



AGRF 2016 – PLENARY SESSION THREE REPORT

Day 5 - Friday, September 9

09:00am- 10:30am

Plenary 3: Access to Patient and Inclusive Capital for African Agriculture

SESSION BRIEF

Context: Significant focus in Africa's agriculture sector has been placed on creating increased access to debt capital for small hold farmers and SMEs in the agribusiness sector.

However, increasingly there is a growing pool of stakeholders who are providing access to more patient capital through the development of challenge funds, impact funds and bond finance. These innovative instruments and initiatives are particularly important to finance the "missing middle" SME market segment – many of who are emerging agribusinesses in Africa.

Understanding how to leverage and replicate these public and private sector led and supported initiatives can serve to address a very important segment of the capital markets and help accelerate the growth of transformative enterprises in Africa's agricultural sector.

Session objectives: The purpose of the session was to acquaint participants with various financial opportunities to establish and grow own enterprises.

Key Issues/ Questions:

- What are the new financial initiatives that are supporting equity and quasi-equity investment in Africa's SMEs?
- How can agribusinesses in Africa access more patient capital for their enterprises?
- What do these new financial vehicles and stakeholders look for in making a decision to invest in African SMEs?

Outcome Desired:

- Help SME's in attendance learn more about alternative and innovative finance that then can seek to secure.
- Support the development of communities of practice around missing middle capital for SME finance in Africa.
- Share experiences across Africa's regions of impact and innovative financiers to identify good practices for investment/ finance of Africa's SMEs.

Organizer: AGRF Secretariat



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Name	Picture	Discussion
<p>Mr. Wallace Kantai, Business Editor, NTV</p> <p>Role: Moderator</p>		<p>Mr. Kantai opened the session by welcoming everyone to what he hoped would be one of the highlight sessions of AGRF. The discussion about the provision of longer term and inclusive capital he thought would be a very important one as we focus on agricultural transformation. He also was pleased with the experience of his panel and looked forward to their sharing in a robust and informative discussion.</p>
<p>Dr. Sana Jatta, Regional Director, East & Southern Africa, IFAD</p> <p>Role: Setting the Stage</p>		<p>Dr. Jatta began his “Setting the Stage” presentation by thanking AGRA for developing the AGRF platform for affording IFAD the opportunity to share with the delegates a bit about their work with smallholder farmers in East and Southern Africa.</p> <p>In his power point presentation, Dr. Jatta introduce the fact that as IFAD views the continent’s agricultural sector, they take a bottom up approach, from family owned small holder farmers up the pyramid to medium and large scale commercial farmers. Between these two ends of the spectrum he noted that there were many other important stakeholders, including agro-dealers, extension service providers, research institutions and government.</p> <p>He continued in his presentation by mentioning that small holder farmers are the largest segment of the African farming sector and also comprise a community that for the most part farms for their livelihood and live on less than US\$2 a day. Smallholder families, he added are thus central to global financial inclusion efforts—although reaching smallholders with financial services is challenging.</p> <p>He then explained that as part of IFAD’s mandate they prepare programs that involve marketed development and the</p>



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	<p>facilitation of market linkages.</p> <p>In his belief he added, agriculture is poised to drive a new era of inclusive economic growth for Africa – but only if we focus on the small, family-run farms that are Africa’s main source of employment - who produce the majority of what Africans eat.</p> <p>But to tap into this opportunity for Africa’s smallholder farmers, we need to stop thinking about them as subsistence farmers and embrace their potential to generate income.</p> <p>Given the many challenges inherent in remote, marginal areas, and in areas recovering from natural disasters, the development of innovative products and delivery mechanisms is critical to meeting the needs of IFAD’s target groups.</p> <p>To meet the demands of farmers, IFAD set up rural financial services for small holders. IFAD also aims to enhance the sustainability of rural financial service providers, while facilitating transparent information sharing of smallholder prospective borrowers relating to their financial and social standing.</p> <p>He said however more needs to be done in the area of economic policy development to support smallholder farmers and financial institutions that seek to support them. Building the capacity of small holder farmers he pointed out as a critical area that needed focus.</p> <p>Lastly, he pointed out that IFAD worked with many stakeholders and he felt that was the only way to tackle the magnitude of the financing challenge in Africa, so he welcomed engagement from any new potential collaborators from the AGRF community.</p>
<p>Panelists</p>	



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<p>Mr. Daniel Hulls, CEO, Agdevco</p>		<p>Mr. Hulls was the first panelist who spoke after Dr. Jatta. He began by introducing his firm, the Africa Agriculture Development Company (AgDevCo) is an impact investment firm that provides debt and equity finance to African agribusinesses to create jobs, improve food security and boost prosperity.</p> <p>He said that as an investor he does not feel there is a lack of capital in the marketplace, but rather a lack of investment grade opportunities exists. In addition to this, he also feels that there is limited understanding of the nuances of financing agriculture.</p> <p>He also stated that there is misleading distinction about the wide differences that exist between organized small holder farmers and commercial farmers, as quite often you find the commercial farmers are working closely with small holder farmers through out-grower programs and/or contract farming schemes, and as such you have to factor in whatever risks that relate to lending to small holders into your financing model for the commercial farming capital request.</p> <p>While agriculture in general required patient capital, he particularly felt that in Africa, given that the transformation process toward farming as a business was new, there was a particular need for the deployment of capital that had longer pay back periods, and ideally lower interest rates</p>
<p>Ms. Priscilla Chimwele Program Analyst, African Facility for Inclusive Markets, UNDP Africa</p>		<p>Ms. Chimwele began her remarks by introducing UNDP's Private Sector program and providing specific information about the agriculture focused work of the African Facility for Inclusive Markets (AFIM) which is working to accelerate progress toward the Sustainable Development Goals (SDGs) by supporting the development of inclusive, pro-poor markets across Africa.</p> <p>She went on to say that AFIM's inclusive market development strategy seeks to provide base of the pyramid actors with the tools and resources to pursue economic advancement by engaging in value chains at the country and regional levels. She continued that UNDP AFIM works in partnership with the</p>



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		<p>African Union NEPAD, the Regional Economic Communities and UNDP Country Offices.</p> <p>Through targeted interventions, AFIM facilitates knowledge sharing, access to finance, and the dissemination of best practices in inclusive market development with emphasis on creating opportunities for low-income and marginalized groups. The Unit has produced knowledge products on the role of the private sector in African agriculture, on inclusive business finance, on how to establish agricultural value chains and also used its micro-capital grant facility to finance regional value chain model projects in East, Southern and West Africa. She also noted that they are currently working to develop a continent wide African Impact Investor Network and hoped to launch it before year end.</p> <p>Ms. Chimwele ended by saying that AFIM had also undertaking work to identify the key ecosystem components necessary for SME growth and development in Africa and that they keen to engage with policy makers and financiers to discuss how such ecosystems could be created.</p>
<p>Dr. Paul Greener, Executive Manager, African Enterprise Challenge Fund (AECF)</p>		<p>Dr. Greener was invited to speak as the third panelist of the session and chose share his views about the differences between subsistence farming and commercial farming.</p> <p>He stated that commercial farming is typically done on a very large scale, often by agricultural corporations. The goal of commercial farming is to make profits, which is done by maximizing crop yields by using labor-saving techniques and technology.</p> <p>The use of chemical fertilizer and hybrid seeds is also common on commercial farms, as are heavy farming machinery and sophisticated irrigation technology. Commercial farms typically grow one crop in large quantities. Some of the main crops grown on commercial farms include bananas, coffee, corn, cotton, nuts, tea, sugar cane and wheat.</p> <p>With subsistence farming, farmers grow a wider range of crops based on the anticipated needs of their families or</p>



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		<p>communities. Traditionally, smallholder farmers have tended to be subsistence farmers and have eaten all or most of what they grow.</p> <p>While today most farmers in Africa were small holder farmers, he felt that to increase the ultimate yield outputs toward continental food security, we will need larger, more commercial farms.</p> <p>He then went on to introduce AECF and stated that the AECF is an Africa-based challenge fund that aims to reduce poverty by supporting private sector businesses that have a positive impact on rural communities in Sub-Saharan Africa. AECF provides equity – like grant funding. Specifically, the AECF supports businesses in agriculture, agribusiness, rural financial services and communications systems, renewable energy and that engage in efforts to combat climate change.</p> <p>He made the point that in total since inception and in response to a number of calls for proposal they have received 20,000 applications - but have only funded 250 businesses. This he said, was indicative of the demand for more patient and blended capital to support African agriculture projects.</p>
<p>Dr. Jendayi Frazer, Director, East African Commodity Exchange</p>		<p>Dr. Frazer joined the panel discussion by responding to a question from the moderator about whether she felt that the East African Commodity Exchange was doing enough. She responded to the question by providing more insight about the East African Commodity Exchange and noting that the Exchange was established to create an institution that would help farmers to capitalize on the region’s agricultural potential, and help government’s achieve food security, and improve the region’s agricultural trade competitiveness.</p> <p>She continued on and pointed out that the commodity exchange offers access to organized commodity trading, financing opportunities, and hedging opportunities which allow for price discovery, investment into improved inputs, mitigation of risk, and increased trade efficiencies.</p>



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		<p>She also said that she was pleased to add that the African Commodity Exchange provides quality warehouse storage facilities, as warehouse storage is a critical complementary infrastructure to any commodity exchange.</p> <p>Dr. Frazer went on to explain that properly managed warehouse facilities allow farmers to safely store their harvest without worrying about loss of value until market prices are favorable. An electronic warehouse receipt (e-WR) is issued by the warehouse and represents the stored commodity and is the security instrument that is traded on the exchange.</p> <p>She said that the African Commodity Exchange thus is able to assist with:</p> <ul style="list-style-type: none"> • Post harvest loss reduction • Commodity standardisation • Provision of access to finance for farmers • Helping de-risk agricultural lending for banks • Providing farmers with access to greater markets <p>She ended by saying private capital is not often patient - and more needs to be done to mobilize capital that is suitable for the agricultural markets.</p>
<p>Mr. Bruce Cameron, Director, Project Finance, Overseas Private Investment Corporation (OPIC)</p>		<p>The next panelist, Mr. Cameron of the US Overseas Private Investment Corporation (OPIC) began his presentation by introducing OPIC to the delegates. OPIC is the U.S. government’s principal development finance institution.</p> <p>It mobilizes private capital to help address critical development challenges in countries around the world with which the US has bilateral aid relationships, and by providing directly (or indirectly through third party managed funds) equity and quasi-equity investment, OPIC helps advance U.S. foreign policy and national security priorities.</p> <p>OPIC achieves its mission by providing investors with financing, political risk insurance, and support for private equity investment funds, when commercial funding cannot be obtained elsewhere. With a current presence in over 150</p>



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		<p>countries OPIC is very active around the world.</p> <p>Mr. Cameron also shared information about an initiative sponsored by MARS food called “The Food Chain Reaction: A Global Food Security Game” which provides a simulation and role-playing exercise intended to improve our understanding of how governments, institutions, and private sector interests might interact to address a crisis in the global food system.</p> <p>The scenario is set five years from today in a world where population growth, rapid urbanization, extreme weather and political crises combine to threaten global food security. The game’s players—high-level decision makers representing nations, international institutions, and the private sector—will collaborate, negotiate, make decisions, and confront the various threats arising - while dealing with a chain reaction of consequences resulting from their actions.</p> <p>By simulating a disruption in the global food system, Food Chain Reaction is designed to help high-level decision makers to better understand the interdependencies between the various stakeholders and the cascading effects of our decisions and actions. Through the game, players’ awareness about these complex relationships are elevated, so that they can ultimately gain new knowledge and understanding which will help them to more effectively address future global food security risks in real life.</p>
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Mr. Harvey Leared,
Director, Silver
Street Capital



Mr. Leared began his presentation with a disclaimer, within his company, Silver Street Capital, he was not considered “the money man” but was rather he was the one with the agriculture experience, he was the farmer.

He then went on to explain that he is a director in an agriculture focused fund, and he noted that it took them 2-3 years to raise \$300m. They have a presence in Kenya, Tanzania, Uganda, Mozambique, and they already invested \$50m in Tanzania.

Capacity development and working with small holder farmers is one of the key attributes of their fund and he shared with the delegates some of the good work they are doing, which he added, includes training women to produce chickens.

He also encouraged the private sector to work with NGO’s, as it could help create innovative services and pricing.

He ended his comments with a “just do it” like comment that the way to go in supporting agriculture in Africa . . . is to just keep going.

Summary

Key notes from the discussion included the following:

- Patience capital is possible in regard to financing agriculture - but more “impact” focused investors are needed from the private sector to blend capital with technical assistance;
- NGO’s can be brokers of private capital flows to the agriculture sector;
- Blended capital is also very important in supporting agricultural development and challenge funds help prepare recipients for commercial finance;
- There must be a greater effort to develop the ecosystem around small holder farmers – government, technical assistance providers, off takers, processors, aggregators, market makers (like the East African Commodity Exchange) as these players de-risk lending with the agriculture sector and enhance the sectors attractiveness to investors.