



4TH ANNUAL SADC INDUSTRIALISATION WEEK

The need for SVCFund as Vehicle for Industrialization in SADC. Lesson from SAGCOT Catalytic Trust Fund

John Joel Kyaruzi

Executive Secretary

SAGCOT Catalytic Trust Fund

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1. Introduction

- **Impact Trumps Profits:** All investors want to put their money toward businesses that are going to succeed, usually in the financial sense. This scenario does not favour poor countries with bad infrastructure, and relatively high cost of doing business. However, with social venture capital (SVC), the main measure of success is not financially focused. Instead, social venture capitalists are interested in funding projects that are designed to improve society in some way.
- **Poverty and the Environment are Prime Targets for SVC:** The poverty that pervades much of the globe is the primary culprit, and thus many social venture capitalists seek to provide communities with improved farming techniques or access to technology to help eliminate some of these problems.
- **Money Matters In different Ways:** As a result, social venture capitalists will still analyse the business plan and budget and only commit capital to businesses that are both financially viable and likely to have the largest impact.

Land Holding Survey in TZA [N=52,635]

Landholding category	Landholding (ha)	Number of farmers	As % of total	Land controlled (ha)	As % of total area
1 ha and less	0.58	1,801,085	33.19	1,040,010	7.77
1-5 ha	2.18	3,111,927	57.35	6,779,527	50.66
5-10 ha	6.88	340,736	6.28	2,345,525	17.53
10-20 ha	13.01	118,547	2.18	1,542,855	11.53
20-50 ha	26.29	49,315	0.91	1,296,627	9.69
50-100 ha	65.98	3,131	0.06	206,559	1.54
over 100 ha	146.29	1,172	0.02	171,455	1.28
Total	2.47	5,425,913	100.00	13,382,558	100.00

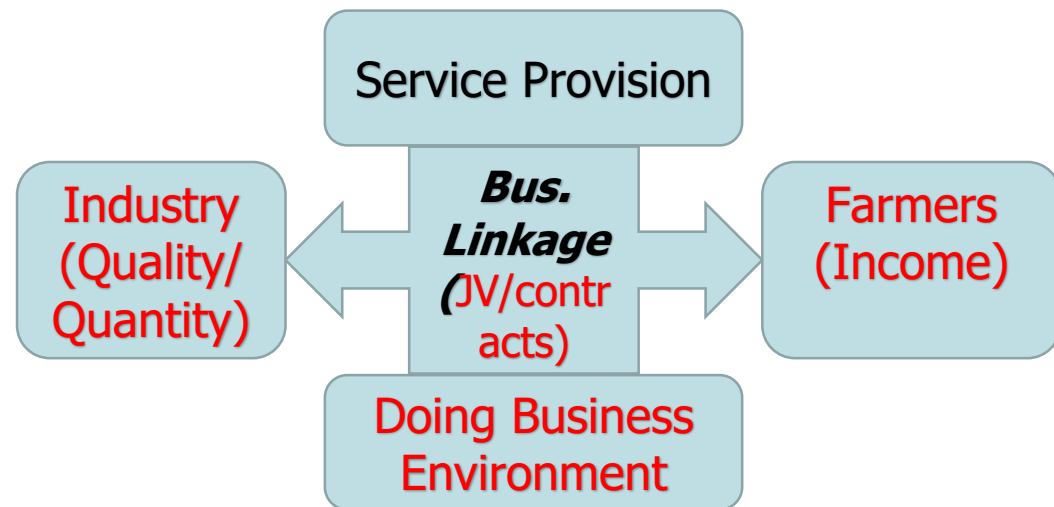
9%

42 %

WHAT is SAGCOT Catalytic Trust Fund (SAGCOT CTF)?

- SAGCOT CTF The profitable agriculture with strong links to markets is the best route out of poverty for the majority of Tanzania's rural poor. But this requires a private sector appetite to engage with smallholder farmers.
- A PPP Fund Created To Engage Smallholders into Agricultural Value Chain through Farming as a Business (FAABB).
- Managed through a Partnership Council made of Government, Private Sector, Funders, and Smallholder Farmers Associations.
- Established in 2011 as a result of 2010 World Economic Forum
- Operates on the Principles of Cluster Development and Value Chain analysis.

WHY SAGCOT CTF?

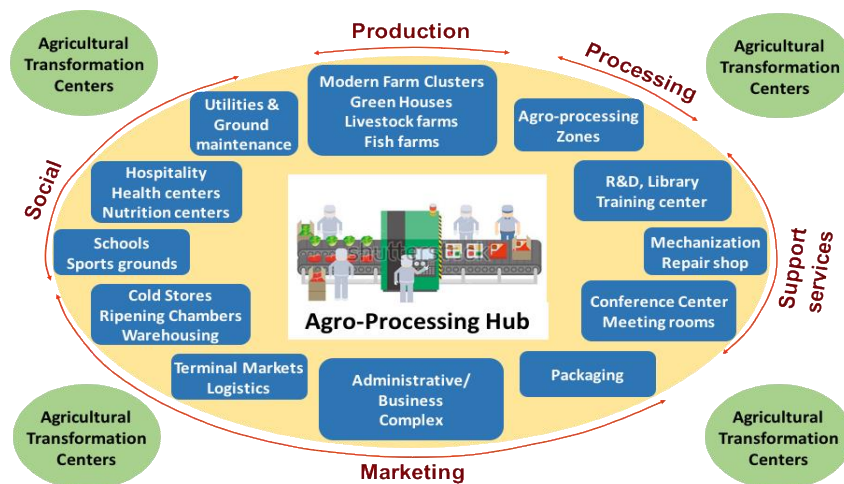


Rat.1: At large the Supply-Side Is Weak & Cannot Meet Market Demands (*Need for Financial Incubation through Grants & Credit Guarantees*)

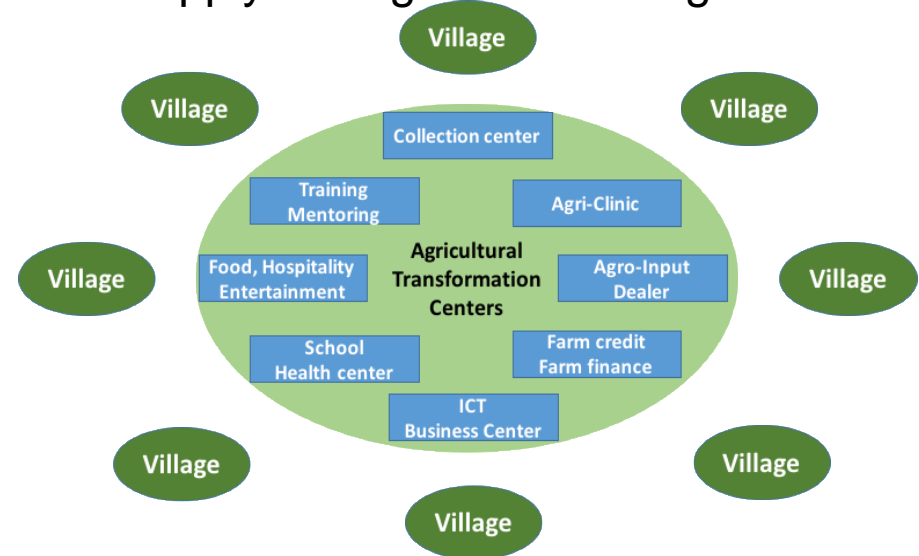
Rat. 2: In Many Cases there are plenty of produce but there are no appetite for private sector to invest in to their markets (*Need for Financial Incubation Social Venture Capital*).

2. Markets of Social Venture Capital in SADC - The Case of Crop Processing Zone (CPZ)

An **Agro-Processing Hub**: Well-defined, **centrally managed tract of land developed**, subdivided and dedicated to supporting firms and other stakeholders engaged in related agro-business.



Agricultural Transformation Centers (ATCs): Strategically located within the production area to serve as **aggregation points** to accumulate products from the community to supply the Agro-Processing Hub



3. Equity-Like Capital Gap for Social Venture Capital

Social Enterprises

- Grants still remain the main source of financing
- When external financing is used, it is mainly loans
 - Loans are mainly secured: unsecured loans had been accessed by only 9% of social enterprises
 - Where unsecured loans are accessed, they come with high interest rates. Only some loans offer repayment holidays
- Only a small proportion of Social Enterprises had accessed equity financing.

Socially Driven Businesses

- Much harder to gather data on this sector of the market
- Some traditional venture capital funds will invest in socially driven agribusinesses, but only where financial return is not compromised by social return.
- Some social businesses have raised capital by issuing shares through an APO (alternative public offering) or Local Government Guarantee Schemes

4. Investment Proposition

Where would social entrepreneurs come from?

- We expect some social ventures to come from the grant dependent social sector.
- However we also expect new entrepreneurs to enter the social venture space who aim to achieve both financial and social value from the beginning of the venture.

Where would deals come from?

- In the private sector, a VC fund would seek syndication partners for deals which it could not perform alone and it would work with the venture to assemble funding from these partners.
- It may also pass on deals to other parties which are more appropriate for the life stage of the venture, maintaining contact to invest at a future date.

5. Implications for policies in the SADC

- Governments in SADC should support a concept SVC to as an incentive to create markets where there are no private sector appetite to invest in them especially in the agricultural sector
- SAGCOT CTF could be extended to national wide agricultural social VCs to tap into the pool of private investment
- The direct project driven Government guaranties should be treated with caution as it may restrict private investment into social enterprises instead Guarantees should be channelled through Social Venture Caliphal institutions guaranteed by the Governments.
- More mapping work on social businesses (those set up for a social purpose but aiming to distribute profit as well) should establish the size of the market across the SADC.
- Social enterprise support organisations in SADC should cover a “broad school” including social businesses.

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Our Official Contacts

**The Executive Secretary
SAGCOT Catalytic Trust Fund
4th Floor, Tanzanite House
Victoria Area
New Bagamoyo Road
P.O. Box 10977, Dar es Salaam**

+255 22 2924 143 / +255 22 2924 144

**info@sagcotctf.co.tz
john.kyaruzi@sagcotctf.co.tz**



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