

FOREIGN DIRECT INVESTMENT IN AFRICAN FOOD AND AGRICULTURE TRENDS, DETERMINANTS, AND IMPACTS

The food and agriculture sector in Africa presents great potential for prospective private sector investors in the context of rising food demand, which is a consequence of population growth, urbanization, and growing incomes. However, despite this outlook, the current level of investment is still low and much more investment is necessary in order to keep pace with rising demand. Foreign direct investment (FDI) has the potential to fill this gap, especially where local private-sector investment is insufficient as a result of financing constraints.

Over the past 15 years, the total amount of FDI inflow into the African food and agriculture sector summed up to USD 48.7 billion. Almost half of this figure was invested in fertilizer production. Despite popular perceptions of extensive land-grabbing by foreign investors in Africa, investments in crop production, which involve land acquisition, constitute only 10% of total food and agriculture FDI inflows to the continent.

About the author



Zaneta Kubik
is a senior researcher at ZEF
Contact: zkubik@uni-bonn.de

Even though the FDI inflows have been growing over time, especially after the agricultural commodities shock of 2008-2009, the continent still only receives 10% of global food and agriculture FDI. The low levels have spurred public-private initiatives, such as Grow Africa, to bolster investments.

The African Continental Free Trade Area (AfCFTA) agreement is also expected to boost FDI inflows to the continent. Apart from providing capital, FDI is also expected to create quality employment, bring new technologies that increase productivity, improve infrastructure, and affect domestic investors through spillover effects.

Research conducted by ZEF suggests that the investing companies are primarily driven by the potential that an emerging domestic consumer class represents. As a result, they target mainly local and regional markets rather than global markets. Other determinants of investments are a country's supply of agricultural land and the quality of infrastructure and institutions.

Importantly, the latter factors are amenable to policy makers' interventions. Additionally, because of the agglomeration economies, past investments further attract new FDI inflows due to production linkages and knowledge spillovers.

Further research is essential in helping policy makers to make informed decisions on how to attract the best kind of investment and how to maximize the beneficial impacts of these investments for the people they serve.



Photo: Thomas Daum