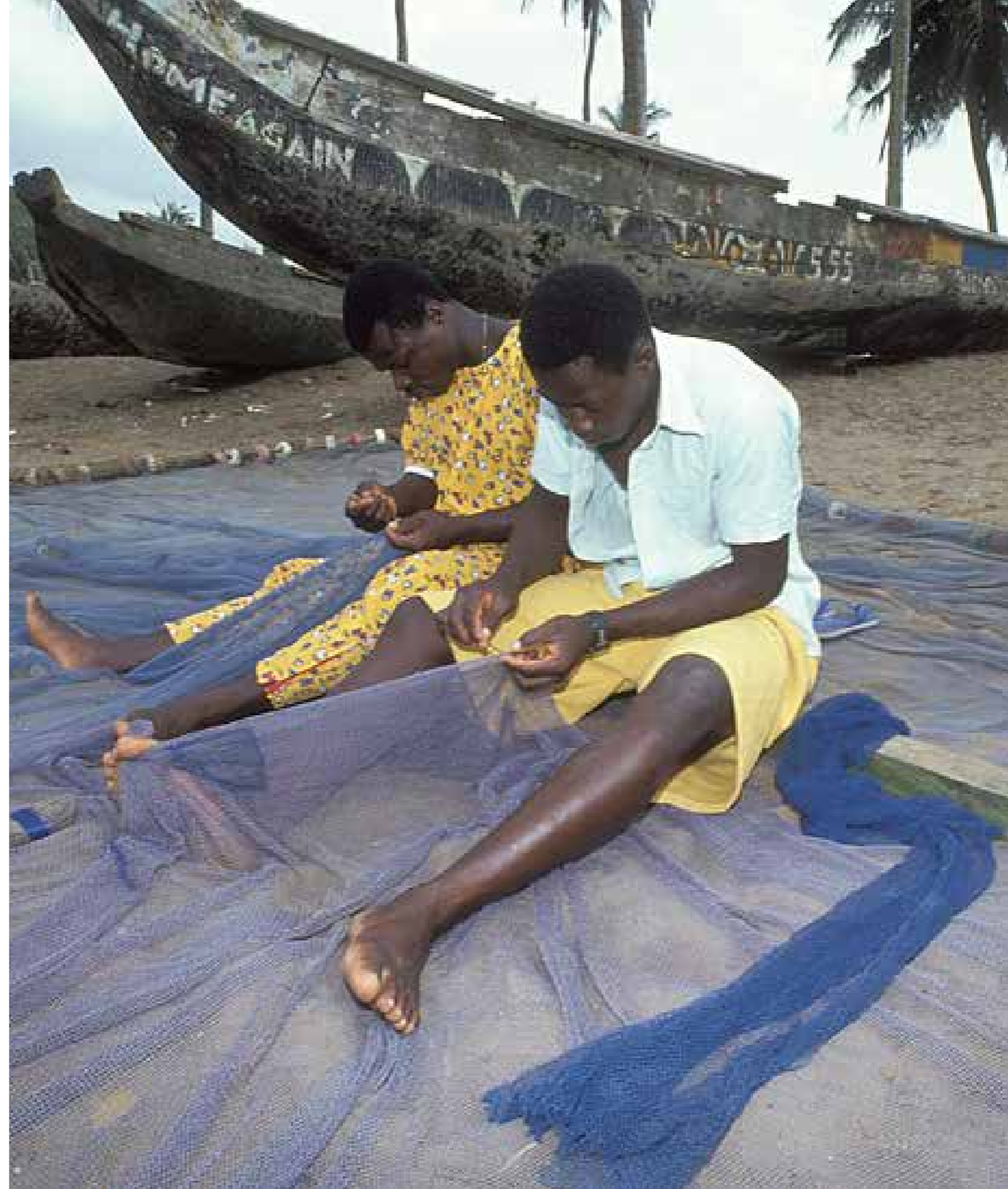


THE PAN-AFRICAN FISHERIES
AND AQUACULTURE POLICY FRAMEWORK
AND REFORM STRATEGY: A CASE
FOR IMPACT INVESTMENT FUND

PROMOTING PRIVATE INVESTMENT FINANCE
IN SMALL & MEDIUM FISHERIES &
AQUACULTURE ENTERPRISES IN AFRICA





Executive Summary



In Africa, the Small and Medium Enterprises (SME) sector accounts for over 90% of all enterprises of which between 70 to 80% are micro and very small enterprises, while medium enterprises account for between 5 to 15%. They provide the main source of jobs and income for Africans. Significantly, African women entrepreneurs own more than half of African SMEs, and up to 70% of the vast rural population in Africa is active in the SME sector, formally and informally.



However, recent research has demonstrated that SMEs in the fisheries and aquaculture value chains face particular challenges to their establishment, success and eventual expansion. Key to these challenges are (i) the capacity of the SMEs and (ii) their ability to access the financial services that are critical for their success.



While many SMEs do overcome these challenges, many don't. Moreover, much entrepreneurial talent is directed to other sectors, where success is perceived to be less challenging.



It is recommended that the capacity of SMEs in the fisheries and aquaculture value chains be strengthened and promoted through design and implementation of projects that support SME mentorship, incubation and development.



It is critical to offer training at tertiary level that support entrepreneurship in the fisheries and aquaculture value chains.



It is recommended that fisheries and aquaculture will be incorporated in the Comprehensive Africa Agriculture Development (CAADP) Investment Plans with a special focus on growth targets of the SME sector.

NEPAD Planning and Coordinating Agency, African Union Interafrican Bureau for Animal Resources 2016, *The Pan-African Fisheries and Aquaculture Policy Framework and Reform Strategy: A Case for Impact Investment Fund*, NPCA, AU-IBAR, Midrand, South Africa.

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Introduction & Background

The Pan-African Policy Reform Strategy, produced on the direction of the Conference of African Ministers of Fisheries and Aquaculture (CAMFA), has put forward a pathway for growth. This will bring opportunities for private sector engagement at all levels. The argument is that the creation of a system where renewable aquatic resources are effectively managed for the benefit of the owners of those resources (the enabling environment) will generate private sector investment opportunities.

With a value of more than USD\$ 24 billion and employing over 19 million people, the African fisheries and aquaculture value chains represent attractive opportunities for investment. Simply maintaining the sector at this level of activity will present attractive investment opportunities. However, the real potential lies in the changing nature of the sector and the markets that it services. This is seen in:

- The growing political recognition of the importance of the sector to national food security and economic growth; manifested in better regulated access to resources such as fish stocks, land and water and enabling environments that are investor friendly and conducive to sustainable growth.
- Increasing demand of every market segment.
- The exponential growth of the aquaculture sector output from the top 10 African producers increased by over 30% between 2009 and 2010.

This adds up to an investment opportunity; the realisation of which can radically transform the contribution of the sector to African economies. Effective investment in sustainable businesses will therefore generate sustainable growth.

This growth can be driven by the Small and Medium-sized Enterprise (SME) sector. SMEs are generally the most active in any economy, in terms of numbers, production, sales, economic activity or employment generation. SMEs are the nursery grounds for large national, continental and global companies. However, SMEs face challenges. For a start, most won't make it. In the USA, the average life span of an SME is five years. In China it is less than 3 years.

Nonetheless, SMEs in Africa exist, survive and thrive - but not enough of them. This is particularly so in the fisheries and aquaculture value chains. Recent studies undertaken by the NEPAD Agency (PAF Fish Investment Finance 2011) have shown that the SME sector in the fisheries and aquaculture value chains represents the best opportunity for realising the growth potential afforded by a better enabling environment. This is due to national and regional strategies that emphasise the promotion of private sector investment and support to SMEs as a strategy for growth. While many National Agriculture Investment Plans of CAADP stipulate the need for a minimum of 6% annual growth, such targets may not be reached without the involvement of SMEs.

A key requirement for any business is access to finance. Recent studies have highlighted that SMEs face challenges in accessing finance. This Policy Brief puts forward the argument for SME engagement in the fisheries and aquaculture value chains and makes recommendations on how this engagement might be supported through innovative investment and capacity support.

An overview of the African fisheries and aquaculture value chains

Fishing and aquaculture are two distinct processes for producing a single product. Once produced, the sectors share the path to market. This is shown in Figure 1, below:

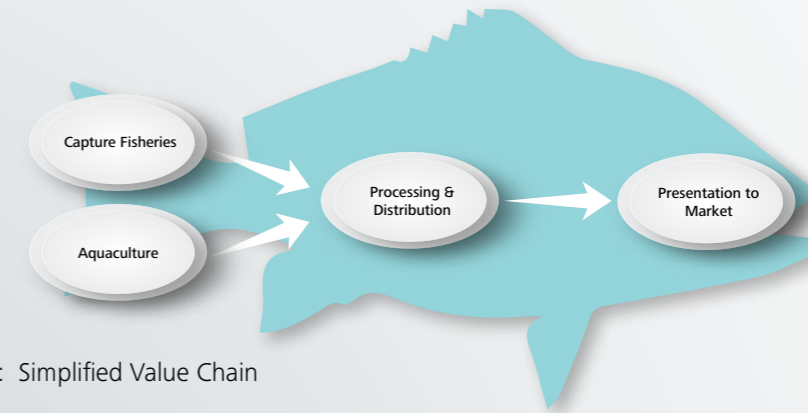


Figure 1: Simplified Value Chain

The Capture Fishery

This involves the capture or trapping of wild fish from the sea, lakes or rivers. This process is generally called 'fishing'.

In Africa, fishing is generally segmented as follows:

- **Artisanal or Small-Scale:** As the name implies, this is the fisheries equivalent of the smallholder farmer. The sector is associated with subsistence and it is not seen as a target for commercial investment. However, as with many smallholder farmers, many participants are highly commercial and participation requires investment beyond the means of micro-finance.
- **Commercial or Industrial:** This sector is more sophisticated and requires much higher investment. Fishing is generally carried out in the sea. There are very few commercial fishing vessels on African lakes. With the perceived prevalence of illegal, unreported and unregulated fishing in African waters, this sector received bad press. However, the reality is that commercial fishing in a well regulated environment is highly profitable.

Summarized in Figure 2.

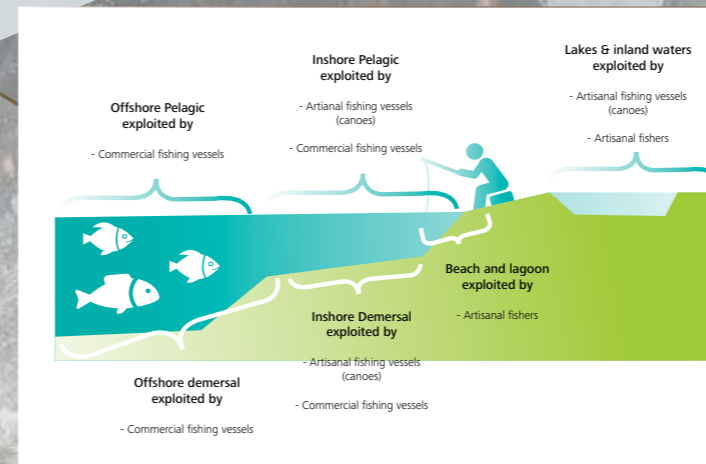


Figure1: Simplified fisheries profile

	Prodn/ T'000		% growth	
	2006	2010	2006-10	2009-10
Morocco	877	1,136	30%	(2%)
South Africa	619	624	1%	22%
Nigeria	552	617	12%	3%
Uganda	367	414	13%	3%
Senegal	393	410	4%	(11%)
Top five total	4,568	4,926	8%	5%
Africa Total	7,005	7,567	8%	0%

Table 1: Top five African fishing nations (FAO 2009)

Aquaculture

In the year 2000, total aquaculture production was less than half a million tonnes. Today, it is estimated to be in excess of 2 million tonnes. Africa successfully farms tilapia, catfish, shrimp, seaweed, oysters, trout and abalone, to name a few, and growth has been driven by SMEs.

There are different aquaculture processes and many marine species are farmed. Broadly, these can be segmented as follows:

	Production/ T'000		% growth		
	2006	2010	2006-10	2009-10	
<ul style="list-style-type: none"> Extensive: Where fish, shellfish or seaweeds are constrained in a limited environment and left to their own devices. 	Egypt	595	920	55%	30%
<ul style="list-style-type: none"> Semi-intensive: Where fish, shellfish or seaweeds are constrained in a limited environment which is artificially enhanced to improve productivity. 	Nigeria	85	201	137%	31%
	Uganda	32	95	193%	24%
<ul style="list-style-type: none"> Intensive: Where fish, shellfish or seaweeds are grown in a totally artificial, highly controlled environment designed for maximum productivity. 	South Africa	6	18	201%	240%
	Kenya	1	12	1105%	148%
	Top five total	747	1,295	73%	32%
	Africa Total	806	1,324	64%	32%

Extensive farming systems are often employed by smallholder farmers. Intensive operations are always commercial.

Processing, Distribution and Marketing

Fish is a highly perishable product. Therefore, the process of getting it to market is a critical element of the value chain. Fish is generally presented to the market in the following forms:

- Fresh:** The market generally prefers fresh fish. Fresh fish from Africa is traded throughout the world. If the fish is sold close to the point of harvest, the process is simple; the time between harvest and final sale is short and handling is minimal. Anything involving transport over a distance requires the use of ice and insulated containers. Anything involving export requires quality management of the highest standard.
- Frozen:** For many this is the processing and distribution method of choice. Properly frozen and handled, fish has an almost unlimited shelf life. Fish may be filleted or semi-prepared to reduce bulk and add value. However freezing a fish does not necessarily add value. Indeed, a frozen fish is often of less value than its fresh equivalent. Freezing at any scale is capital intensive and requires sophisticated quality management systems.
- Canned:** Relatively few, albeit well-known, species lend themselves to canning: tuna, pilchards and sardines for example. The process is highly capital intensive and requires experienced management and a high level of technical skills.
- Dried/Smoked:** Although figures are hard to find, it is likely that the majority of domestically consumed fish in Africa is bought smoked or dried. Well-established traditional processes and value chains serve this market. Although the market is predominantly domestic, there is a growing export market that services African expatriates.

Investment opportunities

The sector can broadly be segmented into the following services; the capture fishery, aquaculture, and both. An indicative list is shown in the table below:

Item	Typical Investment	Item	Typical Investment
Services		Capture Fisheries	
a) Capture fisheries		Fishing operations	Medium / High
Boat yards	Medium/High	Aquaculture	
Services	Low/Medium/High	Fish farms (generic)	Medium / High
b) Aquaculture		Bringing the product to market	
Feed mills	Medium/High	Transport services	Low/Medium/High
Hatcheries	Low/Medium	Processing / Value added	Medium/High
c) Both			
Ice manufacture	Medium/High		
Equipment supplies	Low/Medium/High		
Inspection & advisory	Low/Medium		
Key			
Low investment	<US\$ 1,000,000	High investment	>US\$ 5,000,000
Medium investment	US\$ 1 – 5,000,000		

Problem Statement

SMEs in the fisheries and aquaculture value chains face the following challenges:

- The perception is that the fisheries sector is overexploited and investment in productive capacity is unwelcome and risky. However, African nations are reforming their governance structures. Working under the umbrella of CAADP, this reform process will bring opportunities for sustainable growth.
- Aquaculture in Africa is in its infancy. Potential investors have little understanding of the sector and, thus, loath to support growth. However, this is changing. Exponential growth in countries such as Egypt and Nigeria is demonstrating the viability of aquaculture as a business.
- Although investment funding for business in Africa is available, SMEs find this hard to access. Investment funding tends to target big business; the constraint being the transaction cost of making a relatively small investment.
- Even where investment is available, SMEs face capacity challenges. On the one hand, emerging SMEs often don't have the knowledge needed to attract and manage funding and to evaluate the benefit of different funding options. On the other hand, potential investors are wary of committing to support to a sector where management capacity is perceived to be a constraint.

The result is that the SME sector is often denied access to formal investment funding. This is widely recognised and social investment instruments are being developed by organizations such as the Impact Investment Network, CDC and other development finance institutions; none of these to date target the fisheries and aquaculture value chains.

Approaches and results

A well-managed African fisheries and aquaculture sector has the potential to significantly increase the economic and social contribution from the sector. Moreover, exponential growth in production from aquaculture is a real prospect and this will increase affordable food supply and contribute to African nutrition. Driven by CAADP and supported by the CAMFA process, African fisheries and aquaculture governance is being reformed.

It is suggested that the time is right for a fisheries and aquaculture impact investment fund for Africa that is targeted, socially and environmentally friendly, and profit-oriented. There is evidence that there is a huge demand for SME funding along the entire

fisheries and aquaculture value-chain, and considerable high potential supply of funding in search of growth and development opportunities in fisheries and aquaculture in Africa. However, conventional funding pathways do not meet SME needs. It is for this reason that an Impact Investment Fund is proposed.

Impact investment funding requires the appropriate enabling and operating environment within African countries and requires ownership and leadership by African governments. This is consistent with Public Private Partnership (PPP) principles.

In order for the impact investment fund to reach its target market, capacity issues must be addressed. It is therefore crucial to develop programme(s) that support the SME sector. Technical assistance directly targeted to developing and accessing funding is not enough. Rather a holistic approach, which supports SMEs in the longer term, must be adopted. It must be recognized that accessing finance is only part of the business process.

The combination of access to funding with technical assistance will have measurable impact on the fisheries and aquaculture value chains; an impact that can be measured in terms of economic growth, employment and food production.

Policy Recommendations

The policy recommendations address actions that can be taken at political level to promote investment and growth in SMEs in the fisheries and aquaculture value chains. It is recommended that:

- The principles of impact investment are recognized and supported and that supportive policies and incentives are introduced to promote their establishment.
- The role of SMEs in the development of the fisheries and aquaculture value chains be recognized and promoted, and that this promotion be focused on two areas:
 - a) Entrepreneurs and the business communities
 - b) Finance institutions and investment funds.
- It is recommended that the importance of strengthening capacity of SMEs in the fisheries and aquaculture value chains be recognized and promoted. Such promotion may take the form of
 - a) Design and implementation of projects that support SME mentorship, incubation and development
 - b) Development of training offers at tertiary level that support entrepreneurship in the fisheries and aquaculture value chains.
- It is recommended that fisheries and aquaculture will be incorporated in the CAADP Investment Plans with a special focus on growth targets of the SME sector.

Conclusion or implications

Supporting SME growth in the fisheries and aquaculture value chains in the context of an enabling environment and sustainable and equitable governance will deliver benefits at economic, social and health level. The fisheries and aquaculture value chains present opportunities for market-driven, sustainable growth.

However, SMEs face two major constraints: Access to finance and the capacity to manage and grow. The availability of financing mechanism, such as an impact investment fund, coupled with a comprehensive package of capacity support will address these constraints.

Given the global demand for food and the technological advances in the aquaculture sector in particular, it is likely that the sector will grow significantly, irrespective of policy change. However, an enabling environment driven by enabling policy will accelerate this growth.

For example, it is likely that growth of the aquaculture sector will continue at 15% per year. If this growth rate is increased through SMEs by only 20%, this will result over a period of five years in the incremental production of 900,000 tonnes with a value of US\$ 3.6 billion and the creation of 0.5 million jobs.¹

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¹ A current FAO study has identified that fish in Africa is worth \$4,000 per ton and that aquaculture generates 0.7 jobs per ton produced. The baseline for production is taken as the 2010 figure of approximately 1.4 million tons. The growth rate is taken as the average in Africa over the last five years.

