Attracting Private Investment into Agribusiness

Q&A 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

Male: Yeah, Clint Cuny, Export Trading Group. We're based in Tanzania. What we find is it's the training on the process and then, for the most part I think it's training and just teaching the folks how to do it in a way that they meet the quality standards. They can connect to suppliers who have very strict requirements and can then export more effectively. I suppose there's some equipment and testing activities required as well but I would say the training on the process is the key thing for us.

Male: Hi, Chris MaCrae, Value True. You talked about both brand and retailers and I was wondering as a sort of case study Whole Foods and Whole Planet Foundation have both created a lot of community partnerships around places where they already source food but developing the whole community around that. They've also started a sort of conscious capitalism movement across the whole sort of food industry basically to ask, you know, what is the purpose of food at every level because, for example in this country, a lot of people get obese over food and things. So I'm wondering, in a sense, where does this start – where are the best starting gravities of this so that the whole thing can come together?

Speaker: Let's just take a few questions and then –

Male: Hello, Antonio Cansada with Calton Consultants. You brought up a specific point regarding Paraguay; the traceability and challenges with sesame for the Japanese market. About two and a half, three years ago, Japanese were getting ready to not buy any sesame coming out of Paraguay because of challenges with traceability and the excessive use of certain chemicals and so forth, and so the industry was gearing up to prepare for that, you know, to address the challenge and overcome. My question would be in this period of time, you know, in the last three years or the time that you've been working in Paraguay with this group: what has been the main investment. I could see back then that the private sector that was involved in the major producing of this kind of crop in Paraguay were already invested and more were coming to invest, but did the buyers and people within the value chain all the way to Japan – did they become involved in the investment?

Speaker: Very good questions. So – and I'll get into it in my, kind of the next slide in a minute, which is about tapping new sources of supplier, new ways to tapping sources of supply, which is one of the main things we try to promote is the idea of backward linkages from the market or changes in relationships within the food systems and I think – I'm sorry, missed the name but what you're bringing up about Whole Foods is that's kind of what they're trying to do, right, is this idea of communities or really different relationships with their suppliers, is all about changing the way that they do business. So if you think about how things used to be done, or have traditionally been done, so I think one of the fundamental changes in a lot of industries – and it's not just food.

If you look at automotive industry, what's happened? Basically the big automotive companies are much more – what do they do? They do a lot of design and final assembly and then marketing and then its other people, their suppliers, they have a tier one suppliers who put together subassemblies and then they have tier two suppliers and tier three suppliers, basically. All of them – and if you're tier three, you're kind of the bottom of the food chain, kind of doing parts that go into the tier two. Basically, something similar is happening in the, you know, is somewhat similar in the food industry where you have these kind of different tiers of suppliers.

In the past, a typical, let's say a coffee company or, you know, basically how did they buy? They would work with an exporting company from Country X and that exporting company had buying agents and they go around with their pickup truck around the countryside with cash and offer cash to the farmer and basically it's a spot transaction and it's a one-time deal. Another trader offers a cent more; maybe they'll take it from that person. Farmer has almost no choice because they have to get some cash because they borrowed money or something for the inputs, so they sell at whatever price this person is offering. It's a one-time, spot transaction. What I think what we're slowly seeing is that the only way to get into situations where all the parties in a system see that they're mutually dependent on each other, working towards longer-term relationships within the chain and that's a very, very fundamental system.

If you don't mind, I'll go on to my next – and so here's a little bit, some of the questions as we relate to supply chains and if we could just go one further. Basically, this is a matrix that I think is kind of really interesting for the food and agricultural world, which kind of looks at two different axes. So one axis is the idea that this kind of up and down one, north south one, is all about differentiation. So how do you create value? We all talk about value chains. What does that mean? Right? In my view, value chain means you have to create value someplace in the chain. So you can create value by differentiating.

Differentiating means you move from a commodity and almost a definition of a commodity is an undifferentiated product. Something that's like maize, you know, especially if there's not an ability to measure, carefully, the different qualities of maize, is a commodity. It gets sold as a commodity. There's not a whole lot of difference between one kind of maize and another kind of maize.

The more you get into something that allows for that to be somehow a unique type of maize or a unique type of product, then it's differentiated, with the highest level being kind of the idea of specialty products, which are almost like products with a story behind them and so they get smaller niche markets but higher value.

The other axis that I put here is the whole concept of relationships within the so-called value chain and that's this idea that if you have the one-time, sequential type relationship of a spot transaction or a one-time transaction, it's a kind of a deal that neither side is really worrying about how do we work together to make things better. That's just a one-time thing and because of the realities of the world, it's usually a very asymmetrical relationship in which the buyer has enormous clout and the seller, which is usually the small farmer, has very little bargaining capability.

Higher value can often be created through reciprocal relationships, so again, if you have a traceable system, the only way it's going to work is if the different people in the value chain actually recognize that it's in their common interest to work together over a longer period of time. That's kind of the basic difference. I'd be delighted to see if some of you have some examples but I can mention – I'll just mention a couple of examples.

I mean, the sesame case would be one which is if you have a non-traceable basic sesame, if you will, you're selling it to a commodity market at whatever price someone's going to offer you and because they're worried about the quality, it's always going to be the absolute worst price, if you can get a price at all. Obviously, now if you're traceable, if you're organic, suddenly you're getting into more – we're talking about a differentiation of the product, so hopefully you get some better value out of that.

What's interesting about that whole process is that it creates some new efficiencies as well in the supply chain. For example, the buyers, the exporters, actually can do a better job of planning their marketing because they now have a relationship with farmers through the whole traceability system. Traceability basically means that the farmers are engaged in a process with their buyer to really track exactly what's happening in terms of how they manage the product. By working together, and it's all tied together through an information system, they're actually now in a kind of a long-term joint venture together. They can do a lot better planning and suddenly new opportunities get created. So in the case of Paraguay, one of the fascinating things was that these exporters were only using their storage for half the year and they said, "Well these farmers actually are also producing maize," and I forget what else – beans I think it was. "Maybe we can store their beans in the off-season," and actually create value again for the farmers and for themselves.

You suddenly get very, very different kinds of relationships happening and it creates value. Another example I can give you is we've worked a lot in different countries with hot peppers. A hot pepper that someone produces in whatever country and they sell it in the local market is basically an undifferentiated product; there's usually going to some truck driver was taking it to the market, so you're in the lower quadrant. We've worked quite a bit with McIlhenny, who is always looking for new sources of supply. McIlhenny is willing to – they provide a technical package of what it takes to be their supplier, which includes their specific seats under certain technology, which in many cases includes drip irrigation – so it's a fairly significant investment, sometimes for a farmer. In the case of Nicaragua, it was about $7,000.00 per hectare, which is a lot of money but because it was tied to a contract, it was actually possible to get the financing for that.

That farmer is netting about $3,000.00 to $4,000.00 dollars per hectare in Nicaragua, which, if you have two or three hectares, means you're now not just – they're going from $600.00 if they do beans and maize, to $3,000.00 if they're doing chili peppers and they can still keep some of their land for beans and rice as kind of their insurance policy, but suddenly, they're actually middle-class families, now, at that kind of an income.

In the case where we worked with this in southern Africa, one of the entrepreneurs that was involved, decided was going to go even farther up the differentiation line and created a product called elephant peppers on the whole story of that elephants don't like peppers and so this was a way to keep elephants out of farmers farms – my story to it. It actually didn't quite work, because the farmers didn't have a way to sell their peppers, so by doing this sauce, he actually created a market outlet for this. Now, suddenly you have a very high end product with the story and then provides this market outlet for the farmers. But that person doing the chili peppers now depends on the farmers because he was successful placing the product, say with Whole Foods, and if you're successful with Whole Foods, means you now have a problem that you have to dramatically ramp up your supply, which means you're really dependent on an increasing number of farmers to be able to meet that requirement.

So these are just a couple of examples of this kind of change. Basically, the point I'm making is what's happening in the food and agriculture industry, or I think needs to happen, increasingly and it links then to the finance and investment thing, which is these backward linkages through the system. If you are a giant, giant buyer, like Whole Foods or Costco or something, you probably don't necessarily invest directly all that much but just by promising to buy – basically, if a company like that says it's going to buy from their typical intermediary suppliers, that is enough to create or incentivize very significant investments to change how that value chain is structured.

Male: I'm an outside consultant for the Bureau for Food Security at USAID.

Speaker: Okay.

Male: The original question that was posed was something along the lines of; what will it take to get investment in agriculture in these areas? As I'm sitting and listening to you talk, what's running through my mind is that for an agricultural product to be accepted in the marketplace, it requires replicated studies at universities; clearly, buyers have to have a level of confidence that they're all market cycles, whether the sun is shining or whatever, that there could have product to sell; that the processors are going to have that and so on and so on. The lead times that are necessary to do this would seem to be prohibitive, so how do you cycle in this innovation that you speak about with the long lead times that are necessary to come up with a viable product?

Speaker: Well, I mean I think it may evolve. So very often, you may start with something fairly basic. Just to give you an example, we're working with a fairly large, a very large, food company in West Africa – and this rela- so casaba is something that is produced – and actually, this is something else that came out of Paraguay, where in Paraguay there was a company that developed a very interesting way of doing relatively small scale processing close to the farmers. So that's an investment. An investment in processing that gave the farmers and new access to market through basically starch, the processing of starch and that could be sold to all kinds of industries. Suddenly – and this is what a lot of it's about – suddenly the farmers have a choice. They can sell some into the fresh market or they can sell to these processors for the casaba.

The interesting thing; if you take a case like Nigeria. Nigeria's largest producer of casaba in the world and yet I think like one percent of it, at best, is processed. Meanwhile, they import about 600,000 tons of starch at a very high price to that economy. What's wrong there? What's the problem? It doesn't necessarily take a lot of studies in this case. It takes some organization and someone to put the pieces together. It's like there's pieces of the puzzle that need to put together.

Basically, we approached one of the major users of starch in West Africa and say, "Look, if you'll sign a retainer with us basically saying that you'll buy the starch, we'll then put the financing together to do the processing plant that then works with the casaba producers to get their yields up high enough to make the processing plant work," but the other key point is that how do you make sure you have enough casaba to start the processing plant and make that work. Well, one way is you start with a lead farmer that has enough size that it can at least meet maybe 40, 50 percent of that supply, so that you're not left – you have an anchor farmer, basically. That's kind of a rule of thumb that if probably about 50 percent for an anchor is very helpful because it does take time to structure successful models with small out growers, and it's not because – and usually the reason is because again, it's an organizational challenge of how one builds those linkages in ways that build trust where there's been maybe 50 years of distrust of the people coming from the outside, you know, for very good reason.

Female: We also have a quick comment on webinar here from Rupert Best from Catholic Relief Services, just pointing out that they have about less than 10 percent of the farmers they deal with are selling differentiated products. Of course, the aim is to increase this but it is a challenge and we can't do it alone. Our development partners need to link with other service providers with specialized expertise in brokering relations with the private sector.

Speaker: Absolutely. That's why, I mean, I would always encourage all these types of groups to start with a market; find a customer. Has anyone ever tried to push a thread? It's a lot easier to pull a thread then to push it. The market is, the customer is going to pull a lot of the pieces in play, including – maybe Anita you can start swinging over to the finance side, which is – that's what really allows the finance to come into the picture much more successfully.

Female: Yeah, I think that's a good segue to partnership discussion but Lori, you have a question?

Female: Hi, Lori Brock with Nathan Associates. Eduardo, I know your philosophy is that if you can sell to the export market, you can sell to the local market. USAID and other donors are not really pushing to increase productivity for the local markets and so that ties into the investment question; if the donors are really pushing just for increased productivity for the local markets, then do they still get the same type of investment or investing available to them?

Speaker: Yeah, I mean the way I would quickly answer that is the challenge there – and this has been one of my pet peeves for years and years and years – why is one thing called a cash crop and another thing called a food crop? Do Iowa farmers think that maize is a cash crop forages for food? I think it's a cash crop, so the real challenge if USAID and others, all of us, really want food to be a major increase, a part of increased supply, there has to be an incentive for farmers to want to invest in the technological package it takes to get that productivity up, which means there has to be a market. In the case of staple foods, again, because it's much harder to differentiate as someone mentioned. In maize, how do you differentiate? But you can, up to a point.

But the real problem in maize – how many studies has everyone seen that says that 30 to 40 percent of grains are lost imposed post-harvest systems, right? Now, isn't that an opportunity, if we can reduce that post-harvest loss, that's a business opportunity. Meanwhile, if you go to a lot of African countries, talk to the flour mill and ask them where they're buying their cereals. They're importing it because it's easier. Part of the issue is, again, there's an opportunity there – or the breweries, or anywhere else – they're starting to say, "Well," and this is where the opportunities for AID – and that's why the partnership approach that AID is taking now is really so great because they're starting to see that if we can work with that, even if it's a brewery and its alcohol, so that's not so great, but if we work with February that needs starch or needs glucose and they work with sorghum producers to do that, it's giving a new market outlet for those sorghum producers. Again, have choice. They can keep some of it for their own consumption but they can also sell it into the market.

With the maize, if you can do something as simple as provide moisture meters and some storage at the local level, that gives the firm or the ability to actually differentiate – and the buyer to know what is the quality. If you have properly dried maize, that has greater value than wet maize because of the aflatoxin problem. Suddenly, instead of in the traditional way, you know, buyers in Africa ____ bite the maize and then they say, "Mm, yeah, not very good," and they give a bad price. If you have a moisture meter, which doesn't cost very much. I forget what it is; $50.00 or something.

So if some of these grain traders and larger companies actually do some investment backwards in their own chain, they're actually guaranteeing themselves a local supply of perfectly good maize but they just have to make some of these investments. These are the kinds of things that were starting to see. I don't know if that answers your question but there's huge opportunities like that in food. It's just a matter – they have to be thought of as a business proposition and a commercial proposition as much as just, "Gee, we going to get those farmers to be more productive." Well, they'll be more productive if there's a reason to be more productive.

Female: We have another question on webinar related to marketing from ____ Kline. She's a independent development consultant and just exactly what some of the smaller ag projects and the ag producers are doing in terms of marketing to reach the regional and global markets?

Speaker: What are they doing?

Female: Yeah, just kind of what kind of conversations are happening among the smaller producers about how to better market their products to some of these larger buyers.

Speaker: Right, well I mean, the challenge is it's always larger buyers, obviously, have a lot of requirements, including volume, so one of the real challenges in agriculture is somewhere in the chain you need an aggregator and that's, again, that's a business opportunity for good aggregators – and it can be a co-op; it can be a producer association, or it can be a business of an anchor type firm that's providing a packing house, that's providing some kind of processing facility, that's providing some kind of storage and some set of services to help the small-scale producers meet the market requirements and then that group, again, is a joint venture type thing between that intermediary group and the producers are in a much better position to do marketing with larger buyers.

Female: Good, let's go on to the next topic, effective partnerships and this time, we really want to throw it out to all of you, 'cause I know you all have good experiences to share, too. One of the things Eduardo mentioned is the importance of trust and we all know from our own personal relationships that trust is something that takes a long time to build and can be broken very quickly. So what have you seen in terms of, you know, what types of partnerships have helped to link in the smallholders to the market information as we're talking about and also once we started transitioning to the discussion on finance, too, what we've seen is bringing the finance in as a partner so that there's more knowledge sharing is actually one of the more effective ways of facilitating access to finance. So what types of partnerships have you seen that have made a difference in rural and agricultural market development?

Male: I'm not going to speak on any specific partnership but just the underlying principles that go into make successful partnerships. It seems to me that one of the first elements is a very precise memorandum of understanding or a contract where everybody knows exactly what's expected of them. Second thing is probably a leader of each partner who is dedicated, for one reason or another, to the completion of the project. In the absence of that leader, these programs often fall into some state of disrepair and I mean, the list goes on and on but the third things, seems to me to be an understanding of cultural differences. Since everybody comes to the partnership with a different purpose in mind and they sometimes, or often, don't understand the motivation of the other partners who are so critical to each person's success.

Female: Hi, I'm Andrea Irvin. I'm an independent consultant. I found, in experience in African that transportation is actually a huge factor in creating markets. One example was in Tanzania, up near the Arusha area. The planes that were leaving Arusha were pretty much, at the time I was there, maxed out to their cargo capacity with flowers and other horticultural products but there were forms that were capable of producing more but didn't because they didn't have the ability to ship beyond the borders of Tanzania. They could, if somebody would have been able to aggregate that overall supply that could be but the planes were full, so that sort of was acting as a barrier and they really didn't have good ways to communicate with the airlines that, you know, they probably could fill another plane if one were available.

So that was sort of one piece of the equation and others were national airline have gotten involved, it has also expanded markets. Ethiopian Airlines is a big example. They're going to start flying flowers into Washington, DC now. We can argue whether that subsidization is good or bad but it is part of the transportation puzzle.

Male: Nicholas White of AZMJ. Just going back to creating effective partnerships, I think what both Eduardo and Anita said about long-term relationships with the extremely important. I think as consultants sometimes, we get caught into short of a short-term game where we're trying to create something that's based around some sort of purpose that we've been charged, you know, through whichever client is pushing that through, but business relationships take a lot of time and a lot of trust. If we're really going to help small farmers get into that relationship, we have to not only be there through a project period, but through a very long period of time, you know, multiple projects. Finding a way to work directly with these partners, not only from the consulting side through a donor, but also directly with these private sector partners over a long period of time, I think, is extremely key. I think that's sort of the charge were all looking at right now. How do we add value as consultants in development? How do we add long-term value to these farmers? How do we add long-term value to the companies and, you know, maybe our donor clients as well together? I think that's a very difficult question that's ahead of us and I definitely do not have the answer at this moment, but I think it's something we all need to think really about.

Male: Hi, Antonio Cansada again. You brought up a couple points that are, I think, very critical in the implementation programs. One, in regards to long-term partnerships, you brought the issue of trust and I mean one example that I saw of a very successful activity was in Mozambique where both the government and the private sector, local, were prompted and engaged, took ownership of the project for rice production. Rice is – high volumes are imported into all those countries in Eastern and Southern Africa; however, they took on a role to engage with the buyer, with the main importer of rice, and that main importer put his contracts on the line for local producers to satisfy.

So the projects came in, with support from the Mozambique government, a Ministry of Agriculture and so forth, so that they would produce the quality that he required. I don't think they ever got to the volume that he required, but it definitely made economic impact to several regions within the country to produce this crop and satisfy the demand, or partial demand, of that buyer. But taking ownership and getting them engaged, both the private sector and the local government, I thought was key to make this happen. The seed capital that got this started also came from USAID. There are other examples but I wanted to bring that up.

Male: Hi Chris McCrae, here. Okay, just one thing: I hear a lot of discussion here on forming partnerships, which is sort of very much from the top down as it were. I think if you go look at the really sustainable microcredits, you'd find that in the value chain of reengineering. That's really what their success has been about. Look at someone like BRAC. It started with 20 different market categories and obviously, you talk about trust and relationships. Well, if you're there in the community as a bank and have sustained that investment across a community, across generations, that gives you that anchorage, if you like, but it gives you a completely different starting position when they're trying to sort of reassemble this from the top.

Female: I have a follow up question for you. So – for you or for others in the room or online – are you aware of when a micro-finance institution is providing financing to smallholders? Are there any examples where the micro-finance institution has actually linked to an in market and have made sure that there's an in market before their providing financing to the smallholder producers?

Male: There's actually more than that. If you take, say, BRAC with chickens, it actually finances about 100,000 jobs, which is reengineered. It's reengineered the whole supply chain because originally the village chickens were delaying enough eggs, so it bred super chickens which bred more eggs, but then you had to inoculate them, you needed completely different chicken feed system so you need completely different retail systems, so they reengineered the whole chain with five different types of jobs but each of the types of jobs they provided the micro-finance and the raining kit, too. So if you were going to be the village vet, you had to go along once every six months to sort of inoculate the super chickens. It was like a sort of mini franchise. But that's what I mean by the really deep microcredits have taken old chain, have redesigned it so that each part gives a living wage and so that the whole profit from the chain gets reinvested back from the bottom up. It's a totally different sort of value chain map than you could ever imagine from the top down.

Female: This discussion reminds me, too, of something Anicca and I worked on a training in Mali. US _____ where USAID had supported in depth value chain studies related to rice, tomato, onions, yeah, shallots which were the regional onion, and potatoes and we actually convened a group of people that were from – they were actors at different points in the value chain, plus representatives of financial institutions and the big aha there was those financial institutions said, "This is what we need. We need this market information. We need to know from, you know, a credible source, that there's a market opportunity that if we support, it should do well as long as it's being managed by the right person." And so that's one of those things where I think we realized that we need to be helping to transfer the flow of that information. A lot of these micro-finance institutions and banks are not going to invest in these big value chain studies themselves but once it's there and available and accessible, they often are willing to take a look at how to be systematic in their investment.

I think part of what we want to talk about in creating effective partnerships is we understand that those private sector partnerships are very important but we don't always do the best job of reaching the poorest folks and so how can public sector engage in a way that helps to lift those rural poor up to a point where their market-ready? And I think that's one of the ways that we've done it.

Male: Hi, good morning, Lawrence Wild at Vega. I want to talk about, quickly, Samba Foods in Ghana. I don't know if you've heard this story but Samba Foods in Ghana saw an opportunity to produce, first in the market, local shito and to package that and they started doing that and established a partnership with the supermarket chain there. Everything was going great until they almost shut down because the supermarket chain didn't pay them for three years and what came to the rescue is venture capital but it took them three years to get a deal signed with this venture capital company. So my question is how can we assist or how can we help venture capital to play their part and get those deals faster and be a bigger part in the equation of financing agriculture?

Female: Yeah, the venture capital question is a really important question and I think one of the challenge is oftentimes, the people in the local area see an opportunity but they don't have access to the cash and so the trick is how do we help to communicate opportunities to folks that have access to the cash in a way that would make them interested in investing. I know one of the value chain finance studies I worked on in Peru was artichokes and basically, it was a local group that was doing processing and they had identified the opportunity of processing artichokes because artichokes – I guess world consuming more and more processed artichokes in the world but especially in developed countries and so they actually started investing in helping to convince farmers to grow these artichokes that would be appropriate for processing and then they had to processing facility. But because they had limited cash, they had to choose between how much do we spend money on getting more producers to supply us, and how much do we spend on building up systems, processing systems in other parts of the world?

It's times like those where there's a real opportunity, too, and in the case – there was a USAID project _____ that was implemented by ______ International and they actually helped, the USAID funds helped to support a lot of the community organization and showing farmers, "See there's an opportunity, here," and still, you know, farmers are not stupid. They are generally going to be fairly risk-averse, too, and they're only going to start by investing a little bit in artichokes until they see it actually does pay off.

There was a packaging of information about the market opportunity, providing inputs so the little plants were actually provided to the farmers and it didn't have to pay for that value until after the harvest, so that gave them some, basically, and in-kind type financing, and then they were also given a lot of handholding and technical assistance to make sure that they were successful in reaching the highest quality, which was in the interests of the processor and also was in the interest of the farmer because it paid the highest price.

By kind of putting all these pieces together, they were able to convince more farmers and after one cycle, they were willing to invest more and they were able to show the opportunity to the local financial institutions. At first, the local processor had to actually invest a fair amount of their own money in providing that financing but with time and through contracts showing the trust value, they were able to convince micro-finance institutions to start lending directly to their artichoke farmers. That help to free up the cash flow to be able to expand, and so it's things like that that we need to be figuring out ways to get that information to flow of a market opportunity in a way that folks that have access to the funds can see the value and that they can benefit as well because most of the times when there are really good opportunities, the demand for the cash is so great that there's – you know, you want to figure out the best way to use it and even though value chain finance within the value chain, often can be important in stimulating the production level, ideally, you really want finance to come from financial institutions so that they can free up the other money for investment in other aspects of the business.

Female: Webinar. We've got someone from Kayla Casava, I believe, from Bioessence Laboratories in Senegal, just mentioning that way she's working, she seemed a lot of instances where farmers are developing products where there really is no market opportunity. For example, she gave the example of high quality shea butter where it's too expensive for people to buy there, so that's just a trend that she's seeing a lot of. I don't know if you can speak to that.

Female: To me, that's a typical scenario where many of us have seen in the past, where we decide, "Okay, what can the local people do? Then let's do that and we'll figure out the market linkage later," and it doesn't work very well, unfortunately. We have to think more – make sure we understand the market, what's missing in the market, and what are the specific needs, and then figure out how to do it. For example, in Peru, artichoke was not something that was widely planted or consumed and so part of it was that there is a market opportunity but it wasn't something that they were already supplying. So they had to convince them that it was something that they could supply and they had the right conditions to be able to do that, but that did take some time and investment.

Male: Yeah, I mean on the specific question of shea, which we work on in West Africa – actually, we helped develop the entire industry from almost nothing to about 150 million, now, in exports. Shea, again, it's a different – this forming channels of shea, so basically Cargill and ADM do large-scale processing of shea for the food industry and it's a substitute, among other things, for cocoa butter in food ingredients. So it's very difficult to think of someone small scale person in Senegal competing with ADM or Cargill on large-scale production of shea. Now, there's other channels. For example, you can do bulk shea that comes, let's say, to people like Body Shop or ___ ______ and others where the higher, where they want, again, traceable shea, certain quality, so there are opportunities out there but the way you figure that out is by developing the product; it's actually by talking to some of those potential buyers and figuring out what they want and then doing something based on that opportunity.

The last channel for that is our people in Senegal, for example, there's a woman who won some kind of very prestigious international woman entrepreneur of the year in cosmetics or something who actually developed her own branded line of products using shea and has done spectacularly well, again, developing her own products; developing her own brand, but the key for her success was also being able to get into, let's say, trade shows in the US and Europe to be able to make connections with the buyers that would pick up her product. So again, you know, what was saying all along; these things have to be market led stop listening Heidi when you took a look at this picture. They can't be supply-based.

Male: Tom Tiburg, consultant and perhaps that's a good leadoff to what I was going to say, which is – and you raised the question ____ study, et cetera. Essentially markets a very strong. Demand ___ ___ _____ driving them and entrepreneurs are operating in trying to _____ more, sitting somewhere and maybe you can help somebody with a little study that will give them information or a connection or some bureaucratic obstacle running or something. The thing that I think – you asked about micro-finance funds and I was thinking that there's a lot less of that then there should be with the one example I can think about which was sort of nice was a failure, okay?

I don't know if – IWACU had a USDA credit program for poultry producers in the Jakarta area and as is sometimes the case involving co-ops, there were a lot of nonperforming loans, so they sold the entire portfolio to a private Chinese bank, which is now part of the OCBC out of Singapore; it's an ISP bank, and they took it over. Now, this was a portfolio that was maybe 30 percent was performing. They, over the next two – said this was a failed portfolio that IWACU got out by selling it. As far as the US government's concerned, it's over. The Chinese bank took it and started running with it ended three years, had tripled the number of poultry producers they were dealing with, because they decided that if you ran this right, if you didn't run it like the cooperative's dead, the Indonesian cooperatives as is often the case, are essentially parastatal, so forth but if you ran it like a Chinese business in Indonesia, you could do well.

So that's one story. The other failed story I keep thinking of is it so major that I won't name the names. It was a big aid project and a major importer of a major commodity – millions of tons, et cetera, set up a facility with some US aid assistance for extension and for the supplying farmers. That one, I understand, is not operating very much at the moment but two ones, copying its model on a somewhat lower scale, without any USAID assistance, are in fact, doing fairly well and the people who put the money in, the investment, they say – it's very interesting what they say. They are still very happy they did it because they made a good-faith effort and that fended off government retaliation against them for being import – I mean, they run the facility but they import depended for the facility and over the long term, they have accepted as many staple importers do, that they have got to shift to domestic sources.

So, the answer is, I mean it's sort of your point. If it's going to be five years in research studies that study this is not something for ______ organization to get into, let the Rockefeller institutions do it or whatever. There's a little bit you can push. As one of my friends said on the – which ____ was not – any sort of involvement in private sector development probably a great number of these things would've occurred eventually, anyway, but you may make them occur five years earlier and in a more equitable, transparent way.

Male: Hi, thank you, my name is Denver. I'm initially from Senegal but I'm based here in Washington, DC and having my own ____ firm, dealing with agribusiness, generally. The way I see it as the first ____ ____ this one that – about the cultural differences when it comes to dealing with agriculture and the whole area. Indeed at this time, it looks like we have two options: whether to let the studies go with all those big industries, Cargill and ____ ____ ____ ____ to keep exploiting those resources with those farmers or the option we have with the so-called crowd funding, small business, small entrepreneurs, or small businesses in the US or somewhere else – Europe has been doing it for the last, I would say, 30 years.

You don't have developed ____ ____ with some countries in Africa supplying the networks of organic products suppliers. I've been in Sweden in 1998. Sweden, Norway, Oslo, I mean, the way – and France as well, Spain, Italy. The point is if we definitely wanted to consider the partnership, US business, small business had ______ to get involved in understanding the culture and most of those countries in Africa. There's a cultural competency piece that most business are not ready to deal with. They ignore those things and definitely what happened is next to nothing, tiny will come over and I say Chinese but just the culture, but just the way they do business there more likely close to the way it's done on the ground and that's the part, I think that's missing to make this partnership very effective because when you consider the amount of money coming out from US federal aid going to those countries, you wonder why US business are not taking advantage of the same dollar they're spending in the name of aid. So I'm naming USAID, US has a major _____ for the World Bank. You have MCC recently, so you have all those instruments but yet, the coordination on the ground has to hook up to those resources in a very fruitful way to expand the map of those benefactors, small business I'm talking about. That's the piece that's definitely missing and that's something that needs to be addressed. Thank you.

Male: May I make one more comment? My colleague, here, I'm sorry I don't know your name – embedded in your story about the Chinese bank, I think, maybe a nugget for us today and that is the idea of securitization of these loans. For the moment, everyone has to try to remember that we didn't – we aren't in the midst of the aftermath of the largest financial crisis in the world because of the securitization of low-quality mortgages that were passed off as investment grade baskets of securities, because this is basically the same thing but with full disclosure – and anybody would be a fool if they didn't understand intuitively that a basket of agriculture loans from smallholder farmers in the developing world represents virtually unquantifiable risk but perhaps there's a way – in fact there actually is a way to, in effect, Dr. these loans. If some intermediary bank can step up, perhaps with a loan guarantee of some kind, either from US aid or some other entity in which the bank has some security in knowing that it will recover a substantial portion of its risk exposure, those loans can be sold on the open market to entrepreneurial investors of debt securities at some cents on the dollar, their risk, then, is that nobody ends up paying back the loan and that they pay 50 cents on the dollar, they get 45 cents back at the end of the day and the day is a long time reckoning.

But the potential is that if they look, statistically, that the likelihood of these smallholders to pay back their loans which we know are in the very high 90 percent range, they make it 60, 60, 80 percent – 80 cents on the dollar and if you're looking at this statistically, getting 30 cents on a 50 cent piece of business is a 60 percent rate of return on your investment cash on cash, so that can become a very attractive way to bring fresh money into this equation and the way I said that, I know this is being done. There's a new investment company around called Innovare, I-N-N-O-V-A-R-E, which is attempting to build a capital base so they can go out and do exactly this, among other things.

Female: Good, and that also – another concept that actually CARANA and AZMJ are working on in partnership with USAID is where going to actually be working in Peru and we've actually created partnerships with some of the impact investors that are interested in rural and agricultural finance and I think in many ways, we're in a place right now where micro-finance was, say 20 years ago. I completely agree. I think that there's a lot of good investment opportunities out there. I think the biggest problems have to do with the financial institutions not really knowing how to serve them and so will be helping them with that. They see it as too much risk compared to other opportunities, so the USAID DCA is being used to bring it down, some of that risk, but not to the point where the transferred the risk to somebody else because you want them to own it.

And then socially responsive investors are actually bringing in funding at a lower cost than they would traditionally be able to get because we're also helping to make sure that we're protecting the environment as we go about it and that's what the impact investors are most interested in. It's going to be a great opportunity to show, again, how multiple layers of partnerships can address these issues and overcome constraints that we've been seeing for a long time.

Female: Anna Alecha, Total Impact Advisors. I represent some of the impact investors that you're talking about and I also want to touch on your question on venture capital and private equity capital and some of the purely commercial capital may be in Africa. My background is in commercial banking, so I'm looking a little bit through the lens of a traditional commercial investor and I have great interest in agriculture. I grew up on a farm and especially in Africa, agriculture in Africa, and maybe this is nothing really new to you and we talk about it at many occasions, but what I see what's happening – there is plenty or maybe it used to be plenty of capital interested in African agriculture. The problem is – and this is just my own analysis and maybe you don't agree or maybe it's been already done, but – the problem is finding bankable deals.

Male: Absolutely.

Female: And what it really means is that if I'm an investor and I'm looking for a deal at 5 to 10 million, I want somebody to give me a business plan. Here is what I'm doing, one, two, three. Tomorrow, I'm taking a flight to Tanzania. I'm doing this and that and that. It's a business plan that – it's a box that has management team, that has all financials ticked off, my uses of funds, my offtake agreements, of course. I see a lot of business plans that are very far from being a deal. They are kind of pie-in-the-sky wishful thinking. Okay, here is – when I ask for a feasibility study, oftentimes, I get the GDP growth, growing population, middle class growing and who is going to buy your pineapples? Everybody. The market, you know, that's the average price of pineapple on the market. Who is your offtake and those are very hard questions and when those guys come to the table and they're very unpatient so it's sometimes hard to get even out of them. They want you to have a box with very hard questions that they want to answer.

So if we can somehow have training or have the entrepreneurs in Africa on the ground that those minds might be expert, maybe somebody with some business school experience or some business in Western world knowing how to put it together, the intermediaries. I think that that will really move this process forward if we had deals that we can really produce.

Male: That's a very good point.

Female: Yep.

Male: Hi, Keith Falka from DAI. I actually wanted to comment on that, first, about the lowering the barriers to investment and getting other players in there to do that and we are currently working on a couple things. I actually spoke with Anita before in Rwanda and actually Honduras, where we can traditionally go through, you know, say a traditional USAID project or the donor funded project and leverage different sources. What we have done and currently working on in Rwanda is we're taking these – we actually have public/private partnership funds that can be directly invested into the businesses. We're going alongside of that and running the program with the hopes of attracting impact investors into, allude to what you were saying. Myself and others will be going over there as part of the project to train up on the business skills and we're working alongside GIIN, the Global Impact Investment Network, as most people are familiar with, to kind of quantify this into the IRS taxonomy.

So to actually lower some of those barriers, get other investment in there as sort of a layer cake where this will attract investors knowing that other people are involved and the players where their money isn't completely at risk. So there are ways of doing it, I think, as we're thinking about these things and, you know, our traditional donor funded projects ____ and the way to engage private investors and private sector. There are ways to do it and we still have work to do but – thank you.

Female: Thank you.

Female: I also want to just read off a comment here from the webinar. This is Scott Richards, who works for a large social impact investor. He says in spite of the fact that securitization is still a bit of the dirty work, the small farmer loan securitization program that you described could be a very interesting investment opportunity. It would require that proper incentives, sorry, proper incentives be in place. For example, the originating financial institution keeping a significant proportion of the securitization risk on their own balance sheet.

Male: Benjamin Adung. I work with Integra government, so this is – making finance work, from my experience, I see the investment in agriculture or agribusiness in two ways: the first one is with the private sector putting the money. The second one is where the farmer is willing to accept that and expand his farm. Going back to cash crop, food crop issue. I worked on a value chain project, cotton, in Ghana before, where we supported the families in terms of inputs and advisory services. With that, the farmer knows that the cotton that he's producing is not going to consume it. He's just going to sell it and get cash from it. So it's a assured before we go in to the production, we agree on the price because the price of the cotton is controlled by the international market. So we agree on the price before going into the production, so the farmer knows how much is going to say the seed cotton at the end of the season, so it assures him or her to go in.

But when it comes to food, you know, crops the food crops where the farmer is going in the maize without any support, with his or her own financing, he may not be willing to go in fully because he doesn't know what's going to happen after production. So one way that I see it is if the farmer has an assurance that, okay, this is what I'm going to sell and that goes in to support the second leg of the investments, you know, insurance. Farmer having an insurance that okay, if the weather fails, if natural disaster comes in, if infestation happens, still I'm going to get something. Then he or she will be willing to invest more.

Female: True. It's a good point. I mean oftentimes, having a contract that states what the price will be will facilitate access to finance. We've seen that many times. On the other hand, we've also seen in the coffee markets in the past few years that that was the main plan to facilitate access to finance for the coffee cooperatives and what they found is that sometimes when the coffee prices went much higher than what the contracts stated that even though they had signed contracts that the producers did not respect those contracts because they had better opportunities, so even contracts aren't the perfect solution.

Male: Hi, thank you. I think everybody likes impact capital but just like micro-finance, there is limitations. I was just at a presentation a couple weeks ago where Ecobank was presenting and they said that they had assets of about 70 billion and then there's Standard Bank. I mean there's business going on, there's big banks and they do provide capital. So yes, impact capital is good but why not work with the banks and African banks, for example, because isn't that – wouldn't that be the better long-term solution?

Female: Sure. Working with banks is often a immediate response that people have is that banks have a lot of money. That's where we should start. What I have seen is the route is that full service banks are the ones that are most affected by the government regulations and they tend to be extremely risk-averse. So I've actually found that were able to do a lot more in terms of creative financing for farmers and agribusinesses by working with the non-bank financial institutions; micro-finance institutions, rural banks, those that are a little bit more specialized, but I do think – I think justice we seen with micro-finance is that once you create the demonstration effect, the banks will follow and to follow in a big way. I mean, anyway it works is the way to go about it.

One of the other things that was mentioned at the Farming as a Business Conference earlier this week was the importance of savings. We tend to forget that savings is very important. For most of us, we've had savings accounts long before we had our first loan. What recent market research in Africa, Gita Nayar Rajan was sharing said that that was the number one thing identified by the farmers interviewed was that they actually needed more access to appropriate savings products and that we need to think more in terms of bundling those products in a way that address multiple needs for those smallholders.

I just want to point that out before we talk a little bit about the forging government support, 'cause we're running out of time here and I think the main thing is again, was talking a lot about public/private sector partnerships. Governments, out of their concerns for food security, often want to get involved and they want to do something that will help lower the risks that the people in their country will starve to death. Unfortunately, sometimes they intervene in inappropriate ways, so I'm curious: what all have you seen that has been not such good intervention and what have you seen that has been better intervention from the government side.

Male: One overarching theme I think we're getting at here is that farming is risky business and being a small farmer is really risky business and one thing that we can all do with these programs is hope to sort of mitigate some of that risk and allow them to get there. But that takes, especially when you're just trying to raise production is one thing, but you're trying to reach a very complex market as Eduardo was explaining. It's a whole 'nother deal, a whole 'nother level of complexity that takes a lot more sort of due diligence behind and a lot more push to get towards the market. I think going into what Lorenzo's saying, what Anita went back on, some of that patient capital may work well to begin with, until the demonstration effect can happen and then you can move forward.

Going into government support, which is the topic we're talking about now, just recently coming back from Bolivia, I saw the country is extremely concerned with the amount of investment in agriculture but what they're doing to try and fix it is mandating agricultural lending to the tune of about 20 percent of bank portfolios, which is enormous. That on its own can create a huge distortion in the market. They can create even more risks than they're trying to mitigate. So how can we in our programs help banks to reach those numbers but in a way that matches the actual business opportunities, which ___ ____ talking about how old these five themes are interlinked and they have to come in sort of the systems approach. And so what can we add value in?

Well, one thing we can do is look at the big picture more so than any individual business can; who is very, and they should be, focused on their particular market opportunity. Again, another grand challenge for everyone here is how to make that happen and one thing that we've done, in Ghana we have a couple AZMJ folks in the room right now, but is to actually sort of figure out how to make finance fit the opportunity at hand and then how that links back to sort of a systems approach.

Female: I just want to interject here that we are running short on time, so perhaps the speakers could make some final comments and do a wrap-up.

Female: Sure. So I had just presented, kind of prepared a slide talking a little bit about how we are seeing the future vision and part of why the Cracking the Nut event, I think, has been successful is because we have used an advisory committee of very intelligent people like Eduardo and Anicca , who are both involved, and others to make sure that we get all the best heads around the table and are thinking about, you know, have you thought of it from every angle and I think that's what we need much more of; it is we need to get people out of their silos that we've worked in the past and more thinking, you know, cross-sectorially and from different perspectives and making sure that we're thinking of that from every angle. It tends to take a little bit longer to make sure that were even using the same terminology and understanding each other but when we do that, that's when the aha moments come up and we figure out things that we hadn't been able to figure out before. And so that's really what this is about. This year's conference is even getting kind of broader so that were bringing in more folks from these different perspectives so that they can understand the constraints from these different angles.

My big vision is that it's got to be the private sector that drives us in the future. There are some serious needs of the poor, but the truth is markets are what's going to be the solution for the most part. So figuring out how to help those low income, rural smallholders get linked in to market, real market opportunities, and stay linked in because the world is changing so quickly and that's what's happening on the global level that matters. So, you know, you just can't be, as that smallholder in Ghana, you can't know all the information that you need to know about what's happening on the global level. So you need to be connected and so how to help people connect.

We talked about the impact to investors. I think what is great is that the funds of impact investors are expanding. People are really interested in investing money in a way that also makes the difference and what I like about that approach is it uses the commercial approach, a market-oriented approach, but because it's coming kind of with a heart, too, is being directed at things that wouldn't necessarily get the first funding, and so I think we need to look even more at ways to bring those folks in and help them to create the demonstration effect for the local markets to be able to kick in and take over where they haven't been in the past.

That's kind of how I see us being able to get to a point where the rural poor have their needs better met that we need to think in terms of, then we need to help them to understand the bigger picture and empower them to be able to kind of take responsibility for their own lives but, I think none of us are going to do this on our own. We need to work as a global community. One of my big concerns is I think we might be facing another big food security crisis coming up and so I we can act as a global community or I we can act as a bunch of nations that get very nervous and shut down our borders. I really think the more that we can see that were all interconnected, even in this world, the less likely will make some of the decisions that, in the short term, could have a really big negative impact on other people.

I don't know, do you have anything else?

Female: Eduardo's closing comments?

Male: That's great . No, that's – I mean it's – I mean, I think what everyone is saying, and I just picked up on a couple of interesting comments that were made and, you know, we're all coming at this from different worlds, right? You have giant corporations in one end that are trying to market. You have very – financial groups that are looking for $5, $10 million investments – is very different from a small farm, and then you have this very, very small, poor farm that's in a very different end of the spectrum. My feel – I know there's a lot of people like to think value chain studies and mapping and a lot of things – but those things have been studied to death. At the end of the day, what with talking about is an organizational problem of putting the pieces together and bringing you the right projects and facilitating and, as Tom said, it's almost like the nudging and the facilitating of things that could happen.

Just as a really small example: a few weeks ago, you were mentioning Ghana. Talked to a big grain company, major grain company in Ghana. They're importing most of the brain. They said, "We'd be happy to buy, but we need an aggregator that can do 10,000 tons." Went inland in Ghana and there's an aggregated there that can do almost 10,000 tons but needs $100,000.00 investment to be able to have the right storage capacity. It's not very much. So if we could just bring them together – Cargill and – or, in this case Cargill could easily make $100,000.00 investment to be able to – and in this aggregator is dealing with grain producers in Northern Ghana. It's almost like a no-brainer but there's no one making those connections and those linkages and then the financing can go to the farmers 'cause they have now this new access to market.

So a lot of it is an organizational problem of putting these pieces together but as Anita said, it really does start from a market. It can be a local market, it can be an international market, but it has to be a market.

Female: Good.

Female: So the final word is put the pieces together.

Male: Together, exactly.

[Laughter]

Female: Right.

Male: Good, well thank you all for participating. It's been really fun.

Female: Yeah, thank you. Great discussion.

[Applause]

[End of Audio]