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Why food could be Africa's sweet spot

By Zin Bekkali | Published: 31 May, 2010

The food industry has been amongst the best performing sectors in Africa and has shown an average annualized growth of 20 percent in the last 4 years. Investors in Africa are slow to adjust to this reality as most of them are still focused on finding the next oil field or securing the next plot of arable land. Silk Invest is launching its African Food Fund because investors are much better off investing in food companies that service the local consumer rather than investing in commodities or farmland.

Most of the African food industry is still informal and many products are not sold through formalised channels. Basic products such as milk, sugar and rice are still often sold in open markets in unpacked form. These products are typically held in large quantities by shopkeepers and are sold in smaller quantities in unbranded plastic bags to consumers. The good news is that this is changing. Local African food companies are increasingly able to produce food products and to sell them to the consumer at an affordable price. The target market for these products is not only the rising middle class, but every single person in a continent that is home to around 1bn people.

This industrialisation of the food value chain is growing from a low base, but it is undoubtedly one of Africa's most exciting investment opportunities. Next to the industrialisation of basic food products, companies are now increasingly developing new product categories ranging from yoghurt to diet drinks. The purchasing power of the average African consumer has almost quadrupled over the last 20 years. East Africa has seen its GDP per capita increase nearly tenfold, a truly spectacular achievement.

This has put in place further growth catalysts and has clearly created a market for big retailers and specialised food chains. According to our estimates, supermarkets account for only 2 percent of the African market, but in many markets retailers are successfully gaining a foothold and increasing their coverage.

Food security has been one of the big investment themes in the last few years, but we think that investors are better off investing in the African food industry rather than investing in land. There is nothing wrong with investing in African land, but investors should recognise the fact that most of the value of the investment is really linked to the commodity that is produced on that land.

Land is immovable and subject to property rights, so investors are exposed to higher risk derived from political and meteorological conditions. In addition, investors should also understand that there are different kinds of players with different sets of objectives putting money to work in this space. For example, the return expectations and investment horizons of a foundation are very different from those of a more return-focused investor. Finally, from a development angle, creating a well-functioning African food industry will have a far bigger impact on the local economy as it will allow farmers to reduce their reliance on export markets, and it will allow consumers to buy better quality locally produced products.

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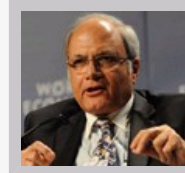
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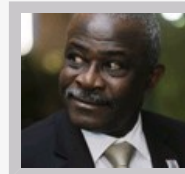


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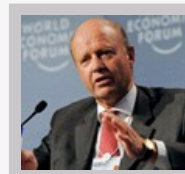
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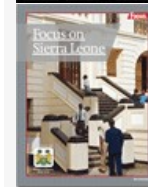
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"We see the huge potential that this area has. If we can participate in moving it in the direction that we would like to see it, then we can sell more products."



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