Introduction

One of the sectors with the most commercial potential in Africa is agri-business. Some of South Africa’s largest agri-business firms are located in KwaZulu-Natal (KZN) and the industry contributes 3.6% toward the local KZN economy and employs 3.8% of the KZN population. However, the sector has so much more to offer to the provincial, national as well as regional African economy.

Increasing global and African populations are creating huge demand for food production. The South African national and provincial government policy needs to be designed to support both established and emerging business in order to fully exploit the competitive strengths of the South African agricultural sector. The creation of “agricultural hubs” will also enhance food security initiatives while the sector must invest in infrastructure, in particular storage and distribution, as well as deal with one of the worst droughts in history.

What then is the outlook for the KZN agricultural sector and what reforms or initiatives are needed to drive growth and enhance exports of agri-business products?

As Deloitte views the agri-business sector in KwaZulu-Natal, South Africa and the African region with great importance, the firm hosted a half-day seminar in Durban on 25 February 2016. The summary that follows is an overview of the discussion points raised during the day’s proceedings.

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Welcome and Context

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The South African agricultural industry as well as its operating environment are changing at a rapid rate. Despite various challenges such as drought, land reform, the volatile South African political landscape and global economic uncertainty, it is fortunate that South Africa still remains the most advanced agricultural economy in Africa.

In the 2016 Budget Speech, Minister Pravin Gordhan mentioned that South Africa would be focusing on increasing productivity in the agricultural sector in order to create greater opportunities and broader economic participation. Furthermore, the Land Bank has set aside R15 billion over the next three years to expand and develop agro-processing opportunities.

Deloitte has been heavily involved in the agriculture sector, especially in the province, and recognises the importance of the sector in South Africa’s growth and development. Deloitte therefore strongly believes in supporting agri-business through smart agriculture, strategic planning and execution. Given the principles of South Africa’s National Development Plan (NDP), a partnership between government, business, organised labour and civil society is key to ensuring growth and building value chains across Africa.

The future of agriculture in Africa remains positive and it is therefore vital that the sector constantly increases awareness and consistently looks for opportunities to unlock value and drive growth into the rest of Africa.
Agriculture has the potential to drive continued, sustainable growth in Africa. Due to the numerous challenges presented by agriculture in Africa there are also a vast number of opportunities. Agriculture refers to the production, transformation (manufacturing/processing) and consumption of agricultural products.

Focusing on agriculture development is important as increasing per capita income and urbanisation rates generate a greater demand for food. Agriculture therefore has a direct, positive impact on food security. Furthermore, there exists a positive correlation between agricultural value addition, well-being and employment. Agriculture has a higher labour productivity potential than other sectors. Perhaps most important is that every US$1 invested in agricultural research in sub-Saharan Africa (SSA) generates returns of about US$9, therefore presenting numerous opportunities for growth in the sector on the continent.

Agriculture is governed by a number of specific trends. Megatrends include population and income growth and the associated socio-demographics, rapid urbanisation and changing dietary trends, technological advances, climate change, and resource scarcity. In addition, the agro-industry has also seen a number of significant changes in recent years, such as globalisation and trade liberalisation, institutional and governance changes and technological changes.

Population growth is perhaps the most important megatrend affecting agriculture in Africa currently and for the future. Over 60% of Africa’s population is under 25. In the coming years they will need to feed their families and will drive demand for agri-products but will also require significant opportunities to be absorbed into agricultural employment. Significant dietary changes will change the way agri-business produces food.

Traditionally poorer people would eat what they produced, but now 40% of the average diet is purchased, often from supermarkets. This is also changing retail. The increasing demand for animal proteins, oil crops and sugar has led to changes in the way that consumers spend their money: 54% of total food expenditure is now on non-cereals. Technological developments are helping to combat climate change and changing the way we produce foodstuffs and the way agri-products are marketed and distributed. Despite the changing environment, African agriculture has seen some positives, such as a growing footprint in the top 20 list of players in key commodities such as maize, rice and sugar cane, where countries like South Africa, Nigeria and Egypt are significant players.

Strategies for Africa’s agriculture sector need to consider the megatrends that are shaping the future of agrifood systems in Africa. In order for agriculture to be a driver of growth in Africa, stakeholders need to distinguish between the megatrends, the challenges they are triggering and most importantly, the opportunities that arise. Only once these elements are understood can a strategy be developed and implemented.

In order for the agricultural sector to drive growth in Africa, governments need to set the objectives in each country and then seek buy-in and a shared vision from other stakeholders. This can only be done by creating an enabling environment. It is also the role of government to ensure consistency with other developmental objectives and strategies and then to determine the strategy for private sector engagement. The private sector is tasked with ensuring representation through strengthening its institutions and establishing a dialogue, advocacy and partnership platform with government. This can be achieved by playing an active role in strategy development and implementation.

In conclusion, if agriculture is to drive growth in Africa, stakeholders, both public and private, need to turn challenges into opportunities. Although the continent has abundant arable land resources, these require sustainable and responsible investment. Rapid population growth translates into a rising demand for food products which the sector needs to be able to capitalise on. The sector also needs to further leverage the Centres of Excellence for agriculture that have been set up. To meet the challenges of climate change, stakeholders need to invest in adaptation and mitigation capacity.
Building value chains around agricultural commodities is a real challenge. Dr Martyn Davies set the scene by asking the panel how firms scale the potential impact of resources, in this case, agricultural resources, taking into consideration the varying socio-economic conditions.

By operating in six African countries, Tongaat Hulett has developed a good understanding of agricultural value chains on the continent. KwaZulu-Natal has unused, installed sugar capacity to the value of R18 billion. Within the sugar industry, one person is directly employed for every 4.2 hectares planted. KwaZulu-Natal could therefore provide direct employment to 22 000 people if all of the installed sugar capacity is utilised, but that requires further cooperation between government and the private sector.

The artisan and basic skills deficit in South Africa is a significant hurdle to moving up the agricultural value chain. Sappi has tried to remedy this by building a close relationship with communal growers. This has resulted in two million tonnes of wood, and these communal growers now produce 10% of all fibres such as viscose. Furthermore 75% of Sappi’s products are exported and feed into value chains in the Far East or Europe, which is then sent back to South Africa as clothing. There are therefore opportunities to drive beneficiation locally.

To overcome infrastructural challenges that seem to negate agricultural potential, African countries need to add value to their product. There are a number of opportunities to beneficiate agricultural commodities, to move up the value chain and to increase returns. However, beneficiation cannot take place without an enabling environment and this needs to be supported by government policy. Fundamentals such as transport infrastructure and logistics are a key element to beneficiation and need to be cost effective and more efficient.

Logistics are a vital factor towards agriculture feeding into value chains. Traditional logistics trends are breaking down and with more urbanisation trucks need to be smaller and more manoeuvrable. As one moves into Africa, more challenges arise, such as the lack of useable rail and the seasonal unavailability of trucks. Logistical plans need to be relooked to ensure that they are relevant and can factor in evolving value chains. Closer to home, South Africa’s ports are expensive and inefficient. It is more expensive to move a container from Johannesburg to Durban than it is to move it from Brazil to South Africa. Fixing these logistical challenges will make local agriculture more internationally competitive.

Consistent progress in incorporating African agriculture into global value chains needs to be leveraged for further progress to be made. There needs to be buy-in from the larger sector as a whole. The agricultural sector has a responsibility to recognise the potential value-add opportunity in each country in Africa and to act in such a way as to benefit the economy as a whole. For example, the sugar industry has the potential to generate a significant amount of electricity, but this requires investment in beneficiation.

As agriculture is a long-term investment firms need to take current and future environments into account in order to plan their incorporation into global value chains agreed the panellists.
Retailers are a means of linking the farm to the fork and therefore play an important role in providing the channels for farmers to reach their consumers. A trend amongst retailers is to focus on innovation; creating efficient and productive processes to build capacity. For Massmart, for example, 90% of food sold within stores is produced locally. Due to being a long-term investor in Africa, Massmart has had to build local agri-processing capacity in a sustainable, responsible way in order to provide products of the right quality and price but also to create shared value. This in turn has created sustainable and viable local communities which are able to support Massmart. This has been done in part through the creation of the Supplier Development Fund.

One of the challenges facing South Africa is the lack of support for entrepreneurs who have the potential to provide products not just for their local store but for the region and even globally, if they are given the correct opportunity and assistance. To link into global value chains, retailers need to assist local farmers to scale up quality and production.

Although produce flows from the farm to the fork, money flows the other way – from the fork to the farm. Farmers therefore need to be cognisant of the direction in which the fork (their consumers) is moving. Ultimately, consumers determine the flow and value of produce. If farms focus on only one product or only one type of consumer for each product, they are open to rapid price fluctuations, which makes planning very difficult. Should there be a natural disaster, such as a drought, these farmers will struggle to recover. Agriculture can thus be challenging, especially as farmers often earn once a year, when their produce is in season. The average small-scale farmer cannot be reliant on a single commodity if they are to link into global value chains and sustain themselves throughout the year.

Retailers can support matching demand to supply and to create markets. Retailers have the opportunity to assist farmers in producing products that meet the correct quality and packaging standards, giving them the ability to further up the value chain. Retail also gives South African producers the opportunity to tap into both regional and continental supply chains. Becoming globally competitive is particularly relevant as it is estimated that by 2050, the world’s population will rise to 11 billion people, with a 70% increase in food demand. With Africa having the potential to become the bread basket for the world, and with the industrialisation agenda being held in high regard, looking at the experiences of China’s economic diversification can showcase important lessons. Part of China’s development story of lifting millions out of poverty was making agriculture more efficient, focusing on agricultural technologies and the sharing and distribution of these technologies through extension systems, in turn freeing up excess labour to move into other value-added activities.

There is a strategic imperative to make the agro-processing space more inclusive, to open opportunities for excluded players. Despite a number of retail players becoming involved in the space, there remains a lot of room for improvement. There also needs to be systemic developments and changes to create an enabling environment for entrepreneurs to feed into the existing retail and agro-processing value chain. The role of creative policy interventions, driven by government, are thus important in creating a sustainable, profitable agro-processing sector. The world’s largest agro-companies, such as Nestlé and Unilever, emerged because their home governments had deliberate policies that created an enabling environment for these companies, and gave them the means to play in the global market.

It was cautioned that comparative advantages in agriculture (i.e. having the natural resource base) does not equate to competitive advantages, as the broader enabling environment is among the most important aspects of enhancing competitiveness. Getting the basics right is thus crucial, which includes efficient infrastructure, as well as the development of skills capacity in order for value-added agro-processing to occur. This will create the space for innovation, to see the opportunity, to add value and build efficiencies within the supply chain. Importantly, however, the private sector, from farmers to retailers, needs to work in conjunction with the public sector in order to drive efficiencies and profitability along the entire agricultural value chain.
The IFC funds projects worth approximately US$4 billion in Africa, of which agriculture accounts for about US$400 million per annum with the goal of increasing this to US$1 billion. The IFC finances agri-business rather than agriculture. The distinction is important as the challenges and opportunities are different and unique.

Firstly, the agri-business sector has a number of inherent risks and is a difficult sector to finance. Secondly, the value chain is long and complex and requires significant funding. Infrastructure along the value chain is usually not provided by the farmer but is dependent on government, and infrastructure in rural areas is often poorly maintained. Lastly, research and development requires significant investment if the agricultural sector is to compete globally. All these factors have to be taken into account in order to attract investment into the sector. In order for Africa’s agricultural sector to not just survive, but compete globally, there needs to be cooperation between government, the private sector and financiers.

Agriculture is a global commodity market and African agriculture needs to be globally competitive. There is no shortage of capital for agri-business, but rather a shortage of bankable projects. A key issue from a funder perspective is how to balance risk and return. To operate as a profit-making business, agriculture needs to be “derisked”, given natural hazards such as drought and economic challenges.

Everybody is interested in food production in Africa. Therefore financiers should take advantage of the huge opportunities to invest in agri-business on the continent, given that the majority of African countries are heavily dependent on agriculture, as agriculture often accounts for more than 30% of GDP and 60% of employment. A large number of global companies have realised that all agriculture in Africa is relatively small-scale, but they have found ways to work around and within the environment through the use of innovative processes.

Innovation cannot occur in a silo approach. Often, innovation in agricultural processes happens at a high level and this does not filter down to small-scale farmers. Innovation is an ongoing, dynamic process and contributes hugely to the development of the agricultural sector. This can only change through a culture of dialogue and mutual accountability. As in previous sessions, financing the growth of the agricultural sector is dependent on cooperation between government, the private sector and financiers.
In conclusion, Dr Martyn Davies summarised the morning’s events by noting that with the headwinds of climate change in particular, our minds need to be focused on addressing specific political economy issues in order to ensure that not only KZN and South Africa, but also the African continent has a comparative economic advantage in the agri-business sector. This includes addressing issues of bureaucracy, for example, which often hamstring our objectives, but also infrastructure bottlenecks, which can be highly inflationary in agricultural trade terms.

We need to be more action-orientated in order to address the challenges facing the agri-business sector, particularly in light of Africa’s population which is expected to double by 2050, and the question of food security becoming an increasingly important topic in our region. This too presents major opportunities for consumer-facing companies. The scalable impact of big corporate “first movers” into Africa in retail, food manufacturing and agro-processing should not be discounted given their ability to finance, support and up-skill smaller suppliers and companies.
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