An Enabling Environment for Investment in Agriculture

NAU Conference
10 October 2012

John Purchase
Agricultural Business Chamber
Introductory remarks

1. UNIDO
2. McKinsey & Company
   Lions on the Move: The progress & potential of African economies
3. Africa Competitiveness Report (WEF)
4. World Bank
   Agribusiness and Innovation Systems in Africa
5. FAO
A special report on feeding the world

The 9 billion-people question

The world’s population will grow from almost 7 billion now to over 9 billion in 2050. John Parker asks if there will be enough food to go round.

Feb 24th 2011 | from the print edition
Africa’s Imports and Exports of Agricultural Products (current values)

USD billion (current value)

Source: FAOSTAT, 2011
Africa’s net Imports of Food Groups (current values)

Source: FAOSTAT, 2011
FAO Food Price Index

Nominal

Real*

* The real price index is the nominal price index deflated by the World Bank Manufactures Unit Value Index (MUV)
Affordability of food a global challenge

What proportion of people’s household expenditures go to food?

The price of food

- Eastern and South Eastern Europe: 41%
- Caucasus and Central Asia: 47%
- China: 40%
- Japan and South Korea: 23%
- Southeast Asia: 47%
- Australia and Oceania: 24%
- Central and Western Europe: 24%
- North Africa: 50%
- Middle East: 35%
- South Asia: 50%
- Central Africa: 55%
- South America: 30%
- Southern Africa: 43%
- North America: 22%

Proportion of household expenditures on food:
- ≥ 50%
- 36-49%
- 25-35%
- < 25%

Source: FAO

Source: http://www.dw-world.de/dw/article/0,6648732,00.html
Food Security Imperative

• Many definitions to food security, but the one we will use is the FAO definition (World Food Summit 1996):

“A situation that exists 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”.

Components of Food Security

**FOOD UTILISATION**
- Nutritional Value
- Social value
- Food safety

**FOOD ACCESS**
- Affordability
- Allocation
- Preference

**FOOD AVAILABILITY**
- Production
- Distribution
- Exchange/trade

Complex concept: Difficult to measure and evaluate.

Stability over TIME

Purchasing power key to access
## Overall GFSI rankings table

Weighted total of all category scores (0-100 with 100 most favourable)

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Clear why high food prices are high on agenda of governments across the globe.....

• Some risks:
  - Blame game
  - Accusations of profiteering
  - Counter accusations of policy neglect, etc.
  - Incorrect government intervention

• Vitally important that we get a better understanding of global food system and value chains

• This will provide solutions, create opportunities for improved policy development, and above all, **guide both private and public sector investment.**
Global Food System and Value Chains
The Facts, Impacts and Acts Method

1. Description, Mapping and Quantification of the Food Chain
   - Identify the facts that influence the productive aspects and market activities.

2. FACTS

3. IMPACTS
   - Understanding the impact of the events (facts) identified

4. ACTS
   - Acting strategically, in order to reduce risks and maximize production

Source: Neves (2011)

Figure 1. Method facts, impacts and acts.
In the Bio Era, everything comes from farms!

Modern technology and other advances have made farms a multiproduct and service supplier.

No. 1: Respect our farmers!

Source: Marcos Fava Neves
If you want to become rich, Jim Rogers, investment whiz, best-selling author and one of Wall Street’s towering personalities, has this advice: Become a farmer. Food prices have been high recently. Some have questioned how long that can continue. Not Rogers. He predicts that farming incomes will rise dramatically in the next few decades, faster than those in most other industries, even Wall Street.

The essence of his argument is this: We don't need more bankers. What we need are more farmers. The invisible hand will do its magic. "The world has got a serious food problem," says Rogers. "The only real way to solve it is to draw more people back to agriculture."
Global Food System

• **Retailers, the Giants of the Chains**
  - Wal-Mart sold €337 billion worth of food from 8 400 stores in 15 countries in 2010. Carrefour & Tesco next.
  - **Concentration** (Top 20) down from 23,4% (2003) to 21% (2010)
  - Private vs retailers **labels/brands**
  - **Neighbourhood concept:** proximity & convenience
  - **Powerful:** Information about consumers
  - **Supply chains** incredibly important: Internationalisation
  - **Move to** ‘Green Economy’, Fair Trade, Smallholder procurement, increased convenience, tasting areas, etc.

Source: Marcos Fava Neves
### BRIC(S) to drive Modern Retail growth

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**Total: 2,326**  
**2010 Forecast: 2,827**  
**2014 Forecast: 3,681**

Note: 2010F and 2014F are calculated using fixed exchange rates based on the average rates of 2009 from [www.oanda.com](http://www.oanda.com) (01.01.09 to 07.12.09).

Source: IGD Research, December 2009
However, this is changing rapidly

**SHOPRITE**
- Present in 15 African countries
- Plans to add 13 new stores in the 2011 financial year
- Nigeria, Ghana, and Mozambique are priorities

**Pick n Pay**
- Present in 7 African countries
- Looking to expand into 5 more before the end of 2011
- Plans to have up to 100 stores outside South Africa in the next 4 years

**Walmart**
- Massmart present in 14 African countries
- Walmart may also be more aggressive in the rollout of Cambridge Food stores and the expansion into Africa

**MASSMART**
- Operates in 8 countries
- Plans to enter Angola and was looking to
- Plans to expand their existing operations in Mozambique, Zambia, Ghana and Uganda.
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<td>- How to include smallholders as suppliers?</td>
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<td>- How to find the best products all over the globe?</td>
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<td>Competition from very different formats</td>
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<td>- How to face competition from different formats?</td>
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<td>Trend towards collective operations</td>
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<td>- How to engage in collective operations with other retailers?</td>
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Global Food System

• Major look at *increase in global food consumption* –
• *1 billion people in Asia* alone moving into middle class.
• All forecasts 10 years ago for China/Asia’s production, imports & exports were wrong.
• If China today intends to be self-sufficient in *soya*, it will need *>35 million new hectares* – but does not have the land for this.
• Why do commodity prices just rise and prices of industrialized products just keep falling?
• Why does the cost of producing commodities keep rising?
• Food chains and governments have two options:
  (i) Retreat towards an increase in protectionism, or;
  (ii) Production shock, moving toward growth, global trade and inclusion. *Competitiveness important.*
Value Chain Approach

Consumers

Output Markets
- Wholesale
- Retail

Service providers
- Processing
- Storage
- Manufacturing
- Packaging

Primary agriculture
- Smallholders
- Emergent
- Commercial

Input service providers
- Finance & Insurance
- Seed, Fert’s, Agro-chem’s, etc.
- Livestock inputs

Policy & Legislation environment

Mapping value chain NB!
Scenario Planning for Food Chains

**Definition:** Food chain is an integrated network of companies operating in the flow of products, services, communications, payments and information required for a specific product to be created and to reach the final consumer.

- Phase 1 requires a *design:description* of the chain.
- Phase 2 would involve a *vision of the future*:
  - (1) the *final consumer*, (2) *distribution*, (3) the *food industry*,
  - (4) the *agro-industry*, (5) *farming* and, (6) *input suppliers*.
- Phase 3 suggested if a *particular company* wants to use this food chain scenario built in steps 1 and 2, to have a vision of opportunities, challenges and how to position itself towards this future scenario.

Source: Marcos Fava Neves
BRAZILIAN BEEF PRODUCTIVE CHAIN
Sum of Sales of the Various Links: US$ 167.5 billion in 2010

Livestock (millions of heads): 209.5
Slaughtering Capacity (heads/day): 198,731
Cattle Slaughtered (millions of heads): 42.8

BEFORE FARMS
US$ 11.4 billions
- Genetics
  US$ 1,313.9
- Mineral Supplements
  US$ 1,307.3
- Feed Supplements
  US$ 553.3
- Vitamins & Additives
  US$ 23.1
- Animal Health
  US$ 496.1
- Pesticides
  US$ 1,084.2
- Fertilizers
  US$ 332.4
- Forage Seed
  US$ 203.0
- Agricultural Lime
  US$ 108.0
- Diesel Oil
  US$ 3,757.2
- Fencing & Posts
  US$ 1,684.2
- Tractors & Implements
  US$ 527.9
- SISBOV Ear tags
  US$ 3.4

FARMS
US$ 31.4 billions
- Animals sent to slaughter
  US$ 30,770.4 millions
  - Finished Steer
    US$ 19,646.0
  - Cows
    US$ 7,162.3
  - Young bulls
    US$ 3,953.5
  - Veal
    US$ 8.6
- Exports of Live Cattle
  US$ 658.7 millions

INDUSTRIAL INPUTS
US$ 1.7 billions
- Packaging
  US$ 804.3
- Electricity
  US$ 496.0
- Maintenance Parts & Equipment
  US$ 151.1
- Fuel Oil for Boilers
  US$ 83.2
- Chemicals for Cleaning
  US$ 41.9
- Refrigerant Gas
  US$ 41.4
- Water Filters
  US$ 37.1
- PPE
  US$ 27.4
- Lubricants
  US$ 8.9

SLAUGHTERHOUSES
US$ 42.0 billions
- Domestic Sales: 37.2 billions
  Exports: 4.8 billions
  Meat: 35.8 billions
  Other Products: 6.2 billions
- Exports: 3.9 billions
  Meat: 31.9 billions
  Byproducts: 83.6 billions

DISTRIBUTION
US$ 57.6 billions
- Trading
  US$ 246.8 millions
  Meat: 163.2 billions
  Byproducts: 83.6 billions
- Distributors/Wholesalers
  US$ 14,493.8 billions
  Meat: 14,938.6 billions
  Byproducts: 517.8 billions
- Retailers
  US$ 42,883.3 billions
  Meat: 25,060.7 billions
  Byproducts: 1,601.5 billions
  Slaughterhouses own retail stores
  Meat: 163.8 billions
  Byproducts: 9.5 billions

Facilitating Agents
US$ 23.4 billions
- Freight and Diesel: 2,252.2 millions
- Farm Credit: 17,100.6 millions
- Payroll: 3,913.3 millions
- Aggregated Tax: 16,531.6 millions
- Research: 23.1 millions
- Traceability: 23.0 millions
- Animal Register: 10.0 millions

Figure 3. Brazilian Beef Chain (gross revenue).
Environmental Changes Affecting Food and Agribusiness

- **Important changes** in the macro-environmental variables.

- **PEST** traditional tool to analyse
  - “P” represents political-legal environment
  - “E” is the economic and natural environments
  - “S” is for the socio-cultural environment, and
  - “T” is for the technological environment.

- **Changes are and will bring specific impacts** on the industries and will require strategies, or actions from food chain participants in their planning processes.

Source: Marcos Fava Neves
The Consumer is King

- Change in marketing behaviour of companies over past 30 years
- So-called ‘wild view’ of marketing that dominated ‘70s, ‘80s
- Marketing the architect of pushing consumption, full of advertising, sales and aggressive selling
- Organisational structure was designed for selling, short-term results and spot relationships
- Macro-environmental changes and a new era of consumer sovereignty emerged in ‘90s
- Widening of markets and internationalisation, fast rate of technology change and progress, market deregulation, increase in global competition, with some markets having more offer than demand.
- Change in the information and communication process
Companies Becoming Demand Driven

1 – They listen and pay attention.
2 – They don’t fear being evaluated.
3 – They dedicate formal time to thinking.
4 – They analyse and exercise macro-environmental changes.
5 – They do mental simulations of possible future scenarios.
6 – High stakeholders contact.
7 – Demand-driven organisations share a sense that they are owned by the consumer.
8 – They don’t fear to change.
9 – Entrepreneurial and innovation behaviour.
10 – They also share discipline to make things happen.

Source: Marcos Fava Neves
Worldwide Fragmentation of Food Markets

• Markets consist of buyers that differ among themselves in terms of wishes, purchasing power, geographical location, attitudes and purchasing practices.
• Segmentation is the key to business analysis, strategic positioning, resource allocation and portfolio management.
• Market segmentation is an important variable in strategic implementation:
  - identification of market segments is necessary
  - allows the company to operate with limited resources given that production, distribution and mass advertisement are not required
  - segmentation decisions directly affect product, distribution, communication and price variables.

Source: Marcos Fava Neves
How to Organise Supply Chains

Sequence of six steps to evaluate the Company´s Integrated Supply Chain (CISC):

1. **Understand** the company´s integrated supply chain structure.
2. **Analyse** the market characteristics of the major inputs
3. **Diagnose** each input of company´s integrated supply chain.
4. **Propose** governance structure for each input of the integrated supply chain.
5. **Build** the contract (including relationship)
6. **Manage** the relationship.

Source: Marcos Fava Neves
How do we capture value?

• Innovation in integrated food chains: input suppliers & farmers
• Innovation for Agro-food Industry and Retailers
• Creative Pricing Strategies – framework method
• Value capture trilogy:
  - Reduce costs
  - Differentiation strategies
  - Collective action

Source: Marcos Fava Neves
Projects for Including the Networks of Smallholders (PINS)

1. Introduction and research problem

One of the most important challenges currently facing agribusiness is how to include smallholders in modern integrated food chains in a sustainable way.

2. Objective and method

Governments and development agencies need to implement sustainable and integrated agribusiness projects in order to promote the inclusion of smallholders into mainstream agriculture.
Projects for inclusion of networks of smallholders: The model

Vertically Integrated Production Areas
- Large Growers
- Networks of Small Growers
- Cooperatives

Agricultural Anchor
- Exporting Trader
- Distribution
- National Wholesalers
- National Retailers

Source: Marcos Fava Neves
Steps toward building a project for inclusion of networks of smallholders

1. Which products are feasible for producing in such a region from a technical standpoint? Are there important technical and operational constraints?

2. Is there a market for the products that will be produced (demand driven approach)?

3. Which anchor firms might be interested in investing in this region?

4. Is this activity financially attractive for an investor?

5. Is it feasible to settle relationships with smallholders?

6. How to nurture a better coordination mechanism between the small grower and the anchor for the long term?

7. How to motivate competitiveness throughout the chain?

8. How to motivate sustainability throughout the chain?
Initiatives in South & southern Africa
Mr Jumbe new SACAU President

The Southern African Confederation of Agricultural Unions (SACAU) has made an historical move towards smallholder farmer leadership with the election of Mr Felix Jumbe, President of the smallholder farmers-based Farmers Union of Malawi, as its President. Mr Jumbe replaced Mr Douglas Taylor-Freemo, Commercial Farmers’ Union of Zimbabwe, as its President, who was awarded honorary SACAU membership in recognition of his remarkable contribution to the organisation. Dr Theo de Jager of Agri-SA was elected as a board member for his fifth term. The other board members are Mr Salum Shanti of the Agricultural Council of Tanzania and Mr Ishmael Sunga who was appointed as Secretary to the Board and CEO of SACAU. The new SACAU board has representation from both small holder and large-scale farming sectors with three out of four elected coming from the small-holder sector. Mr Jumbe pledged to work hard to ensure that the organisation serves the farmer in the region in a sustainable business model. SACAU is dependent on strong national organisations. Our point of emphasis will be the sustainability of the farmer on the ground and making money out of what he or she produces, because that is what matters and that is what our organisation is all about. Mr Jumbe also emphasised a focus on the capacity of farmer organisations in this regard: “We will also look at sustainability of national organisations. If the national organisations are not able to influence policy in their countries, it will not be possible for SACAU to achieve its goals.” Outgoing President Mr Taylor-Freemo paid tribute to SACAU and urged the membership to advocate for the organisation.

SADC’s agricultural policy moves to next phase

Good market outlook for selected commodities

Farmers seek higher value in agribusiness

Mr Taylor-Freemo reflects on growth
Figure 1.3: Relative shares of agriculture and agribusiness in GDP

Source: UNIDO, based on analysis of World Bank (2003)
Note: Agribusiness includes the value added for agro-related industries and for agricultural trade and distribution services. Data are for Argentina, Brazil, Cameroon, Chile, Côte d’Ivoire, Ghana, India, Indonesia, Kenya, Malaysia, Mexico, Nigeria, Republic of Korea, South Africa, United Republic of Tanzania, Thailand, Uganda, and Zimbabwe.
Germany: The Melander family of Bargteheide
Food expenditure for one week: $500.07

Source: Peter Menzel www.menzelphoto.com
Hungry Planet: What the World Eats
USA: The Revis family of North Carolina
Food expenditure for one week $341.98

Source: Peter Menzel www.menzelphoto.com
Hungry Planet: What the World Eats
Egypt: The Ahmed family of Cairo
Food expenditure for one week: $68.53

Source: Peter Menzel www.menzelphoto.com
Hungry Planet: What the World Eats
Chad: The Aboubakar family of Breidjing Camp
Food expenditure for one week: $1.23

Source: Peter Menzel www.menzelphoto.com
Hungry Planet: What the World Eats
SAARF LSM Segments: Proportion of SA adult population and average monthly household income in 2009

Source: SAARF (2010a) & BFAP, 2010
LSM class mobility: All adults during the period 2004 to 2010

Source: SAARF AMPS data for the period 2004 to 2010, as quoted by BFAP
Africa Tomorrow

$1.4 Trillion
Africa’s Consumer spending in 2020

128 million households
with discretionary income 2020

1.1 billion
Number of Africans of working age in 2040
Investment

Primarily two forms of investment:

• Public

• Private
  - Primary agriculture
  - Agribusiness
  - International investment
    > Foreign Direct Investment (FDI)
    > Liquid/indirect investments
Public Investment

• Infrastructure: soft and hard
• Training and Skills development
• Research & Development
• Biosecurity (Animal & Plant Health Services)
• Policy development & Planning in consultation with Private Sector (Policy certainty NB!!!)
• Market development, in PPP with Private Sector
• Technology Transfer and Extension
• Development and Inclusion
• Market access and competition
• Safety and security
• Natural resource management
• Etc.
Private Sector Investment

• Primary agriculture
  - policy certainty and predictability
  - security of tenure, preferably through ownership
  - transparent, open markets acting with integrity

• Agribusiness
  - Policy certainty and predictability
  - market integrity and access

• International investment
  - Foreign Direct Investment (FDI)
    Encourage but conditional, have protocol upfront
  - Liquid/indirect investments
    Generally unreliable and view as bonus
Role of Government and the Case for International Investment
Strategy for International Investments

• Considerable debate globally on pros and cons.
• However investment mostly positive and should be promoted, but some limited and transparent form of regulation necessary.
• Wal-Mart issue, for example, big debate in SA.
• Can evaluate Multi-nationals contribution to economic development: Environment, Human resources, Taxation, R&D, Financing, Policies on market access, JV’s for farmers/suppliers, and governance structures.

NB Announcement by Min Pravin Gordhan
Circle of investment success

Enabling policy framework

Food security

Poverty alleviation

Job creation

Investment confidence

Growth

agbiz
the way to prosperity
Role of Government

• Acknowledge agro-food industry is private sector business, where markets have to work.

• Create facilitating and enabling environment for competition in an open, competitive market through policies and legislation. Dialogue with industry!

• Provide infrastructure at competitive pricing.

• Market development (PPP with Private Sector)

• Trade and tariff policy, Green economy, etc.

• Assist in incorporating smallholders into value chains.

Imperative: Ensure food security!
Concluding remarks

• Value chains compete globally, and our agro-food value chains are part of that serious ‘World Cup’ competition. **Must be competitive to attract investment!**

• Disparity in development of value chains in southern Africa, but by following a more strategic and networking approach, together with governments, huge opportunities and value can be unlocked.

• **Our approach must be pro-active, and our focus must be on people to make it happen!**
Thank You

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