Should South African agribusinesses expand into the African continent?

Wandile Sihlobo

This essay first appeared on News24, 06 July 2021

South African agribusinesses aiming to expand their operations into the rest of the continent in the coming years will face different environments compared to realities in South Africa. This includes the commonly cited factor of poor infrastructure, and also a much less talked about problem, which is low levels of agricultural productivity. With respect to the latter, a recent study by agricultural economists Thomas Jayne and Pedro Sanchez argued that sub-Saharan Africa's agricultural output growth in the recent past has been through area expansion rather than improvement in productivity or yield per hectare. A case in point is maize, which shows a striking difference in yield levels between South Africa and the rest of sub-Saharan Africa. Consider maize yields between 2015 and 2020 in Zimbabwe, Nigeria, Kenya, Malawi and Tanzania, which averaged 2 tonnes per hectares for most of these countries with the exception of Zimbabwe, where the yields averaged one tonne per hectare over the observed period. By contrast, South Africa's maize yields averaged 5 tonnes per hectare over the observed period.

One of the reasons for this difference in yield levels is the difference in input use between South Africa and most countries in the content. South Africa has an advanced and highly mechanized large scale commercial farming sector, which has ready access to fertilizers, improved seed varieties, agrochemicals. By contrast, most sub-Saharan African countries are dominated by micro, small and medium-scale farmers – a majority of whom are resource poor and lack access to fertilizers and hybrid seeds. Intensive maize production systems typically require relatively higher input costs, which, with lack of access to credit and finance, limits small-scale farmers' uptake of these technologies is limited. Another point to consider is that in countries such as Zimbabwe, smallholder farmers tend to limit the area planted to food crops in favor of tobacco and other lucrative crops in various seasons. Still, the point of lower productivity in food crops in sub-Saharan Africa remains. A 2019 study by McKinsey researchers made a similar point that Africa's potential lies in improving the crop yields, and not land expansion, which has been the dominant practice in the recent past.

Improving productivity should not be the only focus for sustained improvement in Africa's agriculture. When farmers have improved their productivity, there must be a place to safely store their maize crop and reach the markets to ensure decent return on investment. This once again is a dominant feature of the South African agricultural sector, where the value chains are mature and well-integrated, with access to markets that operated within a liberalized environment. Meanwhile, in much of the sub-Saharan African countries, the agricultural value chains are fragmented, and maize markets are subject to ad-hoc government interventions that distort market signals. Poor storage infrastructure has seen high post-harvest losses (ranging anywhere between 17% and 30% of total national maize output). Under conditions of such systemic market flaws, improved yields would not make a significant impact on markets. To some extent, Zimbabwean farmers tend to substitute maize for tobacco in certain seasons because the latter has a well-functioning marketing system than maize.

In essence, sub-Saharan Africa's agriculture sector remains underdeveloped and has various challenges. But these could also be viewed as opportunities for expansion by agribusinesses

in countries that have fairly developed the agricultural sector, notwithstanding the infrastructure constraints already mentioned. If South African agribusiness intend to expand their activities beyond the border in the continent, their strategies and approaches has to be markedly different. Productivity improving techniques are one part of the solution, but this will need “ground up” approach. This means working with farmers to understanding value chains region by region within each country because of their fragmentation. This will enable various agro-dealers to be closer to their customers – farmers – and also aware of the off-takers or large buyers of the produce so that farming could be sustainable.

Importantly, there is a need to lobby sub-Saharan African governments to prioritize network industries investments such as roads, electricity, water, and investment on agriculture infrastructure such as silos. With that said, this is unlikely in the near term because of fiscal constraints in a number of countries. Perhaps, a workable approach would be for African governments to be open to partnerships with private sector players. An important pre-requisite for creating public private partnerships is a strict adherence to the rule of law so that private sector firms can be assured that their investment is protected, and that corruption is reduced. Notably, the African governments will also have to relax regulations that hinder the adoption of improved seed varieties which are crucial for productivity enhancement.

In sum, the sub-Saharan Africa region holds potential for expansion for South African agribusinesses, but the approach to doing business will have to adapt to country-specific practices at the start. The South African model can not be copied as is because of differences in farming and market structures, seed and food regulations, and network industries underdevelopment. This also means that the returns to investments in agriculture in the continent will likely be long term, and at the start, lower than what could be achieved in well-functioning agriculture markets. With that said, given the expected increase in population in the coming decade, rising urbanization, large, underutilised land in sub-Saharan Africa, and the increased connectedness through the African Continental Free Trade Area, collaboration and long-term investment in the continent will be key. The African governments should also improve infrastructure and land governance and the aforementioned regulatory matters to attract private sector investments into the content’s agricultural sector.

Wandile Sihlobo *is the Chief Economist of the Agricultural Business Chamber of South Africa (Agbiz) and the author of "Finding Common Ground: Land, Equity, and Agriculture." He is also a Visiting Research Fellow at the Wits School of Governance, University of the Witwatersrand.*