numbers (2014)

40% known oil reserves	5% world's population	1-2% GDP agriculture
< 1% fresh ground water	> 80% water used for agriculture	US\$ 100 bn spend on water infrastructure by '16
85% food imports	US\$ 53 bn food imports by 2020	4.6% growth of GCC food consumption

Source: Clarity - AgInvest Feb 2015

3 The Global Context: Feeding 9 Billion in 2050

“Civilization and anarchy are only seven meals apart.” Spanish proverb

This paragraph briefly describes the global context that shapes the GCC agro-investments.

Worldwide demand for agricultural produce is rising because of ongoing population growth and shifts in dietary patterns associated with urbanization and higher incomes. The world's population is expected to grow to approximately nine billion by 2050, while the middle class will likely increase from two to five billion over this period. Of the nine billion people living on the planet by 2050, some 70% are expected to live in urban areas. Owing to these developments, FAO expects that demand for food will grow by 70% by 2050 (FAO/IFAD/WFP 2011). Additional agricultural produce are needed for biofuels and feedstock for diverse industrial processes.

A number of factors point towards increased volatility of agricultural commodity prices:

1. Tighter market conditions because demand growth at global level (see above) has outpaced production increase in recent years;
2. Climate change that is expected to increase severe weather events that can disrupt agricultural production;
3. Stress in all components of the energy-water-food nexus, and increased connectivity among these elements, which together could lead to - and magnify - global supply shocks;
4. Probable export restrictions in traditional surplus producers at times of local food security concerns.

GCC governments, therefore, need to prepare for a future environment characterized by more price volatility, occasional supply shocks, and the possibility of supply disruptions when global markets fail when established food suppliers restrict exports at times of local food shortages.

The global context has another dimension. It is clear that global agricultural production needs to increase in order to ensure that everyone has access to enough high quality food. Given that there is only limited scope for further expansion of farm land in the world, it is obvious that sustainable agricultural intensification is central to increasing production. It aims to make current agricultural systems more efficient through the use of new technologies or by improving production practices, while making sure that natural resources are used in a sustainable manner. At the same time, efficiency improvements are needed across the agricultural value chain. Specific objectives include better linking farmers to regional and global markets, reducing waste and increasing profits, and spreading risks among the various actors in the food production and supply system. Achieving the above requires measures that aim to:

- Improve farm management within the context of sustainable management of land and water resources;
- Improve crop production by breeding;
- Reduce post harvest losses and food waste;
- Create better functioning markets, and
- Increase investments in the agro-food sector across all elements of the supply chain.

Now that traditional development budgets are being scaled down while governments in emerging countries are short of funds because of multiple priorities, the GCC agro-investments are timely, and could make an important contribution to increasing global agricultural production. It is worth investigating how their impact can be maximized, supporting both GCC objectives while at the same time addressing global food security concerns.

4 Modernizing the Agricultural Sector in sub-Saharan Africa

While sub-Saharan Africa has witnessed rapid economic growth over the past decade, development seems to have bypassed most rural areas which provide the livelihood for roughly two-third of the population, many of whom remain stuck in poverty. Agricultural modernization will be the primary means to boost rural development and accelerate Africa's transformation (Africa Progress Report 2014).

Farming on the African continent is to a large extent characterized by low-input and low-yield subsistence farming, huge post-harvest losses, and low levels of agro-processing. There is, however, very substantial potential owing to large reserves of underused agricultural land, rather plentiful water resources, and current productivity levels that are far below the world average.

Governments in sub-Saharan Africa are acutely aware of the need to modernize the agricultural sector. Their objectives comprise:

1. Enhance domestic food security; with Africa's population expected to grow by about one billion to some two billion people in 2050, it is obvious that agricultural production needs to increase quite drastically;
2. Increase foreign exchange earnings by producing for export markets;
3. Generate fiscal revenue; it implies that the agro-food sector could be taxed at some point in the future;

4. Rural development that provides jobs and a livelihood for the rural population, and thus reduces rural-urban migration and pressure on urban services and infrastructure;
5. Provide feedstock for import substituting industries.

In light of the above, the Malabo Declaration by the African Union (June 2014) recommitted to the pursuit of agriculture-led growth as a main strategy to achieve targets on food and nutrition security, and shared prosperity. Among other elements, Governments undertook to enhance investments – both public and private – in the agricultural sector and reconfirmed their commitment to allocate at least 10% of public expenditures to agriculture.

Investments are needed in irrigation, fertilizer, agricultural equipment, farm commercialization, rural infrastructure, the entire supply chain (from farm-gate to processing facility or export harbor), value chain development and management, and the support system (e.g. extension services and agricultural research). FAO estimates that sub-Saharan Africa requires approximately \$11 billion per year (FAO, 2009).

To achieve this target, Governments in many countries in sub-Saharan Africa are keen to attract Gulf investments in the agricultural sector. It is noted that large-scale investment projects are frequently criticized. Yet – if implemented well - they could result in the following potential benefits at local level: (Allen *et al.*, 2014):

- Improved farming practices through technology transfer;
- New market-outlets for smallholders and opportunities for the uptake of high-value cash crops; this could trigger agricultural commercialization;
- Positive impact on local labor markets;
- Increased local (and national) food supply and potentially improved nutritional status;
- Improved social and physical infrastructure;
- Stimulating rural growth, from which local people can benefit indirectly.

It is recognized that large-scale land acquisitions can have negative impacts on local communities. Local people could be displaced and lose access to the land on which they depend for their food security and livelihood. More indirect impacts include loss of access to seasonal resources (e.g. seasonal wetlands that serve as dry-season grazing areas for pastoralist communities), or shift of power from women to men as land gains in commercial value. Other risks include local communities pushed from higher-value land encroaching upon more marginal lands with associated environmental consequences (Cotula *et al.*, 2009). The above implies that agro investments have to be regulated, and conducted in a socially inclusive and environmentally sustainable manner.

Some caution is warranted with regard to land availability. The Global Agro-ecological Assessment (Fisher *et al.*, 2002) estimates the total area of cultivable land in Africa at 807 million ha, of which some 200 million ha were under active cultivation in 1995. This analysis seems to be the basis of various claims that Africa has vast tracts of underutilized fertile land. Nevertheless, the availability of land for agro-investors should not be taken for granted. While it is true that large areas are currently underused, one should keep in mind that: 1) they are very likely used and claimed by somebody, and 2) they are most probable subject to major obstacles for commercial agricultural production such as inaccessibility to markets, fragmented land holdings, or absence of adequate water resources.

In order to assess the potential and likelihood for sub-Saharan Africa to attract GCC agro-investments, we first have a closer look at the motives of the Gulf investors.

5 Agro-investments from the GCC in sub-Saharan Africa

“You can buy the land, but you cannot take it away.” GCC food security advisor

5.1 GCC Investment Motives

GCC agro-investors aim at enhancing national food security and vertical integration of the supply chain. Other objectives are profit maximization and long-term asset management to provide income for an after-oil age.

5.1.1 Enhancing Food Security by Hedging Supply Sources

“Stuff happens.” Paul Krugman

As discussed in paragraph 3, governments that must secure large imports to meet national food demand do well to prepare for a more volatile price environment and possible supply disruptions because of global market failure.

The classic response is spreading risks by hedging agricultural supply sources. In a nutshell, it involves multiple suppliers in multiple regions with different weather conditions and currencies.

In line with this strategy, GCC actors in recent years have acquired farm land in the USA, Spain, Australia, and Argentina, among others. The above countries represent established and politically-stable surplus producers with potential for take-off, a low risk profile, and with good infrastructure and low production costs.

It is noted that most of sub-Saharan Africa does not meet these criteria. Potential target countries such as Ethiopia, Kenya, and Sudan are net food importers and can be expected to prioritize domestic markets in case of global supply shocks or local food shortages.

Nevertheless, net food importers can still be surplus producers of commodities for which they have a strong comparative advantage. Case in point is Sudan. The country has been an established surplus producer of livestock for many years - with huge untapped potential - while depending on global markets for its main staple (wheat). The input factors (land, water, labor) for irrigated wheat cultivation are very different from those for extensive livestock rearing, and the two commodities do in fact not compete for scarce natural resources.

In short, being a net food importer does not prevent a country from being an exporter of niche produce or other select food commodities. But it is unlikely that this particular country can serve as a long-term secure provider of staples such as wheat or rice, or feedstock for livestock rearing such as alfalfa or maize.

5.1.2 Vertical Integration of the Supply Chain

“Agro business is all about logistics.” GCC Executive

Vertical integration is an arrangement in which the supply chain of a company is owned by that company (definition: Wikipedia).



Figure 5.1: Schematic of the Food and Agribusiness Supply Chain

The supply chain includes elements such as product sourcing, purchasing, sea and land transportation, and warehousing and distribution (see fig 5.1). Each product has distinct requirements in terms of quality maintenance and hygiene. Some products are more fragile than others (such as hay, rice, dates, etc.).

Reasons to control the entire production chain in the agro-food sector include:

- Close coordination of farm-level production with large-scale processing and marketing of the product; synchronization of supply and demand along the chain of products;
- Improved quality control and better means for meeting food safety standards;
- Less exposure to price volatility of feedstock and other inputs;
- Lower transaction costs; less waste; more efficient business with higher efficiency and profits.

With Saudi Arabia and the UAE phasing out wheat and alfalfa production, dairy and poultry producers in the GCC are looking for alternative supply sources for feedstock. The proximity of eastern Africa to the GCC should represent a logistic advantage because of lower shipping costs. Approximate savings could reach US\$ 30 per ton for export to the UAE, and higher for export from Sudan to Saudi Arabia. However, these advantages disappear when poor infrastructure and other logistic constraints result in high transport costs from farm-gate to seaport in the exporting country. Unfortunately this is presently the case for large parts of sub-Saharan Africa.

Nevertheless, it is quite well possible that logistic difficulties can be overcome in a number of transport corridors or areas close to seaports. For instance, export of alfalfa – a low-value bulk commodity – from the Atbara region in Sudan to Saudi Arabia appears to be profitable (discussions in May 2014 with a farm operator in Berber, northern Sudan – see Fig 5.1). A good quality tarmac road currently connects Atbara to Port Sudan.

Thus, eastern Africa – and Sudan in particular – could certainly play a role in the designs of GCC agribusiness to better control and integrate their supply chain, reduce waste, and consequently reduce the costs of feedstock. It is noted, however, that this setup can only work if companies hedge their supply sources in order to prepare for possible export disruption during occasional deficit years. Production, transport, and substitution costs will determine whether such arrangement is economically viable.

5.1.3 Profit Maximization

“The clever players realize that success will come to those who recognize that an inward investment-led African green revolution will mainly meet the food needs of the extra 1 billion Africans and not

just the additional demand for food from Asia and the Middle East.” (Tony Allan, Handbook of Land and Water Grabs in Africa, 2013).

Africa’s population is expected to grow by about one billion to some two billion people in 2050. It is evident that domestic demand for food, fodder, and other agricultural commodities is strong and will grow even into the long-term. Basic food production for local markets, therefore, offers attractive investment opportunities in many emerging markets in Africa, especially if value addition is included, and in particular if the country is a net food importer.

When producing for import substitution (rather than export), high transport costs because of poor logistics turn into a comparative advantage. It makes producing for local markets a viable economic proposition. Of course, other factors will affect the investment decision such as rules regarding profit repatriation or currency exchange-rate volatility. These will be discussed in paragraph 5.3.

As a general rule it does not make economic sense to export low-value bulk produce – such as wheat or alfalfa – from areas with logistic constraints and high transport cost. The business case is even worse if the country is a net food importer.

Nevertheless, niche markets such as tropical fruits can provide attractive export opportunities. A case in point is a GCC based agro-business that is currently considering an investment in either Tanzania or Mozambique to grow bananas and export 5,000 tons per week to the GCC (by dispatching a 5,000 ton vessel on a weekly basis). It would satisfy most regional demand. The investment would include all facilities associated with exportation, such as cold storage and processing & packaging facilities. With shipping savings of 30 US\$ per ton (see above), cost savings of about US\$ 150,000 per week are realized compared to more distant suppliers, providing for an economically attractive arrangement.

It is also possible to compensate for logistic difficulties when agro-producers move up the value chain and focus on processed food items. Further, select high-value produce – such as fresh pineapple – could be airlifted by container.

In sum, Africa offers attractive agro-investment opportunities for GCC investors although in the short-term most are focused on domestic markets.

5.1.4 Asset Management

“Buy land, they’re not making it anymore.” Mark Twain

While GCC investments in agricultural land are primarily aimed at enhancing food security or supply chain integration, some have a secondary objective to provide income for an after-oil age. Many investment projects, therefore, need to meet criteria regarding capital preservation, market liquidity, and repatriation of capital.

There is a growing appeal of agricultural investment projects as profitable assets for sovereign wealth funds and other investors. The total amount of available arable land is relatively fixed, while demand for food is expected to grow by 70% by 2050 (FAO, 2009). Investors expect to benefit from rising land value while receiving cash yields from sales of farm produce.

Because of the generally low yields and growing demand for food in sub-Saharan Africa, agro-investments in the continent look promising for investors with a long-time horizon, and who are

willing to adopt a policy of sound environmental stewardship in order to maintain the long-term productivity of the land.

Mid and long-term asset appreciation can be achieved through the introduction of more sophisticated farming methods that result in higher and more consistent yields, combined with sustainable land and water management. It is noted that this requires active engagement by the investor over a sustained period of time. Additional capital appreciation is anticipated with improvements – over time – of local and national infrastructure and development of the value chain. Hence for those operating over a long time horizon, agricultural projects in Africa have good prospects.

5.1.5 Charity

In accordance to Islamic tradition, a number of GCC actors explicitly include international development and charity among their investment objectives.

Table 5.1 summarizes the investor motives.

Investor Motive	Notes	Potential Role for sub-Saharan Africa (SSA)
Food security	<p>Hedging supply sources is key to achieving food security</p> <p>Only source bulk produce such as staples or feedstock from established surplus producers with off-take capacity</p>	<p>Large mid and long-term potential but presently only a limited role because of food deficits in many SSA countries combined with growing domestic demand</p> <p>In the short-term most probably only for livestock or niche produce such as tropical fruits, and for select surplus countries such as RSA</p> <p>Sudan is potentially among the first to join the select ranks of SSA surplus producers</p>
Vertical integration	<p>Good infrastructure is central to supply chain management and vertical integration</p> <p>It is necessary to hedge supply sources to accommodate occasional food deficit years; whether this setup is economically viable is a function of production, transport, and substitution costs</p>	<p>The proximity of eastern Africa to the GCC represents logistic advantages by reducing shipping costs</p> <p>Potential role for SSA in transport corridors and close to seaports</p>
Profit maximization	<p>A key decision is whether to produce for export or domestic consumption</p>	<p>With growing populations and ongoing economic development, domestic demand for agricultural produce is guaranteed; in particular producing for import substitution in areas with logistic constraints (e.g. landlocked countries) can offer attractive business opportunities</p>
Asset management	<p>Land value appreciates with higher productivity through better farming practices combined with sound environmental stewardship; it requires long-term commitment and active investor engagement</p>	<p>High potential because of current low yields combined with rapidly rising demand</p>
Charity	<p>Could assist in eliminating infrastructure bottlenecks and risk mitigation</p>	

Table 5.1: Investor Motives

5.2 Investor Characteristics

Four types of GCC investors are distinguished (Woertz, 2013): 1) sovereign wealth funds, 2) private companies, 3) state-connected companies, and 4) development funds. Each investor type is pursuing its own distinct goals. It is important to better understand these objectives in order to assess their potential role in modernizing the agricultural sector in sub-Saharan Africa.

Sovereign Wealth Fund (SWF): a SWF is a state-owned investment fund investing in real and financial assets (definition: Wikipedia). Sovereign wealth funds in the GCC are funded by revenue from hydrocarbon export. The investment horizon of the SWF depends on the objective of the fund. For instance, in the smaller Gulf States – where oil revenue exceeds current expenditures – the main objective is to provide income for an after-oil age. The fund therefore focuses on capital preservation and reasonable return on investment, with no expectations of short or medium-term repatriation of assets. In this regard, the focus of SWFs such as Hassad Food Corporation – a subsidiary of the Qatar Investment Authority – is mostly on long-term investments (50-100+ years).

By contrast, Saudi Arabia has a much larger population and probably more need to repatriate foreign assets in case of sustained periods of low oil prices. Most of its reserves, therefore, are in more liquid instruments with a much shorter investment horizon.

SWFs in the GCC have considerable discretion in decision making. They are sometimes associated with fears that the investments might be used to leverage political objectives.

Private company: private companies are businesses owned by members of the general public with the ultimate objective to turn a profit. They are fully independent from their respective governments. Private investors in the transnational agro-sector include investment banks, hedge funds, holding companies, but also individuals and listed companies in the agro-food sector. As a rule, private companies will only invest in commercially viable projects with an acceptable risk profile. They typically operate according to a short time horizon.

State-connected company: state and politically-connected companies are in effect public-private partnership arrangements with varying degree of independence from their respective governments. A company is politically connected when controlling shareholders or top managers are members of – or closely related to – the government or ruling families.

Connected companies typically enjoy easier access to debt financing and lower taxation. Their overseas investments are less at risk due to the potential support from their government in case of a dispute.

Development Fund: the primary objective of investments made by a Development Fund is developmental. Return on investment and capital preservation should be secondary. Project implementation is mostly left to project management and institutions in the recipient country.

5.3 Current Status

This paragraph presents the status of the ongoing agro-investments by GCC actors in sub-Saharan Africa, as per the latest information available to the reporter. For the sake of completion, we have also included information on Egypt and Morocco.

It was found that public domain data on transnational agro-investments are rather inaccurate, while some companies are reluctant to reveal the exact status and intent of their investment plans,

probably for reasons of business confidentiality. Hence multiple information sources were used. This included Land Matrix, web publications such as Farmland Grab, FAO and World Bank, Google Earth to verify what was going-on on the ground, linked-in and other recruitment sites as an indicator of expat staff involvement and level of activity, and company web sites. The information obtained was validated and complemented through interviews with company executives, government officials in the target and investor countries, and knowledgeable insiders.

While it is acknowledged that the information gathered is probably still incomplete, a picture is nevertheless emerging. It most probably provides a sufficiently accurate description of the drivers, constraints, intentions, and current status of the GCC transnational agro-investments in sub-Saharan Africa to serve as the basis for follow-up policy development.

The information collected is presented per target country. For the most important destination countries, it starts with a brief description of their agricultural sector and investment potential, and is followed with a table listing the ongoing GCC agro-investment projects. Countries are presented in no particular order.

5.3.1 Sudan

Sudan is by far the most prominent target destination for agro-investments by GCC actors. The discussion in this section, therefore, is more comprehensive than for other countries.

Because of its fertile soils and water supplied by the Nile and its tributaries, Sudan has a lot of potential for irrigation development. In addition, rainfall in the southern and south-eastern part of the country ranges from 600 to 1000 mm/year, which is more than enough to grow a crop in an average year. Water harvesting techniques – which capture rainfall and directs runoff to cropping areas - can provide water security in occasional drought years. Extensive livestock rearing can be practiced in the large area with 200 – 600 mm precipitation per year. Further, Sudan has access to substantial fossil groundwater resources in the Nubian Sandstone Aquifer.

As one of the largest countries in Africa, land resources in Sudan are quite abundant. In northern Sudan, population density is very low and large tracts of land outside the Nile valley are in fact virtually uninhabited. Development of these areas is not really contested, although ownership and land right issues have been reported. By contrast, in the Nile valley and in areas with higher rainfall – which include the range lands - most land is used and owned by the local population.

Thus, with land apparently sufficient in quality and quantity (FAO 2014), and quite adequate water resources, Sudan has large untapped potential for agricultural development.

The agricultural sector in Sudan is currently underperforming. This concerns both rain-fed and irrigated agriculture. It is particularly noteworthy that yields in the large public irrigation schemes – such as the Gezira – are relatively low despite full water control and good alluvial soils. It is noted that yields in a number of the large commercial schemes – such as Kenana - are substantially higher.

Sudan experienced something of an economic boom from 1999 to 2011 due to oil exports and relative peace. Independence of South Sudan, however, has resulted in loss of oil revenue and the government is reprioritizing the agricultural sector. It has launched a dam program that includes Merowe, the Upper Atbara Complex, and the heightening of Roseires, which will provide cheap hydro-electricity for pump irrigation. Gulf countries have been important partners in this program. The dam program facilitates agricultural expansion in the east and north of the country. The ongoing

construction of the Grand Ethiopian Renaissance Dam (GERD) on the Blue Nile just across the Sudan-Ethiopia border will further increase this potential (see box 1).

In recent years, a wave of agro-investments in Sudan has been announced. Table 5.2 lists the ongoing projects originating from the GCC (and MENA) and presents their status of completion. It is noted that Sudan has issued large concessions to a number of investors and countries, the status of some of which is not fully known. Table 5.2 only includes projects with some level of activity. Figure 5.2 shows the location of the most important projects.

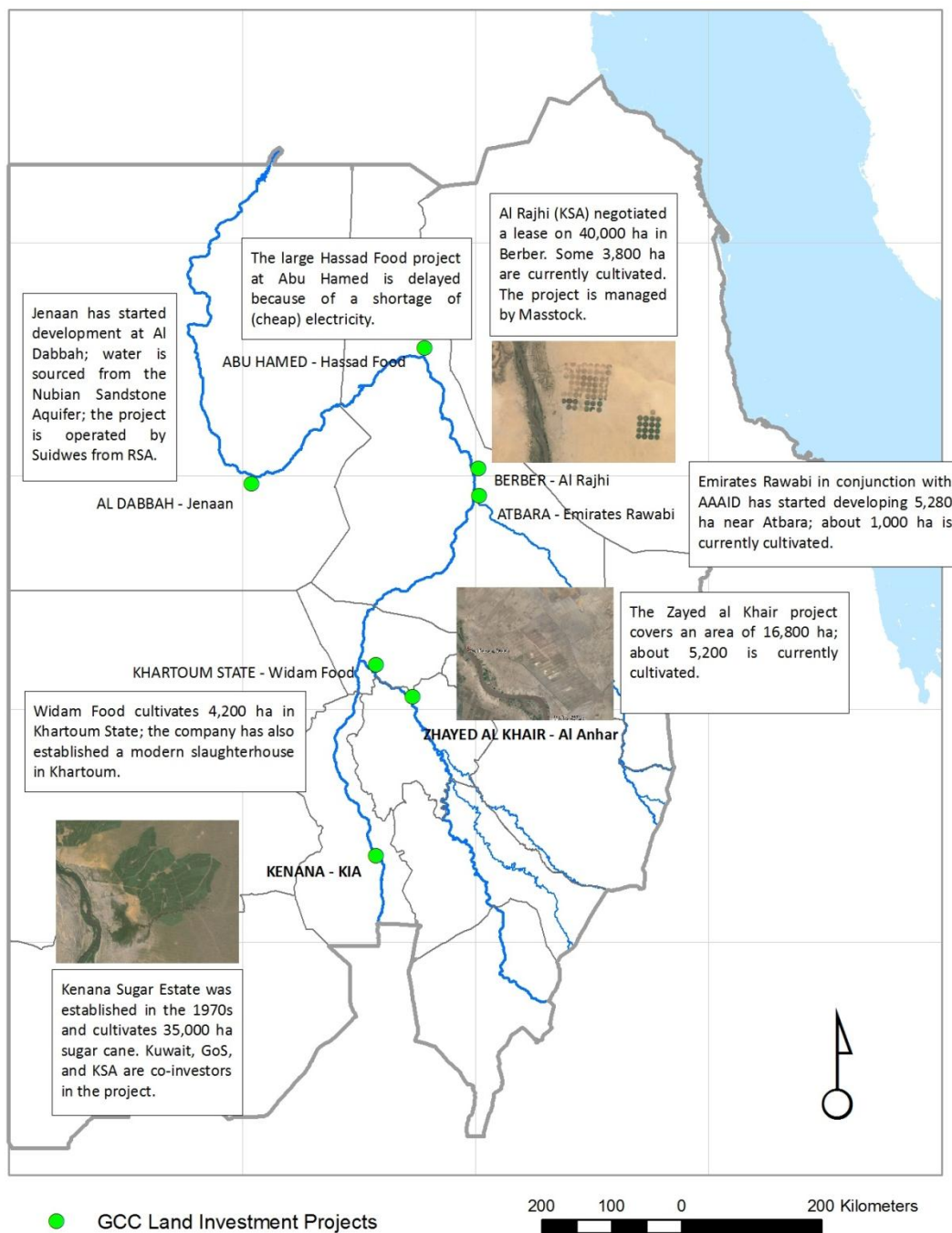


Fig 5.2: Prominent GCC agro-investment projects in Sudan

Table 5.2: Status of Agro-Investments by GCC Actors in Sudan

Agro investments by GCC actors in Sudan								
Location	Production Size 2014 [ha]	Potential Size [ha]	Crop	Investor (actual or potential)	Investor Country	Recent Web Presence	Linked-in Presence	Remarks
Sudan (misc.)	-	30,000		Abu Dhabi Fund for Development	UAE	N	N	No project in Sudan is mentioned on the ADFD website; it seems this activity is dormant or cancelled
Zayed al Khair; Wad Raway	5,200	16,800		Al Anhar	UAE	Y	N	Project is visible on Google Earth
Al Heemrat	-	34,802		Al Dahra	UAE	N	N	project implementation has been postponed until further notice (interview with Al Dahra executive)
Sudan (misc.)	-	9,239	Fodder	Almarai / HADCO	KSA	Y	N	Electricity shortage are delaying project implementation; postponed until further notice
Berber	3,800	20,492	Fodder / food crops	Al Rajhi Int. Investment	KSA	Y	Y	Project visible on Google Earth; recruitment of agricultural mechanics and agronomists is ongoing; operated by Masstock (UK)
Merowe	-	>30,000	Fodder / food crops	Al Rajhi Int. Investment	KSA	N	N	Water is sourced from the Nubian Sandstone Aquifer
Atbara	~1,000	5,280	Alfalfa / wheat	Emirates Rawabi	UAE	Y	Y	Investment made jointly with ACPC/AAAID;
Abu Hamed	-	101,172		Hassad Food Corporation	Qatar	N	N	Project funded through funds allocated by GoQ for Sudan; electricity shortages are delaying project implementation
Sudan (misc.)	-	?		Iktifaa	KSA	N	N	So far only an announcement has been made; no concrete plans

Agro-investments by GCC Actors (continuation)								
Location	Production Size 2014 [ha]	Potential Size [ha]	Crop	Investor (actual or potential)	Investor Country	Recent Web Presence	Linked-in Presence	Remarks
Al Dabbah	~2,000	23,100	Alfalfa	Jenaan	UAE	Y	Y	Projects operated by Suidwes Agriculture (RSA); water is sourced from the Nubian Sandstone Aquifer; electricity shortages are delaying project implementation
Nile province	-	42,000		NADEC	KSA	Y	N	In addition, in April 2013 NADEC announced that it will undertake two livestock production projects spreading over 160 thousand hectares in Kordofan
Umm Dokis; Daw al Baiet	?	7,264	fodder	Saudi Brothers / LADCO	KSA	N	N	Status of the project is unclear
Khartoum State	4,200	5,210	fodder	Widam Food	Qatar	Y	N	Widam has established a modern slaughter house in Khartoum
TOTAL:	16,200	295,359						
Agro-investments by GCC Actors (pre-2008 investment wave)								
Kenana	35,000	60,702	Sugar	Kuwait Investment Authority	Kuwait / KSA	Y	Y	Project was completed in the 1970s; is not part of the recent investment wave
Sudan (misc.)	?			Savola	KSA			

Major announced land investments that are no longer included in Land Matrix								
Location	Production Size 2014 [ha]	Potential Size [ha]	Crop	Investor (actual or potential)	Investor Country	Recent Web Presence	Linked-in Presence	Remarks
Sudan (misc.)	-	126,000		Foras Int. Investment Co.	KSA	N	N	Project is either dormant or cancelled
Lake Nubia Nile Delta	-	1,500,000		Sayegh Group	UAE / Jordan	N	N	No large projects in the Lake Nubia Nile delta on Google Earth; project is either dormant or cancelled
Miscellaneous MENA agro-investors in Sudan								
Location	Production Size 2014 [ha]	Potential [ha]	Crop	Investor (actual or potential)	Investor Country	Recent Web Presence	Linked-in Presence	Remarks
Wadi Hamid	~2,000	87,200	fodder	GLB Invest	Lebanon	Y	N	Project visible on Google Earth; recent website: www.glbinvest.com Ambitious program
Kosti	~7,000	131,000	Fodder / food crops	Citadel Capital / Qalaa Holding	Egypt	Y	N	Called "Sabina Farm"; exact location not found on Google Earth
Dongola	-	>500,000	Fodder / food crops / livestock	Larrycom / Agrogate	Sudan and others	N	N	Project is in preparation

Box 1: The Grand Ethiopian Renaissance Dam (GERD)

In the 1970s there were ambitious plans to develop Sudan into an Arab bread-basket. Capital from the Gulf States and Arab investors was sought to develop large-scale mechanized projects, and the large Kenana Sugar estate was established in this period. Nevertheless, the bread-basket strategy failed. Its success depended on the availability of irrigated land, but the most valuable land on the Nile – which could be supplied by water under gravity - was already occupied by small segmented plots. Large-scale projects had to be established in remote areas or on marginal lands, which would require expensive power for pumping irrigation water. Further, insufficient infrastructure and unfavorable global markets prevented success (Woertz 2013). In sum, the proposed projects lacked commercial viability.

A number of factors have changed since the 1970s. Infrastructure in Sudan has improved notably while global food commodity prices are higher and appear to have left their long-term downward trajectory. Further, wheat and fodder cultivation in Saudi Arabia is being phased out, and GCC actors are once again seeking to acquire strategic equity stakes in agricultural land that would provide privileged access to food production in times of spikes in global food prices.

Furthermore, the construction of the Grand Ethiopian Renaissance Dam on the Blue Nile in Ethiopia may alter the economic picture and economic viability of the investments.

Construction of the Grand Ethiopian Renaissance Dam (GERD) started in April 2011. The dam site is located some 40 km from the border between Sudan and Ethiopia. Hydropower is the primary objective of the project. With a reservoir of 63 cubic kilometers and power generation capacity of 6,000 MW, GERD will be largest hydro-electric plant in Africa (source: Wikipedia). The planned commission date is 2018. Power will be used in Ethiopia and exported to neighboring countries including Sudan. A power interconnector between Ethiopia and Sudan has been completed recently.

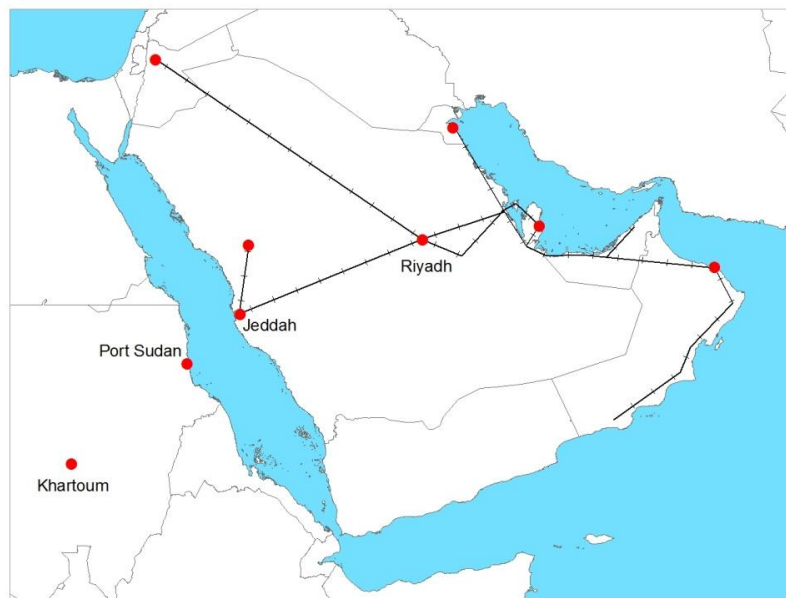
The Blue Nile serves as the primary water source for a group of irrigation schemes in Sudan, the largest of which is the Gezira. Because of its highly seasonal flows, most irrigation schemes in Sudan cultivate only one crop per year (the exceptions are the White Nile pumping schemes and a number of smaller schemes on the Main Nile). This has serious adverse consequences for the economic viability of irrigated agriculture in Sudan. GERD provides the following potential benefits for Sudan:

- Increased hydropower production at Roseires, Sennar, and Merowe;
- Provide water for all-year irrigation, which would drastically improve the economic viability of the irrigation schemes along the Blue and Main Nile; it would also increase agricultural production and improve national food security, and thus contribute to generating export potential;
- Minimize siltation of the gravity irrigation schemes in Sudan – including the Gezira – which would drastically reduce maintenance and operation costs (by about 50%);
- Provide grid power for pump schemes in north Sudan – where most GCC investments are concentrated; the low production costs of hydro-electricity would make the pump schemes economically viable;
- Mitigate flood risks along the Blue and Main Nile.

In short, GERD will facilitate crop intensification and multiple cropping seasons per year, while providing cheap electricity for the pump schemes. It could alter the economic viability – and thus the dynamics – for agro-investments in Sudan.

Box 2: The Proximity of Sudan to the GCC

The below map shows a selection of the planned railway projects on the Arabian Peninsula (source: Al Arabiya News, 25 Aug 2013). The figure also illustrates the proximity of Sudan to the GCC. Port-to-port shipping time from Port Sudan to Jeddah is about 8 hours, after which bulk cargo such as wheat or alfalfa can be shipped across the peninsula by rail (upon completion of the network). The proximity of Sudan to the (future) GCC bulk cargo network could offer clear logistic advantages.



5.3.2 Ethiopia

A number of regions in Ethiopia – in particular in the lowlands - have large reserves of fertile agricultural land and plentiful water resources, and have therefore been among the preferred destinations for commercial agro-investments in sub-Saharan Africa.

In its most recent 5-year plan - which was released in 2010 - the Government of Ethiopia has made the promotion of large-scale agriculture one of its primary strategic objectives, and has allocated over 3 million hectares for establishing commercial farms. Most of this land is located in the sparsely populated lowlands now used for agro-pastoralist production systems characterized by seasonal cattle migration and opportunistic flood-retreat agriculture (Schoneveld and Shete, 2014), or ecologically significant landscapes that are currently only used by hunter-gatherers or pastoralists. Areas that are under intensive, sedentary forms of production are evidently avoided.

All land in Ethiopia is exclusively owned by the State, and most of the people in the land-extensive livelihood systems do not enjoy formal claims to the land, and are therefore not entitled to compensation.

The implementation of Ethiopia's agricultural modernization policies – including the promotion of transnational agro-investments – is highly centralized. Inadequate knowledge of local circumstances

and insufficient stakeholder consultations set the stage for conditions in which large-scale foreign investments could lead to conflict and civil unrest.

While Ethiopia has leased out very significant areas to foreign investors – including actors from Saudi Arabia, India, Europe, and the USA - activities on the ground are modest.

Case in point is Karuturi. About a year ago the Government of Ethiopia expressed its discontent with Karuturi Global Limited – from India. The company has so far failed to develop its 300,000 ha concession in the Gambella region, which was earmarked for wheat production. It is also struggling to meet loan repayments (source: The Reporter-Ethiopia, 17 January 2015). Yet another indication of the difficulties encountered in implementing large-scale agro-investment project is provided by the recent (15 January 2015) announcement that Ayka Investment - from Turkey - is withdrawing its investment in cotton production in the Lower Omo Valley on the advice of its German customer Tchibo, who has raised concern about cotton projects in this area (source: Farmlandgrab.org).

Table 5.3 lists the GCC agro-investments in the country. Three observations are made:

1. Only one actor – MIDROC – is behind all GCC agro-investments in Ethiopia;
2. MIDROC mostly invests in well-established former state-farms; under new management they are reportedly performing satisfactorily;
3. The progress of its only greenfield development – the Abobo expansion – is slow and badly behind schedule, while the project is contentious and has led to civil unrest.

Box 3: MIDROC

MIDROC is a Saudi Arabia based conglomerate owned by Ethiopia-born billionaire Sheik Mohamed al-Amoudi. MIDROC has interests in petroleum, agribusiness, property, industry and industrial services, engineering and construction, tourism, and trade and investment. In Ethiopia the company owns (or co-owns) agricultural companies such as Saudi Star Agricultural Development, Horizon Plantations, and Ethi Agri CEFT. MIDROC is supportive of the King Abdullah Food Security Program.

Table 5.3: Status of Agro-investments by GCC Actors in Ethiopia

Agro investments by GCC actors								
Location	Crop	Production Size 2014 [ha]	Potential Size [ha]	Investor	Investor Country	Recent Web Presence	Linked-In Presence	Remarks
Abobo (Gambella region)	rice	1,800	500,000	MIDROC	KSA	Y	N	The project centers around the formerly stated owned Abobo farm ; the company recently leased an additional 10,000 ha; land clearance activities can be seen on Google Earth but no cultivation is taking place; land development is contentious, and civil unrest occurred recently (Oct 2014).
Bebeka	Coffee	5,600	10,300	MIDROC	KSA	Y	N	Former state enterprise; the farms is certified by international NGOs
Gojeb	Pineapples, bananas, sheep	2,000	2,000	MIDROC	KSA	Y	N	Former state farm
Limmu	Coffee	8,000	8,000	MIDROC	KSA	Y	N	Former state enterprise; the farms is certified by international NGOs
Upper Awash	Tropical fruits	4,200	4,200	MIDROC	KSA	Y	N	Former state farm
Gemadro, Duyina, and Ayehu	Coffee	1,010	1,010	MIDROC	KSA	Y	N	Former state enterprise; the farms is certified by international NGOs
Wush Wush and Gumaro	Tea	4,800	4,800	MIDROC	KSA	Y	N	Former state farm
Ayehu and Bir	Maize	15,500	15,500	MIDROC	KSA	Y	N	Former state farm; about 450 ha is equipped with central-pivot irrigation system
TOTAL:		2,910	545,810					

Box 4: Abobo Agricultural Development Enterprise

Abobo is operated by Saudi Star, a MIDROC subsidiary. The formerly state-owned farm covers 4,000 ha and was acquired in 2011. It is located in the Abobo district in the Gambella region. The project receives water from the upstream mid-size Alwero dam on Alwero river. Presently, some 1,800 ha is being cultivated (see below image).

Saudi Star has leased an additional 10,000 ha in the same district for rice cultivation. Land clearance activities can be viewed on Google Earth but no cultivation is taking place. Saudi Star reported that delays in project development were caused by 'unsuitable irrigation design and contractor performance', but work will accelerate in 2015 (source William Davison, Bloomberg, 3 Dec 2014).

A 100m US\$ investment is planned for: 1) completing the main canal from the Alwero Dam, 2) establishing a rice de-husking plant and storage silos, and 3) land clearing. About 50-60% of the rice will be exported, mainly to Arab nations on the Persian Gulf, while the balance will remain in Ethiopia for local consumption.



(Alwero dam, Abobo farm, and cleared land; image date 16 Feb 2013)

Saudi Star's website indicates that the firm eventually plans to cultivate an area of 500,000 ha in several phases (Note: 500,000 ha equal 100 x 50 km²).

The Abobo development has been controversial. For two days in October 2014 there was unrest in Abobo town between ethnic Anuak – who are indigenous to Gambella – and other Ethiopians. Five people (2 Pakistanis and 3 Ethiopians) died in the violence. Some local residents claim they have not benefited from the investments, and suffer from collective punishment from the military in response to the October attacks. (Source: William Davidson, Bloomberg, 3 Dec 2014).

5.3.3 South Sudan

The Republic of South Sudan gained its independence from Sudan in 2011. Owing to its large size, low population density, and ample arable land and water resources, the country could be an attractive destination for transnational agro-investments. Large land concessions have been handed out for agro-forestry, eco-tourism, and crop cultivation. However, in view of the security situation in the country and other constraining factors that include inadequate infrastructure, only modest developments are taking place on the ground.

Table 5.4 lists the agro-investments from GCC actors in South Sudan. For the sake of completion the table also reports the investments from the wider MENA.

A very large concession was granted to Al Ain National Wildlife - a UAE based company. However, this concession is being developed for eco-tourism and is mostly located in Boma National Park, which is an area earmarked for conservation. The project is neither capital intensive nor does it involve land preparation or cultivation. In this regard, it is very different from a typical agro-investment project. No other GCC land-investments are currently being implemented in South Sudan.

5.3.4 Remaining Agro-investments by GCC Actors in sub-Saharan Africa

Table 5.5 lists the remaining agro-investments by GCC actors in sub-Saharan Africa. It is noteworthy that no large-scale projects are implemented in Kenya, Tanzania, Uganda, or Mozambique, countries that because of their geographic proximity to the GCC could be preferred target destinations.

Although a number of large projects were announced in the period 2008-2010 in Kenya and Tanzania – including a Qatari land-lease deal in the Tana River delta - these initiatives seem to be either dormant or discontinued.

With regard to Tanzania, a possible explanation is that starting January 2013 the country has restricting the size of land that single large-scale foreign and local investors can lease for agricultural use. For sugar the ceiling has been set to 10,000 ha, while the limit is 5,000 for rice (source: The Guardian, 21 December 2012).

The very large Foras AgroGlobe project has received lots of attention, but very limited activities seem to be going on, and it is quite doubtful whether this program will be implemented. The remaining large-scale activity – 290,000 ha in Bubyeye in Zimbabwe – concerns an eco-tourism development in a national park, without land preparation or cultivation.

Table 5.4: Status of GCC and MENA Agro-investments in South Sudan

Agro investments by GCC actors								
Location	Crop	Production Size 2014 [ha]	Intended Size [ha]	Investor	Investor Country	Recent Web Presence	Linked-In Presence	Remarks
Boma National Park	tourism	-	2,280,000	Al Ain National Wildlife	UAE	Y	N	30 year lease (started in 2008); deal includes 1,680,000 ha in Boma National park, which will be developed for tourism and conservation; 70% to Al Ain / 30% to Gov; guest accommodation has been completed; no ESIA
Unity State		-	105,000	Prince Badr Bin Sultan	KSA	N	N	Status of this project is unclear; it seems to be dormant or cancelled
Agro investments by MENA actors								
Guit and Pariang County, in Western Upper Nile	Maize, sorghum	?	105,000	Citadel Capital / Qalaa Holding	Egypt	Y	N	Annual lease of US\$ 125,000, payable to the state government; 25 year lease; for local consumption; 10 year tax exempted; water rights included; no ESIA (Source: Oakland Institute)

Table 5.5: Remaining Agro-investments by GCC Actors in sub-Saharan Africa

Miscellaneous Agro-investments by GCC actors in Africa								
Country	Location	Crop	Production Size 2014 [ha]	Potential Size [ha]	Investor	Investor Country	Recent Web Presence	Remarks
Ghana	Boufoum	timber		10,000	Miro Forestry	UAE	Y	Tree planting is ongoing; environmental sustainability and social responsibility is explicitly acknowledged; www.miroforestry.com
Mali	Office du Niger	rice	<5,000	100,000	Foras	KSA	N	Foras AgroGlobe also intends to acquire land for rice cultivation in Senegal; however, since an initial flurry of media announcements in 2010, there is no further news on the Foras projects; their status of implementation is unclear
Mauritania	Rosso	rice	<2,000	100,000	Foras	KSA	N	See above
Mauritania		Fodder / food crops	-	45,000	Al Rajhi Int. Investment	KSA	N	In preparation
Namibia	Naute	dates	120	220	Al Dahra	UAE	Y	
Senegal	Linguere	gum Arabica	?	20,000	Asiyla Gum Company	KSA	N	
Sierra Leone	Yoni	timber		21,000	Miro Forestry	UAE	Y	See above (Miro Forestry in Ghana)
South Africa			4,046	4,046	Al Dahra	UAE	N	
Zimbabwe	Bubye	tourism	290,000	290,000	Dubai World Africa Services	UAE	N	Land earmarked for conservation; no capital intensive cultivation is planned; this investment is not about farmland

5.3.5 Egypt and Morocco

Desert land in Egypt is virtually uninhabited and not contested. UAE based Jenaan and Al Dahra made large investments in the Toshka and Sharq Al Owaynat projects in southern Egypt with the aim to grow alfalfa for export to Saudi Arabia and the smaller Gulf states. However, once the large-scale irrigated farming systems were operational, the government of Egypt imposed an export tax of 300 Egyptian pounds (~43 US\$) per ton (source: Reuters, 25 Nov 2013). It forced the project operators to grow wheat for local consumption rather than fodder for export. While producing for the local market is profitable, it changed the original objective of the investments.

The above provides an example of 'sovereign risk', which will be discussed in more detail in paragraph 5.4. Figure 5.3 shows the large Sharq Al Owainat project, while table 5.6 lists the agro-investment projects by GCC actors in Egypt. Table 5.7 shows the agro-investments by GCC actors in Morocco.



Figure 5.3: Sharq al Owaynat (imagery 10 April 2013); 919 centre-pivots @ 50 ha => 45,950 ha

Table 5.6: Status of Agro-investments by GCC Actors in Egypt

Agro-investments by GCC Actors in Egypt								
Location	Crop	Production Size 2014 [ha]	Potential Size [ha]	Investor	Investor Country	Recent Web Presence	Linked-In Presence	Remarks
Sharq Owaynat	Wheat, maize, potatoes	10,300	10,300	Al Dahra	UAE	y	N	Water is pumped from the Nubian Sandstone Aquifer – a non-renewable resource; wheat production for local markets; project is operated by Navigator, a full Al Dahra subsidiary
Al Salihya	Mango, grapes, potatoes	1,200	1,200	Al Dahra	UAE	Y	N	
Toskha	Wheat	?	40,000	Al Dahra	UAE	Y	N	Al Dahra recently announced an investment in the Toskha project with the aim to produce wheat for domestic markets; the land is offered on usufruct basis; water is pumped from Lake Nasser
Sharq Owaynat	Wheat	?	20,000	Jenaan	UAE	Y	Y	Exact production size not know but is large; water is pumped from the Nubian Sandstone Aquifer; wheat production for local markets
Toshka	Wheat	6,300	42,000	Al Rajhi	KSA	Y	N	Nile water

Table 5.7: Status of Agro-investments by GCC Actors in Morocco

Agro-investments by GCC Actors in Morocco								
Location	Crop	Production Size 2014 [ha]	Potential Size [ha]	Investor	Investor Country	Recent Web Presence	Linked-In Presence	Remarks
Morocco (misc.)	aquaculture	400	400	Gulf Merchant Bank	UAE	N	N	Aiming European markets; the Gulf Merchant group is an investment banking and asset management group
Guelmin	Citrus fruits, olives	?	700,000	TEA (Tiris Euro Arab)	UAE	N	N	TEA is an investment firm; status of the project is unclear, it seems to be dormant or cancelled; there is no further news on this project after the initial announcement (2009)
Morocco (misc.)	Olives	520	520	Al Dahra	UAE	N	N	Aiming at European markets

5.3.6 Initial Notes regarding GCC Agro-Investments in sub-Saharan Africa

Based on the material presented in paragraph 5.3, the below observations are made:

- Sudan is by far the most popular target destination of agro-investments by GCC actors in sub-Saharan Africa; probable reasons include the geographic proximity, cultural similarity, the well-established business and investment relations, and the huge agricultural potential of the country;
- While quite a number of investments originating from the GCC are taking place in Ethiopia, there is only a single actor – KSA based MIDROC; it is noted that most investments concern well-established former state-farms that do not require land development;
- Whenever land development is taking place, progress is slow and the area under development is only a fraction of the size mentioned in the media announcements;
- An exception is Egypt; Jenaan (UAE), Al Dahra (UAE), and Al Rajhi (KSA) are implementing large greenfield development projects in the Toskha and Sharq el Owaynat desert region in southern Egypt; both projects target domestic markets after the imposition of an export tax removed the economic rationale for exporting alfalfa to the GCC;
- Apart from Sudan, Ethiopia, and Egypt, the GCC agro-investment activities in Africa are very limited; it is noteworthy that there are currently no large-scale activities in East Africa or Mozambique.

5.4 Factors Constraining Agro-Investments

The challenges of investing in agricultural projects are complex. A number of factors have been identified that are holding back transnational agro-investments in sub-Saharan Africa. The constraining factors have been clustered into four categories: 1) infrastructure and natural resources, 2) administrative, 3) political, and 4) financial. Additional factors that need to be considered are the long-term ‘social license to operate’, and the absence of qualified local staff to manage large farm operations.

5.4.1 Infrastructure and Natural Resources

Group 1 “infrastructure and natural resources” includes: land, water, electricity, labor, transport, basic infrastructure such as (rural) roads, and value chain infrastructure such as cold chain and processing plants. Each element will be discussed briefly. While we concentrate mostly on the prominent target countries, the discussions describe the general investment environment on most of the continent.

Land: Apart from desert areas, large tracks of unused land are scarce. GCC agro-investors favor large ownership holdings and interviewees stated that only sizeable farms (> 10,000 ha) can be profitable. Large farms offer economies of scale because:

- Indivisible or lumpy inputs such as farm management or machinery cannot be used below a certain minimum level; from an economic point of view, capital intensive irrigation infrastructure such as center-pivot and associated pumping station and pipelines cannot be established for small farms;

- A certain scale is required to warrant investment in processing and transportation infrastructure; it is noted that processing (i.e. increasing the value of farm produce) and marketing advantages transmit to the farm operation;
- Unit costs of credit or insurance declines with increasing farm size.

Owing to the generally poor agricultural infrastructure in many target destinations, and because few support services can be provided by local sub-contractors, the investor has to establish the entire system required for successful farm operation. For instance, farm machinery cannot be rented, expatriate staff has to be recruited because management for large farm operations cannot be hired locally, and processing facilities have to be established on the estate and cannot be shared with other farms in the region (as in a cooperative). This particular set of circumstances favors a large scale farm operation.

In most parts of sub-Saharan Africa, acquiring sizeable farms has proved very difficult and controversial, in particular when the investment leads to community displacement from productive land. A number of interviewees indicated their unwillingness to get involved in emotionally charged land politics and the associated negative publicity. Hence outside desert areas, investments by GCC actors in greenfield development are few in number. Instead, some actors concentrate on procuring former state-farms (e.g. MIDROC in Ethiopia), while others focus on virtually uninhabited desert land that is not contested (such as in northern Sudan or southern Egypt).

It is noted that few GCC actors are involved in alternative arrangements such as contract farming or nucleus farm with outgrowers. In this setup, the expert producer/nucleus farm has access to a global customer base and value chain, within a network of local producers, and without the need to own all the land.

Water: water is a critical input factor in agricultural production and an obvious constraint for the agro-investment projects in arid and semi-arid regions. Nevertheless, no large-scale water conflicts because of transnational agro-projects have been reported. Through their permitting systems, the respective water resources agencies in Sudan, Egypt, and Ethiopia are controlling water consumption and have so far ensured that total water demand is below the average long-term availability, and that no critical water resources or environmental function has been compromised.

Some projects in Sudan (El Dabbah, Merowe) and Egypt (Sharq al Owaynat) are using non-renewable fossil groundwater from the Nubian Sandstone Aquifer.

Electricity: a shortage of grid power is delaying implementation of pump-irrigation schemes in Sudan. Projects such as El Dabbah (Amtaar/Jenaan) and Abu Hamed (Hassad Food) are not viable with expensive electricity provided by diesel generators. However, Sudan will receive 300 MW from the Gibe III hydro facility in Ethiopia by October 2015, while the Upper Atbara complex will be completed by early 2016. Further, upon completion of the Grand Ethiopian Renaissance Dam (GERD) on the Blue Nile by around 2018-2020, Sudan will have access to abundant and cheap hydro-electricity (see Box 1).

Labor: both farm labor and skilled labor are reportedly scarce in Sudan and Ethiopia. Expatriate staff is currently recruited to fill positions such as tractor mechanics, center-pivot operator, and agronomist. In particular, it has proved difficult to recruit farm managers with experience in managing large farm operations who are willing to make a long-term commitment to the project.

Transport: in the absence of a functioning rail network, all transport of bulk produce in Sudan and Ethiopia is by road. It adds considerable costs to the production process.

Basic infrastructure: greenfield development in remote areas requires establishing basic infrastructure such as (rural) roads and (internal) electricity lines and transformers. The costs associated with these investments are considerable and affect the economic viability of the project. Agro-investors are quite reluctant to take responsibility for some of these investments, which they consider a task of the government.

Value chain infrastructure: most elements of the value chain such as cold chain, storage facilities, or slaughterhouses are absent or in inadequate state. Investors, therefore, typically focus on low-value bulk produce rather than high-value processed goods. It has an adverse impact on project economics as well as on the benefits for the host country.

5.4.2 Administrative Factors

Cluster 2 “administrative” is concerned with a complete and consistent legal framework within which the agribusiness has to operate.

We use the case of Sudan to illustrate what is meant by administrative constrains. In Sudan, many inconsistencies have been reported between federal and state laws, and investment and tax policies. For instance, the treasury has requested pre-payment of VAT on future capital investments, while tax incentives offered by the National Investment Authority have – on occasion - been refused by the tax agencies. Further, some concessions granted by the federal government were refused by the concerned States. It has resulted in delays in project implementation, unexpected costs, and disappointed investors.

Nevertheless, work is ongoing to iron out legal, procedural, and administrative inconsistencies and it is anticipated that these factors become progressively less important in the coming years.

Box 5: alternative arrangements

Most GCC investors favor the estate model and prefer to establish large farms exceeding 10,000 ha in order to achieve economies of scale. However, sizeable land holdings that are uncontested and presently not used are scarce in most parts of sub-Saharan Africa. Alternative arrangements for agricultural investments include:

Contract Farming: rather than owning and operating farms, the investor engages in long-term supply arrangements. This model is used by a number of leading companies in the agro-food sector, such as Nestle, who focus on their core business of manufacturing food products rather than farm management.

In this setup, the independent local farmer undertakes to supply agreed quantities of a crop or livestock product, based on the quality standards and delivery requirements of the purchaser. The buyer often supports the farm through assisting with land preparation, technical advice, and supplying inputs and/or credit. Growers could range from large private estates to small outgrowers.

It is noted that the investor does not benefit from capital growth accruing to the land involved. Further, side-selling is frequently mentioned as a risk.

Nucleus Estate and Outgrowers: this modality is similar to contract farming. The difference is that the investor operates a central estate, which typically includes a value-adding processing facility. Contractual arrangements with outgrowers ensure that the minimum production level for the facility to break even is realized and that economies of scale are achieved.

The outgrowers benefit from a combination of improved access to inputs and markets. In particular when value increase of farm produce is (partially) transmitted to the outgrowers, it could have a very considerable impact on the productivity and livelihood of the local farmers.

Frequently reported issues with outgrower schemes are quality control and traceability of produce. With the nucleus estate taking on the overall responsibility for the quality of the produce, it typically has to spend considerable managerial resources to ensure that outgrower produce meets the required standards.

Land-as-Equity: under this arrangement, local smallholders use their plots as shares while the investor will provide the funding, technical expertise, and marketing. Importantly, the 'land-as-equity' model will see local smallholders retain the land ownership rights. This setup, therefore, effectively prevents investors from using the land concession for speculative purposes. By consolidating fragmented (family) plots into sizeable single units, it is possible to introduce more productive farming systems and benefit from economy of scales. In return for the leased land, the smallholders receive a share of the profits and possibly land rent. Additional benefits could include laboring wages and training opportunities.

Landlords/laborers: this arrangement is similar to the 'land-as-equity' model. It differs in that the smallholders rent their land to the investor. Thus rather than a share of the profits, the landlord receives an annual rent.

(Source: Phil Riddell, Alternative Modalities for Agricultural Investments, Handbook of Land and Water Grabs in Africa, Routledge, 2013)

5.4.3 Political Factors

Cluster 3 is concerned with ‘political’ factors that include sovereign risks, international sanctions, and repatriation of profits. The most prominent is “sovereign risk”, which will be discussed more in detail in the following text.

Sovereign risk in the agribusiness context refers to the probability that the government changes ‘the rules of the game’ under which the farm or agribusiness has to operate. The rules may be concerned with land ownership, terms of a lease, tax regime, subsidies, repatriation of profits, water allocation, environmental regulations, labor legislations, food safety regulations, etc. Government can refuse to comply with existing rules, or change the regulatory framework during the lifetime of the project. In an extreme case, regime change may lead to a new government that does not respect the agreements made by the previous government. Agricultural projects – and in particular green-field developments - typically have a long time-horizon and require substantial upfront capital investments in land acquisition and preparation, irrigation infrastructure, processing and storage facilities, equipment, and what have you. The sovereign risk horizon is a function of the pay-back period, which is the time it takes for an investment to generate the amount of income equal to the cost of the investment. For many agricultural projects, this exceeds 10 years or more despite the more rosy projections made in the feasibility studies. Furthermore, it can be difficult to convert agricultural investments back into cash – farms in foreign countries are normally not a ‘liquid asset’. Hence, most agro-investment decisions are made for the long run.

It is important to note that changing rules – for instance tax rules or environmental regulations - during the lifespan of a project do not necessarily constitute an act of malice. The future is dynamic, and governments have to respond to changing circumstances or a shifting tax base. For instance, there is a trend throughout the world for governments to increase environmental and food safety standards. Investors should anticipate likely changes and include the related costs in their economic analysis.

The following text describes four examples mentioned during the interviews of sovereign risks that influence investment decisions in the agricultural sector.

Example 1: taxing agriculture in Sudan

The government of Sudan has offered several benefits to the private sector to attract foreign investments in the country. Privileges to foreign investors include, among others: 1) allotment of necessary lands for the project free of charge for strategic projects, and at a discounted price for non-strategic projects, 2) exemption from business profit tax wholly or partially, 3) exemption from consumption duty and any other taxes, and 4) transmission of profits and financing costs, resulting from foreign capital or loans (Investment Encouragement Act 1999 amended 2007).

Owing to these privileges, many agro-investments are potentially very profitable.

Nevertheless, some have expressed their concern about the permanence of these tax privileges, and anticipated they would be changed in the future. In their analysis, decreasing revenue from oil production and transmission fees from South Sudanese oil – when a pipeline is eventually constructed to Lamu harbor in Kenya - would fundamentally change the tax base and compel the government to start taxing agriculture at some point in the future. It would affect the economic viability of the agro-investment projects and has to be taken into consideration when evaluating the investment decision.

Example 2: an unexpected export tax in Egypt

We have discussed this example before. After UAE based Jenaan and Al Dahra made large investments in the Toshka and Sharq Al Owainat projects in Egypt, and once the large-scale irrigated farming systems for growing fodder were established, the government imposed an export tax of 300 Egyptian pounds (~43 US\$) per ton. It forced the project operators to grow wheat for local consumption rather than fodder for export. While producing for the local market is profitable, it changed the original objective of the investments.

Example 3: ancestral claims on ‘white farms’ in South Africa

An executive of a large GCC based agro-business expressed his reluctance to invest in former ‘white farms’ in South Africa because of emerging claims by the local population who alleged their ancestral land was taken a long time ago – in some cases over a hundred years ago. The investment opportunity was tempting. It concerned well-established large and profitable farms in a country with good infrastructure, a functioning land tenure system, and a stable business environment. Nevertheless, the emerging uncertainty related to the land ownership presented a risk he was not willing to take. Emotionally charged land politics with associated negative publicity and potential compensation claims was not something his company should get involved in. The company would only consider fully legitimate agro-investments.

Example 4: changing the water allocation because of GERD

The construction of the Grand Ethiopian Renaissance Dam (GERD) in Ethiopia may change future water allocation policies in Sudan (see Box 1). The large storage capacity of the dam favors agricultural intensification in existing irrigation schemes in the country. For the large public gravity schemes GERD will: 1) make it possible to grow 2 or even 3 crops per year, 2) dramatically reduce maintenance (dredging) costs because of the much lower sediment content of the irrigation water, and 3) facilitate livestock rearing because fodder is now available all year round. As a result, the profitability of farming operations in the existing gravity schemes could increase substantially.

These developments may influence future water allocation decisions in favor of the existing public schemes (with hundreds of thousands of farmers and their dependents) at the expense of the large-scale private operations further downstream on the Nile owned by foreign investors.

Consequently, there is a risk with regard to future water availability that needs to be taken in consideration in the investment decision.

5.4.4 Financial Factors

Only a few lines are dedicated to this topic in this report. It is acknowledged that this subject needs to be looked into more carefully.

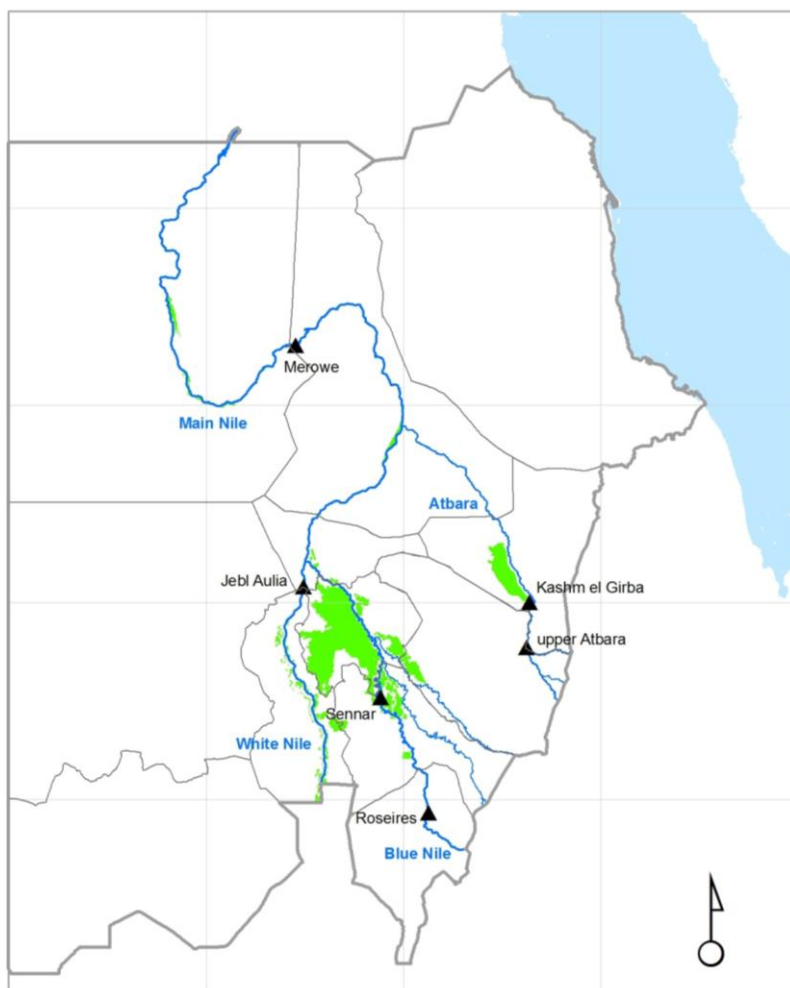
Exchange rate fluctuations present a risk to the investor. Currency appreciation because of a resource boom would make food imports much cheaper – and thus affect demand from local markets – while making exports too expensive.

On the other side of the coin, currency depreciation and consequent (high) inflation would reduce the value of the asset and increase the costs of essential imports such as fertilizer and fuel.

Box 6: existing irrigation schemes in Sudan

The below table presents the existing irrigation schemes in Sudan. The area equipped for irrigation amounts to 2,024,000 ha, while the area that is actually irrigated measures some 1,701,000 ha (FAO, 2009).

Scheme / Cluster Name	Equipped for Irrigation [1000 ha]	Fallow [1000 ha]	Under Irrigation [1000 ha]
Gezira	883	176	707
Rahad	123	0	123
New Halfa	185	42	143
Suki	36	0	36
White Nile Pumping	341	84	257
Blue Nile	148	21	127
Main Nile	308	0	308
Total	2,024	323	1,701



It is noted that the operational acreage from the recent GCC investments is small compared to the existing irrigation schemes (16,200 versus 1,701,000 ha). However, the intended GCC - MENA projects (about 300,000/500,000 ha respectively) cover a sizeable area and would lead to a substantial expansion of the irrigated area in Sudan.

▲ Dam - existing / under construction
 ■ Irrigation - existing
 200 100 0 200 Kilometers

5.4.5 Maintaining the Social License to Operate

“No natural resources project can be successful in the long run without the support of local landowners and villagers; they would disrupt the project and shut it down.....” (Jared Diamond, Collapse, 2005).

Agro-investments typically have a long time-horizon and require substantial upfront capital investments. In the absence of a liquid market for large land holdings – which is the case in many emerging or frontier markets without fully established and stable political institutions – it will be difficult to quickly transfer the investment back into cash.

Thus an agro-investor is “in there for the long run”.

It is therefore in the interest of the investor to establish good relations with local communities and other stakeholders such as customers. In short, the company needs to maintain ‘its social license to operate’.

Various strategies exist to establish good-neighbour relations. Agro-investors can think about reaching long-term agreement with surrounding communities about labour or improved access to better agricultural inputs and markets, or provide technical expertise. More broadly, they could contribute to electricity, schools, and other public services. In essence, it comes down to creating an arrangement in which local communities believe that they are better off with the farm than with the farm gone.

In order to avert public relations problems and maintain long-term consumer and customer support, companies increasingly support the establishment of guidelines for responsible business conduct. This process involves:

- 1) Preparing a list of criteria (e.g. internationally accepted standards of best practice);
- 2) Set up a credible mechanism that the criteria have been met, including periodic audits;
- 3) Set up a mechanism for tracing products through the (often complex) supply/value chain.

For instance, in May 2012 the Committee on World Food Security (CFS) officially endorsed the ‘Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests in the Context of National Food Security’, often referred to as the ‘Voluntary Guidelines’. Also, the OECD is developing guidelines for responsible business conduct in the agricultural supply chain, while the African Union Commission (AUC) has established criteria for responsible land investments.

It was found that a growing number of GCC actors aim to adhere to the responsible guidelines. Case in point is the Bebeke coffee farm – a subsidiary of MIDROC Ethiopia – which is certified by the Rainforest Alliance and other international NGOs (source: www.horizonplantations.com).

Further encouraging this development is the policy of big agro-business – such as Nestle or Unilever – to persuade its suppliers to conform to guidelines of responsible business conduct. Hence if a farm wishes to hedge its customer base, and sell to a wide variety of customers that include big agro business – typically among the largest buyers in the markets – complying with international standards of business conduct needs to be an integral part of its business model.

5.5 GCC Agro-investments: Observations

Based on the material presented in this report, a number of observations have been made:

Status of Agro Investments by GCC Actors in sub-Saharan Africa

1. There is a very substantial discrepancy between the agro-investments by GCC actors in sub-Saharan Africa that have been announced or feature in the media and what is actually being implemented.
2. At the time of writing this report, less than a dozen GCC greenfield development projects are being implemented in sub-Saharan Africa, but mostly at a relatively modest scale and presently not exceeding 6,000 ha per project.
3. Sudan is by far the most prominent target destination of GCC agro-investments in sub-Saharan Africa; probable reasons include the geographic proximity, cultural similarity, the well-established business and investment relations, and the huge agricultural potential of the country.
4. It noteworthy that there are currently no active large-scale agro-investments by GCC actors in East Africa or Mozambique.

Constraining Factors

5. A number of constraining factors in the agro-business environment have been identified that are holding back project implementation; factors have been clustered into four categories: 1) infrastructure and natural resources, 2) administrative, 3) political, and 4) financial.
6. Sovereign Risk – which falls in the Political cluster – features prominently among the factors delaying GCC agro-investments; it is concerned with uncertainties about ‘the rules of the game’ under which the agro-business has to operate; these uncertainties are either short-term (e.g. international sanctions in the case of Sudan, repatriation of profits, export restrictions), or mid-term (e.g. doubts whether agriculture can remain exempted from tax in case of fundamental shifts in the tax base, security and terms of land lease, environmental and labor regulations, the duration of subsidies, etc.).
7. The absence of sizable landholdings with secure and uncontested tenure is another principle constraint encountered by GCC investors; many actors seem unwilling to get involved in local land politics and the associated negative press.
8. As a result, the majority of current agro-investments by GCC actors in sub-Saharan Africa are focused on desert areas with (very) low population density (e.g. in northern Sudan) or former state farms (e.g. in Ethiopia).
9. Poor infrastructure and expensive grid power are also cited as important factors holding back agro investments.

Hedging Supply Sources

10. Given the long time-horizon and the low market liquidity of a typical large-scale agro-development project, GCC investors are putting a premium on well-established and politically-stable target destinations that are characterized by a stable and predictable business environment.
11. Hence, in recent years they have rebalanced their investment portfolio towards politically stable countries that have good infrastructure and are established agro-surplus producers, such as Australia, USA, and Argentina.
12. This policy strengthens food security by spreading risks through hedging supply sources (multiple suppliers in multiple regions with different weather conditions and currencies).

The Role of sub-Saharan Africa

13. Nevertheless, both GCC actors and countries in sub-Saharan Africa express a keen interest in further exploring agro-investment opportunities, and a number of GCC investors make regular public statements about their intention to (eventually) implement large agricultural projects.
14. The interest of GCC agro-investors in eastern Africa is further sustained by its proximity to the GCC, and the recent policies of Saudi Arabia and the UAE to phase out wheat and fodder production, for which alternative production sources need to be identified.
15. It is recognized that infrastructure in large parts of sub-Saharan Africa is gradually improving, and that a number of key factors that increase marginal production costs (such as electricity shortages in Ethiopia and Sudan, poor condition of road network, or harbor congestion in Kenya) are being sorted out. Accelerated implementation of a number of projects in Sudan is anticipated when cheap hydro-electricity becomes available in the near future from new hydro facilities in the region.
16. Further, work is ongoing in many countries to iron out inconsistencies in the legal framework and tax policies (classified in this report as “administrative” constraints) which have delayed project implementation in a number of cases; it is anticipated that administrative constraints become progressively less important in the coming years.
17. It is therefore expected that the economic viability of agro-investments in many parts of sub-Saharan Africa will steadily improve. Sovereign risk, however, remains a concern.
18. Even in the current business environment, export of low-value bulk produce such as alfalfa from parts of Sudan (such as the Atbara – Berber region) to Saudi Arabia and the UAE is profitable – according to a number of sources - in spite of expensive electricity; the proximity of eastern Africa to the GCC represents logistic advantages because of lower shipping costs.
19. Value chain infrastructure is still virtually absent or in poor condition in many parts of sub-Saharan Africa; it encourages export of low-value bulk produce rather than high-value processed agro-products and thus adversely impacts on the profitability of the investment projects, as well as on the benefits for the host country.

Sustainable and Inclusive Investments

20. In view of the long time-horizon of agro-investments, and possibly in response to public criticism to transnational land investments, a number of GCC investors in sub-Saharan Africa are making efforts to establish good relations with all stakeholders (including consumers), adhere to guidelines of responsible business conduct that include periodic audits by international NGOs, and aim for reasonable transparency in the operation of their business; a number of MIDROC farms in Ethiopia serve as a case in point.
21. Further encouraging this development is the policy of big agro-business – such as Nestle or Unilever – to encourage its suppliers to conform to guidelines of responsible business conduct; hence if a farm wishes to hedge its customer base, and sell to a wide variety of customers that include big agro business – typically among the largest buyers in the markets – complying to international standards of business conduct needs to be an integral part of its business model.

Export or Domestic Consumption

22. A critical decision for GCC investors is whether to produce primarily for export or for domestic consumption; Africa’s population is expected to grow by about 1 billion to some 2

billion in 2050; hence domestic markets for agro-produce are rapidly expanding owing to population growth, economic growth, and shifts in dietary preferences.

23. Producing for import substitution for emerging markets in Africa, in particular, offers attractive business opportunities; high transport costs because of logistic difficulties now turn into a comparative advantage.
24. GCC investments in sub-Saharan Africa, therefore, could serve to meet objectives of profit maximization and vertical integration of the supply chain (the latter only in surplus years); in the short-term, Africa's role in providing food security for the GCC is quite limited because of regular food deficits in many countries; however, in the mid and long-term there is large export potential owing to large tracks of underused land, low current yields, and quite abundant water resources. Harnessing this potential requires a concerted and sustained effort by diverse actors (African governments, farmers, investors, civil society, development partners, etc.).
25. It is noted that niche markets – such as tropical fruits – can already provide attractive export opportunities; further, even if a country is a net food importer, it can still be a surplus producer of commodities for which it has a comparative advantage; case in point is Sudan, which is a net importer of its main staple – wheat – but has been a surplus producer of livestock for many years; the input factors (land, water, and labor) for extensive livestock rearing in Sudan are very different from those for irrigated wheat cultivation, and the two commodities do in fact not compete for scarce natural resources.
26. Hence Africa can play a role in providing food security for the GCC in selected commodities and countries in the short term, while it has potentially a large role in the mid and long-term.

Alternative Land Arrangements

27. Most GCC investors currently operate a plantation model; alternative modalities such as contract farming, nucleus estate with out-growers, or other partnership arrangements are reportedly rare.

Box 7: Trend – From Upstream towards Midstream

The below figure shows the main recent transactions by Hassad Food Co. Note that after 2009 no further transactions were enacted in sub-Saharan Africa.



(source: Clarity – AgInvest Feb 2015)

"We did a significant investment in production and we want to move into the second layer of the value chain. We are not closing the book on farmlands, but for the time being we are focusing on other layers of the chain", Youssef Hegazy, vice president for business development at Hassad Food (Source: Reuters, 25 Feb 2015)

6 Closing Comments

This report has examined the current status of agro-investments by GCC actors in sub-Saharan Africa. Although information on this subject is scattered, we believe that the results from the mapping exercise are sufficiently accurate to inform a dialogue on how the GCC transnational agro-investments can contribute to sustainable and inclusive agricultural modernization on the continent.

It was found that there is a huge discrepancy between investments that have been announced and what is actually been implemented. Delays in project implementation are caused by a combination of three main constraining factors: sovereign risk, the absence of sizable areas of farmland with secure and uncontested tenure, and poor infrastructure. There is a growing awareness among investors that a concession agreement with the government does not guarantee the ability to operate. Without the consent from the local communities, the long-term viability of the enterprise is not guaranteed.

Because of rapidly growing domestic demand for agricultural commodities, the right balance has to be found between producing for export and for domestic consumption. Nevertheless, owing to the current low yields, the vast tracks of underutilized land, and the rather abundant water resources,

there is a huge scope in the mid and long-term for increasing agricultural production in sub-Saharan Africa. Harnessing this potential – and thus creating off-take capacity for export – will require a coordinated effort in sustainable land and water management, modernizing agricultural practices, build-up of the value chain, infrastructure development, institutional modernization, technology development and transfer, creating better functioning markets, etc.

Realizing the above in a sustainable and inclusive manner is best achieved through a partnership, in which governments, farmers, investors, knowledge institutes, civil society, and international actors such as UN organizations join forces. It will require a long-term commitment by all partners. A prominent role in this process could be envisioned for GCC investors.

Also the Netherlands can play an important role in this process. The Netherlands – itself a major investor in transnational agricultural projects – has widely recognized experience and expertise in agricultural development in developing and emerging economies, sustainability concepts, and knowledge transfer.

Despite the limited number of GCC agro-investment projects that are currently operational or being implemented, and the apparent lack of opportunities that are investment-ready, both GCC investors and host countries remain keen on pursuing transnational agro-investment projects. We think it is important to promote responsible and inclusive transnational agro-investments in order to support the modernization process of the agricultural sector in sub-Saharan Africa. In this regard it is recommended to:

1. Screen development options in selected target countries in close cooperation with national governments. It should result in a portfolio of profitable investment opportunities across the value chain that are environmentally sustainable and socially inclusive, and make a positive contribution to the agricultural support infrastructure in the host country.
2. Map the comprehensive value chain, associated risks, and infrastructure and regulatory bottlenecks in a region where a large agro-investment by a GCC actor is ongoing or planned; then proceed as under 1, but with higher granularity. In order to also attract larger investors, projects could be aggregated in consistent packages.
3. In view of the absence of sizeable landholdings, have a closer look at alternative land arrangements; determine what is needed to make these alternative arrangements work; present relevant case studies.
4. Use the findings in this report to initiate a dialogue with NGOs – who set the media agenda - on how transnational agro-investments can contribute to agricultural modernization in sub-Saharan Africa; also include potential partners from the business sector.

REFERENCES (excluding web sites visited in the preparation of this report)

- Africa Progress Panel 2014. Africa Progress Report - Grain, Fish, Money: Financing Africa's Green and Blue Revolutions. Mali
- Allan, T., Keulertz, M., Sojamo, S. and Warner, J. 2013. Handbook of Land and Water Grabs in Africa. Routledge International Handbooks
- Allan, T. 2001. The Middle East Water Question: Hydropolitics and the Global Economy. I.B. Tauris & Co Ltd
- Babar, Z. and Mirgani, S. 2014. Food Security in the Middle East. Oxford University Press
- Cotula, L., Vermeulen, S., Leonard, R. and Keeley, J. 2009. Land Grab or Development Opportunity: Agricultural Investment and international land deals in Africa. FAO, IIED, and IFAD
- Cribb, J. 2010. The coming Famine: The global food crisis and what we can do to avoid it. University of California Press, Berkely
- Diamond, J. 2005. Collapse: How Societies Choose to Fail or Succeed. Penguin Group
- FAO/IFAD/WFP 2011. The State of Food Insecurity Report 2011, Rome, Italy
- FAO 2009. How to feed the world in 2050: High Level Expert Forum (12-13 October 2009), Rome, Italy
- FAO 2011. Safeguarding Food Security in Volatile Global Markets. Rome, Italy
- FAOSTAT www.faostat.org
- Kaag, M. & Zoomers, A. 2014. The Global Land Grab; Beyond the Hype. Halifax: Fernwood Publishing
- MacDonald, G. 2013. Eating on an interconnected planet. Environmental Research Letter (8), UK.
- Nile Basin Initiative 2013. State of the River Nile Basin 2012. NBI, Entebbe.
- Riddell, P. 2010. Impact Investing in Commercial African Agriculture. Global Impact Investing Network
- Schaffnit-Chatterjee, C. 2012; Foreign Investment in Farmland: No Low-hanging Fruit. Deutsche Bank Research
- Woertz, E. 2013. Oil for Food: the Global Food Crisis & the Middle East. Oxford: Oxford University Press

Worldbank 1999. The Relationship between Farm Size and Efficiency in South African Agriculture. Policy Research Working Papers. Washington, USA

Cotula, L. et al. 2009. Land Grab or Development Opportunity: Agricultural Investment and international land deals in Africa. FAO, IIED, and IFAD

ANNEX

Annex1: Background Document for a Round-Table Discussion



RESPONSIBLE INVESTMENT IN AGRICULTURE AND FOOD: A DIALOGUE IN THE GCC

Background document for a round-table discussion in Riyadh
19-20 January 2015 (tentatively)

The need for investments in agriculture and food

The world's population is predicted to grow to 9 billion people by 2050. Agricultural production needs to increase in order to ensure that everyone has access to enough high quality food. Sustainable agricultural intensification is central to increasing production. It aims to make current agricultural systems more efficient through the use of new technologies or by improving current production practices, while making sure that natural resources are used in a sustainable manner. At the same time, efficiency improvements are needed across the agricultural value chain. Specific objectives include to better link farmers to regional and global markets, reduce waste and increase profits, and spread risks among the various actors in the food supply system.

The need to modernize the agricultural sector in sub-Saharan Africa

Governments in sub-Saharan Africa are acutely aware of the need to increase agricultural production and foster rural development. The Malabo Declaration by the African Union (June 2014) recommitted to the pursuit of agriculture-led growth as a main strategy to achieve targets on food and nutrition security, and shared prosperity. Among other elements, Governments undertook to enhance investments – both public and private – in the agricultural sector and reconfirmed their commitment to allocate at least 10% of public expenditures to agriculture. They underscored the key principles of the Comprehensive Africa Agricultural Development Programme (CAADP), which includes the use of partnerships and alliances among farmers, agribusiness, and civil society.

In this regard, Governments in many countries in sub-Saharan Africa are keen to attract Gulf investments in the agricultural sector. They hope that these investments will support the agricultural modernization process, build up essential infrastructure, provide rural employment, and contribute to national food security.

Capturing the potential

The agricultural production system in sub-Saharan Africa is subject to many constraining factors, which include inadequate infrastructure, lack of secure water supply, regulatory barriers along the whole of the value chain, unclear land tenure, price volatility, to mention just a few. Nevertheless, the sector has large potential and should provide ample investment opportunities.

Harnessing this potential in a sustainable and inclusive manner is best achieved through a partnership, in which governments, farmers, investors, knowledge institutes, civil society, and international actors such as UN organizations join forces to pursue sustainable agricultural intensification and efficiency improvements in the supply chain. Key is to develop climate-smart agricultural practices, respect land rights and make efficient use of natural resources, in particular water, soil, and biodiversity.

The Gulf perspective

Because of the historic context, food security is a critical concern to policy makers in the GCC. While oil revenue provides adequate financial means to procure food from international markets, the high dependency on food imports is at the root of a deeply engrained sense of vulnerability. The export restrictions in 2008 – albeit temporary - in traditional surplus producers such as Argentina, Russia, Vietnam, and India, presented a case in point. GCC countries responded by augmenting storage facilities and by transnational investments in agricultural land, which would provide privileged access to food production.

Fast forward to 2014

By the end of 2014 there appears to be little evidence of Gulf-financed agricultural projects in developing economies that have materialized. Areas of improvement to encourage international actors to proceed with agro-investments in sub-Saharan Africa could include:

1. Enhance the commercial viability of the agro-investment projects by strengthening the general business environment, and by improving transport infrastructure to gain better access to global markets;
2. Manage media relations and better explain the benefits of the transnational agro-investments for the target countries and local stakeholders in particular;
3. Identify investment opportunities across the entire value chain, rather than at the upstream end alone;
4. Consider compliance to OECD guidelines in order to reduce operating risks.

A role for countries such as the Netherlands

The Netherlands – itself a major investor in transnational agricultural projects – has widely recognized experience and expertise in agricultural development in developing and emerging economies, sustainability concepts, and knowledge transfer. The Netherlands is keen on having a public-private partnership approach in modernizing the agricultural sector in sub-Saharan Africa. In collaborating with investing partners and target countries, the Netherlands aims at a partnership which could be beneficial to all, focusing on responsibility and sustainability of the investments, while using the strengths of each partner.

A roundtable dialogue in the GCC

A dialogue has been initiated to explore how to make this partnership work. This will take place in Riyadh, in cooperation with GCC partners, on 19-20 January 2015, tentatively. Roundtable discussion items could include:

- What is needed to modernize the agricultural sector in sub-Saharan Africa in an inclusive and sustainable manner, and how and where can Gulf investments contribute, while taking into account their commercial interests and food security concerns?
- Apart from land development, are there other elements along the value chain where GCC investors have specific expertise and experience?
- What is required from governments in sub-Saharan Africa to create an effective agro-business environment that would attract Gulf agro-investments, while honoring their obligations towards the environment and their people?
- How can external partners – such as the Netherlands – contribute to creating this effective agro-business environment?
- What role could the voluntary guidelines for responsible business conduct play in the investment activities?

Contacts

- Dr. Hans van der Beek, Agricultural Counsellor for the GCC, Embassy of the Kingdom of the Netherlands, Riyadh. Email: RIY-LNV@minbuza.nl.
- Ir. Bart Hilhorst, Independent Consultant, Doha. Email: hilhorst@fireflybay.com.