

THE IMPACT OF CLIMATE CHANGE ON RURAL LIVELIHOODS IN EAST AFRICA: A REAL LIFE CASE FROM UGANDA

By Paul Boerboom

In November 2016 the ‘Future Climate For Africa’ (FCFA) mentioned the following in its report ‘Africa’s climate helping decision-makers make sense of climate information’: East Africa’s climate is already changing. The equatorial and southern parts of eastern Africa have experienced a significant increase in temperature since the early 80s. Seasonal average temperatures have risen in many parts of the region over the past 50 years. Rainfall in the region is extremely variable across time and space.

The implications for productivity of food and cash crops and lake fisheries will be profound, likely negatively impacting livelihood patterns and household incomes for farmers.

DAILY MONITOR - THURSDAY SEPTEMBER 28, 2017: 3.4 MILLION MORE UGANDANS SLIP INTO POVERTY

Dr. Ibrahim Kasirye, the Principal Research Fellow in the Macroeconomic department at the Economic Policy

Research Centre (EPRC), said in an interview with Daily Monitor during the launch of the report that the increase in income poverty level means that three of every 10 Ugandans slipped into poverty in five years. ‘They live on less than \$ 1.25 per day and they cannot afford three meals a day,’ he added.

Explaining why poverty rose in eastern Uganda, Dr. Kasirye said people in the region purely depend on agriculture and

are always hit hardest during drought. ‘There are few trees and the land has become infertile. Also, the wildlife in eastern Uganda is no longer as it used to be because they have died of diseases,’ he said.

THE CASE

In 2007 a Social Enterprise named Sunshine Agro Products was set up with the aim to promote agriculture as a business for the rural people. Sunshine

Photo: Archive Avida International



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Paul Boerboom (Avida International) is advising institutional investors. Typical themes are partnering and outsourcing in various (complex) investment areas such as thematic ESG. Boerboom acted as Chief Negotiator to protect the farmer’s interests in the Sunshine case. Previously, he performed a number of senior roles at Royal Dutch Shell and has lived in Latin America and various European countries. During this time he was part of the Supervisory Committee of various joint ventures and led complex M&A projects and contractual negotiations in the renewable energy, gas and power sectors. Boerboom also acted as Head of Investment Strategy and Portfolio Manager Private Equity for Shell Pensions. Boerboom is an econometrician and business economist by training, completed by executive education programs at the Wharton School of Management and Harvard Business School. Today he is a lecturer at various business schools and a frequent speaker at seminars.

works directly with 11.000 farmers living on less than \$ 2 a day, no water, no electricity. Farmers who produce various healthy herbal teas, cacao beans and chillies. Over 6.000 rural women are involved. Over 12.000 farmers are mobilized and trained. Over 4.000 have planted different crops in the first half of 2018: Cocoa, herbs and moringa.

The company was financed by the owners, who put in a significant part of their personal capital and time, a series of loans from Root Capital Partners, a loan from Rabobank Foundation and a number of (repayable) grants from the African Enterprise Challenge Fund (AECF). All instruments were debt instruments with fixed repayment terms.

Due to erratic rainfall and droughts in 2015 and 2016, Sunshine has had a temporary setback as crops fields dried up. Therefore Sunshine has not been able to reimburse part of the outstanding loan and pay interest (11%) to Root Capital. Currently the business is picking up again with new clients (including Kuli Kuli foods for Sunshine's leading product Moringa tea) coming in. Farmers are waiting for their crops to be harvested and shipped to be delivered to the clients.

Sunshine has indicated that it needs to invest in irrigation systems for the farmers to be protected against future droughts.



Photo: Archive Sunshine

In August 2018 Root Capital decided to exercise its legal right to collect the amount of money lent to Sunshine, using a local law firm in Uganda. This decision could potentially lead to the liquidation of Sunshine, implying that 11.000 farmers would lose their source of income through Sunshine. For this reason Sunshine has sought court protection.

The other creditors Rabobank Foundation and AECF are willing to give the company time to recuperate and continue to make a social impact.

Investors in Root Capital include the Overseas Private Investment Corporation (The U.S. Government's Development Finance Institution) and the Bill and Melinda Gates Foundation. The Dutch FMO has recently announced



Photo: Archive Sunshine



Photo: Archive Sunshine

its intention to commit USD 5 million in Root Capital.

Rabobank Foundation gets its funding from institutional and retail investors through a range of financial debt instruments.

AECF is funded by the governments of the United Kingdom, the Netherlands, Denmark, Austria and Australia.

After the court case it is quite likely that the case will receive media and political attention.

All actors, to their own frustration, are currently spending money on expensive lawyers, instead of helping farmers.

The case illustrates that in times of stress the various stakeholders show a different DNA. Root Capital uses its legal rights to protect the financial interest of its investors, whereas the Rabobank Foundation and AECF are more patient and focus more on impact. Do we really have alignment behind the social mission of reducing poverty and helping find solutions for climate change, even if that means that the loan needs to be written off?

Sunshine should probably have been more careful with its financing policy, since it has too much debt on the balance sheet. Given the uncertainty of the business, social venture capital or equity financing would have been more appropriate. At the same time Root Capital and other creditors were fully

SUNSHINE AGRO PRODUCTS LTD

Mission: The mission of the company is 'doing business and doing good'.

Objective: The objective of the company is to promote agro export oriented growth and sustainable food production.

Vision: The vision of the company is that everyone must have access to means for a decent livelihood. Hence the company works with people who live in the rural areas, in extreme poverty and who are locked into subsistence and out of the market, to provide them means for decent livelihoods through incomes generated from agricultural products.

A Social Business means that instead of measuring the company's financial profits alone, we measure success by their positive social impact on the farmers, specifically how the business helps them improve their livelihoods. So the philosophy of Sunshine rotates around reaching the poorest, doing business, doing good and making a big difference for those who are usually excluded.

aware of these risks when they did their due diligences.

Sunshine is currently in discussions with new financiers, who are willing to provide emergency financing to collect and ship crops before the dry season starts.

CONCLUSION

The equatorial and southern parts of eastern Africa have experienced a significant increase in temperature since the early 1980s. Rainfall in the region is extremely variable across time and space.

The implications for productivity of food and cash crops, and lake fisheries will be profound, likely negatively impacting livelihood patterns and household

incomes for farmers and fishing communities within the Lake Victoria Basin (LVB).

From the perspective of the asset owners the Sunshine case illustrates that besides the traditional financial risk, there is a significant legal and reputational risk. This is particularly relevant in the ESG space where the fiduciary and financial interests of the end investors need to be protected and at the same time impact needs to be realised.

Capital owners such as pension funds, foundations and endowments increasingly embrace ESG elements in their investment policies. All too often these policies have not been tested in reality since they are relatively new or simply too abstract and defined at a strategic level.

The stance towards ESG often tells a lot about the culture of an asset owner, manager or company. Owners need to carefully assess the real DNA of the managers and companies they invest in and ensure the interest of stakeholders is well aligned (money versus impact). «

ROOT CAPITAL PARTNERS

'We invest in the growth of agricultural enterprises so they can transform rural communities.'

RABOBANK FOUNDATION

'Together, we invest in self-reliance.'

AFRICA ENTERPRISE CHALLENGE FUND

'The AECF is a development institution which supports businesses to innovate, create jobs, leverage investments and markets in an effort to create resilience and sustainable incomes in rural and marginalized communities in Africa.'

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This article was written by Paul Boerboom, Founding Partner of Avida International.