



Agricultural Investment Funds (AIFs)

Nomathemba Mhlanga, Ph.D.
Rural Infrastructure and Agro-Industries Division (AGS)
FAO-Rome



Africa Finance &
Investment Forum 2009

Partnerships for Growth & Development
13-15 December 2009, Amsterdam, The Netherlands



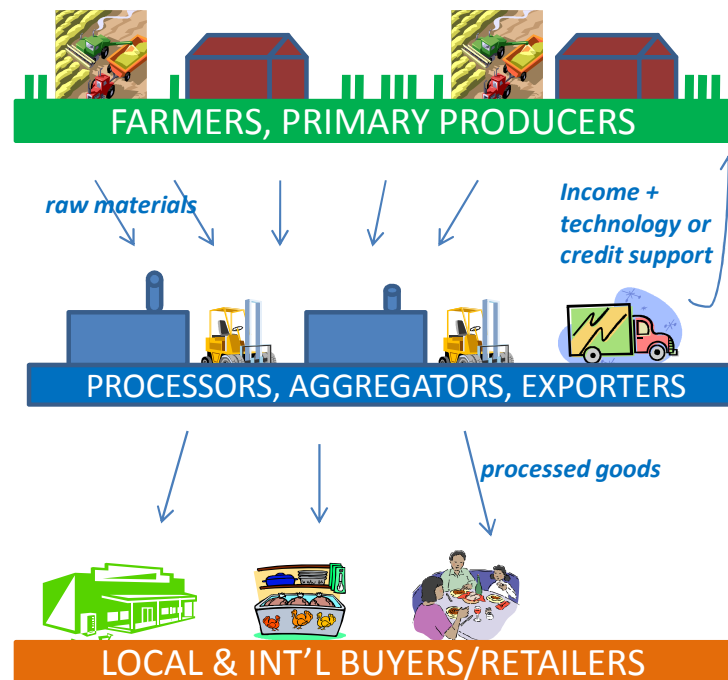
- Agricultural investment funds: the concept
- Overview of funds in the FAO/ ConCap study
- Examples of AIFs focused in Sub Saharan Africa (SSA)
- Private sector engagement in AIFs
- Other FAO-AGS work on supporting and promoting rural entrepreneurs
- Conclusions

Why an Agribusiness Investment Fund?

RISK FACTORS

Economy, Market Conditions, Shocks
 Climate
 Know-how
 Competition, strategy

VALUE CHAIN PLAYERS



OPPORTUNITIES

Space for subsidized lending & grants

Low profits, high risk, but viable esp. with support for productivity enhancement

Space for SEAF-like investment funds

Reasonable and consistent returns (less exposed to market factors than other sectors), but not extremely high returns.

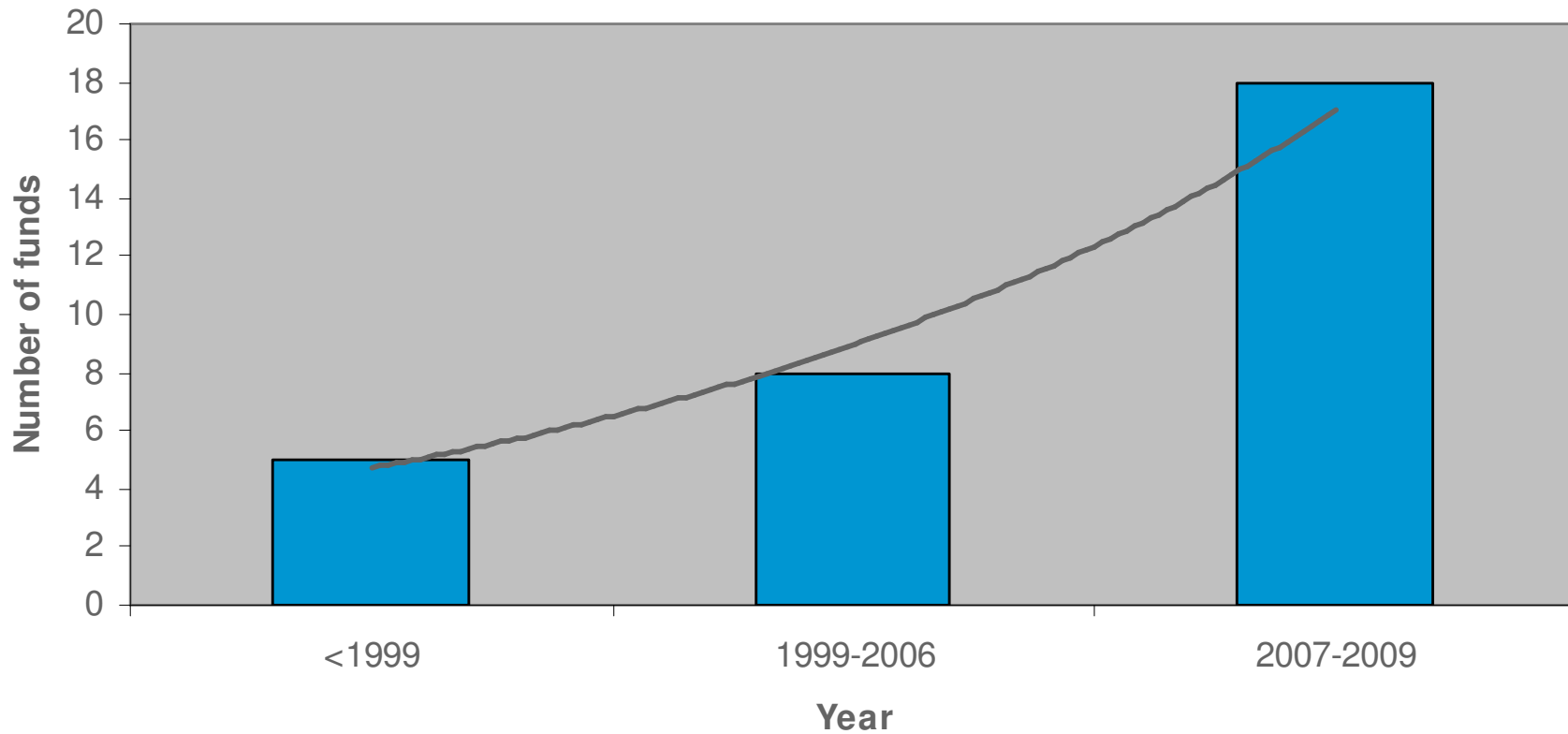
Space for SEAF-like investment funds and private sector

Opportunities for high returns, based on business strategy and ability to beat competition.

➤ **Agribusiness fund focusing on businesses that link farmers to global buyers can complete a farm-level development strategy for emerging markets.**

Source: Small Enterprise Assistance Funds (SEAF), 2009

- Desk study: Stock-taking and case studies
- 31 AIFs identified mainly focused on SSA
- Significant growth of AIFs in recent years
- Majority set up as a public-private partnerships (PPPs)- 58%
- Capital base ranging between US\$8 million and US\$2.7 billion
- Varied instruments: equity(14), debt(4), debt/equity(8), guarantee(1), others (4)



Source: FAO/ConCap Study

Example 1

- Launched in 2006 and funded by CDC Group plc
- Private equity investor in agribusiness and forestry sectors

Examples of funded projects:

- Tanzania Tea Packers (TAPETA) in Tanzania that has achieved Fair-trade status thus better returns for the entrepreneurs
- Kilombero Valley Teak Co. Ltd – employment creation

Technical assistance & support:

- promotes the highest standards in social, economic and environmental areas
- provides guidance on strategic, governance and financial matters through close management contact

Example 2

- Established in 2005 and funded by Rockefeller Foundation, Gatsby Charitable Foundation & Volksvermorgen NV.
- Venture Capital Fund- fully invested in 16 SMEs in Kenya, Uganda and Tanzania
- AAC also manages the Africa Seed Investment Fund

Examples of funded projects:

- Victoria Seeds in Uganda which serves smallholder farmers in Uganda, South Sudan and DRC
- Africado- a start-up company in Tanzania which grows and exports avocados to the EU
- Ideal for socially oriented investors

- Agriculture perceived as a sector that offers investment opportunities for the private sector
- AIFs offer a means for investors to pool their assets and invest in the rural/agriculture sector in developing countries, diversify portfolio
- AIFs offer opportunity for the private sector to build synergies with the public sector (risk sharing)
- In the study- 18 funds were PPPs and the rest private capital funds
 - private capital funds investing in agriculture increasing in recent years

- Direct Investment- both foreign direct investment (FDI) and domestic private investment:
 - invest directly into businesses
- FDI in agriculture often uses the value chain approach e.g. agro-industry investment linked with contract farming / out-grower schemes
 - Example Illovo Sugar Ltd of South Africa's investment in Tanzania
- The real potential lies in mobilizing local investment thus AIFs and FDI can act as a catalyst to local investment.

- Increased agricultural investment is critical to end hunger. Through AIFs and direct investment, the private sector can inject capital into the sector hence foster the development of rural enterprises
- Beyond capital, the private sector can bring new technologies, build human capacity, link rural entrepreneurs to markets and so on.
- PPPs can be a useful tool to engage the private sector as they provide for sharing of risks and costs
- Investors should go into industries where they can expand opportunities for increased value addition.

- Agribusiness development, contract farming, market linkages and value chains, rural finance, farm and post-harvest management

For more information consult:

- AGS Website: www.fao.org/ag/ags/index_en.html
- Rural Finance Learning Centre: www.ruralfinance.org
- Contract Farming: www.fao.org/ag/ags/contract-farming/en

UPCOMING EVENT

- High- Level Conference on Development of Agribusiness & Agro-Industries in Africa (HLCD-3A), 8-10 March 2010, Abuja, Nigeria: www.hlcd3a.org

- Review Guidelines on FAO and the Private Sector
http://www.fao.org/tc/private/principles_en.asp
- For Field Activities, contact the FAO Country office
<http://coin.fao.org/cms/do/en/index.html>
- Contact relevant Department or Division at FAO Head Quarters
- UN: Review Guidelines on Cooperation between the United Nations and the Business Sector
www.business.un.org

Nomathemba Mhlanga
Food and Agriculture Organization of the United Nations
Rural Infrastructure and Agro-Industries Division
Viale Delle Terme di Caracalla
Rome, Italy
Tel: + 39 06 570 52007
E-mail: Nomathemba.Mhlanga@fao.org

THANK YOU!