BIZCOMMUNITY

Farmers, Ferraris and harvesting good investments in Africa

By Roux Wildenboer

31 May 2021

In April 2012, legendary US investor and market commentator Jim Rogers made a bold pronouncement: Farmers, not bankers would be the next group driving Ferraris and Lamborghinis.

©gajus via 123RF

In a popular interview with Forbes magazine, he said:

"More people in America study public relations than study farming. We have no farmers. You went to Princeton; nobody you went to school with became a farmer. I went to Yale; nobody I went to Yale with became a farmer. The average age of farmers in America is 58 years old. In Japan, the average age is 66. In Australia, it's 58."

Fast-forward to 2021 and while there are not a lot of sports car-owning farmers on the African continent [yet], the investment case for the agriculture sector is intact.

The issues that Rogers touched on in this interview are incredibly relevant today. The training of young farmers on the continent, access to infrastructure and the rising cost of agriculture and "soft" commodities are all likely to be catalysts for the sector over the next decade. Considering that Africa holds more than 60% of the worlds uncultivated arable land and the sector counts for roughly 12–15% of Gross Domestic Product (GDP) for the continent, it is critical that we embrace strategies for growing this part of the economy.

Looking at our deal pipeline for the bank and our ongoing engagements with clients, forward-thinking entrepreneurs and investors are prepared to take a 15-20 year view on the continent.

Agriculture for the most part has been a shining light for the continent and the investor community and governments have recognised that **agri is a driver of a couple of key aspects**:

• Overall economic growth

• Job creation, particularly entry-level and micro-entrepreneurs where the sector accounts for roughly 60% of jobs on the continent

• Food security

• A commitment from all stakeholders to invest in R&D and critical infrastructure

To fully realise the benefits of agri opportunities on the continent, this investment in infrastructure is critical.

Consider for a moment that 55% of the cost of agricultural products exported from Malawi consists of transport costs while approximately 20-25% of all cereal products produced on the continent are lost in the logistics chain.

South Africa has a very real challenge in that Transnet is our major mover of maize products but only has capacity to move 40% of the grain for export to the ports – the rest is forced to be moved via expensive trucking routes. We have often heard that it is cheaper to transport maize from the USA to Cape Town than from Viljoenskroon to Cape Town.

Until we can build critical capacity in these areas, African produce will prove to be expensive and unreliable.

Good financial decisions will ensure SA agriculture survival when the bad times

19 Apr 2021

Sub-Saharan Africa remains a net importer of food and is missing out on the solid increases in commodity prices. This impacts the ability of countries to secure valuable foreign exchange revenue that governments require to fund budget deficits.

Fortunately, the continent is recognising that investment is required and there are a number of success stories that we can reference.

The cashew nut industry in Kenya is getting the attention it needs after decades of regression as a result of government taking an investor-friendly stance toward capacitating this strategic sector.

In Tanzania – which currently imports 50% of its sugar requirements – government has deemed this commodity a strategic one. Five thousand hectares and the equivalent of R1.5bn has been set aside to develop local capacity. We expect this investment in the entire sugar value chain to have a profound effect on the local sector here and build a product which will be export-ready in the next decade. The Tanzanian government has also realised the folly of interfering in the Cashew nut sector and has taken a much more investor-friendly stance.

Countries like Mozambique, Rwanda, Malawi and Uganda have also seen private and public sector investment in infrastructure rise and we believe that this will receive a further kicker from the improvement in intra-Africa trade.

The fertiliser sector is another one which offers significant growth prospects and countries like Zambia are investing heavily here. For context of the scale of the opportunity, the average fertiliser application per hectare across the globe is 142kg. In South Africa, this currently sits at 66kg and sub-Saharan Africa is 19kg.

SA's citrus industry celebrates record-breaking export season

2 Feb 2021

Closer to home, we have seen a bumper in citrus crops, and this represents a very significant export opportunity. While government often comes in for criticism, feedback from the industry suggests that the proposed investment in port infrastructure is expected to pay dividends and being well received by the local Citrus value chain. There are significant challenges, but the traction is seemingly in the right direction.

A key question that is often asked – primarily by our South African clients – is around the contentious issue of property rights and whether this is holding back investment on the continent. This question is closely followed by the one about security and whether this is impacting investment appetite, particularly in light of recent events in Mozambique.

The short answer is that while these issues are topical and important, as far as we can see it is not something which has significantly dampened appetite for investment in major agri projects, financially strong agribusinesses are still investing for the long run.

While we haven't quite reached the farmers in sports cars stage in the development of local agriculture, there is no question that this is one of the economic bright spots on the radar and there are some very exciting projects that can be funded in the coming years.

ABOUT THE AUTHOR

Roux Wildenboer is Sector Head: Agriculture at Absa Group.