

Social Capital Conference

Conference: SOCAP Europe 2011 Amsterdam, May 31st

Panel Topic: Session 2.4 Financing Small Farms and Food

Panel Description: Small and medium sized farms constitute a large percentage of the businesses operated in rural parts of the developing world. Despite the tremendous potential for impact, these operations tend to be underserved in terms in a number of ways, including finance. This panel explores the potential for impact through targeted financing and support for small farms.

Moderator & Panelists

Al Doerksen: Moderator

Al Doerksen is CEO of IDE. His working career divides about evenly between non-profit and for-profit worlds; he has held senior leadership roles with Canadian Foodgrains Bank, Palliser Furniture, and Trojan Technologies. He has lived in Mexico, India, Germany, Canada, and the USA, and has travelled to around 90 countries. Over the years, he has developed a strong preference for market-based approaches to rural wealth creation, and for treating smallholder farmers as customers. He is passionate and purposeful about the mission of IDE.

Pal Dale:

Pål Dale is co-founder and Managing Director of Voxtra, a venture philanthropy fund that is now moving into impact investing, focusing on agribusiness and smallholder farming in East Africa. Previously, Pål worked as a management consultant in The Boston Consulting Group. He is trained as an officer in the Norwegian Army and has served in the NATO operation in Bosnia & Herzegovina. He holds an MSc in Economics from the Norwegian University of Science and Technology. He speaks Norwegian, English and Russian.

<http://www.voxtra.org/>

Josh Ruxin:

Josh is an Assistant Clinical Professor of Public Health at the Mailman School of Public Health at Columbia University and the founder and director of the Access Project, the Millennium Villages Project in Rwanda, and Access' Neglected Tropical Disease Control Program. Josh has extensive experience operating at the intersection of public health, business and international development. In 1996, Josh joined Monitor Group and in 2000, he co-founded and served as vice president of ontheFRONTIER, a strategy consulting firm. During his years there and at the Monitor Group, he led projects in a several developing countries and was an advisor to government and private sector leaders on business strategy and economic development.

<http://www.rwandaworks.com/>

Nate Schaffran:

Mr. Schaffran is Root Capital's regional director for Africa. He previously worked as a business accounts manager at TransFair USA, the U.S. certifier of Fair Trade products. Prior to that he

worked in Nicaragua with Cooperativa Juan Francisco Paz Silva, a sesame production and export cooperative. Mr. Schaffran holds an M.S. in foreign service, with a concentration in international development from Georgetown University, and a B.A. in economics and political science from Swarthmore College. He is fluent in Spanish.

<http://www.rootcapital.org>

Hedwig Siewertsen:

Hedwig Siewertsen is managing director of d.o.b foundation as of January 1st 2011. She has a Bsc. in tropical agriculture and a university degree in development economics. Since 1994 she has been working in the area of SME development, value chain finance and microfinance, in over 20 countries in Africa and some countries in Asia.

<http://www.dobfoundation.nl>

Lucas Simons:

Lucas Simons' personal mission is to help build new concepts and new programs that inherently value sustainability and drive transformation towards sustainable markets in a mainstream way. Lucas Simons started his career as a consultant at KPMG Sustainability followed by a position at TNO Strategy & Policy. Prior to founding NewForesight™ and ForeFinance™ Lucas was Director of UTZ CERTIFIED and responsible for setting up the coffee, cocoa, and tea certification programs.

Design, Methodology, Approach: “Reports and expert opinions from panelists.”

Main Panel Discussion Points:

Pal Dale –Voxtra:

Voxtra is a venture philanthropy organization based in Norway that is looking at possible investments in small farms and agriculture in East Africa and India. The general approach is to look at impact first, primarily looking at how incomes increase through targeted investments and various business models.

There are two types of high impact models in this space:

1. Companies that sell services to farmers, such as high yield seeds or high yield fertilizers
2. Companies that source products from farmers, including providing market linkages.

Josh Ruxin – Rwanda Works:

Started out working in health related issues. The problem that came up is no matter what you do with health issues, kids are chronically malnourished.

As a result, Rwanda Works started looking closely at dairy farming. Most approaches to improving dairy farming operations are focused on giving the farmer a better price, however there is also a key concern of nutrition of the local population.

Looking to create a high nutrition yogurt product, looking at model between Danon and Grameen. Ultimately looking at a fortified nutritional product.

Nate Schaffran – Root Capital:

Root Capital is looking at 1.4 billion who live in poverty, at least 70% are in rural areas. Most of these people earn their living from agriculture. Founded in 1999, Root Capital seeks to provide financing to this community entrepreneurs. Also looking at trade finance as a means of having agriculture driving economic growth. In specific looking at raising yields as a means of generating extension services.

Some processes used to increase farmer incomes include linking farmers to markets. Potentially selling products to western companies like Whole Foods in addition to local markets.

Root capital expects to scale its operations in the future, focusing specifically on SME financing for rural farmers.

Hedwig Siewertsen, DOB:

DOB is an equity investor funded by a wealthy Netherlands-based family looking specifically at investments in Africa. One example is a 3,000 dairy farm cooperative in Tanzania started in 1985 as a project of the Netherlands government.

There are three main points related to these types of investments:

1. Patience is required, they take a long time to develop.
2. Value addition is critical, so for example roasting coffee in Africa and then exporting creates more economic value for the seller
3. Value Chain Approach – you cannot just finance a dairy factor, you have investment in the dairy farmers to ensure the supply of quality raw materials.

Lucas Simmons, Fore Finance:

There is a need for credit for agriculture in Africa, at least \$130 billion. 30-40% of GDP is from agriculture. However, banks would rather invest in mining, bonds and other less risky or straightforward investments. Banks are generally unsure of how to invest in agriculture.

The question is where is the market? Only large players have market access. The largest opportunity for development is in the missing middle, this is where the largest impact can be made.

The key issue for investors is how do you rate potential entrepreneurs/investments? How well does a farmer perform at creating a harvest?

Forefinance has the ability to develop a profile in one day that covers both strengths and weaknesses of the farmer.

Forefinance identifies and links professional and sustainable farmers to committed banks, give them access to credit and the opportunity to prove their credit worthiness.

Outcomes & Analysis:

The panel demonstrated a number of different models relating to how rural farming and agriculture in developing countries can become catalysts for economic development, poverty alleviation and change. The issues brought up by the speakers tended to focus on solutions to barriers currently faced by small farming communities that prevent them from obtaining key drivers for growth. These included access to finance as well as market linkages, both in terms of the sale of goods as well as procurement of raw materials necessary for farming.

Voxtra is framing its investment approach in terms of creating value from either providing services to farms or creating markets for them. Root Capital and DOB are specifically looking at financing SME's, while ForeFinance will looking at creating linkages between small farmers and banks through increased information on credit worthiness of the entrepreneur. Rwanda Works looked at the issue from a local consumer point of view, addressing the need for nutrition at the local level. Rwanda works raises an important issue related to local farming. While many programs look at creating the greatest economic value for local farmers through potential export markets, there can be resulting issues related to rising prices that make certain local crops unaffordable.

Overall, the small-farming sector in low-income countries demonstrates vast potential. As business models around providing access to capital mature and become more commonplace, there is an opportunity to scale these approaches to create sustainable economic growth from the bottom up.

Keywords: small-scale farming, SME finance, agricultural finance, food finance

Paper type: Review of conference panel.

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