

Justin Highstead Interview

Why did a UK foundation buy two tea processing factories in Rwanda? The UK-based Gatsby Charitable Foundation is one of a handful of foundations mentioned in Monitor Deloitte's *Beyond the Pioneer* report as carrying out a role as a market facilitator. How did they come to do this, Caroline Hartnell asked Gatsby's executive director of Africa Programmes, Justin Highstead.

The report highlights the need for foundations, among others, to act as 'facilitators' to help remove the barriers to scaling of successful market-based solutions. Gatsby seems to have chosen this route in East Africa. Can you explain why?

Gatsby has worked in Africa since 1985. Initially we focused on agricultural research and the basic problem of getting new technologies to those in the fields. But we found farmers weren't deriving the full benefits due to market failures and other constraints in the value chain. From his time as Minister for Science and Innovation, our settlor David Sainsbury brought a perspective on the role that government can play in addressing some of those challenges and getting growth going. I had also just spent five years with the Department for International Development, where the emerging lessons and thinking on sustainable economic growth were about the extent of market failures and the need for development programmes to consider the whole market system and ecosystem that firms exist in, as these determine a sector's competitiveness. Our approach derives from a combination of these things.

We work in the cotton, textile, tea and forestry sectors and we fund other institutions looking at other market systems across East Africa. The report authors felt our approach was an interesting example of what they call facilitation. The reason we think it's the right approach has to do with scale and sustainability: if you work with one processor, you can reach say 10,000 to 15,000 farmers and double their yields and incomes and you think you've

done a great job. Yet something might easily happen to undermine the sector – political interference, regulation change, market price fluctuation, or the collapse of supportive markets. Our view is that if you want lasting economic growth, you have to look at sectors in a holistic way and understand the broader things around a sector that need to be in place, and also the interface between politics and business. Cotton production has virtually halved from its peaks in Zambia, Malawi, Tanzania and Zimbabwe, mainly due to weak regulatory environments or changes

that provide less protection for the investments that progressive companies are making to support smallholders. Addressing situations like these requires a holistic approach where you're supporting government and the private sector to work together.

How did it start?

David Sainsbury talked to President Kikwete and the Tanzanian cabinet about priority sectors and, as a result, Gatsby offered to see what we could do to help the textile sector. There are around 30,000 people employed in textiles in Tanzania. But Tanzania has one of the lowest yields of cotton anywhere in Africa and supply of cotton is a key constraint for the textile sector. So we quickly

realized that to help the textile sector, we also needed to help the cotton sector, and by doing that we could help increase the livelihoods of up to half a million Tanzanian cotton growers. The potential was huge.

And there were very simple things we could do. Getting new, improved varieties out to farmers gives you significant yield increases. Helping farmers plant at the right time before the rains gives you another increase. With good agronomic practices, conservation agriculture and integrated pest management approaches, you can probably double farmers' yields, even without fertilizer.

But you still have the risk that external factors could affect the whole sector, so you've got to be prepared



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Tea pickers at Kagera Tea Company's estate, Bukoba, Kagera Region, Tanzania.

to take on those risks. If you start to think about how you can help the sector cope with those risks, and create an understanding between industry and government about how it should operate, then you can start to get sustainable growth. So you're mitigating the likelihood of risks happening, especially political interference, and enabling the sector to roll with them if they do occur.

How did you come to be involved in the tea sector in East Africa?

Sir Ian Wood set up the Wood Family Trust (WFT) in 2007 and wanted to start development programmes in Africa. He and David Sainsbury felt Gatsby and the team of experienced development professionals WFT were putting together could complement and learn from each other, so we outlined a partnership, examined potential sectors, and in 2009 launched our Tanzanian tea programme.

For various reasons, the sector was spiralling downwards, but we felt it would be viable if the right things were done and the right investments made. We worked with the big institutions that control the sector – the Tea Board, the Smallholder Tea Development Agency, the Tea Research Institute, etc – and the first thing we learned is that data is generally very poor. So we commissioned a detailed audit of the sector – infrastructure, rainfall, altitudes, soil types – and shared this with the industry. Through matching grants we supported businesses that were working with large numbers of farmers and as a result they invested more in farmers and were able to pay them a higher price, reversing the downward spiral. We started to see higher and better-quality yields, more profit and more incentives for farmers. Now we're working to structure a deal with a multinational tea company over a new greenfield investment – fully commercial for the multinational. This has the potential over the next three to five years to

bring about a step change in the sector, and could eventually lead to the industry doubling in size.

What do you need for facilitation to work?

If you're trying to influence change, you have to have good analysis. You also need good people and relationships, and it's important you're seen as impartial. Of course you also need some money. But the issue isn't really one of funding. You can facilitate a sector with reasonably modest resources. Having the right people on the ground who really understand the sector is probably the single most important thing; it's more important than money. If you have a group of experts with real credibility, the government, the private sector and others will listen to what they have to say.

Do you and Wood Family Trust have people in Tanzania doing work there?

We fund the tea programmes fifty-fifty and both foundations oversee the strategy, but WFT takes the operational lead in putting teams on the ground. The employees include experienced tea professionals living in the tea areas – they understand businesses and the broader sector, and have access to very senior people. One of the team is a retired industry CEO; one a former tea buyer; another a former factory unit manager from the Kenya Tea Development Agency (KTDA).

Can you do facilitation from a distance?

It's very difficult to be effective without people on the ground. If you want to facilitate change you've got to be able to engage with stakeholders from businesses to government. Doing that from a distance is almost impossible. We've got 26 staff in the cotton sector in Tanzania, and WFT have six in Tanzania and Rwanda. We have local people advising us on the business and political climates. And senior Gatsby staff visit every month.

What does Gatsby bring to the facilitation role?

We used to be mainly a funder, but we realized that, with the level of change we're trying to achieve, our money is less significant than what we can bring when we take the operational lead – designing, managing and implementing programmes.

As a private foundation, we have flexibility. We can be less bureaucratic and more responsive and risk-taking. We can be pragmatic and patient, understanding that it can take a long time to bring about real sustainable change. We also have 30 years of experience in East Africa and we've built up a whole network of

institutions and advisers – about 250 local people who really understand the business and political climates in these countries – and that’s a massive asset. Then we have David Sainsbury, who brings his political experience and a very responsive approach to African governments, as well as his experience as chair of one of the UK’s largest companies.

Do you have the same sort of approach in Rwanda?

Yes, it’s a very similar model. In Rwanda, the government had gradually privatized the tea sector and brought in local and foreign investors to take over factories, to the point where there were only two left under state control. They were fully supplied by smallholders, but those farmers were not earning much and performance was marginal. So we saw a real opportunity when the government announced their privatization. A foreign company could have bought them and increased farmers’ incomes slightly but mostly taken profits offshore. Instead, Gatsby and WFT agreed to give the farmers loan finance to buy the factories and put in professional managers from KTDA to help run them and build local capacity to manage them in the future. The loan would be paid back from the profits generated. We’d only take out what we’d put in and in the end the farmers would own the factories and their incomes would massively increase.

This would take a minimum of seven years’ hard work and investment but we thought it was worthwhile because it would transform incomes. Also, through the example of these two factories, we could show the commercial benefits of smallholder ownership and providing improved services to farmers, and raise the tide of the whole sector. So we felt taking a direct, active role in those two factories was an effective way of transforming the sector.

We’re temporary owners of the factories and there are two conditions before we hand over ownership: one is that they have repaid us the loan; the other is that the governance of the farmers’ ownership has reached a level where we’re certain it won’t collapse. Governance training will be absolutely critical for that. For us, sustainability isn’t just making these factories profitable in the short term; it’s also supporting the

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Green leaf withering, Shagasha Tea Factory, Rwanda



farmers to get the experience, knowledge, skills and understanding of markets they’ll need to keep the factories profitable and the benefits flowing to the communities in the long term.

You mentioned that a facilitator needs to be seen as impartial. Is owning these tea factories a problem?

In Rwanda, it’s actually worked in our favour. The government were particularly keen on investment and I think us funding this deal actually positioned us as a more credible outside agency. They knew we were doing it in the interests of farmers and weren’t seeking a profit, so it hasn’t compromised our position. For various reasons to do with geography and the nature of the crop, Rwandan tea factories don’t generally directly compete against each other, so we’re not seen as competition. If we pay our farmers much more than anyone else pays theirs, there might be some prickly issues, but so far our dialogue with other factories has improved because they realize we’re in the trenches with them and suffering the same challenges. All in all, our experience in Rwanda has been that owning these factories has helped our credibility as a facilitator, though in other sectors or countries – Tanzania for example – I think it would compromise it.

Can other foundations become involved?

It depends on their risk appetite. If you want programmes you feel you can control and be assured of success, then trying to operate at the sector level may be too much. If you’re prepared to be patient and accept the complexity of markets and systems and the level of dependencies and risks, there’s no

reason for foundations not to do this. For those that are interested there are a number of forums that share lessons. There’s the MMW4P – Making Markets Work for the Poor or M4P – programme and there’s an M4P hub. There are forums for donors on both sides of the Atlantic, regular conferences and training courses.

Presumably there are big returns on the investment if you are prepared to wait and take the risk?

If you look at Tanzania, it’s in the top quartile globally of growing economies, albeit from a low base, but, generally, poor people aren’t participating in that growth.

Eighty per cent of the population derive their income from agriculture. All the key crops like cotton, coffee, tea, cashew and sugar are complex market systems where a variety of challenges are holding them back. Cotton is the third biggest cash crop. If we're successful in helping the government think through how it relates to that sector, it might set a precedent for how they support other cash crops in Tanzania, and if they transform those, it will be a massive step towards poverty reduction in the country. It's incredibly challenging, but the potential impact means it's worth the effort.

Shouldn't foundations be prepared to be patient and take this sort of risk? Isn't that what they're for?

I think so. David Sainsbury and the Gatsby trustees are certainly prepared to take calculated risks, where, if they succeed, the rewards are high. In many ways they see it as the duty of foundations to play this experimental role, show what works and prove concepts so that other players – private or public sector – can confidently adopt them at scale and increase impact. @

For more information

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Comment

David Knopp



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Alliance asked David Knopp of Wood Family Trust, Gatsby's partner in the tea sector in Tanzania and Rwanda, how they came to get involved and what they bring to the work.

Why did the Wood Family Trust decide to get involved in this area?

Sir Ian is a successful UK industrialist who has spent his entire career in the private sector. His perspective is therefore that the best way to improve livelihoods is through business. Specifically, he sees trade, investment and job creation as the key drivers of economic development. Our role is to ensure not only that such growth occurs, but also that it takes place in a manner that has positive impact on all levels of society, including the micro-entrepreneur and smallholder farmer.

We decided to target Africa, given it is essentially the last frontier for development, with a fast-moving and exciting market economy yet at the same time challenged by a large rural population living in abject poverty. When we began the Africa portfolio, our staff were already based in the region, either working in the private sector or directly managing market development programmes. This enabled us to hit the ground running.

Tea was immediately attractive given the strong end market dynamics, favourable agro-climatic conditions, the importance of tea as a foreign exchange earner in the region, and the key role smallholder farmers play in tea production. In countries such as Rwanda, smallholder tea production will eventually comprise over 75 per cent of total supply. For these countries to remain competitive, it is therefore critical that the sector evolves in a way that maximizes quality and yields, while providing a meaningful return for the smallholder farmer.

During the programme design period, a partnership was formed with the Gatsby Charitable Foundation,

another private donor with a like-minded approach to development. This relationship has blossomed over time and expanded to additional countries in the region.

Are there facilitation roles that are particularly well suited for a small foundation like WFT?

I am not sure what your definition of a small foundation is. However, for the Wood Family Trust it is important that we maintain the ethos of what makes us special – the ability to be flexible and operate in a non-bureaucratic manner.

Given we are a self-financing private family trust, we are free of the operational limitations that some impact investors and public sector donors may face. For example, we do not have earmarks, we do not have a pressure to 'spend', we do not subscribe to a cookie-cutter approach, and we are not bound to artificially crunching numbers and outputs.

Rather, we believe that markets are dynamic, and that we must therefore be similarly dynamic, reading and responding to market signals and opportunities as they arise. We also subscribe to a portfolio approach, and work with different market actors through a variety of facilitation mechanisms including technical assistance, matching grants, loan guarantees, debt, equity – and any other tool as required.

We are philanthropic so we do not seek a commercial return nor are we in competition with the industry. Our role is to partner with market actors, and through co-investment or technical assistance to test innovation or demonstrate new forms of competitive behaviour from which we can ramp up, replicate, and eventually exit. What matters is that our investments have a positive impact on the smallholder farmer, that the activity is commercially viable, and that our work has a positive influence on the larger market system.