GATSBY AFRICA

HIGHLIGHTS REPORT

2020-2021

GATSBY AFRICA

MSINGI

BUILDING EAST AFRICA'S INDUSTRIES OF THE FUTURE

KENYA MARKETS TRUST

Better Markets, Better Lives

INTRODUCTION

We are delighted to introduce this year's Gatsby Africa Highlights Report, which presents the progress of the portfolio we implement and fund as of April 2021. Covering eight sectors across East Africa, this year's report also includes the work we fund which is implemented by Kenya Markets Trust (KMT) and Msingi.

We are releasing this years' report while the world continues to manage and feel the effects of the COVID-19 pandemic - albeit with the hope a successful vaccine roll-out will enable a swift return to normal life. While COVID-19 has had a major and wide-ranging health, social and economic impact globally, the story of our sectors gives a window on how it has economically impacted East Africa. The crisis highlights the importance of ensuring sectors are developed with resilience in mind - something which has been central to our approach for many years.

While this report details how our sectors have survived over the last year and how we supported emergency response efforts, it also aims to clarify how we intend to facilitate the transformation of our sectors in the coming years. Positively, all of the sectors we support will come through the COVID-19 pandemic, and nearly all of these appear well-positioned to grow in the future.

In some areas of the report we give details of the impact we are having in terms of jobs created and increases in income. Some aspects of these impacts are already noteworthy – with the village-based agro-dealer (VBA) network in Tanzania reaching 170,000 farmers, the work in cotton having reached over 200,000 farmers, the initiatives in the tea sectors reaching over 70,000 farmers, and KMT's programmes reaching several million households in Kenya.

However, it is important to recognize that many of our sectors are still at an early stage where our efforts are focused on improving the underlying competitiveness of the industries which we then hope will lead to accelerated and more resilient growth in future. For instance, we've invested for seven years in forestry research and development (R&D) that has trialed new tree species in Tanzania that are only now at the point where we can confidently enable tree growers to use them in their plantations. Some of these species may increase biomass by 50%. This focus on the long-term transformation is central to our approach – where we are building competitive, resilient and inclusive sectors that we hope will be more sustainable into the future. The footprint of our eight sectors reaches tens of millions of households – so the prize is significant. And we hope the work we do generates learning on sector transformation that governments and the development industry can apply more broadly.

WEATHERING THE STORM – PURSUING SECTOR TRANSFORMATION IN TIMES OF THE COVID-19 PANDEMIC

The economic crisis wrought by COVID-19 has been unprecedented. In Africa, economies were immediately and directly affected. Our sectoral analysis of East Africa over the past year has revealed significant differences between sectors, with some contracting sharply: in services, particularly in tourism and hospitality; in manufacturing, particularly textile and garments; in export agriculture, particularly flowers, although the agricultural sectors were generally more resilient.

This report details how COVID-19 has impacted our sectors differently and how we have responded or helped governments to respond. Our teams initially gathered data to understand the likely impact and assessed the specific needs of the sectors we support. This involved coordinating with governments and the donor community, as well as listening closely to our partners in the private sector. We updated sector players regularly with relevant data to support their decision-making and in some cases we provided some specific assistance to protect businesses and workers.

Many sectors experienced acute liquidity issues and certain businesses – such as water service companies or aquaculture firms - may not have survived without assistance. In other sectors, such as textiles, the pandemic has been a double-edged sword – where the sector suffered from a collapse of demand for export-orientated firms, but where the future attractiveness of East Africa for incoming investors may actually improve as international buyers and mills seek to diversify away from China and South East Asia.

Whilst the economies of East Africa have started to recover, they continue to underperform against their pre-pandemic growth trajectories. Overall, the pandemic has exposed how urgently East Africa needs to rapidly grow labour-intensive sectors that are competitive and resilient to shocks. The region does not just need economic growth – it needs resilient and inclusive growth.

THE IMPORTANCE OF RESILIENCE

The COVID-19 pandemic is an illustration of how severe global shocks can affect economic sectors, including the eight sectors we support in East Africa. Whilst unexpected events such as COVID-19 may necessitate intervention from governments to protect their economies and certain sectors from collapse, it highlights the importance to think about sectors as living organisms or systems that need to cope with threats and respond to changes.

For all sectors change is to be expected. This might include sudden shifts in consumer demand, the emergence of competition, the need to comply with new regulations, or simply a change in government that affects power dynamics and pressure from vested interests. Agricultural sectors, for example, may face additional threats such as extreme weather, pests and diseases, or changes in global commodity prices.

It is essential that every sector considers risks and the dynamic capabilities required to ensure stakeholders can effectively respond to threats and opportunities. It is for this reason Gatsby Africa is not focused solely on removing immediate constraints and instead seeks to accelerate the development of these dynamic capabilities that enable sectors to manage risks as well as evolve, innovate and thrive. Some of these capabilities may naturally reside at firm-level, especially within sectors which are highly competitive and demand constant innovation. However, other capabilities may sit at the sector level, requiring greater coordination between firms or through supportive public functions. Risks may be mitigated through mechanisms such as effective sector governance, ongoing public-private dialogue, fit-for-purpose regulation and functioning partnerships between the government and private companies on skills or R&D. The nature of these sector-level mechanisms and initiatives may need to change as a sector goes through phases of growth or faces different challenges. Without them – sectors are exposed and unlikely to thrive.

THE OUTLOOK IN OUR PORTFOLIO - PREPARING FOR RECOVERY AND ENHANCED GROWTH

In 2019, we made the decision to reduce the scope of our cotton programme in Tanzania given the limited prospects for transformation. We are continuing to reduce areas of the programme while ensuring we maintain our relationships and preserve the gains we have made to date. The impact of our work in cotton seed is significant: it has resulted in c. 200,000 farmers receiving more than $20m in additional income and the country reaping an additional $45m in annual export earnings last year. In addition, the team have made strong progress in supporting the pilot of a new digital platform in Simiyu. Institutions such as NMB Bank and CRDB Bank are showing an interest in loaning registered farmers money and this flow of finance should increase the supply and use of productivity-enhancing agricultural inputs. This promising pilot complements the programme's long-standing endeavour of establishing a network of VBA's in the Lake Zone, capable of supplying inputs to farmers based on commercial relationships with input suppliers. This work is gaining momentum: an additional 30 VBAs joined the network last year, which now consists of 575 small businesses and is supported by several digital platform companies now working with the VBAs as their distribution network.

In Kenya, KMT's work in the agricultural inputs market is generating strong momentum. The team has helped the inputs industry distribute crop- and soil-specific fertilisers and lime products, with a view to combatting the issue of soil acidity. Lime has been shown to increase productivity per acre by at least 10 bags of maize for acidic soils, resulting in an additional £160 of income per acre. Moreover, the programme has been successful in its effort to remove distortive fertiliser subsidies and has started to see the benefits of enhanced seed certification and quality assurance mechanisms, with the share of counterfeit seed falling from 40% to 10% in recent years.

In textiles we've experienced mixed progress. While the overall level of progress in Tanzania has been disappointing, we remain convinced of the potential opportunity if the right infrastructure and environment can be established and maintained. The recent creation of a high-level Committee for the Development of the Textiles Industry represents a step in the right direction. In Uganda and Kenya, Msingi have made strong progress: the government in Uganda now has a strategy for the sector and in Uganda and Kenya work is underway to enhance investment promotion and attract leading brands.

In forestry, despite last year's economic slowdown impacting the demand for wood products, we continue to see significant potential for transformation. This applies to both Tanzania and Kenya and also East Africa on a regional basis. The underlying commercial viability of forestry in East Africa is improving and there is increasing political alignment around enabling growth. Our programmes have built a strong reputation with leading expertise – generating strong interest from commercial players, potential investors, governments and donors. Our programmes have started to catalyse banks to lend into the sector, investors to start up new equity funds, and operators to move increasingly into higher-value processing. Our teams are also working closely with governments, where in both Kenya and Tanzania, the governments have signaled an interest in concessions. In Tanzanian, the industry is also now starting to benefit from our years of R&D into improved varieties - which will inform and enrich planting decisions moving forward.

IN UGANDA AND KENYA, MSINGI HAVE MADE STRONG PROGRESS: THE UGANDAN GOVERNMENT NOW HAS A STRATEGY FOR THE SECTOR AND IN UGANDA AND KENYA WORK IS UNDERWAY TO ENHANCE INVESTMENT PROMOTION AND ATTRACT LEADING BRANDS.

Over the past year, finance has been a critical issue for the water sector and Kenya Markets Trust (KMT) have been at the heart of efforts to convene stakeholders, gather evidence and design an emergency response plan. The government's inability to enforce payment amid the pandemic placed water companies under significant pressure, which KMT helped ease by brokering emergency funding from the World Bank. KMT continues to work with urban and semi-urban water service providers in an effort to realise operational efficiencies, improve their risk-return profile and attract investment. In rural areas, KMT is supporting county governments with the review and roll-out of new partnership models which facilitate greater private sector investment in water delivery.

KMT's livestock programme in Kenya continues to make progress. The team have worked with the Kenya Meat and Livestock Exporters Council (KEMLEIC) and other industry bodies to establish an effective policy environment and stimulate investment in cold chains, with a view to enhancing the quality of the country's meat and thereby open up new export opportunities. On the production side, KMT are piloting integrated and climate-smart approaches to animal health and fattening at feedlots and the initial results suggest there is a significant opportunity to raise the productivity and profitability of livestock.

Our work in the tea sector – delivered in partnership through the Wood Foundation – has seen contrasting prospects in Tanzania and Rwanda. In Tanzania, the sector is facing various challenges, as a lack of investment and poor weather are limiting production while an oversupply in global markets is forcing down prices. In partnership with Unilever, the programme is focused solely on the Njombe Outgrowers Services Company (NOSC) and its attempt to demonstrate the viability of a smallholder model which is productive and yields high quality tea. Contrastingly, in Rwanda our two factories remain profitable and the farmers have received substantial increases in income. Indeed, the loans which bought the factories on behalf of the farmers are being repaid in line with expectations. The underlying fundamentals of tea in Rwanda remain strong and our private sector partners are committed.

While Msingi's work in aquaculture is at an early stage, the team is generating strong momentum. The investment in Victory Farms, a rapidly-scaling fish farm, has proved successful and is serving as a model for other interested investors. In addition, the team has helped to facilitate the emergence of a set of high-growth medium-scale firms, ensuring they survived the initial liquidity shock of COVID-19 and supporting their adoption of professional and data-driven practices. The sector's recent growth has enabled Msingi to catalyse an investment in a state-of-the-art feed mill, which will improve the quality and price of this critical input. As well as engaging closely with investors and firms, Msingi are increasingly working with governments on zoning, biosafety, environmental issues and the potential of pond-farming (in order to determine whether small-scale operators can support the sector's growth and benefit from its success).

GATSBY AFRICA

Tanzania forestry sector

Kenya forestry sector

Tanzania cotton & textiles sector

Rwanda & Tanzania tea sectors

GATSBY AFRICA

TANZANIA FORESTRY SECTOR

THE OPPORTUNITY

Commercial forestry is important for Tanzania's economy and environment. It mitigates climate change by sequestering carbon in forests and storing it in wood products. In turn, these products have the potential to replace carbon-intensive products such as steel and concrete. In addition, if the resource is sustainably managed, this could potentially decrease pressure on natural forests as a source of timber and firewood. The sector is central to Tanzania's industrialisation agenda and the country's efforts to reduce poverty and build opportunities for its citizens - particularly in rural areas. It underpins rural and national electrification efforts, the construction sector, and numerous energy-intensive industries.

However, despite the growth in tree planting over the last ten years, the overall quality of plantations and processing remains low, primarily due to a lack of investment, a knowledge gap and uncertain market access for plantation trees. This is happening at the same time as natural forests are being depleted.

This does not have to be the case. Tanzania's growing conditions are some of the most favourable on the continent and there is significant land available for planting. Opportunities exist to dramatically increase investment and productivity, particularly through new technologies and innovation. Other countries – such as Vietnam and Chile – have undertaken similar journeys and transformed their forestry sectors, so Tanzania can draw inspiration and lessons from these experiences.

The time to act is now. With a rising population, economic growth and industrialisation set to increase demand further, Tanzania needs to transform its forestry sector. By taking the right steps, the country can protect its natural forests, drive green growth, exploit compelling export opportunities, and ensure that tens of thousands of new jobs are created in a thriving sector.

THE FORESTRY SECTOR IS CENTRAL TO TANZANIA'S INDUSTRIALISATION AGENDA

POTENTIAL IMPACT

By 2035 - if Tanzania develops the right infrastructure and investment environment - the country could:

- More than treble the number of jobs in wood processing to 100,000
- Increase the number of small-scale growers in the sector by 50% to 90,000
- More than treble annual government revenue from forestry to TSh 300 billion / $0.13 billion
- Become a net exporter of wood products, with a positive trade balance of at least US$50m per year

THE LAST 4 YEARS HAVE SEEN EXCITING GROWTH IN INVESTMENT IN ENGINEERED WOOD PRODUCT (EWP) VALUE CHAINS, WITH FDT PLAYING AN INCREASED ROLE IN SUPPORTING THESE DEVELOPMENTS

THE JOURNEY SO FAR

In 2013, Gatsby established the Forestry Development Trust (FDT) to work with public and private stakeholders on a long-term programme to transform the sector and help it fulfil its huge potential.

In order to increase the sector's productivity, FDT recognised a need to renew investment in research and development. FDT has developed and implemented a comprehensive tree improvement strategy for Tanzania. This has involved establishing a flagship 10-hectare demonstration plot and developing widely-supported site-species trials in the Southern Highlands. In Tanzania, there are now 117 varieties of species, clones and hybrids being trialled across 23 sites with 13 partners across 4 climatic zones – this is the most substantial tree research infrastructure in East Africa.

Trials are starting to yield results which reveal a step change in productivity (50%+) and they are already influencing private sector investment decisions. In addition, public and private actors are now collaborating in the establishment of seed orchards, which will ensure improved tree seed is produced locally. Currently, growers can access imported improved seeds via a supplier and selected nurseries which are supported by FDT.

Alongside these efforts, FDT has helped increase grower access to information and develop contractor services for plantation management, which is encouraging city-based investors to consider opportunities in forestry. However, there remains more work to do with regards to increasing the demand for - and quality of - service provision.

The processing infrastructure in Tanzania is basic, with limited value-add beyond primary processing. However, over the last four years there has been an exciting growth of investment in engineered wood product (EWP) value chains, with FDT playing a significant role in supporting these developments.

The programme's initial progress is illuminating the sector's potential and – consequently – commercial forestry is becoming more of a focus for the government . Indeed, the government has created a Forestry Working Group within the Tanzania National Business Council, which brings together public and private actors to improve the enabling environment. The Forestry Working Group has been singled out for praise by the President's office.

CURRENT MOMENTUM

Despite the operational and market challenges related to the COVID-19 pandemic, the Tanzanian forestry sector is in a strong position for continued growth and eventual transformation.

The government is starting to throw its weight behind the sector, evidenced by its commitment to the Forestry Working Group; its willingness to offer incentives and remove barriers for stakeholders; its creation of a new technical order which will drive improvements in plantation quality; and its recent investment conference on the sector, which showcased the significant opportunities in forestry and illustrated how the government recognises its role in enabling investments.

The commitment from government is dovetailing with the development of the market fundamentals required for a competitive forestry sector. The results from the programme's tree improvement research are enabling growers to identify and source varieties that will improve the productivity of their plantations. Increasingly, quality services are being delivered to growers, such as site species matching assessments and plantation management support, which is enabling them to plant the right species and tend to their trees effectively.

Improving plantation productivity and the quality of the raw material is crucial: it will drive the sector's competitiveness, ensuring trees are produced cost effectively and yield wood which can be processed into higher value products. As the team waits for the newly planted raw material to come "on stream", the programme is successfully laying the groundwork on the processing side: by facilitating firm access to skills and finance, FDT is helping to enable investment in sawn timber and EWP which will increase processing efficiency, open up new markets and increase the sector's amount of value added. While investment in EWP has been led by the Chinese to date, the number of Tanzanian participants is now increasing.

Significant progress is being made in unlocking more land for commercial forestry via concessions, which is a key part of the programme's long-term vision for the sector. The government is showing interest and a pilot at the district level is currently in design. Concessions are important as they would geographically concentrate planting and help ensure quality conditions are met, which would support the growth of high-quality raw material and the development of a thriving processing industry.

Tanzania Forestry Services CEO (third from left) with some of the FDT management team

THE TANZANIAN FORESTRY SECTOR IS IN A STRONG POSITION FOR CONTINUED GROWTH AND EVENTUAL TRANSFORMATION

HIGHLIGHTS IN 2020/21

DELIVERING HALF-ROTATION TRIAL RESULTS

Several of the FDT-led species trials have reached the half-rotation stage. This is a key milestone as it is the point where future investment decisions can now be made based on the results. Indeed, on the back of the programme's research, stakeholders are now looking to source the high performing varieties which suit their context and this matching of species to sites will create a step change in productivity and tree quality. However, while the release of the research results represent a key milestone for the programme, the sector is yet to alight on a long-term institutional arrangement which will underpin tree improvement research in future.

SECURING COMMITMENT FOR FORESTRY CONCESSION PILOT IN MADABA

FDT has brokered a partnership with Madaba district council to pilot concessions on 6,000ha of suitable land. Planting is expected to start in the next financial year and result in increases in investment and improvements in service provision. Indeed, the programme hopes the pilot will serve as a test case, informing a concessions framework and inspiring concessions in other districts.

WIDENING ACCESS TO FINANCE AND DEVELOPING SKILLS IN PROCESSING

FDT has played a critical role in unlocking finance for investments in processing. To elicit the support of two banks and ensure they lend to processors, the team has helped secure multi-year raw material allocations for processors and facilitated the market entry of equipment suppliers. In addition, the team has partnered with the Forest Industries Training Institute (FITI) to support the development of the skills required for wood processing.

FACILITATING PUBLIC PRIVATE DIALOGUE TO SUPPORT INVESTMENT AND IMPROVE QUALITY

FDT is helping the government and the private sector articulate the investment opportunities in the forestry sector. Achievements include TNBC's agreement to an "EWP Development Strategy" and the organisation of a forestry investment conference which showcased the sector's opportunities and brought together the public and private sector. In addition, FDT has played an important role in the establishment of a new Technical Order, which will guide TFS in setting the standards for plantations in the country.

WHERE NEXT?

The commercial forestry sector in Tanzania is undoubtedly on a positive trajectory. While challenges remain, the outlook is strong. FDT's reputation and expertise mean the programme is well-positioned to help the sector deliver on its huge potential.

In the coming year, FDT will focus on improving access to improved varieties; implementing the concessions pilot in Madaba; enhancing the quality of service provision; and stimulating investments in processing. The work on investment will involve supporting firms with the development of technical skills and market access. FDT will continue to play a key role in creating the right enabling environment in Tanzania, which will entail close engagement with government and the private sector.

By 2022, the programme is aspiring to ensure:

- 1,000ha of land are planted with new varieties;
- Half of the Madaba land is released to investors,
- TFS commits to concessions on 30,000ha of land nationwide;
- 4,000ha of land is established with the benefit of improved services;
- Processing capacity reaches 20,000m^3 per annum with the help of new investments
- The profitability of existing sawn timber and EWP firms increases

These changes will serve to demonstrate the sector's potential and indicate commercial forestry is progressing on its transformation journey, which will deliver widespread economic, social and environmental benefits for the country.

KENYA FORESTRY SECTOR

THE OPPORTUNITY

The demand for wood in Kenya is growing rapidly: while this situation holds promise for the domestic commercial forestry sector, it is driving destructive behaviour. Indeed, the country lost 10% of its tree cover from 2001 to 2018. as natural forests were felled at unsustainable rates. The domestic sector is simply not meeting the local demand: over the last five years, there has been a fivefold increase in wood imports (totalling c. $2 billion).

The "youth bulge" and economic growth will ratchet up the pressure, as projections show the current supply gap will double in the next decade in the event no action is taken. This may increase the cost of wood, which will dampen growth across the economy. In this context, transforming the commercial forestry sector is a national imperative, since this will help protect natural forests and spur significant job and wealth creation.

The sector has major potential in Kenya, which could be realised if land for planting is unlocked, game-changing technologies are harnessed, and the operating models of firms are radically upgraded. Moreover, GA believes concessions, technologies and operating models can be deployed in an inclusive way that will enable smallholders to develop win-win relationships with pioneering processors.

POTENTIAL IMPACT

The programme's detailed analysis of the sector's potential in Kenya reveals that by 2035 the country could see:

- 1 million+ households generating an additional collective $50 million p.a. from tree-growing
- 11,000 additional, formal and skilled jobs created in wood value chains
- $261 million p.a. value added to finished products
- Nearly 200,000ha of additional commercial forestry coverage
- Long-term carbon sequestration of 28.7 MtCO2 equivalent

THE SECTOR HAS MAJOR POTENTIAL IN KENYA, WHICH COULD BE REALISED IF LAND FOR PLANTING IS UNLOCKED, GAME-CHANGING TECHNOLOGIES ARE HARNESSED, AND THE OPERATING MODELS OF FIRMS ARE RADICALLY UPGRADED

THE JOURNEY SO FAR

In 2016, GA established the Kenya Commercial Forestry Programme (KCFP) to assess the sector opportunities, test innovative models, leverage international learning and kickstart growth alongside stakeholders.

The sector is still at an early stage on its transformation journey. The coordination of the sector is weak; the productivity of growers and firms is low; and the raw materials and wood products are of relatively poor quality. However, a few dynamic firms are emerging and leading the way.

Most importantly, critical stakeholders are increasingly convinced of the sector's potential and this is translating into clear action and the construction of a shared vision for forestry in Kenya. The government is considering commercial forestry within its broader plan for forestry: KCFP is supporting the state's development of a national forestry policy which will recognise commercial forestry as a means of conserving forest cover and driving economic growth.

In its initial phase of work, KCFP helped build the excitement surrounding the sector by generating compelling evidence, clarifying the opportunities, and building a coalition of public and private partners.

With a solid foundation in place, the programme has more recently sought to focus its efforts on realising three strategic outcomes, which will serve to demonstrate the sector's potential for transformation. KCFP is aiming to:

1. Prove the viability of new eucalyptus saw-mill processing technology, which will enable firms to supply high value markets and provide greater returns to smallholders
2. Support the development of a concession framework, which will enable the Kenya Forest Service (KFS) to lease land to private sector investors and thereby increase plantation productivity
3. Reinforce (1) and (2) by supporting the delivery of improved inputs and tree growing services to farms of all sizes (including use of improved germplasm, site-matching tools, forest planning techniques and good silvicultural practices)

In addition, the programme is starting to engage sector stakeholders in the creation of a long-term national strategic plan for the development of forestry in Kenya.

CURRENT MOMENTUM

The industrial timber processing industry continues to be severely affected by the logging ban, which is significantly and negatively impacting production and employment in the wider sector. However, there is a growing possibility KFS plantations will be managed by public private partnerships in future, rather than simply harvested by certain firms. Indeed, the introduction of an inclusive concessions arrangement has the potential to move the sector forward on its transformation journey and to secure the effective planting of these lands to reduce the need for harvesting bans.

Significant private sector investments are being made in processing, as firms seek to harness the supply emanating from farm forestry and anticipate the lifting of the harvesting moratorium on government plantations. Backed by development finance institutions (DFIs), Komaza has invested $28 million in its processing operations ($3 million has been allocated for the construction of a Eucalyptus saw-mill). Biashara Masters has also invested c. $13 million in an MDF line, which was locally financed. Both firms will be principally supplied by farm forestry. In addition, transmission pole manufacturers are actively looking for opportunities to diversify their value chains and local finance appears ready to support such a move.

Indeed, there is more life in the private sector than one might expect and the present circumstances are forcing processing firms to source material in innovate ways, which is ultimately drawing farm forestry into the formal and higher value market.

Finally, there is growing interest in commercial forestry among development partners, evidenced by recent trends in programming and the allocation of funds. For example, the Japan International Cooperation Agency (JICA) has set up new programmes focused on private forestry; Financial Sector Deepening Africa (FSDA) is actively exploring how the financial sector can accelerate green growth; and DFIs, including CDC, are exhibiting a strong interest in the sector at a regional level.

"WITH THE MONEY I GET FROM SELLING MY TREES, I HOPE TO SEND MY CHILDREN TO SECONDARY SCHOOL AND THEN UNIVERSITY."

Joseph Inemasha, Farmer supported by Komaza in Kilifi County, Kenya

HIGHLIGHTS IN 2020/21

FACILITATING INVESTMENTS IN PROCESSING INNOVATION

KCFP was instrumental in supporting Komaza as the firm raised funds for a $3m sawmill in central Kenya, which will utilise innovative technologies to process high-quality lumber supplied by farm forestry. In addition, the programme influenced the decision of Green Resources (Uganda) to invest in – and increase the value-addition potential of – their processing operations, as the firm prepares to export lumber to the region.

IMPROVING THE REGULATION OF SEED

Working alongside the likes of the Kenya Plant Health Inspectorate Service (KEPHIS) and the Kenya Forestry Research Institute (KEFRI), the programme supported the revision of the tree seed regulations, which will ultimately enable domestic suppliers to smoothly procure improved seed from internal and external sources. After progressing through the parliamentary approval process, the regulations are expected to come into effect by December 2021. In addition, the programme has helped shape National Forest Conservation and Management Policy, which is being led by the United Nations Development Programme (UNDP) and the Ministry of Environment and Forestry.

DEVELOPING THE "SITE-SPECIES MATCHING TOOL"

Over the last three years, the programme has developed a tool which will help tree growers match species to their sites (the "Site Species Matching Tool"). The tool has now been tested and endorsed by KEFRI and KCFP is preparing to make the tool available for sector players. Alongside this effort, the programme is supporting the development and deployment of other novel technologies (e.g. pelleted seeds), in an effort to ensure growers have access to improved planting materials.

WHERE NEXT?

Momentum behind the commercial forestry sector in Kenya and across East Africa is growing. With regards to defining the sector's growth trajectory, the next year is particularly important. Indeed, the lease arrangements between KFS and private growers will be designed over the coming months and the nature of these agreements will have a significant influence on the inclusivity and competitiveness of the sector. In addition, the success of recent processing investments in Kenya (and neighbouring Uganda) could encourage further investment in farm forestry supply arrangements.

The programme will focus on building partnerships, with the aim of supporting sector stakeholders as they deliver on the potential of the current positive momentum. In particular, the team will:

1. Work with processors to demonstrate the viability of eucalyptus saw-mill processing technologies and identify opportunities to link farm forestry production to these investments
2. Support KFS to develop and pilot an inclusive concessions framework, bringing in other development partners to ensure the public-private partnerships are a success
3. Work with service providers and the government to enhance the delivery of quality inputs and tree growing services to farms of all sizes (e.g. improved germplasm, site-matching tools, forest planning techniques and good silvicultural practices).

TANZANIA COTTON AND TEXTILES SECTOR

THE OPPORTUNITY

Across the world, textiles industries have repeatedly been engines for development, kickstarting periods of rapid job creation and economic growth.

Wages in textiles sectors across Asia are rising – particularly in China, which is predicted to shed many millions of labour-intensive manufacturing jobs in the next decade. This presents an unprecedented opportunity for countries with competitive labour costs and other conducive conditions to attract new investment, secure the transfer of technology, and create hundreds and thousands of decent jobs.

The potential is strong in Tanzania, where the country could develop an integrated cotton-to-clothing value chain. Up to 400,000 smallholders - concentrated in some of the poorest and least fertile regions of Tanzania - grow cotton.

However, farmers with limited to no savings struggle to invest every year in the preparation and agricultural inputs needed to boost yields and quality. This means their average yields are less than half those of smallholders in West Africa, and they receive low returns for their poor-quality crops.

Learning from across the world shows there are multiple ways of boosting farmer investment in cotton. If Tanzania could achieve this, it would not only lift hundreds and thousands of people out of poverty, but also increase the textiles industry's competitiveness, building further opportunities to create jobs and raise incomes.

"GATSBY AFRICA HAS BEEN A 'GOD BLESSING' TO US, WE HAVE RECEIVED TREMENDOUS SUPPORT IN GETTING ESTABLISHED. ONCE OUR PILOT COMES TO AN END GATSBY SUPPORT WILL BE LESS CRUCIAL AND WE SHOULD BE ABLE TO STAND ON OUR OWN TWO FEET"

Digital Mobile Africa

POTENTIAL IMPACT

Wide-ranging reforms in the cotton & textiles sector could have a significant impact on Tanzania's citizens and its economy. By 2030, the sector could:

- Lift 650,000 people out of poverty in cotton-growing areas (by doubling yields and boosting incomes by an average $600 p.a.)
- Create 50,000 decent textiles jobs and increase annual textiles export revenues by $800 million

THE JOURNEY SO FAR

GA has engaged in Tanzanian cotton & textiles for over 13 years. Progress has been far from linear and we have endured several setbacks.

Cotton

In cotton, significant progress has been made on raising competitiveness by increasing access to improved seed, which boosts farm productivity and crop quality. In the 2018/19 season, after a decade of work, an improved seed called UKM08 was rolled out to every cotton farmer. A consequence of GA's concerted support of the sector's research & development function, this seed boosted the sector's income by $25 million, a sum split between farmers and processors. In the past two years, the programme has focused on ensuring the resilience of the seed and research function, in order to protect gains.

The programme has helped trial different models to increase farmer investment in cotton. At certain times and in specific areas, incentives have aligned and productive partnerships have been forged in pursuit of this goal. However, stakeholders have been routinely unable to protect progress and build on momentum. In large part, this is because the policy environment has been unstable and uncertain, which makes building trust among stakeholders extremely difficult. Indeed, trust is a cornerstone of the ambitious models which the programme has helped trial over the years.

Textiles

Textiles has moved up the national agenda and the government has highlighted the industry as a priority. There has been some progress towards developing investment-ready infrastructure in the form of serviced land. Sufficient serviced land would help ensure the sector employed thousands of people in decent textile jobs. In addition, thousands of jobs would be created in the local businesses tasked with supplying goods and services to these zones.

A supportive policy environment and improved services would accelerate the growth of the local textiles industry and ensure domestic firms were major players within the sector. Moreover, increased coordination would allow the sector to invest in research & development and realise productivity gains, which are crucial if the sector is to remain competitive as domestic wages rise.

A sophisticated research & development function - combined with strong linkages to domestic cotton - would help ensure the long-term commitment of international firms to Tanzania, who may otherwise eventually move their operations to countries with lower labour costs.

"THE LITENGA PLATFORM SHOULD GIVE US THE CONFIDENCE WE NEED TO INVEST IN THE SECTOR WITHOUT HAVING A NETWORK OF BRANCHES"

Azania Bank

CURRENT MOMENTUM

Cotton

The ongoing COVID-19 pandemic has severely disrupted global supply chains, including cotton, textiles and apparel. McKinsey estimates that the global fashion industry's economic profit fell by 93% percent in 2020. The global lint price (Cotlook A Index) fell to a low of $0.51 per lb in March 2020, though it has steadily recovered and is projected to reach $0.73 per lb in July 2021.

The 2019/20 growing season in Tanzania saw a 65% decline in seed cotton production compared to the previous season, slumping to 122,000 MT in total. This was due to the widespread use of unproductive "fuzzy" seeds (c. 90%), heavy rains, the prevalence of pests and diseases and farmers planting less cotton, owing to the crisis in the 2019 marketing season when farmgate prices were set too high for ginners to purchase seedcotton and a rampant black market developed.

However, the outlook for the sector has improved from this low baseline. There is renewed support from a range of key decision-makers on the importance of raising farmer investment and its positive implications for productivity.

The programme's partnership pilot in Simiyu, a region responsible for half of the country's cotton production the largest cotton producing region in Tanzania, has received support from the Minister and Deputy Minister of Agriculture, the Regional Commissioner for Simiyu and the Director General of the Tanzania Cotton Board (TCB). As part of the pilot, 55,000 farmers have signed up to the "Kilimo Maendelao" digital platform, which enables users to purchase seed and pesticides on credit.

Textiles

In response to the COVID-19 pandemic, factories were forced to adapt their operations. Sunflag, A-Z and Tooku reduced their capacity utilisation, while Mazava, JOC and Urafiki temporarily closed their operations.

The Ministry of Industry and Trade (MIT) has prioritised a review of the Cotton to Clothing (C2C) strategy, the development of a Sustainable Industrial Development Policy and a new T&A strategy as well as zone development. Investment is a critical focus for the Tanzanian government with incoming President Suluhu giving the investment Ministry three months to demonstrate progress in one of her first actions as President.

Samweli Kilua, CTDP Programme Director handing a copy the Simiyu strategy book to Samia Hassan, the Vice President (now president) of Tanzania

HIGHLIGHTS IN 2020/21

DELIVERING ENHANCED INPUTS AND EXTENSION SERVICES TO FARMERS VIA THE PILOT IN SIMIYU

55,000 farmers are now enjoying greater access to seeds and pesticides, courtesy of the programme's work on the "Kilimo Maendeleo" digital platform. In addition, the Simiyu pilot has resulted in all districts committing to allocate 10% of their cess revenues for the enhancement of extension services.

EXPANSION OF VILLAGE BASED AGRICULTURE NETWORK AND SPRAY SERVICE PROVIDERS

30 VBAs have joined the network that was established by GA, which now comprises 575 small businesses that serve 170,000 farmers. 64 VBAs accessed loans from financial institutions and input suppliers, totalling TZS 563 million / $0.24 million. In addition, town-based agro-dealers (TBAs) have recruited extension officers and 405 spray-service providers (SSPs) have been crowded in, surpassing the programme's initial target of 200. All of these businesses are commercial and delivering local, higher quality services and inputs to farmers

STRENGTHENING PUBLIC-PRIVATE DIALOGUE ON TEXTILES AND APPAREL

CTDP supported the establishment of a Committee for Development of the Textile Industry (CDTI), which will include public and private sector participants. The committee's mandate is to drive the C2C review process, promote and share a new vision for the sector, and co-ordinate the development and implementation of a new textiles industry strategy. These stakeholders are also engaging with the Tanzania National Business Council (TNBC) on a Textile Industry Policy Dialogue Platform.

WHERE NEXT?

The outlook for Tanzanian cotton is uncertain. Indeed, the unpredictability of the sector's governance remains an issue, despite recent positive developments (which includes the strong political support for the Simiyu strategy, the withdrawal of political interference in several areas and the potential revival of contract farming). The government's desire for co-operatives to play a central role in input distribution and marketing is exceptionally ambitious and will be challenging to implement, given the governance issues and capacity constraints.

- Next year our programme will focus on building the capacity of its government and commercial partners, supporting the Simiyu Region with its implementation of a new cotton strategy, and working closely with the firms that provide critical services to the VBA network. As part of GA's exit from the cotton sector, the programme intends to document and share its experience and lessons learned with stakeholders and development partners, in a bid to positively influence the sector's future trajectory.
- In textiles, our programme will support the government as it concludes its review of the C2C strategy and formulates a new National Textiles Industry Development Strategy. These processes present the government with an opportunity to clarify the country's preferred pathway for the industry; secure senior leadership and resources; and rally stakeholders behind a shared vision. The programme will also explore opportunities to collaborate with Msingi's textiles programme, particularly on the issues of investment promotion and generation.
- Overall, the cotton & textiles sector is at a crossroads. Tanzania has the potential to be a leading producer of textiles and apparel for domestic, regional and global markets, generating hundreds and thousands of decent jobs and doubling the incomes of more than 400,000 cotton farmers. Fulfilling this potential is possible and will require consistent and coordinated efforts from all stakeholders to pull together towards a shared vision and common purpose.

RWANDA AND TANZANIA TEA SECTORS

THE OPPORTUNITY

Tea is a key export crop in both Rwanda and Tanzania, providing incomes for 60,000+ smallholders as well as 70,000+ jobs across the two countries. In Rwanda, the sector is the country's third largest employer.

The two sectors are on different trajectories. Rwanda's agro-climatic conditions mean it can produce among the highest quality black tea in the world and its recent performance has been strong, with increased planting and investment over the last 10 years and a significant improvement in the made tea quality. Contrastingly, Tanzania has been struggling with erratic weather patterns and lack of investment in the sector, which have impacted yields and quality and resulted in reduced returns for both factories and farmers.

GA's tea programmes are implemented by our partner The Wood Foundation and now focus on the five co-investments we have made, comprising two factories and two farmer service companies in Rwanda and one farmer service company in Tanzania. These investments aim to drive an increase in planting, yield, quality and efficiency across field and factory, with a goal of boosting returns and incomes for smallholders. While we are seeking a direct impact from our investments, we hope the demonstrable success of our pioneering models, which include farmer ownership, will inspire others and ultimately support the transformation of the tea sector in Rwanda and Tanzania.

"BEFORE THE INVESTORS CAME, FARMERS DIDN'T LOVE TEA BECAUSE IT HAD NO BENEFITS."

Alice Ntamitondero, Tea farmer in Mulindi

POTENTIAL IMPACT

Successfully delivering our investments should:

- Lead to 30,000 farmers across Rwanda and Tanzania directly benefiting by 2030 (up from 14,000 in 2020)
- Leverage over $100m of FDI into the tea sector in Tanzania and Rwanda through the three greenfield projects, with our partners TWFA, FCDO, Unilever and Luxmi.
- Support the Government of Rwanda achieve its long-term goal of 50,000ha of planted tea (from the current base of 27,000ha). Our direct contribution is expected to be c. 8,000ha.
- Support Rwanda to increase its tea export revenues from $93m (19/20) to $209m by 2024
- Maximise the proportion of the made tea price shared with farmers.
  - In Rwanda, we expect all tea farmers to receive 50% of the made tea price, up from 25% in 2011. In addition, our farmers at Mulindi and Shagasha take a share of factory profits today and once we transfer to full farmer ownership will share all factory profits. This will raise their total income to more than 60% of the made tea price, depending on factory performance.
  - In Tanzania, we expect NOSC farmers to receive 47% of the made tea price, due to a quality premium agreed with Unilever. This compares favourably with the 37% received by farmers in the wider sector.
- Demonstrate the viability and substantial impact of i) a model for financing farmer ownership of factories and ii) a model for developing greenfield production using farmer service companies. We expect a successful demonstration of these models will lead to replication in other sectors and countries.

THE JOURNEY SO FAR

BOTH RWANDAN TEA FACTORIES ARE NOW GENERATING SUBSTANTIAL PROFITS AVERAGING OVER $1M A YEAR

The tea programmes in Tanzania (2010) and Rwanda (2011) began as broader sector development programmes. Over time, our work has increasingly focused on the investments we hold today.

In Tanzania, we are focussing on supporting a farmer service company and Unilever's investment in a new factory in Njombe. In the context of tea's trajectory in Tanzania, our aim is to showcase a high-quality model for smallholder tea, in the hope this inspires sector-level change in the future.

We created the Njombe Outgrowers Service Company (NOSC) in 2014. Since it's inception, it has recruited more than 1,900 farmers from 33 villages, who have planted over 1,600ha of tea. NOSC provides patient capital to smallholders as they plant tea and delivers services that help maximise yield and quality. In 2018, Unilever opened a new factory to process the green-leaf supplied by NOSC farmers. While this has sparked interest in the service company model, the wider challenges in Tanzania's tea sector are impacting NOSC's performance.

The Rwandan programme was established in 2011. In 2012, we purchased two factories which were being privatised by the government, with the intention of turning around their performance, repaying our investment and then transferring ownership to the smallholder suppliers. Both factories are now generating substantial profits averaging over $1m a year having been loss-making before privatisation. They are both transferring an annual farmer bonus to their suppliers. One factory is close to repaying its loans and transitioning to farmer ownership.

Established in 2016 and 2017, the two service companies in Rwanda, Services Company Nyaruguru (SCON) and Rugabano Outgrowers Services (ROS), were established to support the country's ambitious tea expansion plans. The service companies have committed to manage the establishment of smallholder greenfield tea on the proviso that established factory operators – such as Unilever and Luxmi - build a factory and ensure offtake of smallholder produced green-leaf.

While the service companies are at an early stage, they have already attracted foreign investors, who had previously cited concerns about the uncertain supply of quality green-leaf. The companies have effectively removed this uncertainty through financing and facilitating planting and providing extension and logistics services. This essentially guarantees the factories a supply of quality green-leaf.

The success of the service companies, the replicability of the model and the pace of their growth will determine how rapidly the sector can grow.

WHILE THE SERVICE COMPANIES ARE AT AN EARLY STAGE, THEY HAVE ALREADY ATTRACTED FOREIGN INVESTORS, WHO HAD PREVIOUSLY CITED CONCERNS ABOUT THE UNCERTAIN SUPPLY OF QUALITY GREEN-LEAF

CURRENT MOMENTUM

The situation in Tanzania remains challenging: late rains and an oversupply of tea in the global market have created a perfect storm, eroding market prices and reducing production across the country. The finances of smallholders, the service company and the factory are under pressure. However, despite significant headwinds, farmer interest in the programme remains strong and NOSC has met its planting targets for the year.

In Rwanda, the factories are performing well from an operational perspective, although profits have been impacted by lower-than-expected market prices and an increased share of sales being distributed to farmers (from 40% to 50%). We expect Mulindi will be able to pay off the last of its outstanding debt in FY21/22, after which the transition of the factory to farmer ownership will commence.

The service companies are doing well, planting a combined c. 500ha last year. The bushes are growing well and farmers are already recognising how tea has the potential to transform their livelihoods. In Rugabano, where Luxmi have opened their factory, the outlook is particularly good, with its quality leaf fetching some of the highest prices in the country.

In a further validation of the model, The Wood Foundation have recently finalised an additional greenfield development in Rwanda, partnering with Unilever and the government to develop 3,000ha of tea and build another factory. This is a particularly exciting as the government is investing its own money into the project.

HIGHLIGHTS IN 2020/21

DELIVERING HIGH-PERFORMING FACTORIES – AND ENSURING BENEFITS ARE SHARED WITH FARMERS

Despite challenging market conditions and unfavourable weather at the start of 2020, our factories in Rwanda have continued to perform well, with farmers taking home a greater share of the made tea price. The factories successfully distributed farmer bonuses in August, which totalled $700k. Pre-bonus, the farmers now receive 45% of the made tea price, up from 50% in previous years.

DRIVING NEW PLANTING – CREATING LONG-TERM ASSETS FOR FARMERS

Across our five investments, over 900ha of new tea was planted last year. At full production, these fields should generate annual factory sales of c. $6m and deliver $2.7m in gross income to farmers.

INSPIRING THE REPLICATION OF THE SERVICE COMPANY MODEL

In partnership with Unilever, The Wood Foundation finalised the terms of an additional greenfield development last year, which will result in the development of 3,000ha of tea and the establishment of another factory. Excitingly, the government in Rwanda is a co-investor in the project, which is an effective validation of the success enjoyed by our service companies in the country

WHERE NEXT?

Tea in Tanzania is at a critical juncture, as the sector's viability is being fundamentally challenged. As the supply from Kenya drops off, the market situation is likely to improve, although the underlying competitiveness of the firms in Tanzania remains a cause for concern. At NOSC, we need to focus on driving production and quality, as well as testing the assumptions that underpin the long-term business case. Ultimately, we need to reach an understanding of how we could adapt the model to improve performance. If we are successful, we will demonstrate the possibility of change in the sector and help crowd in others.

In Rwanda, the outlook is very positive. Next year, we aim to ensure we successfully enter the transition phase at Mulindi. By retaining board representation for a set of period of time, we hope to preside over a smooth transition of ownership and governance to farmers. At the service companies, we will focus on planting another 500ha of tea and strengthening our logistics network as production increases.

KENYA MARKETS TRUST

Kenya water sector

Kenya agricultural inputs sector

Kenya livestock sector

KENYA MARKETS TRUST

Better Markets, Better Lives

KENYA WATER SECTOR

THE OPPORTUNITY

Water plays a significant role in any country's economic development, serving as a critical resource for agriculture, industry, and domestic consumption. In 2002, Kenya became one of the first countries in Africa to introduce progressive reforms and enable private participation in the sector. These reforms resulted in the emergence of strong institutions, the formation of representative industry bodies and the generation of a decade of positive momentum, with water access rising from 39% to 60%.

Despite these positive developments, the sector continues to face an array of challenges, as population growth and climate change place increasing pressure on the resource and the system remains inefficient and hampered by various governance issues. While the consolidation of water utilities is underway, the rural sector remains overly fragmented: there are over 2,000 unregulated service providers, resulting in just 34% of rural households accessing piped water. Moreover, although political devolution in Kenya has opened up opportunities, the process has created governance challenges, as there is a lack of clarity regarding the new roles and functions of sector stakeholders. In addition, a lack of consistent data makes it difficult for sector stakeholders to ascertain coverage levels and make optimal decisions regarding the resource.

With one of the lowest renewable water resource rates in the world, the demand for water in Kenya is estimated to exceed resource availability by 30% in 2030. Changes in weather and climate patterns are threatening water availability for human consumption and economic use. Given Kenya is already "water scarce", addressing this issue will require majorly increasing the utilisation of the available water resources – from a current level of 14% to 81% over the course of a decade. The government estimates meeting this target will require an annual investment of $980 million, which is significantly higher than the yearly sum currently being invested (c. $390 million). With increasing pressure to industrialise, achieve food security and transform agriculture managing this scarce resource is a priority for the Government of Kenya.

"IF THE BUSINESS-AS-USUAL APPROACH IS MAINTAINED IN THE WAY WATER RESOURCES ARE MANAGED, KENYANS WILL FACE A 30% GAP BETWEEN AVAILABLE FRESHWATER SUPPLY AND DEMAND BY THE YEAR 2030."

Water Services Regulatory Board

POTENTIAL IMPACT

By 2030 – if Kenya transforms the way water is managed and delivered as a resource – the country could:

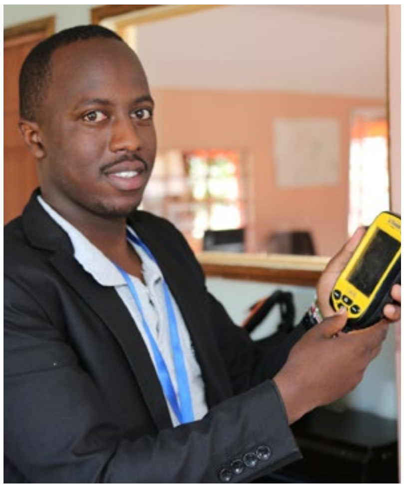
- Enable 4.5 million additional people to benefit from increased water access
- Reduce non-revenue water losses by 27%
- Increase the number of commercially viable service providers by 50%
- Leverage $10 million in private finance to support with the strategic management of the resource
- Establish an inter-governmental framework – this could facilitate joint planning and decision-making between the authorities responsible for resource management and water services
- Ensure stakeholders protect catchments and conserve the resource

THE JOURNEY SO FAR

Since 2013, KMT has worked with the national regulator, county governments, private firms and industry associations to stem water losses; realise operational efficiencies; and facilitate greater access to safe drinking water. Key initiatives include strengthening the regulation of water provision in rural areas; enhancing the management and delivery of water in urban areas; promoting the adoption of innovative mechanisms which reduce the loss of non-revenue water; supporting the development of alternative financing instruments; and influencing advances in policy and governance. Alongside these efforts, the team have sought to develop policies and tools with the aim of incentivising greater private sector participation across the value chain (e.g. in management, financing, technology supply).

KMT's work has inspired a number of significant developments in Kenya's water sector

In order to reduce operational inefficiency and boost revenues, KMT has worked with water utilities to introduce a range of innovations, including GIS mapping tools, automated billing technology and data management systems. These advances have enabled participating water utilities to enhance how they track their performance, and this has resulted in a 60% reduction of non-revenue losses. Indeed, KMT's work with water service providers has benefitted the firms and their customers, who now enjoy more competitive tariffs and enhanced water access. Moreover, the team has extracted learning from its efforts to influence the Water Services Regulatory Board (WASREB) and its national guidance materials. Underpinned by strong advice, the service delivery sub-sector has developed apace, with 80% of regulated water utilities now capable of meeting their operational costs.



In an effort to increase water coverage in rural areas and respond to the high demand for better services, KMT has piloted a number of service delivery models. These models have been rooted in a "blended approach", which combines community ownership and private sector participation with regulatory change, appropriate financing and government support For some water utilities, the pilots have grown revenues by up to 130% and increased water supply from 3 to 18 hours per day. Indeed, drawing on the success of these models, WASREB collaborated with KMT to develop guidelines on how to optimally manage and deliver water as a resource in rural parts of the country.

In recognition of the lack of commercial financing in the sector, KMT has tested alternative financing solutions which have involved B2B linkages, bond markets, and blended finance. For example, in Western Kenya the team designed and implemented a pilot for an equipment leasing model, involving the Kenya Commercial Bank Foundation and rural water utilities. In addition, KMT has supported the Water Service Trust Fund to develop its resource mobilisation strategy and strengthen its capacity to promote investment in the sector.

CURRENT MOMENTUM

KMT's programme has influence in the sector and the team's position has been enhanced by the prominence of its role during the COVID-19 response. KMT has strong relationships with urban and semi-urban water service providers, having helped firms realise operational efficiencies, improve their risk-return profile and attract investment. In rural areas, KMT continues to support local county governments with the review and roll-out of new partnership models which involve the private sector in water delivery. The team is also engaging closely with the sector's regulatory body, developing guidelines with a view to formalising service delivery in rural areas and strengthening the capacity of the apex body responsible for water financing.

In its strategy, KMT has identified three key levers of change to transform the sector:

1. The introduction of data management and smart technologies which will drive efficiency and enable transparent decision-making in the sector
2. The implementation of a governance and legal framework which will clarify accountability and improve sector coordination
3. The attraction of greater investment in the sector – in part facilitated by alternative financing models.

These levers stretch across the entire value chain: from the service delivery of water through to the management of the natural resource.

HIGHLIGHTS IN 2020/21

ALIGNING STAKEHOLDERS ON THE NEED FOR INCREASED RESILIENCE IN THE SECTOR

In collaboration with the national regulator for water in Kenya, KMT held a sector-wide webinar to enable key stakeholders to debate COVID-19 recovery scenarios. Following the webinar, the Ministry of Water & Irrigation issued a summary document and presented this as detailing the way forward for the sector. The document includes calls for greater consolidation in the sector, the improvement of sector coordination and faster adaptation in the face of climate change.

DEVELOPING SECTOR GUIDELINES FOR SERVICE PROVISION

Following KMT's successful pilot of service delivery models in rural areas, WASREB effectively adopted the guidelines developed by the team, with a view to scaling the models nationally. This represents a major achievement for KMT. In collaboration with the regulator and selected county governments / water utilities, KMT is now in the process of rolling out these guidelines, which will significantly improve water service provision across the country.

SUPPORTING THE COVID-19 RESPONSE IN THE SECTOR

In response to the pandemic-related liquidity crisis in the sector, KMT developed a response plan and a medium-term recovery solution to support water utilities. This solution was endorsed by the sector and the Water Service Trust Fund, which used the plan to successfully secure emergency funding from the World Bank. Alongside this effort, KMT worked with the regulatory body to collect up-to-date information on the state of the sector amid the crisis, which was used to inform the decision-making of stakeholders. Moreover, the team supported the Water Service Provider Association as they sought to secure better terms for utilities during the pandemic.

DEVELOPING A ROADMAP FOR THE SECTOR

In an effort to enrich the national discussion on water and agree an aligned vision for change, KMT and the Ministry of Water & Irrigation have commissioned a global benchmarking exercise, which will help identify how comparable countries have transformed their water sectors. It is hoped this research will yield strategic insights and ultimately guide decision-makers as they seek to continue strengthening the management and delivery of water in Kenya.

WHERE NEXT?

The recent reforms and the steady increase in government funding indicate the current government considers the sector to be a priority. The sector has been substantially reformed over the last twenty years and the appetite for further change is considerable. If stakeholders are able to agree on a bold and long-term roadmap, the required government commitment and legal framework appear set to drive a progressive reform agenda in the water sector.

KMT is starting to explore big strategic questions regarding water and its management as a natural resource. Since Kenya has one of the lowest renewable water resource rates in the world, KMT recognises the urgency of this work and the need to adopt a more ambitious and holistic approach to the sector. This will require improving the flow of information for decision-makers, incentivising the deployment of more resilient technologies, and enhancing the management of existing resources.

During 2021, KMT aims to build on the positive momentum and:

- Scale up the adoption of service delivery models, to support formalisation and consolidation of water services in rural areas
- Work with stakeholders to ensure the market is performance-oriented – this will improve the risk-return profiles of water utilities and consequently establish their viability for public-private blended financing arrangements
- Support the Ministry of Water & Irrigation as it develops a roadmap capable of aligning sector stakeholders and improving coordination / decision-making – this will involve ensuring the insights from the global benchmarking exercise are effectively distilled and widely shared
- Determine the feasibility of intervening in water resource management - this will involve analysing existing data and previous mapping work to assess the potential scope, stakeholder support and resources required
- Build the capacity of industry bodies – with a view to improving the public-private dialogue in the sector and resolving governance issues

KENYA AGRICULTURAL INPUTS SECTOR

THE OPPORTUNITY

Agriculture plays a fundamental role in Kenya's economy and is at the heart of the country's development. Indeed, the sector accounts for 65% of export earnings and a third of GDP, while providing livelihoods for 80% of the population (includes employment, income and food security needs). In addition, the sector is a major driver of the non-agricultural economy, generating inputs and markets for manufacturers and service providers.

However, agriculture in Kenya is underperforming and is facing considerable challenges: productivity remains well below the global average and the health of the soil is declining rapidly. At present, just 20% of the country's land is arable - and less than 2% of this land is under irrigation. Access to quality agricultural inputs is limited and knowledge of good agricultural practices is weak, owing to the inadequacy of extension services. Less than 70% of farmers use fertiliser and only 40% of this group use it consistently. The need for action is urgent, given 4 million Kenyans suffer from food insecurity today and population growth will place yet more pressure on the country's increasingly unproductive land.

A stronger agricultural inputs system in Kenya could help transform agriculture and – by extension – the livelihoods of the millions of smallholders who depend on the land. Unprecedented growth opportunities are opening up in Kenya, enabled by recent government reforms and the proliferation of digital technology. The country's vibrant agriculture sector is home to a quarter of ag-tech start-ups on the continent and firms are finding new ways to link smallholders to markets, improve access to information and reduce costs. At the frontier of innovation in agriculture, Kenya could potentially harness digital technologies to transform the sector and deliver on the government's "Big 4" agenda.

A STRONGER AGRICULTURAL INPUTS SYSTEM IN KENYA COULD HELP TRANSFORM AGRICULTURE AND – BY EXTENSION – THE LIVELIHOODS OF THE MILLIONS OF SMALLHOLDERS WHO DEPEND ON THE LAND.

POTENTIAL IMPACT

By 2030 – if Kenya improves the quality, access and affordability of agricultural inputs and raises the level of farmer knowledge – the country could:

- More than double agricultural yields (e.g. increase smallholder maize yields from 1.8 tn/ha to 4 tn/ha)
- Ensure the agricultural sector is able to compete regionally, in terms of quality and price
- Move 2 million smallholder households from subsistence farming to commercial farming
- Increase smallholder incomes by at least $200 p.a.
- Increase agriculture's contribution to GDP by 37%
- Introduce innovations and promote farming practices that reduce soil degradation and acidity

THE JOURNEY SO FAR

Kenya Markets Trust (KMT) has worked in the agricultural inputs sector since 2012, when the sector's growth was being inhibited by an array of factors, including a prevalence of counterfeit products; limited farmer access to quality products and information; weak farmer demand for inputs; a lack of appropriate credit solutions; an inefficient subsidy regime; insufficient public and private investment; and inadequate governance structures. KMT's vision is to make the sector more efficient and support the development of standards and advisory services, which will enable the country's farmers to benefit from higher yields and incomes and build resilience in the face of climate change.

In support of the sector, KMT has strategically focused on:

- Demonstrating the benefits of – and increasing access to – yield-enhancing technologies (e.g. granulated lime, crop-specific fertiliser and soil testing kits)
- Addressing issues of quality control, price and reliability
- Ensuring farmers are aware of how to effectively use inputs when they are made available (via last-mile distribution and private extension models)
- Strengthening coordination, governance structures and dialogue within the sector

"I WISH TO RECOGNIZE THE WORLD BANK, OUR STATE CORPORATIONS AND THE KENYA MARKETS TRUST IN RESOURCING THE LIVESTOCK BILL DEVELOPMENT PROCESS."

Cabinet Secretary, Ministry of Agriculture, Livestock, Fisheries and Cooperatives

KMT's work has inspired a number of significant shifts in the sector.

In a little under 10 years, KMT has helped reduce the incidence of counterfeit seeds from 40% to 10% by introducing scratch labelling technology. Historically, the pervasiveness of counterfeit products has led to farmers buying poor quality seeds, enduring weak yields and reduced incomes and – ultimately – losing faith in the inputs market. KMT has supported sector stakeholders in the introduction of scratch-labels, which enable farmers to verify seed provenance and quality in real time via SMS.

KMT has also sought to reduce the lag time which private sector actors had to endure as they waited for their seeds to be certified by the regulator. The delays effectively prevented quality seeds from reaching farmers in time for the planting season. By enabling public-private collaboration and facilitating a learning visit to Zambia, KMT helped stakeholders reach agreement on greater private sector involvement in certification, which has significantly reduced the burden on the regulator. Indeed, certification now takes 14 days rather than 4-6 weeks.

To increase the availability and quality of fertiliser, KMT has partnered with the likes of Toyota Tshusho, a large fertiliser company which has commissioned the first full-scale fertiliser blending plant in Kenya and rapidly expanded sales of crop-specific blends. A pioneer in the field, Toyota Tshusho's success has inspired other fertiliser companies - such as Yara East Africa and MEA Ltd - to explore opportunities in the market. According to a study undertaken by KMT, farmers increased their income by 20 to 30% as a result of switching to crop-specific fertiliser and more and more farmers are following suit as they become aware of the product's economic advantages.

A major and growing issue in Kenya, soil acidity affects as much as 65% of the country's arable land. In response, KMT has partnered with firms such as Soil Cares, Quest Agriculture and Homa Lime to understand the benefits of soil testing and lime. Through a recent pilot, KMT introduced granulated lime into the domestic market and revealed how the product increased maize yields (by 10 bags per acre) and incomes (by £160 per acres). Alongside this effort, KMT has partnered with County Governments to ensure soil testing is integrated within agricultural development plans.

To improve how the sector is coordinated, KMT has helped the private sector engage more meaningfully with the public sector. The team has strengthened the capacity of the Seed Trade Association of Kenya and partnered with the State Department of Agriculture and IFDC (an international fertiliser NGO) to launch a high-level Kenya Fertiliser Roundtable (Ke-FERT), which helps address issues relating to the regulation of standards and subsidies.

CURRENT MOMENTUM

In Kenya, the agricultural sector faced several challenges last year, as production and marketing were affected by severe droughts, a major locust outbreak and restrictions associated with COVID-19. However, while the pandemic effectively revealed the country's vulnerability from a food security perspective, the crisis opened a unique opportunity for progressive reforms in agriculture. Indeed, over the last 6 months the government has committed to reducing the role of parastatal companies and liberalising markets. Specific and major interventions include the restructuring of the National Cereals and Produce Board and the transition to an e-voucher system for the distribution of inputs, which will replace the previous subsidy scheme. While these reforms are yet to be implemented, the direction of travel is unquestionably positive and – alongside the government's Agricultural Sector Transformation and Growth Strategy and "Big 4" agenda – the legislative changes should enable greater transparency and competition.

KMT's work in agricultural inputs stands to benefit from the recent shift in government policy, owing to the new emphasis on facilitating more private sector participation in markets. The sector is primed for innovation as a result of greater competition between firms and less public intervention in procurement and distribution. In addition, there is a growing interest among the private sector to enhance extension services and leverage complementary technologies which are developing and proliferating apace (e.g. mobile payments and trading platforms).

HIGHLIGHTS IN 2020/21

CONDUCTING PRIMARY RESEARCH ON THE IMPACT OF COVID-19 ON SMALLHOLDERS

KMT partnered with Precision Agriculture for Development (PAD) to conduct primary research and understand how COVID-19 was impacting agro-dealers and smallholders from an economic and social perspective. KMT and PAD shared the findings with the Ministry of Agriculture, Livestock and Fisheries, and the relevant industry associations. Following a virtual webinar, sector stakeholders and development practitioners proposed interventions to help mitigate the impacts of the pandemic on farming communities, as well as broader reforms for the sector.

EXPANDING FARMER KNOWLEDGE AND USE OF CROP-SPECIFIC FERTILISERS

As a result of KMT's previous work, the demand for crop-specific fertiliser has been increasing in Kenya, although there remains significant room for growth. The trajectory is clear: 11% of farmers who use fertiliser now want to use crop-specific blends, compared to just 2% of farmers 4 years ago. Statistics like these suggest KMT's campaigning is having an impact and private sector partners are investing more in this space. Indeed, Yara recruited 86 junior agronomists to grow its market share in crop-specific fertiliser and Toyota Tsusho has continued to enhance its sales team, which was previously supported by KMT. Promisingly, firms like Mavuno and Fanisi are now attempting to replicate the success of the pioneer firms.

BUILDING THE MARKET FOR AGRICULTURAL LIME

KMT's pilot with Homa Lime clearly demonstrated the benefits of using granulated lime on farms in Kenya. Granulated lime is an attractive alternative to powdered lime, which is prevalent in the country yet regarded as undesirable by farmers. The market for lime remains nascent in Kenya: only a fifth of farmers use lime in any form and just 4,000 MT of the 187,000 MT sold annually is granulated. However, the opportunity is vast, with the lime market expected to reach 300,000 MT over the next 5 years. To help build the investment case for granulated lime production in Kenya, KMT conducted a feasibility study and found that local production could reduce the product cost by 23%, create jobs and save foreign exchange.

STRENGTHENING THE SEED SYSTEM

KMT's previous work with the seed regulator and firms like Monsanto led to the introduction of a self-certification process in Kenya, which has helped reduce the timeline for approval from 4-6 weeks to a fortnight. However, the process remained manual and this was causing delays and inhibiting scale-up. To address this, KMT, Trade Mark East Africa and the seed regulator co-developed an automated system, which has helped improve data management and further streamline the process for seed sellers. On behalf of the seed regulator, KMT has trained 45 officers on how to use the new system.

WHERE NEXT?

KMT's ambition is that the agricultural inputs sector becomes innovative and private sector-oriented, capable of delivering quality inputs at competitive prices and driving the use of sustainable farming practices. This will ensure the country's farmers enjoy increased yield stability and incomes.

During 2021, KMT aims to build on the positive momentum and:

- Improve soil health by increasing farmer awareness of - and access - to testing kits and granulated lime. This will involve catalysing additional investment in the local production of granulated lime.
- Reclassify lime as an agricultural input and develop a national liming manual to raise awareness of the benefits of lime. KMT will seek to achieve this by participating in a technical working group led by Kenya Agricultural and Livestock Research Organization.
- Improve the quality of agricultural inputs by developing an accreditation system for inputs (working with agro-dealer associations, input suppliers industry associations and government agencies); onboarding agro-dealers onto the seed regulator's data management system; raising farmer awareness of scratch labelling and counterfeit products; and increasing seed company adoption of the self-certification process.
- Strengthen public-private dialogue mechanisms and improve policy and regulation – by working with a range of industry association
- Enhance extension services by supporting scalable and sustainable models

KENYA LIVESTOCK SECTOR

THE OPPORTUNITY

While Kenya is home to one of Africa's largest livestock herds, the country remains a net importer of meat and its meat trade deficit is growing. There is a strong market incentive to address the livestock sector's underperformance: fuelled by a growing middle-class and rapid urbanisation, the global demand for livestock products is expected to increase by 70% and domestic demand in Kenya is expected to double by 2050.

While Kenya enjoys a strong comparative advantage – owing to the size of its herd, the prevalence of indigenous natural breeds, the widespread use of traditional livestock rearing skills and easy access to ports - the sector is at a nascent stage. High levels of fragmentation and inefficient practices are resulting in low levels of production and yielding meat which is poor quality and 10% more expensive than in other regional markets. With consumer preferences changing and the demand for high quality meat rising, the sector must adapt quickly in order to take advantage of the vast market opportunity.

The livestock sector has major socio-economic significance in Kenya, accounting for 40% of the agricultural labour force and 15% of agricultural GDP. The sector is especially important from a resilience perspective, given 10 million pastoralists in the arid and semi-arid lands (ASALs) of Kenya depend on livestock as their main source of livelihood. Covering 89% of Kenya, the territory boasts relatively few alternative sources of employment and is facing a multitude of challenges (including climate change, water scarcity and food insecurity). The livestock sector has an important role to play in delivering an inclusive and prosperous future for millions of vulnerable people in Kenya.

THE LIVESTOCK SECTOR IS ESPECIALLY IMPORTANT FROM A RESILIENCE PERSPECTIVE, GIVEN 10 MILLION PASTORALISTS IN THE ARID AND SEMI-ARID LANDS OF KENYA DEPEND ON LIVESTOCK AS THEIR MAIN SOURCE OF LIVELIHOOD.

POTENTIAL IMPACT

By 2030 – if Kenya makes its livestock sector more efficient by modernising the value chain and catalysing investment – the country could:

- Shift from being a net importer to a net exporter of beef – increasing beef production 1.5x (to 930K tonnes p.a.) and increasing exports by 30% (vs. 2020).
- Increase the sector's contribution to GDP by 10%
- Move 6 million pastoralists from subsistence to commercial livestock rearing
- Support 16,000 direct and indirect jobs in the value chain
- Set the livestock sector on a low carbon trajectory (by introducing climate-smart production and aggregation models)

THE JOURNEY SO FAR

Kenya Markets Trust (KMT) has been in the livestock sector since 2014. Recognising how the sector was low input, low output and largely subsistence-based, KMT adopted a comprehensive approach, in a bid to address challenges and harness opportunities across the value chain and within the business environment. KMT's strategy involves integrating the millions of pastoralists into the formal value chain; introducing quality standards with greater traceability and cold chain access; and stimulating productivity growth and innovations which increase value addition.

Over the years, KMT have helped deploy a range of new models and approaches across the value chain, in order to test their feasibility and appropriateness. Interventions have sought to realise:

- Innovations in production (e.g. agro-vet models which reduce mortality rates; sustainable rangeland management approaches which build environmental resilience; livestock insurance against drought)
- New routes to market (e.g. aggregator models such as ranches and feedlots which integrate pastoralists into the value chain; finishing and fattening services that deliver more value for pastoralists; traceability technologies which enhance transparency and quality)
- End market reform (e.g. consumer awareness campaigns which increase demand for quality and safe meat; international meat safety standards for processors and retailers; raising awareness of export opportunities and the standards required to capitalise on them)
- Greater policy and sector coordination (e.g. development of the livestock sector policy and master plan; establishment and capacity building of Kenya Meat and Livestock Exporters Industry Council or KEMLEIC)

A number of significant developments have taken place in the livestock sector as a result of KMT's work.

KMT supported the State Department for Livestock in developing the National Livestock Policy and the National Livestock Bill, which was approved by the Cabinet in March 2019. This policy will create the framework and incentives for innovation across the sector, leading to advances in – inter alia - feed, feedlots, breeding, market access and infrastructure development.

"I WISH TO RECOGNIZE THE WORLD BANK, OUR STATE CORPORATIONS AND THE KENYA MARKETS TRUST IN RESOURCING THE LIVESTOCK BILL DEVELOPMENT PROCESS."

Cabinet Secretary, Ministry of Agriculture ,Livestock, Fisheries and Cooperatives

KMT has worked with Tuskys, one of Kenya's largest supermarket chains, to adopt cold chains and implement international safety standards (the Hazard Analysis and Critical Control Points certification). A grant from KMT helped the management team of Tuskys make the investment case to its Board. Subsequently, the firm rolled out the international-grade certification across its meat retail outlets and recorded an 11% growth in meat sales. Inspired by Tuskys, the two other large retailers in Kenya - Naivas and Carrefour - are actively pursuing certification.

The establishment of the industry association KEMLEIC has ensured actors across the value chain have access to information and guidance regarding export opportunities, safety and quality standards, product innovation, value addition and marketing. Engaging closely with the government, this association will play a vital role in enabling the sector to achieve scale, access high-end domestic and export markets and enjoy a favourable investment climate.

CURRENT MOMENTUM

There is positive momentum and KMT has strong credibility: the organisation's vision for livestock in Kenya is effectively reflected in the government's Livestock Policy and the emerging master plan for the sector. Owing to the outbreak of COVID-19, the sector has endured a number of setbacks over the course of the last year, as pastoralists struggled to sell their livestock amid curfews and market closures; limitations on hospitality and tourism crippled demand; and meat processors were unable to access export markets due to international freight restrictions. However, the setbacks were largely temporary and the sector has recovered well in recent months.

KMT continues to influence retail strategies and made significant progress on safety standards and traceability in 2020. As part of a coordinated campaign to accelerate the development of cold chains, KMT worked closely with the State Department of Livestock, sector institutions (e.g. KEMLEIC and the Retail Association of Kenya) and the media (e.g. Nation Media Group) to highlight how the refrigeration of meat is critical in managing health risks and minimising production losses. This campaign built on KMT's previous work with retailers and processors, which has led to firms investing in cold chains and engaging with consumers on the issue of meat safety.

KMT have made good progress in rolling out an integrated approach to animal healthcare, which aims to improve the quality of production and stimulate investment in fattening services by private ranches / commercial feedlots. These interventions will help grow the supply of quality livestock and – consequently – trigger investments in processing, cold chains and exports. Building on previous pilots of – and research on – inclusive ranch models and finishing and fattening models, KMT is testing different business models to demonstrate the commercial viability of feedlots. In addition, as the pressures of climate change intensify, KMT is exploring how the sector can adapt and mitigate the negative impact, with a view to opening up a more resilient growth pathway.

The conditions are right for a shift in Kenya's livestock sector, with strong commitment to change.

In the State of the Nation address in November 2020, the President highlighted the importance of the sector and this has been backed up by the government's recent launch of the Livestock Policy, which aims to modernise the sector. Moreover, the 2030 vision for the ASALs and the £2 billion committed to infrastructure development in the North of Kenya – where a majority of pastoralists are based – promise to strengthen the value chain in the years to come.

In addition, the private sector is increasingly playing its role in the modernisation of the sector, with industry associations promoting the implementation of food quality standards amid a growing domestic and export demand for high quality and differentiated meat products.

HIGHLIGHTS IN 2020/21

ALIGNING SECTOR STAKEHOLDERS ON THE NEED FOR IMPROVED MEAT QUALITY AND SAFETY STANDARDS

Over the last year, the livestock programme has secured stakeholder commitment to improving meat quality and safety standards and this constitutes a major achievement. In late 2020, KMT held three industry roundtables on the topic, bringing together representatives from the industry, the government, the donor community, the media and consumer groups. Following one of these events, KEMLEIC and RETRAK signed an MOU to demonstrate their commitment to helping members strengthen their quality standards. This is a significant milestone for the sector. As a result of KMT's initiative, a Meat Expo has been organised for 2021, which will expose firms in the meat value chain to new technologies / market opportunities and make them aware of the benefits associated with quality and safety standards.

CONTINUING TO SUPPORT GOVERNMENT ON SECTOR POLICY AND GOVERNANCE

Following the successful launch of the Livestock Policy, KMT continued to support the State Department of Livestock, advising on the livestock sector master plan and animal health bill. A critical piece for the sector's long-term governance, the master plan will present a vision of how the sector could modernise, respond to new market opportunities and adapt to environmental challenges.

SUPPORTING THE COVID-19 RESPONSE IN THE SECTOR

Working alongside sector institutions, KMT sought to help the industry understand the impact of pandemic-related restrictions on the sector. As part of this work, KMT supported the Kenya Veterinary Board in lobbying the government for the inclusion of veterinary services and meat as "essential services", thereby exempting the sector from movement restrictions and enabling pastoralists to access animal health products. Following the closure of animal markets, KMT also linked five large buyers to village level aggregators to bolster the supply of meat.

WHERE NEXT?

KMT has identified 4 levers of change to deliver a globally competitive and climate-smart sector which involves millions of pastoralists in the value chain. These are:

1. The institution of a national Livestock Identification and Traceability System (LITS) which can drive quality standards across the value chain
2. The widespread deployment of inclusive and climate-smart feedlot models which improve the quality and quantity of the country's livestock
3. The attraction of large-scale private investment in processing capacity, cold chain and skills which will result in greater value addition
4. The implementation of the government's new Livestock Policy and master plan, which will aid stakeholder coordination, harmonise the different interests of those who use rangelands and deliver a supportive enabling investment.

KMT is well placed to help the sector deliver on these priorities, owing to its strong track record and credibility among public and commercial stakeholders. .

During 2021, KMT aims to build on the positive momentum and:

- Strengthen government, private sector and donor commitment to LITS. This will involve implementing a LITS registry in one county to demonstrate the potential benefits.
- Catalyse investment in additional feedlots, thereby linking pastoralists to the formal value chain
- Refine the feedlot strategy and consider the climate impact of different models – with a view to developing a roadmap for a climate-smart livestock sector in Kenya
- Encourage the adoption of cold chain / quality standards and the use of value-adding technologies among processors and retailers. This will involve working closely with KEMLEIC and RETRAK and supporting initiatives such as the Meat Expo in 2021.
- Complete the first draft of the national livestock master plan as part of the technical task force, which will enable more targeted investment in the sector

MSINGI

East Africa aquaculture sector

East Africa textiles & apparel sector

MSINGI

BUILDING EAST AFRICA'S INDUSTRIES OF THE FUTURE

EAST AFRICA AQUACULTURE SECTOR

THE OPPORTUNITY

Aquaculture is the fastest growing food sector globally. If well managed, farmed fish has the potential to meet the world's rapidly growing demand for protein in an affordable and sustainable manner. In East Africa, the situation is particularly urgent, as the supply from wild fisheries is stagnating at a time when populations are growing at a rapid rate. However, the region is well suited to support significant aquaculture production, with Lake Victoria and other large bodies of water forming a strong natural resources base. As well as helping to address the regional issue of food security, the sector's growth could create a considerable number of low- and semi-skilled jobs in rural and impoverished areas where other income opportunities are limited. The sector is already showing signs of promise: several dynamic businesses have recently invested in the opportunity and are starting to demonstrate the strong commercial potential of aquaculture in East Africa.

Nevertheless, the sector's transformation will take time. While the opportunity is compelling, the sector is at a very early stage in its development. Profitable business models for fish farming need to be demonstrated and then replicated, so more entrepreneurs are enticed into the industry. Local financial markets need to be in a position to fuel the sector's growth. If the industry is to become competitive, firms will require ready access to improved feed, high quality genetics and well-trained personnel. Moreover, the industry's resilience will depend onn industry stakeholders establishing ways of mitigating biosecurity risks, ensuring environmental sustainability and maintaining strong relationships with local communities. In addition, the governance of the sector needs improvement: the private sector and the governments in East Africa must align behind a vision for the development of aquaculture and collaborate closely to ensure the industry is well coordinated and regulated.

SEVERAL DYNAMIC BUSINESSES HAVE RECENTLY INVESTED IN THE OPPORTUNITY AND ARE STARTING TO DEMONSTRATE THE STRONG COMMERCIAL POTENTIAL OF AQUACULTURE IN EAST AFRICA.

POTENTIAL IMPACT

In East Africa, Msingi estimates approximately 1 job is created per tonne of annual aquaculture production. With the right conditions and support, the industry could expand 10-15x by 2030 and reach 165,000 tonnes of production per year. If this is achieved, the industry could support:

- 165,000 jobs - most of these jobs would be low- or semi-skilled and located in areas where job creation is sorely needed
- $270 million per year in employment income
- $495 million per year in additional value for the region's economy
- 1.65 billion additional meals per year, which are likely to be predominantly consumed by low-income population groups

THE JOURNEY SO FAR

Msingi initiated its aquaculture programme in 2017. While the programme has a regional scope, the team has focused largely on Uganda and Kenya to date, given this is where the bulk of the industry is currently situated.

Given aquaculture in East Africa is nascent, there are naturally few demonstrations of commercial success and knowledge regarding fish farming is limited (from a technical and business perspective). It is therefore vital to develop and showcase viable business models which can underpin large-scale firms and SMEs, while raising general awareness of good fish farming. Msingi has helped catalyse significant improvements in these critical areas.

Victory Farms, which Msingi has provided with significant support (including early-stage investment), is now demonstrating that, when managed well, commercial aquaculture can give outstanding commercial returns and growth. The success to date of Victory Farms represents a major milestone for the young industry, with the commercial attractiveness of aquaculture in East Africa progressing from hypothesis to reality.

Msingi has also developed a programme to support high-potential SME fish farms to demonstrate a successful and replicable model for SME fish farming in East Africa. This programme is on-going but has gained good traction with the industry and a lead cohort of farms is now making significant upgrades.

Progress is being made on improving the inputs that are vital to competitiveness in aquaculture. A feed-mill investment (currently being finalised) has been brokered by Msingi, which the team anticipates can contribute to greater competition and quality in local feed manufacturing. In order to attract the investment, the team presented the commercial opportunity to a range of potential backers, drawing on a wealth of supportive data and pointing to the rapid growth of large-scale feed off-takers (such as Victory Farms).

Msingi has worked with leading international genetics experts to appraise the broodstock of the region's top hatcheries. As a result, these hatcheries are now interested, with Msingi's support, to make investments in sophisticated genetics programmes for the first time.

While the industry's trajectory was threatened by the outbreak of COVID-19, Msingi was quick to provide emergency financial assistance and this helped a number of the leading fish farms survive the initial shock. According to evidence gathered by the team, the farms which received assistance were able to avoid disposing of fish at throw away prices; support their stocks with sufficient feed; maintain – or in some cases even upgrade - their HR capabilities; and prevent a level of biomass loss which would have inhibited future growth.

CURRENT MOMENTUM

The fundamentals of the aquaculture industry remain strong and the outlook is very positive. Despite growth in the supply of fish, prices have not been negatively affected and demand appears set to continue rising, owing to demographic trends and the stagnation of wild catch volumes.

The industry has nearly doubled in size since Msingi began supporting aquaculture in 2017 and this growth trajectory appears set to continue. However, this growth has to date been driven mostly by a small handful of players and the wider industry is still finding its feet commercially. Nevertheless, the trajectory here is also positive, as professional, data-driven approaches to farming are gradually being taken up, and SME farms are taking positive steps in developing a commercially successful business model. In the next 1-2 years, the team hopes large-scale firms will continue to attract investment and grow, while SME farms prove business models which can be widely replicated.

Over the past decade, a significant amount of donor support has been channelled to small-scale aquaculture, yielding mixed results. Many smallholders continue to struggle with the lack of available and relevant management expertise; the high cost of feed; the low quality of seed; and market access issues. However, despite these challenges, the uptake of aquaculture among small-scale farmers has continued. Msingi is investigating small scale farm business models and the triggers for commercial success that could help improve uptake and success in aquaculture for such firms.

Key drivers of competitiveness in aquaculture are feed and seed. Here the momentum is encouraging. Msingi's support has helped catalyse commercial investment that can deliver a step change in both areas – for instance, a new feed mill to be constructed in Kenya over the next 18 months, and new genetics programmes initiating currently in both Kenya and Uganda.

If this progress in investment and productivity can continue, the team is optimistic about the industry's growth prospects. However, while aquaculture's commercial trajectory is increasingly positive, there are also emerging risks. In particular, the industry has limited capabilities and mechanisms on biosecurity and environmental sustainability. The industry also faces a complex local stakeholder landscape where tensions, for instance regarding the use of Lake Victoria, can sometimes emerge. As the industry grows, the ecological and social risks will become more significant and they require proactive attention.

The mitigation of these risks is a major priority for Msingi. Over the past year, the team has established some encouraging entry points that could, with work, lead to positive change. For example, the government in Kenya is reviewing its aquaculture regulations and exploring the spatial planning of Lake Victoria. In addition, members of the private sector in Uganda are starting to lobby for better regulations on issues relating to biosecurity and the environment. Msingi hopes to support stakeholders by using entry points such as these and delivering on key improvements for the sector, such as a more robust approach to regulation and licensing (which helps to mitigate environmental and biosecurity risks); the strengthening of on-farm practices; the expansion of veterinary services; and greater coordination between farms.

In order for the industry to sustainably mitigate against the various risks, it is critical the private sector can organise effectively and enter into a positive dialogue with the region's governments. While the sector coordination remains relatively weak, the momentum is positive, as industry groupings across East Africa recognise the need for stronger and more proactive engagement with the public sector. In the coming year, Msingi aims to increase its support for these efforts.

IN ORDER FOR THE INDUSTRY TO SUSTAINABLY MITIGATE AGAINST THE VARIOUS RISKS, IT IS CRITICAL THE PRIVATE SECTOR CAN ORGANISE EFFECTIVELY AND ENTER INTO A POSITIVE DIALOGUE WITH THE REGION'S GOVERNMENTS.

HIGHLIGHTS IN 2020/21

DEMONSTRATING THE COMMERCIAL ATTRACTIVENESS OF REGIONAL AQUACULTURE

When Msingi invested in Victory Farms two years ago, it was a pre-profit start-up. The team hoped the firm could demonstrate the potential of large-scale aquaculture in East Africa. In FY20-21, Victory Farms became a profitable business, recording impressive growth and impact while catalysing investment in supporting markets (such as feed and genetics). Msingi's investment in Victory Farms has helped the business prove the commercial case for large-scale aquaculture in the region and this represents a major milestone for a young industry

BROKERING A CATALYTIC FEED MILL DEAL

Msingi has helped broker a deal which will result in the establishment of a high-quality fish feed mill in Kenya. The team expects this will help accelerate the production of more competitive feed in the region and reduce the sector's reliance on expensive imports. This investment was made more attractive by the growing feed off-take of Victory Farms and some research undertaken by the team which outlined the aquafeed opportunity. Alongside an international operator, Msingi will co-invest in the feed mill.

RAISING PRODUCTIVTY AMONG MID-SIZE FARMS

Msingi has focused on helping mid-size farms to develop profitable and replicable business models for SME fish farming in East Africa. Msingi is currently mid-way through this programme, and it is starting to demonstrate real traction with significant uptake of more rigorous, data-driven approaches to fish farming.

MANAGING A SUCCESSFUL EMERGENCY COVID-19 RESPONSE PROGRAMME

Following the outbreak of COVID-19, many farms were facing a liquidity crisis, as sales were heavily affected by market restrictions and the rapid decline in demand. In response, Msingi developed an emergency support programme, which enabled farms to sustain their stocks as sales plummeted. The team successfully helped farms avoid a liquidity crunch and maintain a level of biomass which has set good foundations for future growth.

WHERE NEXT?

The sector appears well positioned to grow significantly and create substantial job opportunities, including for women. The team has helped the industry start to prove the commercial case for aquaculture in the region and has helped lay some of the foundations for future competitiveness and growth. Over the coming years, Msingi will focus on helping the industry build on these foundations and prepare for a take-off in growth, while supporting stakeholders as they establish ways of mitigating the emerging environmental, biosecurity and co-existence risks.

The team will:

- Continue to help SME farms develop and demonstrate the viability of their business models
- Supply entrepreneurs and financiers with information and support in order to encourage investment in the sector
- Explore how small-scale farms could play a profitable and environmentally sustainable role within the industry, and explore how successful small scale farming business models could be promoted at scale

Encourage effective and sustainable training mechanisms for the industry to ensure a pipeline of well-trained managers

Continue to support investment in feed and genetics to ensure improved inputs are made widely available over the next two years

Help the industry establish a means of mitigating environmental and biosecurity risks. This is a top priority for the team and is likely to involve seeking improvements in regulations, licensing, on-farm practices, inter-farm coordination and veterinary / diagnostic services. This will include significant work in partnership with government – on regulations, licensing and supporting a vision for the industry's development which is shared across all stakeholder groups. As part of this, the team will support a number of emergent industry associations to build their capacity to coordinate and engage in effective dialogue with government.

EAST AFRICA TEXTILE & APPAREL SECTOR

THE OPPORTUNITY

Textiles & apparel is a high-potential sector which can drive substantial increases in a country's export income and create a significant number of jobs, particularly for women. Historically, the sector has played a critical role in the successful industrialisation of Europe, the United States and – more recently – countries in East Asia. The contemporary industry is global in nature, with value chains knitting together countries at various stages of economic development.

Over the last decade, there has been a marked shift away from production centres in Asia and this has been driven by multiple factors, including specialisation; the rising cost of production; changing consumer habits; demographic change; and the shock of the COVID-19 pandemic. Indeed, the pandemic exposed the extent to which brands have concentrated their operations in Asia and – in response – firms are now seeking to diversify their resource base and build vertically elsewhere. There is a growing strategic emphasis on developing regional value chains rather than distributing value chains across different continents.

Home to vast natural resources and a rapidly growing population, Africa represents the "last frontier" for textiles & apparel. The continent's industry appears well placed to expand and attract investment, enjoying free trade access to the world's major economic hubs and benefitting from recent improvements in physical and digital infrastructure. Increasingly, global brands are recognising the opportunity and seeking to establish competitive and responsible operations in Africa. Governments in East Africa – in particular – appear willing to provide quality-driven and sustainable brands with an attractive incentive package, with the hope of inspiring technology transfer, job creation, export growth, value addition and transformational investment. While Ethiopia has recorded the fastest growth rate in the region in recent years, Msingi believes the members of the East African Community (EAC) could outstrip this growth rate if the governments are willing to continue adapting their investment offerings, incentives and policies so they are more aligned with the needs of brands.

The textiles & apparel team are aiming to capitalise on the industry's migration from centres of production in Asia, positioning East Africa as a competitive, sustainable and responsible manufacturing hub. As part of this, the programme is seeking to work closely with the sector's stakeholders, with a focus on enhancing the enabling environment, boosting firm-level productivity and ensuring the industry is structured in a resilient and inclusive way.

INCREASINGLY, GLOBAL BRANDS ARE RECOGNISING THE OPPORTUNITY AND SEEKING TO ESTABLISH COMPETITIVE AND RESPONSIBLE OPERATIONS IN AFRICA.

POTENTIAL IMPACT

By 2030 - with the right business environment and government commitment to textiles & apparel across the EAC – Msingi estimates the bloc can:

- Attract $1.2 billion in investment, which would result in $2.7 billion of additional export value (c. 3% of the EAC's GDP)
- Stimulate the creation of 150,000 direct and indirect jobs
- Reduce the sector's carbon footprint by 30%
- Ensure 90% of operators adopt good labour practices and promote gender equality, achieving 50:50 representation at management level

THE JOURNEY SO FAR

Following the establishment of the Aquaculture programme in 2017, Msingi's textiles & apparel programme was launched in 2019. During the strategy development phase, the team recognised how sector transformation would depend on the willingness and capacity of the major stakeholder groups to coordinate their actions more effectively. Consequently, the programme has focused to date on setting out possible transformation pathways and encouraging the adoption of a shared vision among the many interested brands, investors, government ministries and development partners.

As part of this effort, the team has collaborated closely with the public sector in the region, strengthening its ability to coordinate the industry, promote investment and respond to the demands of buyers and manufacturers. In particular, Msingi has engaged with the governments in Kenya and Uganda, supporting the development of country-level sector strategies. In consultation with the Ministry of Industry, Trade, and Enterprise Development in Kenya, Msingi has sought to improve how the Ministry's "Cotton, Textiles and Apparel" (CTA) desk works, with the aim of ensuring the function is able to deliver on the government's strategy for the sector. Following a comprehensive assessment of the function's current state, Msingi has shared a set of recommendations with the government in Kenya and – if called upon – stands ready to assist with their implementation. In addition, the programme has been actively supporting the country's investment promotion agencies, ensuring their materials and investor visits effectively showcase the industry's potential and the region's advantages. Alongside this work, the team has played an instrumental role in supporting the government as it negotiates a free trade agreement with the United States.

In Uganda, the programme has helped to develop a national CTA strategy and a pack which promotes the investment opportunities, establishing strong relationships with the National Planning Authority, The Ministry of Trade Industry and Cooperatives and the Ugandan Investment Authority. The national CTA strategy is currently under final review, as the impact of COVID-19 is assessed and implementation costs and plans are pulled together. The strategy is expected to be endorsed by parliament in the first quarter of FY2021-22.

As well as extensively supporting governments, the team has engaged with brands which have strong footholds and manufacturing bases in East Africa. These leading brands will play a pivotal role in enabling the region to benefit from the global migration of the sector and exert a strong influence on the industry's sustainability and compliance frameworks. In order to ensure the brands are aligned with the government in terms of priorities and areas of focus, the programme has helped facilitate an ongoing public-private dialogue. In addition, the programme has supplemented its work with established brands by actively seeking to attract new brands to East Africa. This has included direct engagements as well as showcasing the region as a desirable location for both sourcing and production.

To effectively engage with governments and brands, the programme has drawn upon industry data and insights which have been generated by the team's independent research and interactions with its network. Increasingly, the programme is being recognised as a source of comprehensive and reliable information on the sector and this is strengthening the team's convening power. Having played a leading or supporting role in the delivery of annual industry surveys and industry-related studies, the programme is routinely invited to comment on assessments commissioned by other development actors, including – inter alia - the UK's Foreign, Commonwealth & Development Office (FCDO), McKinsey & Company, Financial Sector Deepening Africa (FSDA), Supporting Indian Trade Africa (SITA) and The European Centre for Development Policy Management (EDCPM). Amid COVID-19, the programme's data and technical input played an important role in shaping the response of governments, development partners and the private sector, as well as informing strategies related to the manufacturing and sourcing of personal protective equipment.

Since its inception, the programme has sought to convene stakeholders from governments, development circles and the private sector. The team's data and insights have helped ensure the reality on the ground is at the core of industry discussions and – over time – the programme has helped inspire a degree of alignment on a long-term vision for the industry and immediate priorities.

CURRENT MOMENTUM

The textiles & apparel programme is gaining momentum and engagements with governments and brands are resulting in higher levels of commitment and enhanced capacity. While COVID-19 sent shockwaves through the global industry and put significant pressure on value chains around the world, the pandemic ultimately strengthened the business case for maintaining a diverse portfolio and investing in geographies like East Africa, as brands and sourcing agents paid a high price for trade disruption in Asia and rising East-West tension. Moving forward, brands want to reduce their reliance on the long-haul transportation of raw materials and establish a production network which consists of vertically-integrated regional hubs. Given East Africa meets most of the investment requirements set by brands, there is an urgent need to foster collaboration between EAC governments and the private sector and effectively capitalise on this strategic shift.

The programme aims to continue playing the role of an honest broker, facilitating connections between responsible brands, manufacturers, development agencies and governments in order to accelerate investment in the sector and its vertical integration. In order for the industry to deliver game-changing revenues, profits, jobs and innovations, it is critical stakeholders develop and maintain a strong set of value chains within the region. Indeed, greater verticality will lower the cost of production, increase the speed to market and make the industry more resilient.

THE PANDEMIC ULTIMATELY STRENGTHENED THE BUSINESS CASE FOR MAINTAINING A DIVERSE PORTFOLIO AND INVESTING IN GEOGRAPHIES LIKE EAST AFRICA

HIGHLIGHTS IN 2020/21

ASSISTING GOVERNMENTS WITH THE DEVELOPMENT OF SECTOR STRATEGIES AND INVESTMENT PROMOTION

Over the past year, the textiles & apparel programme has played a critical role in shaping how the governments in Kenya and Uganda intend to accelerate the industry's growth trajectory. In Kenya, the team collaborated closely with the Ministry of Industry, Trade, and Enterprise Development and made recommendations regarding how to enhance its "Cotton, Textiles & Apparel (CTA)" function. In Uganda, the team were invited to advise on the drafting of a national CTA strategy and are consequently well-positioned to support the government with its implementation once it is endorsed by parliament. In both countries, Msingi has also helped improve how the public sector approaches investment promotion and responds to the demands of interested brands.

ATTRACTING POTENTIAL INVESTORS WITH A COMPELLING BUSINESS CASE FOR INVESTMENT IN EAST AFRICA

COVID-19 has sent a shockwave through the industry, exposing the extent to which brands depend on supply chains emanating from Asia (and China in particular). As the sector recovered from the immediate impact, Msingi quickly recognised the potential opportunity, engaging directly with the global and regional brands / investors interested in diversifying their portfolios and accelerating vertical integration in East Africa. As the region boasts a competitive speed-to-market and relatively low production costs, the team has made promising in-roads with potential new entrants as well as firms seeking to expand their footprint in the region beyond Ethiopia.

ESTABLISHING MSINGI AS A SOURCE OF RELIABLE INDUSTRY DATA AND AN INFLUENTIAL CONVENOR OF INDUSTRY STAKEHOLDERS

The team has focused on building its understanding of the industry's dynamics and potential in East Africa. Conducting regular surveys and leveraging an extensive network of operators and experts, Msingi has amassed a vast dataset and a wealth of insights which industry players, governments and the development sector are using to enrich their discussions, strategies and operations. Moving forward, the programme aims to maintain its position at the cutting-edge of industry research, appreciating how its library of information enhances the team's credibility and convening power.

WHERE NEXT?

The programme will continue to focus on ensuring governments establish and maintain support and coordination mechanisms which will help inspire the development of a competitive and resilient Textiles & Apparel sector. In Kenya, the team will assist with the implementation of the action plan regarding the CTA desk. In Uganda, the programme will work closely with the government as soon as the CTA strategy is endorsed and its implementation begins.

Moreover, the programme intends to strengthen East Africa's positioning as a sustainable and responsible manufacturing hub. In collaboration with stakeholders, the team hopes to draw up a regional roadmap which will detail how and when the industry should be regulated in different ways. As part of this, the programme aims to ensure governments and operators discuss embedding at least two sustainability measures as part of routine reporting. Furthermore, the team will continue to support manufacturers as they transition to practices which result in accreditation, increases in productivity and profits, and better working conditions.

Underpinning these efforts, the programme will build on its strong knowledge base regarding the industry and continue to share insights which could accelerate the sector's growth trajectory and / or enrich discussions surrounding its future. At a programme-level, the team is seeking to enhance the monitoring and evaluation of its own contribution, which will help Msingi have a more granular understanding of what is working and delivering the most significant impact.

Over the coming year, the team will:

- Focus on implementing the priorities identified in the national sector strategies. This will involve close collaboration with government stakeholders in Kenya and Uganda.
- Strengthen the promotion of investment and the identification of opportunities in East Africa. As part of this work, the team will facilitate investor visits, engage directly with brands and convene public-private dialogues.
- Help ensure fit-for-purpose production facilities are established which meet the long-term needs of investors. This will involve working closely with the authorities responsible for industrial parks and export processing zones.
- Explore opportunities in the cotton sector across Uganda and Tanzania, with a view to ensuring the regional value chain is well integrated
- Launch firm-level interventions aimed at addressing issues of compliance, productivity and export readiness
- Continue to collect, curate and share reliable industry data in an effort to strengthen the programme's credibility. This will enable the team to convene influential stakeholders, maintain positive momentum and learn from its own interventions.