



# **Attracting Private Investment into Agribusiness**

## **Presentation Transcript**

**June 14, 2012**

**Presenters:**

**Anita Campion  
AZMJ**

**Eduardo Tugendhat  
CARANA Corporation**

**Moderator:**

**Anicca Jansen  
United States Agency for International Development**

**Sponsor**

United States Agency for International Development

*Female:* Okay good morning everybody here in the room and in your pajamas in Silver Spring and overseas. We're really happy to be here to introduce this session. It was a couple of years ago that Anita approached me and some other people and said that she thought it was time that we started looking at rural and agricultural finance again and, through a lot of hard, hard work on her part, she put together the first Cracking the Nut Conference last year, which was really well-received and brought out a lot of ideas around rural and agricultural finance. Then, she was undaunted and went for it again this year, so this session is to kind of parallel the Cracking the Nut Conference, talk about some of those same issues, get some of your prospective on the themes there, and part of this will be – this will be led by Anita and by Eduardo – so Anita has formed a company called AZMJ that has really become quite successful in rural and agricultural finance and value chain finance, along with Eduardo Tugendhat, who founded – he founded CARANA –

*Male:* One of the \_\_\_\_ –

*Female:* - Corporation, so these are people who don't sit around and wait for things to happen. They make things happen and Eduardo brings a lot of experience in developing companies, small economies, and taking tough market and linking them to a broader market, so both skilled and talented people in a lot of different ways.

The background for the conference is – oh.

*Female:* Oh, I'm sorry. Just keep running through. There you go –

*Female:* Oh, okay.

*Male:* Yeah.

*Female:* So the background for the conference is really about food security and food production and the need, by 2050, to really double our food production and

invest in agricultural in developing countries, and then that investment is going to require financing and that's not going to come from donors. That's going to come from the private sector.

So again, Cracking the Nut 2011 was about overcoming obstacles to rural and agricultural finance. There was really good participation and one of the things that grew out of that was an awareness of a strong interest in where the private sector is coming from and that's – and it really underscored the role for the private sector and so that's why this years' theme is much more about attracting private sector investment to rural markets and to agricultural markets.

So that has then evolved into core themes for this years' Cracking the Nut and originally, as I recall, there were parallel themes. There was one set of themes, right, for donors and there was another set of themes for the private sector. Or there was one way of reaching out to donors and there was another way of reaching out to the private sector. Maybe that's more accurate. We came to realize – and it maybe was Eduardo who suggested this – that we can't do that. We need to be thinking about where is the private sector coming from? What do they want? How do we look at what they need and how do we take our programs, our donor funds and leverage what they're doing or get them more interested in doing what we want? And that's why I think it's kind of unfortunate to have things like the anti-Wall Street movement against business kind of feeling, idea that we have opposite goals. We may have different goals but we can both achieve our goals by working together. They're not really mutually exclusive goals and donors just aren't going to lift people out of poverty – just not going to do it.

We have now winnowed the conference down to five themes and what we're going to do is go through each of the themes, and theme by theme, get your participation, both here in the room and on the Web, so there'll be the interactive stuff going on. I don't know quite how you guys figured out how to do that but I'll leave that to you. The five themes are: Expanding to new markets; tapping new sources of supply; creating effective partnerships; making finance work; and then leveraging positive government support.

With that, I believe we're going to move into the first theme, expanding to new markets and that will be –

*Female:* Eduardo.

*Female:* Eduardo.

*Speaker:* Okay, yeah. So I'll stay sitting because of the microphone challenge but anyway, thank you and good morning everyone. I'm going to talk about two themes, starting with this whole topic of starting from the market side. One of the challenges or one of the things I've always been struck in development and especially as it relates to agriculture over the years is how many projects start by working with farmers or farmer groups to increase production or even coming in with a new product and with the idea, "Well if we develop it, then we'll figure out how to market it," and that almost invariably fails miserably and actually is, in my view, almost like development malpractice in the sense of actually causing enormous damage to people who are very close to the survival point.

The real interesting question, especially now that the whole thought is that so many of something like – we have a interesting paradox in the world which is something like 75 percent of the chronically undernourished people are rural, which means a lot of them are actually farmers. So I call it the paradox of the starving farmer and the real question is how does one connect those farmers to opportunities that can really get them out of poverty? It's not about poverty alleviation; it's about getting out of poverty. The secret to that, and the secret to getting investment into agriculture, is all about there has to be a connection to a market and it all starts with the market.

What I wanted to just start with is just a couple of points about my sense, or our sense, also working with a lot of private companies is that there's a lot of very, very significant changes happening in the food and agriculture industry, in the retailing side of things, that are driving change, creating opportunities but also creating some real challenges that need to be addressed. The opportunity side of it is important because it also means that there is a lot of interest among

investors, actually, in supporting those changes. So I've listed, if you don't mind, just going – this is just some of the kinds of – so I call it change drivers in the food industry and a lot of this relates to changes in the US and European and developed markets but the same actually applies to developing market as well, which are among the fastest growing in food and agriculture.

One of the biggest changes we forget to think about is when we think about food around the world and the number that Anicca mentioned – it's not just an aggregate number. It's actually the reality is there's more and more packaged food and processed food that's being demanded around the world. So if you talk to a company like Nestle, their fastest growing market in the world is Africa and Asia. It's not the US or Europe – those are for packaged foods. If you're Nestle and you're doing all kinds of packaged foods, that means they have requirements for all kinds of inputs into those processed foods.

Among the things that are changing, things in the US are these regulatory changes. For example, now in the US, there's a new food safety law that actually says that whoever sells something in the market is actually liable for – so if you remember there was some scandals about spinach and people getting sick or selling these tomatoes and no one even knows where those come from in many cases. Now, the retailer has to know where it comes from down to the exact farmer because they're actually liable for that product. So that starts changing how – that's an example of things that really drive change through the entire supply chain.

That means, among other things that – you know it's interesting. A few years ago, Greenpeace, for example, protested against Unilever for the idea that palm oil comes from burned down or cut down rainforests. And the reality is Unilever actually had no idea where its palm oil came from because they buy it in a commodity market. So due to that kind of pressure, suddenly they have to actually know where their products come from. This is an enormous change, this idea that – so some of you probably have seen certified rainforest and fair trade and all these kind of certification. Those are feel good certifications but the reality is that companies are realizing that they actually have to know and have some kind of visibility all the way back to where their products come from. That's a huge, huge change.

I mention here the retailers versus brands. Obviously retail stores are extremely important in the whole food chain and this is true in developing countries. You have Wal-Mart moving into Africa and Latin America in a big ways. That shakes up the entire way that people buy food and how actually farmers have to be able to sell food.

All of this adds up to increasingly segmented markets. You can't just talk about meat anymore or you can't just talk about even milk or juice. It's all very segmented into all kinds of different styles and then this whole point about food is lifestyle, you know, people go out to eat. In the US something like 50 percent of all food is actually consumed outside of the house. We forget about how important that is. That's increasingly happening in other parts of the world as well.

All of these things have implications for the supply chain. You have – one thing is it means you have to constantly innovate in terms of product development, in terms of the ability to meet these rapidly changing markets. It means you have to introduce traceability and certifications and this idea of knowing your suppliers. Now if you think about that, that's a very difficult thing to do. When you eat a chocolate bar, for example, do you know where that cocoa comes from? It might even say that the cocoa comes from a certain place but it may or may not. So for that manufacturer to actually know exactly where that cocoa comes from is a very complex process and to get a farmer, who may even be illiterate, to participate in a system where you have to actually register exactly what pesticides you use; what chemicals you use; when you use it, and document the whole history of that production. That's a very complicated thing, so one of the interesting things that's happening as a result of all these changes is agriculture today is a high-tech business. Even if you're a small, illiterate farmer in Africa, in the Middle East and Latin America, you almost have, if you really want to be part of a broader supply chain, a market that helps you get out of poverty, it's all about buying into a much higher technology approach to doing the farming – enormous implications there.

Now, the other interesting thing is that all of these changes and these requirements of the market – so for example, we're working with some organic and traceable sesame from small scale holders in Paraguay. What's amazing is that goes to Japan and to Europe but most of the buyers won't even pay a premium for that, even though the system and putting all of that together is

enormously costly. They just assume that that's – okay, suppliers have to figure that out. So one of the challenges then means that in order to invest in a system that's much, much more sophisticated, it also means that you have to be able to squeeze out – either create new value that someone's actually willing to pay for, or squeeze out the inefficiencies that exist in the value chain, in order to capture that and still be able to offer a better product at the same price as before. These are just some of the market trends that we see out of there and it's basically driving change, all the way down to the small scale farmers. Again, it's one of these things that either small scale farmers, if they become part of this, they can actually become – in effect do very well in terms of the value per hectare, and that's really the focus of what one would, at least my view is as one looks at it, is what is the potential in terms of household income or at least net income per hectare for the farmers.

I don't know do you want to break up; have comments at each slide or each section?

*Female:*

Maybe let's just throw out a question like, you know, kind of the relationship to attracting investment. Given all these changes that Eduardo's talking about in the market, what types of investments would be needed and from your experience to help products to be able to make these adaptations so that they're market-ready?