CABRI sector dialogue on value for money in agriculture spending

Alternative and innovative financing in agriculture in Africa

Keynote paper

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Contents

Acronyms and abbreviations

AfDB	African Development Bank
BP	Business Partners
CABRI	Collaborative Africa Budget Reform Initiative
FAO	Food and Agriculture Organisation
IFAD	International Fund for Agricultural Development
PPP	public-private partnership
SMEs	small and medium enterprises
USAID DCA	USAID Development Credit Authority
USAID	United States Agency for International Development
USD	United States dollar
WFP	World Food Programme

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1. Introduction

Demand for food far outstrips food production in Africa. The continent's current population of about 1 billion people is projected to increase to 1.3 billion by 2020 and to 2.4 billion people by 2050. Africa experiences an almost geometric annual population growth rate of 2.5 per cent, the highest in the world (UN 2013), yet its agricultural productivity, already the lowest in the world, more or less stagnates. The situation is worse in sub-Saharan Africa, where one in every four persons is chronically undernourished, the highest prevalence in all regions of the world (FAO, IFAD & WFP 2014). The scenario of hunger and the ever-widening gap between a growing population and stagnating food yields in Africa is alarming, needs to be corrected and, indeed, can be, as experiences on other continents have shown.

About 80 per cent of the population in Africa (the majority being women and youth) are dependent on agriculture for their livelihoods (AfDB 2010), which contributes 30 per cent towards overall GDP (World Bank 2013). The cause and effect relationships between increased agricultural investment, agricultural development and economic development are well-proven results of the agricultural revolutions in Europe, America and parts of Asia. Increased investment in the agricultural sector in Africa will greatly reduce hunger and poverty, and increase prosperity. According to the International Fund for Agricultural Development (IFAD), the poverty rate in Africa is 48.5 per cent, which makes it a moral imperative to unleash the poverty-reducing power of agriculture through increased investment in the agricultural sector. It is estimated that growth generated by agriculture in sub-Saharan Africa is 11 times more effective in reducing poverty than is GDP growth in other sectors (IFAD 2013). To achieve the desired output, the finance and investment requirements in the agricultural sector in Africa are estimated at USD21.4 billion annually, with the private sector projected to contribute more than 75 per cent (FAO, IFAD & WFP 2014). According to the World Bank, these investment efforts need to be optimally and holistically connected with efforts in cross-cutting sectors such as economic empowerment (especially women, young people and rural people), water, energy, education and training, and financial services (FSTF 2012). These constitute agricultural business support services, and support capital in agricultural and rural infrastructure, public and private institutional partnerships, and so on, which attract and catalyse new resources and financial management relationships for agriculture.

Alone, traditional sources and mechanisms of finance and investment in the agricultural sector in Africa will not achieve the desired results. It is the lessons learnt that have confirmed the need for alternative and innovative financing in the agricultural sector in Africa. Alternative and innovative financing in agriculture in Africa can be defined as holistic, collaborative and strategic financing, and multilateral management relationships that stimulate significant, sustainable public and private investment inflows into the agricultural sector in Africa, leading to increased productivity and agricultural development. The Leading Group on Innovative Financing for Development states that innovative financing for development is characterised by the multilateral management of mobilised massive resources (public and private), is complementary to official development assistance and other traditional finance, is stable, predictable and highly collectable, and promotes further new ways for the scaling up of innovative tools (FSTF 2012)

In Africa, alternative and innovative financing methods are presently not widely used in agriculture because they are new and many key stakeholders are not aware of them. However, the benefits they can draw into African agriculture are enormous. These include committing massive private investments in agriculture, scaling up agricultural innovation, training and capacity-building for farmers, providing an agricultural development-enabled infrastructural environment, and making finance, markets and agriculture work for the poor, the rural areas, women and youth through inclusive means of growth. For example, financial transactions are very high in frequency and number, so that a minimal small tax on them can yield substantial finance that is easy to collect and which can be channelled into agricultural development and other development purposes. Banks can complement the traditional collateralisation of loans with innovative forms of collateral such as warehouse receipts, with inventory as the security, and via input and asset finance, by using the financed input and assets as the in-collaterals with appropriate risk management mechanisms to mitigate risks, all of which make finance work for the poor and farmers. Public-private partnerships (PPPs) can contribute to the agricultural sector's massive private finance, and multilateral and strategic management relationships, enabling environments and infrastructure, innovation, value chain development, business support and advisory services to smallholder farmers, and more.

Can Africa speed up adoption of alternative and innovative agriculture financing, just like the adoption of any other innovative idea? Platforms for knowledge dissemination, and sharing of experiences and lessons learnt (such as the CABRI 'Value for Money Series' dialogues) need to be in place. Some early adopter institutions are already engaged in alternative and innovative financing in agriculture in Africa, while awareness and interest (the first stages in the adoption process of any innovation) are beginning to be observed in others. CABRI is a strong contributor to this adoption process.

This report is divided into four parts. The first provides an overview, while the second covers some finance needs and investment demands of the agricultural sector in Africa. The third part examines some traditional and innovative financing mechanisms, and the fourth offers concluding observations.

2. Agriculture financing in Africa

According to the World Bank (2013), the African food market constitutes a USD313 billion financing and investment opportunity, which is projected to become a USD1 trillion financing and investment opportunity by 2030.

2.1 Finance needs and investment demands of the agricultural sector

2.1.1 Staple food crops subsector

Staple food crops constitute the largest agricultural subsector in Africa, the products of which command the highest domestic demand. These include rice, maize, sorghum, millet, cassava, yams, potatoes, cowpeas, soybeans, tomatoes and peppers. This is the main subsector of poor smallholder farmers, employing the largest number of farmers and women. Financing this subsector, usually by way of small loans, reduces poverty or increases prosperity for the greatest number of people. In May 2014, the USAID Development Credit Authority, in a credit survey of agricultural businesses in Nigeria, found that 40% per cent needed loans of USD620 or less, 35% per cent needed loans of between USD620 and USD6 000, and 25% per cent needed loans of USD30 000 or more (USAID DCA 2014). This is typical of the loan profile needs of smallholder farmers in Africa. However, this subsector is the most fragmented and unorganised subsector, and banks consider it a high risk area with high transaction costs, and allocate to it the lowest proportion of loans. It is weak in financial literacy, improved input resources, access to mechanisation, risk management and market power; however, it is strong to a large extent in land holdings it has access to for farming and in its capacity for hard work. Organising this subsector in an innovative financing arrangement of co-operative groups, value chain frameworks or out-growers linked to PPPs, can assist farmers in gaining access to improved seeds, fertilisers, machinery services, financial services and market power, which will greatly grow the subsector.

2.1.2 Agricultural export crops subsector

The agricultural export subsector is a major foreign exchange earner for a number of African countries. In the 1960s to 1980s, the attention on and investment in this subsector generated huge foreign trade surpluses and foreign currency revenues for Africa; currently, the neglect of the subsector, coupled with other factors, has reversed this success story. The subsector produces cocoa, coffee, rubber, timber, sesame seeds, cashew nuts, groundnuts, palm oil, cotton, and so on for export. The subsector has major financing needs and yields high returns. It is frequently debated whether cash crops are more important than staple crops. However, food and cash crops need not be competitive; both are important and complementary, and both need funding, although staple crops require less financing than export/cash crops. Furthermore, a farmer can be funded to farm both staple and cash crops on the same land in innovative agro-forestry arrangements with all the known superior upsides and ways of managing the downsides.

2.1.3 Food imports

African food imports represent an annual USD50 billion investment opportunity. More than 60 per cent of this is in rice, maize, sugar, wheat, livestock and fish. Nigeria's USD4 billion rice import market opportunity is already being taken advantage of by Olam Nigeria Ltd, Shonga Farms Holding Ltd, Dominion Integrated Rice Farms and others that are investing actively in rice production and processing facilities on a very large scale in the country. Local quality may be low initially, and time, effort and funding are needed to raise it to the quality of the imported varieties, but the great savings to African countries in foreign exchange and food security are worth more than the effort and time required.

2.1.4 Crop seeds and animal breeding subsector

This subsector increases productivity per unit of input used. It is an organised sector and easy to fund, but it requires high capacity a level of knowledge from its practitioners. Knowledge, and supply and demand dynamics enable quality seed production companies and quality animal breeding companies to enjoy good risk and return profiles. Funding can leverage quality research products along the market value chain to generate good profits for loan repayments. Ayo Adesina, Nigerian Minister for Agriculture, noted that in 2010, with encouragement and changes in the structuring of the agricultural sector, banks embarked on lending to seed companies for the first time in Nigeria. The Agriculture Ministry and the Central Bank of Nigeria conducted an assessment at the end of the season. The then Central Bank of Nigeria Governor, Lamido Sanusi, asked the banks: 'How much money did you lose lending to these guys last year?' All the banks said zero per cent. This led to banks in that country lending up to USD400 million to seed companies in 2011 (Akinola 2011)

2.1.5 Livestock and fish products

The rapidly increasing urban population and middle class in Africa are generating a high demand for protein in the form of meat, fish, dairy products, eggs and the like. The costs of setting up production facilities for these products are usually higher than for the production of crops, but so are the profits. There are financing and investment needs in livestock and fish production that produce high returns on investment.

2.1.6 Agricultural products processing subsector

About 20 – 40 per cent of agricultural harvests and the derivable wealth in Africa go to waste and spoilage due to the absence of storage and processing facilities. Although some African countries are among the world's top three producers of some agricultural produce, they account for less than 1 per cent of global value addition to those products (which return over 7 times the income derived from the raw produce). How and where to add and grow value that reaps high returns in an expanding industry is an investment thesis for savvy venture capital/private equity companies. Agricultural processing fits into this investment model. Marlon Chigwende, managing director and co-head of the sub-Saharan Africa buyout advisory team at Carlyle Africa, one of the biggest private equity players, states regarding where his company would deploy its finance in agriculture in Africa, 'Typically the margins in processing are much greater than they are in pure acquisition and distribution, so part of the capital will be used to put up processing facilities around the continent' (Akinola 2011).

2.1.7 Domestic agricultural value chains

An agricultural value chain is a horizontal ladder of linked activities concerning an agricultural crop or animal product, encompassing conception, production, harvesting, storage, processing and marketing to the final consumer for a price. Each link sees an incremental addition of value to the product. Some stages in the chain receive, from the final price paid by the final consumer, higher shares than others. Some companies prefer to invest in only some links of the chain, due to profit motive or capability; others like to invest in the whole chain, to secure their supply and to mitigate risk. For a number of African countries, value chain financing presents strategic, holistic financing options that solve some of the financing challenges and risks of the past, when funding was extended without a plan encompassing the whole picture.

2.1.8 Global value chains

Increasingly, global agriculture value chains have their link activities performed by different countries and companies on the basis of comparative advantages, cost reductions and value addition considerations. African countries and companies can link to these global value chain investment opportunities. It is a global, fast-growth industry, which can fast-track some aspects of Africa's industrialisation and growth; the link tasks that can be accomplished in Africa by African companies form easy, strategic and quick access points to fast growth, industrialisation and good market share of global corporate profits, and, ultimately, economic development. This will increase Africa's present 3 per cent share of global merchandising.

2.1.9 Machinery for mechanisation

The major reason why Africa is not able to cultivate even a quarter of its vast arable lands, 60 per cent of the world's total, is lack of machinery to engage in medium- to large-scale farming; farmers cultivate tiny farms with hoes and machetes through routine manual labour. Innovative financing of quality agricultural machinery would change the landscape of African agriculture for the better.

2.1.10 Organic and inorganic fertiliser

Africa uses less than 20 per cent of the fertiliser level per hectare used globally. The cost of fertiliser to farmers in Africa is higher than in other parts of the world, and Africa imports nearly all the fertiliser it uses. There is a hugely profitable investment opportunity in Africa for the production of organic and inorganic fertilisers.

2.1.11 Irrigation and linked synergies

Ninety-five per cent of African agricultural output is from rain-fed agriculture, while only 5 per cent is from irrigated agriculture. Yield from irrigated land is about 3.5 times that from rain-fed production. This is a 3.5 times return on investment. Strategic, innovative financing of irrigation would put African land to work during the 6 – 9-month dry season, thereby achieving cycles of production and output that double to triple current agricultural output. Some water and energy sources have natural synergies in the supply economics of complementary independent products. Strategic financing of rural water and rural energy projects, and of agricultural renewable energy projects (energy, manure and environmental synergy-linked projects), would produce sizeable amounts of water, energy and organic fertiliser that could greatly increase agricultural, environmental and rural productivity and development.

One key element from the above is that there are many areas of need in the agricultural sector in Africa that demand investment, but the supply of financial resources is low. Each country must adopt strategic and innovative ways to get the best mileage out of the scarce funds that are available to the agricultural sector.

3. Existing and innovative financing mechanisms

3.1 A review of traditional mechanisms for financing agriculture in Africa

3.1.1 The national budgets of African countries

In the Maputo Declaration of 2003, African governments agreed to commit a minimum of 10 per cent of their national budgets to financing their agricultural sectors. Figure 1 shows the current situation.

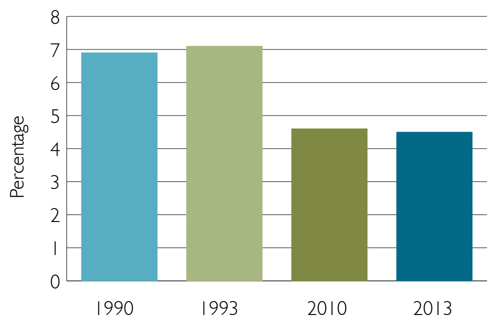

Figure 1: Percentage of agriculture investment in public spending in Africa

1 Source: Constructed by author, using data from the Regional Strategic Analysis and Knowledge Support System (ReSAKSS)

African countries are not spending even half of the percentage agreed upon. By holding themselves to the Maputo Declaration commitment, African governments would double the flow of budgeted financing into agriculture. Food and Agriculture Organisation (FAO) comparative studies report that trends in government spending for countries in sub-Saharan Africa indicate that government budgets in that region afford less priority to agriculture than governments in other regions and continents (FAO 2011).

3.1.2 Taxes

Taxes are major inflow streams into budgets. Traditional taxes, such as company tax, personal income tax, goods and services tax and the like, constitute a great percentage of tax revenue. Comparatively, while governments of developed countries are able to collect much of their traditional taxes, which mainstream large revenue inflows into their budgets, making them available for financing the agricultural and other sectors, African governments are not able to do the same. The will to do so would significantly increase public finance available for funding the agricultural and other sectors.

3.1.3 Bank loans

Bank loans to agriculture are comparatively few, representing less than 4 per cent of total bank loan portfolios in many African countries. Among other explanations, there is the issue of banks' perception of agriculture as a high-risk sector to be avoided, on the one hand, and the low financial literacy of farmers, on the other. In a May 2014 survey in Nigeria, USAID's Development Credit Authority (USAID DCA) found that 60 per cent of farm businesses do not know how to contact a bank loan officer, despite 75 per cent being within an hour from a bank (USAID DCA 2014). Government credit guarantees for agricultural sector loans encourage banks to give out more loans to agriculture, but many farmers are not aware of such products.

3.2 A review of innovative financing mechanisms

3.2.1 Innovative special levies on special sectors' extraordinary profits

Besides traditional taxes on the normal profits of companies, governments can institute special levies on the extraordinary

profits of some companies and sectors. License protection, regulatory frameworks and market dynamics enable some companies and sectors to operate as near monopolies or oligopolies, which helps them to make extra-normal profits that can be specially levied. Some telecom, ICT and Internet companies, and so on, fall into this category. Minerals and oil sector companies face unique market supply and demand dynamics that will always aid them in making their extraordinary profits, a portion of which can be returned to the economy through special sector levies. Banks and some insurance companies are custodians of huge quantities of money belonging to other businesses, the government and citizens, which the banks trade back to them for handsome profits. Having major public resources at one's disposal from which to freely profit, and from which others benefit, will always produce extraordinary profits, which can be specially levied to the benefit of society at large. A small percentage levy on the massive extraordinary profits of these business giants would affect them little, yet pooled together would realise a very substantial inflow for public financing for the agricultural and other key sectors for the general good.

3.2.2 Voluntary contributions by corporate entities and wealthy individuals

As part of their corporate social responsibility commitments, and through moral suasion that appeals to their noble intentions, businesses and wealthy individuals can be made to contribute yearly to development finance purses for agricultural and other development purposes.

3.2.3 Migrant remittances

Remittances from migrant workers represent significant monetary flows from developed economies to African countries through the vast numbers of Africa citizens working in those countries. Through well-organised special-purpose investment vehicles or investment funds, these remittances can be channelled into key need areas such as agricultural businesses.

3.2.4 Tax on financial transactions

Financial transactions are very high in frequency and numbers, such that a minimal tax on them can yield significant finance that is easy to collect and which can be channelled into agricultural development.

3.2.5 Tax on sugars, fats/oils and other widely consumed products that are harmful to health

Many African countries spend billions of dollars yearly to import sugar, oils/fats, and so on. In excess amounts, these are harmful to health. So, just like taxes or levies on cigarettes and alcohol, taxes can be imposed on sugars, oils/fats and other widely consumed products that are detrimental to health. The revenues for these can then be invested in agriculture.

3.2.6 Innovative commercial banking products/ loans to the agricultural sector

Bank loans will remain the everyday source of financing for the agricultural sector. Innovative loan products for farmers, which are easy for the banks to administer, need to be created. Traditionally, African banks require loans to be collateralised by legally registered land property. Many farmers belong to the informal sector and do not have legally registered property to be used as collateral, effectively excluding them from obtaining loans from the banks. Innovative loan products secured by collateral that farmers can easily produce would innovatively increase the flow of finance into the agricultural sector, and would be welcomed as good practice. Standard Chartered Bank, which has branch networks in many African countries and other countries of the world, is a leader in this good practice. It uses innovative collaterals to increase smallholders' access to loans and innovative mechanisms to mitigate the risks. For example, in input financing, it uses the value of the commodity being financed as the in-collateral. This is similar to an all-asset debenture, where the underlying asset being financed forms the in-collateral for the loan.

Standard Chartered deploys active operational mechanisms to mitigate risks that ensure loan repayment, while using innovative collaterals. It combines its lending with advisory services and very innovative monitoring (and other security measures) to achieve loan repayment and to protect its loan portfolio. Chomba Sindazi, director of Standard Chartered's solutions structuring team for Africa, says: 'Risks associated with the cultivation of a range of soft commodities are mitigated through a customized multi-peril insurance policy, and operational issues are addressed through physical inspection and regular reporting by a team of independent, specialised contract managers and insurance companies *(Financial Times Business 2011)*. Governments and central banks can encourage commercial banks in their countries to learn from this good practice, and to innovate and adapt it to their own situations.

3.2.7 Strategic and innovative leasing

Through innovative leasing, structured with options of finance lease, operational lease or daily usage rental payments, agricultural machinery services and agricultural products preservation/processing equipment could be provided to the numerous small farmers in Africa, who do not have money to buy them. This would enable Africa to take giant steps in cultivating vast tracts of dormant arable land, and in preserving the large percentage of its harvest that currently goes to spoilage. It would also transition Africa to large-scale agriculture with commercially viable outputs, while retaining the flexibility and benefits of smallholding agriculture. This would empower small farmers to use commercial machinery for periods of time, while remaining owners of their own growing businesses, like small and medium enterprises (SMEs), a country's growth engine room, existing side by side with the big players in the industry. The package should be holistic, comprising machinery, spares, repair skills and financing services. Some high quality agricultural machinery companies have various financing options as part of their sales offerings of which African countries can take advantage. They could be invited into PPP arrangements, with domestic private sector agriculture leasing companies, commercial/microfinance banks, insurance companies and so, on playing different roles in the leasing of agricultural machinery/equipment. Small farmers in Africa own or have easy access to vast land resources that they have inherited, or which belong to their families or villages, but do not have the machinery needed to work them. Strategic leasing solutions would contribute towards resolving these challenges.

3.2.8 Business Partners' innovative financing model

Business Partners (BP) of South Africa has an innovative financing model for small and medium enterprises (SMEs), be they in the agricultural sector or other sectors, which works well in the African terrain. It is an evergreen fund and model in South Africa, and has been implemented for years in that country. BP has started implementing the model in Kenya and, if invited by governments, the African Development Bank (AfDB) and central banks, it can move into other African countries to implement this highly workable financing model for SMEs in the agricultural sector. This model is like an SME mass production line, churning out high numbers of quality financed SMEs. It uses a variety of financing instruments, such as uncollateralised loans, fully collateralised loans, partially collateralised loans, loans collateralised by the underlying asset purchased by the loan, loans collateralised by stocks and inventory, preference shares and revenue-sharing participation. These are combined with business advisory/business support services, strict internal audit monitoring, reporting and control that mitigate risks and ensure business success and repayments. BP has built a good reputation as a reliable fund manager amongst global and regional fund sources, with huge funds at their disposal, and who are ready to move with BP into other African countries. This model can play a significant role in the African agricultural sector, backed by the guideline that a significant percentage of the funds must be committed to SMEs in the agricultural sector.

3.2.9 Risk and patient capital – venture capital and private equity model

The venture capital (VC)/private equity (PE) financing model has played and continues to play a significant role in successes in the American, European and Asian high-tech sector, life-sciences companies and other industries. Risk and patient capital deployed by VC and PE companies is well suited to the risky and patient agricultural sector in Africa, if properly adapted and structured. Risk capital demands no collateral, but takes a chance on individuals or teams whose winning capability, character, innovative ideas and growth subsector/niche in which they have invested are their own collateral or 'sweat equity'. PE firms collaborate as joint owners and joint managers with the original owner of the business for a number of years, during which period they add great value to the business, and then sell this value back to the original owner or another interested buyer. It is an innovative model that brings in substantial capital and formal management. It may not be suitable for informal smallholder farms, but it is suitable for medium to large agricultural companies, which have innovative individuals and good management teams with products/services in agricultural growth subsectors/niches. Exit routes such as stock exchanges, private placements, mergers and acquisitions, leveraged management buy-outs or buy-ins, which PE firms use to offload their shares, can also be entrance routes for new and additional finance for the underlying companies. There are general PE funds with sizeable agricultural sector portfolios and there are PE funds specific to the agricultural sector. There are global, African regional, sub-regional and country-specific VC/PE funds. Very large sources of funds, such as global, regional and country pension funds, sovereign funds, financial institution funds, wealthy family offices and individuals, are usually applicable to PE firms. With their equity investments, PE firms can leverage further funds from in-country and out-of-country commercial banks into their investee companies and the African agricultural sector. Actis Capital and the Carlyle Group are two examples of PE funds already investing or looking to invest in the agricultural sector in Africa. A number of international and domestic private sector companies, and private equity and investment funds are looking at the African agricultural business space. African countries need to proactively translate such investor interest into active investment in the African agricultural sector through invitation and the facilitation of an enabling environment.

3.2.10 Stock exchanges and commodity exchanges

The agricultural sector can raise money on stock exchanges. Profitable, well-managed, well- reported and well-positioned agricultural companies in the public view can list on stock exchanges, issue initial public offerings or sell un-allotted shares on stock exchanges to raise finance for further expansion and growth. Currently, some of the best performing stocks on the Nigerian Stock Exchange are of agricultural sector-related companies. Although stock exchanges are still developing phenomena in a number of Africa countries, they are on the increase. The incentive to list on a stock exchange and, thereby, to raise a considerable amount of money can be a motivation for an agriculture-related company to manage itself well and create a successful track record that it can take to the stock exchange. Furthermore, very large and successful agricultural companies can list on international stock exchanges. Innovative commodity exchanges, backed by all the relevant physical, electronic, financial and market infrastructure, greatly increase farmers' access to markets. They put the engine and full weight of financial markets directly behind the agricultural sector to drive and stimulate more growth and development in diverse agricultural value chains/commodities. They transcend barriers of space to connect farmers, sellers, buyers, processors, transporters, financial institutions and so on to commonly shared market information, and trading and financing platforms. Through their commodity and financial gateways, players from everywhere in the world can link up to the African agricultural business space. South Africa, Ethiopia and Rwanda are already taking some positive steps in this direction.

3.2.11 Market-smart subsidies

Subsidies driven by governments are always inefficient and not market-smart; subsidies driven by the market and the private sector are always more efficient. For example, when fertiliser subsidy schemes are strictly government undertakings, less than 11 per cent of targeted farmers receive the fertilisers, and parallel fertiliser black markets with exorbitant prices, product hoarding and corruption are rampant. When they are driven by the private sector and market, over 94 per cent of targeted farmers get the fertiliser, and supply timeliness and other market efficiencies are observable. Realising this, governments in several African countries are withdrawing from direct fertiliser procurement and sales, and letting the private sector and market handle these. The role of the government, then, is limited to facilitation of the distribution of vouchers to targeted farmers to obtain discounts for their purchases. This improves crop productivity through increased usage and availability of fertiliser nutrients, which comparatively is far lower in Africa than in other regions of the world.

3.2.12 Strategic public-private partnerships (PPPs)

PPPs are strategic financing and organisational collaborations by private and public sector participants with synergies to achieve a goal for the whole. A strategically successful PPP model in African agriculture has a holistic agricultural value chain approach with a nucleus and cluster structure. The nucleus is comprised of a heavyweight private sector-driven, large-scale farm, a comprehensive processing facility and large marketing outlet; the connected spheres are clusters of numerous smallholder farms. The strategic, central private partner is a highly knowledgeable and fair-at-heart private sector company. The nucleus and surrounding spheres support each other. The other private partners in this model are international and regional partners like development finance institutions, bilateral and multilateral institutions, foundations, agricultural research and extension organisations, and in-country private sector partners like commercial banks, insurance companies, agro-input suppliers and machinery/mechanisation services. The public partners are national, state and county governments, and government extension and research organisations. The selected value chain is holistically and strategically organised and financed. It has physical and revenue model components. The revenue or business model is built on market demand-driven services – domestic demand, export demand or some other demand-driven value that provides quality outputs that can generate high volume sales and good profits for all stakeholders. The physical and structural vehicle for the revenue model is the PPP. The nucleus private sector company may provide high quality seeds and other inputs to the smallholder farmers. It institutes measures to ensure good yield and quality control in the whole value chain, both in the nucleus and in the outlying spheres. Inputs by the nucleus to the farmers are loans in kind to be repaid. The farmers may sell their outputs to the commercial farm, processing facility or marketing organisation at fair market prices. Their loans are deducted and payments made promptly to them. Each operates in synergy with the others, each facilitating and doing the tasks for which it is most suited. PPP synergies provide farmers with access to financing, improved seeds, training, inputs and ready market access in key market-driven added value chains, providing holistic solutions to challenges facing farmers and the African agricultural sector.

3.2.13 Innovative agricultural development and rural banks

Several African countries have agricultural and rural banks that are traditionally structured and run as ineffective government bureaucracies, which renders them unable to function as financially and commercially sustainable enterprises that can accomplish strategic agricultural business growth and attain market targets. Innovative agricultural and rural development banks are key strategic institutions in rural economies that facilitate financial and economic transactions, which accelerates rural economic and monetary velocity, which is acknowledged in economics as fundamental to economic growth and development. The reform of the agrarian and rural bank in Banrural SA, Guatamala, which transformed it from a poorly performing, traditional public agricultural bank into an innovative and profitable PPP agricultural and rural development bank, shows a workable model that African countries can adapt to their particular situations. According to the World Bank (2007):

Banrural SA in Guatemala shows that financial and development goals can be combined and that a large bank can remain highly profitable while offering financial services to poor, rural, and agricultural clients. With 200,000 credit clients, Banrural has a default rate of less than 1.5 percent. With 1 million savings accounts, it facilitates the transfer of more than $1.3 billion in remittances. It works mainly outside of Guatemala City. Half its clients are women, and it provides biometric and multilingual devices to serve illiterate and indigenous clients. An innovative governance model, Banrural is controlled by private shareholders. The public sector owns less than 30 percent of the equity and provides no direct subsidies. The remaining 70 percent is divided among five types of stock, each represented on the board of directors. The 10 board seats are divided among the public sector (3), unions (mostly agricultural producer unions, not credit unions) (2), Mayan organizations (2), NGOs (1), small and micro enterprises (including microfinance organizations) (1), and the general public and employees (1). Each group elects its own directors and can sell stock only to other members of the group... Banrural's profits come from a high volume of small transactions, mostly in rural areas. Having learned the lessons of the microfinance revolution, it adapts financial technologies to its clientele – loan officers visit all clients, decisions are based on an evaluation of business and household income flows, and use of traditional collateral is limited – without losing its identity as a bank. Its lending portfolio to agriculture has more than doubled since it was privatized. To increase its reach to smallholders and rural microenterprises, Banrural functions as a second-tier bank, providing credit lines to more than 150 institutions, such as credit unions and financial NGOs.

In addition to adapting the Banrural SA model, much more would be achieved in Africa if retired or serving commercial bank CEOs with successful track records, who also love rural people, and have the enthusiasm and learning aptitude for agricultural and rural sector issues and solutions, are head-hunted to lead African agricultural and rural development banks.

The following can be noted as key aspects from the above. Innovative agricultural and rural development banks can be strong institutions in African rural areas that present vital, gender-inclusive smallholder farmers. Large agricultural PPPs can be strategic institutions on the African agricultural growth landscape, generating rapidly scalable quality outputs from large- and small-scale enterprises, existing harmoniously side by side in collaborative synergies. Strong and effective institutions or units with innovative, satisfying services are necessary for strategic intent to be realised. Pivotal human resources leaders that drive strategic achievements are critical to the accomplishment of strategic goals. In agriculture, these leaders are not those who come with government red-tape mind-sets, nor are they those who come from academic or development backgrounds (for agriculture is not an academic or philanthropic issue); instead, they are those who come with a practical business and impact-solutions attitude.

4. Conclusion

Can more financing be channelled into agriculture in Africa? Can the financing of agriculture in Africa be more innovative, strategic, holistic and better applied to pivotal investment areas that are able to achieve far more agricultural development than obtained in the past? Can existing and new players in agricultural financing and investment value chains be brought into linkages and collaborative PPPs, with each partner executing the roles for which it is best suited and that best complement the whole? These questions, which this paper presents, are worthy of further dialogue.

Can African governments accord agriculture the priority it needs to grow? Can a growing agricultural sector grow other sectors of the economy? When each African government is truly persuaded of the strategic importance of food security to its own security and the broader survival of the general economy, it will take the necessary action in respect of agriculture and the innovative financing thereof.

What is it that African governments need to do with the limited financial resources at their disposal? It is the classical economic story of wants, scarcity and choice. African agriculture's wants and wish-lists are many and unlimited, but financial resources are scarce and limited. Nevertheless, these scarce resources can be applied in a way that best benefits and uplifts the whole. Scales of preference, decision-making, the Pareto Principle, strategy and innovation would need to be put to work. Each African country must innovatively decide which 20 – 50 per cent of its key agricultural subsectors, when innovatively structured and financed, would produce the 50 – 80 per cent benefit to the whole agriculture-related sector and, consequently, to the other sectors and the entire economy.

Selection of the right human resources and multilateral management relationships are critical to strategic and innovative mechanisms for financing investment in agriculture in Africa to produce the desired outputs and productivities. It is well known in business and investment circles that a category B idea can be turned into a winning, category A idea by a category A human resources and relationships framework, while a category A idea can be turned into a losing, category F idea by the wrong human resources and management relationships framework.

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