



AGRF 2016 – PRE - EVENT REPORT

Day 3 - Wednesday, September 7

9:30am- 12:30pm

Symposium 3: Mobilizing Private Sector Financing for Agriculture

SESSION BRIEF

Context: Mobilizing private sector financing for African agriculture continues to be a challenge despite the significant progress that has been made in the recent past. A lot of the focus of Africa's agricultural development program, the Comprehensive African Agricultural Development Program (CAADP) has been about getting African Union member states to spend 10% of their budgets on the agricultural sector, as the CAADP compact encourages.

However, it has become increasingly evident that it will also be critical for the achievement of African agricultural transformation that increased and innovative private capital be harnessed for African agriculture. Yet, these often non-traditional forms of capital, mobilized through challenge funds, impact investment vehicles, micro-lending and insuring instruments, risk-sharing debt products, and increasingly, fused with mobile telephony technology to facilitate branchless lending - and investing - require ever more dynamic and innovative policy environments.

And lastly as the global development environment adjusts to the many factors impacting the global economy, domestic resource mobilization from pension funds, diaspora remittances and a focus on reducing illicit funds also become key focus areas for African financial policy makers seeking to steer capital toward productive continental industries - including agriculture.

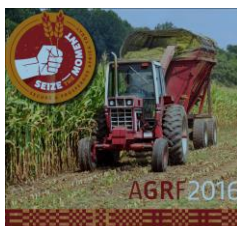
Objective: The objective of this symposium was to explore the relationship between the utilization of public funding of agriculture to leverage private investment, and to look at examples of success in this regard and to assess key policy levers and reforms that can be undertaken to accelerate private investment in African agriculture.

Key Issues/ Questions:

- How can private sector actors involved with agriculture leverage public investment to improve the national agricultural finance landscape;
- Crowding in capital – how can development partners work with public sector policy makers to strengthen the environment for private finance growth for the African agriculture sector?
- How can African governments use risk sharing facilities and capacity building to incentivize banks, de-risk the agricultural sector, and leverage lending to agriculture?
- How can governments create an enabling policy environment needed to strengthen mobile money expansion?

Outcome Desired:

- Identification of practicable acceleration steps and methods that can be taken by both private sector advocacy bodies and public sector regulatory institutions to mobilize increased private sector capital for African agriculture.



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- Identification of practical steps for African Governments to create incentives for African banks and other financial institutions to increase lending to the agricultural sector.
- African good practice shared and the continental effort which the African Development Bank has undertaken to forge improved dialogue between Ministries of Finance and Ministries of Agriculture to support agricultural transformation strengthened

Organizers: AGRF Secretariat

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Symposium 3: Mobilizing Private Sector Financing for Agriculture

Name	Picture	Discussion
SESSION 1		
<p>Mr. Mamadou Biteye, Director, Africa Region, The Rockefeller Foundation</p> <p>Role: Moderator 1</p>		<p>Mr. Biteye, Head of the Rockefeller Foundation – Africa office, opened this symposium by noting that it was in the Maputo Declaration in 2003 that African countries committed to dedicating at least 10% of their national budgets to agriculture in Maputo to achieve 6% growth in agricultural productivity.</p> <p>While a number of countries have made great strides in trying to achieve this target, most have not been able to. Thus, while over US\$ 40 billion is annually needed for African agriculture transformation, today the sector gets only US\$12-15 billion.</p> <p>The question he explained is, therefore, what financial mechanisms can we create to bridge this gap in funding to the agriculture sector? How, can the public funding available be leveraged to crowd in private sector capital and what public policy can be developed to better incentivize investment in African agriculture?</p>



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<p>Dr. James Mwangi, Group CEO, Equity Bank Group</p> <p>Role: Keynote Speaker</p>		<p>Dr. James Mwangi, Group CEO of Equity Bank began his keynote remarks by noting that Equity Bank has revolutionized banking in Kenya and East Africa by focusing mainly on the agriculture sector - in an attempt to fill an existing void in rural and agricultural financing. Equity Bank realized early on that there was need for financing agricultural ecosystems from inputs, transport, and value addition.</p> <p>There are several types of agricultural financing that can be used in the agriculture sector, including: short-term financing, agricultural development and long-term financing. For short term, cyclical, financing needs, commercial banks are able to support this area well, however, long-term financing is better (more cost effectively) secured through capital markets.</p> <p>Technological transformation and innovation in Africa has been spearheaded by the private sector, and this has made it easy to leverage on this advancement to integrate payment and money transfer systems which has further helped transform agriculture.</p> <p>The question though is, why agricultural financing? Banks should seek to work in alignment with the African Union’s Vision 2063 of AU and to support the Malabo Commitments made in 2016. The agriculture sector does make business sense for most banks if the sector’s cyclical nature is well understood. The challenges through are around the de-risking of the agriculture sector, especially at the farm level for perishable agricultural products. Agriculture should not be viewed as a development or social sector but rather as a commercial (agribusiness) sector.</p> <p>We know that today, agriculture provides employment to roughly 70 percent of Africa’s population; therefore, it is an important sector. It has the capacity to transform the continent and help it achieve the Sustainable Development Goals.</p> <p>There is a realization that equitable development requires agriculture to be the focal point. Climate change affects agriculture, therefore there is a need for public-private partnerships to de-risk the sector and find solutions to mitigate and adapt to the impact of climate change in order to attract</p>
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		<p>more financing. The agriculture sector should be made to be resilient to the continent’s changing climate.</p> <p>To make agriculture profitable for farmers and the continent, farmers should be encouraged to undertake value addition and in doing so increase the value of their output. Value adding in the food processing sector should become a higher paying occupational endeavor like in any other sector that involves manufacturing. If it remains a low paying career option, then it will not attract right funding and human resources allocation from private sector. Therefore, financing in agriculture sector must have a profit model.</p> <p>To make agriculture enterprises more profitable for the smallholder farmer, governments will need to work more closely with their private sectors. The public sector is good at research and policy while private sector is well positioned to engage because of its focus on ever improving productivity and profit.</p> <p>Promoting sustainability and scalability are the driving forces behind private sector endeavors. Therefore, with the interventions by the private sector there should be potential for sustained growth.</p> <p>Dr. Mwangi closed his remarks by noting that it is also important that both the public sector and the private sector players in the agriculture sector work to develop markets (demand/supply) that are transparent and strive to minimize distortions that can impact market access and pricing. To kick start African agriculture, we also need a sort of “Marshall Plan” to accelerate development. Of course such a massive intervention would need to be time bound, well thought through, transparent and with clearly defined goals.</p>
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Panelists



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Hon Felix Paola,
Ministry of
Agriculture,
Mozambique



The Honorable Felix Paola spoke on behalf of the Ministry of Agriculture in Mozambique as the initial panelist. He explained that there are perhaps some lessons from Mozambique that can be applied elsewhere.

At the onset he noted that within Mozambique's constitution agriculture is noted as a key sector. In 2011, an agriculture sector strategy and related implementation were developed. These have taken a very specific value chain development approach.

Mozambique also realized that by organizing its predominantly small holder farmers through cooperatives they could increase their competitiveness and bargaining power and as such they took practical steps to encourage farmers to form groups and establish cooperatives.

Like many African countries with large underutilized arable land, Mozambique has more than 36,000 square kilometers of arable land with only 15% of it today being used for production by smallholder farmers.

The agriculture sector is important in Mozambique since 72% of the country's employment is in the agriculture sector, and the income from agriculture accounts for 25% of the national GDP and 16% of its exports.


The Mozambique government in a bid to achieve Maputo declaration has prioritized research in new more resilient plant varieties.

In terms of value chains, dairy and horticulture are the priority. Youth employment in the agriculture sector is also a priority for the Mozambique government

The private sector involved with agriculture has also slowly evolved from a state of initial weakness, to become a major player and partner of government, as the government has come up with friendly policies to encourage investment in the sector from the private sector.




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		<p>Some key levers that have been developed, include:</p> <ul style="list-style-type: none"> • Establishment of an Agriculture sector roundtable that brings together public and private sector agents annually to discuss the status of agriculture in Mozambique; • Land use rights have been expanded to 50 years since all land belongs to the government; • The government has reduced by 50% tariffs for agriculture imports and reduced VAT in agriculture sector. <p>Generally, the government annually invests 4-6% of its budget in the agriculture sector, and as such he admitted that they have not yet achieved their Malabo commitment of 10% - but they are, he noted, working towards that.</p>
<p>Hon. Linah Mohohlo, Governor, Bank of Botswana</p>		<p>In her comments, the Hon. Linah Mohohlo shared with the delegates her response to the questions posed by the moderator -</p> <p>‘What non-traditional mechanisms can African governments use to incentivize banks to fund agriculture?’</p> <p>For banks to be incentivized to fund agriculture, African countries must improve productivity and intensify production.</p> <p>African governments need to work to increase the involvement of private sector in the sector. The challenge is that the private sector sees the government as inefficient, bureaucratic and an operational bottleneck.</p> <p>Governments must spearhead public private partnerships in agriculture. This will guarantee the payment of loans by the private sector and help lower interest rates especially in subsistence-oriented agriculture.</p> <p>If these measures are undertaken, then we still have a win-win situation. Private sector profit maximization would definitely help increase the country’s overall economic growth.</p>




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		<p>Regarding interest rates containment, central banks can set discounted rates. They should not be seen as dictatorial, and price setting should be contained.</p>
<p>Mr. Saleh Usman Gashua, Secretary General, African Rural and Agricultural Credit Association</p>		<p>Mr. Gashua was called on to respond to the question, “based on your experience, what practical steps can African states take to encourage private financing to agriculture?”</p> <p>He commenced his remarks with the comment that, “in order to finance agriculture you need to understand agriculture. “</p> <p>AFRACA brings together actors from central banks, commercial banks, agricultural banks, universities among others to find ways of increasing access to finance for rural smallholder farmers.</p> <p>The question that is unclear is who is driving the sector, is it ministries of finance or agriculture? The lack of clarity makes it hard to implement solutions and to seek support from the government.</p> <p>African countries need to improve their standing in the annual World Bank “ease of doing business” index to make it simpler and more straight forward to do business in their environments. Cut red tape, simplify administration requirements, reduce corruption, promote regulatory transparency. Coordination between different government levels and regional governments is also very important to make a concerted effort to improve the agriculture sector.</p> <p>There is a serious capacity gap, to meet this gap we should look at both supply side and the demands for skills be they extension or highly specialized technical skills like plant breeding and seed multiplication.</p> <p>Investing in post-harvest management/ handling technologies will reduce on and off farm losses and thus increase income for the farmers. With technologies that can reduce post-harvest losses, then the agriculture sector will be more favorable to financiers.</p>





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		<p>Addressing cross cutting issues like climate change, youth, conflict and gender are also important steps that have to be taken to move agriculture from a subsistence pastime to a very commercial endeavor.</p>
<p>Mr. Bob Collymore, CEO, Safaricom</p>		<p>In his contribution to the discussion, Mr. Bob Collymore stated to the delegates that “there is a need to ask ourselves what measures can be taken to increase investment in agriculture? This is important because agribusiness has a huge potential for alleviation of poverty on the continent.”</p> <p>To ensure that the agriculture sector succeeds the governments need- to invest in infrastructure not just roads but also irrigation systems.</p> <p>Secondly, partners in agriculture development should address food loss (post-harvest losses) happening at the farm level and wastage happening once the food gets to the table. The existing skills gap in the sector also needs public and private collaboration to address it by investing in vocational training in the rural areas.</p> <p>Most farming ventures run at a loss but we need to find technologies that will increase efficiency in agriculture to help increase productivity and reduce losses. We should focus on the potential that agriculture has as an economic driver. Achieving these partnerships with the private sector is critical, as the public sector alone does not have enough money to meet the demands required to build and expand Africa’s agricultural value chains.</p> <p>Regional integration should also be hastened to reduce the necessity for food importation from outside Africa and to ensuring continental farmers a ready market for their produce, and allow them to sell their produce at a good price.</p>
<p>SESSION 2</p>		



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<p>Mr. Augustine Langyintuo, Senior Agribusiness Specialist, World Bank Group</p> <p>Role: Moderator 2</p>		<p>Mr. Langyintuo opened Session II of the symposium by explaining that this session was to focus on lessons that African countries have learned since the Maputo Declaration.</p> <p>He further noted that it is important to know what progress has been made to attract the private sector to contribute to achieving the Maputo Declaration and Malabo Commitments.</p>
<p>Mr. Ben Valk, Global Head, Rabobank</p> <p>Role: Setting the Stage</p>		<p>Mr. Ben Valk of Rabobank kicked off the session by pointing out that there is always a need to convince the private sector about where to invest as the private sector is profit driven.</p> <p>For private sector actors there is also always a need to diversify their investment portfolio as some of these investments do not make money. Agriculture provides an avenue for bank portfolio diversification since the value chain is diverse.</p> <p>The importance of agriculture has also been rising in Africa, which is attested to by the rise in the number of agricultural banks and increased levels of financing allocated for agriculture.</p> <p>The question then is why is agricultural finance expensive and not affordable for smallholder farmers? It is expensive because financing is given in local currency (although often secured in foreign currency) and exchange rates often fluctuate, making this capital easily affected by inflation. Single digit interest rates cannot be achieved until we control inflation and ensure the stability of currency. This is the responsibility of Central Banks in Africa.</p> <p>The risk factor in agriculture makes the funding also very expensive. There is always a risk cost. Risk assessment and risk management is necessary to give financiers confidence that they will get their money back and make a profit.</p> <p>In order to make financing cheaper there is a need to reduce the costs of operation and distribution. Lending to individual</p>

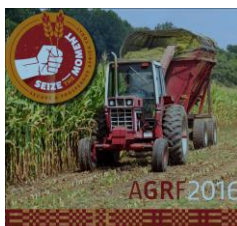


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		<p>smallholder farmers does not make financial sense as the cost to service the debt would be prohibitive. Thus, farmers must form cooperatives or small groups to be more attractive for financing. It should be noted that banks are not the only source of finance, other sources include crowd funding and impact investors serve the same market segment – i.e. smallholder farmers.</p> <p>There is a need for long-term established relationships to be cultivated between different stakeholders along the value chain.</p> <p>Creating structures with risk sharing arrangements without leaving others out will transform the agricultural sector.</p> <p>There is a journey behind us - but the future is also important for African agriculture.</p>
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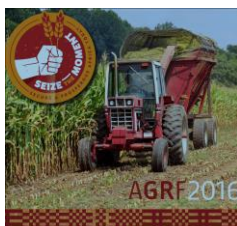
Panelists:

<p>Mr. Lucas Meso, MD, Agricultural Finance Corporation, Kenya</p>		<p>Mr. Meso commenced his intervention in this session by noting that the best investment opportunities are in the agricultural sector as there are varied opportunities along the value chain for farmers and other investors in the private sector to pursue. He continued though, that we need to start undertaking high impact investment in the agriculture sector.</p> <p>Kenya has adopted a value chain approach to promoting agricultural investment, and has established centers of excellence in the poultry value chains across the country.</p> <p>As weather patterns change fast due to climate change, he urged that we also need better adaptation models and financing mechanisms that suit the changes that are occurring.</p> <p>A partnership with AGRA has enabled us to develop robust financing systems - serving farmers in Bura and Hola. Farmers can now apply for loans from their mobile phones. This is a demonstration of the potential of using ICT to expand access to finance.</p> <p>Countries need to expand their innovation environment through policies and regulation that encourage innovation, particularly</p>
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		<p>involving ICT. However, communication authorities and central banks should speak from the same page to ensure that there is policy synergy.</p> <p>Licensing costs on the continent are very high. For African farmers to achieve robust growth, we should reduce taxation and licensing fees to attract the private sector and additional finance for the agriculture sector. For African farmers, mobile phones are a game changer.</p>
<p>Mr. Michael Hailu, Director, CTA</p>		<p>Mr. Hailu opened his remarks by stating that the reality is that out of the large smallholder farmer population on the continent, a very small percent receive finance.</p> <p>Transformation in agriculture sector must thus consider how to reach the unserved millions of smallholder farmers in Africa. We have to endeavor to make funding available to these key players in the continent’s agriculture sector.</p> <p>He continued by saying that well-organized farmers will easily access finance along the value chain. The question is how to get stakeholders organized a long such value chains so that they can benefit from available financing opportunities.</p> <p>Partners should employ different mechanisms to build capacity at the local level. How do you target research and innovation to the value chain? Financial literacy is also very important.</p> <p>Information sharing is very important for us to achieve the goal of increasing access to finance in the agriculture sector.</p>
<p>Mr. Musa Lukwago Senior Economist, Ministry of Finance, Planning and Economic Development, Uganda</p>		<p>In his presentation, Mr. Lukwago shared with the delegates the fact that the Ugandan government has been working closely with the private sector to increase financing for the agriculture sector. Out of several strategic meetings, recommendations have been taken about how to stimulate increased private sector financing support for the sector and they have been implemented by the Ministry of Finance.</p> <p>The government of Uganda also recognizes that financing is an important private sector role and as such the government of</p>




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		<p>Uganda has invested in numerous processes aimed at forging public-private partnerships.</p> <p>For example, the government is in the process of creating a risk-sharing scheme with ADB, AGRA and other stakeholders. The government of Uganda is currently also supporting the establishment of a national Uganda Agriculture Insurance Scheme, in which the government will provide 50 percent premium subsidy in this sector, with farmers expected to pay the other 50 percent.</p> <p>To ease access to finance in the rural sector, Uganda has further developed a Microfinance Support Centre that not only assists farmers to access information, but it also links them with microfinance institutions.</p> <p>Yet, he closed imploring that the private sector should engage with the government even more. Also, so that they can benefit more from available financing opportunities, farmers should organize themselves and improve their financial skills like book keeping. The Independent Cooperatives Alliance is an umbrella of cooperatives in Uganda that farmers can benefit from.</p>
<p>Mr. Bernard Rey, Deputy Head of Unit, Food Security, Rural Development, Nutrition, Director General for International Cooperation and Development, European Commission</p>		<p>Mr. Rey introduced himself to the delegates and began his remarks by noting that the European Union has a new project on Agricultural Financing Initiative (AgriFI), which seeks to address financing failures in the agriculture sector. This was occasioned by the recognition of the importance of agriculture and the fact that notwithstanding the value, financing is still lagging. Agriculture development, he continued is important to the EU, especially for the 30 countries in Africa it supports.</p> <p>He also encouraged agriculture interested stakeholders to work to provide more business development and advisory services within the agriculture sector to bring agricultural skill sets and capacity in Africa to a higher level.</p> <p>For agriculture to succeed there is also a need he noted for inclusive development and value addition. Partners, especially</p>



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		<p>governments should address other important factors as well, such as: pollution issues, social standards, and employment equity. This calls for responsible agricultural investment.</p> <p>In the end, he concluded, we need to leverage public investment that does not displace commercial finance in the agriculture sector. An informed political dialogue between the players in the agriculture sector will move agriculture to the next level.</p>
<p>Mr. Chiji Ojukwu, Head, Agriculture Department, African Development Bank</p>		<p>Mr. Ojukwu echoed the sentiments of earlier speakers that today in Africa, agriculture should be a business sector and not considered a social sector. This shift in perspective and operational activity will increase private investment in the sector.</p> <p>Toward encouraging this shift, the African Development Bank has established a number of instruments that can support finance to the agriculture sector. These include private equity funds, soft commodity finance facilities, and trade finance among others.</p> <p>Risk management is also an area that we need to focus on as risk-management tools are very important instruments. We need to mobilize more resources to de-risk value chains.</p> <p>As an outcome of a major conference held last October, he noted that African Development Bank is in the process of setting up a major agriculture fund.</p> <p>Despite these and other mentioned efforts, he still conceded that agricultural financing is still very low and more needs to be done to increase agricultural financing levels.</p>
<p>Summary</p> <p>The public and private sector should work together through more public private partnerships. Innovative models of bringing together public and private sector stakeholders are needed, such as: the Presidential Investors Roundtable in Uganda.</p> <p>Government should also recognize that the private sector is a key partner to work with to raise money for agriculture. Government is currently - more delinked from private sector.</p>		



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Lastly, the public and private sectors should infuse technological capacity in the African agricultural sector (s) to spur accelerated growth in agriculture.