

Absa AgriBusiness

SACAU

Policy Conference

Agricultural Finance within an Ever Changing Environment

17th May 2011

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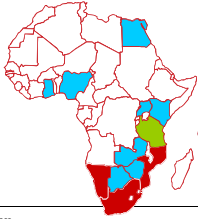
Footprint

Absa Africa operates conventional banking in 2 countries:

- Mozambique
- Tanzania
- Namibia
- Barclays Bank Mozambique
- National Bank of Commerce (NBC)
- Representative Office

Barclays Bank operates in the following countries:

1. Botswana
2. Seychelles
3. Egypt
4. Tanzania
5. Ghana
6. Uganda
7. Nigeria (Rep. Office)
8. Zambia
9. Kenya
10. Zimbabwe
11. Mauritius



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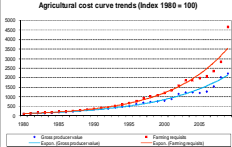
- Increasing cost of farming.
- Agricultural risk.
- Using technology addressing these challenges
- Can GMOs increase Africa's food security?
- Conclusion.

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Increasing Cost of Farming

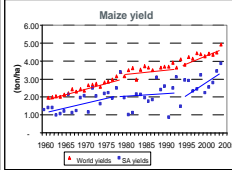
Agricultural cost curve trends (Index 1980 = 100)



Cost curve

- Input costs continue to grow at 3% per annum.
- To survive, farmers need to become more productive (increase output in relation to inputs) by improving production efficiencies through the use of technology, value adding and lowering fixed costs (economies of scale).
- World agriculture is in a growth phase much greater than industrialisation.

Maize yield



- During industrialization after the second world war, agricultural production expanded exponentially, faster than population growth (due to the development of fertiliser and production machinery).
- Production of coarse grains, beef and mutton peaked during the mid eighties due to availability of natural resources. Commodities like poultry and pork continued to grow as they are able to utilize surplus coarse grains.
- Production has once again started to increase due to advances in bio-technology, for example: GMOs.

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Agricultural Risks

- **Market Risk (Price, Storage, Third party risk)**
 - African farmers face prices greatly influenced by the international markets.
 - Have very little control over pricing levels and tend to be price takers with prices varying between import and export parity.
 - Factors influencing prices over which they have no control include international production trends, subsidies, exchange rates, import and export tariffs.
- **Production risk**
 - Production risk due to climatic changes (drought, hail, etc.)
 - Poor management and planning.
 - Risks can be managed through insurance and technology improvements.

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How is Technology addressing these challenges?

- **Risk along the value chain better managed.**
 - Storage
 - Transport (Just in time)
 - Information flow (connectivity)
 - Plant and animal breeding (imparting favourable characteristics)
 - GMOs, clones, etc.
- **Conducive environment**
 - Hold production and management capacity.
 - Industry is profitable and thus farmers can afford higher cost of the technology.

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Can GMOs Increase Africa's Food Security?

- Africa's food security status will only be driven by better profitability irrespective of the nature of technology employed.
 - Technology adoption has been slow because of the farmers' sensitivity to Production and market risk is high.
 - Africa is yet to test the limits of existing resources (land, Water, fertiliser, management, etc.) to warrant investment into GMOs but once resources are fully exploited then the biological (GMO) frontier will become increasingly vital.

Conclusion

- The economics of agricultural businesses will remain open to technology advances and specifically GMOs in an environment where resources are fully utilised and unit production costs are increasing.
- GMOs have in some instances helped reduce production risk and resulted in higher productivity but this has dampened producer prices.
 - Lower food prices for the growing urban populations.
 - Lower profitability for the farmer.

Thank you

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