



Four key success factors
to growing Agriculture
opportunities in Africa
Grow and prosper

Deloitte Africa Agribusiness Unit (DAAU)



Content

Food security and the future	5
Global market shifts	8
Africa is well positioned for growth in Agriculture.....	9
Four key success factors in harvesting agricultural opportunities in Africa	10
Conclusion.....	14
Contacts	16

“After all is said
and done - there
is no substitute
for practical
experience”

Omri van Zyl

Food security and the future

With food security becoming one of the main themes for the future survival of nations on the planet - agriculture is one of the cornerstones in elevating this challenge

The aftermath of the Global Economic Crisis created more poverty and hunger than can be measured. Today, with the future of food security more precarious than ever, governments around the world are finally focusing on agriculture and taking the first steps towards long-term solutions.

The 1996 World Food Summit in Rome defined food security as existing *“when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.”*

At the time, it seemed realistic to expect to halve the proportion of chronically undernourished people by 2015. This goal was at the heart of the Rome Declaration on World Food Security, and formed the basis of the first Millennium Development Goals.

The roots of today’s food insecurity go back 30 years, when investment in agriculture started to decline. In 1979, aid to agriculture was 18% of total assistance. By 2008, it was just 4.3%. In developing countries, government investment in agriculture also fell in this period, by one third in Africa and by as much as two thirds in Asia and Latin America¹.



¹ IFAD

In many developing countries, particularly low-income countries, decreased investment was accompanied by a policy vacuum. Governments dismantled older, costly instruments that had supported agriculture, but did not replace them with new, more effective ones.

When global food prices soared from September 2006 to June 2008, in many cases almost doubling, it became apparent that the world was facing a new era of uncertainty. Indeed, volatility returned to some food commodities markets in 2010.

In addition, the world's population is expected to rise from 6.7 to 9.1 billion by 2050, with most of the growth in developing countries. Increasing population sizes create more demand for food, water and land at a time when agricultural land is being increasingly used for bio-fuel production. At the same time, climate change is expected to put millions more people at risk of hunger in the coming years.

Africa is a continent with one of the largest proportions of arable land available in the world. Given the current production potential - many nations are looking at Africa for the production of food. Countries like China and India have already started the acquisition of land in various countries to plan for future shortages.



Fast facts

- There are 925 million hungry people in the world.
- The world population is expected to grow from 6.7 to 9.1 billion by 2050.
- Food production will need to nearly double by 2050 in developing countries.
- About 40% of the world's arable land is degraded to some degree and will be further affected by climate change.
- There are about 500 million small farms in developing countries, supporting around 2 billion people.
- GDP growth generated by agriculture is up to four times more effective in reducing poverty than growth generated by other sectors.
- Development aid to agriculture was 4.3% in 2008, compared with 18% in 1979.
- Poor people spend between 50% and 80% of their income on food².

² IFAD

Global market shifts

The trend of declining world market prices has ended. Since 2000, world market prices for agricultural goods have been increasing and are projected to do so going forward as the need for food and the production capacity globally is materially distorted. It is also projected that the per capita food consumption will increase significantly - especially in countries such as India and China.

Another factor that would further create food inflation is the lack of arable land for food production. Moreover, the production of bio-fuel diverts agricultural land and other inputs away from food production. In addition, increasing water scarcity is starting to act as a constraint to production growth.³



The final conclusion is that the supply and demand curve for agricultural products would be out of kilter, placing agricultural producers in a stronger position to attain higher prices for their products going forward. On a grander scale agribusinesses worldwide should benefit from this trend.

³ FAO Food Price Index

Africa is well positioned for growth in Agriculture

Given the food security challenges globally, Africa is well poised to leverage off the future food security trends for a couple of reasons:

- The relatively low base of agricultural production on the continent
- The availability of significant portions of arable land in Sub Sahara Africa
- The availability of extensive water resources in Central and Western Africa
- The low levels of technological sophistication in Agriculture means there is scope for productivity levels to increase significantly
- The relatively low labour base
- Geographically closer access to markets in the European Union, India, China and the Middle East
- An increasing awareness amongst African governments to assist with inward investment
- The economic cost benefits for African countries would drive more positive socio-economic actions going forward
- Extended mining and resource development will bolster the need for food production
- Rural and small holder development is becoming an increasing priority for African countries
- Renewed interest globally in investing in African agriculture opportunities
- The need for local agribusiness and agro-industry development

Four key success factors in harvesting agricultural opportunities in Africa

Developing agribusinesses in Africa has many challenges including political instability, security of tenure, lacking transportation systems, few financial risk guarantee bodies, corruption and infrastructure challenges to name a few.

That said - globally, stakeholders are increasingly seeing the high potential up-side of investing in Agriculture in Africa - but many are unaware of the key success factors required for the successful conversion of Agriculture opportunities. The four key dominant success factors for successful investment and management of Agriculture opportunities are discussed below.

1. Contextual considerations

The following contextual considerations are critical in taking the first step towards an investment decision:

- **Country risk** - This includes political risk, logistics, government sovereignty, financial systems and Government support.
- **Industry risk** - There are many challenges relating to the industry development in specific countries - any investment strategy should be aligned to the local and regional industry potential.
- **Security of tenure is a very important component in securitising investments** - This varies in Africa from leasehold to freehold land ownership, to lease agreements and sharing agreements of various kinds.
- **The legal system in each country has different corporate and acquisition requirements** - The Rule of Law and the practical application thereof is a very important consideration. This also includes various financial and tax aspects such as the repatriation of funds, tax rates, corporate tax implications, etc.
- **Climatological factors also need in-depth consideration** - This includes rainfall patterns (past and future), soil types, availability and accessibility of land, water distribution and infrastructure to name a few.
- **The prevailing agricultural landscape** is a very important consideration - The focus here should be on extension services, relief assistance, government support and market access.
- **Market access** - In most African countries data relating to markets and consumers are lacking. Many markets are informal and not secure in driving investment decisions. In more sophisticated markets such as Botswana and Namibia it is easier to make demand and supply forecasts. Detail market investigations will be needed before investment decisions are taken.



2. Funding

We have found a general disconnect between funders and agricultural opportunities in various African countries. The basis of the disconnection centres on a general lack of information relating to prospective opportunities, as well as realistic data relating to these.

The general requirement will be to do feasibility studies relating to these opportunities as well as the compilation of business plans that covers the whole farm to fork process. Environmental Impact and Social Impact Assessments are a key consideration when establishing the viability of an opportunity.

Funding models should be geared towards medium to long term investment priorities with sound market access proven. Security can in many instances be provided through off-take agreements and other contractual guarantees.

The required Return on Investment would normally be at a premium when measured at normal market rates due to the additional risk, especially in Greenfields operations. This reinforces the need for acute risk mitigation strategies that could include credit risk insurance, multi-peril insurance and bonded warehousing to name a few.

Ideally, the equity contribution from the agricultural opportunity owners should be as high as possible as this decreases investor risk which could attract additional investments. Ideal combinations should include a mix of donor, institutional and private equity funds to ensure sustainability.

Reputable institutions will be critical in establishing viable projects. Financial risks associated with fraud and corruption should be managed throughout the whole investment process. Transaction advisors will be recommended to ensure alignment of all priorities.

3. Experience

The most important aspect of operating an agriculture related business in Africa is to have the right management on the ground, with the right skills and expertise to manage and execute on the proposed strategy of the business.

Many agricultural projects have failed on the continent due to the lack of skills. Finding upper to middle tier management is particularly challenging in Africa. Moreover, even more challenging is finding management that understand the commercial aspects of running an enterprise.

From the onset it is important to understand that country specific cultural and other traditions shape society, and to a large extent determines the socio-labour context that have to be managed by the agribusiness owner and operator.

Value chain challenges often exist and many farmers have to use creative ways to get products to markets and convert produce into currency

Farmers have to be largely self-sufficient and must have the ability to adapt to challenges on the African continent.



4. Technology

Technology refers to various types of systems and equipment that are available in, e.g. animal husbandry, horticulture, cash cropping and aquaculture.

Imperative to production systems is the fit between the operating conditions and the selection of technology. This implies that the highest technology may not necessarily be the best choice for any specific operation.

Feasibility studies should focus specifically on all resources available, e.g. soil types, rainfall, nutrient status, topography, water and benchmarked technologies.

Proven technology is imperative in Agricultural development. The reliability of such technology as well as backup systems is critical. In many remote parts of Africa support services would not be available - this in turn must be mitigated by critical part stockpiling and proper planning.

Collaboration with, for example technologically advanced suppliers, is needed to ensure access to the best possible genetics, varieties of cultivars that are adapted to the specific region and climate.

In Greenfield sites production trials for suitability could be required. This in turn would have an impact on the financial planning of projects, cash flow forecasts, yield curves and profitability

Conclusion

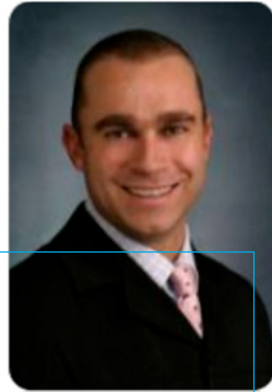


The Green Revolution - We owe it to ourselves
and to future generations to ensure that we
develop and grow the resources and potential
in Africa

“We measure our
reality according
to our experience.
As our experience
expands, our
reality is
also altered”

Chin-Ning Chu

Contacts



For more information, please contact:

Omri van Zyl
Associate Director
Deloitte Africa Agribusiness (DAAU) Head
Deloitte Consulting

Telephone: +27 (12) 482 0078
Mobile: +27 82 417 5724
Email: ovanzyl@deloitte.co.za



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

“Deloitte” is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, and tax services to selected clients. These firms are members of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee. Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTTL does not itself provide services to clients. DTTL and each DTTL member firm are separate and distinct legal entities, which cannot obligate each other. DTTL and each DTTL member firm are liable only for their own acts or omissions and not those of each other. Each DTTL member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in its territory through subsidiaries, affiliates, and/or other entities.

© 2011 Deloitte & Touche. All rights reserved. Member of Deloitte Touche Tohmatsu Limited

Designed and produced by Creative Solutions at Deloitte, Johannesburg. (802306/chr)