

Is the agritech sector not 'sexy' enough for investors?

Perhaps it is because I grew up in the suburbs and have never lived outside of one of South Africa's major cities, but it seems like agriculture often doesn't get the credit it deserves.



Ross Jenvey, general partner at Kingson

Like the oxygen we breathe, we expect the food we eat to just be there, and furthermore, we expect it to be wonderfully pre-packaged and easy to convert into a meal for the family. We often miss how much work goes into producing the food, and the complicated supply chain involved to get that food from the farm to our dinner plates.

This under-appreciation thesis continues into the Venture Capital (VC) industry. SAVCA recently released its 2020 report for VC deals concluded in 2019 in South Africa, and it is noticeable that deals in the Agriculture sector only ranked 12th out of 20 sectors in terms of deal values, or 3.4% market share.

This translates into a measly R42m worth of VC deals for the agriculture sector in 2019, although this increased from R14m in 2018. This, despite the fact that “Zero Hunger” is one of the top priorities under the United Nations Sustainable Development Goals.

Furthermore, agriculture is one of the few South African sectors that is performing well in a difficult economy, posting 3% annual employment growth in Q1 2020, and then being the fastest-growing sector with GDP growth of 15% in Q2, while the overall economy shut down and produced a contraction of 51%.

Data is difficult to come by, but a report in August 2019, co-authored by Technical Centre for Agricultural and Rural Cooperation (CTA) and Dalberg Advisors, claims that agritech deals in Africa totaled \$143m in 2018, out of a total addressable market of \$2.6bn, which talks to the huge untouched potential.

South Africa's \$1m (R14m) in 2018 would have translated to a paltry 0.7% of the 2018 total agritech deals for Africa, a continent that is seeing differing levels of agritech adoption.

Kenya, for example, was last year rated by Nesta, a UK innovation foundation, as the leading agritech country in Africa due to its high level of mobile adoption. Nigeria's Agritech sector, on the other hand, seems to be experiencing many of the challenges faced in South Africa, including the paucity of investment and institutional investors.

Not 'sexy' enough?

Maybe in countries where there is a dearth of early-stage investing in agritech is because the industry is not sexy to many investors, in the way that social media or other nice-to-have technologies are.

In fairness, the South African VC investors tend not to get too carried away with nice-to-have technology, but it seems that South Africa's internationally acclaimed financial sector has driven the trend towards a high number of fintech startups.

Maybe South African VC investors are worried about land redistribution legislation. Without taking a political view on the matter, a reasonable investment thesis could be that if land redistribution happens in any large scale, and first-time farmers are brought into the fold, there will be an even greater need for technology to assist the Agriculture sector than there is currently.

One of the benefits of working in VC is that you get to see all sorts of new business ideas, as innovative entrepreneurs try to solve real-world problems and create new markets. In the last few months, I have looked through funding proposals for a business using the Internet of Things (IoT) to improve the supply chain in cold storage for food, another business looking to use IoT to improve water usage and crop yields, and one trying to use alternative credit scoring to improve loan funding to farmers.

We cannot fund all the early-stage businesses that come across our path, but it is good to see innovators trying to shake up this sector. We hope to see more of these types of solutions.

Solving real-world problems

Analysis by the company, Early Metrics, estimates that the global agritech industry will increase at an average annual growth rate of 18% through to 2023, to be a global industry of \$13.5bn.

At Kingson, we look to invest in companies providing solutions to real-world problems, in industries that are likely to grow fast and are ripe for some form of technological disruption. The agriculture sector fits well into these criteria. No matter what your views on the topic of food security or whether you believe climate change is a genuine global threat or not, the Agriculture sector and the food it produces, is going to be around for as long as humans are.

The sector is also one of the last big industries to not have had a massive tech shake-up, the way Uber has changed the transport industry or Netflix has changed the media industry. We believe agritech is an investment sector that should take off in South Africa, and Africa at large, and when it does, it will be here to stay.

If the threat of climate change is to be believed, then we need to see more VC deals in this space, as the need to protect food security will increase.

**Note that Bizcommunity does not necessarily share the views of its contributors - the opinions and statements expressed herein are solely those of the author.*

For more, visit: <https://www.bizcommunity.com>