

THOUGHT PIECE

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Autonomy to Global Dominance: The Rise of Africa's Agricultural Sector

As the Ukraine-Russia war continues to rumble on, and inflation is being driven by higher food prices, more and more countries are seeking to establish long-term alternative means of food security.

Putting things into perspective, Russia (10%) and Ukraine (3%) account for 13% of the average global wheat production over the past five years before the Ukraine invasion, and combined, they are the largest (20%) and fifth-largest (10%) exporters globally, playing a crucial role in the supply of wheat to the Middle East and African regions, where wheat is a staple food amongst their populations.

Wheat is just one example of produce that the two countries play a significant role in within the global agriculture chain. Ukraine and Russia also play a role in maize, barley, sunflower oil, and potatoes, all of which form part of a basic diet and the backbone of the Middle East and African regions.

Ironically, Africa holds the largest percentage of uncultivated arable

land (over 60%) in the world, along with an abundance of fresh water and over 300 days of sun annually. The sector accounts for more than 35% of Africa's total GDP, employing more people than any other sector on the continent.

So, we pose the questions: Why does Africa spend more than \$75 billion of limited foreign currency on food imports annually? Why have some African countries allowed the importing of food to exceed 100% of foreign currency receipts annually? Why aren't more resources being provided to alleviate the 20% of the African population facing hunger? If more than 80% of Africa's food supply is from small-scale farmers, is there not more to be done to assist in practicing subsistence farming?

Although we don't pretend to have all the answers, the above questions form a strong rationale for the investment opportunity in agriculture on the African continent, which we believe has the potential to disrupt current global supply chains and establish itself as a global powerhouse. The African Development Bank expects Africa's food and agriculture market to increase from \$230 billion currently

to \$1.0 trillion by 2030, meaning a CAGR of approximately 34.0% if achieved.

The 2030 Agenda that has been adopted by the United Nations General Assembly, notes the need to "devote resources to developing rural areas and sustainable agriculture and fisheries..."; to "account for population trends in national, rural, and urban development strategies and policies"; and to "support positive economic, social, and environmental links between urban, peri-urban, and rural areas" – which provides a sustainable food supply, upliftment of local economies, and infrastructure.

Although the tasks have been identified, there are many other intricately interlinked challenges that need to be overcome to allow Africa to become a net exporter of agricultural produce. According to the United Nations, the population of Africa has increased from 638 million in 1990 to 1.46 billion in 2023, and by 2050 is expected to exceed 2.50 billion. This means agriculture development needs to not only rectify its previous underdevelopment but also account for future demand.

Country	Wheat Import Dependency Ratio (IDR), 2021	Wheat Imports, 2020	Share of Wheat Imports from Russia and Ukraine, 2020
Nigeria	109	\$2.15B	26%
Cameroon	100	\$183M	45%
Uganda	95.2	\$119M	48%
Tanzania	91.7	\$219M	74%
Kenya	85.1	\$400M	36%
Sudan	73.5	\$530M	58%
South Africa	47.5	\$494M	26%
Zimbabwe	41.7	\$94.8M	15%

Data Sources: USDA and Observatory for Economic Complexity

These challenges are not insurmountable; however, a clear strategy is needed to achieve such a feat and transform the current agricultural prospects for the African continent. We have provided four key steps in which we believe Africa can achieve the goal of becoming an agricultural powerhouse.

Promoting Sustainable Agriculture: The Role of Policies and Legislation in African Countries

An agricultural revolution will require a shift in the current policies and legislations of African countries to either provide relief, support, or incentives for African farmers or investors. Incentives should focus on encouraging the development of produce that is currently being imported due to a lack of supply or is yet to be produced within the country, but can be efficiently and sustainably farmed locally.

Supportive legislation and policies such as zero import duties on products used in the production of agricultural products should be implemented to encourage growth within the sector. Although exports of agricultural products should be controlled to an extent to provide Africa with more affordable food, one must remain cognisant that agricultural exports are crucial for generating foreign currency.

Controls around how produce is allowed to be exported will also further develop the agricultural value chain, creating jobs, infrastructure, and inevitably increasing the fortunes of the continent. A balance between internal consumption and exports would need to be found to ensure that Africa satisfies local demand and strengthens exports to further develop the region.

Enhancing Financial Inclusion: The Importance of Capital Accessibility

COVID-19 and global warming continue to plague the agricultural sector with uncertainty.

COVID-19 not only severely affected the health of the African people but also the fiscal health of the African continent. As the pandemic bottlenecked supply chains, which resulted in produce spoiling, it was the uninsured farmers who were left to foot the bill. Given the high price of insurance, making it unaffordable for many farmers, several farms were forced to close due to the lack of compensation for spoiled produce.

Global warming has contributed to the high price of insurance, as the global agricultural landscape continues to change, with natural phenomena such as El Nino and El Nina becoming more severe, hail and fires becoming more frequent, and the overall increase in the

global temperature. All of the latter have increased the difficulty within the agricultural sector, without providing any relief.

The above have caused farmers to default on their loans, and with no intervention, have resulted in the closure or sale of the farms to try to pay back the loans. The defaults have placed pressure on supportive institutions such as the South African Land Bank, who are in turn unable to pay their debts and thus not able to issue new loans to support the growth of the agricultural sector within the region.

We believe that intervention by local and international governments, local and international banks, the agricultural supply-chain, and insurance companies is needed to ensure that the agricultural sector is provided with the support required to grow into its full potential. This support will inevitably increase the prospects of all stakeholders involved, and short-term sacrifice will provide long-term gain.

The Crucial Role of Infrastructure in Economic Growth

Although well-documented, mismanagement in certain countries has led to a deterioration in their local infrastructure, which in turn reduces productivity, increasing the prices of produce, making local produce less competitively priced in both local and international markets. Inadequate road, rail, and harbour infrastructure hinder agricultural producers from efficiently getting their goods to market, adding as much as 30 to 40 percent to the cost of goods traded among African countries. Farmers are not afforded the opportunity to use the most cost-effective transport. Infrastructure that is publicly owned is often neglected and unreliable. Public monopolies on key modes of transport don't foster competition or better pricing. Alternative transport is often at a premium,



with increased storage costs needed to ensure produce doesn't spoil.

Although there has been a significant increase in infrastructure development in Africa over the past decade, unfortunately, it's yet to bear meaningful fruit. According to McKinsey & Company's research, fewer than 10 percent of infrastructure projects in Africa reach completion, with 80 percent failing in the feasibility and business stage. Furthermore, political and currency risk, a high rate of failure, lack of accountability, and regulatory risks all play a part.

It's our view that the cooperation of local and international, credible and transparent financial institutions is paramount in fostering trust for financial investments within the sector. This, in turn, increases the credit rating of the African borrower and thus lowers the cost of capital, which is beneficial to the development of infrastructure in Africa and the development of the agricultural sector.

"Agriculture was the first occupation of man, and as it embraces the whole earth, it is the foundation of other industries"

E.W. Stewart

Empowering Small-Scale Farmers Through Innovative Strategies

Small-scale farmers remain the backbone of the agricultural output in Africa, accounting for more than 80% of the total produce generated across the continent. These farmers, often found in both rural and semi-rural areas, play a crucial role not only in ensuring food security but also the economic stability of the regions. Thus, it is imperative that these farmers are given every opportunity to access the latest farming practices and innovations.

As an example, modern irrigation systems could make a significant difference in regions where rainfall is unpredictable and often insufficient. According to the IMF, less than 1% of arable land in Africa is equipped with irrigation. Advanced irrigation systems such as drip feeders will not only ensure a continuous water supply to crops

but also reduce water wastage in countries with restricted water supplies. In addition, it will allow the farmers to maximise their annual productivity and profitability.

Innovation within genetically modified crops, specifically designed to withstand the extremities within the specific country, will further enhance local farmers' capabilities. Genetically modified crops are designed to increase yields through resistance to disease, pests, and weather conditions, thus increasing the line of sight on yields for farmers.

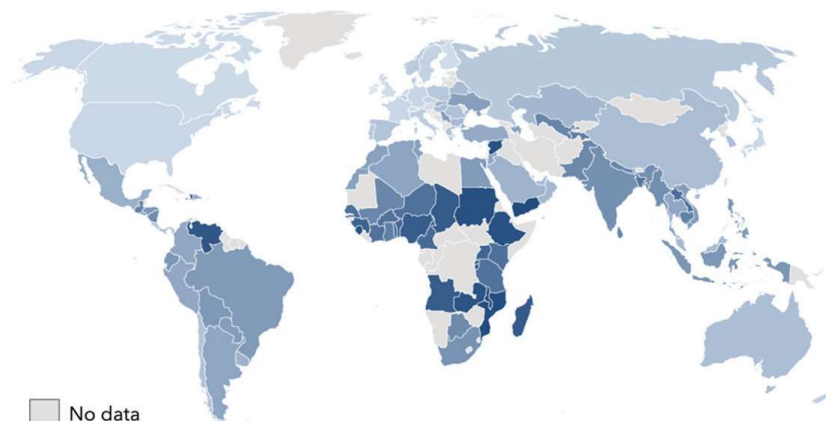
Investment in machinery is another mechanism to support small-scale farmers. Tractors, harvesters, and other modern forms of mechanized equipment can significantly increase efficiency, freeing up valuable time for other activities. Adopting advanced farming techniques, like precision agriculture, can further enhance productivity and sustainability, allowing for the effective allocation of resources.

Managing Arable Land Amidst Climate Change: Challenges and Solutions

Access to and maintenance of arable land is an ongoing issue in many African countries. In a report issued by the Montpellier Panel in 2015, a group of agriculture, ecology, and trade experts in Africa and Europe,

Hunger Metrics

Sub-Saharan Africa is the world's most food insecure region. (the most food-insecure countries have darkest shading)



Sources: Global Food Security Index 2021 and IMF staff calculations

research showed that nearly 65% of Africa's arable land is too damaged to sustain food production.

The report attributes the findings to land degradation, a result of the lack of investment into land and soil development, along with the lack of incentives for farmers to secure land rights and further encourage the care and adequate management of their farmland.

Should a small-scale farmer be fortunate enough to secure a piece of arable land, they usually lack the resources and incentives to effectively implement soil and water conservation. As an example, what incentive does a small-scale farmer have to halve his annual yield, allowing the land to rest every second year to ensure the longevity of the nutrients in the soil as is typically done by large-scale farmers?

Governments need to provide further education, support, and incentives to farmers through means and resources that ensure the longevity of the arable land. A statement by the Food and Agriculture Organization reiterates the importance, stating one centimetre of land can take 1000 years to form.

"The Nation that destroys its soil, destroys itself"

Franklin D. Roosevelt

Adaptations of Africa's current food system for climate change are imperative. If temperatures continue to rise above the average global trajectory, disruptions to food security will be irreversible. Innovative and ambitious interventions are needed to ensure the longevity and growth of the food supply to match Africa's shortcomings and provide for population growth, which can only be achieved through investments into research and planning.

The Rise of Africa's Agricultural Sector

The devastating impact on Africa's food security cannot be overlooked, with the continent facing shortages of at least 30 million metric tons of food, particularly cereals such as wheat, maize, and soybeans.

To put that into perspective, as per the World Bank, the global average is 4,154 kg of cereal per hectare, and on a like-for-like comparison assuming similar resources and technology, Africa would need an extra 7.2 million square hectares of farmland to replace the current shortfall. Africa's current cereal per hectare is 1,992 kg, meaning an extra 15.1 million square hectares of farmland is needed.

The Ukraine-Russia war should serve as a lesson for African countries in realizing the shortcomings of becoming overly dependent on imports for food security. In the short term, it's a cost-effective solution for developing nations to import 'lower-grade' produce than provide the capital outlay to become self-sufficient. However, this may bring complacency. Measures and goals are needed to ensure the shortcomings identified through the Ukraine-Russia war are not repeated.

To ensure Africa has food security for current and future generations, an overhaul of the current structure is needed. As per the World Bank, Sub-Saharan Africa has nearly doubled its metric tons of cereal over the past 20 years, comparing favourably to the United States with a 52% increase. However, the yield per hectare has increased a mere 40% over the same period, compared to the United States' 49%, and still lags the United States' yield per hectare by approximately 80%.

As a comparison, Sub-Saharan Africa's population has increased by approximately 75% over the past 20 years, compared to population growth in the United States of 17%. The discrepancy between the lag in yield per hectare, coupled with the growth

in population and the availability of arable land are key reasons for the importance of the overhaul in the current structure.

This is achievable through the promotion of sustainable agriculture throughout Africa. The latter necessitates a shift in current policies and legislations providing relief, support, and incentives for both farmers and investors. This may include implementing policies such as zero import duties on products used in agricultural production, controlling export to balance local demand and foreign currency generation.

Furthermore, enhancing financial inclusion through capital accessibility, particularly in the wake of challenges posed by COVID-19 and global warming, is essential to support and promote growth. The critical role infrastructure plays in economic growth cannot be underestimated given its impact on increasing the cost of goods and hindering timely market access. Therefore, cooperation from credible and transparent local and international financial institutions is needed to foster trust and lower borrowing costs.

"It is time to change the way we think. Farmers are not the cause of Africa's poverty; they are a potential solution. They are key to creating the future envisioned by the SDGs."

Kofi Annan,
former UN Secretary General

In conclusion, African Alliance recognises the importance of investing in agriculture investment opportunities through our impact-focused Thrive Africa Fund, of which one of the four key pillars is agriculture. This is testament to our dedication to changing the current landscape of Africa one socially responsible investment at a time.