Agribusiness OUTLOOK
How CEOs view the future

AGRA
Growing Africa's Agriculture

KPMG

2022 Africa Agribusiness Outlook

Making Africa an even better place to do agribusiness

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The AGRA Story

> Established in **2006.** AGRA is an **African-led,** African based institution transforming **smallholder agriculture** from a solitary struggle to survive, into farming as a business that thrives.

- AGRA is an alliance led by Africans with roots in farming communities across the continent. We understand that African farmers need uniquely African solutions designed to meet their specific environmental and agricultural needs so they can sustainably boost production and gain access to rapidly growing agriculture markets.
- Since 2006, we have worked with our partners across Africa to deliver a set of proven solutions to smallholder farmers and thousands of indigenous African agriculture enterprises. The alliance has built the systems and tools for Africa's agriculture; high quality seeds, better soil health, access to markets and credit. This is supported by stronger farmer organizations and agriculture policies.
- All of our work is centered around smallholder farmers in mind. With the many challenges they face and if we address them all at once, farmers can efficiently cross a threshold. Production improves and with a dependable place to profit from their surplus, the smallholder farmers hard-earned progress is sustained without external country support.

Contents

Foreword

A very warm welcome to the second edition of the African Agribusiness Outlook. We, the Alliance for a Green Revolution in Africa (AGRA) and KPMG East Africa, are delighted to have worked with the Partnership for Inclusive Agriculture Transformation in Africa (PIATA) Partners to deliver this initiative.

While 2021 was a challenging year, marked by new outbreaks of COVID-19 variants and the resulting disruption to business, we made some exciting advances in Africa. The long awaited African Continental Free Trade Area (AfCTA) was launched in January 2021, offering hope to more than 30 million of Africa's people, who could be lifted out of extreme poverty, i.e. people who live on less than $1.90/day and boost the incomes of nearly 68 million others who live on less than $5.50 a day. COP 26 and the Food Systems Summit highlighted the importance of climate change and biodiversity loss and the likelihood that Africa will be in the front-line in terms of addressing negative impacts of climate change on soil health and crop yields.

Agriculture holds the key to economic recovery on the Continent. We are committed to supporting this growth. Over the next five years, AGRA will focus a core part of its budget on improving the business environment for private sector players operating in the agribusiness ecosystem, supporting women agribusiness entrepreneurs, small and medium sized businesses and on the design and delivery of innovative financial solutions.

It is with this in mind that we focused the agribusiness survey in 2021 on the enabling environment for agribusinesses including looking again at the laws and regulations highlighted in the World Bank reports on Enabling the Business of Agriculture (EBA) and the Doing Business Index (DBI). We note that the DBI has now been discontinued We want to understand what we can do to make Africa an even better place to do business, particularly for those businesses operating in the agricultural sector. How can we support agribusinesses so that they become more competitive and grow faster? What are their priorities for investment in 2021 and beyond and how can we help them achieve these priorities?

Our conversations were enlightening. There was a marked gender difference in our conversations. Climate change emerged as a new priority for the private sector, while access to finance remained the top priority for businesses. Other noteworthy highlights include the growing prominence of multi-stakeholder platforms and partnerships, as a solution for driving agricultural transformation. We believe this is a timely message. Any response in these difficult times calls for a breakdown of silos and a multi-sectoral approach to agricultural development.

The overall index for the survey, an important barometer of business confidence, was down compared to the previous year, pointing to what we believe is reduced optimism about the future.

Despite this, we are inspired by the resilience of many businesses. We believe that this period offers us an opportunity to implement much-needed structural reforms that would improve the operating environment for business. AGRA and its partners are committed to doing our best to support the private sector in Africa. The 2021 conversations will shape our future work in this regard.

Dr. Agnes Kalibata

President

Alliance for a Green Revolution (AGRA)

Benson Ndungu

Chief Executive Officer & Senior Partner

KPMG East Africa

Marching forward in uncertain times

Just when hope was rising for a steady economic recovery, Africa and the rest of the world were hit by a new COVID-19 variant at the end of 2021. Omicron, the new variant spread fast in many African countries, and although it has been described as a milder strain, resulting in less hospitalizations, the resulting flight bans and disruptions to the global supply chain had and are still having an impact on doing business in Africa. While economists and the global public health community continue try to understand the impact of the new variant, its emergence poses a threat to the Continent's already fragile economic recovery. Nevertheless, the general view is that the worst of COVID is behind us.

As we start the post COVID-19 era, the major challenges for the development of agribusiness ecosystems in Africa appear to be climate change, soil health, water for irrigation and biodiversity loss. These issues are likely to present the biggest threats (and opportunities in the case of water for irrigation), to agricultural production and agribusinesses.

Operating in such a fluid environment requires agility and tenacity. According to the World Bank and the International Monetary Fund (IMF), growth in Sub-Saharan Africa is expected to remain at below 4% in 2022 and 2023. Going forward, the Continent's economic recovery is pegged on rising commodity prices, the advancement of COVID-19 vaccination to enable a return to normal business, a recovery in global trade, an increase in intra-African trade and a rise in agricultural output.

In 2021, we spoke to many businesses across the Continent operating in the agricultural ecosystem. What was clear was their determination to keep moving forward, their resilience and innovation. What they need is support in the form of enabling policies, laws and regulations and the delivery of public goods such as infrastructure, increased access to innovative and appropriate finance and help in addressing the challenge of climate change.

This report builds on the inaugural 2020 Africa Agribusiness Outlook and presents the results of our conversations across the ecosystem. We increased the number of key countries for our one-on-one interviews and improved the online survey to cover new areas of interest emanating from discussions with captains of industry. The result is a barometer that provides insights into priority areas of interest to the private sector that, if resolved, would boost their investment into the agricultural sector and help them scale and become more competitive.

> COVID-19 pushed us to be brave. When your back is against the wall, you have to find new ways of doing business. We embraced partnerships, looked to save resources and go global. It helps you develop mechanisms for absorbing shocks.
>
> *~Alloysius Attah, Co-founder and CEO, Farmerline~*

2021 in review

January 2021

– **African countries opened their markets on 1 January 2021 under the continental free trade agreement.** Duty-free trading of goods and services across borders is now underway. The new market created under the African Continental Free Trade Area (AfCFTA) agreement is estimated to be as large as 1.3 billion people across Africa, with a combined gross domestic product (GDP) of $3.4 trillion. It has the potential to lift up to 30 million Africans out of extreme poverty, according to the World Bank.

February 2021

– The governments of five sub-Saharan countries (Burkina Faso, Ethiopia, Malawi, Nigeria, and Uganda), in collaboration with the World Bank, carried out several rounds of COVID-19 high-frequency phone surveys (HFPS) to monitor the socio-economic implications of the pandemic. The findings indicated that agriculture can act as a buffer in the COVID-19 crisis.

April 2021

– In an effort to support market system actors as they navigate the challenges and opportunities associated with digital transformation in the age of COVID-19, USAID's Bureau for Resilience and Food Security commissioned a rapid analysis to identify and analyse **trends driving the adoption of digital tools in the agriculture market system in response to the global pandemic**.

May 2021

– The **financial burdens caused by invasive pests and plants** in Africa may total more than $65 billion per year, according to a study published in the journal, CABI Agriculture and Bioscience, adding to a list of food security challenges in Africa that includes climate change, armed conflict and a raging locust plague.

June 2021

– **The Kenyan government revised laws governing the tea sector.** Smallholder tea farmers in Kenya are now getting better returns for their crops, having a say in who represents them and are being paid on time for what is the country's primary export.

July 2021

– The Malabo Montpellier Panel, that is a collaboration hosted by Imperial College London, the University of Bonn, and AKADEMIYA2063, published a 2021 report titled "Connecting the Dots: Policy Innovations for Food Systems Transformation in Africa", **that calls for a systems approach to food markets, where multiple sectors such as agriculture, health and the environment are considered together to reduce hunger, malnutrition and poverty**.

– COMESA Business Council (CBC) in partnership with Africa Nenda convened a high-level Public-Private Dialogue, themed "Towards the COMESA Digital Integrated Common Payment Policy for Micro, Small and Medium-sized Enterprises, (MSMEs)." Arising from the Dialogue, a raft of recommendations were made on the **Draft Model Policy for The Digital Payments Platform for MSMEs in COMESA, and the Draft Guidelines/ Rulebook on the Operation of the Digital Payments' Platform**. They included the adoption of the proposed policy measures in the draft policy framework and the Rulebook to guide operations of digital payments subject to the proposed changes.

August 2021

– **IMF noted that a general allocation of Special Drawing Rights (SDRs) equivalent to about US$650 billion became effective on August 23, 2021**. The allocation was to enable all members address the long-term global need for reserves, build confidence, and foster the resilience and stability of the global economy. It was intended, in particular, to help the world's most vulnerable countries struggling to cope with the impact of the COVID-19 crisis.

– With support from AGRA and improvements as part of a USAID's Feed the Future AgriLinks initiative, **Rwanda is on the path to self-sustainability** with improved seed for major crops.

September 2021

– The UN Food Systems Summit took place in this month. Over the previous 18 months, the Summit brought together all UN Member States and constituencies around the world – including thousands of youth, food producers, Indigenous Peoples, civil society, researchers, private sector, and the UN system – to bring about tangible, positive changes to the world's food systems. The virtual Summit offered a catalytic moment for public mobilization and actionable commitments by heads of state and government and other constituency leaders, with **Africa voicing a common position underscoring the urgent need for sustainability and resilience as a means of achieving food systems transformation**.

– The AGRF 2021 Summit was a critical gathering of global and African minds designed to outline, discuss and validate commitments to, and accelerate action towards ending hunger, reducing poverty, and improving nutrition by 2030. Leaders from across the Continent and beyond gathered under the theme of Pathways to Recovery and Resilient Food Systems to **define the pathways and bold actions needed to transform Africa's food systems**.

– **AGRA launched the 2021 Africa Agriculture Trade Monitor (AATM) Report** that analyzes Continental and regional trends in African agricultural trade flows and policies.

– **The 2021 Africa Agriculture Status Report (AASR21) was launched at the AGRF Summit**. The report addresses the challenges and opportunities in the creation of sustainable and resilient agri-food systems in Africa. It explores what building resilient and sustainable food systems entails, and calls for the necessary actions by governments, pan-African organizations, bilateral and multilateral development partners, and the private sector.

October 2021

– **The IMF noted that the vaccine rollout in sub-Saharan Africa has been the slowest in the world, leaving the region vulnerable to repeated waves of COVID-19**. The region has fully vaccinated only 3 percent of its population, well below the level needed to reach herd immunity. Although the world is set to produce around 12 billion doses in 2021, it will likely be more than a year before a meaningful number of people are vaccinated in sub-Saharan Africa.

– According to the IMF, sub-Saharan Africa is the world's smallest contributor to global greenhouse gas emissions - less than 5% - but nonetheless the region is perhaps the most vulnerable to climate shocks. One-third of the world's droughts already take place in sub-Saharan Africa, and its dependence on rain-fed agriculture makes it particularly vulnerable. Climate change can also act as a multiplier for conflict and fragility, worsening pre-existing tensions, weak governance, and other socio-economic concerns. **Adapting to climate change, and assisting in worldwide mitigation efforts, will require new and robust climate-finance mechanisms**.

– A report commissioned by IUCN and the UNFCCC High Level Champions and steered by a working group of African partners ahead of Climate COP26 in Glasgow provides **compelling evidence of the positive impacts of regenerative agricultural practices**. This report presents the case for regenerative agriculture to play a key role within broader land restoration activities and its potential to benefit smallholder farmers, business and society. It demonstrates the benefits of a transition to practices such as agroforestry and soil management as methods to boost yields, improve human nutrition and livelihoods, supporting soil and ecosystem health. The report also looks ahead with detailed forecasts up to the year 2040.

– **The Africa Investment Forum held a roundtable event to preview two agribusiness deals worth nearly $400 million**. The first one, which requires $345 million in capital, entails construction and operation of a food market that will serve about 15 million people in an area projected to be Africa's largest food exchange zone. The second involves the scaling up of a dairy milk production and packaging company in a Southern African country.

November 2021

– Facing mounting evidence that climate change will fall hardest on agriculture-dependent regions like sub-Saharan Africa, **a coalition of funders at the United Nations climate summit pledged $575 million to deliver climate-smart solutions to farmers in low-income countries via the CGIAR global network of agricultural research partnerships**. Combined with the $256 million recently pledged at the Global Citizen Live event, and other commitments from Sweden and Belgium, CGIAR has secured $859 million this year to confront a host of rapidly intensifying climate challenges that could upend the global fight against hunger and poverty.

– The World Bank published a 2021 brief looking at rising food insecurity during the COVID-19 pandemic and notes that although global food prices remain generally stable and the outlook for global supplies remains favourable, domestic food price inflation is rising in most countries. The poorest countries witnessed a sharp increase in food prices in September 2021, reaching the highest level since the start of the COVID-19 pandemic. **The Agricultural Commodity Price Index stabilized in the third quarter of 2021 but remains 14% higher than its January 2021 level**. Maize and wheat prices are 44% and 38% higher, respectively, than their pre-pandemic (January 2020) levels, and rice prices are about 4% lower.

Section 1

We asked industry leaders to score priority areas, on a scale of 1 to 10, with 1 being an issue of no priority at all and 10 being an urgent priority, requiring immediate action.

Of the 66 priority areas scored, these are the top 10, requiring urgent attention.

The top 10 priorities

Rank 2021	Rank 2020	Action	Priority Score 2021/2020
1	1	More flexible financing structures for agriculture and agribusiness sector that support business growth and provide flexibility to respond to market shocks and emerging innovation	8.26/8.67
2	2	Increase productivity on small farms. They are key to agricultural transformation on the Continent	8.20/8.65
3	5	Catalytic financing for the entire value chain, not just technology	8.00/8.53
4	11	Blended finance initiatives for agribusinesses	7.98/8.38
4	25	Increase access to small, affordable, smart technologies for small farms	7.98/8.22
5	26	Promote climate smart agriculture as a key driver for transformation and development of resilience	7.94/8.21
6	55	Increased public-private initiatives that fund and accelerate developments in the agribusiness space	7.91/7.71
7	19	Develop inclusive supply chains involving smallholder farmers. This is critical to our sourcing and risk management strategy	7.88/8.30
8	New	Access to finance for climate adaptation initiatives or climate smart agriculture in the supply chain and at the company level	7.87/New
9	40	Develop multi-stakeholder platforms and partnerships for driving agricultural Transformation	7.85/8.03
10	New	Supporting farmers adopt better production technologies like regenerative agriculture practices	7.78/New

In the second year of the Survey, access to finance, specifically, flexible financing structures that support business growth and provide flexibility to respond to market shocks and emerging innovation, remains the number one ranked priority. It appears that, overall, access to finance is the biggest priority for most agri-SMEs with other financial services related priorities scoring high in the top ten. Other financial services related priorities include catalytic financing for the entire value chain, not just technology, blended finance initiatives for agribusinesses and financing for climate smart agriculture. This “focus on finance” is not surprising given the importance of the financial sector as an enabler of agricultural development. Despite the importance of the agricultural sector in many African countries, both in contribution to GDP and livelihoods - the agricultural sector remains one of the most underserved markets by the financial sector. On average, only 3-5 percent of commercial bank credit in sub-Saharan Africa goes to the agricultural sector. The current traditional, formal financial system does not work well for the agricultural sector which calls for innovation and boldness in the design and provision of financial services to this important sector.

Smallholder farmers remain at the centre of agricultural transformation on the Continent, with increasing productivity on small farms ranking the second highest overall priority.

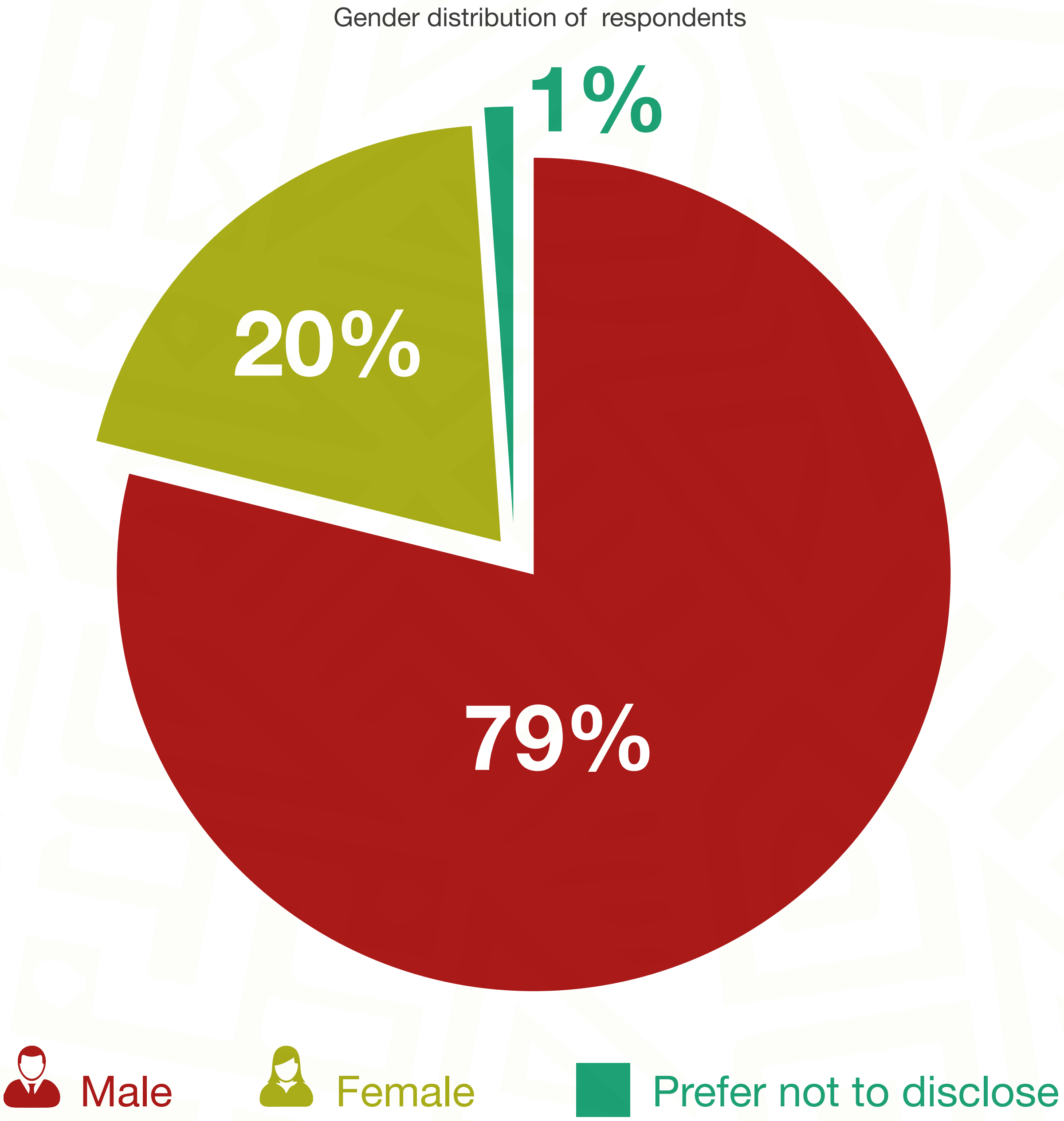
Climate change, a new priority area, featured strongly in the top ten. Africa is the Continent producing the least carbon emissions but remains the most affected by the vagaries of climate change. The agribusiness leaders we spoke to expressed their concern for climate change, indicating the negative impact on their supply chain and operations as well as profitability. Top priorities in this area include the promotion of climate smart agriculture as a key driver of transformation and development of resilience, support for farmers to adopt regenerative agricultural practices and access to finance for climate adaptation initiatives.

Priorities related to partnerships made the biggest improvement overall, notably calls for private public partnerships to fund and accelerate developments in the agricultural sector and for multi-stakeholder platforms to drive agricultural transformation on the Continent. Each of these priorities moved from priority 55 and 40 in 2020 to priority 6 and 9 in 2021, respectively. It reinforces our view that an ecosystem approach is needed to support agricultural transformation on the African Continent.

Equally interesting is the priority with the lowest score: shut down or pivot business as a result of COVID-19. As will be demonstrated throughout this report, we believe this view reflects the resilience of agribusinesses in Africa in the face of the new normal, dominated by waves of COVID-19 and low vaccination rates on the Continent, which has led to slower than expected economic recovery.

Overall, the average priority score for all contributors fell to 7.14 in 2021 from 7.84 in the previous year. We believe this reflects reduced optimism about the future.

The gender difference



Out of the 177 responses from 18 countries, 20% of the respondents were female. Analysing the data by gender is important as some of the top 10 priorities of female respondents includes priorities that do not feature among the overall top 10.

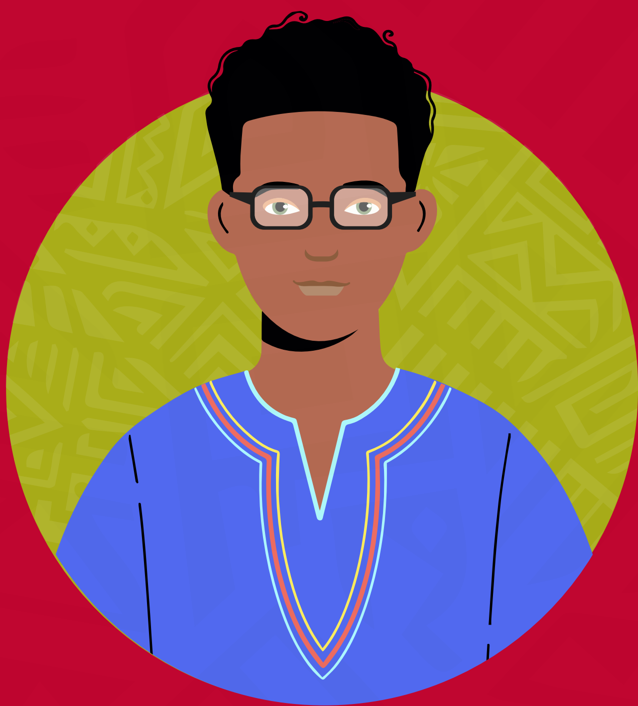
Analyses of priority results by gender

Category	Priority	Overall 2021	Male	Female
Access to finance	More flexible financing structures for agriculture and agribusiness sector that support business growth and provide flexibility to respond to market shocks and emerging innovation	1	1	2
Transforming Agriculture through policy actions	Increase productivity on small farms. They are key to agricultural transformation on the Continent	2	2	1
Access to finance	Catalytic financing for the entire agricultural value chain, not just technology	3	5	3
Access to finance	Blended finance initiatives for agribusinesses	4	4	4
Technology	Increase access to small affordable smart technologies for small farms	5	3	13
Transforming Agriculture through policy actions	Promote climate smart agriculture as a key driver for transformation and development of resilience	6	7	6
Access to finance	Increased public-private initiatives that fund and accelerate developments in the agribusiness space	7	6	17
Smallholder farmers and their future	Develop inclusive supply chains involving smallholder farmers	8	8	10
Access to finance	Access to finance for climate adaptation initiatives or climate smart agriculture in the supply chain and at company level	9	9	14
Transforming Agriculture through policy actions	Develop multi-stakeholder platforms and partnerships for driving agricultural transformation	10	10	15
Market linkages and trade	Participate as the private sector in negotiations for the Africa Continental Free trade area	41	48	5
Market linkages and trade	Governments to develop and implement more friendly policies with relation to cross border and international trade	12	12	7
Transforming Agriculture through policy actions	Increase technology investments in agriculture because this is a game changer for the sector	13	13	8
Market linkages and trade	Open markets for food and commodity trade to boost intra African trade	24	28	9

Higher priority (10 or more above overall)	Higher priority (5 to 9 above overall)	Higher priority (within 4 of overall)	Consistent priority rank	Lower priority rank (within 4 of overall)	Lower priority rank (5 to 9 below overall)	Lower priority rank (10 or more below overall)

For this year's survey,

Female respondents have placed more emphasis around developing market linkages and trade. Female CEOs want to participate in the African Continental Free Trade Agreement. They rated this as their 5th highest priority in stark contrast to male CEOs who overall placed this in position 45. They also want more friendly policies to enhance cross border and international trade. Additionally, increasing technology investments in agriculture also ranked as a higher priority for female CEOs as compared to their male counterparts.



Male respondents on the other hand ranked access to small affordable smart technologies for small farms much higher than female respondents - this was their 3rd highest priority compared to female respondents who placed this in position 13.

Survey context

Overall questions

What are the most important private sector-related barriers to growth, investment and competitiveness of agri SMEs, which they cannot tackle themselves?

What are the biggest public sector-related barriers to growth, investment and competitiveness of agri SMEs which can be tackled through government's priority setting and investment strategy?

Primary focus countries

Cote d'Ivoire, Burkina Faso, Mali, Ghana, Nigeria, Kenya, Uganda, Tanzania, Ethiopia, Rwanda, Malawi, Zambia, Mozambique

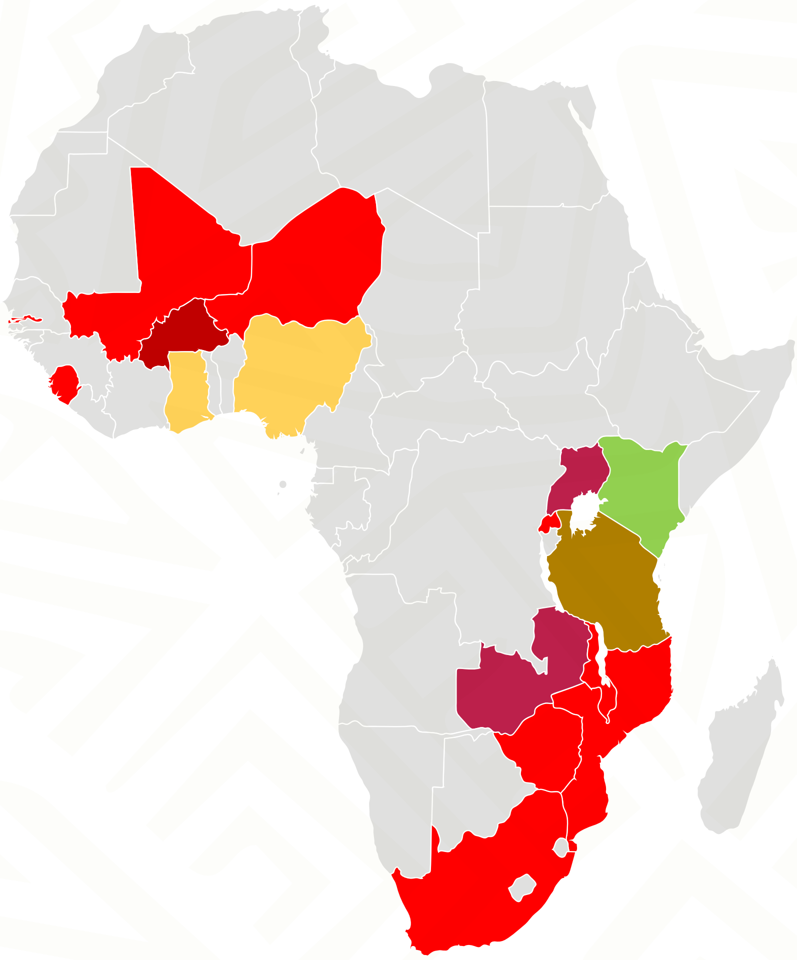
Secondary focus countries: Rest of Sub-Saharan Africa

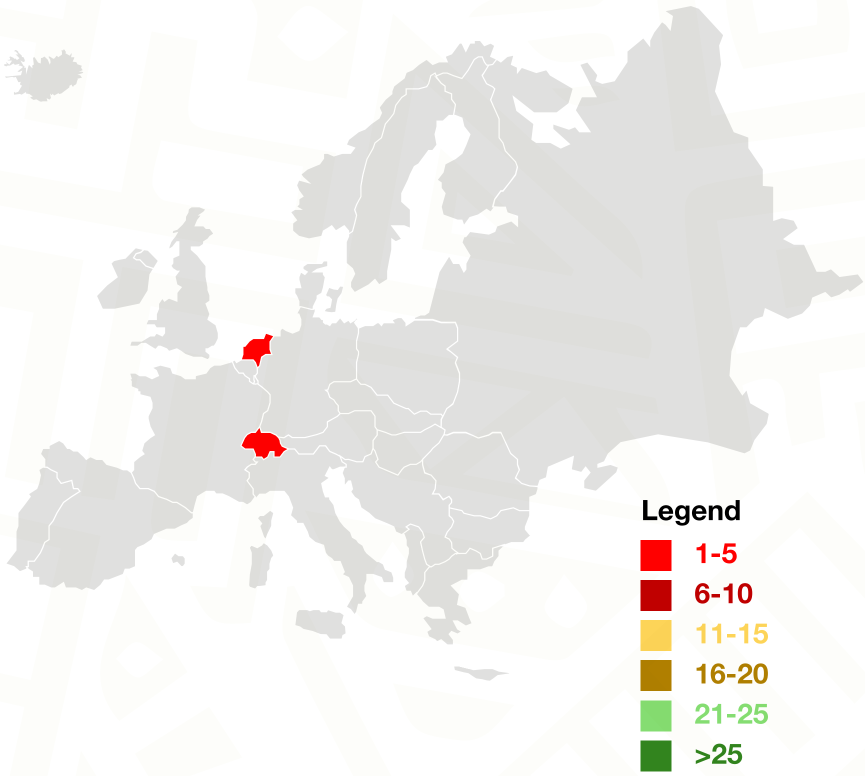
Total number of respondents 177

Total number of countries 18

Total number of organizations 114

Geographic distribution of respondents

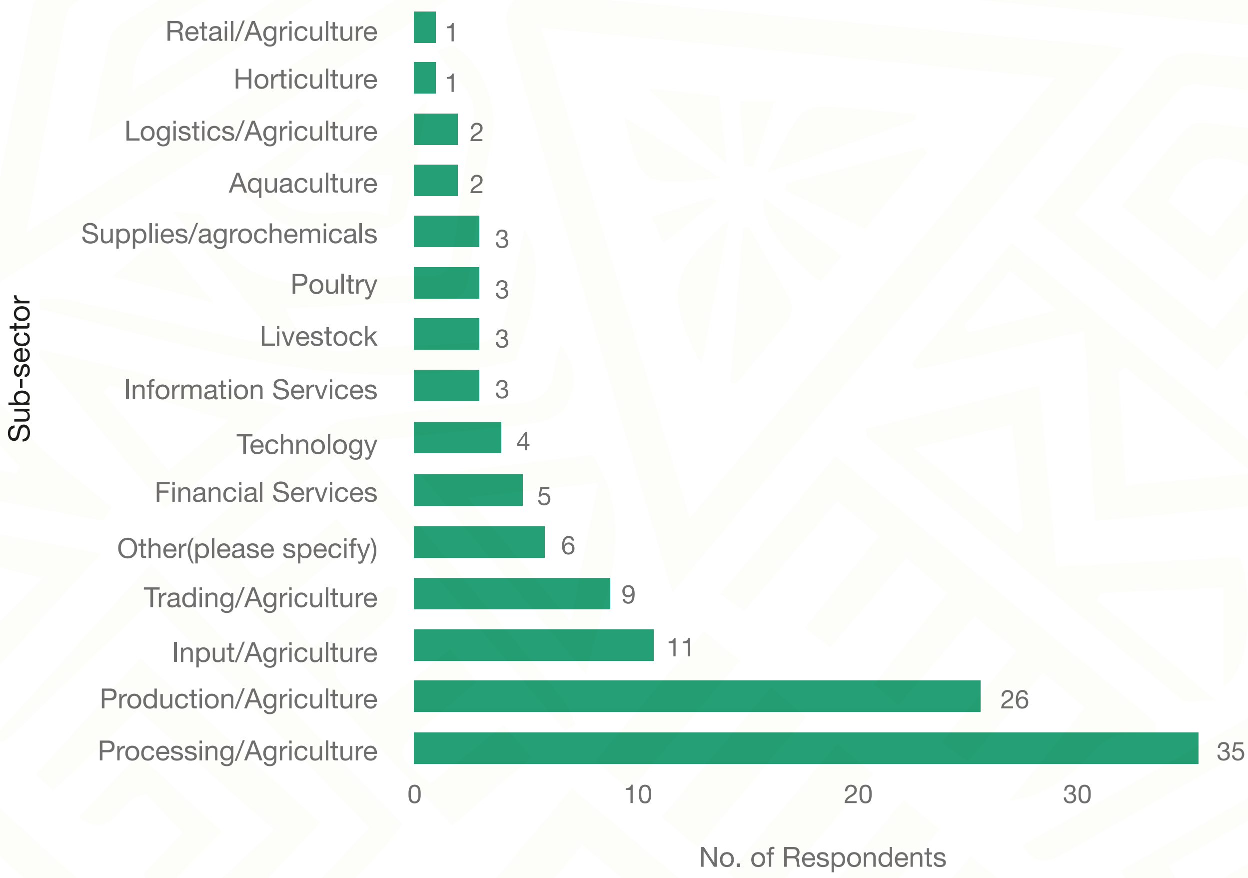




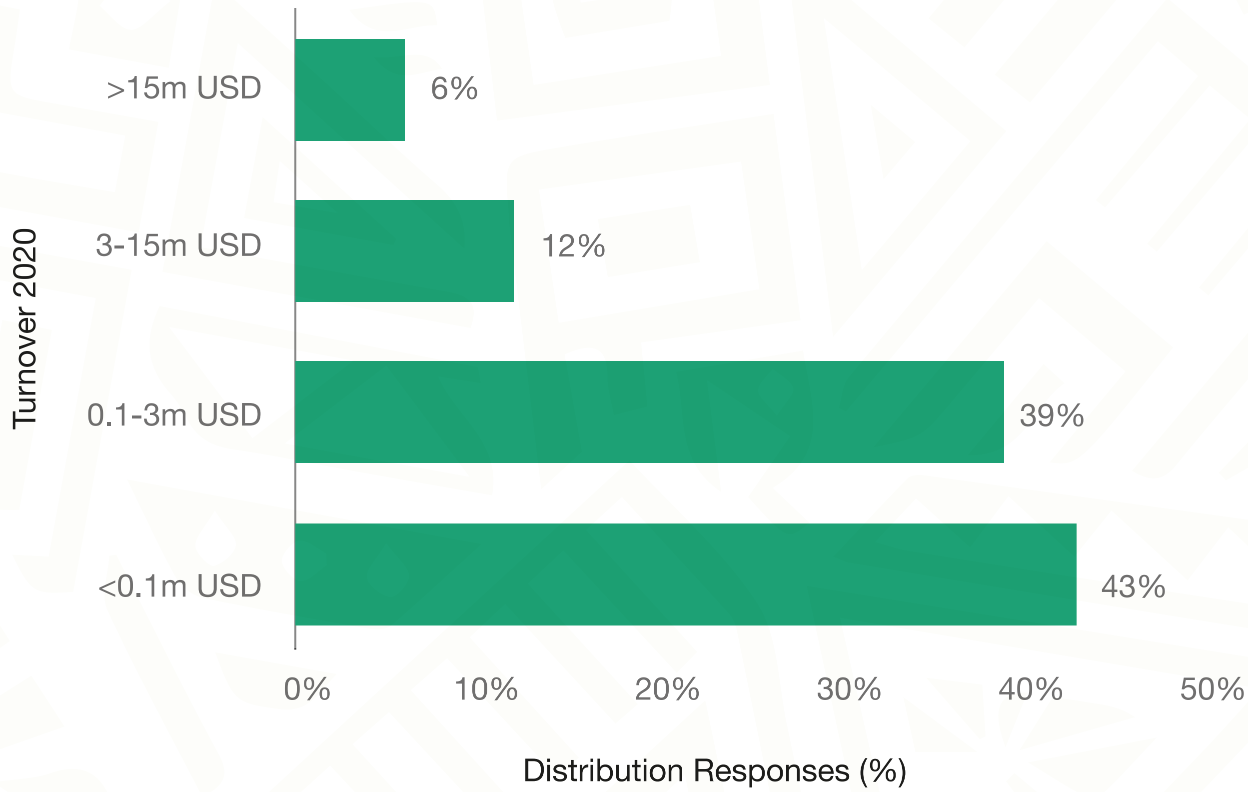
Country distribution of respondents

About the companies

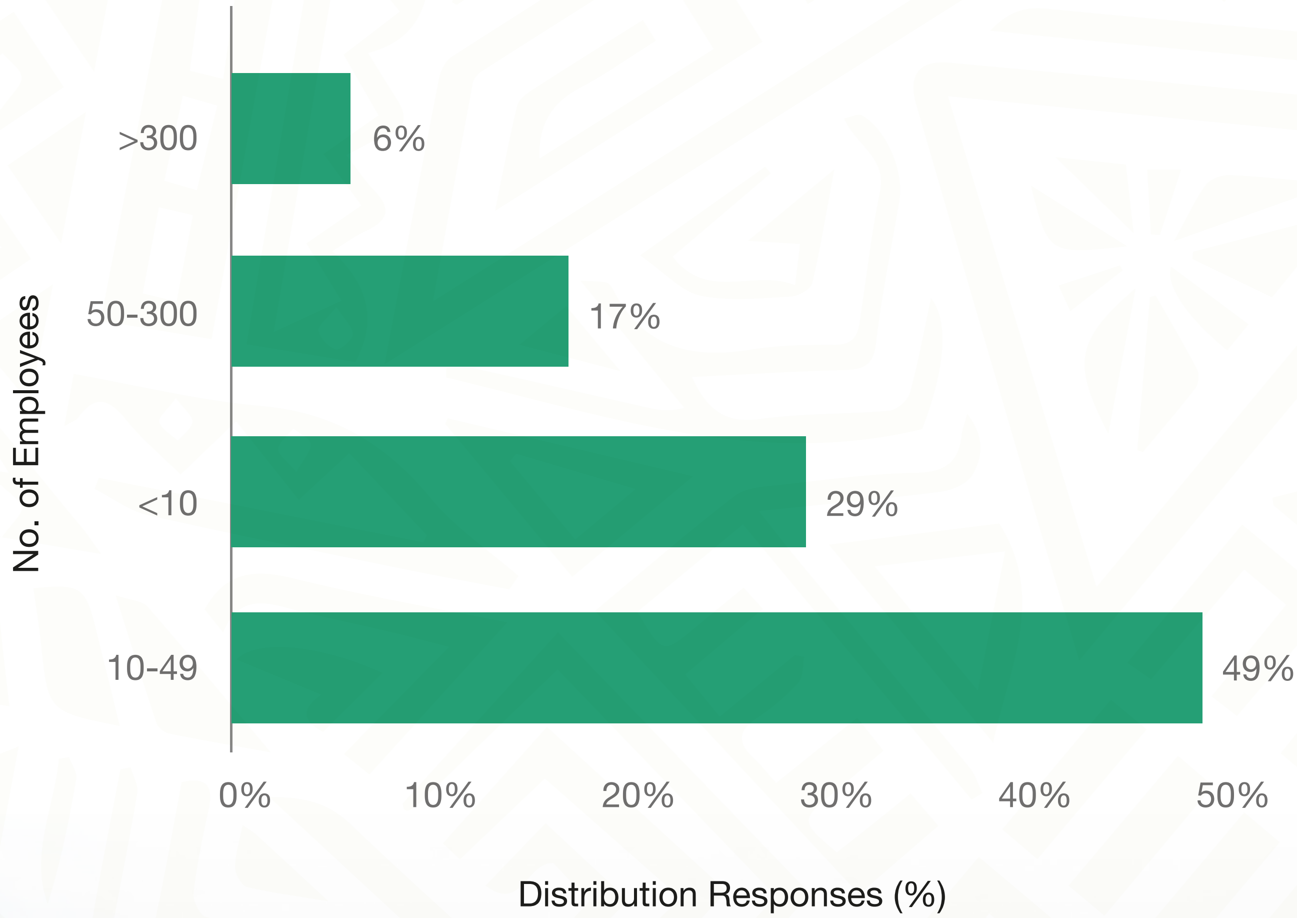
No. of Responses by Sub-Sector



No. of Responses by Turnover

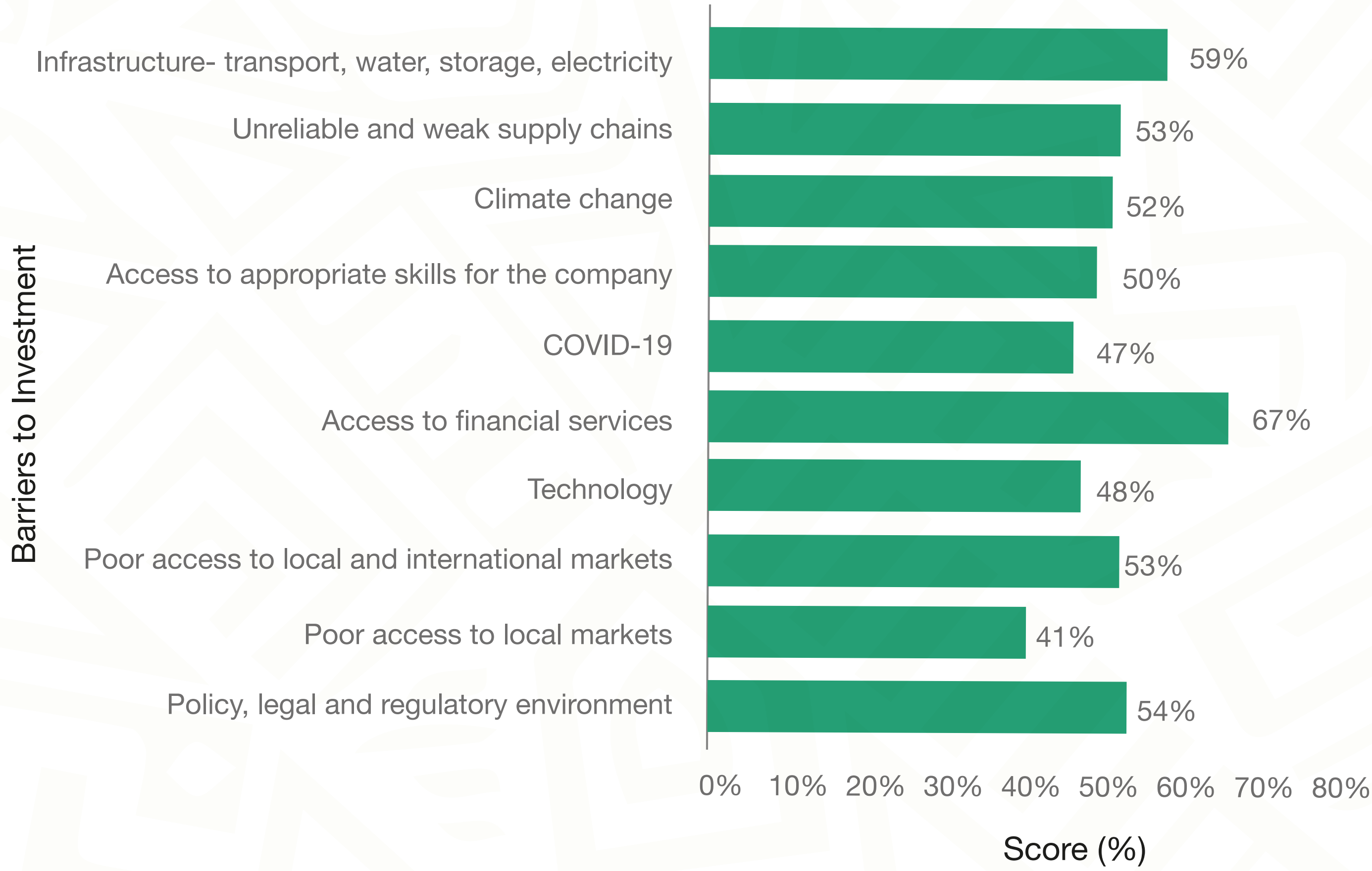


No. of Responses by Number of Employees



Section 2

An enabling environment – A necessary precondition for growth and investment



This year, we set out to understand what are the top three barriers to growth and investment for companies. Barriers were categorized as either (i) public sector barriers, i.e. those related to policies, laws and regulations and their implementation, areas driven mostly by government investment, and (ii) private sector barriers, areas related to internal operations and over which they have direct influence and control. Understanding the needs of the private sector is critical for the design of interventions that support their growth. Globally, it is widely recognized that agribusinesses have played a pivotal role in economic development, supporting poverty reduction, job creation and food security and nutrition goals of any country.

An enabling environment is at the heart of ensuring thriving agribusinesses. About 67% or two thirds of respondents scored access to finance as a major concern, followed by lack of infrastructure (59%) and a weak policy, legal and regulatory environment (54%). Other very important barriers that scored high include unreliable and weak supply chains (53%) and poor access to regional and international markets (53%). Interestingly, climate change, which this year was added to the list of priority questions, also ranked relatively high at 52% percent, implying it cannot be ignored.

This section will focus on the policy, legal and regulatory environment, which is a new area of investigation for this Survey. Overall, most respondents were generally satisfied with the laws and regulations in place. They noted the real problem is implementation of the same. Some of the major areas of concern include:

- Lack of, or restrictions to access to, foreign currency making it hard to do business
- Government interference
- High interest rates
- Multiple regulators and requirements for multiple business licenses
- Weak capacity of regulators, particularly for innovative and new economy crops, meaning they cannot keep pace or ahead of the industry
- Poor implementation of regulations, e.g. VAT exemption policies. In many countries, getting a tax refund on zero-rated goods is nearly impossible
- Taxes on digital serves and products which raises the cost of goods and services, as well as poses a challenge of adoption of digital services by smallholder farmers who are cost-conscious
- High and un-harmonized taxation
- Low investment by the government across the sector. Government investment does not match the GDP contribution of the agricultural sector to the country
- African governments are not taking enough action against climate change. There is little to no regulation on this
- Policies around trade especially regional and cross border are not coordinated.
- Political environment matters. Political instability has grave negative consequences for businesses. In Ethiopia, civil war has resulted in revenue losses of up to 20% for some businesses.

Transforming agriculture through policy action

In his bestselling book, *How Asia Works*, author and economic journalist Joe Studwell talks about the holy grail of *rapid* and *sustainable* agricultural transformation that propelled some north-east Asian countries, Japan, Taiwan, South Korea and now China, literally into the first world in the last century: bold agricultural reforms that leverage smallholder farmers, directing investments towards manufacturing and financial sector interventions that deploy capital to smallholders and the manufacturing sector.

All these worked synergistically. At the centre of these actions, was strong political will to push through the necessary policy actions. The Asian economic miracle, as detailed by Joe Studwell, began with agricultural transformation. Given that at independence in the 60s and early 70s, many African countries were at par with the Asian tigers, what happened? How did they achieve the fastest progression ever seen in the world, from poverty to wealth? It is imperative we ask ourselves these questions and learn from history.

Interestingly enough, when we asked businesses what policy actions are required to transform African agriculture, they resonated closely with Asia's journey. In order of priority, they are ranked as follows:

1. Increase productivity on smallholder farms. They are key to agricultural transformation on the Continent
2. Increase technology investments in agriculture, because they are a game-changer for the agricultural sector
3. Promote climate smart agriculture as a key driver for transformation and development of resilience
4. (a) Leverage private sector in agricultural development, i.e. planning, investment, consultations

   (b) Build more inclusive supply chains with greater participation of women and youth
5. (a) Greater leadership by government

   (b) Focus on key select value chains

   (c) Develop multi-stakeholder platforms and partnerships

Lessons from economic history

A look at history shows that an enabling and conducive business environment is at the heart of agricultural development, which in turn plays a key role in poverty reduction and overall economic growth, helping countries address food security and nutrition challenges. What can we learn from countries in Asia such as China, Japan, Taiwan, South Korea and India and in South America such as Brazil, where agriculture has led the way to industrialization:

- Agricultural reforms drive agricultural transformation
- Government cannot be ignored. In these countries, government was either a leader, a catalyst or a supporter of agricultural transformation, implying the need for strong political will
- Agribusinesses and agro-industries have been the drivers of economic growth. In sub-Saharan Africa, they account for 30%-45% of GDP. This points to huge potential
- Investment in public goods such as infrastructure played a key role in opening up rural economies, allowing for trade and the movement of highly skilled professionals to the rural areas
- There was significant investment by government in research to support e.g. the development of new and improved seed varieties and affordable inputs which contributed to major increases in productivity and income

Source: Economic Commission for Africa

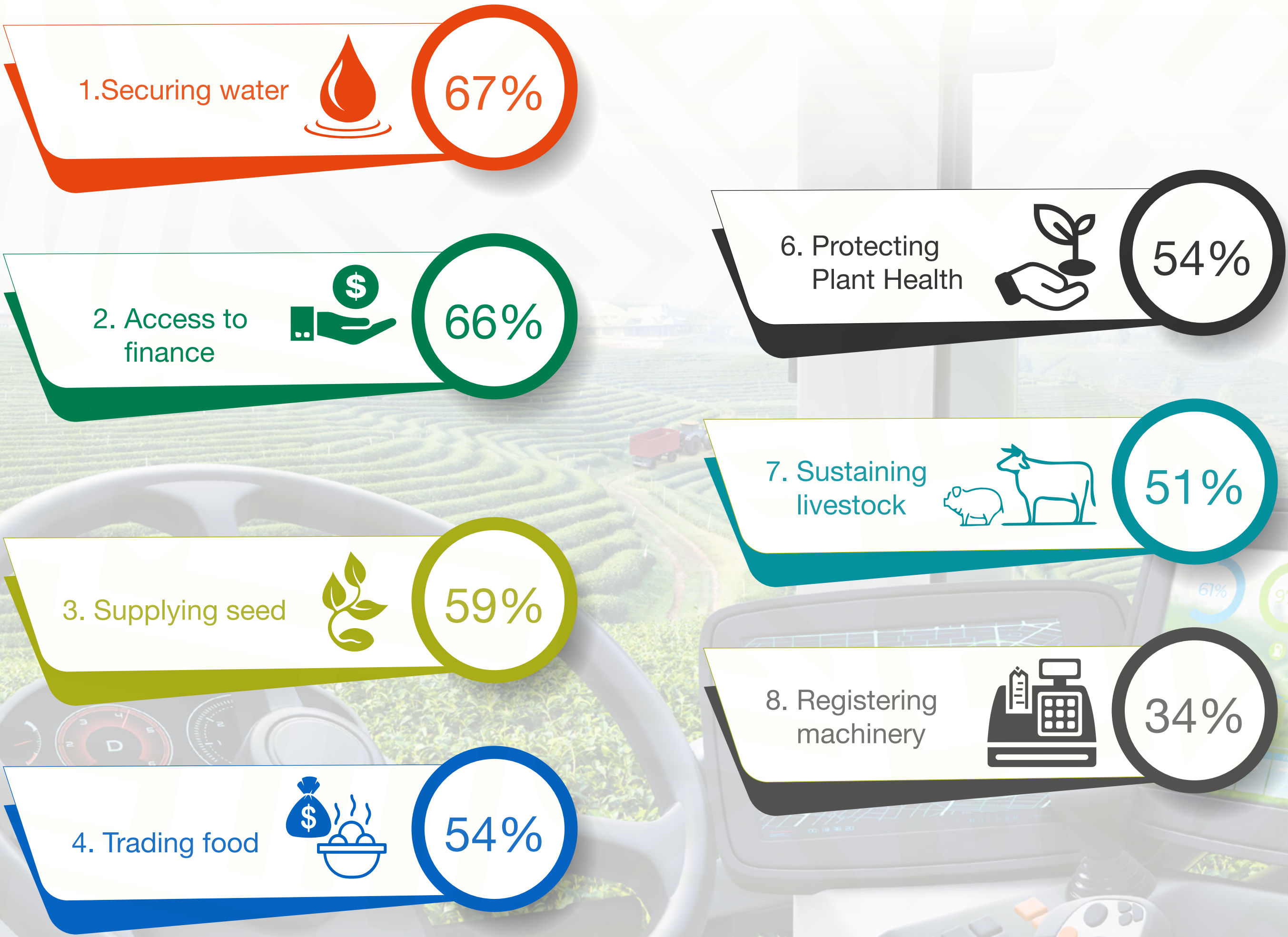
Enabling the business of agriculture: what SMEs say

The World Bank's indicators for Enabling the Business of Agriculture (EBA) index serve as one of the primary guides used globally by governments and policy advisors to determine reform priorities aimed at improving the operating environment for smallholder farmers and agribusinesses.

With our focus this year on the enabling environment for agribusiness, we added the EBA indicators as priority questions, asking each respondent to score each priority on a scale of 1 to 10, *on how important it is to their business.* The same question was also investigated in the one-on-one interviews.

While the emphasis for the EBA is on smallholder farmers, we believe that they can be used for agribusinesses as well. In Africa, they work with smallholder farmers, providing important linkages.

EBA ranking by agribusiness SMEs.



Securing water, an indicator which measures laws and regulations that help domestic farmers make better decisions as to whether and how much to invest in irrigation for their farm, was ranked the highest EBA indicator by agribusiness. This makes a lot of sense as most of Africa relies on rain-fed agriculture. Access to affordable irrigation equipment would transform agriculture on the Continent and reduce its vulnerability to the shocks posed by climate change. Not surprisingly, access to finance was ranked the second highest EBA priority. It is important to note that this indicator looks at two areas of accessing finance: laws and regulations on the use of warehouse receipts and inclusive finance. In the absence of traditional collateral, a well-developed warehouse receipt system enables farmers to secure financing for their ventures using their produce as collateral. In 2019, a country like Kenya, despite making significant progress in financial inclusion, scored relatively low on the EBA accessing finance indicator due to the fact that it did not have any warehouse receipts law. This has since changed as Kenya enacted a warehouse receipts law late in 2019. The system is now operational and is expected to boost agricultural lending in the country.

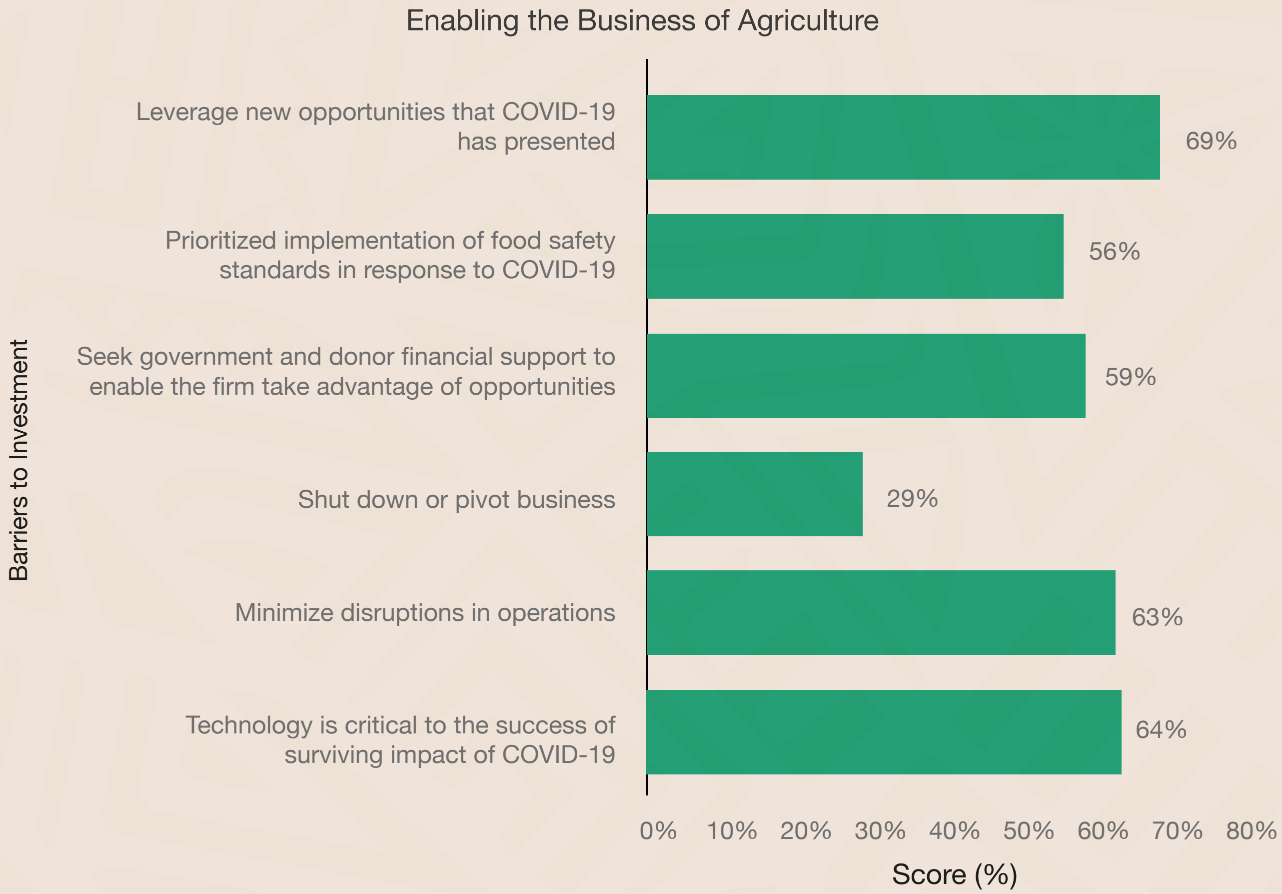
Access to good quality seed has played a critical role in accelerating the transformation of agriculture in many countries. The supplying seed indicator looks at laws and regulations that support the timely release of seed for use by domestic farmers. It includes the time it takes to register a new variety, the cost of registering a new variety as well as other data points that assess good practices that promote transparency and efficiency of variety release processes. A big concern, cited by companies we spoke to, was the prevalence of counterfeit seeds. In Kenya, there is progress in addressing this issue with the use of digital technology.

"In terms of establishing whether the seed is counterfeit or not, Tanzania doesn't have an advanced way of verifying this. Kenya on the other hand, one can send an SMS with a code and the farmer can get details of the seed – whether certified, expired or not, is it good, etc," said Peter Francombe, CEO of Royal Seed Company, a company headquartered in Kenya that sells hybrid and open pollinated seeds in the region and internationally.

We note that, in Tanzania, a new government adopted e-verification system, supported by AGRA, called T-Hakiki, was introduced in 2021. "The system will give the farmer confidence that when he sends a scan in and he gets a message back, that it is actually and genuinely, good seed. It will help the authorities because the businesses don't have the capacity to go and check everything on the field. It'll help them to regulate the space."

Selling produce in local markets was scored as a low priority by many agribusinesses surveyed. On the other hand, many companies, even well established, mid-sized, high growth, high potential businesses, are struggling to expand into regional and international markets. Accessing these markets, it appears will be critical to enabling these companies achieve scale. A challenge cited by companies across the Continent is lack of standardization of e.g. export and import tariffs and, in some markets, lack of standards that allow companies to introduce innovative, new economy products into the market, e.g. particularly for new food sectors, such as vanilla extract in Tanzania. Natural Extracts Industries Ltd, a firm that produces natural extracts for the flavour industry, has been waiting for seven years to get their certification for vanilla extract from the Tanzania Bureau of Standards yet, their product is accepted in the European Union (EU) and the United States. Governments looking to address trade issues could start by using the EBA "Trading Food" indicator as a guide. It measures laws and regulations that help or hinder domestic farmers trade agricultural products, particularly for export, such as the total time and cost to obtain mandatory agriculture specific documents for each shipment and the license and membership requirements and phytosanitary procedures for exporters, such as whether exporters can apply for a phytosanitary certificate online and if phytosanitary certificates are publicly available.

The COVID-19 cloud and the silver lining



When COVID-19 was declared a global pandemic by the World Health Organisation in March 2020, most African leaders had to quickly choose between controlling the prevalence of the pandemic and mitigating against adverse socio-economic impacts. Across the Continent, measures were put in place to minimize the spread of the virus. These ranged from curfews, zoning off locations which had high positive numbers, travel restrictions, social gathering rules, mandatory social distancing, etc. all of which by extension affected businesses and markets. Companies had to change their ways of working. Sectors that require in-person labour to offer their products and services such as hospitality and manufacturing had to scale back or halt operations altogether at the beginning of restrictions. Supply chains and access to markets were disrupted. However, most governments declared agriculture services as essential which contributed to the sector staying afloat even during the worst months of the pandemic.

When we conducted the 2020 survey, shutting down the business as a result of COVID-19, was the lowest ranked priority. We are glad that this has remained consistent in this year's survey. That notwithstanding, the majority of respondents reported facing challenges which resulted in business restructuring and cost-cutting measures including reduction of business operations. A few companies closed shop altogether, albeit for a few months. At the onset of the lockdowns, the bulk of agricultural losses emanated from disruption to market access. Transporters needed permits to move around and before these permits were processed, produce that was ready for collection from farms perished. The global logistics landscape also got complicated and moving items became more restricted than before, affecting both companies that sourced from or sold to international markets. Restrictions on numbers of workers and movement at ports meant that activity including clearance of trucks and containers slowed down. Some agri-SMEs who have contracts with international customers were not able to honour those contracts, and at least one of the survey respondents indicated that they are facing court action from a client because of this.

Environmental shocks and macro-environment challenges contributed to exacerbating the effects of the pandemic in some markets. In East Africa for example, the pandemic came hot on the heels of the worst locust invasion that the region has seen in decades and the resulting food insecurity. In Zambia, the pandemic coincided with the challenging economic crisis that saw a severe depreciation of the local currency.

In addition to these challenges, survey respondents indicate that business planning has never been harder since the future is more difficult to predict and businesses have to keep a close watch on how the pandemic continues to unfold and plan for different potential impact scenarios on the ecosystem. An upside to this is that businesses were forced to reorganize, use technology more and incorporate business continuity as part of regular business planning.

In spite of recent challenges, we heard from a number of respondents that COVID-19 may have provided growth opportunities for some companies in the agricultural sector. This has mainly come about in the following ways:

1. **New markets opened up**
    - At the height of the pandemic, travel restrictions and market closures resulted in farmers and companies looking for new markets to sell their produce and products.
    - Farmers that could no longer access physical markets had to resort to selling within their communities. Some took advantage of social media to sell their produce.
    - For agribusinesses that provide support to farmers in terms of inputs, advice and markets, those that had physical presence in communities were able to increase the number of farmers they serve due to limited access to alternatives and reluctance of people to travel for long distances even when travel restrictions were relaxed.
2. **Changes in consumer demand patterns**
    - Consumers started to demand healthier and organic foods in a bid to build immunity and keep the virus at bay. Specific agricultural commodities such as moringa, turmeric, honey, ginger, garlic etc. were touted as pandemic remedies and demand for these has exceeded supply in the past several months. Demand for fortified products also increased.
    - Due to the initial closure of restaurants and hotels and restrictions on gatherings in most countries, more people started to cook at home increasing demand of food ingredients from markets and shops.
    - For sectors like coffee, the demand of some varieties of coffee beans, such as the more expensive Arabica, reduced, as these are mostly consumed in restaurants and coffee shops. SMEs selling to export markets had to change focus and respond to this demand shift. This had an impact on pricing and revenue levels.
3. **Diversification of products**
    - Some agri SMEs reported that they had to diversify product lines in response to customer preferences and also to take advantage of gaps in the market.
4. **Government measures to curb the spread of the virus**
    - Enablers like fintechs and digital financial service providers experienced high growth which was in part driven by the restrictions on travel and gatherings which meant people preferred transacting from the comfort of their homes.
    - This was also driven by the push by governments to encourage digital transactions and to encourage exchange of physical money. One fintech company that we interviewed mentioned that their active user numbers had grown by over 200% and revenue growth was over 100% in the last one year.

Technology has been recognized as critical to surviving the negative impacts of COVID-19 with 64% of respondents ranking this as a high priority. This was significantly higher than the 2020 survey results where only 53% ranked this as a high priority. In the last two years, companies have leveraged greater use of technology to interact with supply chains and markets. Companies that had invested in a digital presence, having updated websites as well as active social media presence, reported being able to continue communicating with their customers hence able to keep selling even when physical outlets were closed. Going digital also helped keep company operations going, even when people were working in shifts or remotely. One respondent shared that they even moved their farmer engagements to digital channels, something the company had never considered doing before.

Doing business in the new normal

The unanticipated growth that some agri SMEs are having has not come without its fair share of challenges. The overall feedback that we heard from these respondents is that the recent growth was not planned for, hence systems, infrastructure, processes and technology are not adequate to support and manage business expansion.

Against the backdrop of the unexpected growth opportunity that COVID-19 has presented, growing companies are experiencing significant funding needs. Funders and financiers need to ramp up support in order for companies to take advantage of this growth. Some respondents indicated that the majority of the funding that has been available from 2020 and part of this year is geared towards ensuring that existing businesses are able to adapt and mitigate the negative effects of the pandemic. There is not enough funding going into supporting companies that are growing during this period. Growing companies urgently need funds for scaling that will allow them to invest in new production facilities, re-engineer processes, attract and retain talent, expand operations including farmer engagement, access new markets and digitize further.

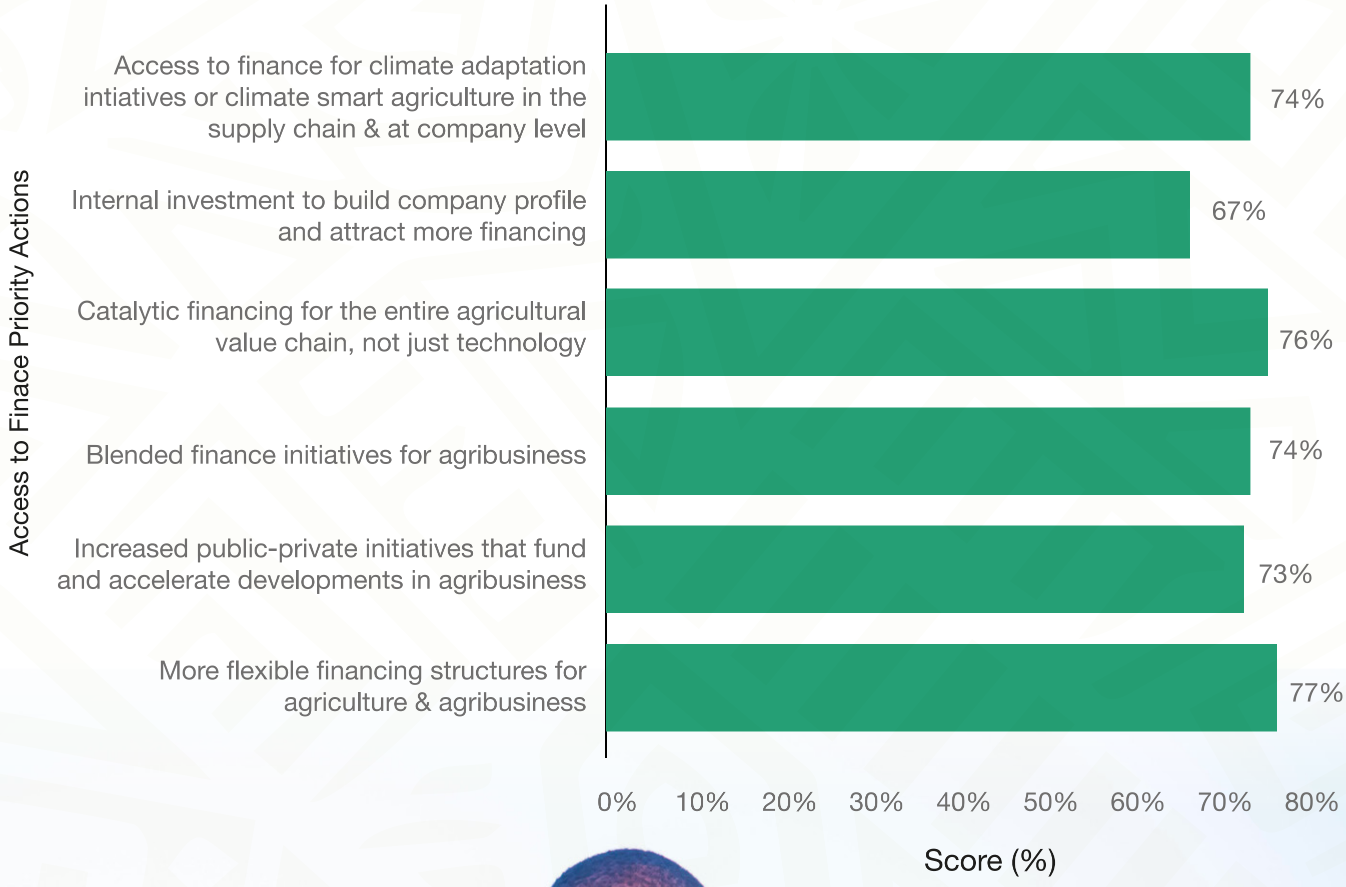
Similarly, the time is now for governments to increase their support to the agricultural sector. One point that has been illuminated over the recent months, is the importance of the sector and its contribution to African economies. Investments from government need to set the pace and mirror the aim to have sustainable agricultural sectors that can help economies that have been battered by COVID-19 bounce back and be better placed to withstand future shocks.

> "The challenges around growing quickly is not having all the systems in place to manage the growth. You can have the market and the high revenues but without the systems it becomes painful.
>
> ~Survey respondent~

Access to finance remains a challenge to the sector

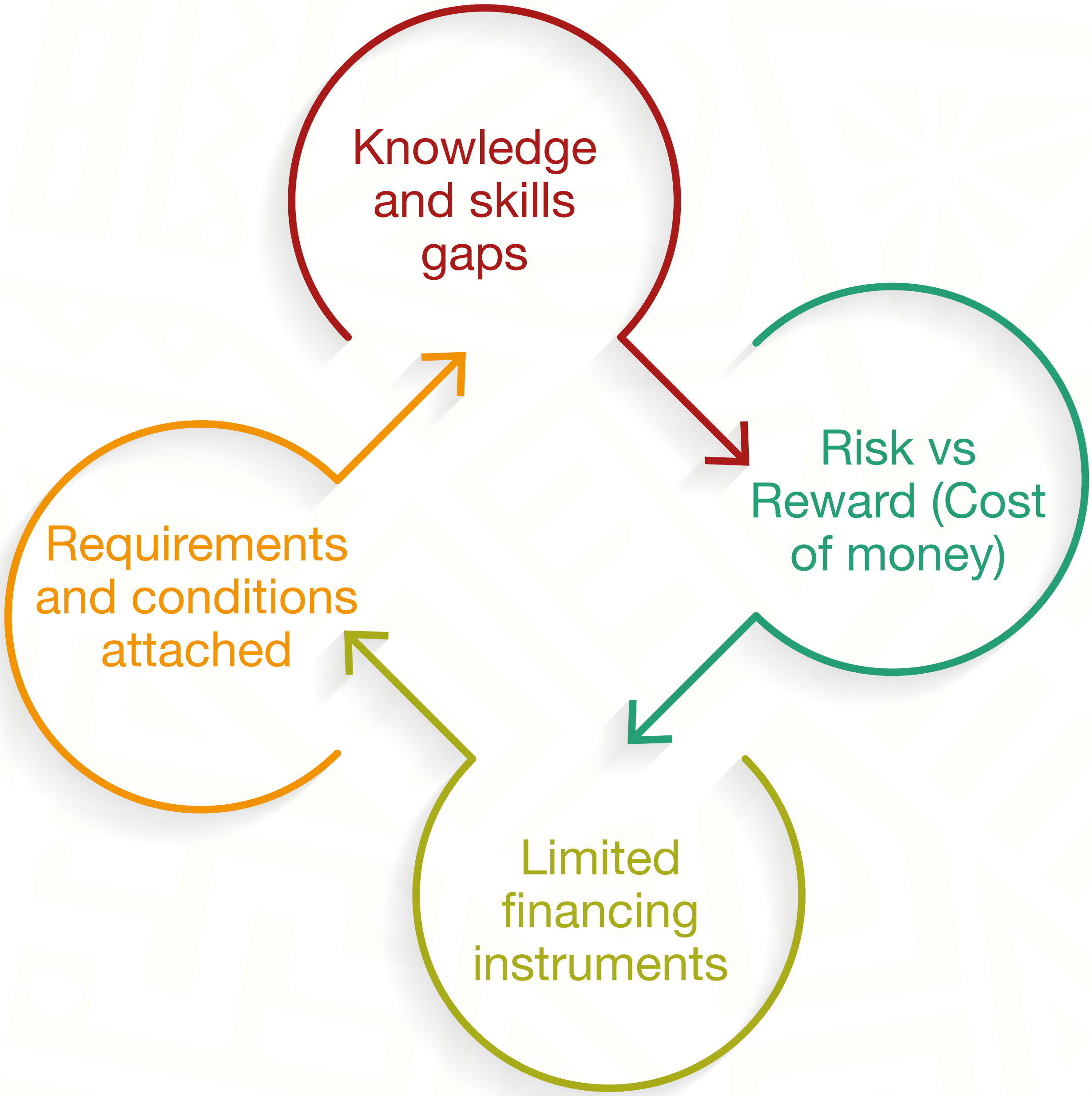
Similar to the 2020 survey findings, access to financial services remains one of the top barriers to growth and competitiveness of SMEs. This was overall ranked as the top barrier by 67% of respondents.

What types of financing are attractive to businesses?



Factors that influence access to finance for agri-SMEs

From our analysis of the survey responses, the key access to finance issues that agri-SMEs face are:



Knowledge gaps: From the qualitative interviews, one observation was that companies do not seem to have diverse sources of financing. This is partly because they do not know where to get financing from and partly due to the difficulty of accessing this finance even when they know where to source it.

In addition, what came out was that some companies do not know how to approach financiers even when they know where the financing is. One respondent stated that they had engaged a consultant to support in linking them to equity funding. However, the consultant's charge was 12% pegged on the funding to be raised, and the company felt that this was exorbitant hence did not go ahead with it. A number of respondents indicated that they have received training and mentorship support through fora such as AGRA's Agribusiness Dealroom and the Value4Her platform that supports with networking and access to finance sources. **The resounding feedback was that these are helping to some extent, but more still needs to be done.**

Risk vs. reward for financiers: The age-old problem for the agrifinance sector is how to accurately predict the risk of lending and price this appropriately. A number of companies reported relying on debt financing from local and international lenders. The high cost of this form of financing was mentioned severally as a barrier to accessing adequate capital. Some respondents indicate that they shy away from applying for facilities, even in instances where they qualify for these, because of the high interest rates.

> We have been able to access a foreign currency denominated loan at 14% interest rate. This money is very expensive and often times, we feel like we are working for the bank.
>
> ~Survey respondent~

Similarly, other finance providers such as private equity investors shy away from investing in the sector due to the perceived risk and smaller ticket sizes. Flexibility is needed from all financiers in order to adequately support the sector. Funders and financiers need to rethink how they support the agricultural sector in ways that increases lending even with the additional challenges of COVID-19, and climate change.

Respondents also called upon respective governments to initiate measures to reduce the cost of commercial debt finance including through monetary and fiscal measures that would reduce the interest rates that banks offer to business.

Limited financing instruments

A number of companies indicated that they are only using family and friends funding and retained earnings to grow their businesses. The amounts that family and friends provide is typically below US$10,000. The majority of respondents indicated not being able to access other sources of funding, despite trying to get these.

According to an analysis by Aceli Africa of 31 agri lenders, 75% of lending to agri-SMEs in East Africa comes from commercial banks. Some banks focus on small, short-term loans of between US$10k – US$100k, while others have moved to corporate lending advancing between US$50k to US$500k. However, bank lending to the sector is far from optimum, and only reaching a fraction of the market as the banks analysed only had 8% of agri-SME lending in their portfolio. Some non-bank financial institutions lend between US$10k – US$100k as short term working capital facilities, but lending by these institutions is minimal. Global social lenders also play an active role in the agri-SME lending space although they advance fewer loans than commercial banks. They provide between US$150k to US$1M+ largely for working capital needs by the SMEs. Several respondents reported having accessed grant funding for their businesses. The main advantage that was mentioned was that this form of funding is patient and gives organisations a chance to experiment, learn and test innovations. When structured and implemented correctly, grants provide a good foundation for growth and scale. Respondents however agreed that grant funding by itself is not adequate and more financing structures are needed to support agri-SMEs, especially as they bounce back from the effects of the pandemic or gear up towards taking advantage of opportunities that the pandemic has presented them. In addition, the need for companies to mitigate, adapt and prevent the effects of climate change presents the need for more innovative financing to the sector.

> We have better options than what an ordinary start-up has but we still face challenges with access to finance. At this stage of growth, we should be looking at private equity funding. But private equity investors are more risk averse. So we find ourselves having to go back to venture capitalists and of course that has a say about the ticket size. For this growth phase, we had set out to raise at least US$10 million but we have had to bring this down to the US$3 million that we can access.
>
> ~Survey respondent~

Very few respondents indicated having received venture capital or private equity funding. Some of the companies we spoke to are clearly at a scaling phase and such longer term and higher value capital would be vital to their growth. A graduation strategy, similar to that below, is needed for agri-SMEs in order for finance to match their growth.

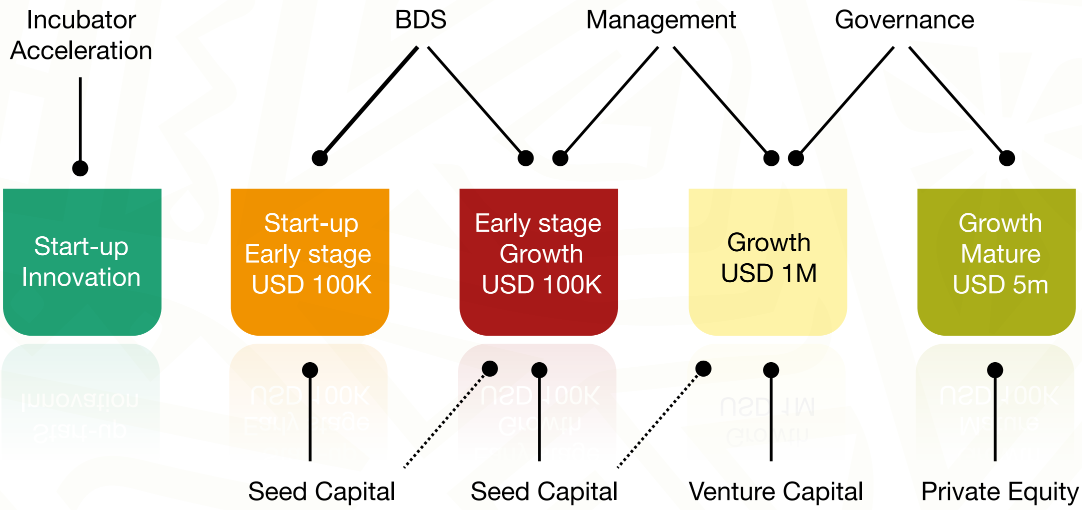


Figure: Graduation services strategy for agri-SMEs

The need for catalytic financing for the entire agricultural value chain and not just technology also emerged as a top priority, moving two places up from overall position 5 in 2020 to position 3 in 2021. This corresponds with the need to expand entire operations of companies as opposed to only increasing technology as discussed in the COVID-19 section of the report. In addition, companies want blended finance initiatives and not only one form of financing. This priority moved 7 places up in this year's survey from overall position 11 in 2020.

Understanding blended finance

AGRA defines blended finance as a financial solution whereby risks of lending are divided according to the risk appetite of each funder. Governments and donors often take higher risks than commercial banks - AGRA, Inclusive Finance

According to the Organisation for Economic Co-operation and Development (OECD), blended finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.

OECD further explains that development finance needs to be used catalytically to mobilise private commercial actors and other sources of financing for development.

"Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development" – Convergence - a global network for blended finance

"The use of relatively small amounts of concessional donor funds to mitigate specific investment risks and help re-balance risk-reward profiles of pioneering investments that are unable to proceed on strictly commercial terms. Concessional funds are used as co-investments" – International Finance Corporation (IFC), World Bank Group

The principle of blending mechanism under EU-funded regional and thematic investment facilities outside the EU is to combine long-term financing from eligible financial institutions (FIs), such as the EIB, with EU grant financing, and to attract loans or equity investments from public authorities and private financiers – EIB on EU Blending Facilities OECD, 2018

One respondent suggested having blended finance structures that can finance in-country storage facilities which would create an asset that can be used to unlock liquidity from financiers. For such a facility to work, development funding would for example be used to build the storage assets, get buy-in from financial institutions and create risk-sharing mechanisms. On the back of this, different players could provide additional support to link with access to markets which would further incentivise financial institutions to unlock lending.

The financial system is failing agribusinesses

Finance providers were accused of making agri-SMEs jump through a myriad of hoops before they can access the financing, even when they clearly qualify. Collateral requirements in some countries were indicated as being up to 200% and most respondents indicated that commercial banks demand tangible assets as security for agricultural loans. In addition, the processes are sometimes arduous, demanding time and skill from the SMEs before they can access the actual funding. Respondents indicated that some financing takes as long as a year to process. Development bank loans were cited as being too bureaucratic in addition to lengthy processes.

In addition, for some funding, the funders like to be more involved in the business. One respondent termed this as 'watching their money' which tends to have implications on the strategy and nimbleness of these SMEs.

Access to finance boosters that agri-SMEs use to increase attractiveness of their companies

It is encouraging that 67% of respondents reported that they consciously invest in building their company profiles in order to attract more funding. Some of the actions that agri-SMEs are taking include:

- Investments in systems and structures came across as a big one. Technology was mentioned as an area that makes SMEs stand out amongst their peers. In addition, instituting management and reporting structures was indicated as an area of investment by the SMEs.
- To attract development and impact funding, companies are investing in better storytelling in order to communicate their vision and impact to these funders. This includes being aware of the socio-economic impacts they are having and not only focusing on the commercial angle.
- Some respondents reported building capacity of their staff including training to understand the finance and investment lingo.
- To avoid the costs associated with upskilling, companies also resort to recruiting for business development and finance roles with previous experience in working with funding companies.
- Hiring transaction advisors, especially for debt and equity transactions, to support their applications for funding.

Financing smallholders

For smallholder farmers, the majority of respondents indicated that the most effective way to provide financial services was to bundle these with other financial and non-financial services. Similarly, agri-SMEs indicate that funding that has additional benefits attached to it provides the most value.

Climate change – A real threat for agribusinesses

Priority 27

Promote climate smart agriculture as a key driver for transformation and development of resilience

7.94

Priority 16

Supporting farmers adopt better production technologies like regenerative agriculture practices

7.78

Priority 54

Promoting awareness of and support of adoption of climate smart agriculture and climate resilient practices at farm and company level

7.69

Discussions during the recent UN Climate Change Conference of the Parties (COP26) highlighted that Africa is increasingly vulnerable to the impacts of climate change, from frequent droughts and heat waves to the downstream impacts that these physical changes have on all sectors of the economy, particularly food and agriculture and water. For example, the northern part of Kenya is in the grip of the worst drought in 40 years with three rainfall seasons failing consecutively, placing its population at greater risk of food insecurity and malnutrition. West Africa's Sahel has vast areas of semi-arid grassland south of the Sahara Desert—these areas are affected by climate change more than most regions. Zambia has been experiencing intense periods of drought and rains have been unreliable, causing farmers to look for more resilient farming methodologies including irrigation.

This was the first time that agriculture and food security were discussed in the COP negotiations, illustrating the key role these issues play in mitigating and adapting to the effects of climate change. Agribusiness companies will need to come up with innovative solutions to ensure that their businesses are more resilient to the impacts of climate change. Indeed, many business leaders expressed concern about the effect of climate change on their businesses: over half of the leaders interviewed (52%) mentioned reducing greenhouse gas emissions as a top priority. Some mentioned that seasonal fluctuations have required them to be more vigilant, especially vis-à-vis the cropping cycles.

Estimates show that African economies could lose 2 to 5 percent of GDP per year to 2030, or even more due to climate change. Consequently, business leaders and the private sector are central to the action around climate change mitigation and adaptation. They can implement and scale business models and innovations that reduce the risks of further climate change and ecological damage. With SMEs comprising over 90 percent of Africa's private sector - the Continent's primary greenhouse emitter – it is important to ensure that SMEs play a pivotal role in innovating climate change mitigation and resilience approaches. Some of the suggestions on climate change made by the businesses surveyed are as follows:

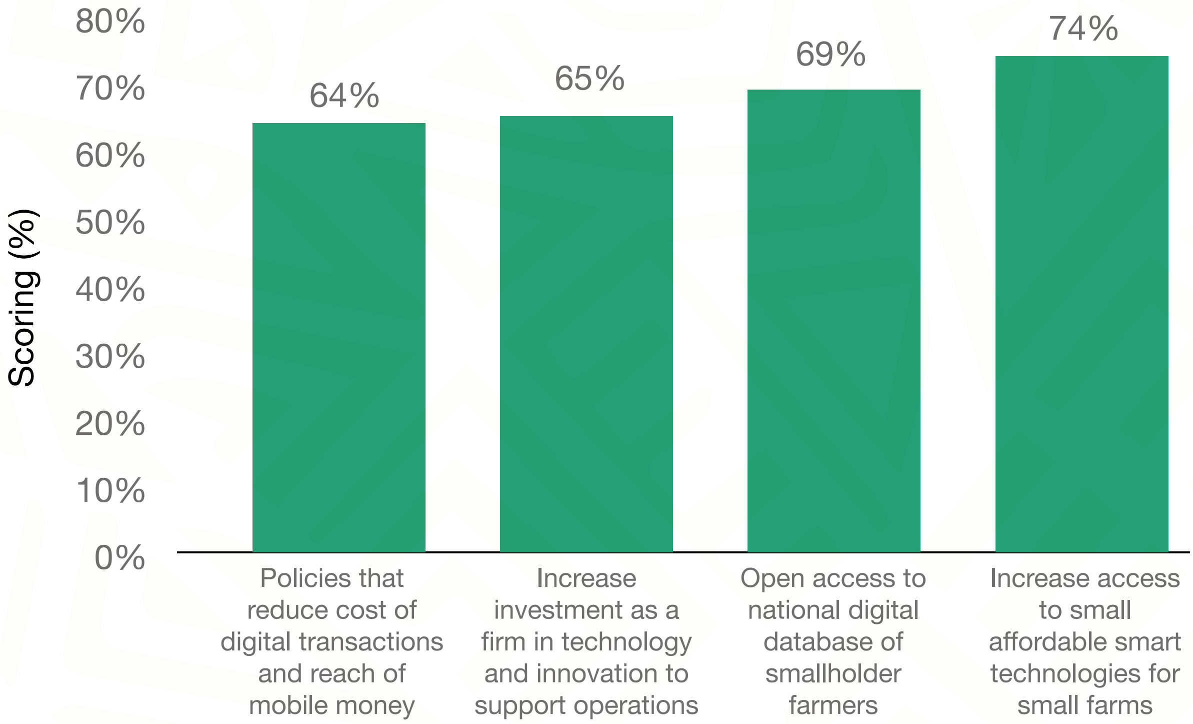
- Governments and investors can catalyse private sector action by providing the right, supportive policy, legislative and regulatory environment as well as financial instruments and incentives.
- Introduce an Africa Green Deal along the lines of the European Green Deal which provides a clear vision for climate action in Europe with defined targets for each country and, accordingly, the businesses operating in Europe.
- Encourage more engagement by the private sector in Africa with the Science Based Targets Initiative (SBTI) which currently supports over 2,000 companies in their carbon reduction target setting. Take note of BASF's efforts in putting together and leading various roundtables to specify what these targets could be in its agribusiness portfolio in Africa. The key matter is how to combine the sustainability targets with the need to keep high productivity in Africa as well as ensure that farmers have access to the best and most varied technology.
- Increase youth participation in agriculture, particularly commercial agriculture.
- Reduce food wastage

In summary, while all African governments have shown significant levels of commitment to tackle climate change, by signing and ratifying the Paris Agreement and proactively engaging in the recent COP discussions, business leaders interviewed felt that African governments can and should do more to provide specific regulations for all the stakeholders involved. For example, African governments could mobilize resources domestically and internationally, linking climate-finance instruments with governance reforms. Investments can be used towards strengthening agriculture value chains, supporting food security, promoting green cities as well as developing green energy practices, among other approaches.

Technology: reflections, opportunities and challenges

With the challenges brought on by the pandemic in the last two years, all SMEs that we interviewed acknowledged the important role that technology has played in their businesses. Technology was used as a means to adapt in order to survive. Businesses have been able to use technology across multiple facets including operations, communications, demand and supply market engagement and e-commerce.

The table below shows how respondents rated the importance of various technology issues.



Digital transactions and reach of mobile money: Respondents acknowledged the support from most governments in actively encouraging digital payments at the height of the pandemic. To facilitate mobile money transactions, some governments zero-rated costs for certain transactions and increased daily transaction limits. This went a long way in keeping e-commerce alive even with the travel and social distancing restrictions. Respondents however feel that governments need to enact policies to reduce the cost of digital transactions and increase the reach of mobile money post the pandemic support. This priority moved 19 places up from position 56 in 2020 to position 37 this year.

This change corresponds with qualitative survey respondents' sentiments that there needs to be greater support from governments across the Continent towards digitisation efforts. Policies and laws need to be more inclusive and coordinated, and consider effects across the ecosystem. Respondents from Uganda mentioned the mobile money tax that had been implemented in 2018 that took a lot of time to lobby against as lawmakers did not consider the possible impacts across the entire ecosystem. For example, farmers who were already apprehensive about adopting mobile money transactions cited the tax as a barrier to adoption of digital payments in that market and it has taken a lot of effort from providers to get this group back to accepting digital transactions.

Increase investment in technology and innovation to improve business performance: The challenges notwithstanding, technology holds the key to agricultural transformation across the continent, but much remains to be done in order to unlock its potential. Like many of the other broad areas discussed in the report, moving this along is very much a collaborative effort. Governments need to develop and implement friendly policies, ramp up investments, and support private sector innovation. There is a role for development partners who can provide catalytic financing in areas where private sector may not necessarily get a return for their money in the short-term such as digital inclusion training and capacity building. Research partners and universities also have a role to play in supporting development of new technologies and ensuring these are adapted for specific market contexts.

Leveraging data for financial services: In the recent past, the world has discovered the powerful potential of data to enable decision making and planning for the future. The sector that is among those benefiting the most from this is agriculture. This is because the sector has traditionally not been visible enough as there was little data that could be used to study trends and plan for future scenarios. This is now changing. Companies are already holding massive amounts of data especially on their farmers and the markets that they serve. Some are taking advantage of this to provide additional services, particularly financial products, to their farmer networks. Others are doing advanced business analytics that study the demand patterns in their markets and attempt to match this with supply. Financial service providers are using data to segment and offer products to their clients. Index-based crop insurance a typical example of this.

> Over the last two decades, the biggest player in the agricultural sector has been the one with the biggest balance sheet. However, this is now evolving towards the biggest player being the one with the largest amount of data.
>
> ~Survey respondent~

Using data to build transparent supply chains: Agro-processors are also using technology and data to respond to consumer demand. Markets are more conscious about where the food they consume is coming from and respondents reported investing in technology to support traceability systems that enable them to share this data with their clients, most of whom are willing to pay a premium when this information is available.

Data & climate change adaptation: Companies are not the only ones who have discovered the capabilities of data. In the past, planting seasons were more predictable and farmers could anticipate when the rains would start and how long these would last. Because of the effects of climate change, this has changed. Seasons are no longer predictable with the same accuracy and farmers are increasingly relying on data to inform them on weather patterns which informs when and what to plant. This is one of the ways that can be used to promote one of the top ranked priorities - climate smart agriculture which is a key driver for transformation and development of resilience.

Smart technologies for small farmers: Among the areas that SMEs want to see increased investments is providing affordable smart technologies for small farms such as cellphone based agricultural extension advice which ranked among the highest priorities coming in overall position 5 in the ranking. Increasing digital efforts across the agriculture eco-system is one of the key ingredients that is necessary to transform agriculture on the continent. Not surprisingly, in almost all the investment priority areas for SMEs, technology and digital plays an increasingly important role especially now that businesses have been forced to rethink many facets of business in the COVID era. Technology underpins all planned investments including re-engineering of processes, research and development for production and communication and engagement of ecosystem stakeholders.

A framework for data: It is not easy to reap the benefits that data provides. The main challenge that respondents from the one-on-one interviews identified is that data is fragmented, often found in isolated pockets and cannot be shared across companies. An example was given of agri-SMEs working in the same location that collect extensive data from the same population of farmers thus replicating efforts. Respondents called for data harmonization, understanding local perspectives, using common frameworks for data collection and planning and building systems for the future. It was acknowledged that this effort cannot be left to the private sector alone and there is therefore a role for governments and ecosystem actors such as development partners to take a lead role in this. The online survey respondents corroborate this. The priority on opening access to national digital databases of farmers moved 37 places up from overall position 58 in 2020 to position 21 this year.

Another challenge that was reported that impacts on the adoption and use of digital is the average age of farmers across the Continent. In Kenya for example, the ministry of agriculture has placed the average age of a farmer as 60. This influences the extent to which digital information can be shared with these farmers and the success of digital inclusion for this group. A number of companies are developing mobile apps as the main digital interface between themselves and farmers. The farmer demographic and prevalence of smartphones must be considered before rolling out any platform.

The skills challenge for agri-SMEs in Africa

Priority 57

Equip future industry leaders including women leaders with the skills and experience to take on leadership and governance roles in the company and industry

7.70

Priority 13

People development

7.28

Equipping future leaders with skills was a key investment priority for 68 percent of those interviewed.

Training of agribusiness practitioners across the entire value chain needs to be prioritized across the Continent. This would have a lot of impact on all the players in the value chain. Smallholder farmers, often self-taught, require skills that focus on improved soil management and production. In most countries, farmers who are organized in cooperatives have training opportunities from NGOs and governments; independent farmers do not often have access to these such opportunities.

Specific sub sectors such as aquaculture and beekeeping have been largely ignored when it comes to training programmes.

Most small-sized agribusiness companies cannot afford to pay for the talent that they need to assume senior management positions. They either hire under-skilled staff and use their limited resources to train them, or continue to face challenges with the level and quality of work outputs. Many company leaders reported that the delay in being able to develop adequate skills within the organization hindered their pace of growth.

Sixty percent of the CEOs mentioned investment in people as one of the key agribusiness investment priorities. While technical and management skills are lacking, most of the university curricula across sub–Saharan African countries currently do not adequately prepare their graduates with the appropriate level of agribusiness-related skills.

In addition to technical and management skills, some leaders also identified soft skills as being key to their companies' growth. The CEO of Ugandan fintech, Future Link Technologies has developed a specific mentorship programme for his direct reports. He realizes that the art and science of storytelling is key to attracting investment to his company and has now embarked on storytelling as a core skill by all staff. In addition, Divine Masters Ltd in Uganda mentors and trains several small businesses and youth, giving some of the youth the opportunity to serve as suppliers to the company.

Several medium-sized companies mentioned that the biggest challenge about growth is finding the right people to help grow the business. "Money is currently not the biggest challenge but getting the right people to build a solid organization that can stand the test of time is the biggest challenge." CEOs spend a disproportionate amount of time recruiting senior management positions, many of whom prefer to use personal networks and referrals to ensure not only the right skills fit, but a certain work ethic and cultural fit. For instance, it took Nigerian food processor, AACE Foods, a year to hire a Finance Manager with the right cultural fit. Other benefits that medium companies provide to attract strong talent include flexible work hours, travel opportunities and on the job training.

Smaller companies report the need to be competitive with the salaries they pay, dipping into their modest budgets to try to be as competitive as multinationals and international organizations with whom they are competing for talent.

Agribusiness is still largely a male-led sector- most Agri-SMEs interviewed want more inclusivity for women and youth across the industry - from the farmer level all the way to leadership and board levels.

Farmers' capabilities can also be assessed and improved. Ministries of Agriculture of most African countries employ a limited number of extension workers who upskill farmers. Many farmers are over fifty years old, requiring more intense upskilling/training investment. Many new training programmes utilize digital platforms, which older farmers may find difficult to access.

Most farmers operate well 'in the field' but are not able to make convincing pitches that articulate their management, operational and financial realities. "Finding a leader who can drive a pick-up to the farm to engage with farmers and take a flight the next day to the city to make a presentation to investors is difficult to find in the market," stressed Ayodeji Balogun, CEO of Nigerian commodities exchange firm, AFEX. Companies in Ethiopia also expressed this dearth of skills in accounting and business, which would be of benefit to agribusiness companies specifically, as well as the private sector in general.

In addition, many governments and parastatals are unable to retain top talent in agriculture as many trained professionals prefer to work in other sectors due to greater remuneration.

Ways to address the skills challenges include the scale up of agribusiness fellowship programmes, improvement of agribusiness curricula as well as increase in the number of agricultural vocational and tertiary colleges on the Continent. There is a great opportunity to utilize technology to provide efficient modes of learning and skills transfer to improve the quality and quantity of agricultural products and services. In addition, as governments have limited capacity to provide extension services, private sector and NGO institutions can bridge this gap by providing appropriate training.

E-learning provides various innovative and efficient modes of teaching and learning. For example, Illinois University has a soybean innovation lab. The objective of the course is to equip extension agents and agricultural practitioners with the skills needed to successfully implement integrated pest management (IPM) and pesticide safety systems. This is a very important area for training, as insect pests and weeds are common problems for farmers particularly in Africa, where pest control is often manual and unsuccessful.

Janey Leakey, founding director of Leldet Seed Company in Kenya was able to benefit from this opportunity, particularly appreciating the time-efficient 10-15-minute courses that helped to improve the quality of their soya beans.

Kenyan microfinance company, Inuka Africa, has developed training programmes and provided delivery channels and platforms to disseminate information to farmers. These efforts came about when they realized that farmers lack information/resources and are not aware of the exclusions from insurance companies.

African governments and businesses should invest heavily in training and development of the youth, in vocational-, tertiary- and work-based programmes to ensure better qualified individuals across every sector. In addition, any training or skills need to prioritize women, who are often overlooked.

Ultimately, Africa will have to figure out how to create jobs and opportunities and food security for youth, 11 million of whom are entering the job market annually. Agribusiness will provide an important opportunity for the livelihoods and well-being of these youth.

> "Ethiopia boasts well trained veterinary scientists for example but could improve its skills base in other sub sectors.
>
> ~EthioChicken~

Section 3

Re-imagining the future; It's time for bold action

Across Africa, agribusinesses are proving they are resilient, particularly within the COVID-19 context. What they need is bold action to support their march into the future.

Start in-country races to support agricultural policy reform and implementation.

Just like the Enabling the Business of Agriculture indicators incentivised governments across the world to implement agricultural reforms aimed at improving the business environment for smallholder farmers, we believe that a similar index developed in-country would play a strong role in improving the enabling environment for the agricultural sector. This is especially recommended for countries with a form of federated government as regions would compete with each other to attract private sector investment into the agricultural sector. An in-country index would take a broader view and include reform actions to address basic business practices such as licensing and taxation (specific to agriculture) to address some of the challenges cited by businesses in our interviews.

Leverage technology to boost free trade

It is a very positive development that the African Continental Free Trade Area is now live. It is disappointing that information on this opportunity is not easily accessible to businesses across Africa. Many businesses we interviewed do not know where to obtain information on areas such as export readiness and standards, how to access export markets. We understand that negotiations in many areas are still ongoing, but a good place to start would be to leverage technology, e.g. through the use of an online platform to provide information on the AfCFTA. We could learn from other similar platforms as such as the Centre for the Promotion of Imports (CBI: https://www.cbi.eu/), funded by the Ministry of Foreign Affairs Netherlands, which supports the export of value-added goods into Europe from developing countries.

Climate change is the new frontier

Climate change featured strongly in many of our conversations, for the first time. Businesses in Africa need support to understand how to address the challenge and reduce the negative impact of climate change on their operations and supply. For many of these businesses, this is now a strategic imperative. Some of the actions that could be taken include legislation to compel the private sector including SMEs to address climate change, incentives (e.g. financial and tax) to invest in climate smart technologies and agricultural extension support to help farmers adopt regenerative farming practices – and other technologies known to reduce carbon emissions at farm level.

Climate change is a key threat to to biodiversity and ecosystem services in Africa and is one of the worst factors contributing to the loss of biodiversity over the next 50–100 years, according to the Intergovernmental Panel on Climate Change. In addition to being a threat to species, biodiversity loss results in sea and land pollution as a result of toxic waste, plastics and heavy metals, all of which affect the quality of life.

Restoring ecosystems and developing natural resources are important priorities for African countries

Smallholder is key to Africa's agricultural transformation

It is worth repeating, the smallholder African farmer is at the centre of Africa's agricultural transformation. The agricultural ecosystem needs to support the development of the smallholder whether it is through out-of-the-box financing initiatives that increase productivity, increased budgetary allocation by governments and access to markets. In all cases, given the importance of the sector to many economies, on average employing over 70% of a country's population, African governments need to match their words with actions by prioritizing the African farmer and aligning their financial spend to reflect the same. Important to note that the smallholder will have a central role in addressing Africa's climate change challenge.

Innovative financing for agriculture

We believe blended finance offers promise for innovative approaches to financing the agricultural sector by helping address the issue of risk, which for a long time has been the main reason cited by financial institutions as to why they do not support the agricultural sector. Financial technology offers another pathway for innovation in financing the sector while governments and central banks could set targets for the percentage of funds going to agriculture (say 10-15% of bank lending). Other incentives to increase agricultural lending could include alternative collateral, guarantee funds, revised capital adequacy ratios and incentive-based risk sharing schemes. In addition, Governments could support agriSMEs by introducing legislation that facilitates the delivery of innovative finance, such as factoring, supply chain finance, climate finance, gender and youth finance and warehouse receipts.

Leadership & entrepreneurship development

Poor business and weak leadership skills emerged as a major challenge facing agribusinesses in africa today. It encompasses specific sector knowledge, for example new emerging sub-sectors such as avocado, vanilla, apiary, insects farming, bio pesticides to basic business skills such as business development, adopting an entrepreneurial mindset, leading and managing teams, taxation and basic bookkeeping, advocacy, scaling and growing an export footprint. AGRA has introduced the Value4Her platform which supports women in agribusiness. Technology could be leveraged to deliver training at scale across the Continent. Many female executives expressed value in the platform citing benefits such as understanding how to navigate the challenges posed by COVID-19 and networking. More can be done. Women indicated willingness to pay for such services offered by such a platform. We further believe there is opportunity to provide executive leadership training and networking opportunities to CEOs of agribusinesses on the Continent as well through an agribusiness leadership fellowship, offered in partnership with leading universities in Africa.

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KPMG provides services to more than half of the world's largest agriculture and food companies. In East Africa, KPMG provides audit, tax and advisory services to agribusinesses, government, and development institutions. We work shoulder to shoulder with our clients as advisors, thought leaders and fund managers to support the growth of agriculture and agribusiness in Africa.

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