Food and Agriculture Organization
of the United Nations

Promoting the role of small food enterprises in the transformation of rural communities

WORKSHOP REPORT

Annual Meeting of the Donor Committee for Enterprise Development
14 June 2017

SUSTAINABLE MARKETS, AGRIBUSINESSES AND RURAL TRANSFORMATIONS ◢ SMART

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Acronyms

DCED	Donor Committee for Enterprise Development
FAO	Food and Agriculture Organization
IFC	International Finance Corporation
ILO	International Labour Organization
M&E	Monitoring and Evaluation
NGO	Non-governmental Organization
ODA	Overseas Development Aid
PSI	Private Sector Investment Programme Netherlands
SOFA	State of Food and Agriculture
SMAE	Small and Medium Agricultural Enterprise
SMART	Sustainable Markets, Agribusinesses and Rural Transformations Team, ESA, FAO
SME	Small and Medium Enterprise
TA	Technical Assistance
UNIDO	United Nations Industrial Development Organization

Executive summary

The 39th Annual Meeting of the **Donor Committee for Enterprise Development (DCED)** was hosted by the Food and Agriculture Organization of the United Nations (FAO) in Rome on the 14th June 2017. The DCED brings together more than 22 bi – and multi-lateral donors, development funds, UN agencies, and private foundations, to explore how to make markets work for the poor. Under the aegis of Annual Meeting, FAO organized a Thematic Day to explore the relevance of small and medium sized agro-food companies (SMAEs) in poverty reduction and the transformation of rural development, inviting representatives of small and medium-sized enterprises from Uganda and Ethiopia, and academics and experts on finance and agricultural value chain development.

This report represents a summary of the proceedings by the FAO organizers of the Thematic Day.

Opening remarks highlighted the following trends, challenges and opportunities: Within the next thirty years the global population is expected to reach 9.7 billion and two thirds of the world population will be living in cities. With it, global demand for food will rise by 50% and food production in the developing world will need to double.

A number of complex challenges encircle these numbers. The food insecure in developing countries shoulder most of the burden as pressure on natural resources increases and climate change makes food production less predictable. Finding decent jobs for the unprecedented number of young people living today is also a major task, and failing to do so will complicate other challenges, like migration flows and social instability. However, these same numbers also present opportunities.

The belief is that the surge in domestic demand for fresh and processed food provides opportunities to small rural food companies to contribute to more inclusive rural transformation, and in doing so contribute to the Sustainable Development Goals 1, 2, 9 and 8. For instance, rural small and medium agri-food companies (SMAEs) are 'close-to-home' buyers for poor farmers, providing important market bridges between local production and rising urban demand. They are familiar with local tastes and dietary habits, and can offer a variety of affordable and nutritional foodstuffs locally. They can also offer jobs to young people, allowing them to remain close to the rural family network, instead of emigrating or moving to overcrowded cities. If located in rural communities, SMAEs can also create demand for investment in modern utilities such as energy, water and infrastructure.

Following the opening remarks, a key note presentation was given on the concept of the 'missing' middle and the importance of unleashing the potential of midstream SMAEs in rural transformation. Building on concepts, participants also heard from successful Africa entrepreneurs and an investment broker on their 'real-world' experiences in making business work for the poor. These experiences were also complemented with lessons from donors' initiatives and research from Cornell University, the Department of Agriculture, Food, Fisheries and the Marine, Ireland and FAO on support to the missing middle.

The following were the main areas of discussion emerging from panel presentations:

Access to finance – more emphasis on risk reduction mechanisms for investors can improve equity flows to the missing middle.

Discussions highlighted three constraints that can contribute to restricting investment in the middle-segment including; (i) the informality of SMAEs accounting systems and reluctance to divulge financial information; (ii) investors' inability to manage a high number of small sized investment requests and (iii) an absence of legislation that protects investors. Participants also discussed the relevance of investors' confidence in the financial health of a small company. There are investors willing to support entepriseses' role in social and environmental development but they also seek mechanisms that can help them verify claims. Examples were shared of computerized programmes (for instance, Life-Cycle-Analysis, Enterprise Risk Assessments) that can be applied to provide investors with more data to reduce risk and improve transaction costs in the middle-segment. It was proposed that legislation designed for responsible financial investment could be guided by a combination of insights from international and domestic financial and agricultural sectors. To make risk management and oversight more efficient for investors, a hybrid crowdfunding mechanism was also suggested that could crowd investors on one side and group small companies on the other. Blended financial products were also proposed, such as concessional loans and performance incentive grants to mitigate risk and provide stimuli for companies.

Human Capital – a shortage of appropriately skilled young people hinders SMAE's potential to contribute to rural youth employment

Panellists discussed how they often have to diversify scarce resources to invest in community training to address the missing skills and knowledge related to agriculture and food processing. A lack of human capital is also a barrier for investment. It was suggested that more engagement with the education sector to improve outdated syllabus so that first, jobs in agriculture are more attractively perceived by young people and second, skills respond to the needs of the sector. Panelists also argued that territorial tools, as presented during the keynote presentation, can work for poverty reduction but require balanced public-private sector engagement that comply with good business principles.

Partnerships and networking, outside immediate business needs, is an important strategy for small enterprises to overcome challenges in the enabling environment.

Discussions revealed that many successful SMAE's develop strong networks and actively seek partnerships with a range of public and private sector actors to find solutions for overcoming contextual challenges, thereby creating their own micro-enabling environment. Networking among small, medium and large peers and having the 'right' contacts was discussed as important for identifying investment opportunities and mentorship. The examples provided by panelists suggest that international twinning between firms in industrialized and developing countries can also be effective way of sharing expertise and access to the latest technology.

SMAEs' embeddedness in the local context and culture contributes to inclusive rural transformation.

All of the cases presented highlighted an inherent philanthropic belief, characterized by entreprenuers' desire to contribute to the development of their community, as an important driver of SMAEs' business models. The point was also raised of how SAMEs' embeddedness in the local context enables them to contribute to development needs such as nutrition, female employment, linking farmers to markets as part of the business strategy. SMAEs' close position to rural communities and access to local knowledge translate into certain advantages, such as being more able than larger companies at understanding their suppliers and clients, or being better at building trust with local stakeholders. Participants discussed how these characteristics could be used by the public sector and donors to contribute to development objectives.

The role of donors and international organizations in supporting SAME's in the missing middle

In response to participants' queries on the role of donors in supporting the missing middle, suggestions were made that programmes could include appraisals and support to risk reducing strategies for investors interested in investing in smallholder agriculture and SMAEs. Panellists referred to 'islands of sucess' that have emerged from agricultural value chain projects, suggesting that better donor coordination and pooling of resources, finance and technical assistance, could contribute to scaling up these successes. It was also recommended that interventions need to be designed and delivered in close consultation with the private sector, leveraging all actors in the value chain. In doing so, it was also proposed that project support (technical assistance, finance and hard inputs) are complemented with the upgrading of processes and systems so that there is connectivity along the value chain and between the urban and rural spaces.

Opening session: Setting the scene for SMAEs in rural transformation

The 39th Annual Meeting of the **Donor Committee for Enterprise Development (DCED)** was hosted by the Food and Agriculture Organization of the United Nations (FAO) in Rome on the 14th June 2017. The DCED brings together more than 22 bi – and multi-lateral donors, development funds, UN agencies, and private foundations, to explore how to make markets work for the poor. Under the aegis of Annual Meeting, FAO organized a Thematic Day to explore the relevance of small and medium sized agro-food companies (SMAEs) in poverty reduction and the transformation of rural development, inviting representative of small and medium sized enterprises from Uganda and Ethiopia, and academics and experts on finance and agricultural value chain development.

The workshop was opened by Kostas Stamoulis, Assistant Director–General of the Economics and Social Development Department FAO, with interventions by Jim Tanburn – DCED Coordinator, Rob Vos, Director of the Agricultural Development Economics Division FAO, and Francesco Pierri, Chief of the Advocacy Unit, FAO. The following interventions were made by panellists.

- Within the next thirty years the global population is expected to reach 9.7 billion and two thirds of the world population will be living in cities. With it, global demand for food will rise by 50% and food production in the developing world will need to double.
- A number of complex challenges encircle these numbers: The food insecure in developing countries shoulder most of the burden as pressure on natural resources increases and climate change makes food production less predictable. Finding decent jobs for the unprecedented number of young people living today is a major task, and failing to do so will complicate other challenges, like migration flows and social instability.
- These same numbers also present opportunities – the objective of the day was to explore how FAO and the co-members of the DCED can leverage these opportunities so that rural communities and poor people in developing countries can benefit.
- The DCED members consist of 22 bilateral donors, foundations, and UN agencies that come together to explore what it would take to develop a private sector that generates jobs and incomes for people in poverty. As such, the theme of the workshop is one that speaks to many members seeking to exchange experiences and identify successful results that can be scaled up.
- FAO is also exploring the topic in its forthcoming flagship publication, the 2017 State of Food and Agriculture (SOFA) which analyses food systems development as an enabler of more inclusive rural transformation. Part of the analysis argues that the surge in domestic demand for fresh and processed food provides small rural food companies with the possibility to contribute to more inclusive rural transformation on a number of levels. For instance, rural based small and medium agri-food companies are:

    - 'close-to-home' buyers for poor farmers, and as such, can provide important market bridges between local production and rising urban demand.
    - familiar with local tastes and dietary habits and can offer a variety of familiar, affordable and nutritional food stuffs locally.
    - able to offer young people jobs, allowing them to remain close to the rural family network, instead of emigrating or moving to overcrowded cities.
    - located in rural communities creating demand for investment in modern utilities such as energy, water, infrastructure, telecommunications and waste disposal: with possible spill-over benefits for vibrant rural towns.

Why is the potential of SMAEs not being unleashed?

Incentives for transformation that are often missing include:

- infrastructure and basic services to better link the farming community and domestic food companies and to bridge distances between rural and urban spaces;
- extension services and technical assistance to support the development of agro-industrial food value chains;
- consistent price policies and incentives promoting smallholder market access and agribusiness development across different policy domains for agricultural, trade, food safety, nutrition, education, and employment;

- a strategic vision that places a 'green' domestic food industry as central to improved livelihoods for poor farmers; nutrition and food security; and job growth for young people and women;
- increases in investment in agriculture that enable the contribution of productivity and food value addition to rural transformation.

However, small rural farmers and food enterprises are not typically considered 'bankable' by conventional investors. **The Committee on World Food Security (CFS) Principles for Responsible Investment in Agriculture and Food Systems** – known as RAI – sets out ten principles that apply to all types and sizes of agricultural investment including fisheries, forests and livestock. They apply to all stages of the value chain and act as a soft law instrument that are globally applicable, addressing a range of environmental, social and economic issues.

Keynote presentation – Attracting Investment for the Missing Middle of the Agri-food Sector

The keynote delivered by Martin Webber, JE Austin Associates, provided a contextual backdrop to the topic. In doing so, Martin compared the mango value chain in Western Burkina Faso with the avocado value chain in Kenya. Both have high-value export potential and are characterized by a large number of smallholders and some primary processors.

Investments in the middle segment of the avocado chain, including enabling environment reforms and stronger public and private sector support institutions, have resulted in the creation of a number of domestically led high-value diversified value chains such as avocado oil. The chain is supplied by 9,000 smallholders who have increased yields from 15% to 65% per tree.

In contrast, despite numerous initiatives to improve productivity, the mango chain continues to suffer from low production yields, poor logistics and almost no high-value domestic value addition. Final processing and product differentiation takes place in export markets.

As such, the Kenya case suggests that support to the middle segment can create the 'pull' for upgrading upstream activities and improving the livelihoods of upstream actors.

Tools for strengthening the middle segment of agrifood value chains in developing countries is the main theme of FAO's recently published sourcebook on **Territorial Tools for Agroindustry Development** which explores five policy instruments in this repect: agrocorridors; agroclusters; agro industrial parks; special economic zones and agro-incubators.

The presentation emphasized the need to understand and support small actors operating between lead firms and farms. These small firms are typically embedded in the local context and culture. The intricate role they play brings many benefits to the value chain including connectivity, local knowledge, and flexibility. Ultimately, initiatives that support the middle segment translate into less risky and more robust and inclusive value chains. See Annex 2 for a copy of the presentation by Mr Webber.

Session findings – SMAEs and finance, tools, vision, attribution and definition

The plenary discussion based on opening remarks and the key note presentation raised the following points:

On Finance – An absence of mechanisms that reduce investors risk represents an obstacle for investment in the middle sector. Participants raised concerns that there is often no legislation that allows investors to recover assets, or investment products that enable investors to circumvent unreasonable collateral requirements. Discussions referred to World Bank guidance on the topic that advocates using professional domestic financial service providers including commercial banks to channel investments and to customize products to the needs of investees and investors. Panellists highlighted that reliable access to data on credit worthiness and appraisals on the viability of business models of small enterprises could improve investment flows.

On territorial tools – Participants raised concerns that while agro-incubators and industrial parks are, for Africa, innovative tools for attracting investment there needs to be more evidence on their contribution to poverty reduction. It was suggested that, in reference to work on the topic in the Balkans, the success of these tools can be hindered due to initiatives pandering to the public sector and donor demands, and not enough consultation with the local business community or compliance with good business principles.

On attribution and scaling-up – The challenge of attribution was raised, which is important for knowing what should be scaled-up. Participants referred to the difficulty in attributing the success of the avocado value chain in Kenya to returns on public and donor support in the middle segment, or simply to an expansion in the industry and export-led demand. Regardless of attribution, it was pointed out that donor investments should capitalize on growing demand that, with investment and support, can bear fruit for better chain alignment between small rudimentary enterprises and more formal activities.

On unifying a public-private sector vision – Panellists referred a general mutual distrust between the public and private sectors, which is impeding the development of national level unified public-private sector visions for an inclusive and sustainable agrifood sector. It was highlighted that donor funded initiatives continue to play important roles as neutral conveners of platforms for open public-private sector dialogue.

On definitions and informality – The point was made that the midstream segment in developing countries is typically crowded with informal subsistence companies, which is not necessarily missing but hidden. These companies operate in informal environments serving most of the domestic food market. Discussions highlighted that formality is often not an option for many SAME's as it would compromise their existence. In addition, there is no single universal definition for 'small or medium'. This depends on the national context, the type of food commodity and the entry points of organizations implementing various initiatives aimed at improving the middle segment of value chains.

Session 2: The role of SMAEs in Rural Transformation

The session provided the meeting with experiences from African entrepreneurs and from a financial service provider funding SMEs, building on the concepts shared in Session One. Panelists included Daniel Gad, SMAE advocate and owner of Omega Farms in Ethiopia, Peace Byandusya, Director of the Mushroom Training and Resource Centre in Uganda and Ruud Nijs, partner of the TheRockGroup and former banker.

Daniel Gad trained and worked in the telecommunications sector in the US. He returned to Ethiopia eleven years ago to invest in agriculture. Tapping into government capital and support, he began in the rose growing business, focusing on increasing productivity for exports. Recent rapid changes in market dynamics (mainly due to changing demographics discussed in the first session) has led his business, and the government, to focus on the Ethiopian and East Africa regional food markets.[1]

While Gad had no formal training in the sector, he talked about his passion for agriculture, which led him to grow a business that works with small out-growers, buying high-value fresh fruit and veg for export to Europe and the Middle East.

He identifies strongly with the missing middle which he states has been side-lined in policy and public expenditures, including overseas development aid (ODA). He discussed the important role that DCED members have in influencing public policy so that the missing middle is supported in programmes and initiatives.

Peace Byandusya was introduced to mushroom spawn growing by a friend. She started with five 20g bags of Mycelium. After seeing that the activity gave good returns on investments, she used savings to train in mycology and mushroom growing and bought land to expand the business. She also tapped into a variety of donor programmes supporting the agri-food sector in the country offering training, incubation, technology and equipment. To-date, her business employs 52 employees and has trained over 10,000 farmers in mushroom growing around the country, with a focus on women and young people. Peace considers herself an innate entrepreneur with a mission to contribute to the livelihoods and nutrition of poor people in her community and beyond through her business.

Ruud Nijs is a former banker with much of his career working for ABN Amro bank and Rabobank. Currently he is a partner with the TheRockGroup which advises companies on sustainable (people, planet, profit) investments. He presented an initiative TheRockGroup has with an IFAD programme, 4P-Public Private Producer Partnership Programme. The 4P guides public sector engagement in the development of rural small enterprise based business models. TheRockGroup's role is to map the business models supported by the IFAD project and address weaknesses preventing their financial viability. Figure 1 below provides an overview of the framework which guides this process. Four lessons learnt so far from the engagement relate to time, size, risk and control, which were expanded upon in the discussion below.

Figure 1: 4P Framework

[1] Within the space of 10 years the population of Ethiopia has risen by 20 million to 100 million creating problems for food security and expensive food import bills.

Session findings: human capital, young people, finance and the role of donors in the missing middle

An interactive discussion between the panelists and participants revolved around; finance, capacity and human, capital and the role of donors and international organizations in supporting the missing middle.

Human capital, building capacity and engaging young people

Panellists revealed that access and retention of appropriately skilled people is a serious constraint for their business. They argued that it is difficult to retain young people, as many have aspirations to leave rural areas as they do not see agriculture as attractive and consider it laborious and a poor man's job.

To address this issue, Peace described how her company gives continual on-the-job training, building a strong team-spirit, which is divided between 14 people managing the main office and the remaining working in mini-centres based in the communities. All workers receive mushroom spawn as part of their remuneration package; this benefit also provides an opportunity for their families to engage in growing and selling. The ongoing training also gives workers the knowledge they need to be able to do quality control and interact with the company's growers and trainees. In this capacity they are also able to bring back information from the community to the company's main centre. Her company also buys and recycles agricultural waste as organic fertilizer, providing poor people with another opportunity to make money from her business. She advocates for agribusiness incubator programmes that deliver specialized mentorship and access to the latest knowledge and technology.

Daniel talked about how none of the young people he employed had the skills he needed for his farms and therefore he had to diversify some of his resources into training people, like many agricultural companies. He considers the lack of human capital to be a main barrier for investment. He argued that a high-quality agri-food sector is dependent on high-quality trained people available across a number of disciplines relevant to agriculture and food processing. The formal education system, however, does not supply young people with skills and technological background the sector requires for its modernization. UNIDO shared how it is working with vocational institutes, based on close collaboration with the private sector to try to address this gap.

Finance for small companies – the real missing middle

Ruud and Daniel discussed how one of the main obstacles to investment is the informality of small enterprises accounting systems and entrepreneur reluctance to divulge financial information. TheRockGroup's role with the 4P programme has been to sensitize companies on the need to have auditable books that show a sound business-track record available for potential investors to view. Ruud maintained that if investors are confident in the financial health of a small company they are more likely to invest, but they require access to financial data first. Upgrading the financial skills of companies may take 2-4 years, and in the long-term requires access to good accountants in the country. There are many technological programmes available that do Life-Cycle-Analysis, Enterprise Risk Assessments and even entrepreneurial competency based tests. These tools can be applied to provide investors with more data to reduce risk and improve transaction costs in the middle-segment.

Another constraint highlighted was that the size of investments required is often too big for microfinance loans, but at the same time are too small to attract many investors due to overhead costs. Ruud proposed a type of crowdfunding fund which would crowd investors on one side and package small companies on the other, thereby bundling the risk management and investment oversight. This should be combined with local high-quality financial institutes knowledgeable on national

BOX 1. Leasing companies in Ethiopia

In Ethiopia, a recent collaboration between the IFC and the Central Bank was successful in passing a new leasing law that makes it possible for foreign donors to engage in lending activity previously restricted only to Ethiopian banks. As a result specialized leasing company for agricultural equipment can now be established that can tap into ODA. While this practice would not solve the problems associated with maintenance of equipment, training and so forth, such a leasing enterprise would still contribute to small companies' lack of liquidity to access modern processing and agricultural equipment.

legislation, to act as intermediaries with companies and guide investors. Increasing the availability of capital through crowdfunding on local markets could also contribute to lowering interest rates by commercial banks.

Daniel also recommended the use of a combination of grants and loans, which are channeled directly to firms in the 'missing middle' doing business with farmers. He argued that the burden of managing large capital assets is often too much for small farmers and producer groups.

It was suggested that creating access to a blend of financial products is important and should include a mix of local and international expertise, that meets the risk needs of financiers and enterprises, such as concessional loans combined with performance incentive grants; and loans that can be transferred into grants when business plans are enacted as agreed. Capital leasing companies (see Box 1) can also represent a good solution as they can lend agricultural equipment which, when fully paid for, can be transferred to companies and farmer groups. Sustainability (people and planet) claims in business plans also need to be measured and verified for investors.

The role of donors and international organizations in supporting the missing-middle

Panelists suggested that donors could consider more interventions that reduce investors' risk. Risk is currently too high and is preventing an inflow of capital into a nonetheless potentially high-value sector. Bilateral donors can also play an intermediary role between modern private food sector practices and technologies in industrialized countries and developing countries. The example of the Dutch Private Sector Investment Programme in Ethiopia was give, see Box 2.

It was also recommended that direct interventions in value chains and, in particular on productivity, should not take place without consultation with downstream private sector actors in the same commodity lines.

There are lots of 'islands of success' taking place across Africa, separately led by different donors. More traction would be seen if those efforts were consolidated. It was proposed that donors and Organizations like FAO, ILO, and UNIDO, could blend finance and investment along with technical assistance, domestic and international, so that all stages of the value chain are leveraged.

The point was made by Daniel that processes and systems should not be forgotten as they are important for improving connectivity along the value chain and between the urban and rural spaces.

BOX 2. The Dutch Private Sector Investment Programme

The Private Sector Investment Programme (PSI, formerly known as PSOM) implemented by the Dutch government, gave pilot grants to match Dutch and non-Dutch companies with local business partners, in Africa, Asia, Latin America and Central and Eastern Europe.

Less than 40% of the fund was used as start-up capital for businesses. The rest of the money, however, was used to provide loans which were forgivable after a certain number of years if the company performed according to the business plan submitted in the project. The PSI programme created many jobs, stimulated economic activity and was overall a successful one.

Session 3: Approaches and tools for SMAEs in agricultural value chains

The session shared lessons from analytical and field approaches developed by FAO and partners to support the role of the middle segment in agri-food systems development. Panelists included Aisling Cronin, Deputy Chief Economist at the Ministry of Agriculture, Fisheries and the Marine, Ireland, Amanda Hickey representing the Making Markets Matter Programme, Cornell University and Noma Mhlanga, Agribusiness Officer at FAO Ethiopia.

Aisling Cronin gave an overview of Ireland's agrifood sector. Over the past two decades the sector has become a world leader in the export of high-value food exports, in particular beef and dairy products, based on a low carbon footprint in agricultural and family farming systems. The country has a population of 5 million, with the capacity to produce food for over 25 million. She shared insights on the **Origin Green Programme**, a nation and sector-wide initiative, which since its launch in 2012 has succeeded in signing up 98% of the country's farmers and food processors on setting and measuring independently verified sustainability objectives, to reduce environmental impact and better serve local rural communities.

To share Ireland's experiences and expertise with developing countries, the **African Agri-Food Development Programme** was established by the Ministry of Agriculture and the Ministry of Foreign Affairs. Its goal is to promote pro-poor and sustainable growth of the food industry in Africa and does this by supporting twinning between small food companies in Ireland and Africa. Ireland also has projects with FAO aimed at building sustainable food value chains in Africa. Aisling shared experiences from three twinning agreements. See Box 4

BOX 4. The African Agri-Food Development Programme beneficiaries

MagGrow is a magnetic pesticide spraying company that reduces spray drift by 80%, thereby reducing companies' usage of water, labour, and pesticides. The company, with 50% state funded, was twinned with companies in Ethiopia and will soon extend to Kenya and Tanzania.

Devenish is an Irish animal nutrition company which established a demonstration pig farm and feed processing plant in Uganda. While Ugandan farmers were doubtful about going big in the beginning, they have now reached the same rate of production as in Ireland. The project also helped farmers become more open-minded about animal nutrition and recognize the benefits of working as a group rather than individually.

Valid Nutrition develops nutritious 'ready-to-use food' in Malawi using Irish skimmed milk and peanuts and focuses on reducing chronic malnutrition. The funding provided by the Irish programme allowed them to carry out the needed research.

for an overview of the cases presented.

In addition to the achievements shared in Box 4, Aisling also discussed challenges, as follows.

- The MagGrow case, for instance, was originally partnered with an Irish pesticides company. However, due to the very different regulatory requirements between the two countries, it took over 3 years for the pesticides firm to enter the market.
- In the case of Devenish, the batch of pigs targeted for the first pilot project died from swine flu. This proved to be an important lesson as farmers learnt about biosecurity and risk management.
- All beneficiary companies have been found with difficulty by the Irish companies. A more systematic process for twinning needs to be developed to make sure the matching is as suitable as possible.
- The number of companies seeking twinning grants were also lower than expected. As such, the communication plan and eligibility criteria are now being revised to make sure the fund is promoted among smaller companies that can benefit from the programme.

Amanda Hickey presented several results of an analysis of SMAEs'' business models across 8 countries in Sub-Saharan Africa carried out by FAO and Cornell University. The research revealed that companies often choose to diversify procurement sources in order to mitigate the high transaction costs involved when working with smallholders. As such, their strategy focuses on finding the right balance between vertical integration and farmer inclusion. Moreover, while SMAEs do not have official, coherent CSR strategies or human resources policies, they are also driven by a ‘philanthropic gene’ which inspires them to engage in pursuing social objectives for the well-being of their community.

Noma Mhlanga presented the lessons learnt from a series of case studies on successful agro-entrepreneurship. One of the key success factors in growing a business lies in the passion of entrepreneurs. In addition, while most business owners start with a business plan on paper, their initial concept and strategies often have to change as they advance and discover or learn about new aspects which could influence their growth. All entrepreneurs, regardless of their educational background, emphasized the role of mentorship and networks. For example, one owner in South Africa was able to access valuable information through networking with farmers who were in the pig farming business. This led the entreprenuer to enter the industry and her firm is today one of South Africa’s biggest pork suppliers.

Another example on the importance of meeting the right people was provided by Amanda, who described how an entrepreneur importing computers changed his business model to mango exportation after providing a shipment of mangoes to one of its computer clients.

The points raised by panelists suggested that making contacts and capitalizing on the experience of other people is important as it can influence the growth of the business.

Session findings: twinning, partnerships, rural embeddedness and the role of donors

Questions to the panelists on the research and programmes presented raised issues related to; opportunities for twinning between SMAEs in industrialized and developing countries; the importance of the relationships that SMAEs develop with the development community; and the role of ODA in supporting SMAEs contribute to rural development.

Twinning arrangements between firms in industrialized and developing countries can contribute to transferring technology and exchanges of expertise between peers.

Participants were interested in the results of the twinning programme on poverty reduction. Aisling highlighted that improving the livelihoods of farmers is the Programme’s primary goal. Irish firms, in addition to exploring investment prospects in Africa, were also motivated to employ their technical know-how to contribute to development in Africa. However, the Programme has been busy identifying interested firms and getting the initiative off the ground, and still needs to incorporate a poverty results measuring mechanism.

SMAEs ability to develop strong networks and actively seek partnerships with a range of public and private sector actors can support them to overcome challenges.

In response to participants’ queries on partnerships Noma and Amanda highlighted the propensity of SMAEs to develop partnerships outside the main area of business as a success factor in growing a business in a developing country. The panelists argued that the SMAEs that did so were more likely to be innovative, dynamic and resilient to change and shocks. In part, the rationale perceived for these types of partnerships is embedded in the ‘rural development-NGO’ environment within which SMAEs operate.

SMAEs’ embeddedness in the local context provides them with advantages for their business models and the opportunity to contribute to community development.

Noma and Amanda highlighted that many of the SMAEs appraised in the research demonstrated a philanthropic obligation to the poor communities where they were located. In some cases the linkage and commitment to development and poverty reduction can lead to donor support such as improved access to grants and technical assistance, enabling small businesses circumvent problems in the enabling environment context.

The more successful SMAEs were those that created their own micro enabling environments through the development of strategic partnerships to overcome challenges and reduce transaction costs. B-Bovid (see Box 5) for instance, has taken advantage of its close position to the community and has managed to develop a sustainable and socially responsible business model with the help of its many partners.

BOX 5. Profitable SMAE in Ghana

B-Bovid is a small profitable processor operating in the palm oil sector in Ghana. The company distinguishes itself from its competitors through its business model which views farmers and traders as business partners who receive half of the total profit. Due to its strategic alliances with a wide range of institutions such as local governments and communities, and especially with its NGO field partner, the company is able to provide smallholders with training, modern machinery, assistance with market access as well as information and communications technology (ICT). This scheme has allowed the company to reduce the high transaction costs associated with working with smallholders, gain the loyalty of farmers and has encouraged buyers to purchase their product in order to support their socially responsible business model.

SMAEs' close position to rural communities and access to local knowledge can also provide them with a comparative advantage based on trust inside the community, and therefore with the company's suppliers and buyers. The cases showed how this trust can be translated into a business asset, such as longer or higher credit threshholds by business partners.

Plenary on key takeaways and SMAEs within food systems

Participants were encouraged to reflect on the day's discussions and to share their key takeaway lessons that could potentially influence respective work streams on the SMAE topic. Siobhan Kelly, Agribusiness Economist, FAO, shared her key takeaways in plenary, with closing remarks by Jamie Morison, Director of FAO's Strategic Programme on Inclusive Agriculture and Food Systems. The session was facilitated by David Neven, team leader, Sustainable Markets, Agribusinesses and Rural Transformations (SMART), FAO. Session findings included:

The changing nature of food systems requires adaptive capacities that allow value chain actors to retain or build competitiveness. This, in turn, calls for holistic approaches that can better coordinate multi-stakeholder collaboration to better integrate the middle segment of the value chain. Key takeaways by participants in this regard were:

The 'intangible' resources and characteristics of SMAEs in Sub-Saharan Africa can contribute to rural transformation. Development initiatives need to tap into these innate characteristics that include for instance the 'philanthropic gene' of enterprises and their dual passion for their business and the development of their communities. Their local embeddedness allows them to better understand the cultural infrastructure of the region, giving them an advantage over larger enterprises.

The donor community and international organizations can support the missing middle through the adoption of a risk-sharing or risk-reduction lens when providing assistance to countries. Technical agencies can support this process through the research and development of risk management tools and technological innovations that have the ability to mitigate risk or reduce transaction costs in the middle segment. Programme designs require more entrepreneurial mindsets with embedded flexibility: enterprises undergo continuous change to capture opportunities and keep up with rapidly changing food systems. It was also indicated that the type of peer learning that this workshop aims to achieve is important for addressing the issues discussed in order to adopt a more coordinated approach to development and make the best use of limited resources. Moreover, measuring results is essential and more 'real-data' figures on the impact of different programmes are needed in order to identify key success factors and promote scalability. Development organizations should shift their focus on becoming investors for the middle-segment and target the expansion of trade and not aid.

The ability of firms to network outside their immediate environment is important asset for SMAEs in developing countries. The role of networking should also be elevated in projects and the delivery of technical assistance to SMAEs.

Access to, and the retention of qualified staff is a constraint for SMAEs, across all stages in agricultural value chains. Investments in human capital need to respond to the needs of a sustainable and inclusive agribusiness sector. The education sector and institutes could, therefore, upgrade outdated curricula and build skills that respond to the modern-day needs of the agrifood sector. This may require more engagement with Ministries of Education and cross-sectoral collaboration between Ministries.

Conclusion

The session concluded with an overview of several aspects that need to be better addressed under the Inclusive Agriculture and Food Systems programme of the FAO, identifying the entry points for the lessons learnt during the day for the Organization.

- At the international level, the focus of the programme is placed on strengthening international standards, informing trade agreements and voluntary guidelines. Either countries choose to focus on their export potential or better serving domestic markets through imports, for example, the challenge is to provide the right government structures and an enabling environment to allow them to reach these objectives.
- At the national level, there is a need to strengthen the design and implementation of more coherent and more coordinated policies and regulatory frameworks. Attention has already been dedicated to developing capacities within public sector organizations but at the same time it is important to enhance the ability of different sectors to coordinate between themselves. The capacity of both public and private sectors to overcome market failures through various institutional arrangements (e.g. incubators) should also be developed, as the driver of these initiatives can significantly shape their success. Better dialogue is also

needed between the private and public sectors in order to ensure greater coherence in policy interventions and also to make sure that these do not create disincentives for businesses.

- And last, at the value chain level, focusing on one component rather than adopting a holistic, coordinated approach prevents the success of value chain development and the growth of the middle segment. As such, developing the capacities of all the actors involved in a specific value chain is essential. Since entrepreneurship has been proven to be one of the key success factors, the focus should also be placed on scaling-up entrepreneurial skills.

Annexes

Annex 1. Background

The food price crisis of 2007-8 brought to the fore the powerful link between agriculture-led growth, poverty reduction and global food security. As a result, smallholder farmers and agriculture were placed back on the agenda of developing countries. The crisis also resulted in the recognition of the importance of staple crop production. In regions such as West Africa, government interventions were designed to stimulate production of staple food crops with the aim of import substitution.

The increased focus on agricultural production alone however will not deliver on food security and nutrition objectives, nor will it produce the results required for rural communities to move out of poverty. Thailand, Malaysia and Chile are good examples of the successful transition from agriculture-based to diversified economies, where employment in rural areas has increased, profitable smallholder farming has improved and widespread poverty has been reduced. In such contexts, the role of agri-food industries has been critical for the transition.

Agro-industrial value added has expanded substantially in Asia and Latin America. In contrast, the sector is still small in Africa. Recent studies indicate that 50%-70% of value added generated along food chains in developing countries originates in the middle segment where storage, processing, transportation and distribution takes place. This middle segment is typically represented by micro and small agro-enterprises (SMAEs).

In many contexts SMAEs, like small farmers, have difficulty accessing finance, services, and modern inputs to build viable enterprises, constraining their potential role in local food systems. Regulation and policy measures focus mainly on agricultural sector, trade, or broader industrial development, failing to address SMAEs' specific needs. Providing an enabling environment for SMAEs can promote a strong agri-business sector that is inclusive of small actors, including smallholders, contributing to sustained poverty reduction.

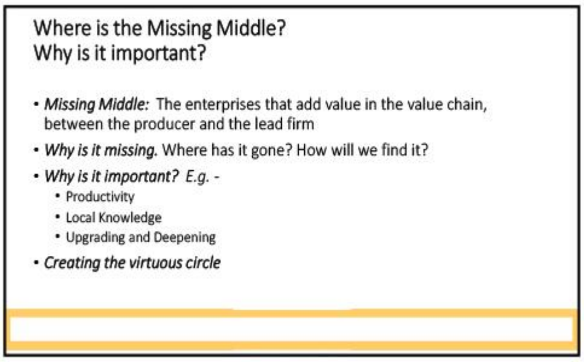
The Donor Committee for Enterprise Development (DCED), including FAO, works with public and private sectors in developing countries to develop capacities to improve the enabling environment for the development of agri-food industries and SMAEs as vehicles to reduce poverty and improve food security and nutrition. In this regard, FAO hosted the 2017 Annual Meeting of the DCED, including particularly the agenda of the Thematic Day on Wednesday 14th June, to focus on:

(i) identifying policy guidance to support SMAEs' role in linking farmers to markets;

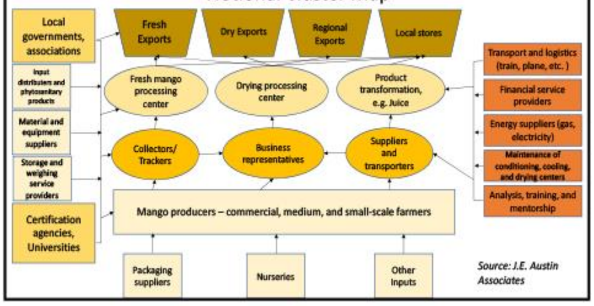
(ii) exchanging experiences and approaches of small domestic food companies in linking their activities with those of smallholders and SMAEs;

(iii) identifying priority areas that DCED and partners should support to accelerate results.

Annex 2. Attracting Investment for the Missing Middle of the Agri-food Sector

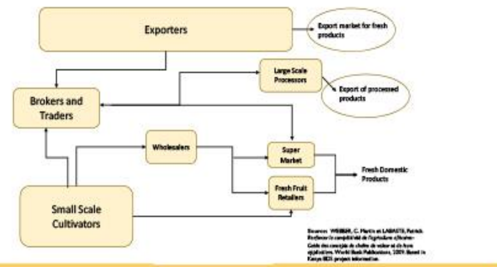


Hauts Bassins Region
Notional Cluster Map



Source: J.E. Austin Associates

Kenya Avocado Value Chain (initial)

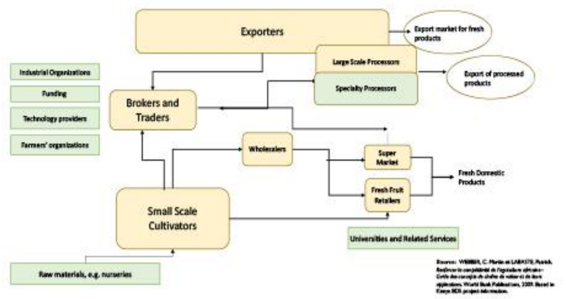


Kenya Avocado –the Missing Middle
Moving Towards a Cluster – Value Chain with Emerging Services and Institutions

Basic Value Chain
- Exporters
- Processors
- Brokers
- Retailers
- Small-scale producers

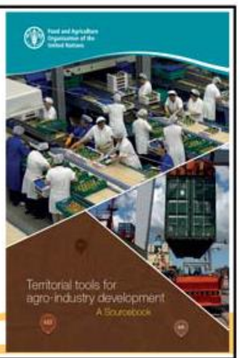
Value Chain with the Missing Middle
- Exporters
- Export Promotion Authorities
- Processors
- Industrial organizations
- Brokers
- Packaging specialists
- Farm machinery and technology companies
- Agricultural banks
- Associations of producers
- Extension providers
- Small-scale producers
- Suppliers of raw materials

Kenya Avocado Map - Value Chain and the Emerging Cluster



Territorial Tools for Agro-Industry Development: An FAO Sourcebook

- Five Policy Instruments
  - Agrocorridors
  - Agroclusters
  - Agro Industrial Parks
  - Special Economic Zones
  - Agro-Incubators
- Investment Promotion
- Governance
- Institutional Roles



Policy Instruments: Purpose and Attracting Investment

Policy Instrument	Overall Purpose	How tools attract investment
Agrocorridor	Integrated planning of infrastructure and agribusiness interventions	Coupling infrastructure investments with trade and regulatory policy reforms and sectoral development plans
Agrobased cluster	Network linkages	Benefits of agglomeration economies and promotion of collective action
Agro-Industrial park	Value addition by processing and innovation	Common infrastructure, logistics facilities, and dedicated services
SEZ	Export and FDI promotion	Advantageous economic and regulatory frameworks
Agro-Incubators	Entrepreneurship development	Common infrastructure and dedicated services to create and coach new agribusiness firms

Source: Adapted from Territorial Tools for Agro-Industry Development

Agricultural Growth Corridors

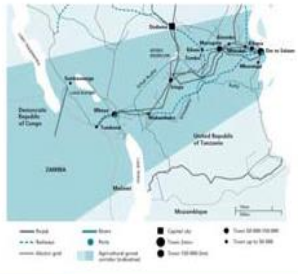
- Economic corridors are emerging as a new model to attract sustainable investment into the agrifood sector.
- Increasing interest from many different stakeholders: domestic and international businesses and investors, governments, and the international community.
- Focus on good corridor design and implementation practices including inclusive planning, institutional arrangements and governance

Concept: Promote sustainable agribusiness and agro-industrial development by providing enhanced connective infrastructure and effective institutional arrangements

Source: Adapted from Territorial Tools for Agro-Industry Development

The SAGCOT initiative

- Example of a mono-country, agricultural growth, PPP-led corridor.
- Established as a PPP (Tanzanian government, multinational and domestic companies, farmers and development partners)
- Connects the port of Dar es Salaam to prime fertile land in central Tanzania, covering 28.7 million ha.



Source: Adapted from Territorial Tools for Agro-Industry Development

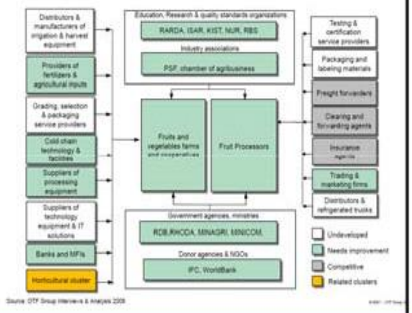
Anticipated Benefits of Agrocorridors (SAGCOT example)

For Farmers	For Businesses	For Governments
• Reduced costs of agricultural inputs, improving farmers' profitability. • Reduced prices of goods consumed by local farmers, improving farmers' standard of living. • Increased income from selling agricultural products. • (Usually) easier access to finance and supporting services	• Reduced transportation costs of shipping inputs, which can encourage new investments in processing plants, input suppliers, etc. • Help connect agribusiness to new ports or cities. • Improved business-enabling environment. • Dedicated financial facilities and non-financial services targeting agribusiness firms • Enhanced access to land • Improved power and telecommunications	• Potentially positive impact on foreign exchange, either through exports or market-based import substitution. • Open up new regions to development. • Potentially positive income-distribution effects, although these must be managed. • Increased GDP • Can increase the availability of domestic staples at competitive costs for the national population.

Source: Adapted from Territorial Tools for Agro-Industry Development

Agroclusters

Concept: Geographic concentration of farmers, agro-industries, agribusiness, service providers and institutions engaged in the same agricultural subsector or value chain that work together to address common challenges and seize common opportunities.



Source: Adapted from Michael Porter

Agribusiness Incubators

Definition: An **entrepreneurial development** model that provides a common environment (usually physical, sometimes virtual) to startup or young agrobased companies, where they have access to shared infrastructure, and networking, coaching, mentoring, business, and financial services.

"We were out on the road a lot of the time, trying to interest investors and attract companies to the [incubation] center... and in a joking way, because of all the chickens [of one of the tenant companies], we started calling it 'the incubator.'"

https://www.youtube.com/watch?v=YyRp7VWxa1A

- Joseph Mancuso, founder of the first business incubator (Batavia Industrial Center, NY, USA)

Characteristics:

- Encourages and supports the development of new agribusiness and agro-industrial entrepreneurs that have potential for growth and competitiveness.
- Promotes business development and innovation.
- Often have links to universities and research centers.

Source: J.E. Austin Associates, Inc. and Adapted from Territorial Tools for Agro-Industry Development

Fundacion Jalisco: Incubator for Value Chain Development

- Established in 2007 to foster agribusiness incubation in Jalisco, Mexico
- Private, non-profit
- A non-residential incubator – incubator experts go to client farms to mentor and train them
- Strategy: replicating high-performing business models
- Key features: Heavily invested in initial research phase, offers clients secure market channels, concentration of resources on non-traditional agro and food value chains that show high potential in world markets.

Source: Adapted from Territorial Tools for Agro-Industry Development

Flat6Labs: Business Accelerator

- 2011 - Partnership in Egypt between American University in Cairo and Sawari Ventures
- Now also in Tunisia, Lebanon, UAE, and Saudi Arabia
- Initial investment of $1.2 million USD to focus on business skills, mentorship, financing, and co-working space
- Agritech start-ups – a new investment focus in Egypt
- First agritech company - Farminal (received seed funding in 2014)

Source: Flat6Labs

Source: Adapted from Territorial Tools for Agro-industry Development

Investors' Criteria for Choosing a Location

- Wages and production costs
- Skills availability
- Tariffs/import duties
- Infrastructure
- Availability of raw materials
- Transport logistics
- Availability of parts, components, and services
- Availability of land and buildings
- Incentives (fiscal and non-fiscal)

Training Module 1: Identifying Growth Drivers for the Local Economy

By: Kevin X. Murphy & Dr. Charles Richter
8th February, 2013

Source: Pat Daly, as adapted for the FAO Sourcebook

Source: IFC, J.E. Austin Associates, Jacobs-Cordova Associates

New Research on SME–Lead firm linkages

- A new research initiative by the World Bank. Expected publication in July 2017.
- *Focus:* Understanding good practice in fostering linkages between lead firms and value-adding SMEs
- *Some of the benefits to the SME:* Enter the value chain, value addition, profitable specialization, access to skills and technologies, access to finance
- *Some of the Lead Firm Benefits:* diversified supply chain, lower production costs, and improve quality, risk management, community relationships

Source: Agland and J.E. Austin Associates for the World Bank

Food Retail Industry Challenge Fund (FRICH)

Intersnack Group – Equatorial Nut Processors (Kenya)

- Scope: Develop new sources and improve quality of sourced nuts
- Lead Firm Motivation: New source of product for UK/EU markets
- SME Motivation: Develop new supplies and raw material of higher quality

Marks & Spencer – Iriaini Tea Factory Co. (Kenya)

- Scope: Source a finished and branded tea that increases local value-added
- Lead Firm Motivation: Incorporate social responsibility into its strategy
- SME Motivation: Move from commodity to value-added production

FullWell Mill Ltd. – Fruits of the Nile (dried fruit, Uganda)

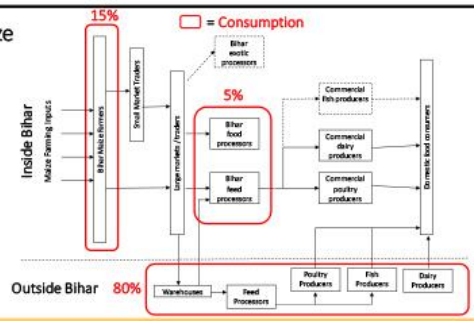
- Scope: Expand company product offerings
- Lead Firm Motivation: Source a raw material for sale and production
- SME Motivation: Expand sales to existing buyers

Source: Agland and J.E. Austin Associates for the World Bank

How "local" is the middle?

- Where are these enterprises? What ecosystems are they part of? What corridors or clusters are they part of?
- This is often an urban-rural question
- If value added enterprise and investment are not local, then why not?
- Decentralized business environments provide possible location for the middle
- Basic issues: cost and profitability and risk, largely founded on logistics and perishability, but also market location.
- Businesses need access to lots of services, and typically, they like to clump together in networks and clusters. What does that mean for a secondary urban center?

The Bihar maize value chain (2010)



Source: J.E. Austin Associates for IFC

Value Chain and Urban Competitiveness: Tambacounda, Senegal

Proximate value chains:

- Cotton, banana, groundnut, fonio, millet, rainfed rice, maize, bissap-hibiscus, sesame, shea
- Transit of products from Guinea-Bissau (palm oil, maize), Guinea Conakry (fruits, fonio), Mali, Gambia
- Livestock from Mali

Questions to consider:

- What are the economic drivers of the city?
- How will value chains benefit from a competitive urban area?

Source: J.E. Austin Associates, Inc.

Summary: What are the results – if it is done right?

- Jobs from new and growth SMEs
- More value added in the territory
- Deeper and more competitive supply chains and value chains
- SMEs and clusters and value chains that are professionalized and sophisticated
- Urban areas and their value chains become true economic drivers
- Entrepreneurship unleashed

Source: J.E. Austin Associates, Inc.

Summary: How the pieces fit together

- There is a vital middle
- There are tools that will generate enterprise opportunity in that middle
- A competitive middle is based on investment by all types of actors
- Investment is predicated on important factors:
  - Market oriented value chain strategy
  - Backbone infrastructure
  - Entrepreneurship
  - A facilitating ecosystem and enabling environment
- Accomplish this, and the territory generates a wonderful cycle of more investment, more value added, and even more investment

Source: J.E. Austin Associates, Inc.

THANK YOU!

SUSTAINABLE MARKETS, AGRIBUSINESSES AND RURAL TRANSFORMATIONS [SMART]

FAO's work on agrifood systems falls under the SMART (Sustainable Markets, Agribusinesses and Rural Transformation) programme.

Agrifood systems are currently undergoing a rapid transformation driven by urbanization, globalization, diet diversification, concentration, and expansion of food markets and trade, among other underlying trends. Coping with these changes requires a broader systems perspective that emphasizes agrifood value chain coordination, value creation and the institutional setting in which value chains operate. This cannot be done without embracing agribusiness development.

In support of agribusiness and food value chains, FAO focuses on enabling environment aspects and on building the capacities of ministries of agriculture to effectively engage with private sector partners, especially on the following public objectives: inclusion of farmers and Small and Medium Agricultural Enterprises (SMAEs), investment promotion and increased efficiency. FAO's agribusiness work includes the development and dissemination of a series of tools and policies used to stimulate agrifood industry and food value chain development and support the inclusion of smallholder farmers and small rural food enterprises in rapidly transforming agrifood systems in developing countries. The main policy issues include:

- Responsible contract farming for inclusive market access
- Developing sustainable food value chains (**SFCVs**)
- Public-private partnerships or public-private-producer partnerships
- Fostering territorial approach as a means to attract transformative investments in agribusiness
- Encouraging small and medium enterprise development
- Institutional procurement programmes

CONTACTS

Siobhan.Kelly@fao.org

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