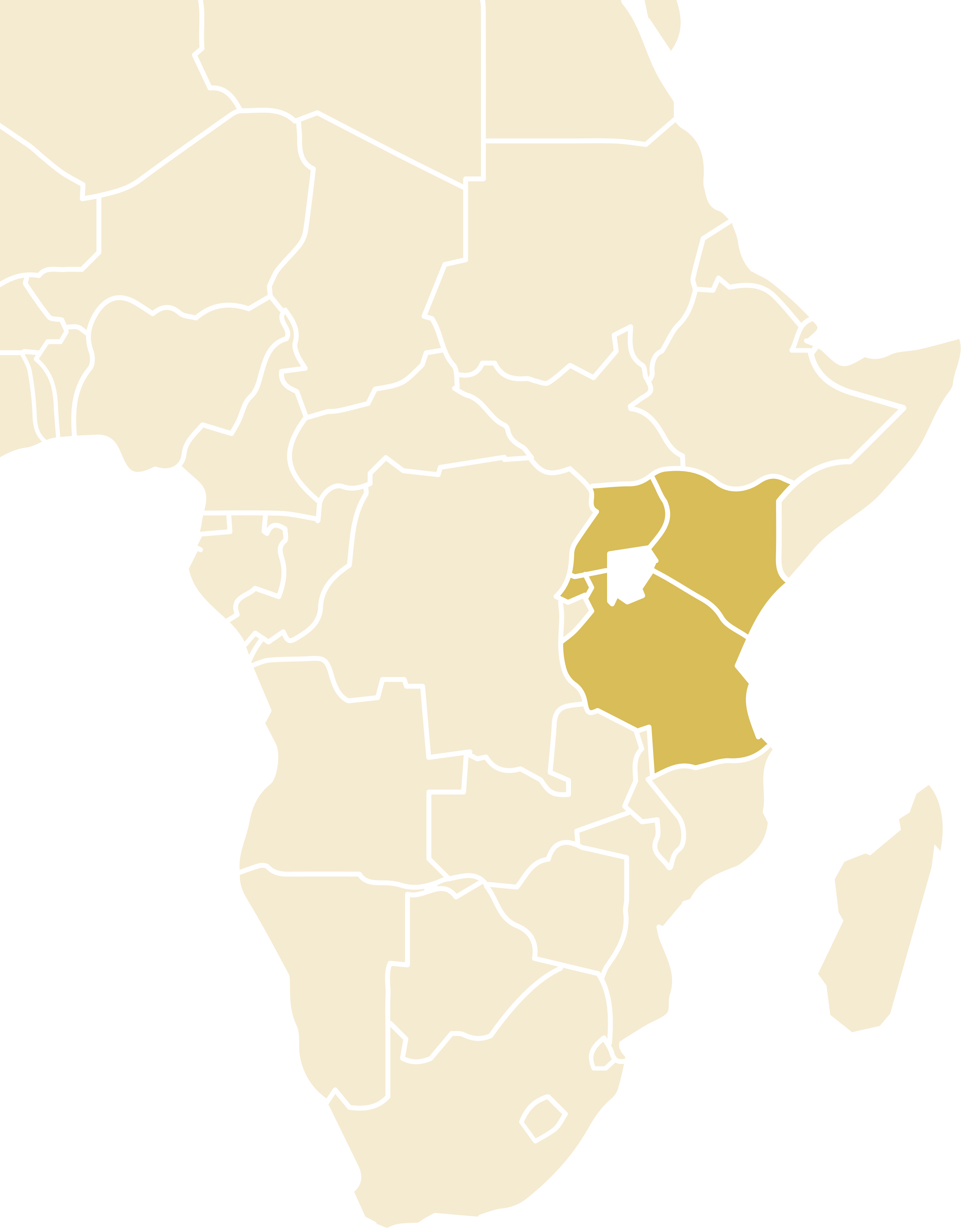


GATSBY'S WORK IN EAST AFRICA

GATSBY AFRICA

DESPITE GROWTH IN EAST AFRICA, WE MUST NOT MISTAKE HYPE FOR REALITY; WE MUST NOT MISTAKE HOPE FOR ACHIEVEMENT.

PROGRESS HAS BEEN MADE, BUT MUCH MORE CAN BE ACHIEVED. CHALLENGES REMAIN AND MUST BE OVERCOME.

IT IS POSSIBLE FOR EAST AFRICA TO RISE, BUT IT WILL NOT DO SO UNTIL WE WORK DIFFERENTLY.

Ali A. Mufuruki – East African businessman and philanthropist, and the first chair of Msingi, an independent regional organisation set up by Gatsby and DFID.

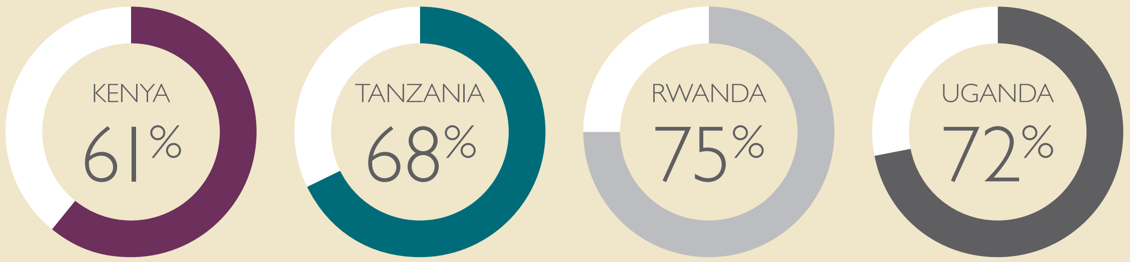
I SET UP GATSBY TO USE ITS FREEDOM AS A PRIVATE FOUNDATION TO INNOVATE, TAKE INFORMED RISKS AND MOVE THE AGENDA FORWARD.

WHAT WE'RE ATTEMPTING IN EAST AFRICA IS EXCEPTIONALLY AMBITIOUS AND DEMANDING.

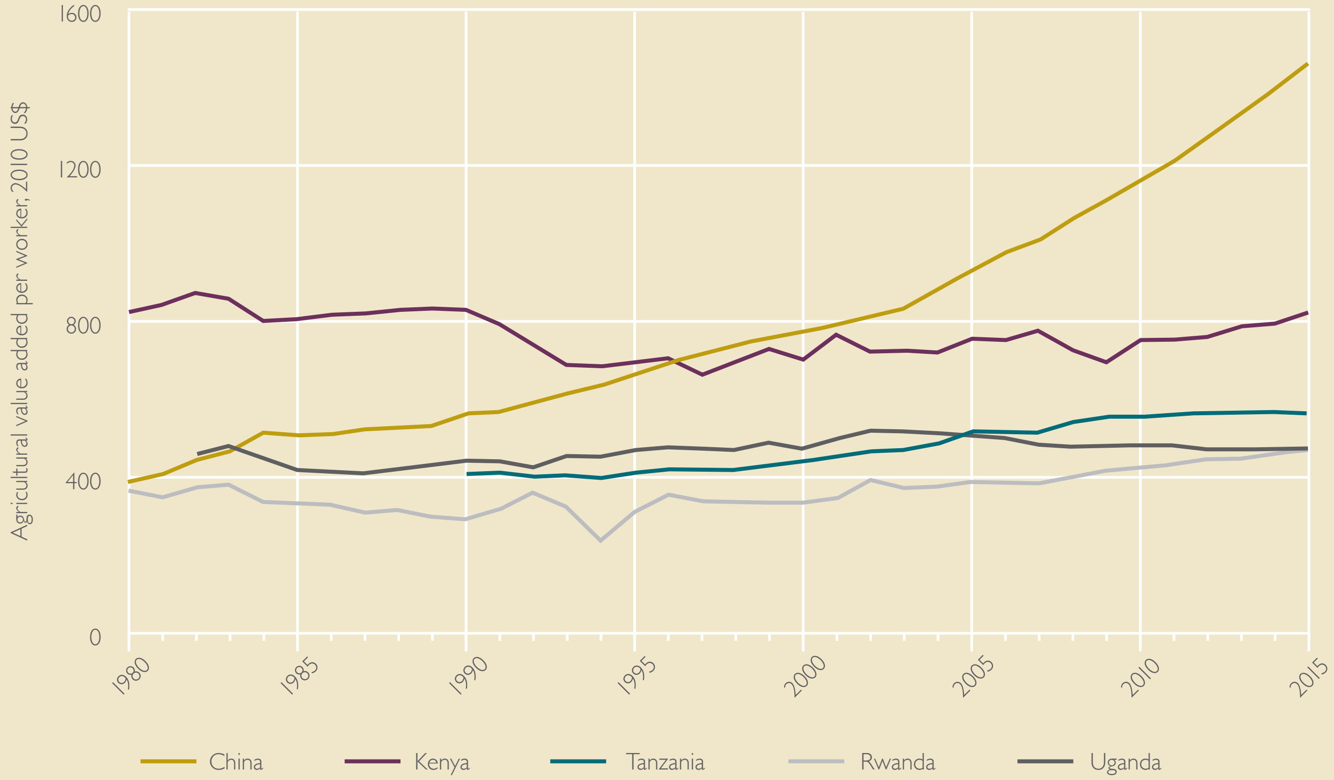
BUT IF WE SUCCEED, WE CAN HELP TRIGGER ECONOMIC TRANSFORMATION THAT WILL MAKE A REAL DIFFERENCE TO MILLIONS OF EAST AFRICANS.

David Sainsbury – Founder of the Gatsby Charitable Foundation.

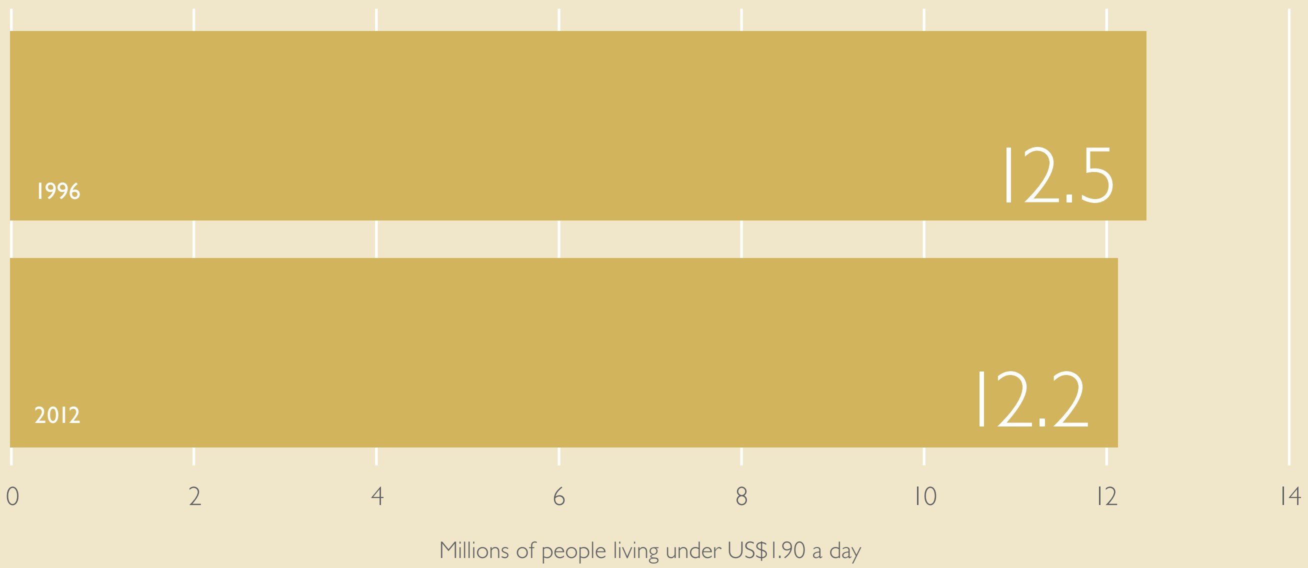
Percentage of population employed in agriculture:



The majority of East Africans work in agriculture, where productivity has stagnated for decades, despite the potential for remarkable increases, as seen elsewhere in the world:



A 69% increase in GDP per capita between 1996 and 2012 had little impact on the absolute number of Ugandans living in poverty:



THE CHALLENGE AND THE OPPORTUNITY IN EAST AFRICA

East African economies have enjoyed high growth for a decade, but its benefits have not been shared by all. Many East Africans are being left behind, with the absolute number of people living in poverty only reducing slowly.

Populations are growing rapidly, and millions of young people are joining the labour market each year. Climate change is adding further pressures.

To respond to this challenge, the structure of growth needs to change to become more inclusive – creating jobs, raising incomes and improving goods and services for the wider population. Growth must also become greener, with positive environmental as well as social impacts.

800,000

Tanzanian youths entering the labour market every year. Only 200,000 new formal jobs were created from 2014 to 2015.

Productivity must be boosted within existing agricultural sectors, which still employ the majority of the population. Many such sectors are not achieving their significant potential, held back by challenges with technology, institutions, regulation, coordination, policy or market relationships. This leaves large numbers of smallholders vulnerable to market, political, climate or personal shocks. Many are locked in subsistence farming, and out of global value chains.

Equally, East Africa needs to diversify and promote rapid growth in higher productivity sectors in manufacturing and services. Many East Asian countries have shown how growth in export-oriented manufacturing can be particularly beneficial – not just in terms of creating jobs, but in ensuring local businesses build skills, learn from global partners, and innovate to drive lasting growth.

East Africa has the potential to achieve this, with sectors such as renewable energy, tourism, textiles and tea showing promise as future world leaders.

The private sector will be the engine of such growth, but governments have key roles to play in creating the right environment. The region's world-leading mobile banking sector shows this is possible.

It will require a focus on priority economic sectors that can have widespread, inclusive impact, and that can attract investment and achieve competitiveness, both now and in the future.

It will also depend on ensuring such sectors are resilient – able to anticipate risks, respond to shocks, and innovate to seize new opportunities.

History shows many sectors have suffered from boom and bust cycles, with the results of development efforts short-lived or captured by narrow interest groups as soon as external support was withdrawn.

Good sector governance is critical to avoid this. The right institutional arrangements are needed to bring informed and accountable stakeholders together, so they can collectively prevent capture, ensure public decisions benefit the sector, and share the costs of risk mitigation and innovation.

If East Africa can achieve this, it can use its abundant assets to drive economic transformation, graduate from aid and lift millions out of poverty.

11.6% → 11.3%

Manufacturing's contribution to Kenya's GDP in 2000 and 2015.

WHAT WE BRING

Gatsby has more than 30 years' experience of trying to accelerate development in East Africa, and has tested a number of different approaches.

Up to 2006, we mainly funded work building local institutions and supporting agricultural research and dissemination.

In 2006, our founder David Sainsbury left his position as Minister of Science and Innovation in the UK Government.

His eight years as a minister, following a 35-year career at the UK retailer J Sainsbury, had strongly influenced his thinking on the roles of the public and private sectors in driving economic growth.

He believed that to help generate large-scale and lasting change in Africa, Gatsby needed to be more ambitious and make more of its freedoms as a private foundation.

We spoke with senior leaders in Africa – including President Kikwete of Tanzania – and reflected on our history and what our experience had taught us. We thought about lessons from the wider development landscape, and the strengths that we could usefully offer.

We decided we could have greatest impact by partnering with government and the private sector to transform the growth of key sectors via a long-term, holistic, politically-engaged approach.

Since 2007 we have gradually evolved to play this role, focusing on both funding and implementing sector programmes to maximise our learning and chances of success.

This has meant building teams in East Africa with strong commercial, strategic and political skills, and whose incentives are aligned to long-term sector goals, rather than short-term profits or results.

OUR MISSION

We want to help more people benefit from economic growth in East Africa by creating jobs, raising incomes and building opportunities.

This will require economic transformation – growth with depth that will radically change economies, lead to leaps in productivity, offer large numbers of people pathways out of poverty, and better protect the planet for future generations.

We believe focusing efforts on sectors – such as commercial forestry – with the potential for large-scale social and environmental impact can contribute to such economic transformation.

We therefore target high-potential sectors and seek to transform them.

For us, a sector is only transformed when it is competitive, inclusive and resilient.

We are working to transform the Tanzanian cotton and textiles sectors, forestry sectors in Kenya and Tanzania, and the Tanzanian and Rwandan tea sectors.

Transforming these sectors would benefit many people, but we are seeking impact beyond this. As such, rather than start more programmes, we have invested resources in building two local independent organisations – Kenya Markets Trust and Msingi – to undertake similar work and influence the broader debate on economic growth in East Africa.

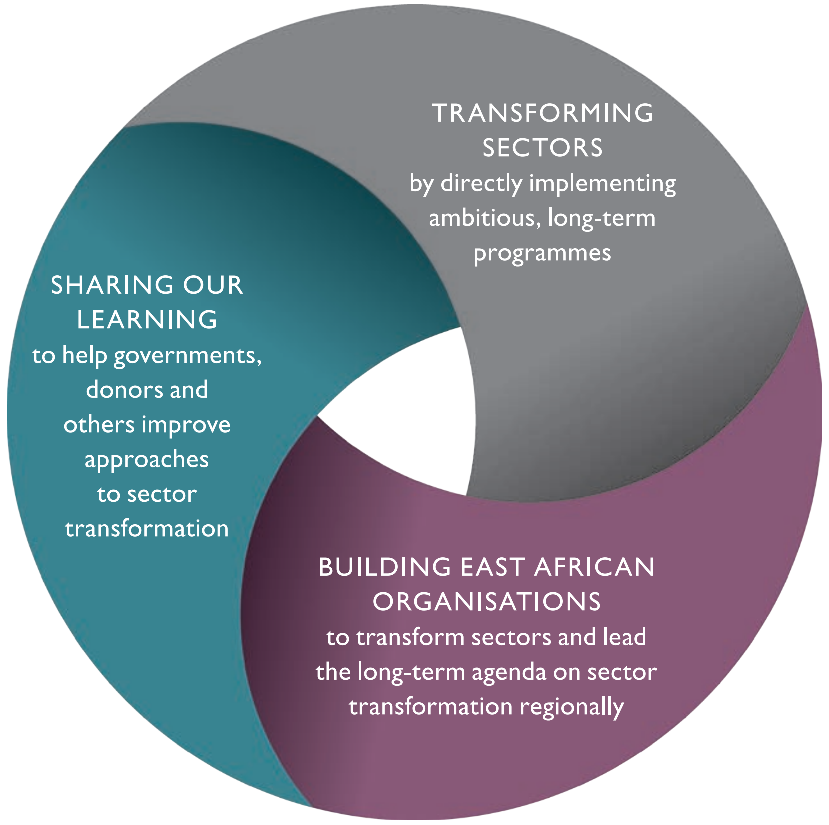
Proactively building these organisations allows each to develop in-house capabilities and learning, and ensures there are long-term platforms across the region with the knowledge, skills and networks needed to drive sector transformation.

With local boards and staff, they will also be ideally placed to engage effectively with governments and influence wider change by furthering the debate on how to ensure economic growth benefits more people in East Africa.

With our partner organisations, we are already running 11 sector programmes. Transformation of these sectors would raise incomes or create jobs for more than 9 million East Africans, and improve the lives of at least 40 million people.

Yet many other sectors also need support. Each programme and organisation thus aims to capture what is working and what is not, and share this with other stakeholders – particularly governments and donors – so that they can benefit from our learning.

We also place a strong focus on learning from others, knowing this is critical to our potential success.



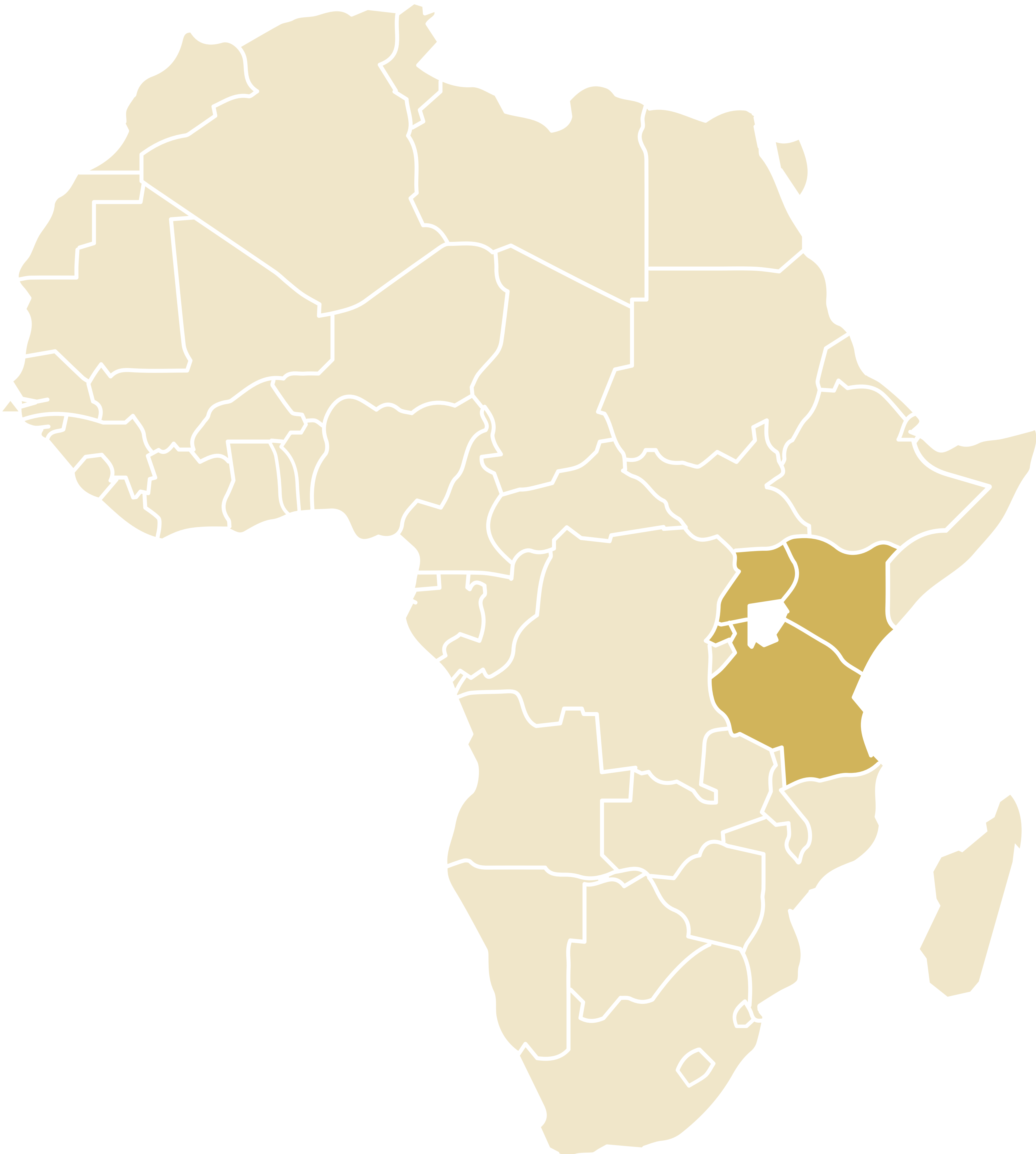
OUR PORTFOLIO

TANZANIAN COTTON SECTOR
We are working with the Tanzania Cotton Board to reform sector governance and secure sustainable funding of crucial services so that more than 350,000 farmers can access the quality inputs and training they need to improve agronomy, increase yields and raise quality. This work, co-funded by DFID, aims to build the sector's resilience, allowing it to break free from cycles of frequent collapse and capture. Success would boost the national economy by ~$170m a year, and lift at least 650,000 people out of poverty.

TANZANIAN TEXTILES SECTOR
We have set up a unit in Tanzania's Ministry of Industry, Trade and Investment to help sector stakeholders rapidly create jobs by developing the right infrastructure, business environment and skills to increase foreign and domestic investment. The government has highlighted textiles as crucial to its industrialisation strategy and aim of becoming a middle-income country by 2025. Our programme supports a 10-year goal to develop a globally competitive sector employing 200,000 workers and exporting over $1 billion of garments per year.

TANZANIAN FORESTRY SECTOR
We are working with public and private stakeholders to create a world-class forestry sector, ensuring large and small-scale growers can exploit opportunities in wood and energy markets, and generating knock-on economic, social and environmental benefits. We have set up the Forestry Development Trust with joint funding from DFID to deliver a long-term, holistic programme. It is initially focusing on raising productivity and incomes in the Southern Highlands, where 60,000 people grow trees.

KENYAN FORESTRY SECTOR
We are forging strong partnerships across the public and private sector to help Kenya close its serious wood supply gap and achieve its national tree cover goal by developing a globally competitive commercial forestry sector. Doing so will spur job and wealth creation, create tax revenues and safeguard the Kenyan environment – including the country's five primary water towers that ensure national food security, support biodiversity and strengthen Kenya's resilience to climate change.

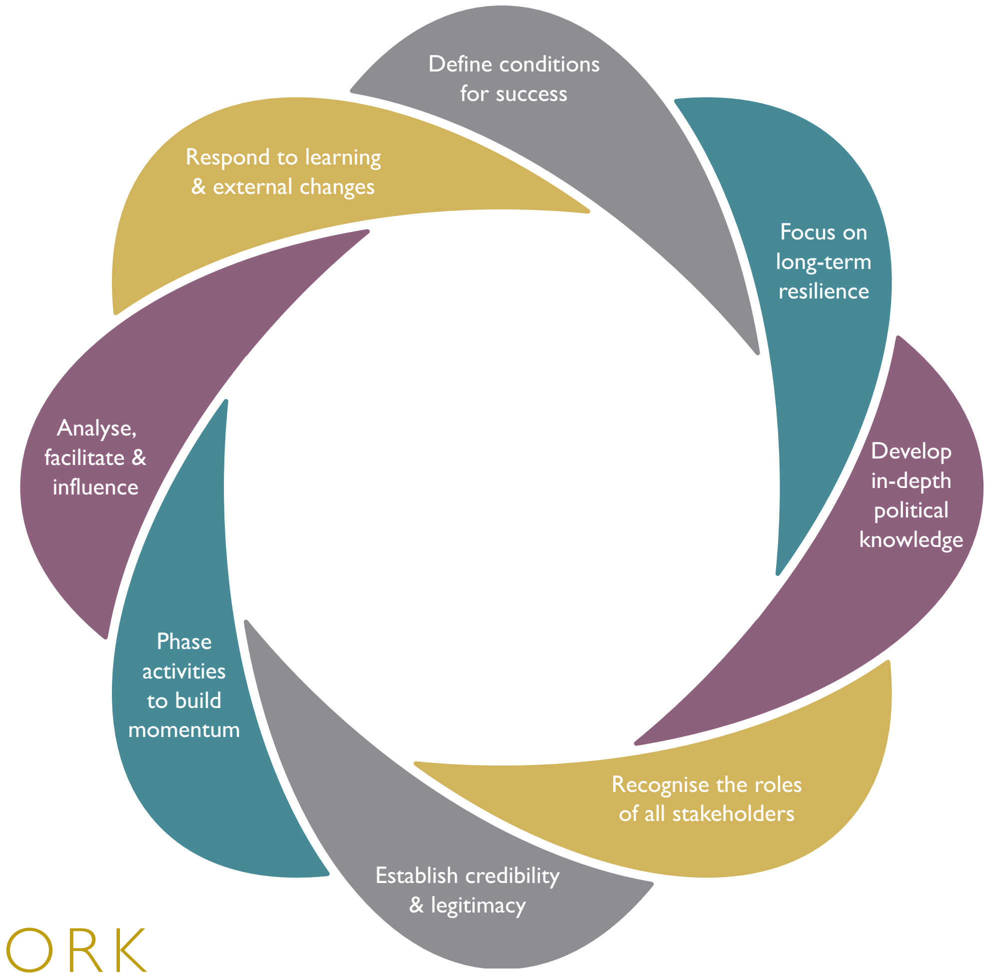


TANZANIAN TEA SECTOR
We have partnered with The Wood Foundation and local stakeholders to reverse the negative spiral in the tea sector by increasing investment in farmers and opening up new areas for viable cultivation. We are helping to facilitate foreign investment via innovative models that see benefits shared more equitably, and are currently supporting a multinational's major greenfield investment by setting up a smallholder service company to ensure a reliable supply of quality green-leaf. We aim to boost productivity, quality and smallholder returns.

RWANDAN TEA SECTOR
We expanded our tea partnership with The Wood Foundation from Tanzania to Rwanda in 2011. We are trialling and demonstrating new ownership structures and methods of service delivery in the sector. We have bought two privatised factories on behalf of smallholders, and have created farmer service companies to support inclusive investment in new factories by two multinationals. When complete, our partnership will be impacting over 40% of Rwandan tea farmers. The aim is to ensure all smallholders benefit from the sector's growth.

MSINGI
We have built an independent, regional organisation focused on catalysing East Africa's industries of the future. Msingi operates across Kenya, Rwanda, Tanzania and Uganda, and is currently working in the aquaculture and textiles & apparel sectors. Msingi aims to generate new jobs and boost incomes while fostering inclusive opportunities for future generations to improve their livelihoods. Its model blends market facilitation tools with the ability to directly finance pioneering, strategically-important entrepreneurs.
www.msingi.com

KENYA MARKETS TRUST
We founded a trust in Kenya in 1993, and guided its evolution in 2012 to focus on market transformation. Kenya Markets Trust (KMT) works to stimulate inclusive and resilient growth that will lead to a step-change in the livelihoods of millions of Kenyans. KMT takes a long-term approach, while adapting to the forces – such as climate change and new technologies – that are shaping where it operates. Since 2012, KMT has helped create 230,000 new jobs and £165m in additional income. It works in the agricultural inputs, water and livestock sectors.
www.kenyamarkets.org



HOW WE WORK IN SECTORS

DEFINE CONDITIONS FOR SUCCESS

We have adapted a framework for competitive advantage, setting out six critical conditions that help diagnose why a sector is performing poorly and where changes are needed for it to thrive. Assessing these overarching conditions allows our programmes to help stakeholders set a strategic national vision for sector transformation – defining what competitiveness, inclusiveness and resilience in the sector will look like.

Programmes must identify the likely multiple levers for securing such change, and the trade-offs therein. This demands a detailed understanding of the market opportunities, political economy and institutional capacity that can support or hinder progress.

FOCUS ON LONG-TERM RESILIENCE

Programmes must be designed from the start with eventual exit in mind, as our long-term aim is to leave an independent, resilient sector. Resilience requires a set of institutional arrangements that ensure there is collective capability to identify and mitigate risks (e.g. new global standards or the impact of climate change), and to respond to shocks and grasp new opportunities – for example by adapting rules and regulations, lobbying for policy change, or innovating to reduce costs or develop new products and services.

Achieving this often requires building the capacity of key institutions to deliver their mandates, alongside mechanisms to keep them accountable to those they represent. It is also often necessary to establish structures to bring stakeholders together for collective dialogue, representation, information-sharing and decision-making.

DEVELOP IN-DEPTH POLITICAL KNOWLEDGE

Sector change is an inherently political process, and altering the status quo will likely cost some stakeholders, even while benefiting the majority. It is crucial to act pragmatically, recognising the inter-relationships between stakeholders and the underpinning incentive structures.

Local networks are key to gaining a detailed understanding of a sector's political economy. Such networks help to establish whether it is feasible for a potential programme to trigger substantive change, which possible visions for a sector's future are realistic, and which interventions might successfully catalyse change. They also help to determine how to prioritise those interventions.

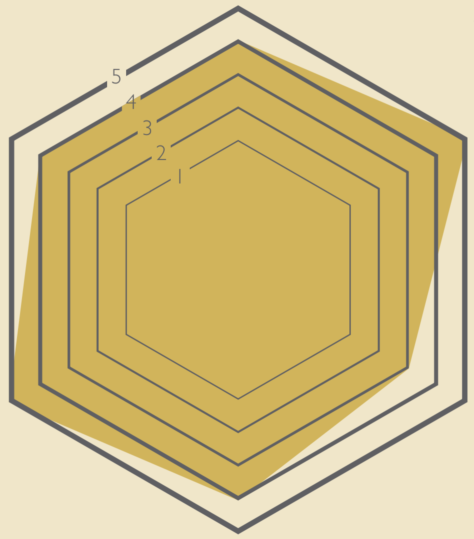
TRANSFORMATION

THRIVING SECTOR

DEMAND DRIVERS
More challenging end market requirements drive higher standards and productivity among local firms delivering higher value to stakeholders

SECTOR COORDINATION
Stakeholders engage in collective decision-making based on effective sector information and analysis, and share funding of sector-wide services that drive inclusive growth

FIRM DYNAMISM
Structure of competition in industry drives firms to develop new products and ways of working, and expand into new markets, with investment in more inclusive business models



GOVERNMENT COMMITMENT
Enabling and adaptive policy environment that responds to stakeholder needs, with strong government capability to regulate markets and invest in necessary public institutions and goods

SUPPORTING SERVICES
Stakeholders, including smaller-scale producers and processors, have improved access to high-quality services that increase competitiveness and respond effectively to changing demand

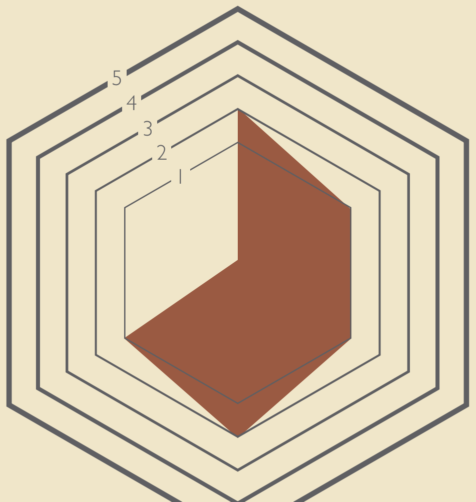
PRODUCTION FACTORS
Stakeholders can access the finance, skills, technology and infrastructure they need to exploit potential and create value

POORLY-PERFORMING SECTOR

DEMAND DRIVERS
Limited diversification, few standards, poor transparency and weak consumer signals, leading to low quality, undifferentiated outputs

SECTOR COORDINATION
No mechanisms for collective information-gathering, analysis or risk management, with poor dialogue between stakeholders and ineffective representation of the sector's interests

FIRM DYNAMISM
Industry structure (with too great or too little competition) and firm governance deliver limited incentives to invest, limited innovation and limited shared value



GOVERNMENT COMMITMENT
Low commitment to change among government and its agencies, with weak capacity to play an effective regulatory role or support public institutions, limiting ability to drive investment and inclusive growth

SUPPORTING SERVICES
Input, processing and other supportive markets are weak, with restricted access to low-quality, unsustainable services that are not driven by strong commercial demand or end market needs

PRODUCTION FACTORS
Low availability of skills in workforce, outdated technology and infrastructure, and limited access to capital

RECOGNISE THE ROLES OF ALL STAKEHOLDERS

The private sector is the engine room of growth, and we only work in sectors where we can align efforts with dynamic commercial players. We pilot new ways of working via partnerships with, and even investments in, firms that look to test and prove inclusive business models that can be scaled and replicated.

However, we also work closely with government and key sector institutions. The role of government varies in each sector, but policy and regulatory frameworks are central for enabling private investment, while public investment is often needed to provide essential infrastructure, incentives and services, including around innovation and skills.

ESTABLISH CREDIBILITY & LEGITIMACY

Understandably, stakeholders may be initially wary of an outside force that says it is an honest broker acting in the best interests of the sector. We take time to research, benchmark and network, gradually building our knowledge, relationships and profile to increase our understanding of a sector, and sector stakeholders' confidence in our value.

Bringing detailed new analysis, learning from abroad, and links to international experts can help build stakeholders' trust in a programme's guidance. Having senior local experts on the staff and steering committees of programmes not only improves performance, but can also help a programme secure a mandate from stakeholders.

PHASE ACTIVITIES TO BUILD MOMENTUM

Activities need to be sequenced carefully to gain buy-in for change. Tactically partnering with the right champions and pioneers on early, shorter-term activities can be critical in influencing the broader sector and building momentum.

Programmes must also recognise that industries go through stages of growth and may need to reach a distinct scale before certain collective capabilities or supporting services become viable. Our long time-frames mean programmes can phase their support to match the stage of growth, gradually building progress towards a long-term vision.

ANALYSE, FACILITATE & INFLUENCE

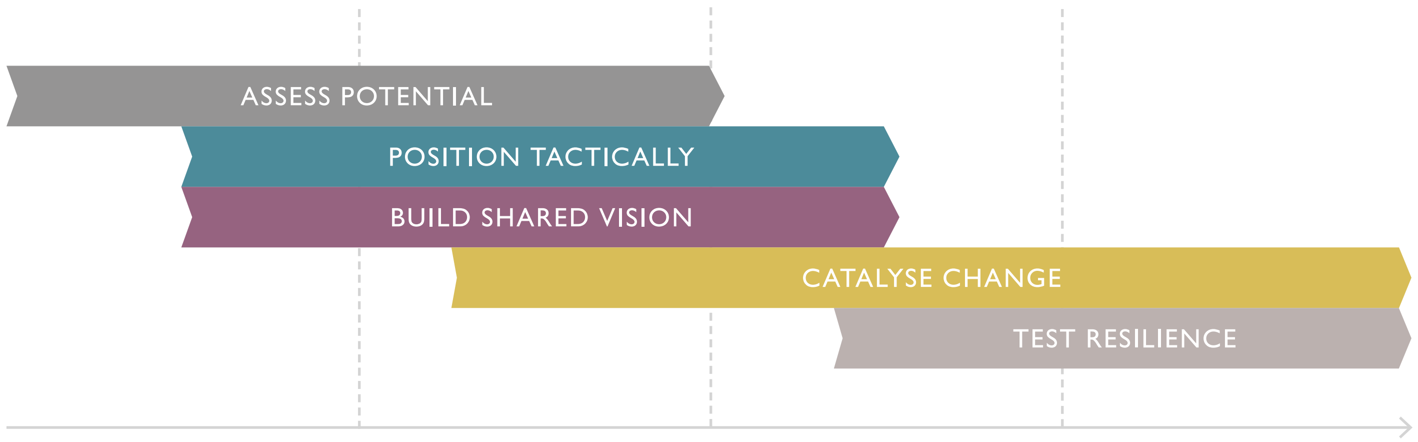
Our programmes have flexibility, and can work with all stakeholders and use whatever tools are appropriate to catalyse change, including analysis, technical assistance, capacity building, grants, loans or equity. Crucially, programmes must be careful not to embed themselves in sectors and create dependency, distort markets or displace local actors. This means, wherever possible, focusing on analysing, facilitating and influencing, rather than directly delivering or financing services.

Where there are gaps in a market, programmes may need to intervene directly, delivering specific services in the short-term with a focus on influencing others to create self-sustaining solutions over time. This can also apply to investment in strategic firms, or where there is a need to demonstrate a business model to prove viability and influence adoption by others.

RESPOND TO LEARNING & EXTERNAL CHANGES

Rigorous monitoring and evaluation allows programmes to test assumptions and continually re-evaluate their strategies by identifying the underlying reasons for successes and failures. Where evidence suggests that activities or even whole strategies are not working effectively, programmes must be prepared to flex their design, the partners they work with, their staffing and even their targets in order to better position the sector for success.

Programmes must also adapt activities as external circumstances change. Changes in, for example, global markets or the political environment can radically alter stakeholder incentives, making different courses of action more or less viable. Some changes may be significant enough to require establishing a whole new vision for the sector.



OUR APPROACH IN ACTION – TANZANIAN COTTON SECTOR

Based on our experience and learning, we have developed an approach to sector transformation that seeks to guide our programmes' thinking and implementation.

We have identified five core blocks of activities that we believe any programme must undertake to successfully transform a sector.

While these core activity blocks are to some extent sequential, many overlap. Moreover, these blocks are iterative, and learning from one can necessitate revisiting another. For example, a shared vision is needed early on, but pilot interventions attempting to catalyse change might provide lessons that show the previously-agreed vision is not feasible.

The emphasis on each core activity block will naturally change as a programme matures and moves through stages of set up, pilot, scale and phased withdrawal. Early on, analysing potential, positioning tactically and building a shared vision will dominate. As the results of pilot interventions come in, the emphasis will shift far more to catalysing change – particularly interventions to increase momentum.

As these initial interventions help a sector move into a different stage of growth and achieve scale, more ambitious interventions to catalyse change will likely become viable. Once these changes bed in and begin to deliver substantial gains in competitiveness and inclusiveness, programmes will focus even more on how to protect those gains by building resilience.

As sector conditions improve, programmes should gradually see local stakeholders taking greater ownership of sector strategy and oversight. Programmes can begin scaling back, turning their focus to testing resilience, and eventually exiting completely, leaving a sector that can thrive in the future without outside support or subsidy.

This is a long-term process. Our programme in the Tanzanian cotton sector has been operating for ten years, and is still on this journey.

ASSESS POTENTIAL

We select sectors by carrying out rigorous analysis to establish if a sector has the potential to be competitive, inclusive and resilient, and whether it is feasible for us to facilitate that transformation, delivering large-scale and lasting impact.

In cotton, our analysis showed strong potential to increase yields (which were half those of smallholders in West Africa) and quality, thereby boosting incomes for more than 350,000 farmers.

Increased competitiveness in cotton could also help Tanzania's textiles sector become globally competitive, potentially creating jobs rapidly.

The analysis revealed strong vested interests, but there were also signs of the prerequisite political support to tackle these, increasing the feasibility of facilitating change.

POSITION TACTICALLY

This political support initially saw us position the programme within the industry regulator, the Tanzania Cotton Board (TCB). This helped us establish credibility and legitimacy, but left us vulnerable to changes in the political climate.

When such changes occurred, our flexibility was compromised, and we decided to evolve operations into an independent programme that could act as an honest broker between all stakeholders in an increasingly strained political environment.

Recently, more positive political changes have allowed us to again partner more closely with the TCB.

BUILD SHARED VISION

Our analysis suggested over-competition in the processing sector and weak governance of sector institutions had removed incentives for private investment in farmer services and inputs, and rendered collective mechanisms ineffective.

Evidence from other countries suggested contract farming could provide an answer, but mistrust in the sector ran deep. The programme needed to test and build trust in contract farming and the supporting regulation through pilots before the industry could agree on it as a core component of a shared vision for the sector's future.

Despite evidence from our pilots showing contract farming's benefits, it has faced strong opposition from processors unwilling or unable to invest in farmers, and those unconvinced of the public sector's ability to regulate the system and protect investments.

The political support needed has faltered at times, requiring the programme to reassess the vision, the feasibility of change, and the paths to achieve it. This has led to supplementary work on alternative, but complementary, market-based systems.

CATALYSE CHANGE

Contract farming models with national and local government oversight are in place across nine districts, gradually building trust in the system. But a competitive and inclusive sector also needs improved seed and input research and distribution, so the programme is facilitating the commercialisation of the seed multiplication system. A new seed variety (UKM08) would raise yields, quality and profits, increasing the crop's value to processors and farmers combined by 50%, and further incentivising them to adopt mutually-beneficial investment models.

Farmers require more inputs than will be delivered through contract farming – especially for their other crops, such as maize. Therefore, the programme is empowering a network of village-based agro-dealers to commercially provide advice, inputs and services. This also offers an alternative delivery mechanism for quality inputs should contract farming fail. The network could even evolve into a commercial business with further roles, including in crop purchase, marketing and even credit supply.

In time, trusted investment models and an effective seed system should enable other opportunities, such as shared funding of collective research, with the programme's emphasis shifting gradually as a result.

TEST RESILIENCE

As momentum builds the programme will focus even more on securing effective sector governance and resilience. We are already seeking to strengthen sector institutions and industry associations to empower stakeholders in decision-making processes.

As evidence shows sector conditions improving and resilience increasing, we will begin our phased withdrawal. Should we succeed, on our exit the sector will have the institutions, capabilities and incentives in place to thrive in the long-term.

ASSESS POTENTIAL	POSITION TACTICALLY	BUILD SHARED VISION	CATALYSE CHANGE	TEST RESILIENCE
Select and stay in high-potential sectors based on critical analysis of market opportunities and constraints, plus potential impact and the feasibility of catalysing change	Position programme tactically, establishing credibility and legitimacy with key stakeholders to gain trust and influence, while being careful to maximise flexibility	Build a shared vision for the sector and get the necessary agreement from stakeholders on how long-term competitiveness and inclusiveness will be achieved	Catalyse sustainable change across the sector through pragmatic interventions that seek to build momentum and to influence stakeholders' incentives and capabilities	Aim to exit the sector from the beginning, continually testing the incentives and capabilities of stakeholders to deliver the required sector conditions for resilience

GATSBY
AFRICA

Gatsby Africa is an English charitable company limited by guarantee, established
to implement the Gatsby Charitable Foundation's Africa programmes.

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