



Partnership for African Fisheries

Report of the Fisheries Investment Working Group

1st Investment Platform held on 27-28 June 2011

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1. Introduction

This report is a summary of the deliberations conducted by the Working Group on Investment for the Partnership for African Fisheries Project. The First Investment Platform was held at the Development Bank of Southern Africa (DBSA) premises in Johannesburg, South Africa on June 27-28th 2011. This Investment Platform was essentially an extended working group intended to test various financing ideas.

2. Background

The Partnership for African Fisheries (PAF) – funded by DFID and governed by a Steering Committee - aims to support the defining of processes that will strengthening Africa's capacity to consider, determine and implement **responsive reforms in fisheries governance, trade and investment**. Reforms are needed not only to ensure these benefits are sustained, but also to generate and sustain *wealth* from fisheries.

To carry out its work, the PAF Steering Committee created various working groups (or sub-committees) one of which is the Investment working group whose role is to develop innovative and equitable approaches to investment in the African fisheries sector.

The working group's mission is to bring together influential partners to identify opportunities and constraints to investment in sustainable fisheries and aquaculture. Growth in the sector will be driven by investment. Led by the DBSA, the informal partnership includes founding members i.e. the Natural Resources Institute (of the University of Greenwich), NEPAD Agency and the Global Partnership for Fisheries (based at the World Bank).

This involved carrying out a comprehensive investment supply side study including the definition of financial instruments and structuring options – which were presented at this 1st *Investment Platform*. In addition, a number of country case studies have been completed, as well as other targeted analyses that were also presented and debated.

3. Fisheries Investment Working Group- background

The Fisheries Investment Working Group was established in January 2011. At this particular meeting attendees included private sector, the financial services sector, donor representatives and researchers. Namibia, Zambia, Lesotho, South Africa, UK, France and Germany were represented.

The following participants attended the working group meeting:

Attendee	Institution
Moses Mwanjira	iKapa Media

Richard Ball	PAF Steering Committee member
Sandy Davies	NFDS
Filemon Nditya	Agricultural Bank of Namibia
Taleni Katoma	Agricultural Bank of Namibia
Masilo Hochobeb	Agricultural Bank of Namibia
Akona Nakani	DAFF
Malebo Helen Moepi	DAFF
Marc Nolting	GIZ
Charles Chiwara	Tri African
Elijah Munyuki	Tri African
Mike Marler	DBSA - Development Bank of Southern Africa
Johan Oelofse	Millenium Development Goals Fund
Samson Muradzikwa	DBSA - Development Bank of Southern Africa
Njekwa Mumbuna	VenFin Consulting
Ana Marr	NRI - Natural Resources Institute
John Linton	NRI - Natural Resources Institute
Laetitia Habchi	AFD/Propaco
Alushe Hitula	PAF Nepad

4. Meeting Objectives

The purpose of the meeting was to start the process of developing a mechanism for investing in African enterprises in the aquaculture and fisheries sector. In his opening remarks, **Sam Muradzikwa** (Chief Economist, DBSA) outlined the key objectives of the workshop as follows:

- To gain an understanding of the fisheries and aquaculture sector and its potential investment and developmental opportunities in Africa;
- To explore potential options or mechanisms that can be established and sustained to exploit these opportunities, especially in the SME sector, for Africa's benefit;
- To share experiences and facilitate a platform for ideas, initiatives and action items to be considered in the final SME fisheries and aquaculture financing framework; and
- To develop a clear agenda for the working group in preparation for the launch and implementation of the framework, at the end of 2011.

In expanding on the workshop objectives, **Alushe Hitula** (Coordinator, PAF-NEPAD) gave the background to the PAF and an outline of the opportunities in the fisheries and aquaculture sector in Africa. She noted that the fisheries and aquaculture sectors account for about USD 4.3 billion in foreign exchange earnings for Africa and provides food security for up to 30% of the continent's population.

5. Presentations and Case Studies

The first set of presentations considered access to finance for the fisheries and the aquaculture sector, in particular, for SMEs in Africa.

5.1. *Investment Supply for SMEs Anna Marr (Natural Resources Institute- NRI) and Charles Chiwara (Tri-African Capital)*

The presentation dwelt on the barriers to financing SMEs in Africa, global investment funds and gave examples of innovative financing models for SMEs. A key aspect of the presentation was the discussion of the “new venture financing cycle” which emphasized critical phases defining the success or failure of new SME projects. The pros and cons of a number of financial instruments were also discussed in the range of potential investment funding opportunities that can be available to SMEs in the fisheries and aquaculture sectors in Africa. These included:

- Private Equity
- Impact Investing
- Credit Guarantee Schemes (CGSs); and
- Islamic Banking.

The presentation also discussed examples of current funding sources that may be act as potential funders for the SMEs sector. The examples are depicted in the table below.

Investor	Type of product	Total amount available	Individual amount per SME project	Target group	Investment purpose of SMEs	Intermediary
European Investment Bank	EIB Loans for SMEs	Euros 30 billion (over 2008-2011)	From very small to a maximum €12.5m	SMEs < 250 employees in the 27 EU member states	Tangible (e.g. equipment) and intangible (e.g. distribution networks)	Local commercial banks, guarantee funds, mutual guarantee institutions, microcredit organisations. For some, EIB provides guarantee to reduce risk.
European Investment Fund	Private equity and venture capital funds investing in SMEs	EUR 409 million in 2008	n.a.	SMEs	Seed capital; build-up strategy; internationalisation; mezzanine finance.	The EIF is a fund of funds. In 2008, it worked with 32 venture capital funds in Europe.
8 miles – Bob Geldof	Private equity fund for Africa	US\$750 million to be raised	Investments worth between \$15m and \$80m	Africa	Agribusinesses, financial services and telecommunications.	Secured backing from the African Development Bank and the International Finance Corporation. Other investors are set to sign up.

The main conclusions were:

- Patient capital with technical assistance is critical for SMEs success;
- CGSs can be leveraged to increase lending capacity of participating lenders;

- Funding of start-ups from inception to achieving positive operating cash flows, and subsequently bankable projects is key; and
- Fisheries and aquaculture are a right fit for impact investors.

5.2. *Case Studies: Investment in African SMEs, (John Linton NRI)*

The second presentation by John Linton concentrated on the actual experiences from a number of countries with respect to investments in fisheries and aquaculture, the key purpose of this presentation was to draw lessons from a comparative perspective of these actual experiences. The presentation discussed six case studies in this context;

- Egypt – aquaculture
- Ghana – fishing & aquaculture
- Maldives – fishing
- Tanzania – fishing
- South Africa – Fishing
- Vietnam - aquaculture

Key lessons emerging from these comparative studies were that:

- Businesses associated with fisheries and aquaculture can be, and are profitable;
- Domestic and international markets are strong and are likely to remain strong and as long as the industry produces what the market wants and at an affordable price the fisheries and aquaculture business will be viable; and
- The presentation emphasized the need for an enabling environment (combining finance, technical and business skills) as another key lesson emerging from the case studies.

Other critical aspects of the enabling environment were identified as:

- Access to the basic resources (land and water)
- Sustainability of above
- ‘Health’ of the value chain
- Access to (skilled) labour
- Government services (SPS/Inspection etc)

- Incentives
- Obligations

The lack of accessible and adequate finance for fisheries and aquaculture industry was identified as a major negative point regarding the growth of these sectors. The private sector and the donor community (with governments playing a facilitative role for the enabling environment) were identified as critical sources for possible finance in order to plug this gap. Further, areas needing support were identified as:

Helping to commercialise the aquaculture sector by

- Supporting the development of best practice solutions (e.g. for Malawi)
- Supporting the creation of a truly enabling environment
- Bringing investor and practitioner together

Strengthening Capacity

- Strengthening research and training capacity in aquaculture through partnerships
- Supporting private-sectors skills
- Supporting innovation

Promoting regional lesson learning

- Participative research and analysis
- Communication and lesson learning

5.3. Key Points raised by the participants

The participants raised the following key points in response to the presentations:

- The estimates on the potential earnings of the fisheries and aquaculture sectors need to be revised so that a clearer picture is built to better inform potential investors;
- It is important to adopt a more practical definition of SMEs as this has an impact on the kind of interventions that can be made within a particular jurisdiction for investment purposes.
- A number of barriers to entry were discussed. These included tedious and costly regulatory procedures and requirements (such as environmental impact assessments). However the participants noted that it would be more practical for a multi-jurisdiction assessment of these barriers.

- There is a need for a project preparation facility to be put in place to help fund project preparations for the fisheries and aquaculture sectors.

5.4. *Access to finance: where do fisheries SMEs obtain investment: The Namibian Experience (Talení Katoma, Agribank, Namibia)*

The presentation gave an outline of the Namibian experiences. The key emerging lessons were:

- The facilitative role that the Namibian government played in the introduction of the Walvis Bay and Luderitz Aqua Parks which clustered aquaculture projects together in a bid to develop the industry.
- The government also funded pilot projects and training institutions to support the development of the industry.
- In order to bridge the lack of knowledge with respect to financiers' evaluations of aquaculture business proposals, the government collaborated with the finance sector and the aquaculture industry to develop and produce *Guidelines for Evaluating Aquaculture Business Proposals*; and
- The significance of an enabling environment centered on a clear legislative framework and financing guidelines.

A major negative factor from the Namibian experience was identified as the lack of adequate and accessible finance for the aquaculture sector, the Agribank is still the only major financier for this sector and the presentation highlighted the need for extra financial resources to be channeled towards supporting the sector.

5.5. *Access to finance: where do fisheries SMEs obtain investment: An industry perspective (Peter Janeck, Tilapia farmer, South Africa)*

The presentation highlighted the actual experiences, possibilities and challenges of being a tilapia farmer in South Africa. A major issue was how to assess the minimum production levels required for entry into commercial fish farming. This point was critical as it determines the nature of investment and support required for the business to take off. The key challenges were identified as:

- Lack of adequate local expertise;
- Reducing the costs of production;
- Accessing and developing a good gene pool for fish varieties;

- Difficulties and limitations in accessing fingerlings (in this case the project had to design and produce its own fingerlings supply owing to the limited supply);
- Technical issues such as the design and operation of water quality management software.

The presentation noted the need for reducing capital and operational costs and for addressing global sanitary and phytosanitary measures (SPS) through the accreditation of local producers.

5.6. Access to finance: where do fisheries SMEs obtain investment: The South African Experience (Akona Nakani & Hellen Moepi, Department of Agriculture FF, South Africa)

The presentation highlighted the key prospects, procedures and challenges for the fisheries and aquaculture sector in South Africa from the government perspective. The presentation gave an overview of the regulatory environment of the sector as well as the key institutional and policy initiatives such as the National Aquaculture Strategic Framework. A major issues identified by the presentation was the absence of an adequate and dedicated fisheries development fund. The following challenges were noted with respect to access to finance and investment:

- No adequate information is available from financial support institutions,
 - Strict requirements for accessing finance (Terms and conditions),
 - Funding requirements are not friendly (e.g. the need for a collateral),
 - Finance offered at high interest rates (prime rate or above prime) depending on nature of risk involved,
 - Payback period, when do you start repaying the loan considering that aquaculture business takes 4-5 years to realize Return on Investments.
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- Skills shortage
 - Access to markets especially for small scale fisheries and aquaculture producers
 - Limited support services e.g. veterinarian and extension services
 - Lack of infrastructure (Hatcheries, roads, electricity etc.)

5.7. Key Points raised by the participants

The participants welcomed the practical nature of the presentations and noted their value with respect to the development of strategies for the fisheries sector. The following issues were raised:

- Given the recurring issue of the lack of finance and knowledge of the fisheries and aquaculture sectors in the finance industry, it is critical to develop a dedicated facility that would assist with finance and technical expertise in order to develop a profitable sector. A private equity fund for aquaculture was identified as an example that would plug this gap. Impact investors can be targeted for this initiative. The participants agreed that a finance and technical facility for the sectors were critical. The GIZ also noted that such a facility is critical and that the agency was keen to assist in the design of the technical facility and also invest in it.
- There is need for the Namibian cluster (aqua parks) initiative to be followed and modified where possible, this would help to deal with issues such as tedious and costly EIAs. Related to this cluster initiative participants noted the need to create a system of outgrower schemes to boost SMEs and increase the production levels.
- Research has been conducted on the impact of climate change on fisheries. This needs to be consulted and aligned with any future plans for fisheries and aquaculture

6. Conference conclusions and outputs

It was agreed that fisheries and aquaculture had considerable potential as an investment area. In the short term, activities surrounding aquaculture would probably represent the more attractive area for investment. It was also recognised that fisheries and aquaculture development was constrained by access to finance, capacity of the SME sector and the environment in which business operates.

It was recognised that this working group is one of several that has been constituted under the Partnership for African Fisheries. As such, some of the issues – particularly those surrounding the enabling environment would be dealt with by other groups.

It was agreed that the Working Group would focus on two areas:

a) Supporting the development of a mechanism to promote and support investment in SMEs engaged in the fisheries and aquaculture value chains

This would respond to the following:

- Fisheries and aquaculture businesses in Africa can be and indeed are profitable. This was demonstrated through the case studies.

- However, the achievement of full potential is constrained by, amongst others, lack of access to finance, the use of debt as a financing mechanism, as opposed to equity, the challenges of operating in a complex institutional environment and the lack of effective government support services.

The SME sector faces particular challenges: their financing requirements fall in a bracket which is unappealing to investment banks, too large for microfinance institutions and often too expensive to be met through commercial debt. Also, the capacity of the African SME sector is often a limiting factor.

As a result of this, it was agreed that the Working Group would develop two products:

- i) A prospectus for an investment fund: This would be prepared in order to solicit funding from the private sector. It would be based on the principles of impact investment and would incorporate the conditionality that would make it attractive to donor counterpart funding (see below). However, the underlying principle would be one of profitability. It is envisaged that investors would contribute to the fund and that the fund would be managed by fund managers.
- ii) A concept note for a programme of donor support: Realising that commercial investment in SMEs is often constrained by the perceived risks, it was proposed that these risks be managed through a donor supported programme. Such a programme might address support to development of viable investment proposals, support to create an enabling environment through capacity strengthening, hand holding, advocacy etc., support to lever and focus resources from other projects and programmes.

It was agreed that these two documents would be completed by the end of September 2011. The Development Bank of South Africa would promote the Investment Fund. Subject to the preparation of an acceptable concept note, GIZ would promote the supporting programme to the donor community.

b) Contributing to the 1st Africa Fisheries and Aquaculture Summit

In November 2010, PAF organised a pan-African ministerial conference on Fisheries and Aquaculture – CAMFA. This conference was successful in so far that it raised the profile of fisheries and aquaculture in Africa and obtained ministerial commitment to promote the economic development of fisheries through good governance and management.

However, the holding of such meetings is highly costly and very demanding in time and human resources. It is unlikely that a second such meeting could be funded through the existing DFID/PAF.

In early 2011, PAF was approached by Moses Mwanjira the CEO of IKAPAMEDIA. This company makes its money through the preparation and hosting of conferences. Its income is generated in two ways: Through sponsorships by companies and interested parties, and through registration fees from attendees.

Mr. Mwanjira suggested that the time was right for the hosting of a fisheries conference and that furthermore, he was intending to host such a conference. He sought support from PAF and the working groups in the first instance – to get the ball rolling. It is noted that KAPAMEDIA has worked successfully in the past with both NEPAD Agency and DBSA.

Limited support was provided through the Finance & Investment Working Group and there has been significant progress in preparing for this meeting. The date (November 2011) and location (Seychelles) has been confirmed, as have high profile speakers – not least the president of the Seychelles.

It was agreed that the participation of the Working Group in such an event would provide an excellent opportunity to promote the economic opportunities of the fisheries and aquaculture sectors. Indeed, if sufficient progress has been made, this would provide a high-profile launch pad for the Fisheries Investment Fund.

It was agreed that the working group would support the event by

- i) Promoting it to our colleagues and networks;
- ii) Brainstorming approaches that would make it more attractive to participants; and
- iii) Preparing for a specific fisheries investment side event.

In this context the participants identified the need to implement the outputs of the meeting by adopting the resolutions discussed further below.

6.1. Action Items- Way Forward

The meeting produced the following action items to be followed up in order to implement the key results of the discussions:

1. The Working Group should be extended to include the participants who should begin to communicate on the key issues identified by the workshop.
2. A document should now be developed on the actual fisheries and aquaculture and fisheries finance facility, this should be targeted at potential investors.

3. A support fund should be developed which would support project preparations and act as a support for incubator projects.
4. An assessment of some of the major barriers that may impede the functioning of the facility needs to be conducted at a multi-jurisdiction level.
5. The extended Working Group needs to interact with other working groups in the PAF so that its terms of reference are aligned and informed by the other groups.
6. Strategic Partnerships should now be identified and developed.
7. Road shows should be conducted in order to market the funding initiative, these include to such institutions such as the IMF and the World Bank.
8. A clear and concise communication strategy needs to be developed.
9. The Fisheries and Aquaculture Investment and Financing Framework should be launched in late 2011 in Seychelles. The framework will outline the operational modalities for the Private Equity Fund, and Technical Assistance Facility, for SMEs' in African Fisheries and Aquaculture.

Table 1 below further elaborates the actions to be taken and the responsible persons.

Table 1. Action Plan, Roles and Responsibilities

	ACTION ITEM	RESPONSIBILITY	TIME-LINE
1	Detailed Workshop Meeting Close-Out Report	Charles, Elijah, Thato	14 July 2011
2	Develop a mailing list/database of all workshop participants	Thato	14 July 2011
3	Official letter to all participants thanking them for attending, and attaching the Close-Out Report	Thato	14 July 2011
4	Identification of Strategic partners and executing an approach plan	John, Sam, Marc	31 July 2011
5	Develop the Aquaculture and Fisheries SME Investment Framework to include: <ul style="list-style-type: none"> - Equity Fund that appeals to social impact investors and green economy issues - Development Facility to provide capacity, incubation, project preparation and general support - Stakeholder management strategy that will guide the identification and development of the required strategic partnerships - Tunnel of Funds proposition that will match 	John & Sam to lead, Marc, Charles, Ana to contribute. All to comment/contribute	30 Sept 2011

	different funders' appetites.		
6	Prepare the Pitch Documents as well as marketing and communication plan	John, Charles, Ana, Sam	30 Sept 2011
7	Refinement of pitch documents and framework	Extended working group, interested parties, PAF Working groups	14 Oct 2011
8	Bilateral discussions with partners	John, Sam, Marc	31 Oct 2011
9	Report Backs and Preparations for Seychelles Event	John, Charles, Ana, Sam	20 Nov 2011
10	Contribute to promotion of investment event	Sam, John, Marc	Ongoing
10	1 st Fisheries and Aquaculture Investment Event (Seychelles)	Everyone	29 Nov 2011