African private equity fund powering agriculture and food enterprise

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In my August column, I discussed the role of agriculture and food processing in the industrialisation of Africa. The article stimulated interest in a number of influential quarters, including from one of the largest private equity funds investing in African food and agriculture businesses. Called Phatisa, it is located in Africa and operates across sub-Saharan Africa.

Although Phatisa also invests in affordable housing, it is better known as a supplier of capital to the food and agriculture sector. It has funds under management of more than US$285 million and offices in Côte d'Ivoire, Kenya, South Africa, Mauritius, and Zambia.

It's an interesting and strategically important business, so I interviewed Stuart Bradley, the firm's joint Managing Partner. I wanted to know more about Phatisa and particularly about the firm's relationship with the Overseas Private Investment Corporation (OPIC), the US government agency that helps American businesses invest in emerging markets.

Mr. Bradley, please briefly explain Phatisa's business strategy and philosophy?

Phatisa's vision is to be the leading sector-focused development equity fund manager in Africa. We use the equation, **DevEq = PAT * x + i^2** to explain our philosophy, ambition, and strategy. It means a balanced blend of private equity and development finance, used to build sustainable assets and communities while ensuring the best possible returns for investors. The equation is so central to our culture that we have the intellectual rights to it. It is one of our most valuable assets; a sign of trust for our public and private investors and for the businesses and communities we invest in.

How broadly does Phatisa aim to invest in the agriculture and food sectors?

We aim to invest in every link in the food chain, from the field to the family table. In fact, we are happy to invest in good projects in the vital elements food producers need, like chemicals, seeds, farming and food handling machinery. Then it's on to distribution, logistics, and packaging; food and beverage brands for the FMCG, catering and hospitality sectors and even quick service restaurants. We are specialists in backing agriculture and food businesses and have nine what we call "portfolio companies" across the food and agriculture sectors.

Please give our readers a specific example?

We backed Goldenlay, an egg business in Zambia that was producing 250,000 eggs a day. It now turns out 500,000 eggs a day. That's over 18 million eggs a year. Doubling production is easy to say, but only very competent management teams can rise to the demands of doubling processing, packaging and logistics capacity. It has also meant employing more people, winning and servicing more customers, upgrading technology, even more, rigorous hygiene procedures and, of course, premier league financial control. Goldenlay is a real success story for us, the company, the workforce and for Zambia.

An independent view

I wanted to turn Stuart Bradley's attention to why OPIC had chosen Phatisa to manage its money and how the relationship benefits Africa and the US. First, though I sought an authoritative, independent, view of US involvement in African food and agriculture. I turned to Alan Bullion of Agribusiness Intelligence, one of the world's leading sources of news, research and analysis on agricultural economics.

"The USA has a great deal to offer African agriculture. No other nation can match America for its range, size, and depth of scientific, technical and engineering expertise in agriculture. Most critically, in the agrichemicals sector alone American knowledge of shale gas extraction married to its know-how in ammonia, nitrogen, and urea could transform the fertiliser sector and significantly bolster African crops and food security," says Bullion.

Having been reminded by Alan Bullion of the enormous size of the US agriculture sector and its great skills, I asked Stuart Bradley why OPIC had chosen Phatisa as a vehicle for US$115 million of American money?

OPIC has given us responsibility for US$50 million in our first fund and for $75 million in its successor, the Phatisa Food Fund 2. They found in us the right mix of experience and skills and a value set that chimes with their objectives and mission. Our $DevEq = PAT * x + i^2$ approach is a statement of what we always aim to achieve; to make the whole greater than the sum of its parts.

Like all development finance institutions that draw on the goodwill of taxpayers in affluent nations, OPIC wants to be confident that its fund managers are dealing only with people of real integrity. Our reputation matters. We are judged as human beings by the company we keep and by business partners in the same way. OPIC has due diligence procedures that are extremely strict, so not only do we at Phatisa not want to deal with questionable individuals and companies, the OPIC systems will weed out any we might miss. This is a critical issue. Big global corporates care deeply about how and who they are seen to do business because their share price, customer confidence, brand resilience and profits will all suffer if they chose the wrong partners.

So how do African businesses benefit from OPIC's investment?

OPIC combines its remit of helping US businesses win more market share in emerging markets with its economic development mission. Investments have to deliver commercial returns to investors but also be in sectors that have fundamentally strategic benefit to African economies. Nothing is more fundamental than food production and supply. Food is the biggest single sector of any economy. OPIC's trust in Phatisa has brought new capital to Africa, made it easier for farming and food businesses to access large amounts of capital and helped the industry modernise and make more productive use of science, technology, and advanced business tools.

Specifically, how can US businesses benefit from private equity investments in Africa?

OPIC is in the business of opening doors to commercial opportunities while giving African countries more of the means to develop their economies. Phatisa has backed a number of companies in Africa that have bought American-made goods and services. AGCO, the multi-product agriculture machinery business probably best known for its Massey Ferguson brand has benefited, as have Costex Tractor Parts and Black Cat Blades. Phatisa has invested in FES in Malawi, which has become the sole Malawi distributor for AGCO products. FES gets technical and commercial support from AGCO, Malawi's farmers get modern machines that come with high-quality local parts and repairs services and the whole business of agriculture becomes more productive, benefiting everyone from grower to consumer.

Can private investors in Africa and internationally be persuaded that some of the world's poorest peoples and nations can produce returns to investors and deliver affordable food to the peoples of Africa?

Africa imports between US$30 and US$50 billion in food every year, yet many parts of the continent can produce vast amounts of food and in a huge variety. We have a growing population in Africa and feeding people properly means a massive increase in the volume and variety of food produced. The World Bank estimates that Africa's food and farming industry could be worth US$1 trillion by 2030. Africa is also becoming wealthier. As we move from being subsistence societies to complex, multi-layered, services-driven economies there will be more and more opportunities to invest. It's a virtuous circle. The investment brings food, processing, transport, jobs, incomes, and taxes for governments. The more those things exist in economies the more stable they tend to become and that reduces risk and that attracts more capital.

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