



# AFRICA INSIGHTS

Agricultural Trends





# TABLE OF CONTENTS

<b>INTRODUCTION</b>	<b>2</b>
<b>AFRICA AND THE COMPLEXITIES OF AGRICULTURE ON THE CONTINENT</b>	<b>3</b>
AGRICULTURE, POLITICS AND INFRASTRUCTURE	3
SUSTAINABLE AND LONG-TERM INVESTMENT: THE WESTERN BUSINESS APPROACH VS. AFRICA'S EXPECTATIONS	4
ECONOMIC PROTECTION OF AGRI-BUSINESS	4
COMERCIAL FARMING BUSINESS MODELS FOR AFRICA	5
<b>INVESTING IN AFRICAN AGRICULTURE: THE WAY FORWARD</b>	<b>6</b>
<b>AGRICULTURE IN AFRICA: A SUMMARY</b>	<b>8</b>

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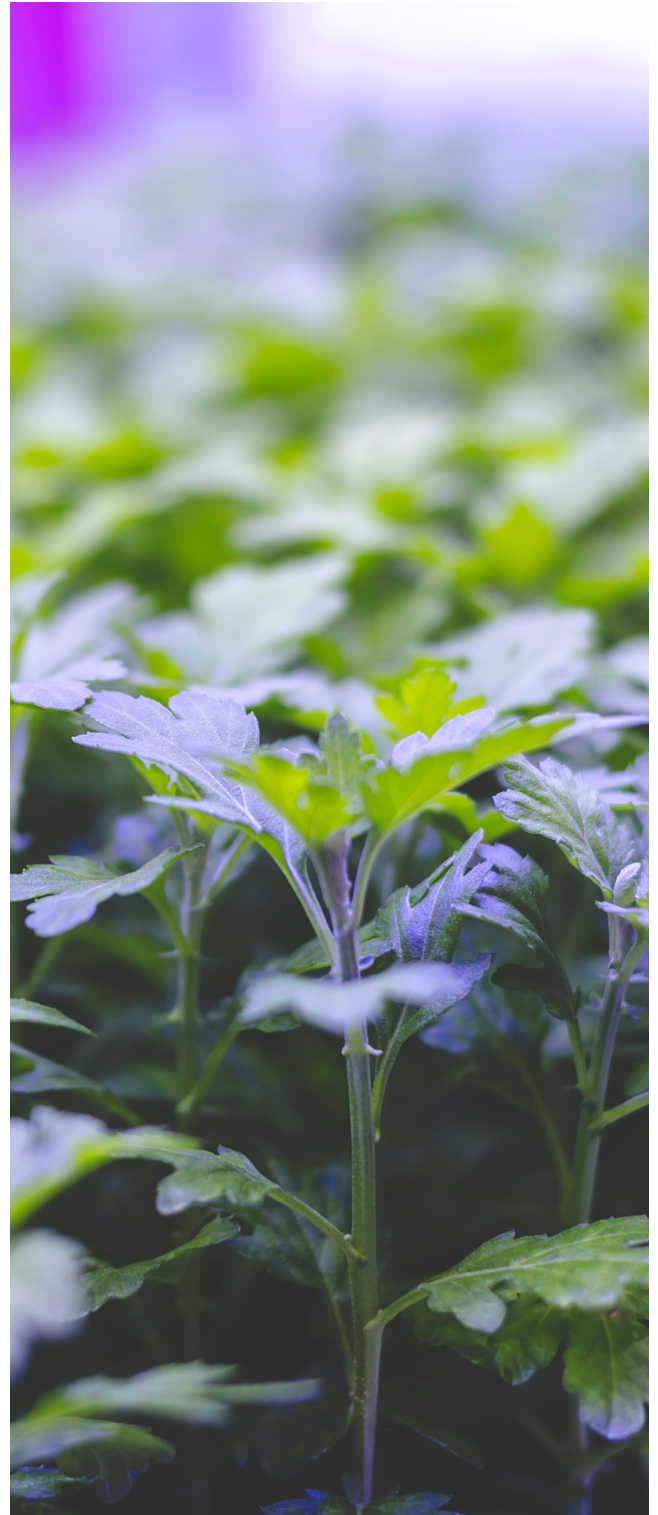
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# INTRODUCTION

Climate change is an ever-increasing threat to our ability to feed the growing population of our world. Higher temperatures, water shortages, rising sea levels, loss of biodiversity, soil erosion/degradation and acidification of our oceans poses leaving us with an ever-intensifying challenge to solve. Africa has the ability to position itself as the “breadbasket” of the world but to achieve this the agriculture industry as a whole not only needs to respond effectively and quickly to the rapidly changing environmental factors, it also has to take on new ways of thinking about work and how they do it in this world that is constantly in flux. For many countries, the story about falling commodity prices will transform into a story about Africa’s green and blue revolutions: to diversify their economies, these countries will focus on agriculture and fisheries. African farming will no longer be seen as a development problem but an exciting business opportunity. Smallholder farmers across Africa have an unrivalled capacity for resilience and innovation and could feed rapidly growing urban populations and generate exports to meet demand in global markets. Kende-Robb (2016) suggests Africa’s US\$35 billion annual food import bill will require measures to cut tariffs and non-tariff barriers to regional trade, eliminate transport cartels, and develop marketing infrastructure. Increased investment in infrastructure and research will begin to dramatically raise farmers’ yields and incomes. Agriculture includes all economic activities from the provision of farming inputs, farming and value adding activities. To benefit from agriculture, Africa has to participate in all aspects of the agriculture value chain. To be able to do that, Africa needs to perform on farming production. It is only when Africa can scale that they can benefit from the full agriculture value chain. In comparison with the rest of the world, Africa, arguably, is a continent with complex challenges that require more innovation to solve. Fortunately, the bigger the challenge, the bigger the opportunity.



# THE COMPLEXITIES OF AGRICULTURE ON THE CONTINENT

Africa has 54 countries and more than 1000 dialects. There are cultural and religious differences and factionalism. In many parts of Africa there is poverty, inequality, high unemployment, poor education, high corruption, huge debt, poor or no infrastructure, and a lack of agriculture equipment etc. If not addressed these factors has high potential for fuelling social unrest. Unfortunately the potential of chaos in Africa makes investment riskier.

## AGRICULTURE, POLITICS AND INFRASTRUCTURE

Agriculture is often used by African politicians as the panacea for all Africa's problems. Citizens, in turn, have expectations that the country will become food secure, that poverty will be eradicated, jobs will be created and that there will be inclusive growth. Unfortunately these benefits are rarely achieved in a sustainable manner. To address these social commitments, politicians and governments allocate much needed land to citizens. Unfortunately, too often, this allocation is done without the equipment, resources and skills to cultivate land (such as the right seed, fertiliser, crop protection, irrigation, storage, basic training in good agriculture practices and infrastructure). The consequence is that these "farmers" inevitably cannot farm in a sustainable manner. Even where farmers are producing crop, they often do not benefit from increased yields as the benefits are realised by the buyers, retailers and agro-processors. In addition to the above vertical misalignment between various spheres of government (national, regional and local) often exacerbate the challenges already faced by farmers and other role players in the agri value chain. Currently many African countries are struggling with massive debt. The debt in turn inhibits the ability of these African countries to develop the much-needed infrastructure, such as buildings, energy, water, roads, railroads, airports, silos etc, required to stimulate agriculture and much needed economic growth. Where there are resources available these are, in many cases, not optimally utilised due to a lack of expertise in developing the agriculture sector as a major contributor to the country's economic engine. Africa imports approximately 35 billion US dollars' worth of agriculture produce annually. About 40% (some research suggest it may be more), of crops produced in Africa are lost due to the above challenges. Adding 5% to 10% lost in urban areas at the end of the value chain, Africa loses approximately 50% of agriculture production. By improving infrastructure, irrigation and basic training in good agriculture practices Africa can go a long way to import much less, relieving debt and improving its balance of payments.



# SUSTAINABLE AND LONG-TERM INVESTMENT

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## THE WESTERN BUSINESS APPROACH VS. AFRICA'S EXPECTATIONS

Agriculture lies at the heart of addressing many pressing issues faced by the African continent and its people. The sustainable development of the agriculture sector has the ability to create much needed jobs, alleviate poverty and increase food security across the continent. It is therefore easy to understand that agriculture in Africa has a strong social context and purpose. Agriculture is also a very emotive topic across the African continent. During the annual Africa Bank symposium, the topic of Europe's reputation in Africa surfaced. Some views included that whilst Europe, during the colonial era, destroyed the African economy it currently does not want to accept African immigrants. Foreign companies wanting to invest in Africa, rightly or wrongly, have to restore this reputation in such a way that Africa will perceive foreign investors as seeking sustainable relationships with Africa and that it is in it for the long haul. The question is whether the traditional Western business approach is relevant in addressing the challenges faced by Africa when a longer view in terms of strategic investment in agriculture in Africa is required. A hybrid business model that straddles traditional (shorter term returns and profit) and sustainable (longer term and social) approaches is probably most appropriate for investment into Africa. If Africa's challenges are not addressed in a holistic and systemic way, it will take longer for Africa to reach its full potential.

## ECONOMIC PROTECTION OF AGRI-BUSINESS

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Currently in large parts of the world and in the European Union (EU) countries protect their Agri-business through subsidies and import tariffs. In addition to this many of these countries have high crop yields through precision farming and automation. Europe, for example, has state of the art Agri-processing businesses which allows them to export Agri-produce to Africa cheaper than it costs Africa to produce. The only agricultural produce that is worthwhile for importing from Africa is higher value products like coffee and cacao beans, nuts, cut flowers etc. Often countries that import these products adds value to these products before exporting these to other parts of the world, and often back to Africa. In a recent report, the president of the African Development Bank (AfDB), Akinwumi Adesina, highlighted that Africa's annual food import bill of \$35 billion is estimated to rise to \$110 billion by 2025. A research paper by Johns Hopkins University department of Africa studies (2008) highlights that the current (EU) agricultural policies do not act as an incentive for European agri-businesses to invest in Africa. To enable global agri-businesses to utilise the African opportunities policy changes may be required to promote investment and involvement in Africa.





## COMMERCIAL FARMING BUSINESS MODELS

Africa relies mainly on small and subsistence farmers for food production. Africa must scale up food production if it wishes to feed Africa and lower food imports. A hybrid model of commercial farming and small farmers is currently viewed as the “better” model for Africa to scale its food production. This model has proven its success in Brazil where sixty to seventy percent of the food is produced by commercial farmers and the rest by small/subsistence farmers (out-growers). The commercial farmers organise the market, storage facilities and logistics. In addition to this they support the out-growers with the right seed, fertiliser, pest control and good farming practice to improve and maximise yield. The crops yielded by these out-growers are then purchased by the commercial farmers. A good example of this on the African continent is a rice project in Tanzania. In 2008, Agrica, a UK company run out of the island of Guernsey, acquired the 5,818 hectare Mngeta farm in Kilombero, one of Tanzania’s most fertile agricultural regions. Agrica set up a company called Kilombero Plantations Limited (KPL) and cleared the land to grow rice using a mechanized method of farming developed in Madagascar. In addition KPL started to supply local smallholder farmers with training, seeds and supplies to engage in intensive rice cultivation. In the last seven years, KPL has become the largest single rice producer in East Africa. KPL markets its own “Mama Mchele” (Mrs. Rice) brand of rice from Mngeta and 5,000 smallholder farmers working on contract. They also produce maize as a double crop post the rice harvest. Another good example is Dangote Rice. This project strives to be even more inclusive than KPL. Dangote uses the Brazil model of commercial farming with out-growers. They purchased 150 000 ha for commercial farming. Here they use unemployed graduates, retrain them in agriculture and use them to farm on plots, thus creating more jobs. The out-grower programme is similarly managed as KPL where Dangote enables the out-growers and contractually purchase their produce. Dangote negotiated with the Nigerian government to improve infrastructure and set up manufacturing plants to produce parboiled rice, from where it is distributed to the different markets.



# INVESTING IN AFRICAN AGRICULTURE: THE WAY FORWARD

Governments and private sector are endeavouring to work together with the common goal of fighting hunger in their respective nations. There has been attempts to collaborate in many African regions, however the best intentions have not yielded significant results. There is a need within the government sector to develop more robust infrastructure and logistics as well as provide access to the appropriate financing and insurance vehicles.

African countries should take a systemic view in the integrated efforts of NGO's, local governments, farmers, investors and multinational organisations such as the United Nations to find mutually beneficial solutions towards their common goals. In a recent publication on Public Private Partnerships the African Union Commission (AUC) stated that "against a background of limited government resources, innovative partnerships that bring together business, government, smallholder farmers and civil society actors are increasingly being promoted as a mechanism for pooling financing, technology know-how, increasing efficiency and mitigating the risks of doing business in the agri-food sector".

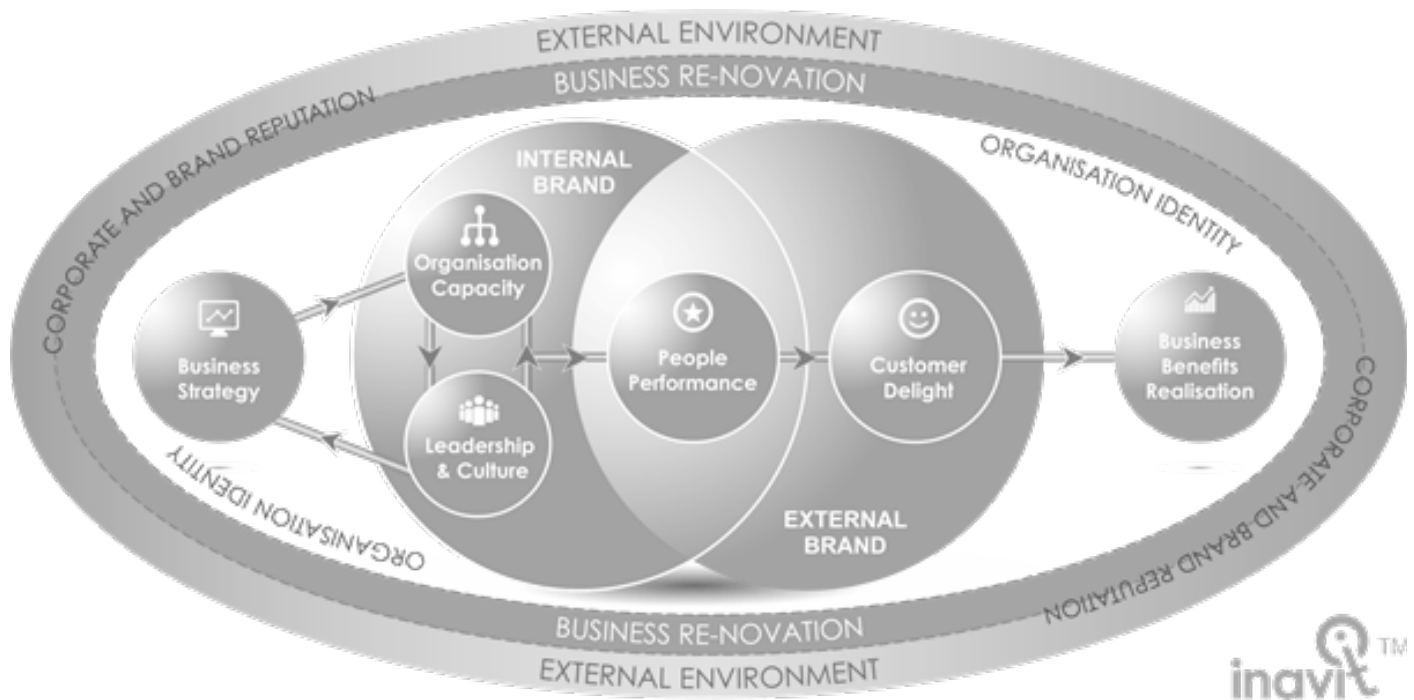
Key risks in these collaborative efforts are:

- Inefficient and bureaucratic governments;
- Political instability and corruption;
- Theft and crime.
- Land redistribution

Many African countries still manage their agriculture sectors based on traditional empirical knowledge rather than a comprehensive data rich approach. The key partnerships stated above could leapfrog the African continents agricultural sector into the wonders of Agriculture 3.0. This shift into Agriculture 3.0 could yield many economic advantages and stimulate growth for the relevant countries, through job creation, efficiencies in production with minimal waste, environmental benefits and more adaptive logistics to serve its wider reaching client bases. When the world is complex and chaotic, we are continually challenged to make meaning at the edge of chaos. InavitiQ developed a systemic approach to thinking in complex situations. We use the Business Value Model™ as a thinking framework to enable organisations to understand complex environments and to find a strategic fit between their business and the environment.

Using the Business Value Model™ as a thinking framework we support business leaders to take accountability for being deliberate and clear on the following:

- Is our strategy robust and flexible enough to deal with external and internal challenges?
- Do we have the capacity (processes, technology, data and information, structure and people, and culture) to effectively and efficiently execute our strategy?
- Do we have the quality of leadership that is able to create this capacity and to ensure high levels of commitment in our people?
- Are our customers and clients delighted with the delivery of our promises to them; and
- Are we clear on the expected total business benefits to be realised and do we measure short and long-term performance?



To enable you to create solutions that leverage business opportunities, address critical business challenges, and realise targeted business benefits, we suggest using the information provided below to follow a unique approach based on the following logic:

- The realisation of specific business benefits (such as operating profit, top-line revenue and market share);
- Are dependent on the creation of customer/client delight (loyal and satisfied customers/clients), which is a direct result of the delivery of value-added product-and-service solutions by;
- High performing people;
- Who are enabled through the right organisation capacity (business processes, technology, data and information, organisation structure, talent and culture); and who are
- Led and managed by capable, competent and credible leadership,
- Towards a common goal and strategy.



# AGRICULTURE IN AFRICA: A SUMMARY

Africa has 54 countries and more than 1000 dialects. There are cultural and religious differences and factionalism. In many parts of Africa there is poverty, inequality, high unemployment, poor education, high corruption, huge debt, poor or no infrastructure, and a lack of agriculture equipment etc. If not addressed these factors have high potential for fuelling social unrest. Unfortunately the potential of chaos in Africa makes investment riskier.

Africa however also offers many opportunities for growth. Given the complexities of the continent and some of the context shared in this article, it may be beneficial for businesses wishing to invest and expand into Africa to be clear about the following:

## EXTERNAL ENVIRONMENT

1. What is our purpose of investing or expanding into Africa?
2. Do we have clear insight into our external competitive landscape in Africa?
3. Do we clearly understand the social, political and regulatory environments?
4. How developed is the end-to-end value chain that our product/services will form part of?
5. What infrastructure is in place or not?

## BUSINESS BENEFITS REALISATION

While growth and profitability will always be important to any commercial enterprise, it is how a company applies financial gains to the sustainability not only of itself, but also local stakeholders, that will be important. A substantial portion of profit should go to investing in ESG (environment, social and governance). This will go a long way to build a positive corporate and brand reputation in Africa.

## EXTERNAL BRAND AND STAKEHOLDER DELIGHT

Agriculture currently and especially in the future will be driven by consumers. Africa is increasingly brand conscious. Understanding consumer behaviour of the African middle class and the consumer behaviour and needs of the poor population will be key. Similarly, consumer behaviour outside Africa is also critical. Building an external brand that supports the brand promise will therefore be mission critical.

## **STRATEGY**

1. What is the purpose of investing (expanding into) in Africa and what do you hope to achieve?
2. What business benefits do you plan to achieve in the context of the strong social agenda in Africa?

## **LEADERSHIP AND CULTURE**

Although there are obviously some common characteristics of good and effective business leadership globally, there is also an emerging awareness of and importance placed on African Leadership philosophy and practice. Similarly, an understanding of the contextual nature of healthy and high-performance organisational culture will be important for entering the African market. Much of this awareness is about the why and how we do things, and much less about the what.

## **ORGANISATION CAPACITY**

In the broad sense of the word, organisation capacity has a slightly different “flavour” to it than might be the norm in Western countries. Business and operating models do not necessarily follow the logic of industrialised countries, while organisation structures are also much more reflective of a different social dynamic.

## **PEOPLE PERFORMANCE**

Africa has access to significant numbers of younger people talent. This creates a potential opportunity (and obligation) for investing in the development of local skills. Of course, the diversity of languages, levels of formal education and the like may present some challenges, but the people of this continent have also demonstrated quite remarkable resilience. Spotting and developing local talent should therefore be a key priority for all businesses expanding into Africa.

To complete a detailed assessment of your readiness to capitalise on the opportunities on the African continent and markets contact Daan Vreeburg. This is a no obligation opportunity.



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