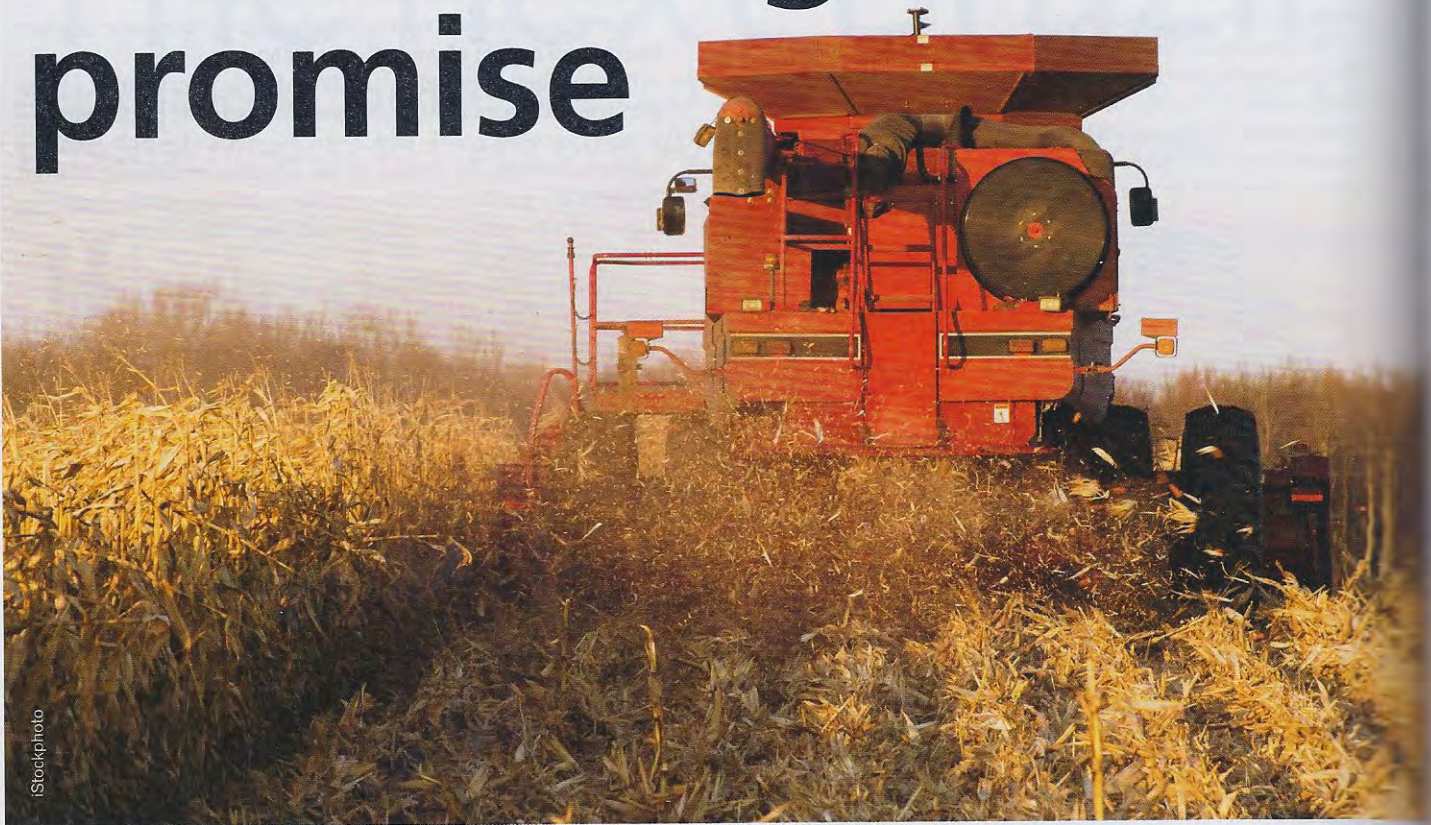


# Harvesting promise



African governments want to dramatically raise agricultural output.  
**Angela R Hansen and Nadia Oshry** survey a fertile field

**W**hen Agri-Vie, a fund manager, went to market in 2008, it was one of only two dedicated agriculture private equity funds in Africa. Since then, much has changed. According to Agri-Vie Managing Director Herman Marais, there has been “a rapid proliferation of fund offerings in Africa”.

Today more than 50 fund managers with about US \$2.4 billion in funds are already active in the agri-investment sector, according to research from Dalberg Global Development Advisors. Of these, 19 manage at least one dedicated agriculture fund, while 31 manage generalist funds that invest a portion of their portfolio into African agribusiness (see chart). They invest across the continent and across the value chain, from inputs to post-harvest

processing and logistics to wholesale and distribution. With such a diverse range of opportunities, agri-investment is fast becoming a crowded market.

“Much of Africa is regenerating,” says Stuart Bradley, partner at private equity fund manager Phatisa. “With economic and governance reforms, a booming middle class, increasing urbanisation

and a noticeable increase in skilled labour, this translates to better resource management, actively driving positive investor sentiment across the board.”

Currently, he says, there are more funds in the sub-Saharan Africa market focused on agriculture than any other, a trend driven by the

## A hungry world

Global population is expected to grow from 6.8 billion to 9 billion in 2050, meaning food production must rise by 70% over the next 40 years to feed our growing population. In sub-Saharan Africa alone, food consumption is predicted to grow by 2.6% per year through to 2018, with the emerging middle class and urbanisation shifting demand towards value-added, processed products and livestock. At the same time, other crop uses such as biofuels will further increase demand.

continent's vast amount of fertile farm land, huge development potential, historical under-capitalisation of the sector, as well as growing food insecurity around the world.

Investors are recognising that agriculture is a compelling investment opportunity. This may be because

historical perceptions of risk have been countered through increased awareness and understanding of the agricultural sector. Food and agribusiness is now seen as a hot new investible asset in the African private equity environment. And so it should be: agriculture is Africa's largest economic sector,

contributing 15% of the continent's total GDP; more than \$100bn annually. However, African yields are well below world averages. Home to about a quarter of the world's arable land, the continent generates only 10% of global agricultural output. Food security remains an everyday concern for many

## African agri-funds

Fund manager	Size of agri-focused fund	Focus countries in SSA	Strategy/target investee	Focus in value chain
Actis	\$90m	Tanzania, Kenya, South Africa, Côte d'Ivoire, Sudan	Export commodities	Entire value chain
Africa Invest	\$20m	Malawi	Commercial farming	Production
African Agricultural Capital	\$30m	Uganda, Tanzania, Kenya	Small and growing agribusinesses	Inputs, services, processing, retail
AgDevCo	\$150m	Sub-Saharan Africa	Agricultural development company	Inputs, production, infrastructure, post-harvest
Agri-Vie (sponsored by Sanlam)	\$100m	Sub-Saharan Africa. Strategic focus on east Africa (Kenya, Tanzania, Uganda, Ethiopia, Rwanda); SADC countries (South Africa, Zimbabwe, Mozambique, Lesotho, Namibia, Swaziland)	Invest along value chain	Entire value chain
Aquifer	\$130m	Mozambique	100% ownership	Production, marketing
Aventura Investment Partners	\$50m	Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo, Mauritania, Nigeria	Vertical integration	Entire value chain
Barak Fund Management	\$200m	Main focus on Kenya, Malawi, Tanzania, Mozambique, South Africa, Nigeria, Uganda, Zimbabwe and Zambia	Mezzanine debt trade finance assets	Trading, including import and export
Chayton Capital	\$150-\$200m	South Africa, Zambia, Botswana, Mozambique, Tanzania, Malawi	Commercial farming, primary crops	Production
Databank Group	\$30m	Ghana	Holistic value chain approach	Entire value chain
Emergent	\$30m	South Africa, Mozambique	Commercial farming	Production
Feronia	TBD	South Africa, Uganda, Democratic Republic of Congo	Commercial farming	Production
Phatisa	\$300-\$500m	Pan Africa	Large companies and SMEs (at least 20% of portfolio) along VC	Entire value chain
Root Capital	\$30m	Côte d'Ivoire, Ethiopia, Ghana, Kenya, Malawi, Mozambique, Rwanda, South Africa, Tanzania, Uganda, Swaziland, Zambia	Trade finance	Inputs, production
SEAF	\$150m	Democratic Republic of Congo, Ethiopia, Kenya, Mozambique, Rwanda, South Sudan, Tanzania, Uganda, Zambia, Zimbabwe	Invest along value chain	Entire value chain
Silverlands Fund	\$100-\$300m	Kenya, Malawi, Mozambique, Tanzania, Uganda, Zambia	Commercial farm with out-grower programme	Entire value chain
Transfarm/ Lion's Head	\$30-50m	Tanzania, Mozambique, Rwanda, Côte d'Ivoire	Development corridor approach	Entire value chain
United Farmers Fund	\$450m	Sub-Saharan Africa	Commercial farming	Production, infrastructure
VEI	\$100-150m	Benin, Burkina Faso, Ghana, Kenya, Malawi, Mozambique, Mali, Senegal, Tanzania, Uganda, Zambia	Address value chain inefficiencies	Entire value chain

Source: Dalberg identified 19 agriculture-specific funds in Africa. Analysis of funds was conducted according to fund websites, fund documents, sector literature and press, and/or verbal conversations only, dating to early 2010. No due diligence was conducted by Dalberg.

African households, with persistent food shortages compounded by threats from climate change. As dramatic spikes in food prices spark riots in Egypt and Mozambique, African countries are among many facing a food crisis.

**Growing the field**

Africa could play a central role in addressing food demand. By some recent estimates, Africa could almost double the value of its agriculture output in the next ten years, and more than triple it in the next 30. Growth of this magnitude would stimulate secondary processing and other industry. It would spur demand for products such as fertilisers, seeds and pesticides. African farmers could substantially increase revenue and reduce dependence on foreign aid.

Private investors can help agriculture to grow in many ways, including efforts to combat climate change and increasing resilience in the sector. For example, private equity fund Chayton Capital forecasts significant improvements in production volumes

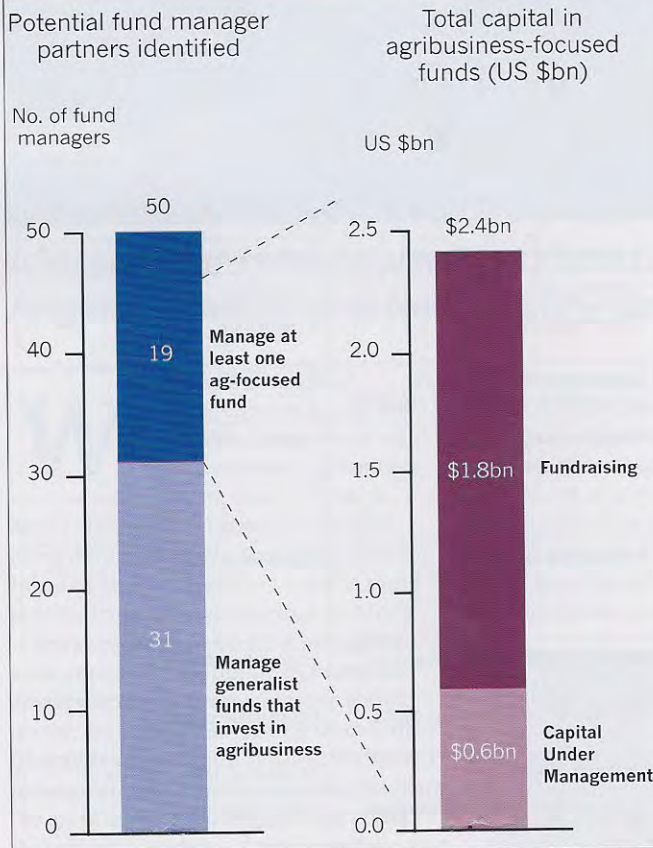
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and yields through conservation tillage, irrigation, double-cropping and other techniques as a result of its investments.

Critical challenges nevertheless threaten their return on investment.

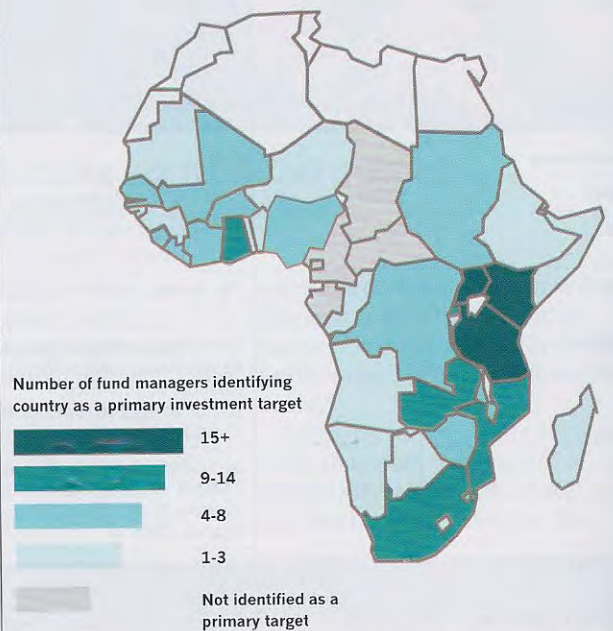
The global financial crisis has taken its toll: many funds are still fundraising and relatively few have closed. Even fewer have been invested in long enough to realise returns in agriculture. Marais suggests that one of the biggest challenges facing fund managers today is identifying and structuring transactions in the sector, which is still relatively new to traditional private equity investors. Target agribusinesses often need additional managerial support and technical assistance to absorb funding and fully realise the benefits of this type of capital. While many funds have provided technical assistance in recognition of these needs, the demand has yet to be fully addressed.

**50 identified fund managers investing in agribusiness, 19 of which have agribusiness-focused funds**



**Identified fund manager partners are targeting investments across most of sub-Saharan Africa, with an emphasis on east and South Africa**

Target investment countries for potential partner fund managers (with ag-focused and generalist funds)



Note: 50 potential partner fund managers identified (target countries for 40 fund managers on graph, target countries TBD for two fund managers, eight fund managers indicate full SSA/Pan Africa as target). Countries in white are not target countries.

Note: Countries that are identified as fund managers' primary focus, many managers are willing to invest beyond these countries opportunistically  
Source: Fund manager websites; fund manager documentation; sector literature and press; country visits; Dalberg analysis.


## Governing the growth

The continent still has a way to go before it can realise its growth potential. Barriers to increased production are complex and well known. Africa is prey to destructive trade barriers and tax incentives overseas, while inadequate infrastructure hampers access to local and regional markets. Limited research and development impedes innovation in seeds and other inputs suited to the regional ecological conditions.

National governments have a clear role to play. Although some key macro-level reforms have been undertaken, there is still a widespread need for secure property and land rights, functioning financial systems and rural financial services delivery, reliable market institutions for price discovery and contract enforcement.

In sub-Saharan Africa, only 4% of the harvested area is irrigated. A focus on extending rural road networks, water management and irrigation can generate substantial gains. Donors and

governments need to increase their support for research and development and foster a culture of evidence-based policymaking. This should be coupled with more effective extension services to enhance productivity and promote the uptake of new technologies.

Many governments on the continent, under the African Union/NEPAD's Comprehensive Africa Agriculture Development Programme, have already revamped their agriculture policies, while private sector investors are seeking returns as donors also stand ready to increase aid. 

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## Aid for agriculture

The G20 Global Agriculture and Food Security Programme aims to raise \$20bn to spend on agriculture grants for the developing world. Foundations such as the Bill and Melinda Gates Foundation are awarding millions annually for African agriculture.

Traditional multilateral development partners are also contributing, as are Africa's own institutions. The African Development Bank has developed targeted instruments such as the African Water Facility and the African Fertiliser Financing Mechanism, which together will invest nearly \$200 million to enhance agricultural productivity. The United Nations Economic Commission for Africa has developed a \$100m Africa Sustainable Land Management Facility.



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