Fifteen years Fifteen lessons from Africa

Chapter 2: Market Lessons

INVESTISSEURS & PARTENAIRES

2 Market Lessons: (r)evolutions

5 Lesson n°5 : Meeting the basic needs of the domestic market is a priority but is feeding Africa financially viable?

Over the last fifteen years, I&P has invested considerably in the agribusiness sector "from farm to fork" as the Anglo-Saxons say. This sector accounts for 40% of deal flow, one third of GDP in most countries where I&P has invested, and above all plays a key role in food security and job creation in Africa. Indeed, the growth of domestic markets and the international demand for exotic fruits and vegetables, especially those that are certified organic, represent important business opportunities and thus drive growth in the sector. However, it is on the supply side that the difficulties are the most daunting, as very few channels are structured and rarely allow for the arrival of products in sufficient quantities or the necessary consistency for the global market. There are, thus, several methods of supply: (i) supply from intermediate commercial producers (ii) direct supply from the market and (iii) supply from small producers, grouped into cooperatives or led directly by the contractor. This latter configuration is today the most widespread practice of SMEs supported by I&P and the one that seems to generate the greatest impact in terms of the number of families directly supported although we need to qualify this point a bit further. But this approach raises important problems.

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The first of many difficulties encountered in the agribusiness sector lies in the relationship between entrepreneurs and small producer networks. These networks are often informal, disorganized, and disconnected, due to poor communications and lack of infrastructure. As a result, entrepreneur very often has to organize the production channels, supply the seeds and other inputs, train small producers in new techniques and enable them to increase their productivity by organizing collection circuits, and formalizing contracts and methods of remuneration. As these small producers now rely on the entrepreneur for a regular income, the entrepreneur must also learn how to manage this dependent relationship that has been established: what happens when the orders are not filled or when the company loses its organic certification and can no longer sell its production? Or, conversely, when climate hazards impact the quality of harvests, limiting the company's supply capacity? Or when opportunistic buyers approach producers who are critical suppliers of the company?

The technical support of NGOs (as in the case of experts who receive funds for technical assistance) is fundamental to small producers in the diversification of their production, the management of seasonality and the improvement of agronomic practices in light of environmental challenges, such as deforestation, desertification and soil depletion.

The under-capitalization of agribusiness and agriculture is striking because they require much more capital than other sectors

The second difficulty in agribusiness arises from the very specific financing method of this sector in terms of the nature (capital, debt), timeframe (long-term capitalization, short-term credits) and size (a seasonal credit may amount to only a few tens of thousands of euros). The under-capitalization of agribusiness and agriculture is striking because they require much more capital than other sectors. From an investor's point of view, therefore, significant ex-ante margins are required to justify the level of risk that one is prepared to take. Every investment in agribusiness requires the development of numerous scenarios to respond to the many uncertainties and risks affecting the development of the company and to anticipate the considerable amount of monitoring time that will be required compared to operations in other sectors. Investors often tend to assume that working capital requirements are mainly a matter of bank financing. Our experience shows that the entrepreneur cannot be left alone to face this problem: banks are often inadequate or unreliable to help because they are unable to offer campaign credits quickly enough or only under terms that are cost-prohibitive. The possibility of financing campaign credits regularly and at a lower cost must therefore be taken into account as soon as the investment is studied. Lastly, with some entrepreneurs, I&P has tested alternative forms of financing, such as crowdfunding, which beyond the very attractive financial conditions they offer, make it possible to raise funds in a few weeks - and even in a few hours! - and offer the company an exceptional communication showcase and platform, instantly exposing its brand to a large number of lenders.


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The third set of difficulties is related to logistical problems and the sometimes misunderstood and poorly anticipated impact of these investments in sociological terms. Logistics aspects are often undervalued. The growth of a company and the increase in production volumes raise many operational questions: they require, for example, an expansion of collection centers, an increase in the truck fleet, increased intermediate storage capacity, etc. A new equity investment leads to a physical scale change that needs to be measured and anticipated, while taking into account the ability of the company and the entrepreneur to adapt to these developments.

This is our fifth lesson from Africa: feeding the continent is a priority, and Africa's agricultural and technological potential are sufficient for it to be implemented However, agriculture and agribusiness face the same challenges and risks faced by all African SMEs, as well as additional risks specific to agriculture in Africa (climate hazards, rural sociology, fluctuation of agricultural prices, etc.) and where environmental issues play an ever increasing role. Expected financial returns should be carefully measured against these risks, and timelines for return on investments realistically set. Public policies are needed to play an active role in supporting the sector and accelerating private investment.