Photo: Terrafertil

Impact at scale through **investment funds**

The recent increase in agricultural commodity prices (reinforced by the 2007–2008 food crisis), has caused significant growth in public and private investment in primary agriculture. Prices are rising as a result of a growing population and emerging middle classes requiring an adequate supply of food and industrial commodities. This, in turn, has led to increased private equity investment in agri-businesses and large-scale acquisitions of farmland.[1]

Although sustainability is a recurrent theme for private equity investors in agriculture, it is clearly not given as much priority as business objectives and usually only relevant for Corporate Social Responsibility (CSR) purposes. Impact investment, another recent trend, tries to address this issue. Impact investment funds aim to balance profit incentives with social and environmental sustainability as a primary condition for investment.

[1] Emerging investment trends in primary agriculture. A review of equity funds and other foreign-led investments in the CEE and CIS region (2013) FAO Investment Centre.

In 2012 the Common Fund for Commodities (CFC) started to participate in impact investment related to agricultural commodities, recognizing the impact they potentially carry on communities and value chains. Although still representing only a modest share of its activities compared to its regular project financing mechanisms (grants and loans) of commodity projects, the CFC's participation in impact investment funds is growing. Currently CFC is contributing to five cutting-edge investment funds (featured in Table 2).

Added value CFC to impact investment funds

The added value of the CFC to the funds in which it participates, goes far beyond its financial contribution only. In the first place it contributes through the vast body knowledge of and experience in agriculture, commodity development and the relations with small-scale farmers it has developed since the Fund was established in 1989. Among investors and investment funds there remains a lack of technical knowledge and experience regarding agriculture and the importance of a strong and trustworthy relationship with farming communities and other suppliers. Time and time again evidence shows that companies which dedicate themselves to investing in local communities and aim for long-term relationships, easily outperform those who do not.[2]

Therefore it may not be a surprise that the CFC, next to being a partner investor, also runs the technical assistance facility (TAF) for the Africa Agriculture and Trade Investment Fund (AATIF) and is developing one jointly with the Moringa Fund. These facilities contribute to reaching scale with small-scale farmers and communities and to mitigate capacity gaps. This can involve setting up improved training programmes for farming communities composed of extension and business development services as well as organizing farmers and improving farm-firm relations.

> ***Although sometimes only a small stakeholder compared to other co-investors in the fund, due to its expertise and experience, the CFC actually has leverage to contribute significantly to the investment funds through advice and feedback. Indeed, perhaps more than one might suspect based on its financial contribution alone.***

The CFC is also represented in the investment advisory committee of the EcoEnterprises II Fund and a member of the board of some of the portfolio companies that receive investment through the AAF SME fund. In fact, although sometimes only a small stakeholder compared to other co-investors in the fund, due to its expertise and experience the CFC actually has leverage to contribute significantly to these investment funds through advice and feedback. Indeed, perhaps more than one might suspect based on its financial contribution alone. According to Clément Chenost, investment manager and technical director of Moringa, the CFC has a "clear added value" because of its well-established "expertise in working with farmers and commodities" (see Textbox 1).

Furthermore CFC has established an impressive and far-reaching network in the past 25 years which is useful for tracking investment opportunities as well as specialists (ranging from agronomical to organizational) suited for specific tasks when needed.

Textbox 1 - Moringa Agroforestry Fund

Moringa is a sustainable agroforestry investment fund which has already raised in excess of €50 million. Moringa invests between €4 and €10min in businesses located in Latin America and Sub-Saharan Africa using equity and quasi-equity instruments. With the fund only established as of recent, no deals have been finalized as of yet.

Moringa has reviewed over 200 potential investment opportunities to date and the first transactions will be closed by the end of the year. A particular focus for Moringa, according to Clément Chenost, Investment manager and technical director, is to identify companies that need investment to scale up their agro-forestry activities, and which are able to deliver the financial, social and environmental benefits targeted by the fund as well.

The fund aligns itself with different certifications (Rainforest alliance for cocoa and coffee and FSC for timber). Moringa has developed its own methodology to carry out evaluation which relies on quantitative methods to measure the environmental and social impact of the companies it invests in. It will contract external parties to review the performance of partners.

Some indicators for measure environmental impact are the following:

- *rehabilitation of degraded land,*
- *soil fertility,*
- *climate change mitigation and adaptation,*
- *biodiversity, etc*

For social impact:

- *number of small holders engaged through outgrower scheme,*
- *income increase,*
- *productivity increase,*
- *fair benefit sharing, etc.*

CFC is developing a technical assistance facility jointly with Moringa, with a projected size of €4-5 million. This facility will be based on a grant based mechanism, as applicants will contribute themselves, or indirectly through other funds, as well.

Added value of impact investment to CFC and its mandate

For the CFC the benefits are clear as well since impact investment, if conducted in the right manner, contributes to its mission ("to realize the potential of commodity production, processing, manufacturing, and trade for the benefit of the poor").

The CFC realized its leverage and influence would be substantive within the funds, while the fund allocates considerable amounts of financial and other forms of resources at promising businesses.

[2] The practice of responsible investment principles in larger-scale agricultural investments, Implications for corporate performance and impact on local communities (2014) World Bank.

These investments, which can go up to €10 million, are modest compared to 'conventional' agro-investment funds, yet are large compared to most of the traditional grants and loans CFC provides under its mandate. As such, through impact investments, SMEs up to large-scale enterprises can be supported that have a significant positive impact on socio-economic and/or environmental conditions. These effects will be augmented by the investment capital. Figure 1 shows how bundled resources by investment partners can contribute to impact at scale:

Figure 1: Reaching impact at scale through impact investment

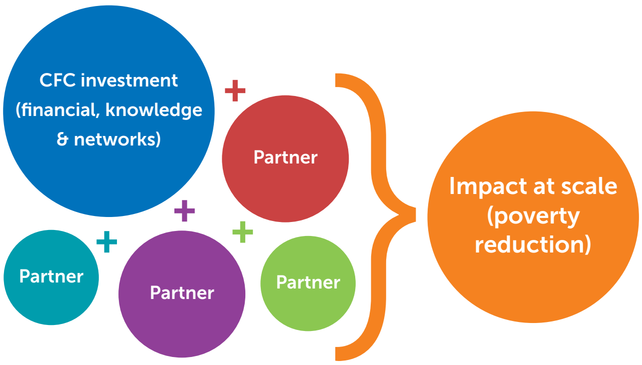

Photo: Terrafertil

Harvesting of Terrafertil's goldenberries, one of the portfolio companies of the EcoEnterprises II Fund

In addition to this, the newly won experience the CFC gains from this leads to an increased understanding and knowledge of investments in agriculture, which is a rather complex investment portfolio. This experience is useful to properly asses the prospect of investments in promising companies, also in its regular grant and loan disbursement procedures. Finally, as a result of all this engagement, the CFC is extending its already large network even further by expanding into these new branches (finance, private equity investment, banking, etc.).

Textbox 2 - EcoEnterprises II Fund

One of the four funds in which CFC has invested is the EcoEnterprises II Fund, with a current size of USD 35 million. The fund is specialized in providing expansion capital to sustainable businesses involved in agro-forestry, ecotourism and organic agriculture. EcoEnterprises' first fund was under management of Fondo EcoEmpresas, S.A. It was launched in 2000 and invested in 23 sustainable businesses in 10 countries in Latin America. The fund was a pioneer of the concept of sustainable impact investment. The fund created over 3,500 jobs and generated a total of USD 281 million in sales. At the end of 2011, EcoEnterprises Fund's second fund under management (EcoEnterprises Partners II, LP) was established, which focuses on larger companies and provides larger investments in order to reach scale.

> ***"Our success depends on all of our stakeholders. We need to rely on talent, skills, networks and resources of our partners like CFC." – Tammy E. Newmark, President and CEO EcoEnterprises Fund***

Companies eligible for investment should have demonstrated they have long terms prospects, including being financially sustainable and profitable. Investment instruments include quasi-equity, structured royalty streams and warrants, convertible notes and long-term debt financing. The investment size ranges from USD 500,000 to 3 million, with an average investment of USD 2.5 million. At the time of writing 3 companies had received investment. In addition to financial support, assistance in terms of knowledge is crucial and provided in the areas of accounting systems, strategic planning, governance, marketing, either by EcoEnterprises directly or through limited technical assistance funds.

According to Tammy E. Newmark, President and CEO, the fund is unique for several reasons. First of all EcoEnterprises provides financing to sustainable businesses that otherwise would not be available. Very creative types of equity and quasi equity are designed according to the needs and are deployed quickly. Another reason is that many funds do not focus on biodiversity and environmental sustainability like EcoEnterprises, according to Newmark. Selected companies are committed and provide detailed metrics and background information on their environment impact. Another reason for its uniqueness, is the 15+ years of experience in a relative novel field as well as having "a deep investor base", consisting of INGOs , international financial organizations like CFC as well as private and institutional investors.

The CFCs influence goes further than financial support only. One of the CFC's employees is a member of the investment committee as an observer and a member of the Limited Partners Advisory Committee, providing advice on current and future investments. Through its expertise with regard to commodities as well as outgrower schemes and small scale farmers, CFC provides valuable advice. Moreover, according to Newmark, CFC's experience and networks in Latin-America are very useful, which is where most of the funds' track record has been established. Newmark: "Our success depends on all of our stakeholders. We need to rely on talent, skills, networks and resources of our partners like CFC."

Textbox 3 - Runa

Runa is an example of a sustainable business that recently has been supported by the EcoEnterprises impact investment fund, to which CFC is a limited partner.

Runa was founded in 2009 by two college graduates. One of them, Tyler Gage, lived with the Kichwa people in the Ecuadorian Amazon some years before that. This is where he first got to experience guayusa – a naturally caffeinated tree leaf brewed like tea, which helps to interpret dreams and provides energy and clarity while hunting in the jungle.

Together with his friend Dan MacCombie they set up a guayusa supply chain, together with local communities. Their shared vision was to establish "a business that could share energizing, rich-tasting guayusa with the world – a business that would respect cultural traditions, support small farmers, and maintain the integrity of the Amazon rainforest". Guayusa-based tea and energy drinks are now sold in the US, after processing the leaves in Ecuador. Currently the company sources guayusa leaves from over 2,300 farmer households.[3]

Harvesting Guayusa leaves

Photo: Runa

Social and environmental impact

Social and environmental impact of Runa is measured through indicators it has set and controls itself. Some of those indicators include: income increase, tree planting (reforestation), more women in leadership positions, etc. Some of its achievements in terms of impact this last season are the following:

- *over 3000 livelihoods of indigenous farmers have been improved;*
- *over USD 50.000 per year invested in community development;*
- *over 150.000 trees are planted each year;*
- *USD 250.000 of fresh guayusa leaves are purchased from indigenous farming families*

However to grow further and impact more lives for the better, Runa in 2013 received investment funding from the EcoEnterprises II fund. This enabled the company to increase its operations and sales in two ways:

1) Further supply chain growth

The current factory in Ecuador was expanded to increase its production capacity (which almost doubled), more technical assistance could be provided to farmer cooperatives and exchange of knowledge between cooperatives was increased.

2) Market Development

Runa received marketing support and sales promotion was provided.

But Gage emphasizes that 'soft investments' by EcoEnterprises were significant as well. The fund assisted with questions related to the legal structure, consequences for the parent company, tax regulations, etc.

Leaves are processed in the factory

Photo: Runa

[3] http://runa.org/

Photo: ©FAO/Swiatoslaw Wojtkowiak / FAO

Textbox 4 - AATIF: low risk long-term investments in agriculture

The Africa Agriculture and Trade Investment Fund (AATIF) stands out from other funds in that they provide equity finance only in special cases and specialize in debt financing. "There are quite a number of equity funds around but virtually nobody offers long term debt financing", says Dr. Thomas Duve, Chairman of the Board of Directors of AATIF.

Although Sub-Saharan Africa is sometimes portrayed as a very risky investment climate, AATIF is confident this is not always the case. Duve: "We want to prove that it is possible to do low risk investment with reasonable returns in Africa".

Hence, AATIF concentrates on companies that are somewhat established and have proven to be sustainable. Investments are indirect or direct: Indirect investments are banks or other intermediaries (large agribusinesses for example) which provide finance in the agricultural sector, direct investments can be agribusinesses involved in processing, large farmer cooperatives or large-scale farms. Financial support sometimes needs to be creative.

The financial support is accompanied by non-financial support. This can lead to atypical forms of assistance. For example in Zambia, Chobe Agrivision Company, which is involved in maize, wheat and soya bean farming, is also supported in improving education of the children of farm employees though rehabilitation of the local school and providing transport. Another company was supported through the hiring of a chief financial officer (CFO) to structure their financial management. The CFO was suggested by the CFC.

Dr. Thomas Duve, Chairman of the Board of Directors of AATIF: "We want to prove that it is possible to do low risk investment with reasonable returns in Africa."

It is an example of the contribution of the CFC to the fund, which is also both financial (as a contributing partner) and non-financial. Moreover, the CFC is the manager of the Technical Assistance Fund, with a total value of USD 6 million. Duve: "We are happy to work with the CFC because we need technical expertise". He gives the example of a cassava expert, who was needed to assess the possibilities of cassava processing project. Experts with such specific technical expertise are not always easy to find, yet was provided by the CFC, based on their extensive network and experience.

Textbox 5- Investment in African agriculture: the AAF SME fund

Although the Asian or Latin-American market might be somewhat further developed, Africa is booming. According to World Bank projections, agribusiness will become a USD 1 trillion industry in Sub Saharan Africa by 2030, compared to USD 313 billion in 2010.[4] In addition to the rise in global food prices, growth in Africa's agribusiness sector is being spurred by the emergence of the African middle class, which has led to consumers pursuing greater diversity in their food and diet. The imminent boom in Africa's consumer spending is set to rise from USD 860 million in 2008 to USD 1.4 trillion in 2020 according to the McKinsey Global Institute.[5]

Hence, Africa is increasingly becoming an attractive destination for Private Equity funds seeking to invest in emerging markets. 98 Private Equity and Venture Capital deals were completed on the continent in 2013. 16% of those deals were in the agribusiness sector, making it the second most active sector after financial services. Notably, of the USD 3.2 billion dedicated to Private Equity investments in 2013, 53% of these had deal sizes below USD 10 million, an indication that Private Equity in Africa remains largely driven by investments in SMEs.[6]

The agribusiness sector is the second most active sector for private equity in sub-Saharan Africa

One of the investment funds active on the African continent is the AAF SME fund. Launched in 2012, The AAF SME Fund was started as a sub-fund of the African Agriculture Fund (AAF), a USD 243 million private equity investment fund, managed by Phatisa Fund Managers. The AAF SME is managed by Databank Agrifund Manager Limited (DAFML), a Pan-African Private Equity Fund Manager specializing in improving global food security by investing in food value chains across Africa. Through its USD 36 million AAF SME Fund, DAFML provides growth capital to small and medium enterprises (SMEs). The fund invests in food production, processing, distribution and packaging at the SME level throughout Africa.

Since inception, the AAF SME Fund has invested across six African countries with investments ranging from a fast-growing bakery in Nigeria to an organic fertilizer producer in Madagascar. Such capital deployment has been made possible with backing from organizations such as the CFC, who enable the Fund to provide capital for both initial commitments and follow-on investments.

The AAF SME Fund typically invests between USD 150,000 to USD 4 million in enterprises backed by strong management teams, with up to 300 permanent employees, asset values of USD 15 million or less, and a clear vision for the business that shows significant growth potential.

DAFML's local team comprises a group of African professionals with international work experience. Together, the team makes sure that investee companies undergo due diligence prior to deal closure. Post investment, DAFML employs a management approach that accommodates needs of its investees in order to improve the business performance and deliver financial results.

Julius Manjoh, General Manager of the West End Farms: "The funding from TAF affords us the opportunity to have a well-organized outgrower scheme and see a dream come true."

These economic objectives are accompanied by social and environmental impact objectives. Through the NGO Technoserve, the Fund has a Technical Assistance Facility (TAF) designed to provide additional support of up to USD 500,000 per investee. TAF programs improve the capacity of the companies and provide linkages to outgrowers, farmers or micro entrepreneurs within the company and their surrounding ecosystems. The programs are designed to create sustainable economic and social benefits in the communities in which the Fund invests.

Program Director of TAF, Sarah Marchand, explains that, "the portfolio companies of the SME Fund have potential to become leading food businesses in Africa. Guanomad (a portfolio company), for instance, is a uniquely positioned organic fertiliser producer that can contribute significantly to sustainable agricultural development in Madagascar and the rest of Africa. However, these companies often need assistance and capacity building to support them as they navigate the challenges of growth. TAF plays an important role in funding high quality strategic advice and introducing operational best practices in order to help them to realize their enormous potential."

Speaking of the technical assistance facility, Julius Manjoh, General Manager of the West End Farms (WEF) portfolio company says that "WEF has always been committed to the economic empowerment of the community that lives around our farms. It is the best way to share our good fortune as a successful business with the less fortunate. The funding from TAF affords us the opportunity to have a well-organized outgrower scheme and see a dream come true. Our deepest gratitude goes to the donors of TAF and all the partners in this lofty project."

The table on the next page provides a summary of the AAF SME Fund's socio-economic impact to date.

[4] Growing Africa: Unlocking the Potential of Agribusiness (2013) World Bank, p xiv.
[5] Lions on the move: the progress and potential of African economies (2010) McKinsey Global Institute, p7.
[6] Africa Private Equity and Venture Capital Association. 2013 Deal Dashboard.

Table 1: Summary of the AAF SME Fund's socio-economic impact to date

Company	Country	Description	Inv. Date	Social Impact
West End Farms	Cameroon	#1 commercial maize/soya farm in Cameroon and largest provider of pork products in a country that imports to cover a deficit of supply.	Nov 2012	Smallholder support scheme to provide training to up to 200 smallholder farmers 300% improvement in maize yields 240% improvement in soya yields.
Interfresh	Zimbabwe	Leading independent processor and marketer of agricultural, horticultural and allied food products.	Dec 2012	Presence of clinics and small schools on farm estate for the community use
Guanomad	Madagascar	#1 organic fertilizer producer in Madagascar.	June 2013	Employs 70 permanent employees and 800 seasonal workers Involved in community development initiatives, such as rehabilitation of local hospitals
Matonjeni	Zambia	Leading non-carbonated, non-alcoholic beverage company in Zambia.	Sept 2013	Employs 91 local employees. Bottom of the pyramid growth strategy Feeds over 20,000 people daily

Source: AAF SME Fund (2014)

Photo: Colin Watson/AAF SME Fund

West End farms is a mixed farming enterprise in Cameroon. One of their activities is piggery farming. West End was supported by the AAF SME fund, of which CFC is one of the investment partners.

Table 2: Contribution CFC to five cutting-edge investment funds

Fund & size	Type of business targeted	Size of investment & instrument used	Companies invested in at the time of writing	Contribution CFC
Moringa Agro-forestry Fund Over EUR 50 million raised (final targeted size of €100m)	• Profitable larger scale agro-forestry projects (forestry activities like timber, industrial tree crops or fruit trees combined with cattle, staple food crops or export crops with environmental and social impacts) • L-America and sub-Saharan Africa	• €4-10 million • Equity and quasi-equity investments	• Over 200 opportunities have been identified. Currently several projects have been subjected to a feasibility study and one has entered the due diligence phase. It is expected that one or two transactions will be closed by the end of the year	• Investor (financial contribution) • Developing technical assistance facility jointly with Moringa
The Africa Agriculture and Trade Investment Fund (AATIF) USD 140 million (by March 2013)	• Small, medium and large scale agricultural farms as well as agricultural businesses in Sub-Saharan Africa	• Usually between USD 5-15 million • Debt finance (not equity) through: • direct investments (senior debt, mezzanine and equity) • Indirect investments ("investments into local financial institutions or other intermediaries (such as large agribusinesses) which on-lend to the agricultural sector, to fund e.g. smallholders or small and medium enterprises")	• USD 1million revolving trade finance agreement with Balmed ltd, cocoa and coffee trading company from Sierra Leone (December 2013). • Initial investment of USD 10 million into Chobe Agrivision Company, from Zambia, involved in maize, wheat and soya bean farming (October 2011) • USD 5 million loan negotiated with the Global Agri-Development Company (GADCO), rice producer from Ghana, operating the largest commercial rice farm in West Africa (May 2012). • USD 20m senior debt loan to Wienco (Ghana) Ltd. A Ghanaian intermediary company that provides fertilizer/agro-chemicals, training in input application methods and business skills to 50,000 smallholder farmers (October 2013) • PTA Bank, supported through a USD 30 million facility agreement • Chase Bank (Kenya) Ltd, received funding under a five year senior loan facility, totalling USD 10 million • ABC Bank, USD 25 million risk sharing agreement	• Investor (financial contribution) • Managing technical assistance facility
The African Agriculture SME Fund (AAF SME) USD 36 million (incl 6 million TA facility)	• Invests in SMEs (max 300 permanent employees, total asset value of max USD 15 million) with focus on food production and processing • Focus on Sub-Saharan Africa	• Investment requirement of USD 150 k to USD 4 million • Equity	• Avison, organic and integrated fertilizer business in South Africa (July 2014) • Topcrust Bakery, consumer bakery and distributor of bread across Lagos (December 2013) • Matonjeni Marketing, food and beverage company in Zambia (October 2013) • Guanomad, guano-based organic fertilizer products (July 2013) • West End Farms, Mixed farming enterprise in Cameroon (October 2012)	• Investor (financial contribution) • Member of board of companies that receive investment
EcoEnterprises II Fund USD 35 million but growing	• Focus on Latin-America • Small upcoming companies that can achieve scale yet are active in "unconventional sectors eschewed by traditional financiers such as niche organic agricultural products, ecotourism, and sustainable forestry"	• Equity (growth and venture capital) • Investment size ranges from USD 500,000 to 3 million, with an average investment of USD 2.5 million		• Investor (financial contribution) • Member of Investment advisory committee and a member of the Limited Partners Advisory Committee
Sustainable Investment Fund Tanzania Currently at EUR 4 million, final closing expected by mid-2016.	• Focus primarily on Tanzania (although other countries in East-Africa are not excluded) • Targeting small-to-middle size enterprises engaged in commodity production and trade • all investments subject to sustainable impact (social, economic, environmental) standards	• Investment from EUR 50.000, target average EUR 150,000, between 6 months and 5 years depending on the type of business • Input Finance; Crop Finance; Farm Investment Finance; and Company Investment Finance	• Arusha Dairies Company Ltd; producers of fermented cultured milk, fresh pasteurized milk, butter yoghurt and cheese. Investment in establishing milk collection centres and providing working capital • Halisi Food Products Ltd.; food producer, mainly fortified flour, honey and spices. Investment in installation of a generator and storage capacity, working capital for input purchases • Mara Sisal Processing and Transport Company; producers of sisal fibre. Investment to install new machines and provide working capital for purchase of inputs	• Investor (financial contribution • Member of the Investor Advisory Committee

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