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# Farming gamble fails

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## Ambitions for venture capital in agriculture – once the Next Big Thing – are foundering

The Southern Agricultural Growth Corridor of Tanzania (SAGCOT), one of ex-President **Jakaya Kikwete**'s favourite projects, touted globally as a radical policy to support smallholders while promoting foreign venture capital investment in the sector, is in deep trouble after the government cancelled the US$47 million Matching Grant Fund (MGF). The facility aimed to match private investment with public funds and was backed by a World Bank loan worth $70m, which the Bank is now withdrawing on the government's request.

Officially, the government has stressed the primacy of the private sector as the driver of economic growth, agriculture included, for many years. SAGCOT seemed to dovetail nicely with *Kilimo Kwanza* ('Agriculture First'), Kikwete's pro-private sector agriculture policy launched in 2009. But President **John Magufuli**'s agricultural policy has turned towards a continued heavy state presence and although the government signed up to SAGCOT willingly, the programme has suffered from institutional reluctance to embrace free market ideas as well as the influence of special interests. The government's decision to ask the World Bank to discontinue the MGF came after protracted wrangling over how the fund was supposed to function, with the result that no grants were ever made.

Last year it became clear, according to **Thomas Herlehy**, team leader of the MGF, who resigned in January, that 'The government does not want to make matching grants to private sector agribusinesses.'

**Impossible request**

The government wanted to change the MGF from a grant scheme to a loan-based scheme. According to Herlehy, it also insisted that any fixed assets which investors would purchase would, at some future date, be transferred to local rural district councils, which would somehow hold the property on behalf of smallholders. This was never possible because the proposed changes fell outside the terms of the financing agreement the government signed with the Bank in June 2016. When the Bank pointed this out, the government requested the project's cancellation, which is unprecedented in this field.

Launched to much fanfare at the World Economic Forum in Davos in 2010, SAGCOT was an ambitious public-private partnership designed to attract global agribusiness investors to a huge swathe of Tanzania's most fertile land. SAGCOT's investment blueprint envisioned putting 350,000 hectares under production, creating 420,000 jobs and potential farming revenues of $1.2 billion by 2030. The project was close to the heart of former President Kikwete, who dubbed SAGCOT '*Kilimo Kwanza* in action' (AC Vol 54 No 24, Concern over contract-farming).

SAGCOT was initially conceived as a venture capital fund designed to finance early growth and expansion stages of high-risk small and medium enterprises with outgrower or contract farming arrangements. World Bank involvement turned the investment component into a 'matching grant' scheme in which investors would be reimbursed for their capital outlays.

The endorsement of agribusinesses such as the **United States** multinational Monsanto (since bought by **Germany**'s Bayer), **Norway**'s agrochemical giant Yara International, and the Gates Foundation together with the Alliance for a Green Revolution in Africa (AGRA), aroused opposition from international and local NGOs. They were against genetically modified organisms and accused foreign investors of 'land grabbing' and displacing smallholders. The **United Kingdom**, Norway, the UN Development Programme, the US Agency for International Development, and others bought into the project, but with their involvement came greater complexity and institutional problems, sources close to the project told *Africa Confidential*. The original venture capital fund model had turned into a multi-donor programme, which massively increased the bureaucracy and made 'ownership' of the programme by Tanzanian public institutions difficult.

Although President Magufuli has scrapped a number of President Kikwete's pet projects, including Big Results Now! (BRN), he appeared to endorse SAGCOT, visiting last year the Ihemi Cluster, one of several zones within the SAGCOT area treated as units for inward investment. He was accompanied by SAGCOT Centre boss **Geoffrey Kirenga**. Enthusiastic MPs called on SAGCOT to come to their constituencies.

Some experts familiar with the agricultural scene and government policy detect the hand of die-hard 'socialist' members of the **Julius Nyerere**-influenced old guard who remain influential in the ruling *Chama Cha Mapinduzi* (CCM) party and the government bureaucracy. This is the natural constituency for Magufuli's populist-nationalist rhetoric. Since coming to power in 2015, the Magufuli government has taken control of fertiliser and seed importation through bulk procurement, and re-empowered cooperative unions in crop purchasing, undermining private exporters and contract-farming arrangements. These and numerous other interventions, such as the dramatic takeover of the cashew market by the army on Magufuli's orders, demonstrate the deep commitment of the party and state apparatus to maintaining public control of areas that many, such as the large donors and international financial institutions, believe should be market-driven.

Cancelling the investment programme does not mean the end of SAGCOT, but Kirenga will be hard put to find additional sponsors in present circumstances. One possible solution is the incorporation of SAGCOT into the on-going Agriculture Sector Development Programme (II), which is an old-style, smallholder-oriented, programme with only a marginal role for the 'private sector'.

**Sugar low**

The difficulties experienced by agribusiness investors in Tanzania were highlighted when a huge **Swedish** investment in an integrated sugar project with an outgrower component failed to take off after years of negotiating with the government over land and water rights. Bagamoyo EcoEnergy (BEE) is currently seeking compensation for its claimed $50m investment (AC Vol 58 No 5, Sour fate of sugar project). Sugar traders opposed to import substitution mobilised heavily to scotch the plan.

A more recent example is Kilombero Plantation Ltd (KPL), a 5800-hectare rice and maize-growing venture and a showcase example within the SAGCOT area of an effective outgrower project. KPL is now up for sale after defaulting on a $20m loan from the US Overseas Private Investment Corporation (OPIC), the US government bank which also insures US overseas investments, and a

13 billion shilling ($5.6m) loan from the National Microfinance Bank. KPL's business model was dependent on Tanzania respecting and implementing the 25% Common External Tariff on rice imports in the East African Community. In 2013, however, all local rice producers were hit by an agreement to import 80,000 tonnes of rice from **Pakistan** at zero tariff. The price KPL paid to its outgrowers was above the price of the imported rice, punching a hole in its finances.

KPL CEO **Carter Coleman** praised President Magufuli for putting an end to duty-free rice imports, but explained that the need to sell the business came out of the 2018 collapse in the maize price, which KPL also grows on its plantations, following rainy season floods in 2016 and 2017 and the arrival of the army worm from South America in 2017. 'The 2018 ban on maize exports,' Coleman told *AC*, 'at a time when a record 2017 southern African maize crop led to much importation of cheap maize into Tanzania, contributed to the 11-year-low of maize prices in 2018 that has been painful to smallholder and commercial maize-growers.'

As well as the hostility to the private sector which is prevalent in the Tanzanian state, lack of capacity among officials, bureaucracy, rent-seeking and the lobbying of influential importers of agricultural produce opposed to import substitution also take their toll.



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