Why invest in African agriculture?

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There is a compelling case for adding direct exposure to agricultural farmland and commodities for any real assets portfolio. With rising populations globally and increased urbanisation in emerging countries, there is increased importance placed on food security. In addition, trends have developed that have the potential to lead to further long-term price rises in agricultural markets.

Rising population and rising protein consumption

The current world population is 7.8 billion according to United Nations estimates and is projected to rise to 9.7 billion by 2050. Africa will account for the highest population growth with an additional 1.3 billion people on the continent, more than half the projected growth.

Africa has been rapidly urbanising and protein consumption has been rising as incomes increase. Urbanisation and GDP per capita growth are major driving forces influencing demand for livestock products. Compared with the less diversified diets of the rural communities, urban-dwellers have a varied diet richer in animal proteins and fats, and characterised by higher consumption of poultry, other meat, eggs, milk and other dairy products.

For example, egg consumption in Kenya, Uganda and Tanzania averages around 1kg of eggs per person per annum, compared to a global average of around 9kgs per capita. There is thus considerable upside in protein consumption as incomes grow from relatively low levels.

Portfolio diversification with attractive returns

Agricultural commodities are also a genuine diversifier to an equity portfolio. Even though the S&P 500 has been on an upward trend, agricultural commodities have fallen to multi-year lows. The current pricing environment presents a good entry opportunity for an investor into the agricultural sector.

What are the opportunities in African agriculture?

There are opportunities to make attractive returns while making a substantial positive social impact for an investor in African agriculture. Some 60-70% of the population in Sub-Saharan Africa live on smallholder farms, that are, on average, 1-2 hectares in size. Most of these farms are managed by women with the husband often working elsewhere. These families are typically farming low value subsistence crops such as maize or cassava.

Farming techniques adopted tend to be sub-optimal and farmers often use farm-saved seed rather than improved seed which can multiply crop yields. Farmers generally do not have access to basic infrastructure such as storage or transport networks. The results are low crop yields and low incomes and these families represent the lowest income group in these economies. They are the ideal target group for a high impact investment.

Opportunities arise due to the undeveloped nature of agricultural value chains. Investments that fix a specific problem in a value chain can then enable the entire chain creating an opportunity for smallholder farmers to ramp up production. They might, for example, have a new market for a higher value crop or access to improved seed. The business benefits from the increased scale by incorporating smallholder farmer production into its operations. The smallholder farmer benefits from greater crop diversity and higher incomes going forward.

Investment opportunities in the agricultural sector that meet an impact objective are typically developmental. Creating the missing piece of the value chain jigsaw usually needs patient capital, a high level of technical ability and deep operational experience in the Sub-Saharan agricultural sector.

The continent has diversity in the climates and soils, enabling growth of a variety of crops, such as grains, pecans, avocados, date palms etc. Tree crops, for instance, can produce attractive cashflow yields of 8-10% when mature, growing with 'food inflation'.

Achieving a substantial social impact

SilverStreet Capital's focus is on fixing value chains through investment and support.

- Developing world class development hubs to **create a market for a higher value crop for smallholder farmers,** typically through a processing plant development – farmers can make higher incomes by growing this higher valued crop.
- Providing **access to high quality, improved seed** to help increase crop yields.
- **Training in conservation farming techniques** and extension services helps raise crop yields for smallholder farmers, with a doubling in yields a reasonable target.
- **Increasing storage and other infrastructure** to preserve harvests and help farmers sell when the prices are higher.

Case study: Silverlands Tanzania

Poultry and eggs are an efficient source of protein, yet poultry consumption in Tanzania is low. Per capita consumption is lower than other African countries, and under 10% of South Africa's, showing tremendous opportunity for growth. Tanzania's population is prone to significant nutritional challenges. 34% of children under five suffer from stunting or chronic malnutrition, 14% are underweight (UNICEF, 2015) meaning one in three children are chronically malnourished (WFP, 2019). The World Health Organization has identified Tanzania as one of the ten worst affected countries for childhood malnutrition in the world (WHO, 2012).

A productive poultry industry requires a supply of quality, high protein feed. Globally, the protein content of feed is largely provided by soya. Before Silverlands' investment, the protein for poultry feed was sourced from unsustainable and salmonella-afflicted fish from Lake Victoria. Traditionally, smallholder farmers had not been growing soya as there was no market for the product.

Silo complex and feed mill, Silverlands Tanzania

Silverlands Tanzania built a business to sell feed and day-old chicks and built the first soya processing plant in Tanzania plus a feedmill. Completing the business 'hub', a distribution network was developed, and a team of extension officers employed providing skills transfer.

The business has grown rapidly, from breaking ground in 2014 to over 37,000 tonnes of feed and over 10 million day-old chicks sold in 2019. These impressive production figures confirmed the high demand for the products, particularly in a country with poor supply chains and skills availability.

Smallholder poultry farmer, Tanzania

From a standing start in 2014, the business now benefits more than 65,000 people, including:

- 13,000 grain farmers - around two-thirds of whom are women
- 56,000 poultry farmers - over 80% of whom are women

Incomes per farmer have increased by 80% per annum, implying an increase in smallholder net incomes of $27 million per annum, a significant multiplier effect.

The dynamic growth of Silverlands Tanzania was because it successfully 'fixed' the key issues in the poultry value chain in Tanzania: no soya processing plant, inadequate storage, poor quality poultry breeds, insufficient distribution networks, and poor farm management techniques.

Conclusion

There are attractive opportunities in African agriculture driven by high population growth rates and rising incomes and urbanisation, leading to increasing demand for grains and protein. By completing value chains through careful strategic investment into the African agricultural sector, investors can create leading companies and a significant multiplier effect. With 60% of the working population in Africa living on smallholder farms, this presents an unmissable investment opportunity to achieve attractive returns while making a substantial positive social impact.

SilverStreet Capital is a leading adviser to funds investing across the agricultural value chain in the African agricultural sector and manages the largest African agricultural fund investing across six countries in Sub-Saharan Africa. SilverStreet Capital strives for positive development outcomes and beneficial social impact from the agricultural businesses that we invest in.

*Investors include European and US institutional funds, large family offices and DFIs. SilverStreet Capital also have a $100m loan facility from the US International Development Finance Corporation (the "**DFC**") and political risk insurance with the DFC and MIGA.*

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