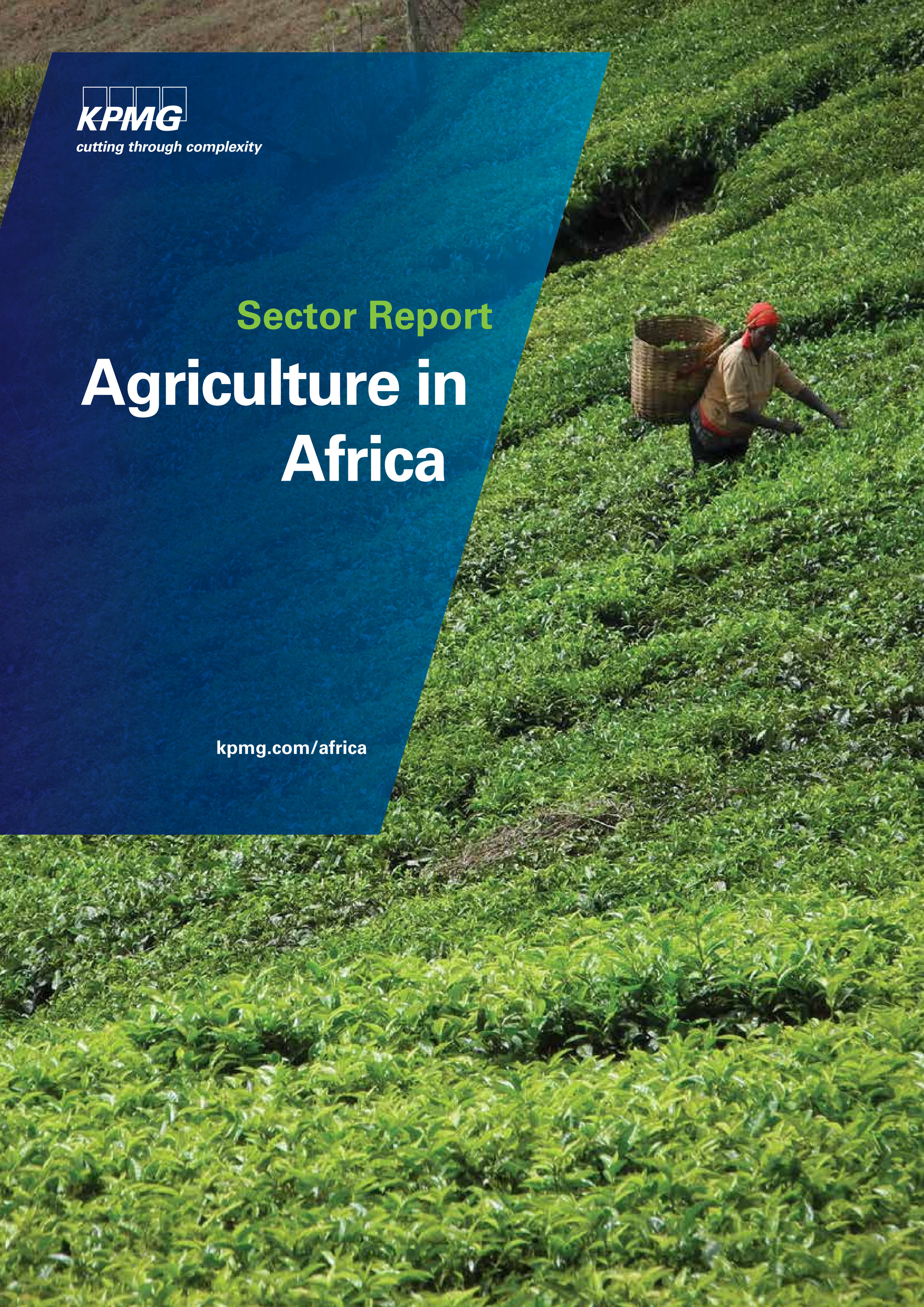
KPMG

cutting through complexity

Sector Report

Agriculture in Africa

kpmg.com/africa



The series has the following reports:

- Oil and Gas in Africa
- Private Equity in Africa
- Manufacturing in Africa
- Fast-Moving Consumer Goods in Africa
- Luxury Goods in Africa
- The African Consumer and Retail
- White Goods in Africa
- Insurance in Africa
- Power in Africa
- Construction in Africa
- Banking in Africa
- Healthcare in Africa

Contents

Introduction and Overview

The World Bank estimates that the agricultural sector has been between two and four times more effective in reducing poverty than growth originating from other sectors. The OPEC Fund for International Development (OFID) shares the World Bank's view while other organisations, like the advocacy organisation ONE, estimate that in sub-Saharan Africa, growth in agriculture is up to 11 times more effective at reducing poverty than growth in non-agricultural sectors. With more than two-thirds of Africans depending on agriculture for their incomes, it is undeniable that the agricultural sector is one of the key sectors to drive growth and reduce poverty on the continent over the medium to long term, regardless of the exact multiplier.

Investing in agriculture now could help lift tens of millions of people out of poverty by 2024. In 2003, at the African Union (AU) summit in Maputo, African leaders pledged to allocate at least 10% of national budgets to agriculture, to adopt sound agricultural development policies and to achieve at least 6% agricultural growth p.a. and created specific plans like the Comprehensive Africa Agriculture Development Programme (CAADP). At the opening of the summit, the AU heads of state launched "2014 Year of Agriculture and Food Security" that marked the 10th anniversary of the Maputo declaration and adoption of the CAADP. Progress, however, has been mixed but there is renewed optimism that the most recent AU declaration is going to help translate hope into development.

Vast Potential

According to the World Bank, agriculture contributes 32% to Africa's GDP and provides employment to 65% of the labour force on the continent. In many countries in Africa, up to 85% of the workforce is employed in the agricultural sector. Furthermore, an estimated 38% of Africa's working youth is presently employed in the agricultural sector. However, the key phrase is "working youth": the stigma surrounding agriculture and the trend of urbanisation have caused a large proportion of the youth on the continent to shy away from the agricultural sector.

As such, this number is far lower than it needs to be if the sector is to show rapid and sustained growth over the medium to long term. In addition to the significant labour resources as yet untapped, Africa is home to millions of hectares of unexploited arable land. It is estimated that about 60% of the world's available and unexploited cropland is in sub-Saharan Africa. Furthermore, only between 5% and 7% of the continent's cultivated land is irrigated, which leaves farmers exposed to the elements.

Not Living Up to its Potential

Per capita agricultural output in Africa is estimated at 56% of the world average. This is mainly due to outdated technologies and techniques, which result in low productivity, and dependence on rain. Furthermore, due to the nature of agriculture on the continent, which is dominated by small-scale farming, productivity is handicapped. These subsistence farmers have little access to credit, which limits fertiliser use and investment in better equipment and techniques. Moreover, the lack of access to stable markets is another problem. The poor state of transport infrastructure is the primary culprit, but this is exacerbated by poor regulation of the existing markets. The result is that a great deal of value is lost before the produce ever reaches its destination. A mammoth task lies ahead for the continent if it is to capitalise on its agricultural potential; from the grassroots level all the way to government and international aid. Nevertheless, the ball has been set in motion and if the appropriate reforms are put in place promptly we could see the sector flourish over the long term.

Key Drivers

Africa has vast agricultural potential, but there is a large leap from the current system, dominated by small scale and subsistence farming, to commercial farming where the benefits of economies of scale can be reaped. Nevertheless, the answer lies not only with commercial farming, but also in reducing the potential that goes to waste with small scale farmers' lack of access to stable markets, technology and finance. Here the role of government and aid organisations is extremely important and we expect these bodies to be the main driving force behind expansion in the agricultural sector over the next 5 to 10 years. This section is organised as follows: first, the importance of policies and the government's role in the agricultural sector will be addressed. As governments on the continent cannot take on the task of reforming Africa's agricultural sector alone, the role of donors is also vital, especially at grass roots level. A section covering the importance of infrastructure is next, followed by a note on the use of fertilisers. Furthermore, improved access to credit is another key driver of the agricultural sector. The role of trade as well as foreign direct investment and agro processing as drivers of growth is covered in the final two sections.

Policy

Ensuring that fundamental resources are available to farmers so as to enable them to manage their production process more reliably and at a lower cost is imperative. This would include the provision of access to agricultural inputs and services including mechanical tools, seeds and fertilisers amongst others; secure access to land and water resources; the provision of infrastructure, particularly roads, so as to ensure good "farm-to-market" access; ensuring pre- and post-harvest support (storage, marketing and value addition); and the provision of rural microfinance services; especially microcredit. The provision of risk management tools (insurance) to support farmers in managing weather and market variations is also critical.

At the political level, the idea is that encouraging young people to get into farming, the creation of stable markets and the various strategies and programmes aimed at smallholder or subsistence farming has an overarching objective of eliminating hunger by ensuring a sustainable food supply. According to local food security experts – food security forms a key part of overall regional and intra-regional security issues – the issue of food, food supply and shortages (and therefore rising costs) have been incorporated into economic and political assessments of risk for some time and external assistance in this regard has moved significantly from 'hand-out' to empowerment. Previously, the issue of food dependency was still a major political concern as not all communities and countries had benefitted from the switch to empowerment from dependency. Changes in the role of food security (or counterpoint food insecurity) have resulted in the issue of food (the supply and cost of food) moving from a humanitarian to a political strategic objective with the accompanying changes in agricultural assistance. At the political level has been the crucial development over the past few years. In accordance to the doctrine of empowerment rather than dependency, the following have become key strategic issues in agricultural developments across Africa:

- Practical assistance at grassroots level working alongside farmers – not lecturing them.
- A focus on community involvement and encouragement to learn the facts of food production and security.
- Technology and general knowledge transfers in order to assess yields and surpluses.
- Close co-operation with host governments at all three levels to ensure maximum penetration and maximum efficiency of funding and other donations - eliminate corruption.
- A two-way learning process where donor organisations and experts learn from local farmers what works and what does not.
- Involving local communities and delegating responsibility to local structures backed up with knowledge and technology transfers to make maximum and sustainable use of raw natural resources such as forests and wildlife.

Key Drivers

- 80% of rural African people depend on smallholder agriculture for their livelihood. Most farmers have less than one hectare of land, on which they struggle to keep livestock and grow sufficient fodder and food to survive.

Other interventions of importance include:

- Access to improved agricultural technologies and loan schemes - farm production and marketing is a viable pathway out of poverty for millions of people in Africa.
- Traditional farming methods have left soils depleted in Africa. Simple, cost-effective conservation farming methods such as, carefully timed planting, mulching with ground covers, weeding, crop rotation and inter-planting all increase soil fertility and discourage pests while increasing crop yields.

– In the drought-prone southern region of Malawi, farmers are taught rainwater harvesting using simple cost-effective techniques and locally available resources.

– Rural farmers are offered "Super Money Maker" treadle pumps at subsidised prices. With year-round crop irrigation, rural farmers can harvest three crops annually (instead of one).

– Selected needy families receive drip irrigation kits and training in how to grow a home nutritional garden. A 10-metre by 10-metre irrigated home garden will produce crops year-round, satisfying the needs of the extended family with surplus to sell.

Donor Aid

Unfortunately, governments on the continent cannot take on the task of reforming Africa's agricultural sector alone. Outside help is critical and there are several major donor organisations – based mainly in the European Union (EU), and individual EU member states such as the United Kingdom, France and Germany and then also in the United States and Canada – working specifically on agricultural development in African countries. There are too many of these organisations to mention specifically but in general they would have much in common as far as strategy is concerned, with major African agricultural donors such as One.Org, Farm Africa, a Self-Help Assistance Programme (ASAP) and Farming First as examples. It is important to distinguish these programmes from official government to government programmes that tend to run in addition to the NGO work even though all major NGOs work closely with recipient governments. The work of NGOs is often not that well recorded and the value-add in terms of knowledge and technology transfer is not always measurable in cash terms.

Individual country by country analyses of work done by NGOs and the impact thereof in the short and long term on that particular country's agricultural sector and wider economy would take significantly longer to tackle than the limits imposed by this report allow. Observations and comments here are therefore generalised, but also applicable on a fairly wide front. The main areas where donors are involved and focus on, include the encouragement of and programmes to help young people to become farmers; the creation and maintenance of stable markets for them; as well as programmes and strategies to provide smallholders with the skills and support they need.

Key Drivers

Infrastructure

It is no secret that the key to unlocking Africa's economic potential lies with addressing the severe infrastructure deficit. Specifically with regard to agriculture, the state of roads and storage facilities in Africa poses a significant hurdle for farmers. In an October 2012 publication, the United Nations Food Programme (UNFP) stated the following relating to the loss of food in the supply chain between farmer and consumer: "In developing countries, the major cause of food loss is the lack of infrastructure for processing, transportation, storage, and cooling of food. According to the World Resources Institute, up to 40% of food harvested in developing countries might be lost because of this gap in infrastructure". The findings indicate that the lack of processing facilities and transport infrastructure "seem to be the major drivers". We expect the agricultural sector to be one of the main beneficiaries as the continent steps up infrastructure development over the medium to long term. Some of these infrastructure upgrade drives will be covered in more detail later in this report.

Fertiliser

Africa, on average, uses far less fertiliser than other parts of the world. According to the International Fertiliser Society, average fertiliser use in sub-Saharan Africa is about 8 kg/ha compared to the international average of about 107 kg/ ha. This is extremely worrying, given that the rate of soil depletion is estimated at 60 kg/ha. As such, it is clear that the level of fertiliser use needs to rise if the continent is to increase agricultural output. The fact is that many African farmers do not have the resources or know-how to properly use fertilisers. On the other hand, the subsidising of fertilisers is a controversial topic, with many experts suggesting that it is a costly exercise with only modest returns. Proponents of this system believe that fertiliser subsidies are the only way to start up African agriculture, reverse nutrient depletion, and deliver food security and income benefits to the rural poor. We agree that the effectiveness of fertiliser subsidies will vary from area to area. Nevertheless, the fact is that Africa needs to fight the depletion of nutrients and increase yields to address the food scarcity on the continent and increase growth in the sector. Case-by-case analysis is needed to decide on the appropriate channel to increase fertiliser use, be it traditional subsidies, demonstration packs, vouchers, matching grants, and loan guarantees. Whatever the channel, we expect increased use of fertilisers to be a key driver of agricultural development on the continent over the medium to long term.

Key Drivers

Access to Finance

Small-scale farmers generally lack access to financing, which in turn deters the use of improved cultivation techniques and fertilisers. In many instances, the smallholder farmers are under more traditional land tenure and cannot use their holding as collateral to borrow. Countries where land is leased from the government and therefore cannot be used as collateral for loans include Mozambique and Ethiopia. According to the World Bank, small-scale farmers require access to four kinds of financing: 1) credit used as working capital; 2) savings for lean months; 3) transactional facilities; and 4) insurance of crops and livestock. As the prevalence of microfinance on the continent expands, we expect to see more and more smallholder farmers improve their operations. However, proper regulation of this sector is of the utmost importance as credit extension remains a double edged sword, especially during a period of lean harvests.

Trade

Intra-regional trade on the African continent leaves much to be desired. Trade of agricultural products between African countries is still kept to a minimum. One of the reasons for this is the lack of product diversification. Most neighbouring countries cultivate the same cereals and the largest portion of agricultural exports is destined for other parts of the world. This lack of trade causes significant welfare losses, compared to a situation where specialisation is the norm. However, there are considerable obstacles to trade on the continent, which carries much of the blame. Africa, like most parts of the globe, is a spaghetti bowl of trade agreements and trade blocs. The continent is over-crowded with overlapping regional trade arrangements (RTAs). As a result, overall implementation of RTAs and reduction of tariff and non-tariff barriers to trade have been slow. Many countries have also drawn up long lists of sensitive products which are excluded from intra-RTA trade liberalisation. Individual agreements between countries can hinder regional cooperation, as trade accords between two countries may come into conflict with the regional mandate. While there has been some success in removing import duties within regional communities, a range of non-tariff and regulatory barriers still raise transaction costs and limit the movement of goods, services, people and capital across borders.

Trade barriers (both tariff, non-tariff barriers like the lengthy customs procedures as well as poor state of logistical infrastructure) and the lack of diversification between countries are huge problems for expansion in the agricultural sector on the continent. For example, former Coca-Cola South Africa President William Egbe indicated that Coca-Cola operates 163 processing plants in 53 African countries, but that it would only need half that number if the continent was a single free trade area. The same can be said for many agricultural products, especially staples. If African countries could specialise in high value-add products and import staple foods from a regional breadbasket there are significant efficiency gains to be made. However, food security is a strategic focus for governments and the majority of countries on the continent strive (mostly unsuccessfully) to be self-sufficient with regard to its food needs. Reliance on food imports can be very expensive and subject to price shocks. The concept of widespread specialisation is therefore still far removed from the reality on the African continent.

Key Drivers

On average, African countries impose a 12.4% tariff on agricultural and food products on their African counterparts. According to United Nations Conference on Trade and Development (UNCTAD) analysis, creating a single free trade area on the continent could see the share of intra-African trade in food and other agricultural products increase from 20% to 28.3% between 2010 and 2022. However, their analysis showed that although intra-regional trade will significantly increase if tariff barriers are dropped, the income advance is quite small given the loss of customs revenue. In fact, many countries stand to lose if tariffs are abandoned. Adopting a continental free trade zone (CFTA) would amount to only a 0.2% (US$296.7 million) increase in income on the continent, according to UNCTAD. This is especially true for specialised countries like Malawi and Zimbabwe. The former could see a 12.4% increase in exports to Africa between 2010 and 2022 if a CFTA was established, but this would lead to a 0.6% drop in real income. The same goes for Zimbabwe, which could see a 14.9% increase in exports to the continent coupled with a 1.4% drop in real income over the corresponding period. That said, these countries would see strong wage gains, especially for unskilled workers.

The answer therefore lies not only with the establishment of free trade zones. Non-tariff barriers need to be addressed before any real welfare impact is seen. UNCTAD calculates that halving the time goods spend at the continent's ports would lead to positive exports and real income increases in all African countries.

Foreign Direct Investment and Agro Processing

Agro processing on the continent is still very basic, or non-existent. According to the African Development Bank, the absence of agro-processing facilities leads to post-harvest losses of on average 35% - 50% of total attainable production of perishables like fruits and vegetables, while losses of grains vary between 15% - 25%. While there has been a step up in investment in post-harvest value adding infrastructure on the continent, much remains to be done. Despite the cumbersome business environment faced in some areas, foreign interest in Africa is growing with many companies setting up shop. Pioneer Foods have expanded their operations from South Africa to Botswana, Namibia, Uganda and Zambia. Similarly, apart from exporting to 22 African countries, Tiger Brands has operations in Nigeria, Kenya, Cameroon, Ethiopia and Zimbabwe. Special economic zones in countries like Gabon have also spurred foreign interest. Olam International, an agro processing giant based in Singapore has ventured into several countries on the continent. The company worked with Gabonese officials to establish a special economic zone in Nkok for timber processing. Unfortunately, international interest in Africa has also been controversial. The latest bout of controversy came with Herakles Farms' operations in Cameroon. The proposed development of a 60,000 hectare palm oil plantation was met with great opposition from environmental groups and was marred by allegations of illegality.

For the agricultural sector in Africa to truly prosper, the whole value chain would need to be addressed. The onus lies with the authorities on the continent to make sure that the business environment improves in order to attract more foreign interest and increase the level of value added post-harvest. At the same time, governments need to award contracts in a transparent way to prevent backlashes as was seen in Cameroon.

Looking Forward

There is a wide range of serious obstacles standing in the way of Africa reaching its full potential with regard to agricultural development. The role of government cannot be overstated. For African agriculture to prosper, the local authorities need to take the lead. Unfortunately most governments on the continent are under severe fiscal pressure, with inefficient revenue collection practices, large public wage bills and severe infrastructure deficiencies. As such, the necessary funds needed to kick-start the agricultural sector may not always be available on time. Nevertheless, being a key poverty-alleviating sector, we expect governments and NGOs on the continent to intensify their efforts to boost the agricultural sector over the medium to long term. We expect these reforms to have a significant impact on agricultural output on the continent and anticipate that agriculture will be one of the key drivers of GDP growth in Africa over the forecast period. In the following section we list a range of countries where the agricultural sector is likely to flourish over the medium to long term, be it on the back of increased government involvement or private entities taking advantage of the immense potential buried in Africa's soil. Some of these countries are Mozambique, Angola, Ghana, Nigeria, Côte d'Ivoire, Cameroon, Ethiopia, Kenya, Rwanda and Tanzania. Expansion will of course not only be limited to these countries. Places like the Democratic Republic of Congo (DRC), Zambia, Uganda and Madagascar all have an abundance of fertile soil and water and could see strong growth over the medium to long term.

Key Growth Areas

Listed below are some of the African countries which are expected to see the most expansion in their agricultural sectors over the medium to the long term, be it because of the abundance of unexploited arable land, government reform programmes, political stability, public and private investment or improved infrastructure. Although Ghana and Uganda's expansion is not expected to be so strong over the next five years, their agricultural sectors still have incredible potential over the long term. Côte d'Ivoire's growth rates are not featured below, as it is too short after the war, although we expect this West African country's agricultural sector to also show strong expansion over the next 5 to 10 years.

Real Agriculture (Y-o-y % Change)					
	2013E	2014F	2015F	2016F	2017F
Angola	6.58	6.70	6.16	5.69	4.05
Cameroon	3.75	4.05	4.58	4.00	4.00
Ethiopia	4.90	4.40	4.90	4.80	4.90
Ghana	1.25	1.55	2.60	2.80	3.15
Kenya	5.50	4.80	4.70	4.80	5.00
Mozambique	5.20	8.50	7.00	7.15	7.25
Nigeria	4.61	4.90	5.00	5.15	5.10
Rwanda	3.65	4.30	4.70	3.90	3.80
Tanzania	3.44	4.11	4.34	4.15	4.68
Uganda	1.50	2.93	2.85	3.90	3.50
Zambia	4.60	4.40	4.65	4.58	4.91

Looking Forward

Angola

Angola has a strong agricultural heritage, with the country once considered to be one of the region's agricultural powerhouses. Indeed, with total agricultural land area amounting to 58.3 million hectares (or 46.8% of the total land area), as well as a temperate climate and fertile soils, not only does the country have the potential to feed itself, but could support a healthy export business. The agricultural sector, and the economy as a whole, was ravaged by years of civil war which destroyed infrastructure, but the government in Luanda has reportedly spent as a much as US$2 billion annually in the sector for the past four years. Despite the challenges faced today, the country is known to have significant comparative advantages in the agricultural sector. To tap this potential and diversify the economy away from its dependence on oil, the government announced in 2011 the formulation of a new agricultural development strategy aimed at fast-tracking expansion of the sector. Included in the new policy approach is the Agriculture Credit Programme. At the broadest level the programme is a measure to encourage people to move away from subsistence farming and into market agriculture via increased access to financial support, including loans from banking institutions. Other initiatives include investment in electricity production and irrigation and water management programmes. Angola still faces many obstacles, including a landscape littered with landmines - a remnant of years of civil war – but the country has huge agricultural potential and we anticipate the sector to expand briskly over the medium- to long term.

Cameroon

Cameroon is a premier producer of cotton as well as cocoa. Although the agricultural sector only contributes about 21% of Cameroon's GDP, the lion's share of the population is dependent on the sector for their livelihood. In fact, according to the Central Intelligence Agency (CIA) 70% of the population works in the agricultural sector. Cameroon too has an abundance of fertile land, but the cumbersome nature of the business environment, which is rife with corruption, and severe infrastructure gaps have caused the agricultural sector to fall short of its potential. Nevertheless, the government has stepped in by creating special economic zones where international firms are afforded significant tax breaks and other benefits to induce increased processing of agricultural goods in the Central African country.

International organisations like the World Bank have also stepped in to help empower the small-scale farmers. After three years of the World Bank financed Agricultural Competitiveness Project (PACA), results are starting to show. The US$60 million project is set to run for seven years and includes some 1,000 sub-projects designed to directly benefit small farmers and their organisations. The World Bank reported in June last year that there have been very encouraging signs. Farmers have seen rice yields increase by 109% and maize yields by 112%, while the production of broiler meat has more than doubled, as is the case with egg production. The project will look to aid about 20,000 rice growers, as well as an additional 20,000 small agricultural entrepreneurs organised in cooperatives.

Cameroon could further enhance its role as a key agricultural hub in the region over the next decade, provided that the government continues its infrastructure reform programmes. As this foundation becomes more stable we expect to see marked improvements in the agro-industry.

Looking Forward

Ethiopia

The agricultural sector remains a cornerstone of the Ethiopian economy, acting both as a significant contributor to GDP and a salient source of employment. In 2013, agricultural activities contributed some 46.2% to GDP, employing roughly 80% of the labour force. The government has emphasised the importance of the labour intensive agricultural sector to ensure inclusive growth, and acknowledged the sector as a strategic pillar in the Growth and Transformation Plan (GTP). The majority of farms in Ethiopia are smallholder farms. These small-scale operations find it difficult to prosper given the lack of economies of scale, vulnerability to drought and most importantly, lack of access to credit. A key requirement of agricultural development is the credit necessary to commercially develop land. Due to the seasonal nature of output and inter-temporal dimension of costs and revenue, credit is required to act as a buffer over time. Lack of credit is the primary reason for underdevelopment in the Ethiopian agricultural sector. Ethiopian farmers struggle to gain access to credit due to the absence of land ownership in the country. By Ethiopian law, the government owns all land, and land can only be leased from the government for a maximum period of 99 years. While farmers use land as collateral in most other countries across the globe, Ethiopian farmers are forced to use other forms of collateral to obtain loans. Lack of collateral results in very few farmers being able to obtain loans, which then limits the commercial development of the agricultural sector. Nevertheless, the government, realising the importance of the agricultural sector in the Ethiopian economy, has stated it would support the sector by facilitating foreign and domestic private sector investment and technology transfers in agricultural production. Areas of focus include improved seeds, fertiliser, irrigation, crop-protection, training, post-harvest processing, storage, roads and financing. Some of the government's sub-sectoral targets include tripling the number of farmers receiving relevant extension services, graduating six million households from safety net programmes into poverty-reducing commercial activity, and more than doubling the production of key crops from 18.1 million tonnes to 39.5 million tonnes. Furthermore, the Ethiopian government established the Agriculture Investment and Land Administration Agency. The agency provides integrated support for investors in a bid to improve their land utilisation and production. According to the agency, 3.6 million hectares of arable land is being provided for investors engaged in the agricultural sector, with 470,000 hectares already allocated. If these government programmes are successful, Ethiopia could become a key breadbasket in the region over the next decade and make marked inroads into poverty in the nation.

Looking Forward

Ghana

Ghana also has already gone through a period of vast transformation in the agricultural sector. The government decided to focus on the sector way back in the 1980s resulting in a 25-year growth spurt where the sector expanded by an average rate of around 5% p.a. This made the country one of the globe's top performers according to the Overseas Development Institute. Hunger levels in the country also declined by more than 50% between 1990 and 2012. The government achieved this by stimulating cassava production through the introduction of new varieties, which required little additional inputs. The agricultural sector employs some 60% of the labour force and contributes around 24% of GDP. Despite its advances in recent decades, the sector remains under-developed with small-scale farms dominating production and impeding overall efficiency. For the most part, fertiliser use remains minimal, impeding yields and output growth. Unfortunately, the situation may get worse as fiscal pressures have prompted the government to start phasing out fertiliser subsidies to the cocoa sector. Although the withdrawal of the subsidy programme may well make the sector more sustainable in the long run, it could hurt cocoa production in the short to medium term. Nevertheless, Ghana's potential for further agricultural expansion is undeniable and if farmers manage to increase fertiliser use and there is greater access to credit, we expect the West African country to boost yields and agricultural efficiency substantially over the medium to long term.

Côte d'Ivoire

Côte d'Ivoire was ravaged by a decade long civil war which brought the economy to a standstill, but relative stability has returned since 2011 and the economy has grown by near double digit levels for two years now and the prospects are favourable. Côte d'Ivoire is the largest producer of cocoa in the world, supplying about 41% of global output. Côte d'Ivoire is also Africa's leading producer of natural rubber, as well as a major exporter of oil palm products. The government plans to further capitalise on its abundance of arable land. The Ivorian authorities plan to invest more than US$4 billion to improve and diversify the agricultural sector in order to create some 2.4 million jobs in the sector by the end of 2016. Political stability has also prompted an influx of foreign direct investment (FDI) and infrastructure spending which provide further scope for expansion of the agricultural sector.

Looking Forward

Kenya

Agriculture will remain at the centre of the Kenyan economy. This sector provides employment to the majority of the country's labour force, while also playing an important role in increasing food security. The chief vulnerabilities in the agricultural sector are fluctuating weather conditions and poor infrastructure. Erratic weather conditions are particularly harmful because of the absence of widespread irrigation and only limited extension services. A further drawback is that an increase in soil erosion is negatively affecting productivity in the sector. On the positive front, the agricultural sector has benefited from structural reforms, including the liberalisation of tea marketing and the privatisation of the Kenya Tea Development Agency (KTDA) in the year 2000. Furthermore, the horticultural sector manages to attract large amounts of foreign investment. As part of the continued efforts to spur development in the agricultural sector, authorities implemented the Medium-Term Investment Plan (MTIP) for the agricultural sector, which spans over the 2010-15 period and focusses on six investment pillars, namely increasing productivity, commercialisation, and competitiveness; promoting the participation of the private sector; promoting the sustainable use of natural resources; reforming the delivery of agricultural services; increasing market access and trade; and ensuring effective coordination and implementation. We expect Kenya to reaffirm its prominence in the agricultural sector on the continent over the next 5 to 10 years.

Mozambique

Mozambique is severely underdeveloped, but remains a land of great potential. Mozambique still has a very large surplus of unused, fertile land with only some 15.6% of cultivatable land currently being used, due to years of under-investment in infrastructure, including roads, irrigation, and storage facilities. Apart from infrastructure damage in the civil war, under-investment has also been driven by the country's land system, under which all land is owned by the government and then leased to farmers. As a result, farmers are unable to use their land as collateral to obtain loans, which limits new investment and leads to a gradual deterioration in quality.

In order to address the issue of underinvestment, the government has undertaken numerous strategies and plans to support and promote the development of the agricultural sector. The Strategic Plan for Agricultural Development 2010-19 (PEDSA) was released by the Ministry of Agriculture to "incorporate a vision that is shared by key actors within the sector, creating a harmonized framework that will guide decisions, deals and issues that affect investor confidence and speed up agricultural [competitiveness] in a sustainable way". The PEDSA includes a value chain approach and calls for the private sector to play an important role in agricultural development, including in the provision of financial services.

Looking Forward

The Alliance for a Green Revolution in Africa (AGRA) Breadbasket Strategy for the Beira Agricultural Growth Corridor (BAGC) is a five-year strategy (2010-15) aimed at increasing the productivity and income of small producers in one of the areas of Mozambique with the greatest agricultural potential. It seeks to generate 50,000 jobs, irrigate over 40,000 hectares and allow 200,000 farmers to double their income. To achieve these goals, the strategy calls for cooperation between private and public sector actors to attract investment to increase the availability and affordability of modern agricultural technologies, link small farmers and associations to commercial operators and value chains, and improve the enabling environment, including affordable finance. Furthermore, to increase the production and productivity of the agricultural and fishery sectors, the Poverty Reduction Action Plan (PARP) adopts various approaches, including improvements in production (through technology, inputs, organisation and management), better market access and sustainable resource use. Improved access to financial services in rural areas, especially for women, is included as a way to improve market access. Specifically, this objective suggests lines of credit and guaranteed funds to support small producers and traders. Due to the vast untapped agricultural potential in Mozambique we expect the country to enjoy amongst the highest growth rates in this sector over the medium term.

Nigeria

Unlike some of the other countries in this list, Nigeria has already come a long way with regard to agriculture development. That said, the West African nation still lists among the countries in Africa with the most untapped commercial agricultural opportunities. The government is presently implementing a transformation agenda to improve agricultural productivity. Value added in the agricultural sector is around 35% of nominal GDP. However, a number of challenges remain, including infrastructure deficiencies, a lack of access to credit, poor technology, and resistance to new technology. According to the agricultural minister, Akinwumi Adesina, Nigeria is on track to reach rice self-sufficiency as well as to double cocoa production between 2013 and 2015.

Looking Forward

Rwanda

Rwanda has seen significant modernisation in the agricultural sector in recent times, which has paved the way for even higher growth rates in the future. The modernisation of the sector forms one of the six pillars of Vision 2020, the government's development programme with the objective of transforming Rwanda into a knowledge-based, middle-income country by 2020. There remains significant scope to boost private-sector investment into the sector. Since 2012, the Ministry of Agriculture (MINAGRI) and the Rwanda Development Board (RDB) focussed on improving the agricultural investment environment and developed detailed investment opportunities. These include the creation of Special Economic Zones (SEZs), with the aim of attracting foreign agricultural investment.

Tanzania

The agricultural sector plays an important role in the Tanzanian economy, both as an employer and foreign exchange earner, but the sector has not been able to take full advantage of its substantial natural resources, including good soils, underdeveloped land, and water resources suitable for agriculture. The agricultural sector is dominated by small-scale farmers, with average farm sizes of between 0.9 and three hectares. Furthermore, the agricultural sector in Tanzania is hampered by low productivity and a lack of technology. Only around 10% of crops in the country are cultivated with the use of a tractor, while a further 20% is cultivated by ox, and most crops (70%) are cultivated by hand hoe. The government has undertaken various initiatives to promote development of the agricultural sector. The Tanzania Agriculture and Food Security Investment Plan (TAFSIP) 2011/12 - 2020/21 intends to focus on production and commercialisation of agricultural products, which includes transferring technology and subsidised inputs to smallholder farmers, as well as public-private partnerships in the Southern Agricultural Growth Corridor of Tanzania. The cost of the first five years of the TAFSIP is estimated at US$5.4 billion, with US$2.5 billion already made available. The Southern Agricultural Corridor is currently considered the breadbasket of Tanzania and beyond, through which food security will be assured and income generation for smallholder farmers will become a reality. The aim of this programme is to triple agricultural production over a 20-year period, leading to the creation of 420,000 jobs.

The agricultural sector will remain a priority area for the Tanzanian government, partly due to the immense potential in the sector, and partly due to the importance of food security and the salient role that the sector already plays in providing livelihoods to millions of Tanzanians. Increasing both private and public investment in the sector could have significant implications for productivity given the inefficient level of current production.

Conclusion

Growth in Africa's agricultural sector has failed to reach its potential and there is no one quick fix to get the sector on a higher growth trajectory. A concerted effort is needed on all spheres, from improving techniques, markets and access to credit for small scale farmers, to government policies to attract foreign investment and spur commercial agriculture and increased value add. That said, the potential for growth in the agricultural sector on the continent is huge. Africa houses a large proportion of the globe's unexploited arable land and there is significant scope for improvement with regard to irrigation, use of fertilisers and improved technology. Furthermore, the return to political stability in some key countries and the implementation of programmes by governments and NGOs could unlock significant value in the medium to long term.

Sources of Information

African Development Bank

Agriculture Investment and Land Administration Agency

Bloomberg

Central Intelligence Agency

CGIAR

Comprehensive Africa Agriculture Development Programme

Future Agriculture

Grow Africa

International Fertiliser Society

International Food Policy Research Institute

International Monetary Fund

NKC Independent Economists

OPEC Fund for International Development

ONE

Overseas Development Institute

Pioneer Foods

Reuters

Standard Bank

Tiger Brands

UNCTAD

United Nations Food and Agriculture Organisation

World Bank

World Economic Forum

World Resources Institute

Contact details

Moses Kgosana
CEO
KPMG in Africa
T: +27846478012
E: moses.kgosana@kpmg.co.za

Anthony Thunstrom
COO
KPMG in Africa
T: +27837008862
E: anthony.thunstrom@kpmg.co.za

Katherine Miles
Africa High Growth Markets
KPMG in Africa
T: +27827107408
E: katherine.miles@kpmg.co.za

Shelley Hunt
Africa High Growth Markets
KPMG in Africa
T: +27827109807
E: shelley.hunt@kpmg.co.za

Amanor Dodoo
Head of Consumer markets
West Africa
T: +233302770454
E: adodoo@kpmg.com

Daryll Jackson
Head of Consumer markets
South Africa
T: +27833843189
E: daryll.jackson@kpmg.co.za

Mohsin Begg
Manager, Consumer markets
South Africa
T: +27827186841
E: mohsin.begg@kpmg.co.za

Jacob Gatheca
Head of Consumer markets
East Africa
T: +254202806000
E: jgathecha@kpmg.co.ke

Fernando Mascarenhas
Head of Consumer markets
Angola
T: +244227280102
E: femascarenhas@kpmg.com

kpmg.com/social media

kpmg.com/app