AGRICULTURAL INVESTMENT FUNDS *for* DEVELOPING COUNTRIES

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Preface

Agricultural investment funds, which have experienced significant growth in numbers and volume in recent years, have underscored public and private sectors' interest to help address the resource constraints for achieving food security. Moreover, the growing attractiveness of agricultural investment projects as profitable business ventures has played a role in the emergence and growth of such funds, especially in light of higher agricultural prices and improved business climates that favour longer-term investments.

This publication provides insight into the nature and operations of these funds and draws lessons for development agencies, governments and investors. It was developed from "Agricultural investment funds for developing countries" (October 2009), a research study undertaken as a joint collaboration of ConCap Connective Capital (ConCap) and the Food and Agriculture Organization of the United Nations (FAO) in order to better understand the growth and potential of agriculture and agribusiness investment funds. It included a stocktaking analysis of agricultural investment funds as well as case studies of distinct funds and fund management structures. This publication is enhanced with a complementary analysis of agricultural funds in the broader context of non-agricultural investment funds and experiences, and an analysis of the effects of the food price increases of 2008 and the financial and economic crisis in 2008 and 2009.

This publication outlines the importance of connecting less developed financial markets around the world with international investors, and in promoting joint efforts by the public and private sectors. The investment study and publication by the Rural Infrastructure and Agro-Industry Division (AGS) of FAO form part of a larger analysis and work on agricultural investment by the Division and other parts of the Organization.

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Acronyms and abbreviations

AAAF	Actis Africa Agribusiness Fund
AAC	African Agricultural Capital Ltd.
AfDB	African Development Bank
AGRA	Alliance for a Green Revolution in Africa
APIF	Agribusiness Partners International Fund
ASIF	Africa Seed Investment Fund
BDS	Business development services
BIO	Belgian Investment Company for Developing Countries
CDC	Commonwealth Development Corporation
DFI	Development finance institution
DFID	Department of International Development, UK
DGIS	Directorate General for International Cooperation of the Netherlands
EECA	Eastern Europe and Central Asia
EIB	European Investment Bank
ESG	Environmental, social and governance issues
EU	European Union
FDI	Foreign direct investment
FMO	Netherlands Development Finance Company
FAO	Food and Agriculture Organization of the United Nations
FOPEPRO	*Fondo para los Pequeños Productores Rurales en América Latina*
GDP	Gross domestic product
GRDF	Georgia Regional Development Fund
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
IPO	Initial public offering
IRR	Internal rate of return
LAC	Latin America and the Caribbean
LLC	Limited liability company
MCC	Millennium Challenge Corporation
MCG	Millennium Challenge Georgia
MENA	Middle East and North Africa
MFI	Microfinance institution
MIV	Microfinance investment vehicle
MSE	Micro- and small-sized enterprise
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PAR	Portfolio at risk
PPP	Public-private partnership
ROA	Return on assets

ROE Return on equity
SA South Asia
SAGF Sustainable Agriculture Guarantee Fund
SEAF Small Enterprise Assistance Funds
SME Small and medium-sized enterprise
SSA Sub-Saharan Africa
TSTF Triodos Sustainable Trade Fund
USAID United States Agency for International Development

Glossary

Asset class	An investment category in which investors managers can allocate investment capital, e.g. equities, fixed income, real estate, emerging markets, commodities, and more recently, microfinance.
Closed-end fund	A collective investment scheme with a limited number of shares. New shares are rarely issued after the fund is launched; shares are not normally redeemable for cash or securities until the fund liquidates. In contrast, open-end funds do not have restrictions on the amount of shares that the fund will issue and will buy back shares when investors wish to sell.
Family of funds	A group of funds managed by a fund management company.
Frontier markets	Markets for investment that have lower market capitalization and liquidity than the more developed emerging markets. Frontier markets are typically pursued by investors seeking high, long-term returns and low correlations with other markets; most countries in sub-Saharan Africa are in this category.
Fund of funds	A fund that invests in other investment funds.
Hedge fund	A fund usually comprised of investment funds of wealthy individuals and institutions, which uses aggressive strategies that are unavailable to smaller "retail" investors. Hedge funds have been typically exempt from most forms of registration and regulation.
Hybrid funds	Funds that invest in a wide variety of asset classes and that do not specialize in any one category or geographic area. The funds are also known as "multi-strategy" funds.
Investment fund	A form of collective investment where a group of investors pools funds together with the aim to generate more profits. It is synonymous with a mutual fund.
Investment management	The professional management of various securities (shares, bonds and other securities) and assets (e.g. real estate) to meet specified investment goals for the benefit of the investors.

Net asset value The value of fund share based on the value of the underlying assets of the fund minus its liabilities, divided by the number of shares outstanding.

Private equity fund A fund that invests its money in private equity, where it generally attempts to gain control over companies in order to restructure the company and ultimately sell it for a profit.

Sovereign wealth fund A state-owned fund that invests, usually over the longer term, in stocks, bonds, real estate, precious metals or other financial instruments. More recently, some of these have also invested in land.

Executive Summary

Despite the prevailing view that agriculture is risky, investment in agriculture is experiencing noted growth due both to improved profitability projections and the interest of development agencies and governments to increase investment in the sector to achieve food security. Investment is essential for the growth of the agricultural sector; it is estimated that net investments of USD 83 billion a year must be made in the agriculture sector in developing countries if there is to be enough food to feed the world population of 9.1 billion in 2050. Focusing on sub-Saharan Africa (SSA), the figure is estimated at approximately USD 11 billion per year (FAO, 2009). The major sources of capital need to come from private investors; public investment cannot meet the needs, but can be effective in stimulating and leveraging private investment in the sector.

Investment funds have, in some instances, been structured towards altruistic aims of combating hunger and poverty, but private sector investment fund managers are expecting to increasingly benefit from investments in the agricultural sector in the medium and long term since demand for food and other agricultural products is expected to continue to increase. Particularly high population growth and longer life expectancies, as well as increases of the purchasing power of the population in some emerging economies and bio-energy consumption will contribute to this increasing demand.

However, agricultural investment growth has not only been spurred by increased agricultural prices and food security concerns, but also importantly because of innovation and experience in **risk mitigation of investment**. One manifestation of this phenomenon is the proliferation of funds set up to target the agricultural sector – **agricultural investment funds**. For the purposes of this publication, these are defined as means to pool the capital of different types of investors and to provide capital to different agricultural stakeholders. In general, investment funds offer a way to invest with reduced risk by diversifying investments through pooled investment while also having specialized fund management to support the individual investment. This specialized management can also assist the operations of those individual investments through improved efficiency, better access to markets and additional capital, improved price and risk mitigation strategies and better governance, all of which reduce risk and improve performance.

This publication explores agricultural investment funds as a vehicle for financing agricultural projects. It looks at the **capital needs of the different agricultural actors** along the agricultural value chain and taking into consideration investment funds involving all kinds of investors (private, public as well as joint initiatives) and investment objectives. The publication draws heavily from a 2009 FAO-ConCAP research study "Agricultural investment funds for developing countries"("the research study"), which identified a broad range of investment funds that target agriculture in developing and transition countries. The identified funds were classified according to various criteria such as geographic distribution, capital,

shareholder and investor base, investment instruments, target group served and financial performance, as well as organizational and operational structure. In the context of the research study, **31 agricultural investment funds** out of 80 funds identified were considered to match the selection criteria. The characteristics, summary analysis and classification of these funds are presented in Annexes 8 and 9 of this publication. Annex 1 presents a **Case Study** of one investment fund management company and six distinct models of agricultural investment funds are described in Annexes 2 though 6.

In the last three years, there has been a clear upward trend towards setting up new investment funds. Due to the development interest of the research undertaken, many of the funds studied focused on sub-Saharan Africa. The selected agricultural investment funds show large differences regarding their respective capital bases, with most of the funds having a **capital base** of less than USD 100 million. The total targeted capital base of the 31 selected funds in the research study amounted to nearly USD 4 billion, not taking into consideration any microfinance investment vehicles (MIVs) and excluding one hedge fund selected. **Equity and private equity funds** represented the largest share of the identified funds, both in terms of capital base and number of funds.

A comparison is made in this publication with other investment funds in developing countries. The growth history of **MIVs** as a new investment class is analysed to draw lessons on agriculture fund growth potential. Also, given the socio-economic importance of microfinance service provision to the poor, this publication also takes a closer look at **MIVs** that target the agricultural sector to a substantial extent. A comparison is also made with non-agricultural funds given their potential in light of a growing appetite of major pension funds and large investment managers to move into lesser developed countries.

In line with the implications of the research subject, many of the funds included in the stock-taking are set up involving both public and private investors. This reflects the strong interest of donors and development finance institutions to promote agricultural development in developing and transition economies, and the increased interest of private investors to engage in such joint efforts. One third of the identified agricultural investment funds that have been set up during the past three years are solely private capital investment funds, which is also evidence of the **increasing interest of private investors** in the sector.

Given that conclusions on some indicators such as return to investors and impact can hardly be drawn in a comparative analysis of such a broad range of investment funds – especially since many of the initiatives have been set up only recently – the more in-depth review of six selected agricultural investment funds through **case studies** sheds light on the set-up, operations and performance of some of the identified investment vehicles and their management structures. This allows one to draw preliminary conclusions on the expected benefits and impact of the respective funds.

The 2008 **food crisis** and the following **global financial and economic crisis** seem to have opposing effects on investments in the agricultural sector: on the one hand, the factors that have triggered the global food crisis have in turn increasingly attracted the attention of private investors due to expectations of increasing returns. On the other hand, the current global financial and economic crisis has led to an overall slowdown in investments, at least temporarily.

Overall, investors seem to more strongly focus on their home markets and core business, due to the uncertainties of how international markets will develop. However, some investors are at the same time searching for alternative investment opportunities to diversify investments from traditional asset classes, which has led to an increased interest in the agricultural sector.

While the funds showed similarities in some of their structures and management processes, the case studies analysed and described different types of investment vehicles limiting cross-analysis in other areas. Another factor to note is that the majority of the identified investment funds have only been set up relatively recently, and a closer review of their success or failure of these various initiatives would require an analysis at a later point in time. It is noted that, with the exception of land investment funds whose primary goal is land acquisition and future production, not covered in the research study, most investment occurs in the agribusinesses farther downstream along the value chain, where the investment, expertise and market linkages of the investors can have an optimum effect.

The stock-taking analysis and cases studied show that **agricultural investment funds can play a critical role in fostering the development of the agricultural sector** in developing countries, since they contribute to growth, productivity increases, poverty reduction and hence sustainable development. Most of the private as well as public funds studied were able to invest their resources well within their projected time frame, suggesting that ample opportunities are available in the sector. Depending on the type of investor, return expectations and investment objectives, investment funds can offer the possibility to create a common portfolio of investments in agriculture, to achieve both financial returns and development impact.

This publication concludes with recommendations to be considered when setting up agricultural investment funds as well as overall **policy recommendations**. PPPs can be a valuable tool to increase access to finance for the agricultural sector in developing countries. Due to very specific characteristics and risks related to the agricultural sector, public capital can play an important role to attract private investors, who otherwise might not be willing to risk investment in agriculture. Given the success of PPPs, the **role of governments and international donors** in agricultural investment funds should be reconsidered. To stimulate investments in agriculture, policies and regulations affecting agricultural production, the legal environment of the investment as well as the overall investment climate in the respective country need to be addressed.

1. The role of investment funds in agriculture

Agriculture plays a vital role for economic growth and sustainable development**. Investment in the sector has been shown to be an effective instrument to alleviate poverty and enhance food security.** Evidence suggests that gross domestic product (GDP) growth originating from agriculture is twice as effective in reducing poverty as GDP growth linked to the non-agricultural sectors. In developing countries, agriculture generates on average 29 percent of their GDP and employs 65 percent of the labour force (World Bank, 2007: 3,6). Despite **its importance, investment in developing world agriculture has been limited**. However, agricultural investment has grown significantly in recent years, spurred by increased agricultural prices and food security concerns of developmental agencies and governments. A discernible trend in the growth of agricultural investment in developing countries is the increasing use of fund structures – agricultural investment funds.

Investment funds and the management expertise that often accompanies the investments can bring benefits not only to the investors and the investee companies in which they invest, but also to the local economy. An example of such an investment in Georgia is shown in Box 1.

Box 1 Investment by the Georgia Regional Development Fund's in Dogan

Georgia Regional Development Fund (GRDF) is a USD 30 million risk capital investment fund that focuses on long-term, growth-oriented investments in growing and dynamic small- and medium-sized enterprises (SMEs) in the Republic of Georgia. GRDF invested in Dogan, an agribusiness company producing animal feed. The investment funds were used to purchase equipment and improve facilities as well as increase working capital. Dogan is currently the only producer of extruded feed (feed for fish, early stage poultry and pet food) in the Caucasus. It sources a significant amount of its inputs from within Georgia, thus playing an important contribution to the agribusiness sector value chain in the country. Based on current returns and projections, the company's revenues are expected to grow at 28 percent annually for the next five years. In addition to providing management guidance, Small Enterprise Assistance Funds (SEAF), the Fund Manager for GRDF, has helped Dogan with technical assistance and to help build its clientele through the SEAF international network and reach potential customers through other agribusiness development programmes with which SEAF cooperates.

1.1 Understanding agricultural investment funds and their growth

There are many funds that invest in multi-asset classes, but in recent years, there are a *growing number of specific funds* whose investment target is the agricultural sector; these include both public and private investors. What is driving this trend? Primarily, the international community now recognizes that the investment returns in the sector make business sense in terms of risk versus reward. Furthermore, investors are expecting to increasingly benefit from investments in the agricultural sector in the medium and long term, since demand for food and other agricultural products will further increase. In particular, high population growth and longer life expectancies, increases in the purchasing power of the population in some emerging economies, and renewable energy consumption all present opportunities for increased returns in the agricultural sector.

Funds offer investors the ability to pool capital and take advantage of larger investment opportunities that are not accessible to an individual investor. Additionally, they offer the advantage of having professional managers whose considerable expertise in the sector far surpasses the business acumen of an individual investor. Fund managers provide careful risk assessment of investment opportunities, administer the portfolio, and have fiduciary responsibilities to the investors. The often local presence in the markets is also an important factor in evaluating investment opportunities and monitoring risk. Furthermore, the fund structure offers diversification of the investor's portfolio as funds are invested in a number of projects across the sector.

While use of investment funds is not a new phenomenon in the financial world, what is new is the growing interest in using these investment structures to exclusively target developing world agriculture. Agricultural investment funds are being used by both the public and the private sectors. In fact, many of the investment funds discussed in this report were set up as partnerships between public and private sector investors. For the purposes of this report, agricultural investment funds are defined as means to pool the capital of different types of investors and to provide capital to different agricultural stakeholders. In general, they offer a way to invest with reduced risk by diversifying investments through pooled investment, while also having specialized fund management to support each of the individual investments.

Box 2 Investment by the Agribusiness Partners International Fund in Chicken Kingdom

Agribusiness Partners International Fund (APIF) is a fund fully invested in seven agribusiness/food processing companies in the Russian Federation, Kazakhstan, Georgia, Moldova and Ukraine. APIF made an investment in Chicken Kingdom, a poultry broiler production company in the Russian Federation. The investment contributed to an upgrading of the processing plant and expansion of operations. While the company was first managed by foreign experts, eventually it became a 100 percent Russian-managed company. In 2007, with revenues of USD 150 million and a staff of 3 000, the company was sold to a larger Russian company. The initial capital invested by APIF of USD 22.5 million resulted in a total return of USD 130 million to Fund.

Agricultural investment funds have in some instances been structured to meet the altruistic aims of combating hunger and poverty, but private sector investors are increasingly recognizing that the investment returns in the agricultural sector can now be viable in terms of risk versus reward. The successes of these funds are best shown by the results of their individual investments, as illustrated in Box 2.

1.2 INVESTMENT FUND RESEARCH STUDY

The present publication builds off a 2009 FAO-ConCAP research study "Agricultural investment funds for developing countries" ("the study"). This research for this study, which focused primarily on Sub-Sahara Africa and transition economies, identified over 80 investment funds working in agriculture and rural development. It then selected 31 agricultural investment funds that primarily or exclusively focus on investing in agriculture of the developing world. The presence of these funds, many of which are relatively new, serves to validate the thesis that there is considerable interest by specialized funds in this important developmental sector. This research study identified and reviewed a broad range of investment funds and vehicles that target agriculture in developing countries. These investment funds involved various types of investors (private and public as well as joint initiatives) with different investment objectives and structures.

The objective of the research study and this publication is to identify, characterize and assess the existence and potential of investments in agriculture and agribusinesses in developing and transition economies through an inventory stock-taking of agricultural investment funds targeting these countries. The stock-taking is followed by a more comprehensive review of selected investment funds through case studies. In addition, the study sheds light on recent trends on investments in agriculture in view of the effects of the recent food crisis and the current global financial and economic crisis.

The research study was carried out by researchers with investment fund experience in developing countries. It included a desk study review and assessment to take stock of existing agriculture investment funds in developing countries in order to better understand their nature, magnitude, and most of all, the lessons learned from their experiences to date. Based on the initial work and characterization, more comprehensive case reviews were undertaken of six distinct types of investment funds and one fund management company. Interviews were conducted with relevant sector experts and representatives of the analysed investment funds in order to gain a more comprehensive understanding of the operations and performance of the funds. Annexes 1 to 7 describe the case studies in detail and Annexes 8 and 9 provide summary overviews of all the funds. The work focused primarily on the regions of sub-Saharan Africa (SSA) and Eastern Europe and Central Asia (EECA), due to the importance of agricultural funds in these regions and their high untapped potential for agricultural growth. The effects of the 2008 food crisis and the 2008–09 global financial and economic crisis on agricultural investment are also noted, since both have influenced fund growth.

Since there is no universally recognized definition of an agricultural investment fund, the research focused on investment funds targeting the agricultural sector and not on investments in agriculture in developing countries per se. Similar to investment funds, there are corporate

structures with comparable interests. A distinction is made between *investment funds*, generally involving multiple investors and investing in multiple businesses, and *funds of a corporate structure*, whereby multiple investors could invest in one business or one company, or a holding company could invest in multiple businesses.[1] Among these structures, one was included in the analysis as an interesting example clearly targeting the agricultural sector in East Africa. The agricultural investment funds were also compared with microfinance investment funds and other investment funds in developing countries. Microfinance investment funds, in particular, have experienced very high growth in recent years and can shed light on the potential for growth in other sectors.

During the stock-taking of agricultural investment funds, the study team identified 80 investment funds, fund management companies and corporate structures. Since the members of the study team of ConCap Connective Capital and FAO all had experience in developing or operating investment funds, developing this exercise involved both an Internet review and an extensive consultation with agricultural investment fund leaders building from contacts they had developed over time. The team then selected 31 relevant agricultural investment funds to be included in the stock-taking analysis and categorization, excluding certain funds targeting agriculture, such as governmental programmes, land investment funds and commodity funds. These were selected according to the following two criteria:

- **A focus on investments in agriculture, agribusinesses and other areas linked to agriculture.** Given the research subject, the identified investment funds have a clear focus on investments in agriculture and/or agribusiness. The funds might therefore target agriculture directly or indirectly (e.g. through investments in MFIs that provide access to finance to smallholders). These funds may be part of a "family of funds" managed by a fund manager. One of these fund managers, SEAF, is also reviewed given its long track record of investing in emerging markets with a social as well as business perspective.

- **A focus on developing countries and transition economies.** These are investment funds included in the stock-taking focus on investments in developing countries, particularly SSA and transition economies. Whenever the fund's operations also include former transition economies (e.g. EU-member countries such as Romania and Poland), the respective fund has been included in the stock-taking, due to the particular interest in the EECA agricultural sector. These funds also tended to have a more private focus than many in SSA and serve as examples for other regions.

Table 1 provides an overview of the 31 selected agricultural investment funds according to the type of fund and the geographic distribution. It includes six microfinance investment funds (MIVs), which is an investment class in its own right and which is moving into rural and agricultural finance. These are undergoing an investment boom which will be addressed subsequently in this report.[2]

1 The distinction between a *fund* and a *corporate structure with an agricultural investment strategy* is in some cases difficult to make, and was determined on the basis of information available.

2 It is important to highlight that a comprehensive overview, "Investment fund summaries – overview", of all key aspects is presented in Annex 8, followed by "Investment fund summaries – funds, sectors, instruments and types", in Annex 9.

Table 1 Overview of agricultural investment funds

	No. of (private) equity funds	No. of debt / equity funds	No. of debt funds	No. of guarantee funds	No. of other funds *	Total
Total (excluding MIVs)	14	8	4	1	4	31
Regions						
SSA	5	3			2	10
Other regions	6	2	2		1	11
Global	3	3	2	1	1	10
Other						
(MIVs)		3	3			6

* These comprise one hedge fund, one structured trade finance fund, one trade finance facility and one forestry sector fund. Source: Authors' compilation.

The investment funds are analysed in this publication according to their geographic distribution, types of investments, target group served and shareholder and investor base. Their organizational and operational set-up and expected financial performance are also described. The initial Internet-based research leading to the compilation of information on the investment funds included in the stock-taking was conducted during the first half of 2009, with a priority selection on agricultural funds targeting sub-Saharan Africa (SSA) and Eastern Europe and Central Asia where fund growth and interest in investment in agriculture was deemed highest.

Finally, it must be noted that the findings in the context of this publication are largely dependent on the availability of relevant data and the willingness of counterparties to disclose information on their strategy and operations. Both factors imposed constraints on the study team, mainly due to the following reasons:

- Many of the investment vehicles included in the study were set up only recently or are currently in the process of being set up. The new initiatives have a short track record and information on them is limited.

- Given the nature of the research subject, detailed information in some areas, e.g. on shareholders or returns to investors about some of the identified investment funds (such as closed-end private equity funds) was not made available due to confidentiality concerns.

- Investment funds grew during the financial crisis, but in some cases, the effects of the global financial crisis led to difficulties in attracting private investors as well as the placement of investments by some of the funds. Again, precise information was difficult to obtain given that a number of these investment funds were only set up recently in times of crisis.

Nevertheless, the compilation of the accessible information strives – within the set limits – to provide a descriptive analysis of existing agricultural investment funds in developing countries and current trends and lessons regarding investments funds in agriculture.

1.3 THE IMPORTANCE OF AGRICULTURE FOR DEVELOPMENT

In its 2008 *World development report on agriculture and development*, the World Bank noted that three out of four people in developing countries are living in rural areas, accounting for nearly half of the world's population. An estimated 86 percent of people living in rural areas consider agriculture their main source of livelihood since they depend on it to provide for their daily needs. The agricultural sector is therefore a driving force for income generation and job creation, and continues to play a vital role for economic growth and sustainable development. Various factors underline the importance of the agricultural sector for development:

- **It is widely acknowledged that the development of the agricultural sector is an effective instrument to alleviate poverty.** From 1993 to 2002, developing countries have seen a 6 percent decline of people living on less than USD 1 per day. A significant factor of this decline is the fall of the rural poverty rate from 37 to 29 percent (World Bank, 2007:3). Among other reasons, this decrease in rural poverty is highly attributed to better rural conditions through infrastructure development and improvements in agricultural productivity and technology standards.

- **Agriculture is also a significant source of economic growth.** In developing countries, agriculture generates on average 29 percent of the gross domestic product (GDP) and employs 65 percent of the labour force. About two thirds of the world's agricultural value added is produced in developing countries. At the same time, agriculture also plays an important role in transforming and urbanized economies, where industries and services linked to agriculture account for more than 30 percent of GDP (ibid.). Furthermore, empirical evidence suggests that GDP growth originating from agriculture is as least twice as effective in reducing poverty as GDP growth linked to the non-agricultural sectors (ibid:6).

- **A more developed agricultural sector enhances food security**. This holds particularly true for SSA, a region with much agricultural potential yet affected by food crises. Agriculture in this region is often characterized by undercapitalization, low technology, poor market access, and underutilized or degraded land. These factors increase transaction costs that weaken the production and sale of agricultural commodities. By investing in agriculture and addressing the deficiencies of the sector, the region would be able to secure its food supply, as well as lower transactions costs, which would ultimately promote trade, greater productivity and economic growth.

As in the case of Africa, many developing countries face serious constraints that leave their agriculture sectors idle and underdeveloped. Combined with external risks such as natural disasters, these constraints have discouraged many financiers from investing in agriculture.

1.3.1 The new approach to agricultural development

In the traditional approach, governmental finance and subsidies and donor assistance were provided with the objective of increasing production and food supplies; many farm-level enterprises as well as agribusinesses were dependent on them. As the cost of support to agricultural enterprises became unsustainable, thus creating the impression that investments in agriculture were highly unprofitable, development attention moved away from agriculture to focus on other areas relevant to promote development.

The projections on food requirements and food prices have begun to reinvigorate the discussion by FAO and other development organizations on the need for increased investments in agriculture. Today, agriculture is increasingly perceived as a sector that offers investment opportunities for the private sector and as the key driver of agriculture-related industries and the rural non-farm economy (World Bank (2007: 3). The new approach or drivers of the agricultural sector have shifted from a producer-led approach to market-led one that promotes professional and market-based agriculture enterprises with much stronger linkages within the farm-to-market value chain. This approach is also more holistic in that it focuses not only on production, agribusiness and rural infrastructure, but also on other aspects such as policy frameworks, long-term institutional development, empowerment of farmers and sustainable agriculture. As the World Bank describes it:

> *The environment and context for investments in agriculture has changed dramatically over the past 20 years. Instead of investing with a view to increase production and world food supplies, agricultural sector investments must now seek to increase competitiveness and profitability along the commodity chain from farmer to consumer, enhance sustainability for the environmental and natural resource base, and empower rural people to manage change* (...)
>
> (World Bank, 2005a: xx).

Generally, it is expected that the agricultural sector in developing countries can benefit from the **opportunities and challenges** provided by current developments, such as rapidly developing domestic and international markets, institutional changes in markets as well as innovations in biotechnology and information technology (World Bank, 2007: xiii). All of these increase the need and opportunity for agricultural investment.

1.3.2 The role of the various agricultural stakeholders for investment

To develop effective instruments for promoting agriculture for development and poverty reduction, the challenges and opportunities of the **different stakeholders influencing and composing the agricultural value chain** should be reviewed. This would allow conclusions to be drawn on how to create effective instruments and measures promoting agricultural development identify areas of particular need for investments. In addition to agricultural producers such as smallholder farmers, a diverse range of agribusinesses, i.e. small- and medium-sized agricultural enterprises, including farm input and service suppliers, downstream processors, traders and retailers form part of the agricultural value chain (World Bank, 2005a: 259). It is often at these downstream levels where investment can cause the most growth in the chain.

Figure 1 outlines the agricultural value chain and provides a basic overview of the linkages between the relevant agricultural stakeholders.

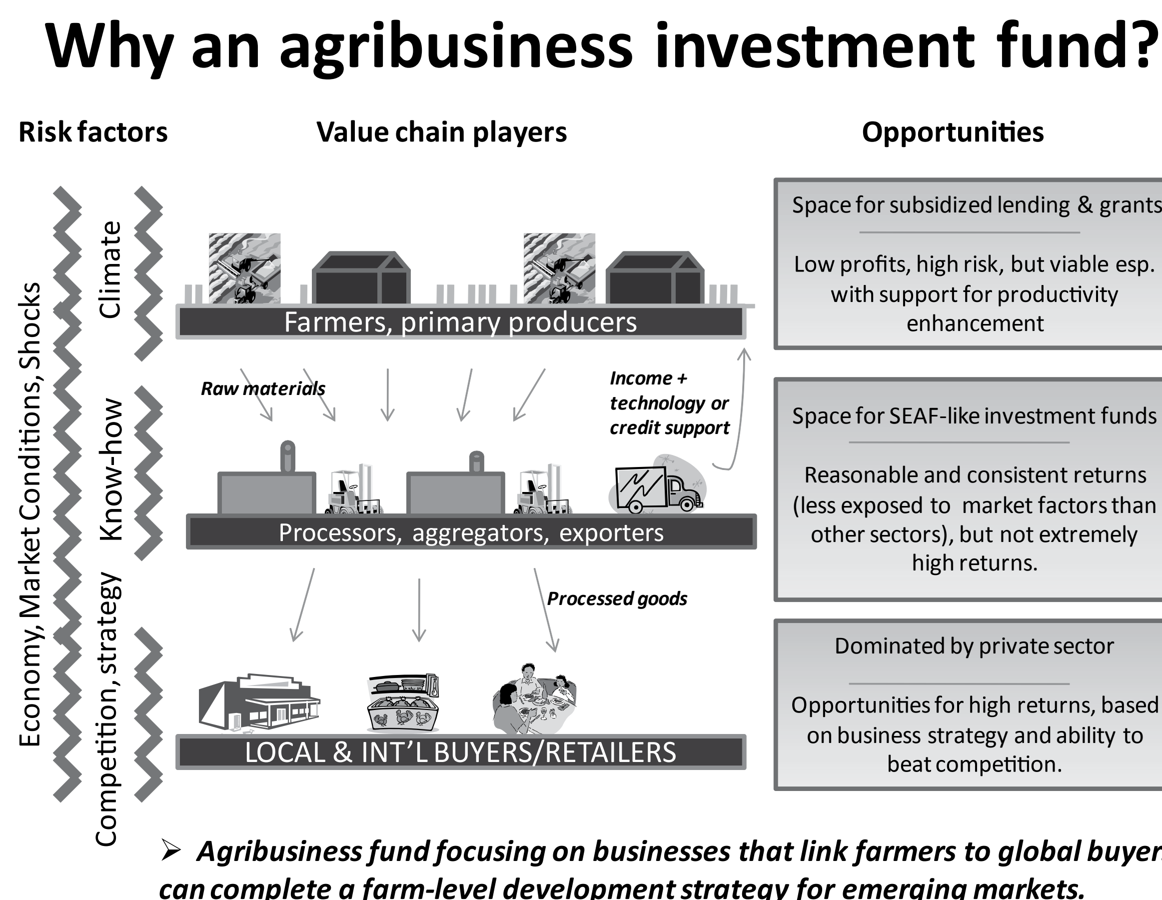
Figure 1. Stakeholders influencing the agricultural value chain

Source: World Bank, 2005a, p. 155.

Of particular importance for development is a **dynamic private agribusiness sector**, which plays a vital role for growth in the agricultural and the rural non-agricultural sector. Agribusinesses supply inputs to the farm sector and link the agricultural sector with the final consumer through processing, marketing and distribution activities. In addition, they are closely linked to the smallholder producers. Overall, agribusinesses contribute – to a large and growing extent – to GDP in developing countries. Among other factors, access to finance plays a crucial role in promoting viable agribusinesses (World Bank, 2007: 135).

Agribusinesses are not only key drivers in the agricultural value chain, but also a preferred avenue for investment into the chain, especially by international investment funds that can bring them debt and equity capital, as well as expertise and market linkages to enhance their growth and the returns on investment. This role and the opportunities for agribusiness investment are illustrated by the Small Enterprise Assistance Funds (SEAF) in Figure 2.

Figure 2. Agricultural stakeholders' risks and opportunities



Source: SEAF, 2009.
Note: S&P 500 is a free-float capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the United States, first published in 1957

1.4 The investor's perspective on investments in agriculture

The agricultural sector has increasingly attracted the attention of international public and private investors. A key factor behind this trend is the long-term upwards trend of food prices during the last decade, fuelling higher return expectations of investors. Overall, a general mismatch between supply and demand in favour of the investor's side is being perceived.

There are a number of factors that contribute to the increase in **demand** for agricultural products and consequently an opportunity and incentive for investors to enter the sector:

- The increasing demand for food commodities can partly be seen as a consequence of **population growth and longer life expectancies.** The global population is expected to increase from the current 6.8 billion to more than 9 billion by 2050, with much of the growth expected in developing countries, where the population of the current 5.6 billion is projected to reach 7.8 billion by 2050 (United Nations Press Release, 2009).

- In addition, **increases of the purchasing power** of the population in some emerging economies have led to further increases in food demand and changes in consumption patterns. The increasing demand for high protein food will furthermore increase the demand for animal feed. The global middle class is expected to increase from 430 million in 2000 to 1.15 billion in 2030, with China and India contributing to the largest share of the expansion.[3]

- A third factor that contributed to a 2008 food crisis (see chapter 3.4) and that will further affect demand for agricultural commodities is **the increased global demand for renewable energy sources, including biofuels.** Demand for new energy sources is expected to increase dramatically in the next years, requiring an increase in growing food crops for this purpose. In this respect, producers of biofuels and traditional agricultural products will compete for scarce arable land, which also impacts other sectors such as forestry.

In addition, the following factors are expected to contribute to a disruption on the supply side:

- Resources required for agricultural production such as land and water are scarce and cannot be substituted. With rising demand for agricultural products, **resource scarcity** will impact price levels and the supply side.

- A major factor that is expected to contribute to a decline of arable land is the growing **urbanization** in developing countries, which has led to rural-urban migration, and hence, a shift of employment to the non-farm sector.

- Factors such as global warming are expected to contribute to **environmental degradation** (e.g. through droughts and floods), which will have an impact on the availability and quality of arable land, thereby increasing relative demand as supply decreases.

3 Wharton School of the University of Pennsylvania (2008), "The new global middle class: potentially profitable – but also unpredictable". The news article refers to the World Bank, which defines "the middle class" as the population that earns between USD 10–20 per day.

- Another reason for the gap between supply and demand is that **investments in the agricultural sector have been insufficient** in the last years (Benson *et al.*, 2008). This is especially the case for long-term investments for infrastructure such as roads, irrigation, storage centres, packing and shipping facilities, which are pressing needs, particularly in SSA.

- Investments are required in **new technologies** to improve the quality of crops, reduce risk and losses, and improve efficiency are required to increase competitiveness. Sustainable means for the production and management of natural resources may also be lacking, causing further concerns for the food supply.

Furthermore, capacity building in terms of entrepreneurial skills is necessary to further expand the local business culture and instil a commercial mentality in small-scale farmers and local entrepreneurs involved in agriculture for increased production and value addition, and also to foster job creation and spur overall economic development.

Against the background of increasing food demand and the scarcity of farmland, land values are expected to rise, which is giving way to speculation. In 2007, for example, the prices for farmland in Brazil and Poland increased by 16 percent and 31 percent, respectively (von Braun and Meinzen-Dick, 2009). Farmland is emerging as an asset class, and recently, investments in land have particularly attracted the interest of investors. The consolidation of small plots into larger ones with the aim of increased productivity and efficiency has become an investment opportunity for agribusiness investors (Henriques, 2008). Recent trends also include an increased participation of investors in agricultural schemes, including investments in input, equipment and storage facilities, investing horizontally along the value chain.

Another motivation for investors, especially governmental investors, is the fact that the increases in global food demand and price increases have endangered food security. These factors have, for example, attracted the attention of wealthy countries dependent on food imports due a lack of arable land and water, such as the Gulf Arab States, which have started to invest in agriculture abroad to ensure **food security** for their countries in the future.[4] In addition, countries that have a growing population concerned with longer-term food security, such as India, China and Republic of Korea, have started to tap opportunities to produce food abroad (von Braun and Meinzen-Dick, 2009).

Overall, the impact of the recent food crisis and the international global financial crisis has changed the perspective of investors regarding investments in the agricultural sector. On the one hand, food prices peaked in 2007 and 2008, attracting the attention of a growing number of private investors. On the other hand, private investors in particular became increasingly conservative in their investment strategy and more hesitant to invest in high-risk assets, given the latest volatility in emerging markets caused by recent turmoil that has hit financial markets on a global scale. This combined financial and economic crisis has led to an overall slowdown in investments.

4 For a comprehensive review of potential for agricultural investments in Africa and Central Asia for the Gulf States, refer to Woertz *et al.* (2008). Members of the Gulf Cooperation Council (GCC) are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

1.4.1 Investment funds as a means of investing in agriculture

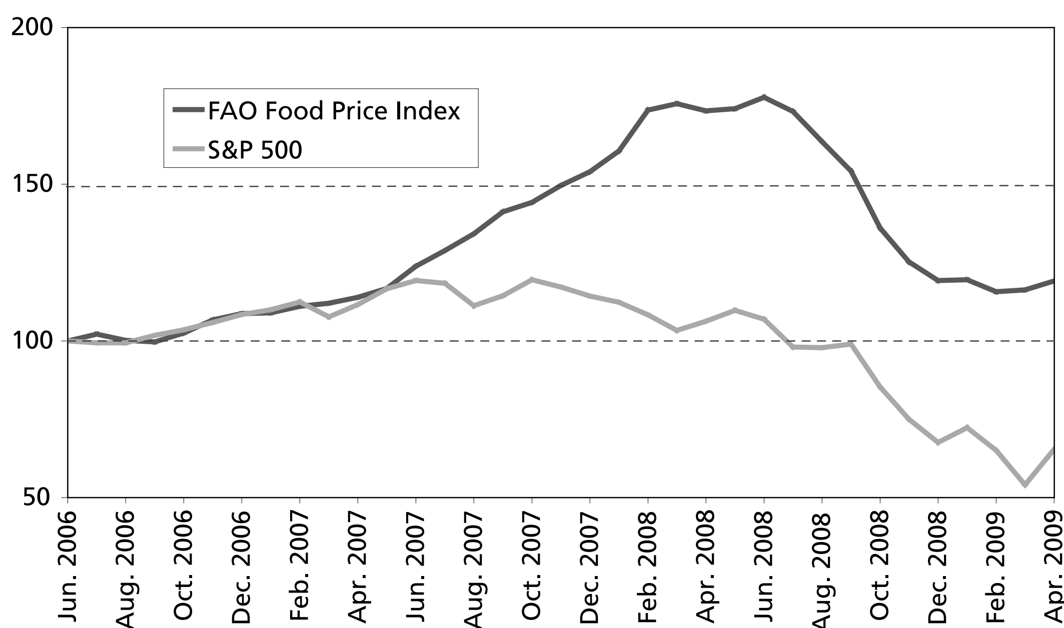
Investments in Commonwealth Development Corporation through fund structures by public or private sources are hardly a new phenomenon, dating back centuries in one form or another. Investments in fund structures also have a long history in the financial world, but in relation to agriculture, particularly that in the developing world, the phenomenon has really only caught the attention of investors more recently. In fact, a review of the available industry and other data demonstrates that, for a variety of factors including unstable financial markets, there is growing interest by various types of institutional and other investors in spite of a recessionary environment. This phenomenon is a fundamental component of the larger macro-investment trend by large institutional investors in the "emerging market asset class", which has shown phenomenal growth over the last decade. This rise of increased fund investments in the overall emerging markets has come from both the public and the private sectors, specifically regarding the agricultural sector. Further, many of these investment funds to be discussed in this report were set up as partnerships between public and private sectors investors. The growth of these public-private partnership (PPP) funds also reflects the strong interest of donors and development finance institutions to promote agricultural development through investment vehicles in developing and transition economies. While there are many funds that invest in multi-asset classes, there are a *growing number of specific investment funds* whose sole investment purpose is the agricultural sector.

Investment in agriculture can take place directly by undertaking individual projects or indirectly through the creation of a portfolio of investments in agricultural companies or funds. Agricultural investment funds therefore offer a means for investors to pool their assets and invest in the agricultural sector in developing countries. The objective of such funds varies. Some funds focus on achieving development impact, as in the case of development funds. Further, especially for the private sector, it is often a way to achieve higher returns at lower risk through scale efficiency and/or improved levels of portfolio diversification. The ability to gain attractive returns while also reducing risk through a diversified pool of investments and investors is a widespread reason for investing in agriculture. In addition, returns from such investment are considered to be relatively decoupled from international financial markets, which, in the past, suffered turmoil at a time when agriculture became most profitable. Through specialized fund managers, the investment funds also bring management and often technical support and business linkages, which benefit both the recipients of the investment, as well as the investor through higher returns resulting from the improved management and technical capacity.

As Figure 3 shows, the sector has often over-performed stock exchanges.

The volatility experienced in the agricultural markets has led to an increased level of interest of investors to engage in agricultural endeavours through investment funds. Investment opportunities are manifold and can include various agricultural subsectors and investments along the agricultural value chain. As the study identified, investment funds specialized in the agricultural sector in developing countries can be distinguished according to different criteria, such as their geographic outreach, shareholder and investor base, and investments instruments, as well as investment objectives and strategy.

Figure 3. The development of food prices and stocks (June 2006–April 2009)



Source: FAO, Datastream.
Note: S&P 500 is a free-float capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the United States, first published in 1957

1.4.2 The specific risks related to investments in agriculture

Investments in agriculture are characterized by a variety of risks. While some of them also relate to other investments in developing countries, agricultural production faces a number of specific risks, making investments in agriculture appear more risky than similar investments in other sectors of the economy.

Agricultural risks are often classified into four categories: production, market, financial and institutional risks (World Bank, 2005b:5–6):

- **Production risk.** Agriculture is often characterized by a high variability of production outcomes. External factors that are imperfectly predictable such as weather and diseases influence the amount of agricultural output generated as well as its quality. Climatic factors can lead to a total or partial loss of crops or herds, and might have long-term implications. And yet, climate change has nonetheless been an opportunity in some cases.

- **Market risk.** Agriculture facing considerable price volatility causing uncertainty about the prices producers and agribusiness firms will receive for commodities or the prices they must pay for inputs. Output price volatilities can originate from endogenous as well as exogenous market shocks. In addition, there is also market risk with regard to the delivery of the agricultural produce to the market place or the processor, especially for perishable products. Also, prices are often further exacerbated by government policy. For

instance, during the 2008 food crisis, some countries, in an attempt to mitigate high prices, introduced price and export quantity controls of food crops.

- **Financial risk.** Agricultural production cycles are characterized by long periods and time lags between financing needs and revenues from sales, which might lead to possible cash flow problems. In addition, problems can arise from limited access to finance.

- **Institutional risk.** Changes in regulation might affect agricultural producers unexpectedly and might, for example, lead to changes in import/export regimes or sanitary regulations.

- The risks inherent to agriculture that can hamper profitability, and hence economic returns, need to be well understood by investors, including the mechanisms to mitigate them. While not being exhaustive, some additional critical risks relevant from the investor's point of view should be highlighted:[5]

- **Systemic/covariant risk.** Climatic and environmental risks such as droughts, floods and pests can have an impact on physical production. In addition, risks are strongly interrelated, e.g. constrained access to input of smallholder farmers affects, for example, the processing of the agricultural produce.

- **Market distortions through government involvement in agricultural production or marketing.** Agriculture is a sector that has often been characterized by strong government interventions, e.g. through subsidies and price controls. In times of scarce public budgets and an opening of international markets, the involvement of private sector players gains importance. However, the lack of price controls and public interventions in the agricultural sector requires all players to rethink their approach to formerly more regulated markets.

- **Time horizon of investments.** Capital needs in agricultural production range from short-term needs, such as trade finance, to long-term investments in capital-intensive machinery and goods, which may amortize over a period of several years. As indicated above, the cyclical nature of the agricultural business combined with the uncertainty of price developments make cash flow predictions much more difficult than in other industries.

- **Political risk.** While not being an inherent risk to agricultural investments, some of the agricultural investment funds identified focus operations on countries with unstable political situations. Political risk includes, for example, community resettlements or the redistribution of land. Land investments are highly sensitive in many developing countries. In Madagascar, for example, a failed land investment by Daewoo, a company of the Republic of Korea, has led to political unrest and the President being toppled (*BBC News*, 2009).

Several additional factors, such as remoteness and dispersed demand of potential clients, lack of acceptable collateral, seasonality of agricultural production, high transaction costs and risks for formal financial institutions to lend to agriculture often lead to the perception that the provision of financing to agriculture is less attractive (World Bank, 2005a: 304). Yet, despite the

5 On the risks on investments in agriculture, see World Bank (2005: 304, 414) and Hollinger (2004: 5–16).

overall perception that agricultural investment is risky, a favourable investment climate in many countries and perceived opportunities from both public and private sector investors have led to discernible growth, not only in traditional forms of investments in agriculture, but also in new types of investment vehicles.

1.5 Capital needs and the role of investments in agriculture

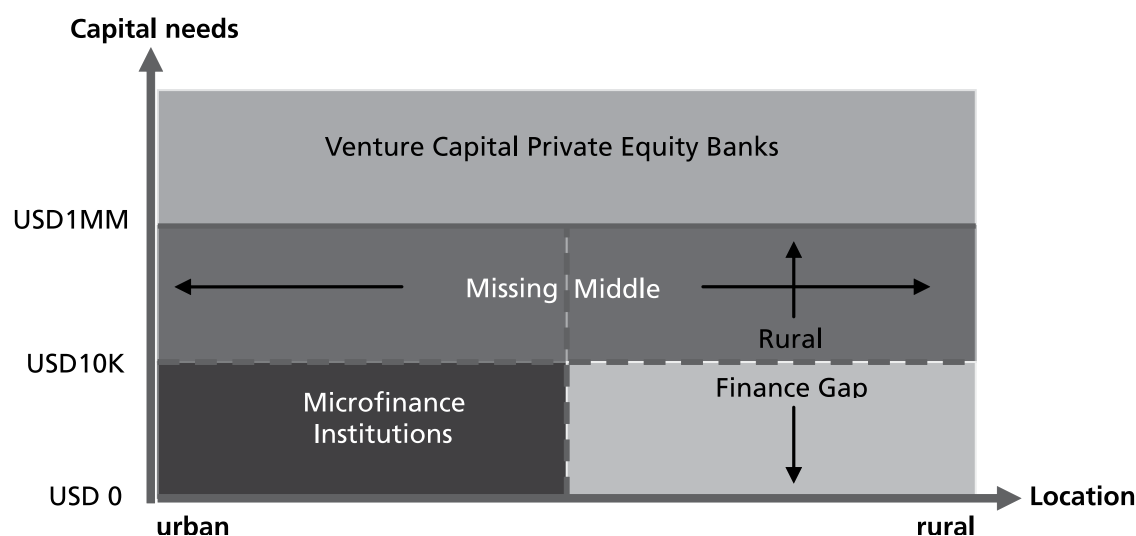
1.5.1 Capital needs according to different agricultural stakeholders

To foster agricultural development and contribute to development and poverty reduction, the various actors of the agricultural value chain require access to capital to secure their economic activity (e.g. to purchase raw materials and inputs) and to foster growth and productivity increases. Capital is usually either provided by formal financial institutions or from other actors in the value chain.

Access to finance is crucial because it provides the opportunity to grow and expand the business as well as to meet cash flow needs and to ensure operations. In addition, growth capital is needed for start-up companies to achieve a certain size as well as economies of scale. Given the linkages within value chains, the lack of finance can therefore have implications on the respective upstream, midstream and downstream operations.

Figure 4 attempts to summarize the different tapped and untapped capital needs of the rural population, who mostly derive their income from being engaged in agricultural activities. It classifies the needs according to the amounts of capital required and identifies gaps in the provision of capital. In principle, there is a lack of access to capital for amounts of up to USD 1 million, and especially so in the more remote/rural the locations of the agricultural actor. This "rural finance gap" in access to finance is perceived for capital needs between USD 10 000 and USD 1 million (the "missing middle") (Milder, 2008).

Figure 4. The rural finance gap and the "missing middle"



Source: Milder, 2008.

Capital needs served by microfinance institutions (MFIs). Despite continuous developments in financial services, most smallholders and micro- and small-sized agri-businesses in developing countries do not have access to the financial services they require to ensure economic activity and to improve their livelihoods. Financial constraints are in principle more pronounced in agriculture and related activities than in other sectors, due to the nature of agricultural activity (e.g. facing high, interrelated covariant risks) (World Bank, 2007:143).

Microfinance institutions (MFIs) have tackled the challenges related to the provision of financial services in rural areas and have developed dedicated agricultural/rural finance products (including loans, savings, leasing and insurance products). In addition, innovations in information technologies such as the usage of mobile phones for banking services provide improved access to financial services for the rural population.

With a sustainable approach, agricultural microfinance is proving to be a viable solution to the financing gap experienced by the agriculture sector. Smallholders in remote rural areas, for example, now have access to financial services through microfinance's "door-step banking" approach. Rural MFIs have started innovating their financial products to better suit the need of smallholders. Today, the importance of building sustainable financial institutions that can provide long-term access to financial services in rural areas is being acknowledged and has proven to be financially interesting (World Bank, 2005a:310).

Nevertheless, the provision of financial services to households and agricultural enterprises in poorer and marginal rural areas in developing countries remains a challenge. According to the World Bank, microfinance has not yet reached most agricultural activities in developing countries (World Bank (2007:13).

Capital needs of the "missing middle". The large demand and potential for financing the "missing middle" consists of agricultural cooperatives as well as SME agribusinesses that use the produce from small-scale rural farmers and sells to the urban as well as export markets. The "missing middle" can be trapped between microfinance, for which they require too large amounts to be served, and commercial banks and private equity funds, which perceive these businesses as too small, risky and remote to be attractive for investments. Yet they require growth finance if they are to foster job creation and development. Finance for growth is considered a new asset class that is interesting for development and socially minded investors and the development impact from growth finance that is expected to be achieved during the next decades is assumed larger than the impact expected from microfinance. In addition to the provision of growth finance, donor efforts focus on the provision of business development services (BDS).[6]

Capital needs served by private equity/venture capital funds and commercial banks. Although this is not always the case, based on the previous analysis, it is assumed that the capital needs of larger processing companies either requiring equity or venture capital and

6 For the importance of growth finance and the "missing middle", refer to Milder (2008), "Closing the gap: reaching the missing middle and rural poor through value chain finance", and the CDC press release "CDC Group plc, Shell Foundation and GroFin join forces to put "growth finance" investment at centre stage for the next decade". According to the press release, growth finance is defined as amounts between USD 10 000 and USD 2 million.

longer-term debt of more than USD 1–2 million are relatively more attractive for investments from regular commercial private equity and venture capital funds and/or that these companies have access to financing from commercial banks. However, given the implications of the current financial crisis, access to finance for many in this target group appears to have been negatively affected; this would require a closer review to better understand the full extent.

1.5.2 Investment environment

Over the decades, investments in developing agriculture have taken a variety of forms. There have been large-scale agricultural development projects targeting certain countries or regions that have been funded by various donors and international development agencies. Historically, there have also been a number of private sector investment initiatives. For example, international commercial banks have lent money for agricultural projects often with government insurance backing, and multinational agribusiness firms have set up a number of operations in the developing world dating back many years in the form of processing plants and other similar types of investments. With regard to small loans, the microfinance sector initiated its activities in the late 1970s and has grown to be a huge provider of funds to farmers in the developing world, but demand for such financing still outstrips supply. Investors continue to purchase, as they have for many years, the equity or bonds of corporations involved in the developing world agricultural sector, and of course this type of investing continues today.

A distinct problem of the past, which is in the process of being addressed, is the issue of repatriation of capital. Many potential investors, particularly from the private sector, simply have not been investing in certain countries due to less-than-friendly investment laws that limit the ability of foreign investors to take capital gains in hard currency form out of the countries. Overall, some countries are providing more enabling environments than others and investment interest is enhanced. The case of Mozambique is illuminating in this regard.

Over the last several years, Mozambique has made significant improvements in the business environment in the country, which were made primarily through alterations to the Commercial Code, the investment laws and the Exchange Control Law. The new Commercial Code, approved by Decree 2/2005 and Decree 2/2009 as well as some other complementary legislation, introduced changes to the previous Commercial Code. The procedures for company registration in Mozambique have been significantly simplified, and it is now possible to complete the registration process of a company within a maximum time period of five days. The investment legislation has also provided for customs and fiscal benefits to eligible projects according to the value, location and sector of activity. As per the current investment laws, there are also guarantees of property, in which the Government of Mozambique guarantees the security and legal protection on goods and rights, including industrial property rights that are comprised in the approved investments carried out in accordance with the investment law and its regulation. In addition, the Government also guarantees the remittance of funds, in accordance with the conditions set out in the authorization of investment and other relevant legislation. There is evidence that these modifications in the legal environment have had a positive impact on attracting capital. As an example, the Sustainable Agriculture Guarantee Fund (SAGF), presented in this publication, is targeting Mozambique as a potential investment area. In addition, there are discussions among private and public investors to collaborate in a coordinated agricultural investment corridor in the country.

1.5.3 The different kinds of capital

Depending on the role of the respective actors within the agricultural value chain, the size of the agricultural business, as well as the enterprise's stage of organizational development, access to different kinds of capital is needed, which can comprise debt capital, equity as well as guarantees, or a combination thereof.

Debt capital, commonly called loans, is needed to fund purchase of fixed assets such as machinery. as well as working capital to bridge liquidity gaps, because there is often a time lag between a financing need (e.g. the purchase of seeds and fertilizers) and revenues from the sale of the agricultural produce.

For some actors, banks, credit unions and MFIs can serve these capital needs, but in general, they have been far from adequate in serving the sector. Actors from within the value chain such as input suppliers and traders play a very important role in financing other agricultural stakeholders. Yet, the access to debt capital is also relevant for agricultural cooperatives and small-, medium- and larger- agricultural enterprises. The respective capital needs can therefore be served either through a local, or in some cases, international financial intermediary, or directly or indirectly by investors or agricultural investment fund.

In addition, **guarantee mechanisms,** which have often been publicly supported, can play a role in facilitating access to debt capital or in leveraging additional funds provided by local financial intermediaries through a risk-sharing mechanism. Guarantee schemes thus offset risks from lending to the agricultural sector and are based on the idea that they help lenders to address collateral problems and reduce transaction costs and risks, and that eventually, the financial intermediary will provide these loans to the borrower without the guarantee. Simultaneously, the client is expected to benefit from the guarantee through access to the local financial institution and possibly larger loan sizes and lower interest rates, as well as other preferable conditions in terms of collateral requirements and maturities (Hollinger, 2004: 115–116).

In addition, having reached a certain organizational growth stage or operating in a capital-intensive industry agricultural, SMEs require **equity** for further expansion and growth, including the leverage of additional debt capital. In principle, equity can be provided by individual investors, stock markets, equity or venture capital funds, as well as national and international development banks and socially oriented investment funds. While debt can be provided to individuals and groups, equity can only be given to legal entities. Venture capital refers to providing risk capital to more risky enterprises, such as the financing of start-ups.

However, there are factors that prevent investors from investing in equity for agricultural SMEs engaged in production and processing. Return expectations seem to be lower than in other economic sectors against the background of high risks associated with agricultural term investments as well as a decline of the secular terms of trade of agricultural products. While difficulties are perceived in the provision of equity to these enterprises, equity investments are essential, since they target enterprises such as processing companies, which have important linkages in the agricultural value chain (Hollinger, 2004: 95–96).

2. Stock-taking of agricultural investment funds

2.1 General characteristics of investment funds

Investment funds are a mechanism to bring together assets of multiple investors in a collective investment scheme. The pooling of capital in such vehicles allows for investing the money in different asset types and financial instruments, investment targets (for example, certain types of companies) and across different countries. An investment fund is therefore a financial structure or instrument to share the benefits (financial returns) and related risks associated with the investment of capital among a number of different investors, thereby achieving diversification advantages for them. It allows the different investors with similar interests and risk-return expectations to jointly allocate their resources in the productive sectors of the economy where capital is needed. In addition, it provides an opportunity to invest money in a broader range of investment targets than would be possible for a single investor.

While an investment fund is one way to pool and invest the assets of different investors into specific investment targets, there are other ways to invest in the agricultural sector. Corporate structures, as opposed to investment funds, usually consist of investors who have a stronger link with each other and are more directly involved in strategic decisions. In comparison to corporate structures with an investment strategy, investment funds usually have a broader investor base with the capital being pooled into a diversified portfolio mix.

Investment funds can generally be categorized according to various criteria. Usually, they are distinguished according to the following aspects:[7]

- **Focus**: They focus on investing in a specific **region** (e.g. emerging markets) or in different **asset classes** (such as commodities) and **financial instruments** (for example bonds, listed securities and derivatives).

- **Targeted investor base and level of access for investors**. These include: public vehicles that are, in principle, available to the general public and often listed on stock exchanges (such as mutual funds); funds to which access is limited to certain investor groups (in most cases, institutional investors); and private investment funds (for example, those set up to manage the assets of only a fewer number of or high-net worth, qualifying investors investors).

7 A complete list of the investment funds identified in this publication can be found in Annex 8 and 9.

- **Duration**. A distinction can be made between **closed-end** (limited number of shares and/or limited duration) and **open-end** investment funds (i.e. a vehicle that can issue new shares at any time and accept new investors).

2.1.1 Definition of agricultural investment funds and summary of selected funds

There are different types of investment funds that invest all or part of their capital in agriculture or other related areas.[8] However, as the overall objective of publication is to identify and assess the existence and potential of investments in agriculture and agribusiness, two clear criteria have been established to identify agricultural investment funds to be included the research study This information is therefore focused on investment funds with the following two characteristics:

- **A focus on investments in agriculture, agribusinesses and other areas linked to agriculture.** Given the research subject, the identified investment funds have a clear focus on investments in agriculture and/or agribusiness. The funds might therefore target agriculture directly or indirectly (e.g. through investments in MFIs that provide access to finance to smallholders). These funds may be part of a "family of funds" managed by a fund manager. One of these fund managers, SEAF, is also reviewed given its long track record of investing in emerging markets with a social as well as business perspective.

- **A focus on developing countries and transition economies.** These are investment funds included in the stock-taking focus on investments in developing countries, particularly SSA and transition economies. Whenever the fund's operations also include former transition economies (e.g. EU-member countries like Romania and Poland), the respective fund has been included in the stock-taking, due to the particular interest in the EECA agricultural sector. These funds also tended to have a more private focus than many in SSA and serve as examples for other regions.

Taking into account these two criteria, the study team identified 31 investment funds, which were analysed according to their geographic distribution, types of investments, target group served and shareholder and investor base, as well as organizational and operational set-up and expected financial performance in the following sub-chapters. Table 1, section 1.2, noted that 14 of the 31 were private equity funds and eight were combined equity and debt funds, noting the importance of equity for agricultural investment, as opposed to more debt funds for microfinance, for example.

It is also important to compare where in the chain that the investments are made. As shown in Table 3, 22 of the 31 funds invest in agro-industries and agribusiness, which is by far the most important area among all other areas. All of the SSA funds and Eastern Europe funds invest in this part of the value chain. For the ECA region and other regions, the food and beverage industry was also important, but in SSA, where most funds have development agency

8 Commodity trading in the form of derivatives that are linked to those commodities on stock exchanges have increasingly attracted the attention of investors in recent years. Investment funds that are, for example, focused on investing in exchange-traded agricultural commodity contracts and derivates are, however, a different research subject. Given the speculative nature of such investments in these complex financial instruments, the impact on agriculture in a broader sense (e.g. through having an impact on price levels for soft commodities, such as sugar, wheat, corn and rice) could be studied, but is not considered in the context of this publication.

involvement, this was not an area of investment. Rather for SSA, the second most important was for rural and agricultural infrastructure.

Table 2 . The investment sector: agriculture and agribusiness

	Investment sector Agriculture and agribusiness							
	Agro-industries/ agri-business	Food/ beverage	Seed/ fertilizer companies	Smallholders/ cooperatives	Horticulture/ fruits	Grains/ pulses	Livestock and dairy	Rural/ agri-infrastructure
Sub-Saharan Africa	10	0	3	1	3	3	3	5
Eastern Europe and Central Asia	3	3	0	0	0	0	1	0
Other regions of the World	5	5	0	2	1	0	0	2
Global	4	2	0	3	3	1	1	1
Total	22	10	3	6	7	4	5	8

Other highlights to note from the information in the Annex 8 and 9 summary charts are that for SSA, almost all funds include a technical assistance provision, often in the form of designated funds for such assistance. This is much less the case for investment funds that do not have development agency participation. Also, while almost all funds classified themselves as being a commercial fund, as can be expected, those which provide technical assistance also characterize themselves as being socially responsible focused investment funds.[9]

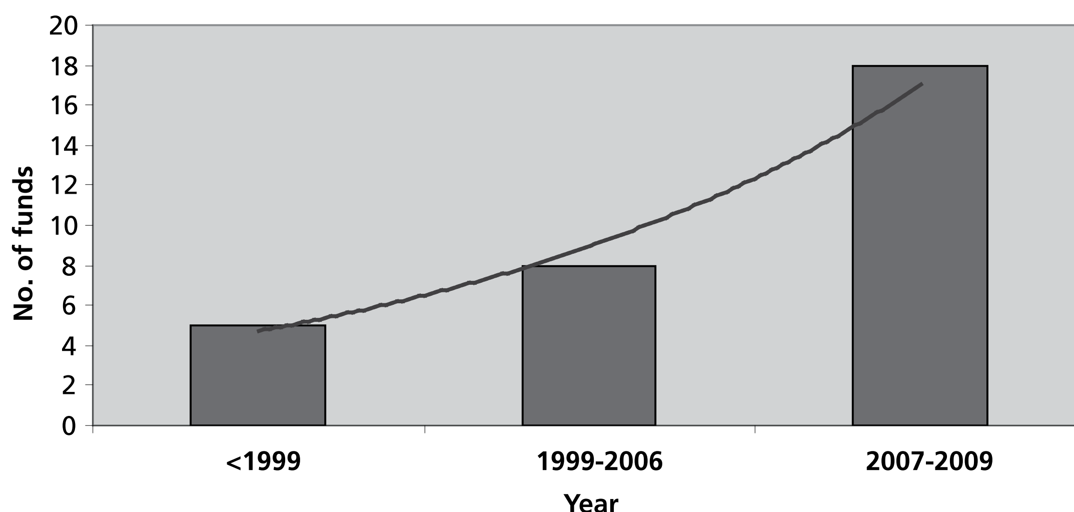
2.2 TRENDS REGARDING THE SET-UP OF AGRICULTURAL INVESTMENT FUNDS

Before entering the analysis section of the research, it should be reiterated that 58 percent of the funds studied have short track records. This trend can be explained by the increasing interest of investors in participating in the outlook for agricultural investments, as well as the interest of development finance institutions (DFIs) and governments around the world to counter the negative effects of the food supply perspectives in the short and long term. Furthermore, to achieve the Millennium Development Goals concerning hunger will not be reached by the public sector unless funds are massively increased. For the private sector, agriculture in a variety of forms is now viewed as an investment class with high return potential, leading to increased interest in the sector.

Figure 5 shows the clear increase in the set-up of agricultural investment funds in developing countries.

9 It is important to highlight that a comprehensive overview, "Investment fund summaries – overview", of all key aspects is presented in the Annex 7, followed by "Investment fund summaries – funds, sectors, instruments and types", in Annex 8.

Figure 5. Rising trend in setting up agricultural investment funds

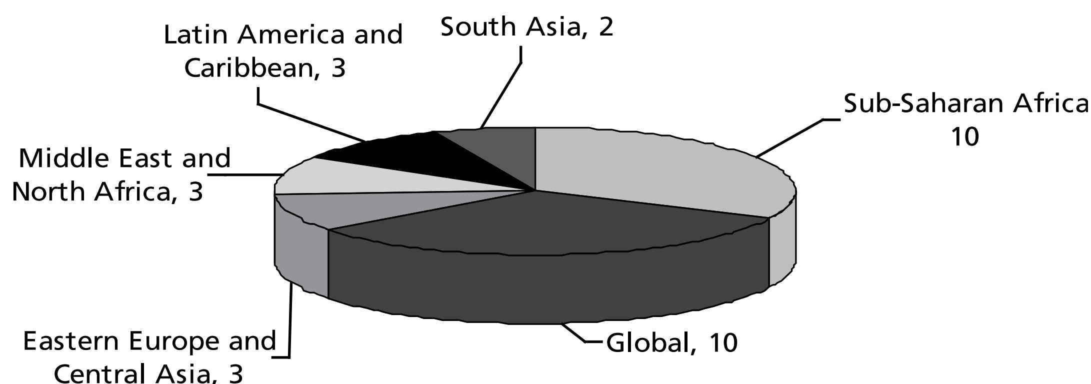


Source: Authors' compilation.

2.3 Geographic distribution and outreach of selected funds

Regarding the geographic distribution of the funds studied, 32 percent (ten funds) of the identified vehicles are focused on SSA and an equal number of funds invest on a global scale. The remainder is distributed at an equal share throughout the other regions of South Asia (SA), Latin America and the Caribbean (LAC), the Middle East and North Africa (MENA) as well as EECA (Figure 6).

Figure 6. Geographic distribution of agricultural investment funds



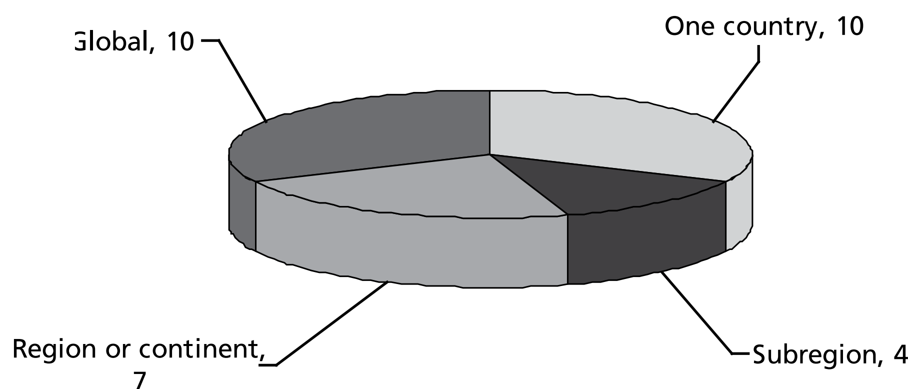
Source: Authors' compilation.

In addition, the agricultural investment funds can be categorized according to their focus on one country, a specific subregion (e.g. East Africa), a region/continent (e.g. SSA) or whether they invest globally, which is shown in Figure 7. While some of the funds have a clear focus on investments in one specific country (e.g. India), some have started operations in one particular country, but are

planning to expand investments further to a subregion or various countries in the respective region. Within a country, a fund might furthermore focus on investing in one specific sector only.

With regard to the size of the investment funds included in the stock-taking, about 29 percent of the total assets are with funds that focus on investments in one country only; 46 percent are with funds that invest on a global scale; and about 22 percent of these funds are operating in or being developed SSA.[10]

Figure 7. Distribution of funds according to geographic outreach



Source: Authors' compilation.

2.4 Size of selected investment funds (capital base)

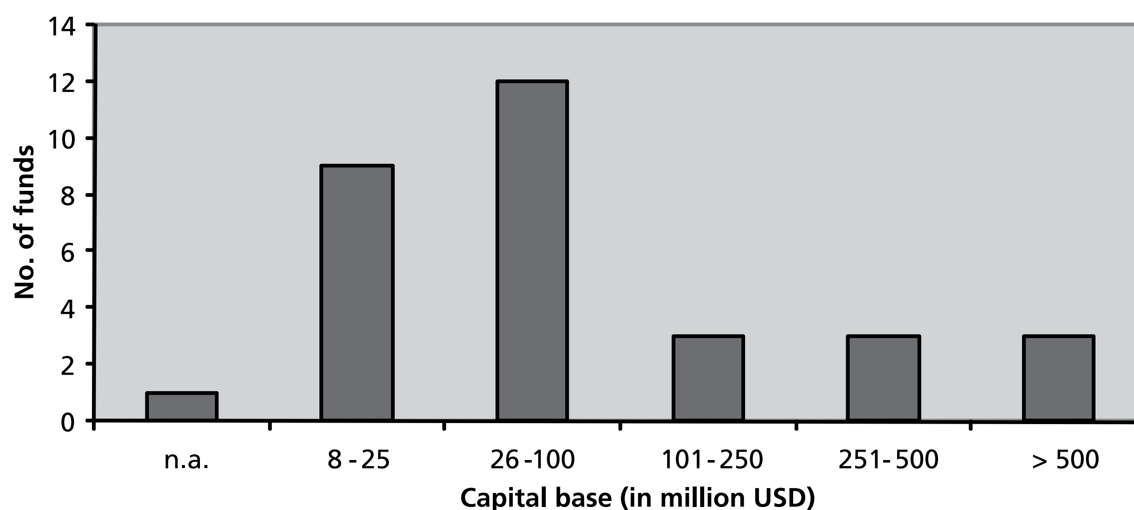
The individual capital bases of the identified investment funds included in the stock-taking range from USD 8 million to almost USD 2.7 billion.[11] As indicated in Figure 8, 68 percent (21) of the funds each have a capital base of less than USD 100 million.

Overall, all identified agricultural investment funds included in the stock-taking have a total (targeted) capital base of approximately USD 7.08 billion. When excluding MIVs and the Emergent Capital Land Fund, the identified agricultural investment funds have a total (targeted) capital base of about USD 3.7 billion.

10 These figures exclude MIVs as well as the Emergent Capital Land Fund in order to avoid a distorted picture. The Emergent Capital Land Fund is a hedge fund and is referred to under the section "Other funds engaged in investments in agriculture" in this chapter. Based on the recent set-up of most of the funds, conclusions cannot yet be drawn on which share of the funds is actually already invested.

11 The smallest investment fund included in the stock-taking is the Nicaragua Credit Alternatives Fund (NICA), with a capital base of approximately USD 8 million, but with a long history of investing in producer cooperatives. The largest investment fund identified is the Emergent Capital Land Fund, a hedge fund with a targeted capital base of USD 2.7 billion.

Figure 8. Distribution of agricultural investment funds according to capital base



Source: Authors' compilation.

To better understand the following analysis in this chapter, Table 2 provides an overview of the identified agricultural investment funds according to the type of fund and their total volume:

Table 3. Capital base of selected agricultural investment funds

Funds	No. of (private) equity funds	No. of debt /equity funds	No. of debt funds	No, of guarantee funds	No. of other funds	Total no.
Total	14	8	4	1	4	31
Total (targeted) capital base	3 070	964	68	30	2 950	7 082
Total of microfinance investment vehicles (MIVs)	-	621	43	-	-	664
Total of hedge funds	-	-	-	-	2 700	2 700
Total, excluding MIVs and hedge funds	3 070	343	25	30	250	3 718

Note: Figures in USD million.
Source: Authors' compilation.

Based on a classification per investment instruments, the research revealed a number of specific characteristics, which are described in the following paragraphs. In general, it can be said that different financial instruments entail different risks from the investors' point of view. Combining different financial instruments, such as equity, quasi-equity and debt instruments, helps to diversify the portfolio of a fund mitigate some of the associated risks. A look at the use of these different instruments is summarized below.

- **(Private) equity funds:** The FAO/ConCap research identified 14 (private) equity funds that provide equity either through investing in listed (equity funds) or unlisted agricultural businesses and companies (private equity funds). The identified funds operate in all

geographic regions except for LAC: six funds target one country only; five target one region/continent; and three operate on a global scale. All of these funds were set up during the past four years, except for two funds in EECA, which date back to the time of the fall of communism in the former Soviet Union.

- Generally, the identified equity funds either target the capital needs of the "missing middle" or those of larger, agro-processing and -producing companies, with a focus on the latter. Most of the identified vehicles are private equity funds that invest in unlisted enterprises and companies. These funds usually focus on acquiring minority stakes in a company, while striving for a representation on the company's board of directors in order to strategically influence business decisions.

- Depending on the target market, investor base and investment strategy, the equity funds identified consist of both funds that invest in a narrowly defined type of business and those that have a broader approach to investing in agriculture by providing capital along the agricultural value chain, ranging from input supply, production and processing, to distribution, agricultural infrastructure, farmland and food storage or even food retailers. A third type of fund follows a more diversified approach by spreading investments to other agriculture-related sectors.[12]

- The total capital base of the identified private equity funds amounts to about USD 3.07 billion, with one fund contributing to about one third of the total capital.[13]

- **Debt funds:** Four investment funds only provide loan capital for agriculture. In these cases, they are either provided directly by the fund to agricultural producers, such as SMEs or rural cooperatives, or provided to MFIs, which then on-lend to small-scale farmers and micro-, small- and medium-sized agricultural enterprises (MSMEs).

- Out of the four debt funds, only one fund directly provides loans to the end-borrowers. This fund, Root Capital, is a non-profit investment fund providing finance for grassroots businesses in rural areas of developing countries.[14] Since inception, the fund has provided more than USD 120 million in loans to 235 enterprises in 30 countries in LAC and Africa. Root Capital focuses on providing capital to the "missing middle". However, a share of the portfolio is also invested in other sectors such as handicrafts and ecotourism.

- **Combined equity/debt funds:** In total, eight investment funds provide equity as well as debt capital to the target group. The fact that there are more equity funds than combined equity/debt funds can be partially explained by the fact that the provision of debt is often available locally to the investees if they have adequate equity investment.

12 Refer to the Case Study on the Agribusiness Partners International Fund in Annex 4, which, for example, also invested in glass container manufacturing and packaging production.

13 AgriCapital, a private equity fund planning to invest on a global scale, has a targeted capital base of up to USD 1 billion.

14 See www.rootcapital.org and Milder (2008).

- The remainder of the investment funds provides equity, quasi-equity and debt capital according to the need of the target group investees. They can be mature companies, growing ones or even start-ups.

- Three of the identified equity/debt vehicles (including two funds and one company structure) operate in SSA and in total have an expected capital base of about USD 343 million.

Microfinance investment funds: In part for comparative purposes, microfinance funds are included in the study, but given the specific nature of microfinance funds, they are segregated. Six MIVs, with four MIVs providing refinancing on a global scale and two funds being focused on LAC were included.[15] While the inception of some of these funds date back even more than ten years ago, some microfinance vehicles such as the Rural Impulse Fund (RIF), an initiative targeting specifically rural MFIs, were recently set up.

While some of the identified initiatives provide capital to the target group only via MFIs, others directly invest in agricultural cooperatives, smallholder organizations, agricultural enterprises or fair trade producer organizations. The aim of the recently set-up *Fondo para los Pequeños Productores Rurales en América Latina* (FOPEPRO), for example, is to provide funding to MFIs that serve smallholders and also to directly lend to smallholder organizations and agricultural SMEs engaged in processing and marketing.

However, none of the microfinance funds included in the stock-taking targets the agricultural sector exclusively. Depending on the funds' missions, overall objectives and investment strategies, a major share of the portfolio of all funds is dedicated to either all kinds of MFIs or to rural finance in general. These funds therefore also target MSEs in rural areas that are not engaged in the agricultural value chain, but in other sectors, such as trade and services. The total capital base of the included funds in this category is approximately USD 664 million, representing 18 percent of the total volume of the considered funds.

- **Guarantee funds:** Guarantee schemes are risk-sharing mechanisms set up to help promote access to finance and leverage additional funds from local financial intermediaries. The stock-taking includes one guarantee fund, which is reviewed in more detail in a case study outlined in Annex 5.

- **Other funds engaged in investments in agriculture:** The research also included the following four additional investment vehicles were identified that do not belong to any of the above-mentioned categories:
  - one hedge fund (the Emergent African Land Fund), which offers investors the opportunity to invest in farmland in SSA;
  - one structured trade finance fund (Barak Structured Trade Finance Fund);
  - one trade finance facility (Triodos Sustainable Trade Fund[16]); and

15 Microfinance fund providers included in the stock-taking are Oikocredit, MicroVest, Alterfin, FOPEPRO, the NICA Fund and RIF.
16 Both the Triodos Sustainable Trade Fund (TSTF) and SAGF set up by Rabobank serve a similar purpose; however, they are not grouped together, because SAGF is a guarantee scheme cooperating with a financial intermediary, whereas TSTF provides trade finance loans directly to agricultural cooperatives.

- a specific financing solution for Chile's forestry sector, including securitization of forestry assets (the Lignum Forestry Fund) to enable small- and medium-scale landowners to increase income and modernize their landholdings.

These funds were included in the stock-taking, since they represent other important investment fund classes and have a clear focus on agriculture in developing countries, but their analysis is beyond the purview of this publication.

2.5 SHAREHOLDER STRUCTURE OF THE SELECTED FUNDS

The identified investment vehicles can be furthermore distinguished according to their respective shareholder and investor base. Capital is either provided by the private sector or through a combination of public and private funds in the form of public-private partnerships (PPPs). Private capital can comprise contributions of private individual or institutional investors as well as foundations. Foundations from private companies are clearly a different type of private sector investor and allocate investment funds on a philanthropic rather than on a purely risk/reward basis, as most private sector investors do. Public funds are provided by public institutional investors including international donors and DFIs.

In line with the implications drawn from the research,, the study team has identified a high share of PPPs: overall, 58 percent (18) of the funds included in the stock-taking are pooling public and private funds together; all remaining funds are private capital funds. However, one trend observed in the range of sample institutions is that the number of private capital funds investing in agriculture is increasing; one third of the investment funds that were launched during the past three years are private capital.

Overall, the findings of this study do not confirm any substantial correlation between fund size and the source of the invested capital. Nevertheless, it has been noted that the two largest investment funds identified are purely private sector initiatives with a targeted capital base of up to USD 1 billion and USD 2.7 billion respectively.[17] Yet, the large size of the two funds seems to be due to their investment focus, requiring large sums of capital to be invested.

Regarding the specific shareholder structures of the different types of investment funds, 71 percent of the private equity funds and 80 percent of the equity/debt funds are pooling assets of private as well as public investors, which reflects the general observation made on the predominance of joint public-private initiatives. By contrast, two thirds of the funding of MIVs comes from private investors.

With a few exceptions, private individuals are not able to invest small amounts in MIVs. Given the increased understanding of socially responsible investments, it is expected that more retail products will be developed for private investors in the coming years.

17 These figures refer to AgriCapital and the Emergent African Land Fund.

2.6 Assets management of selected funds

The individual capital bases of the 31 investment funds outlined in this report have assets that range from USD 8 million to nearly USD 2.7 billion. As indicated previously, 68 percent (21) of the funds each have a capital base of up to USD 100 million. Overall, all identified agricultural investment funds reviewed have total funds assets of approximately USD 7.08 billion (not fully invested in terms of capital). When excluding MIVs and the Emergent Capital Land Fund, the identified agricultural investment funds have a total targeted capital base of approximately USD 3.7 billion. Once again, this by no means includes all global funds that invest, in one form or another, in developing world agriculture.

In terms of size, the global funds make up half of the total cumulative assets under management of the funds assessed. The selected agricultural investment funds demonstrate the considerable differences in terms of structure and amount of assets under management. In addition to the investment capital of the funds selected, there are immense amounts of capital invested in hybrid funds that invest in multi-asset classes, including agriculture and fast-growing amounts under management in MIVs. For obvious reasons, hybrid funds defy easy labelling or classification and therefore cannot be labelled as "agricultural funds". As a consequence, the total amount of funds investing in one form or another in developing world agriculture is certainly a multiple of the amounts mentioned above. While the sampling of funds under discussion may not be exhaustive, it nonetheless provides an important quantitative review that illustrates this highly topical and very important investment phenomenon. Making further estimates on the potential size of other funds penetrating the sector, one can further see the growth in investment appetite in the sector by both public as well as private investors.

2.7 Target groups served by the identified investment funds

According to the different capital needs of stakeholders in the agricultural value chain, capital is normally either provided by the formal financial sector or from the actors within the value chain. Lack of finance can hinder productivity and growth, e.g. when a lack of finance does not allow a small-scale farmer to purchase seeds and fertilizers. The lack of finance can have implications on the upstream, midstream and downstream operations; for example, when a processing company lacks capital for growth, it can hamper the purchase of produce from local farmers and reduces the bulk of the final product that can be distributed to consumers.[18]

The various agricultural investment funds identified target different stakeholders within the agricultural value chain. Naturally, microfinance investment funds target smallholders and smaller farmer organizations, sometimes with a particular focus, for example, on women engaged in agriculture or the producers of organic or fair-trade products. Also, MSEs processing some of the grown produce can benefit from access to microfinance.

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18 For a review of value chain finance, see USAID (2005).

Most of the investment funds identified target the "missing middle", including agricultural SMEs that are too large to receive loans from MFIs and require equity investments, or invest in larger processing companies. A good example of investment vehicles targeting the "missing middle" would be African Agricultural Capital (AAC), the Africa Seed Investment Fund and Root Capital. Based on the available information, several agricultural investment funds were identified, which target companies considered to belong to the upper segment of the "missing middle" as well as those with slightly larger capital needs. In addition, some of the funds identified invest in large processing companies only (such as food and beverage companies), especially in the former Soviet Union. Investments in these large processing companies can, for example, range from USD 1 to 10 million.[19]

In terms of the target group served, investment funds range from those that target very **specific actors** within the agricultural value chain to funds that target **one particular industry** and those that focus their investments on the **full range of the food system value chain**. These investment funds might also target agriculture in a broader sense, including, for example, investment targets such as agricultural infrastructure, animal feeds, biomedicine, biofuels, agricultural technology, ecotourism and the forestry sector. The recently set-up Africa Seed Investment Fund (ASIF), for example, aims to provide venture capital to small and medium-sized seed companies in southern and eastern Africa with the aim of improving the delivery of quality certified seeds to smallholder farmers. An example of an investment fund that targets a particular sector would be the Olea Capital Fund, which invests in the olive (oil) industry in Morocco. Other investment funds, such as the Actis Africa Agribusiness Fund (AAAF), target investments across the agribusiness value chain from input supply, production and processing to distribution and marketing. Moreover, investment funds are also sometimes used to set up whole schemes, including the purchase of land, equipment and storage facilities.

At the same time, some of the funding mechanisms that **directly benefit** some particular agricultural actors at the same time **indirectly benefit** other actors through the linkages to these actors. The SAGF guarantee scheme, for example, directly supports small- and medium-sized producers and cooperatives. At the same time, the Fund intends to benefit smallholders through its mechanism, which requires the final target group to purchase raw materials from these small producers on a fair-trade basis.

Overall, the analysis of the funds suggests that most agricultural investment funds for developing countries strongly pursue developmental objectives. Such funds have developmental goals either manifested in their mission, investment strategy or their investor and shareholder base. Since the funds focus on agriculture in developing countries as their investment target and do not make use of complex financial instruments such as trading of commodity derivatives, they often have a double or triple (social and ecological as well as economic) bottom line. Overall, a clear **social and development mission** was assigned to about two thirds of the funds. Examples of a strong social and developmental orientation are the focus on agribusinesses with sound environmental and social practices, and the intention to have a strong empowerment focus by supporting women entrepreneurs.

19 The East European Food Fund invests in such companies.

2.8 ORGANIZATION AND SET-UP OF AGRICULTURAL INVESTMENT FUNDS

The study revealed that investing in agriculture as such does not mean that these funds have a common organizational or operational set-up. In terms of the organizational and operational set-up of the identified funds, the stock-taking envisages a broad range of vehicles set up with different objectives and purposes related to the different interests of their investors.

A purely commercial investment fund, e.g. a hedge fund or a typical private equity fund targeting agriculture, has a similar organizational set-up to that of any other private equity fund, since the set-up is more dependent on regulations and legal requirements than on the asset class the fund invests in.

As concerns the management of agricultural investment funds, the funds including PPPs are usually managed by a professional fund management company. The legal structures of the fund range from foundations to limited partnerships, to more complex structures set up in different various legal environments, including Mauritius and Luxembourg, both with a very advanced and specialized legal environment. A closer look at the legal structure must be taken at the individual level of the respective investment fund.

A fund's organizational structure can be furthermore distinguished as to whether the fund manager is based in one location from where it manages the fund, if it is operating from within the target country, or if it has representative offices in the region in which it operates.

In addition, the study identified agricultural investment funds that are part of a *funds of fund* structure. The reason behind setting up a fund of funds structure is often the desire for funds to invest in other funds that have specialized management in place, thus allowing easier growth or to reduce risk. An example is shown in the case study on Actis Africa Agribusiness Fund (Annex 2). In addition, some fund management companies manage a portfolio of funds, which might, for example, target different agricultural themes, such as the Phatisa African Agri Fund and the Barak Trade Finance Fund, which share the same platform.

It is also important to recognize the considerable cost and time involved in setting up investment funds. For example, Africa Invest, which already has investments in SSA, invested 18 months toward the set-up of Africa Transformational Agri Fund, only to cancel the initiative with the loss of a key investor.[20] Postponed or cancelled start-ups by other investment funds were also noted after the start of the financial crisis. In order to ease the cost and risk of fund development, public funding has often been used, but this also brings its own set of investment conditions and restrictions that may or may not be in the interest of private investors.

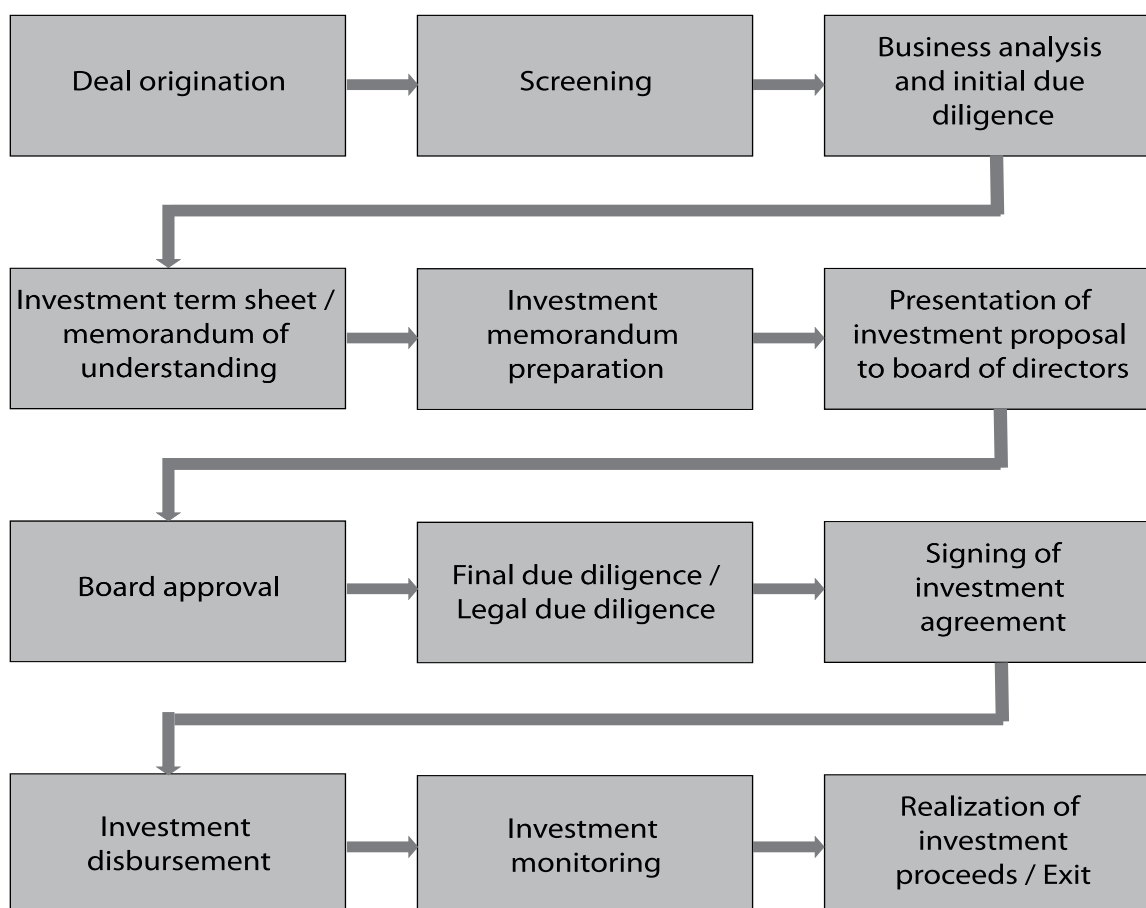
2.9 THE INVESTMENT PROCESS

The investment process by an investment fund is undertaken through a careful analysis, which serves not only to assure investors of the expected benefits and risks of an investment, but also

20 http://www.africainvestfm.com/index3.html

to highlight specific areas for investment and capacity development. This assessment process can also be important for the potential company receiving the investment in order to improve their systems and operations. An example of this process is shown by that used by the Georgia Regional Development Fund (GRDF), described below in the Case Study in Annex 2.

Figure 9. Overview of operations of the Georgia Regional Development Fund



The GRDF's investment process shown in Figure 9 is generally typical for many equity investments. For investment fund loans, the approval is commonly undertaken by an investment committee.

2.10 The role of technical assistance

Out of the 31 investment vehicles identified, technical assistance support is provided through different means by at least 50 percent of the funds. Given that many of the identified investment vehicles are PPPs with a double bottom line, investments are often accompanied by technical assistance. In addition to the access to needed capital, technical assistance is often provided to complement this financial assistance. In principle, the provision of technical assistance aims at strengthening the business capacity, for example, of agribusinesses, which helps to use the provided capital in a more productive and sustainable manner.

With regard to the provision of private equity and venture capital to small- and medium-sized agricultural enterprises, technical assistance is often provided with the objective to provide relevant business management expertise. Moreover, it ranges from the provision of BDS, training and technology transfer to financial literacy training for borrowers, and corporate governance training for MFIs. Together with the provision of capital, most provide management assistance and some provide specific technical advice on issues such as seed production, storage, packaging and distribution. A few provide other schemes aimed to provide wider community support, for example, promoting female literacy.

Technical support is thereby sometimes provided through internal resources (e.g. see the Case Study on AAC, Annex 7) or through use of contracted technical experts. With regard to FOPEPRO, for example, a separate technical assistance facility will be set up in addition to the fund. In addition, the Georgia Regional Development Fund, for instance, draws on an accompanying grant-based technical assistance facility of USD 2 million, which is used for existing and prospective portfolio companies. A cost share in the technical assistance costs is usually required from the respective investee, which is an important means to achieve impact.

In addition, the provision of technical assistance might be further supported indirectly by some of the identified agricultural investment funds, e.g. through a cooperation with farmer cooperatives that provide training to their members.

2.11 Expected and actual financial performance

Given the broad range of investment funds with different characteristics that are analysed in the research study, return expectations vary depending on different factors, such as the type of investor, the investor's attitudes towards the investment and the shareholder structure. In this context, the research identified multiple types of investors and their financial performance expectations, which is reflected in the following pattern:

- **Public investor without profit return expectations.** This type of investor has no financial interests, but is strongly interested in achieving high development impact. The investment can often be considered a grant or seed capital. SAGF, for example, draws on a grant contribution from the Directorate General for International Cooperation of the Netherlands (DGIS), which would belong to this category of investors.

- **Public investor with limited return expectations.** The investor considers its investment as support for the institution and is aware that it may not yield fully commercial returns in the near future. The investor is interested in developmental return and often also tries to support the institution in other areas. These investors, for example, consist in public investors, who often invest in first loss tranches of MIVs.

- **Public investor in PPP models.** The investor primarily aims at achieving a high development impact by leveraging private capital, either through a disproportionate risk sharing (via tranching) or by using implicit or explicit guarantee schemes. These investors have, for example, invested in RIF.

- **Private investor in PPP models.** The investor aims at investing in agriculture, but prefers to invest via a PPP or some type of private and public cooperation because this would allow additional support, and possible ease of investment. Hence, it may allow the investor to enter markets that he/she would otherwise not be able to tap.

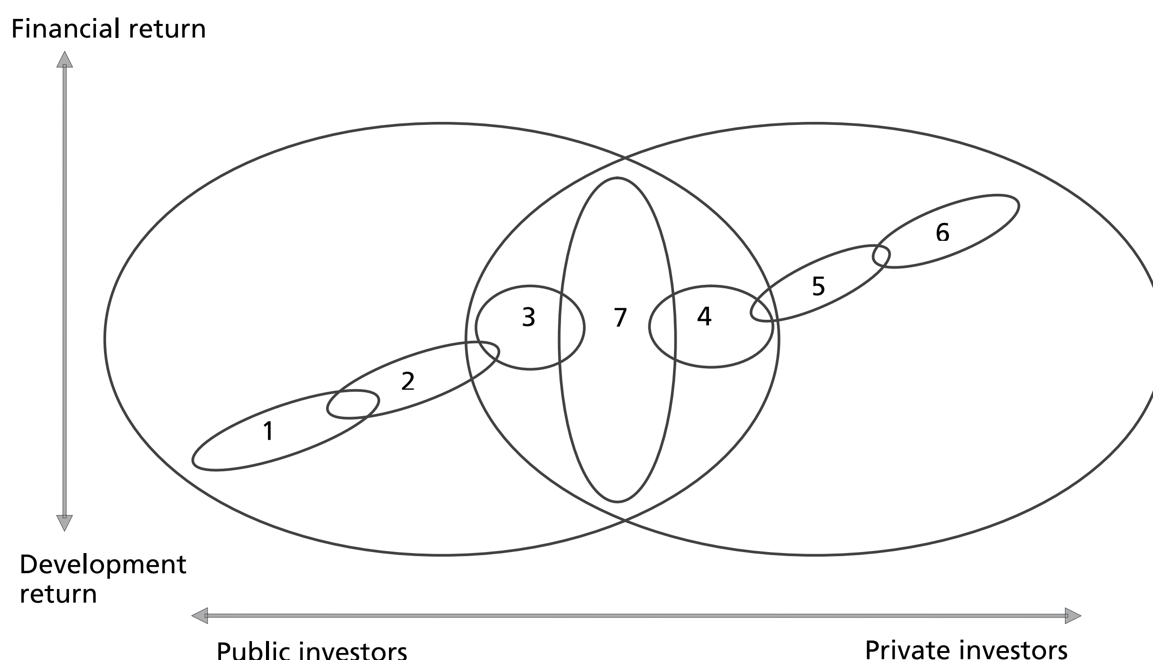
- **Private investor with interest in agriculture as a new asset class.** The investor considers agriculture an interesting, longer-term, asset class that allows him/her to diversify his/her portfolio. The investor is not necessarily interested in development impact. These investors are expected to be, for example, interested in hedge funds, such as the Emergent African Land Fund.

- **Private investor with strong commercial orientation.** The investor considers agriculture an asset class with an excellent risk return profile; investors in the GAIA World Agri Fund shown in Annex 8 belong to this category.

- **Investors with an explicitly stated double bottom line.** This investor can be either a private individual, a foundation, and in some cases, a private institutional investor or a development finance institution. While the investor expects his/her investment to be profitable, he/she also expects social impact. Investors in AAC, for instance, would like to balance these objectives.

However, the different categories of investors might overlap. Figure 10 illustrates the different types of investors (public and private) according to their different return expectations.

Figure 10. Distribution of agricultural investment funds by return expectations



Source: Authors' compilation.

In addition to the large variety of the business models, the lack of sufficient historic and comparable data makes it difficult to compare the various agricultural investment funds. Given the high share of PPPs identified, most of the investors in agricultural investment funds included in the inventory stock-taking of this study would therefore belong to categories 3, 4, and 7.

Overall, for every investor, there is some type of agricultural investment fund reflecting the expected risk-return profile. Accordingly, the return expectations vary from 3 percent to 25 percent, depending on the commercial orientation of the fund. In addition to investments in agricultural funds that are mainly accessible for institutional investors, investors can trade commodities via derivates or stocks of companies engaged in agriculture. These return expectations when trading such instruments are not further considered in this report.

2.12 Investment fund impact

The rapid growth in investment funds for the agricultural sector has been relatively recent and most of those presented in this publication have not been in existence long enough to measure their development impact beyond the economic and social outputs noted for each. An exception to this is SEAF, which has been managing small enterprise and agribusiness investment funds for 20 years. In a recent development impact study report undertaken of their investments, *From poverty to prosperity: understanding the impact of investing in small and medium enterprises: data survey and case study analysis of SEAF investments* (SEAF, 2007), it was demonstrated that SMEs are vehicles for economic growth and poverty reduction. SEAF investments in SMEs companies, of which nearly 40 percent were agribusinesses, helped create jobs for unskilled or low-skilled individuals who then receive training and see significant growth in their wages and overall benefits. In addition, these companies provided economic benefits to a host of other stakeholders – its suppliers, customers and competitors – and through tax payments, social security contributions and frequent philanthropic donations to local governments and communities. SEAF's analysis showed that for every USD 1 that it invested in an SME, an additional USD 12 in benefits is generated for investors and the broader local society combined.

The major conclusions of this impact report include the following:

- There is multiple stakeholder impact: employees, suppliers, consumers, competitors and community, etc.
- SEAF SMEs create a 21 percent financial rate of return to investors.[21]
- SEAF SMEs create a 66 percent economic rate of return to investors and the community.
- Each USD 1 invested by SEAF into the SMEs generated, on average, an additional USD 12 of economic impact.

21 SEAF's calculation is based on an IFC model whereby the impacts on stakeholders other than company investors are incorporated into a cash flow model. The financial rate of return represents the return to the company (debt and equity holders) and the economic rate of return represents the same return plus impacts on other stakeholders. An economic net benefit-cost ratio is calculated to estimate net dollar amount generated in the economy for every dollar invested. For more information, see SEAF's 2007 publication on development impact (www.seaf.com/impact.htm).

- SEAF SMEs generate a 26 percent average annual rate of employment growth.
- Employees at SEAF SMEs had a 25 percent average annual rate of wage growth.
- 72 percent of new jobs at SEAF SMEs went to unskilled and semi-skilled workers.
- Each USD 1 invested by SEAF leveraged USD 1.62 from other financiers.
- Each SEAF SME in turn supported 280 local micro-enterprises through market activity.
- Twenty-seven percent of SEAF SMEs extended trade financing to local micro-enterprises.
- Eighty-three percent of SEAF SME employees received health and pension benefits.
- Eighty-five percent of SEAF SMEs provided formal training to employees.
- SEAF SMEs all showed significant improvements in formalization and corporate governance.[22]

One cannot infer that the impressive results from SEAF will be replicated by other agricultural investment funds; however, it is well recognized that investment into agriculture does reduce poverty and improve food security.

2.13 PRINCIPAL ISSUES, CONSTRAINTS AND OPPORTUNITIES

The research study has also identified certain types of agricultural investment funds that, due to their specific characteristics, require an additional and more detailed review and analysis. These funds include:

- **Investment funds investing in agricultural farmland.** Investors are increasingly interested in investing in agricultural production, particularly *farmland*, due to the return expectations and in some cases, to future food security concerns. The idea is to buy farmland in areas with inexpensive and fertile soil (for example, in SSA or the fertile Black Earth Region in the Russian Federation), consolidate small plots of land into larger more productive units and farm the acquired land, while introducing new technologies and investing in additional infrastructure and equipment, such as grain elevators. Overall, a growing number of investment funds investing in farmland globally are currently being perceived (Henriques, 2008).

- **Investment funds vs. company structures with an agricultural investment strategy.** In the Russian Federation and the Newly Independent States (NIS), in particular, many investment activities are channelled through corporate structures following this agricultural investment strategy. These structures generally acquire and cultivate arable land and expand overall operations in this area.[23] The operations and impact as well as the advantages and disadvantages of company structures with an agricultural investment strategy on developing countries is the subject of other ongoing studies of FAO and the World Bank, among others.

22 www.seaf.com/impact.htm

23 For example, see FirstFarms, a public limited company that invests in agriculture in Eastern Europe (www.firstfarms.com).

Investment funds with a limited share of the portfolio invested in agriculture. As previously mentioned, investment funds are usually distinguished according to their geographic focus or a specific investment theme. Several diversified investment funds were identified with a small share of their portfolio invested in agriculture and areas related to agriculture. Some also have a clear focus on a geographic region (such as SSA or emerging markets)[24] and include agriculture to a small degree. Other funds have a specific theme (such as the overall objective to invest in the SME sector), which naturally leads to some investment activity in the agricultural sector. In addition, investment funds were identified with a clear investment strategy towards agriculture, but with no investment activity in developing and transition economies. However, this publication does not provide a closer look at these vehicles, although in many cases, the investment funds included in the stock-taking have diversified their portfolio to a certain extent to other areas. This differentiation is because the research undertaken primarily focuses on investments in agriculture and the lessons to be drawn from those.

24 For an interesting review of investments of regional/country-specific funds and general emerging market funds in SSA, see Moss, Ramachandran and Standley (2007).

3. Operations, performance and comparative analysis of agricultural investment funds

The following section addresses how specific fund models operate and how these compare to non-agricultural funds. It then looks at the effects and performance of these models during the global food crisis of 2008 and the dual financial and economic crises of 2008–09. This section provides only an overview of selected funds' operations and performance, while detailed information is shared in the Annexes 1 to 7 and comparative analysis of 31 funds is shown in Annexes 8 and 9.

3.1 Overview of selected case studies

Based on the analysis in the previous chapter, five investment funds and one corporate structure were selected to be described and analysed in more detail through case studies. The selection of the case studies for a more detailed review was based on the idea to provide a comprehensive overview of different types of agricultural investment funds identified and to review the operations and performance of some innovative investment vehicles that target the agricultural sector in developing countries. A brief description of the respective agricultural investment funds and their management structures provided below.

3.1.1 Fund management companies

Investment funds are generally managed by specialized fund management companies or institutions. They play fundamental roles not only in bringing investment management expertise, but also in facilitating the development and implementation of funds, and can have cost efficiencies in registration of funds. Furthermore, it is to be noted that separation of the management company and a fund for legal and "fire-wall" risk protection are often deemed important.

It is noted that many investment funds may be *stand-alone funds*, but often are or become part of *families of funds*. A family of funds is a group of funds managed by one specialized management company. They may be similar type of fund but focus on distinct regions, or distinct investment structures such as an equity fund and a debt fund. They generally start with one fund and once operating well, begin a second fund, and so forth.

Funds may be a second-tier *fund of funds* or invest some of its portfolio into other funds. These are similarly managed, but in this case, one fund invests in another fund. Although this can

raise overall administration costs, this investment strategy can ease management responsibilities of fund of fund managers and can serve to both expand the investment portfolio and to reduce risk by co-investing with other funds.

The five investment funds highlighted in the case studies are managed by such specialized management companies, or in one case, by a bank that manages numerous investment funds. These fund management structures are briefly introduced below in order to distinguish them from the case funds that follow. These represent stand-alone funds, families of funds, and funds of funds, as well as a guarantee fund and one corporate structure.

Small Enterprise Assistance Funds

Small Enterprise Assistance Funds (SEAF) is a global investment firm specialized in the management of private equity and mezzanine funds in emerging markets, which was selected through a global bidding process. SEAF's two decades of experience investing in small businesses have permitted it to effectively develop and manage investment funds that deploy growth capital to SMEs in markets where such companies are underserved by traditional funding sources. Currently managing 21 investment funds, each with a different set of investors, SEAF identifies and invests in promising companies that deliver both positive financial results, as well as significant economic and social benefits to their employees and their communities.[25]

Commonwealth Development Corporation Group plc

Established in 1948, Commonwealth Development Corporation (CDC) Group plc is a United Kingdom Government fund of funds that invests in private equity funds focused on the emerging economies in Africa, Asia and Latin America, with a particular focus on low-income countries in sub-Saharan Africa and South Asia. It is wholly owned by the Government's Department of International Development (DFID). In mid-2009, it had net assets of USD 4 billion; in addition, 56 percent of its total portfolio was aimed at Africa compared to 39 percent for Asia, while the agribusiness sector accounted for 5 percent of its total portfolio. CDC draws on more than 50 fund managers. Its only shareholder, DFID, does not require a dividend from CDC. Instead, all profits are re-invested in funds throughout the target emerging markets. CDC has received no government capital for a decade.[26]

Burlington Capital Group

The Burlington Capital Group, a limited liability company (LLC), formerly America First Companies, was founded in 1984 as a financial service firm that manages private and public investment funds. Today, the company focuses on real estate development and management as well as money management and investments in agribusinesses in emerging markets. The Group has different subsidiaries, including some non-profit entities serving communities in the United States of America. According to the information available on the Group's website, it has managed a total volume of about USD 4 billion.[27]

25 www.seaf.com
26 www.cdcgroup.com
27 www.burlingtoncg.com

Rabobank Group

The Rabobank Group has been a leader in agribusiness investment through banking, investment advisory services, investment management and a foundation. Its investment programme comprises a series of investment funds tailored to specific objectives and investment mandates. It has more than one million private clients, more than 169 mutual funds and more than 70 years of experience in worldwide investing. Within its development portfolio, through Rabobank International, it has developed many agribusiness funds, including the Rabo Sustainable Agricultural Guarantee Fund described in the following section.[28]

Incofin Investment Management

Incofin Investment Management manages five funds, each with its own specific profile. The Incofin family of microfinance-related investment funds totals nearly USD 120 million in 65 institutions in 26 countries. Funding consists of 83 percent loans and 17 percent equity and quasi-equity investments. The investment management provides professional expertise and made-to-measure financial solutions to meet the specific objectives of each fund.[29]

African Agricultural Capital

The case of African Agricultural Capital (AAC) is somewhat distinct from those noted above in that it serves a fund manager within the AAC fund itself. However, it has also begun to take on a fund manager role of an fund called Africa Seed Investment Fund (ASIF) set up in 2009 and involving other investors.

3.1.2 Agricultural investment funds

Georgia Regional Development Fund

Georgia Regional Development Fund (GRDF) is a USD 30 million debt and equity risk capital investment fund for long-term, growth-oriented investments in growing and dynamic SMEs in the Republic of Georgia. The Fund focuses on investments in agribusiness and tourism, as well as businesses operating outside the capital of Tbilisi. The Fund was established in late 2006 by Millennium Challenge Georgia (MCG), a Georgian government agency sponsored by the United States Government's Millennium Challenge Corporation (MCC), which has provided MCG with funding to promote private sector development and poverty alleviation in Georgia. As a fund with social as well as economic growth objectives, its investment strategy is to generate returns for the country as well as the businesses, as exemplified by its strategic indicators: (a) money generated (rather than internal rate of return); (b) amount invested in SMEs; (c) cash flow to the fund; (d) amount invested; and (e) growth in portfolio company revenues, wages, taxes paid and payments to suppliers.

GRDF, which is managed by SEAF, is set up as an LLC registered in the State of Delaware in the United States. MCG has contracted SEAF on a ten-year contract to manage the Fund, which is run out of SEAF's Georgia office, with oversight and support from SEAF headquarters in the United States.

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28 www.rabobank.com

29 www.incofin.be/static/en/what_we_do/for_mfis/products.aspx

GRDF also has a companion USD 2 million Technical Assistance Facility, which is also managed by SEAF. It is provided by MCG to support the companies in which the GRDF invests. This Facility provides small grants to portfolio companies and prospective portfolio companies, and is used to provide funding support for specialized consultants and trainers, and for other capacity development activities for the companies, usually with a cost-share contribution by the companies to ensure value and effectiveness.

As of 30 September 2009, GRDF has invested USD 21 million into ten Georgian businesses, six of which are agribusinesses, including into the Georgian company Bazi. This enabled the company to purchase apple concentrate production equipment so that it could meet demand for the product from foreign markets. SEAF has also invested funds in a Georgian company Piunik, which is an integrated poultry business. One of SEAF's investment goals with the company is to increase the supply of hatching eggs, small chicks and animal feed to small- and medium-sized farmers and poultry businesses in the country. As a first mover, the company will serve as an example to other poultry companies in the country.

The SEAF Fund Manager believes each of the GRDF investments represents meaningful opportunities for company growth, investment success, and a positive impact on the Georgian economy. In agribusiness, its investments are helping companies to acquire equipment and technology to improve quality and competitiveness, and overcome the setbacks in the agricultural sector after the country's independence.

Actis Africa Agribusiness Fund

Actis Africa Agribusiness Fund (AAAF) is a USD 92.7 million private equity fund launched in 2006. The Fund has scope to invest across the entire agribusiness value chain from input supply, through production, processing and distribution to marketing. AAAF is fully invested and has a current portfolio of eight companies operating in East, Southern and West Africa in the tea, sugar, forestry, arable farming and rubber industries, with deal values between USD 5 and 15 million. As an example, one of AAAF's investments is for a tea company named Tatepa, whose market capitalization had grown from USD 3.3 million to USD 5.8 million in 6 years under AAAF's stewardship. Tapeta has 55 percent share of the Tanzanian tea market. AAAF also has a "greenfield (new venture) plantation investment" in Kilombero Valley Tea Company, located in the remote Kilombero Valley of the United Republic of Tanzania. A current activity is developing a sawmill and wood processing facility that will enable the firm to export products to the Far East, Europe and North America.

Successful exiting of investments is a goal of most funds. In AAAF, for example, this was achieved with a farm investment in Nanga company in Zambia, with approximately 2 000 ha of sugarcane, supported by some cattle ranching. During its time of investment, AAAF helped to significantly expand the farm and contributed to the agricultural value chain in the Zambian economy through increased sales of sugarcane to Zambia Sugar Co. In 2008, this investment was sold to a private Zambian agribusiness company.

AAAF predates most agribusiness funds that have recently sprung up to take advantage of the food crisis. It was created in 2004 following a restructuring of CDC Group plc (previously the Commonwealth Development Corporation). The Fund's sole investor, CDC Group plc, a United Kingdom Government-owned fund of funds, has a track record of nearly 60 years

investing in emerging markets. AAAF is managed by Actis LLP, a specialist private equity investor in emerging markets. To ensure responsible investment and sustainable private sector development, Actis demands rigorous analysis of environmental, social and governance (ESG) issues in all its business activities and investments.

The primary objective of AAAF is to deliver a top-quartile financial return for the sector. On a high-level, long-term basis, agribusiness is seen as an important component of the economies in SSA and one where availability of land with good soils and water should give rise to significant growth and value creation, with all the developmental benefits that will bring.

Agribusiness Partners International Fund

Agribusiness Partners International Fund (APIF) was a private equity fund set up specifically to invest in emerging food and agribusiness companies in the former Soviet Union. The Fund was established in 1996 by the Burlington Capital Group with an investment capital of USD 100 million, partially backed by a guarantee from the Overseas Private Investment Corporation (OPIC), an agency of the United States Government. The closed-end fund had been fully invested in seven agribusiness/food processing companies in five countries. The Fund invested capital in agribusinesses, such as poultry, glass container manufacturing firms, and food packaging and production companies. The Fund was fully returned to investors, an example of successful exits that can be obtained.

APIF was set up in times when its target region was subject to substantial changes in its political and economic environment. In those times, transition economies needed the input of know-how and experience from Western markets in order to adapt their procedures and processes to international standards. While this included a great deal of uncertainty for investors, there were also tremendous opportunities. APIF successfully made use of this window of opportunity and returned all investments with a significant premium to its investors. Given that the investment fund was not set up to achieve developmental impact, the impact of the know-how transfer was not measured.

Sustainable Agriculture Guarantee Fund

In 2008, Sustainable Agriculture Guarantee Fund (SAGF) was established by Rabobank International with a grant contribution of the Directorate General for International Cooperation of the Netherlands (DGIS). As a PPP, the fund has been set up to improve access of cooperatives and agricultural SMEs to formal finance in developing countries through a guarantee scheme for pre-export finance. SAGF issues partial credit guarantees as a risk-mitigating instrument for local financial intermediaries, which offer commercial credit to agricultural cooperatives and SMEs. The credit guarantee will be phased out step-by-step during the following loan cycles of the recipient. The local bank finances the client on the basis of the sales contract with the off-taker and does not require the borrowers to provide fixed assets as collateral.

SAGF is currently fully invested and has issued USD 5 million in guarantees. The fund is operating in five countries (Peru, Nicaragua, Honduras, India and Mozambique), where it has established partnerships with seven banks and plans to issue guarantees in the total amount of up to USD 30 million by 2011. A specific example is SAGF's funding guarantee in Peru to local institutions dealing with Cepicafe, a cooperative organization consisting of 71 smaller

member organizations, which represent a total of 5 000 producers of coffee, cacao and sugar cane producers located in the mountain area and northeast of the country. In terms of impact achieved to date, it is estimated that the Fund has benefited approximately 27 000 producers and 135 000 indirect beneficiaries, i.e. family members, during the first year of operations.

The guarantees provided by SAGF facilitate local financing, thus contributing to sustainable development impact. However, the current operational set-up and its investment process are cumbersome, making the venture financially unattractive for investors expecting commercial returns. Yet it does provide an interesting approach for the investors who aim at achieving development impact and who do not expect to obtain market returns.

Rural Impulse Fund

Rural Impulse Fund (RIF) was established at the end of 2007 and managed by Incofin, a private social investment company currently invested in MFIs in 26 countries. RIF is an MIV that provides funding, either through loans, quasi-equity or equity participation, for commercially viable rural MFIs to increase rural outreach. A considerable share of the portfolio of the partner MFIs is provided to the agricultural sector.

The fund was set up in 2007 by Incofin, a specialized microfinance investment fund management company, as a closed-end fund with a lifespan of ten years. RIF has a total capital base of USD 38 million and has been set up by DFIs as well as private investors.

By the end of 2008, RIF had extended loans to 19 MFIs in 17 countries. Loans vary from USD 0.75 to USD 4.5 million, with an investment horizon of one to five years. It has also invested equity shares in two MFIs in India and Peru, and is expected to be fully invested within a year.

RIF is an example how access to finance can be improved for MSEs in rural areas. Given the target investees and the fund structure, investors may not expect fully commercial returns, but may consider the participation of well-known investors in junior tranches as an implicit guarantee, thus significantly lowering the risk profile of the investment vehicle.

African Agricultural Capital

In 2005, African Agricultural Capital (AAC) was established to address the financing gap of agricultural SMEs in East Africa. Against the background of AAC's vision to improve the livelihoods of smallholders, the company provides venture capital to early stage enterprises within the agricultural value chain that lack the asset base or track record to access financing from commercial banks.

AAC was set up by two philanthropic institutions, the Rockefeller Foundation and the Gatsby Charitable Foundation, together with Volksvermorgen NV, a private investment company based in Belgium. It currently has an asset size of about USD 8 million, which is fully invested in 16 ventures in Kenya, Uganda and the United Republic of Tanzania. As an example, AAC made a loan to Victoria Seeds, a large Ugandan seed company that serves smallholders in the country as well as in South Sudan and the Democratic Republic of the Congo. The loan purpose is to contribute to improving the quality of seeds as well as further extend their distribution. AAC has also made a loan to Africado, a start-up company based in

the United Republic of Tanzania, which grows and exports avocados to the European Union. The company is setting up an outgrower project targeting 750 small-scale farmers who will farm about 100 ha of land.

In addition to investing the capital of the companies' shareholders, AAC also manages the Africa Seed Investment Fund (ASIF), which provides capital to seed companies operating in East and Southeast Africa. The goal of the fund is to improve the delivery of quality certified seeds to smallholder farmers in these regions.

After three years of operations, AAC has not yet reached its financial performance targets. The fact that the capital is fully invested shows the need for additional capital in the target region. Given the small size of AAC, it is crucial to attract new investors and to turn the company profitable.

3.2 Agricultural funds compared to other funds

Investors like to think in terms of investment categories, often called "asset classes". Based on the previous analysis, are agricultural investment funds unique from other funds? More specifically, what common characteristics do they have with other funds, and what specific aspects are unique, keeping in mind that the agricultural investment funds themselves vary widely due to their diverse investor base, varied target groups and type of investment? It is important to draw lessons from other asset groups in developing countries. Since agricultural investment fund growth has been driven by both social and development interest, on the one hand, and by profit maximizing investors, on the other hand, a comparison is first made with the socially motivated and fast-growing microfinance investment funds that have been generating attractive financial returns to public and private investors, and then, with non-agricultural private and private-public investment funds.

3.2.1 Microfinance investment funds

Agricultural investment in developing countries through specialized funds is yet to be accepted in financial markets as a recognized asset class that can be readily rated and traded. The sector is viewed with much scepticism largely due to the perception of its high risk and the difficulty to deal with it. However, this was true of microfinance less than a decade ago; today, it is a recognized and growing investment class and can provide an example of what agricultural investment funds could become in the future.

MFIs are operating all over the globe. Worldwide, there are an estimated 10 000 MFIs with about 100 million micro-borrowers. For example, 1 100 MFIs benchmarked by the MIX Market in 2008 served 74 million borrowers, provided USD 38 billion in outstanding loans and collected USD 23 billion in deposits from 67 million depositors (*MicroBanking Bulletin*, 2009).[30] It is this deficit between deposits and loans that has fuelled the growth in investment funds. Nonetheless, most of the poor people in the world still lack these basic financial services

30 *MicroBanking Bulletin*, Issue 19, December 2009: www.themix.org/microbanking-bulletin/mbb-issue-no-19-december-2009

and few people believe microfinance can grow to meet demand enough by its own efforts without adopting a more private sector-friendly commercial model, which is occurring by the entrance of private investors and investment funds. The German Deutsche Bank provided some interesting statistics on microfinance as an explosive growth sector in a report entitled, *Microfinance at a glance: an emerging opportunity* (December 2007). The Bank collected the following statistics and predictions:

By 2010, investors will have put an estimated USD 20 billion into MFIs worldwide.

- The volume of microfinance loans grew from USD 4 billion in 2001 to USD 25 billion in 2006.
- Since 2004, foreign funding of microfinance has doubled to USD 4.4 billion.
- The estimated funding gap, the extra amount needed to make microfinance services available to the world's three billion poor, is USD 250 billion.
- The estimated number of micro-credit borrowers worldwide is 152 million.
- Worldwide, there are more than seven savings accounts for each loan account.

A specific example of this explosive growth in a fund is the case of MicroVest, which began as a microfinance investment fund start-up in 2004 with USD 15 million for debt and equity investments and has grown to be a family of four MF funds with over USD 150 million by 2009. Might the example of MicroVest and the microfinance sector as a whole be indicative and bode well for the growth possibilities of agricultural funds in general?

Microfinance funds, however, have one major difference: a majority of them worldwide are structured either as debt funds lending to MFIs or as combined debt and equity funds. They often only invest equity after a relationship is established. Agricultural funds often require equity from the start in order to leverage that equity to obtain loans as needed. Consequently, while there are many lessons from microfinance funds in creating a new asset class and in directing investors towards the developing world, the situation cannot be expected to fully follow the same investment trajectory.

3.2.2 Non-agricultural funds in developing countries

In comparing the agricultural investment funds to non-agricultural investment funds, it is necessary to review some of the differences between structural and investment philosophies between different types of investors. In many cases, since the large institutional investors insist on portfolio diversification, their managed asset funds have grown into a mixed basket of different types of investment vehicles that invest in a wide and diverse range of asset classes. These include, for example, different types of equity investments, bonds (government bonds, high-grade bonds, high-yield bonds, etc.) as well as loans, real estate, foreign exchange and commodities, infrastructure projects, derivatives and emerging markets. Within the emerging markets, one finds investments in developing world agriculture, which, as evidenced in this publication, are also on the rise from these investors.

In addition to their specialized investment requirements, the identified agricultural investment funds differ from the non-agricultural investment funds in other ways. Some of the purely commercial funds specialize in agriculture, whereas other hybrid models mix diverse

types of investment with agriculture. Although the mix tends to be different, mixing was also found in PPP funds where, even when focused on agriculture, they generally included a mixture of agricultural and non-agricultural investments. This also makes stock-taking and categorization of agricultural funds difficult.

Many agricultural funds have a social interest with a "double" or "triple bottom line", in which the funds calculate social development and ecological impact as part of their return analysis. This is the case with many of the funds with high levels of public and/or socially oriented private investment in their equity structures; this is clearly not the case with most purely commercial sector investments. GDRF, funded by MCC with development goals, for example, states in its prospectus that it seeks "to maximize development impact, while achieving a reasonable and positive financial return from investments in SMEs in agribusiness, tourism and other sectors (…)." Such language would not be found in similar documentation for the purely private funds.

A third distinction is that of risk. The private sector hybrid funds are accustomed to highly quantitative risk models that involve credit and other similar types of risk analysis that cannot be done in the same manner for agriculture. Also, non-agricultural funds generally invest in highly liquid (easy to dispose of) investments that reduce risk, but agricultural funds are clearly taking a longer-term perspective given the nature of the sector. Moreover, some of the risk factors for agricultural funds are different. Given the geographic locations of many of their investments, they must also contend with political risk in addition to the multifaceted risks associated with the agricultural sector, which makes the task of these specialized funds even more difficult. For political risk in the developing country context, it is not only country risk, terrorist attacks and ease of repatriation of funds, etc., but also, even more importantly, risks of governmental price caps or subsidies that affect the competition. Accordingly, it is important to take these factors into consideration when reviewing the investment returns of these funds. Not surprisingly, for ease of management control and reduced potential of political interference, with the exception of the "land funds", agricultural investment funds often target their investment in agribusinesses and post-production value-addition agro-industries, rather than production.

Above all, it is argued that while the structure of funds and many of the practices regarding agricultural investment funds are similar to non-agricultural ones, overall, they have many distinctive characteristics and can be viewed as promoters for developing world agriculture and leading the way with their investments in the sector in a kind of "early mover" role. While the long-term test of the fund structures and the results of their agro-investments are not complete enough to draw final conclusions on their impact, they are making positive headway in this regard. It is hoped that over time, their presence, together with the positive macro trends of the agricultural sector, will encourage other non-specialized funds to follow suit; a wide variety of non-specialized investment funds are in fact moving into the agriculture and agribusiness.

3.2.3 Scale and growth for agricultural investment

The sample of all agricultural investment funds analysed in the stock-taking identified a total of approximately USD 7 billion currently under management. While the total global figures would be much higher, it is evident that the specialized agricultural investment funds are only a nominal amount, given the vast investment need for developing agriculture in emerging

markets. If the funds stay at this relative level of capital for investment, then impact in terms of development will certainly remain low. But the potential for further expansion of the sector is substantial given the increased investor interest in the specialized agricultural funds, as shown above. For a growing number of large investors from Middle Eastern regions, the Saharan region is viewed as an investment opportunity for expansion. The frontier markets of SSA and other areas are also attracting more institutional investors who previously considered these areas much too risky with not enough return. Developing world agriculture is obviously in this category. It remains to be seen whether some of these investors truly understand the complexity involved in this sector and area, and if they are willing to endure the longer-term investment requirements that are generally needed.

As an example of emerging market investments, a sizable investment form an American pension fund was placed into a private equity vehicle run by the USD 3 billion United Kingdom-based hedge fund manager Emergent Asset Management, which is one of the funds cited in this study,[31] It was also known that the largest United States pension funds, such as the California Public Employees' Retirement System (CALPERS), have initiated plans to increase its emerging markets investments. The significance of citing CALPERS is that this mega-pension fund is considered a leader in the pension fund world, and when it acts, other United States pension funds take notice and often do the same. If, for example, CALPERS invests up to 20 percent of its international real estate portfolio in emerging markets and up to 5 percent in "frontier" markets as some recommend, these investments alone would be in the hundreds of millions of dollars given how much the California-based pension funds have under management. Other funds, such as the second largest pension fund in the United States, New York-based Teachers Insurance and Annuities Association – College Retirement Equities Fund (TIAA-CREF), is also stepping up its exposure to emerging and frontier markets.

There is a growing appetite from private equity funds for investing in agriculture-related SMEs in emerging countries by taking stakes in large farms, food processing or warehousing companies with investments in Latin America, Africa and ECA countries. As also seen, sovereign wealth funds (SWFs) are also getting more involved in agriculture, albeit largely for food security reasons, but a number of them are seeking more diversification; land acquisition are important investments for them but will therefore likely not be the only category in which capital will be placed. Hedge funds, such as the Emergent Africa-managed African Agricultural Land Fund, are also attracting more attention to the sector. To put the amounts of potential investment money into perspective, it is roughly estimated that the hedge fund industry alone has over USD 1.5 *trillion* under management. Therefore, even if a very small percentage of these funds, together with those of the pension funds, private equity firms and SWFs are invested in agriculture in developing countries, the impact would be substantial. The microfinance sector, as addressed above, is itself undergoing rapid expansion, and if the growth estimates cited are even discounted to a fair extent, the sector will evolve into a more important tool in overall development, including that of agriculture. If the agricultural sector as a whole can capture some of this investment and/or could emulate microfinance in its ability to capture investment capital, particularly private capital, then the future could auger well for the sector.

31 *Note the three-part investment* – a pension fund gives money to a hedge fund, which in turn structures a private equity investment fund to invest in African agriculture.

Another point to be underscored is that, to date, most investments in these various funds and in the sector in general have come from foreign investors and not from local investment sources. It is, of course, difficult at best for local entrepreneurs in the poorest countries to raise investment capital for developmental projects in agriculture. However, in terms of long-term sustainability and overall success of the various projects present and future, local participation is vital in one form or another, be it financial or in terms of project management. Host governments in a number of cases (e.g. Mozambique and several Latin American countries) have not only reformed local laws to make investments less cumbersome for foreign capital, but have also trimmed the "red tape" for local business people by cutting back on administrative requirements to start new business ventures.

3.3 The effects of the global food and financial crises

The agricultural sector in developing countries was almost simultaneously affected by soaring food prices and by the effects of a global financial and economic crisis. While the overall impact of the food crisis on the population of these countries was negative and led to food riots and unrest in many developing countries, some experts believe that farmers and investors in developing countries can reap the benefits from those global food price increases. At the same time, the financial crisis, which rapidly spilled over from the financial sector to the real economies in developed and developing economies, had a dual effect: it made access to finance more difficult, but the resilience of agriculture to the sharp downturn of sales non-essential items made it more attractive to some investors, especially given the higher prices also experienced in agriculture.

The global food and financial crises have created different opportunities and challenges for investors interested in the agricultural sector in developing countries. In the light of the impact of both crises on the real economy, in particular the agricultural sector, this section analyses such opportunities and challenges as well as the associated risks. It will also address constraints that need to be overcome by investors who desire to increase their participation in agricultural endeavours.

3.3.1 Implications of the food crisis on investments in agriculture

In 2007, food commodity prices climbed to record levels, which, among other reasons, contributed to the current global food crisis. Against the background of the high food prices, it is estimated that in 2008, the world's hungry increased by about 80 million to approximately 1 billion people. During the first half of 2009 only, the number of hungry increased by another 105 million. This figure equals the increase in the number of hungry during the previous 17 years (*The Economist*, 2009). Moreover, it is estimated that the number is rising by an additional four million people every week (Aloisi, 2009).

Food prices had shown an upward trend for at least one decade already, which accelerated in 2007 and 2008. **Price peaks** were reached following some government support programmes in the developed economies to promote the production of biofuels. Following the global financial crisis, prices started to fall back to levels known from mid-2007. Although prices have become more moderate, they still remain at high levels, and the pre-conditions for another round of price hikes still hold. There are several factors explaining the price increases of

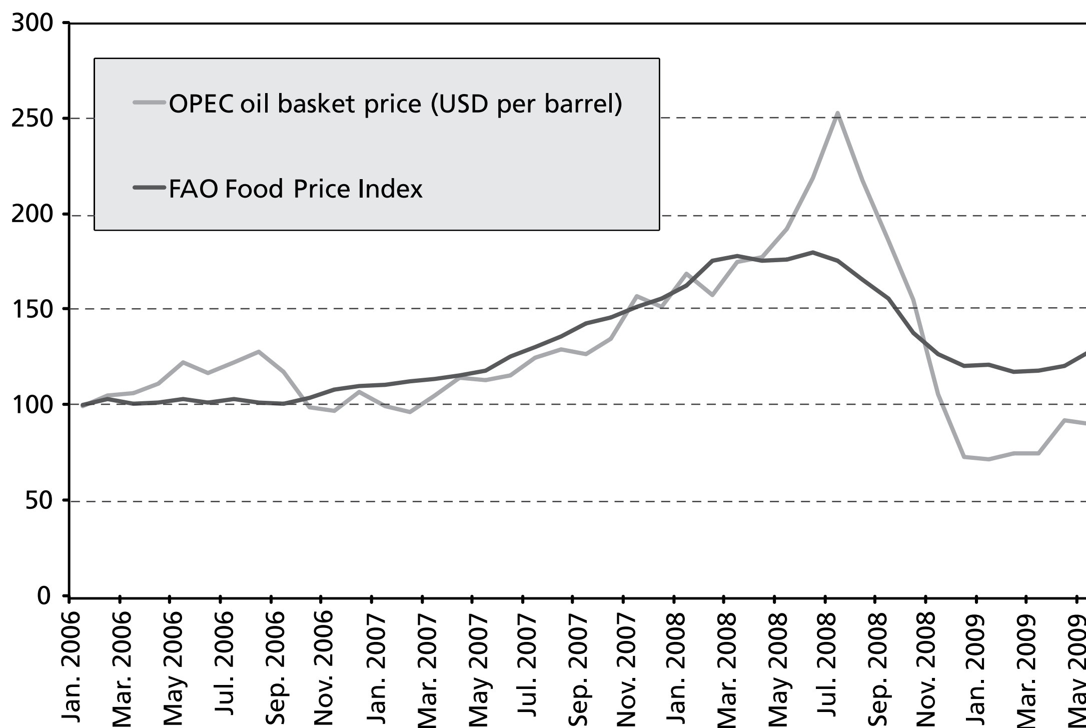
food commodities worldwide, both from the demand and supply side. Starting in 2007, some governments decided to support the **production of biofuels** as a substitute for fossil fuels, in order to mitigate the impact of high oil prices in the long run. Through subsidies and special government programmes, food stuff such as cereals, sugar, oilseed and vegetable oils were used for the production of ethanol and biodiesel, which suddenly reduced the food supply. The world's combined biodiesel and ethanol markets are expected to reach USD 76 billion in sales in 2010, and to USD 247 billion by 2020 (Pike Research, 2009). It is estimated that almost half of the increase in the consumption of food crops in 2007 was related to biofuels, mostly in the United States and the European Union (IMF, 2009).

Major factors affecting the supply side include the scarcity of resources required for agricultural production, the impact of global warming as well as growing urbanization. Although high population growth and the rising income of the global middle class are not a recent phenomenon, improvements on the supply side have not been able to keep pace with the rising demand. In addition, despite sustained world-wide economic growth, the supply of agricultural goods decreased, i.e. a reduction of global agricultural inventories, particularly of grains, which has further widened the gap between supply and demand (ibid.).

The rises in oil prices have played a crucial role in pushing up food prices in recent years. In agriculture, costs for production rose as a result of the increase in fuel costs for machinery and transportation (Benson *et al.*, 2008: 2).

Figure 11 shows the correlation between increases in oil and food prices from 2006 to 2009.

Figure 11. Development of oil and food prices (January 2009–May 2009)



Source: FAO Datastream.

Increasing food prices pose a major threat to developing countries that are dependent on food imports to feed a growing population. The balance of payments of these countries rapidly deteriorated following the price increases of goods that can be easily substituted or eliminated from imports.

Investments in agriculture in the light of the food crisis

As noted earlier, investments in agriculture have increasingly attracted the attention of **private investors**. The **increased return expectations** in turn have led to the recent increase in the setting up of agricultural investment funds. Some of the identified funds have been specifically set up to mitigate the implications of the food crisis.

Food security has become a major topic of concern, for example, for the Gulf Arab States, which have sufficient capital but are endowed with limited resources for agricultural production, such as water and fertile land. Some of the countries in the region have, for example, launched the AgriCapital Fund in 2008, an investment fund that invest in the farm sector and related areas on a global scale. Other funds, such as the SEAF India Agribusiness Fund, being set up, with investment closing by the end of 2009, and supported by different DFIs, intend to invest in SMEs in the Indian food and agribusiness sector, where growing demand for food is expected due to high population growth. In addition, donors have started to tackle the implications of the food crisis in developing countries by different means and are interested in setting up initiatives to ensure food supply.

3.3.2 Implications of the global financial crisis on investments in agriculture

The 2008-09 global financial crisis started in the United States mortgage market in mid-2007 and rapidly spread to the global financial system. The financial turmoil started to affect the real sector of the economies, one country after the other. While several economies registered negative growth rates already in 2008, most developing countries started to feel the impact particularly in 2009. Expectations regarding **global economic growth** vary, but are all gloomy. The International Monetary Fund (IMF) estimates that the world economy will contract, as shown in the Figure 12.

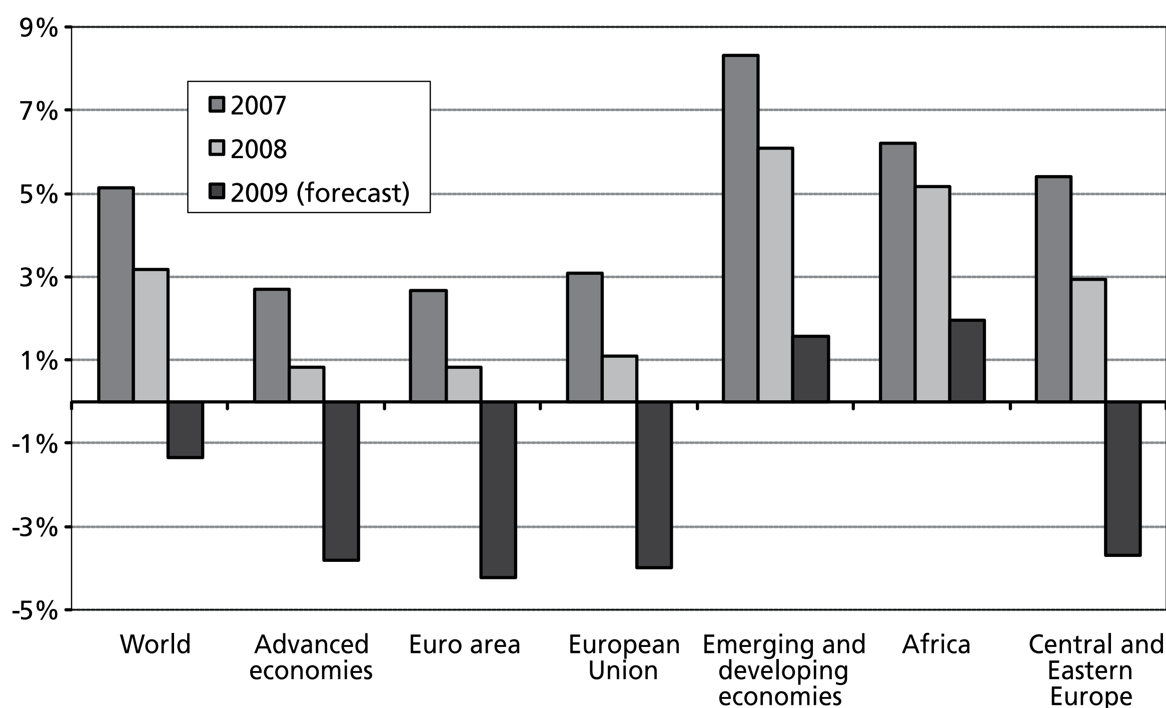
Developing countries whose financial systems are not well integrated into the global capital markets have also suffered from **second-wave effects of the crisis**. As the more developed countries have started to feel the effects of the financial crisis, inflows of foreign direct investment (FDI) and remittances also decreased shortly thereafter. The real sectors of developing countries have been gradually affected by the global crisis through the decrease of aggregate demand, both external and domestic.

Although SSA shows some economic growth in 2009, the region will not be spared from the effects of the financial crisis, but is expected to do relatively better than most parts of the world. SSA had experienced robust growth and stability during the previous years, which helped to improve public budgets and external balances. However, since October 2008, IMF and the World Bank have had to repeatedly adjust their growth forecasts downwards. The global financial crisis has mainly affected SSA through decreases of monetary inflows from abroad, either in the form of a decline in exports, FDI, development aid and remittances. The magnitude of the impact is still difficult to estimate, but should the latest IMF predictions

materialize, i.e. that the African economy would grow by 2 percent in 2009 (decreasing from 5 percent in 2008), this would imply a decrease of the GDP per capita in SSA for the first time in more than ten years (Holmqvist, 2009: 1).

The region of Central and Eastern Europe, on the other hand, did not fared well. The region suffered both from the financial crisis and drying up of funds and from the reduction of demand in the European market for some of their goods.

Figure 12. Global gross domestic product (GDP) growth per country groups (2007–09)



Source: IMF, World Economic Outlook Database, April 2009.
www.imf.org/external/pubs/ft/weo/2009/01/weodata/index.aspx

Impact on the agricultural sector

The agricultural sector has not been spared from the financial sector developments. The most relevant impacts have been the decreasing demand for agricultural exports, the volatility of exchange rates and reduced access to pre-refinancing sources relevant for agricultural production.

The increased income of the middle class in some emerging economies – notably China and India – had been one of the main factors pushing up food prices to record levels over the last years. The situation has started to change since the beginning of the global financial and economic crisis in 2008. The purchasing power of the middle classes in these countries declined due to decreasing incomes and growing unemployment. Therefore, **global demand for food commodities decreased** considerably in comparison to 2007. World cereal trade based on tonnes traded is expected to fall by 4 percent in 2009–10 (*FAO News*, 2009), while the global food import bill is expected

to fall by 22 percent.[32] A reinforcing factor that contributed to decreasing commodity prices were the record levels in food production achieved in 2008. The Organisation for Economic Co-operation and Development (OECD)/FAO (2009: 12) estimate is that cereal production increased by 7 percent in 2008, with the bulk of this increase being concentrated in developed countries, which augmented their production by 13 percent, while developing countries increased their production only by 2 percent.

As a consequence, **overall food commodity prices decreased** since the second half of 2008, remaining, however, higher than the levels prior to 2007. A survey conducted by OECD/FAO shows that, although most agri-food firms expect demand for their products to slow down, they expect to be less affected than the non-food sector (OECD/FAO, 2009:47). World cereal production is expected to fall from the record level of 2 287 million tonnes reached in 2008–09 to 2 219 the following year (*FAO News*, 2009), which would still be the second biggest harvest in history.

Against the background of the global financial and economic crisis, and the interventions of the monetary authorities in developed countries to improve liquidity in their economies, the **volatility of exchange rates** increased dramatically. The United States dollar remained weak against the currencies of most developing countries, until reaching a bottom during the second half of 2008, while the exchange rate between the dollar and the euro became more volatile than ever. This situation contributed to a further deterioration of the balance of payments of many developing countries, raising doubts about the ability of central banks to protect their exchange rates.

In countries where a large share of inputs has to be imported (such herbicides, fertilizers and vaccines for the live stock), agricultural producers are particularly exposed to foreign exchange risk. This is also the case when credit for pre-financing production and investments in capital goods for agriculture are denominated in foreign currency. With producers having their income commonly denominated in domestic currency, agricultural endeavours are confronted with severe difficulties to cope with the unprecedented volatility of the currencies during the last quarters. It also makes land cheaper for foreign investors from countries with strong currencies.

Another factor severely affecting the agricultural sector in developing countries is the **shortage of financing sources** faced by basically all agricultural stakeholders. From the obstacles faced by producers when requesting loans for buying seeds to the difficulties faced by international investors in agriculture in attracting new funding, the lack of financing has been felt all along the agricultural supply and production chain.

Financial institutions have been affected by the worsening quality of their portfolios, which has led them to adopt more conservative lending practices. At the same time, they have been facing a reduced access to refinancing sources and hence liquidity.

32 *FAO Global market analysis, food outlook preview*, ftp://ftp.fao.org/docrep/fao/011/ai482e/ai482e00.pdf

Obtaining loans from banks or other institutions for financing equipment and other investments required by the producers became much more difficult than one year ago. In Brazil, for example, the government had to step in and increase the portion of demand deposits that banks must lend to the agricultural sector from 25 to 30 percent, in order to ensure that funds were available for the planting season. Traders – who are particularly important as a pre-financing source for small-scale farmers – also face difficulties in providing the required levels of funds.

Implications for investors

Some international investors, who had increased their participation in agricultural endeavours in developing countries, are now limiting their expansion, at least temporarily. Apart from the general shortage of financing in their markets of origin, the ongoing crisis changed the risk profile of investors, who are now more reluctant to invest in developing countries and alternative products. In general, investors seem to more strongly focus on their home markets and core business, based on the current uncertainty of how markets will develop. However, at the same time, investors are searching for alternative investment opportunities that are decoupled from international financial markets and that contribute to a diversification away from investments in traditional asset classes. Land and agriculture production and agribusiness fit this profile.

In this context, the role of donors and government programmes has become important to maintain the operations of the agricultural supply and production chain during the crisis, but international donors seem to be facing fund shortages themselves. The World Food Programme, for example, was forced to cut food aid ratios in Eastern Africa and the Democratic People's Republic of Korea because of lack of contributions due to the fiscal crunch faced by some member countries (*Financial Times*, 2009). Most governments in developing countries are also trying to cope with growing fiscal deficits, which have been the result of crisis response programmes and overall decreasing tax revenues.

4. Conclusions and recommendations

4.1 Summary of findings

Investments in agriculture play a crucial role in fostering the development of the agricultural sector in developing countries because it contributes to growth, productivity increases, poverty reduction and hence sustainable development. Efforts underway to steer the needed capital into the agricultural sector in developing countries are manifold and increasing. As concerns the setting up of agricultural investment funds, a **clear upward trend** is visible, yet valid conclusions on the development impact of such funds can hardly be drawn, given the fact that efforts to set up such funds are recent. **Increasing interest of investors** is being perceived, ranging from public and private investors to joint initiatives. In this respect, it can be said that the research findings underline the conclusions of the *World development report* (2008): "(…) with the right policies and supportive investments at local, national and global levels, today's agriculture offers new opportunities to hundreds of millions of rural poor to move out of poverty" (World Bank, 2007:1). This also confirms the high potential of agriculture to generate attractive returns, which is a precondition for attracting investors.

The inventory stock-taking of agricultural investment fund provides a **comprehensive overview** of different kinds of investment funds that target agricultural stakeholders in developing countries. At the same time, the research study revealed difficulties in comparing and interpreting the existing funds due to their very different nature. Many of the funds have been in operation for a relatively short amount of time. A closer review of the success or failure of these different initiatives would require an analysis in the future. This publication provides a broad overview of efforts to tackle agricultural investment in developing countries through investment funds and to facilitate discussions on the importance of setting up effective investment vehicles for this purpose; however, it is beyond its scope to provide a role model of an agricultural investment fund that can be easily replicated.

It is also important to mention that the **current global financial and economic crisis** has not spared developing and transition economies, and has affected all kinds of investors and providers of capital, ranging from hedge funds to the international donor community. While in principle, investments in agriculture have been affected by the same constraints as other sectors (lack or pulling-out of investors, more conservative investment strategies etc.), agriculture in developing countries offers investment opportunities to investors pursuing to invest in **alternative asset classes.** Many of these prefer investment through funds that can provide risk diversification among countries and individual investments.

Overall, investments in agriculture in developing countries through investment funds can foster development, offer growth potential, and can be attractive to different kinds of investors. While the case studies present a range of viable options for structuring such a vehicle, additional review is recommended to determine the ideal structure of a specific initiative.

While not exhaustive, conclusions are drawn and recommendations provided in the following two sections regarding the specific fund structure on the specific risks related to investments in agriculture) and the policy level to enrich discussion on setting up agricultural investment funds for developing countries. Particular emphasis is thus placed on the role of PPPs. The report concludes with recommendations regarding further potential research on the topic.

4.2 Recommendations for setting up agricultural investment funds

- **The role of governments and international donors in setting up PPPs.** This publication has confirmed that PPPs can be a valuable tool to increase access to finance for the agricultural sector. Due to the specific characteristics and risks related to this sector, public capital can be important in attracting private investors who otherwise would not be willing to take an exposure to agriculture. By doing so, public funds might allow private investors to acquaint themselves with the sector with the aim of possibly withdrawing public money in the future.

  When structuring investment funds with a developmental objective, large potential is attributed to the role of investors who are willing to accept below market returns, which would help to leverage complementary capital of private investors. Looking at the innovative structure of several microfinance investment funds, the microfinance sector has already successfully made a market shift toward private-sector implementation of programmes and market-based allocation of resources. Learning from these experiences, it can be concluded that there is a potential for governments and international donor organizations to absorb some investment risk, such as first loss tranches in structured investment vehicles, and thereby cushion the associated risk to attract private capital. Well-structured joint efforts of the public and private sector could make a sustainable contribution to the development of the agricultural sector in developing countries, thus the **coordination of different investors** becomes essential. As indicated by the World Bank, "institutional reforms and innovations are needed to facilitate greater coordination across international agencies and within the new actors in the global arena, including civil society, the business sector and philanthropy" (World Bank, 2007:24).

- **Local presence of the fund manager**. Depending on the intended outreach and target investees, agriculture is, in principle, a sector characterized by very specific risks. This situation is expected to require more of a fund management approach that is closer to the target markets than one that is common to investments in other sectors and asset classes (for example, microfinance). The means of agricultural production and the related productivities strongly vary among different countries and regions of the world. In addition, in many countries, agriculture has been a sector strongly influenced by the respective political environment. Given these factors, it can be concluded that investments in agriculture require more in-depth market knowledge and hence proximity of the fund manager to the investees than other investment targets or sectors.

- **Careful risk assessment and portfolio diversification.** Agricultural production faces specific risks, including external and covariant risk, which are beyond the control of the

agricultural producer as well as the investor. These risks impact on the amount and quality of yield, profitability and therefore returns to investors.

Although risk diversification is crucial for any investment vehicle, the risk assessment in needed in setting up agricultural investment funds and their portfolio diversification requires particular attention. While investments on a global scale might, for instance, contribute to a risk diversification of agricultural production along different climatic zones to be less exposed to external risk, at the same time, a focus of investments in agriculture in a particular region might be a better approach due to the potentially greater access to in-depth market knowledge on which investment decisions are based.

- **Investments in "vetted" agricultural methods and crops.** Investments to support agricultural activities and crops that already have an established track record and whose risk-return patterns are known can be structured more easily.

- **Time horizon of investments.** Overall, investors should be aware that most investments in agriculture – not taking into consideration any speculative endeavour – are relatively long-term and do not allow for short-term profit maximization. These longer maturities impact the liquidity of investors, e.g. through longer lock-in periods.

- **The role of insurance mechanisms.** The role of market-based tools to manage risk, such as weather insurance or derivatives, as well as warehouse insurance and even health insurance has become more accepted. Possibly, the integration of such mechanisms as a requirement for the investees could be considered when setting up agricultural investment funds to mitigate related risk. They can interest investors and facilitate access to capital at lower cost.

- **The role of foreign exchange (FX) risk.** All investment vehicles that provide capital in a currency that is different from the income generated by the debtor face FX risk at a certain level. Special attention should be paid to this fact when structuring agricultural investment funds, since the income of agricultural producers might often be obtained in local currency, while investment funds are interested in providing capital to be invested in foreign currency. In case income is obtained in foreign currency, e.g. by an agricultural cooperative that exports products to international markets, FX risk might be eliminated.

- **Agricultural expertise of decision-making bodies.** The set-up as well as the daily operations of an agricultural investment fund require a thorough understanding of the agriculture sector in developing countries. The need for highly specific expertise of fund managers as well as the decision-making bodies, for example, boards of directors and investment committees, might be more pronounced for investments in the agricultural sector than in other asset classes and economic sectors.

- **The development of tailor-made products.** The research has revealed that many identified investment funds are successful because of their tailor-made approaches. Therefore, adapting financial products and methods to the specific needs of agricultural stakeholders is considered a critical factor also for future investment funds; these can

include shared risk mechanisms such as guarantees and investment enhancements. The inherent volatility and the nature of agriculture will, however, remain a challenge for financiers.

- **The role of impact assessment.** Although most of the agricultural investment funds identified have a development objective and are reaching out to the target group, there is a lack of information available on impacts – qualitative and in particular quantitative – achieved to date due to the recent inception of some of the funds profiled. While some of the identified agricultural investment funds (see, for example, Case Studies on the Georgia Regional Development Fund and African Agricultural Capital, Annexes 2 and 7, respectively) have implemented innovative tools to measure impact, the means for measuring impact of investing should be integrated right from the beginning when structuring agricultural investment funds.

4.3 POLICY RECOMMENDATIONS

Policies and regulations should be addressed on the following three levels to stimulate investments in agriculture in developing countries:

- **Policy and regulation affecting agricultural production in developing countries.** In principle, agricultural production and marketing in developed as well as developing countries have been strongly influenced by government interventions. Such interventions consist of price controls, government-led distribution of agricultural proceeds, and direct or indirect subsidies. These in turn often contribute to market distortions. Such government interventions therefore need to be reviewed carefully, and policies and regulation supporting a more market-based approach should be promoted to attract investors. At the same time, it is important that market-based risk mitigating mechanisms are promoted that allow for less governmental interventions.

- **Policy and regulation affecting the investment**. On the policy level, there are various government interventions that might hamper investments in the agricultural sector in developing countries, especially FDI. Investments in agriculture require secure property rights as well as contract enforcement and execution rights. For example, they play a particular role with regard to land markets in developing countries. In addition, employment regulation plays an important role as well.

- **Capital repatriation**. Another serious regulatory constraint is that some countries have investment laws that limit the ability of the foreign investor to take capital gains in hard currency form out of the country. Difficulty in capital repatriation or even fear of such difficulty inhibits investment.

- **Overall policy and regulatory environment**. On the macro level, the investment climate can also be influenced by a sound policy environment and investments in strategic public goods (World Bank, 2007:136). Some relevant factors are as follows:
  - **Tax incentives for FDI.** Any tax-related regulation that has an impact on the economic returns of the investment is relevant for investors and investment funds.

These incentives comprise, for example, withholding tax regulation. While from a developmental perspective, it is crucial that FDI contribute to a sustainable local development, including a sharing of the economic benefits of investments to the region and the nation as a whole, carefully targeted incentives can make investment fund managers more interested in investing in agriculture.

- **Investments in infrastructure**. It is also important that investments in infrastructure are supported that lead to enhanced conditions for agricultural production in developing countries. They include, for example, investments in transport infrastructure to decrease marketing costs and access to local, regional and international markets. In addition, access to water and irrigation needs to be further supported through investments. In SSA, for instance, only 4 percent of the arable land is under irrigation, compared to South and East Asia, where 39 percent and 29 percent respectively are irrigated (World Bank, 2007:9).
- **Investments in technology and education.** The basis for future growth is a solid development and transfer of technology and know-how as well as investments in education. It can be assumed that during the next years, the level of technology used in agriculture in developing countries will significantly increase, following the path of transition economies and taking into consideration opportunities new biological and information technologies offer. Hence, people employed in the agricultural sector and related industries need to have access to excellent training and education in order to be well equipped for future challenges. Otherwise, larger companies in particular will not be able to remain competitive or might shift their attention to other countries where better qualified human capital and more advanced production methods are available.
- **Limiting the role of speculators.** The volatility in financial markets and the volatility of commodity prices, which have been partially caused by speculation, must be contained as far as possible. Markets for complex financial instruments related to agriculture will remain attractive for investors. However, from a developmental perspective, there should be a focus on thoroughly assessed investment opportunities in agriculture with a sustainable impact.

• **Coordinated effort of public sector entities.** There should be continued and concentrated effort of the various public sector entities in their analysis of and involvement in PPP funds investing in developing world agriculture. It is to the benefit of all stakeholders (developing world countries, the various aid agencies, investors, etc.) that the World Bank, FAO, the International Fund for Agricultural Development (IFAD), German Technical Cooperation (GTZ), United States Agency for International Development (USAID), development banks and all the other relevant players communicate and coordinate effectively in order to avoid costly duplications of efforts.

• **Involvement of public sector and private sector entities in developing countries.** The involvement of a variety of developing country public sector and private sector entities is key to building the institutional framework that will provide a market-friendly environment that investors, particularly the private sector ones, require. In this sense, the various ministries of agriculture, trade, planning and the prime ministers' offices need to seek advice from the local entrepreneurs and also communicate directly with international private sector institutional investors.

4.4 Recommendations for further research

This report provides a comprehensive overview of a broad range of investment funds that target the agricultural sector in developing countries and outlines recent trends in this regard. Further research is recommended to be conducted to tackle the following issues:

- **Demand-gap analysis on access to finance for the agricultural sector in developing countries**. This publication has focused on the description of the supply side through the identification of agricultural investment funds providing capital to the agricultural sector in developing countries. Unmet demand for capital of agricultural stakeholders in developing countries is evident. However, additional empirical research ought to be conducted to draw conclusions on the gap between supply and demand for other stakeholders along the agricultural value chain, such as agribusiness.

- **Structuring of a "model" agricultural investment fund**. The structuring of a "model" agricultural investment fund that would entail a combination of best practice features derived from the various existing investment funds would require a much more in-depth analysis of the set-up, operations, financials and impact achieved to date of some of the existing models, which is beyond the scope of this study. Moreover, the structuring of "model" funds does not seem realistic from a private sector perspective, since the public sector cannot and should not dictate what type of funds should be structured, unless these funds are devoid of private sector players. Rather, lessons learned could be drawn from the experience to date of investment vehicles. This requires access to some confidential/proprietary information and in-depth field research. In particular, any analysis should pay special attention to measures that can mitigate the risks for investors.

- **Role of private sector in agricultural investment funds**. Exclusively privately driven investment vehicles targeting the agricultural sector are more difficult to analyse than those where the public sector is engaged. This is largely related to the fact that reports must be published on how taxpayers' money is spent. In contrast, private sector activities often take place in the form of private partnerships, where information is only shared between the participating parties but not to the general public. Consequently, in order to capture in full the role of purely private sector investment activities, considerable additional research might be required, and may reveal some important aspects for broader consideration when promoting investments in agriculture.

- **Review of the different means of investments in agriculture**. Investment funds are one way to pool and channel the assets of different investors into the agricultural sector in developing countries. Additional research should be conducted to analyse the impact on the agricultural sector in developing countries, for example, of FDI through company structures with an agricultural investment strategy or other financing facilities. This would allow to draw conclusions on the effectiveness of the different means to provide capital to the agricultural sector in developing countries.

- **Risk-return profile of agricultural investment vehicles**. Further research is recommended to better understand the risk-return profile of the various types of investment vehicles currently operating. Particularly little is known about the long-term

profitability of these vehicles, since many represent only very recent initiatives. However, in order to stimulate further growth of such vehicles, a better understanding is required about realistic profit levels and the risk appetite associated with such investments. As a particular subsection of this research, especially with tiered capital structures, it would be interesting to assess the financial performance of different risk classes and how well the subordination mechanisms and risk ratios in place mitigated potential losses for the more senior tranches.

- **Agricultural investment vehicles as alternative asset class?** Much research has been carried out lately on MIVs and their potential to constitute an alternative asset class that shows less correlation with traditional asset classes. Similar research is also welcomed in the field of agricultural investments, albeit probably requiring a more differentiated approach by type of agricultural investment vehicles or by type of target investees. Developing investment vehicles for the "missing middle" is of particular development interest.

- **Impact of investment vehicles for agriculture**. Very little to nothing is known about the impact of different investment vehicles and investment strategies in agriculture. This is partly due to the recent nature of such investment vehicles, but also the little research carried out in this respect up to now.

- **Conducive policies and regulation.** To attract investments into the agricultural sector, a conducive policy environment in the target countries needs to be fostered. Additional research on the constraints faced by agricultural investments funds would allow stimulating the dialogue on the necessary policies and regulation in developing countries to attract the required investments into the sector.

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Annex 1. Management Company Case Study – Small Enterprise Assistance Funds

I. Overview of the Small Enterprise Assistance Funds

Small Enterprise Assistance Funds (SEAF) is a global investment firm focused on providing growth capital and operational support to businesses in emerging markets and those underserved by traditional sources of capital. SEAF selectively makes structured debt and equity investments in locally owned enterprises with high growth potential. Founded in 1989 as the private equity investment subsidiary of the international development organization CARE, in 1995, it evolved into an independent organization specializing in the sponsorship and management of investment funds targeting growth-oriented emerging enterprises. SEAF has a long track record of investing in small- and medium-sized enterprises (SMEs) in emerging markets in Eastern Europe, Latin America and Asia, and is in the process of expanding operations into sub-Saharan Africa. As a global leader in SME finance, SEAF has managed 26 funds, of which 21 are currently under management, through a network of offices located in 19 countries. SEAF manages approximately USD 500 million (as of March 2009, USD 487.3 million) in aggregate committed capital across 30 countries, of which USD 300 million has been invested in 285 companies (March 2009). Investors in SEAF-sponsored funds represent a cross-section of public and private institutions, including government-sponsored economic development organizations, multilateral financial institutions, private foundations, pension funds, insurance companies, family offices, banks and other independent financial institutions.

To accomplish its objectives, SEAF sponsors and overseas the management of venture capital/private equity funds focused on providing emerging enterprises with structured debt and equity growth capital, and extensive post-investment business development assistance to increase sales and improve operational efficiency. Such business development activities are managed through dedicated resources at SEAF's headquarters in Washington, DC, United States of America, and its office in Amsterdam, Netherlands. SEAF's networks of internal specialists and external experienced consultants and industry advisers seek to provide local management with access to new customers and global market opportunities, insight into industry best practices, advanced training and strategic planning skills. SEAF has found that access to such international connections and experiences is very important to growth-oriented entrepreneurs, both in their commercial development, and in their openness to substantial equity investment by SEAF-managed funds. SEAF-sponsored funds feature a network of in-country offices that are staffed and operated by local nationals together with experienced SEAF personnel from other countries. As a global fund management organization with a focus on building strong local teams, SEAF is uniquely able to generate robust pipelines of investment opportunities, carefully monitor investments, provide management with hands-on operational support and provide businesses in developing economies with the global connections that accelerate their growth and profitability.

SEAF has developed a fund management system that is both cost-efficient and professional. Its international scale and scope, as well as its centralized, internet-based system of accounting, control, information-sharing and valuation services provide it with the capacity to field teams of specialized private equity personnel anywhere in the world. Through the central coordination of these resources, SEAF's management teams apply institutional knowledge and best practices to their investments worldwide, enforce effective oversight of SEAF funds, and provide regular and accurate reporting, compliance and disclosure functions to SEAF's investors. The economic incentives for each of SEAF's funds are largely held by local fund management and key SEAF staff associated with the funds, thereby ensuring the alignment of economic interests between the managers and the investors.

A significant portion of SEAF's focus has been on agribusiness, with investment in nearly 40 percent of the 285 companies. SEAF is currently managing Georgia Regional Development Fund (GRDF) and Afghan Growth Finance (AGF), both of which have a key focus on SME agribusiness. Also, SEAF is currently raising two new SME agribusiness funds – one in India and the other in East Africa, both of which will invest across the value chain. SEAF's extensive experience has allowed it to identify and invest in promising agribusinesses and companies operating in other sectors that deliver both positive financial and social benefits to their employees and their communities.

II. Description of operations

As a fund manager, SEAF identifies, develops and manages investments for the numerous funds under its direction. Key aspects of those operations are:

Deal origination. By developing a network in the business community (including personal networks, banks, business associations, economic development projects, etc.), SEAF is able to identify investment targets both in quantity and in quality. Locally sourced deals not only allow SEAF to invest funds more efficiently, but also avoid intermediary fees and conditions. Finally, in developing markets where poor financial information is common, SEAF's network provides important background information on investment targets, which support sound investment decision making.

Screening. According to the risks of private equity investing, SEAF typically reviews 40 or 50 investments before investing in one. Potential investments are initially screened in order to determine a quick exit from the pipeline or if they merit further due diligence.

Business analysis and initial due diligence. This stage involves a deeper review of the business, site visits, discussions with management, sector analysis, review of projections and financial statements, financial modelling, etc. It also involves the assessment of the shareholders and the Board of Directors of the potential investee company.

Investment Term Sheet/Memorandum of Understanding (MOU). Using the information provided by the investment target, as well as market and other sources, SEAF structures a set of terms and initial valuation for its participation in the business. This term sheet must be negotiated and agreed on with the original shareholders.

Preparation of the investment MoU. Information and analysis, together with an investment term sheet are used to create an investment memorandum [of understanding?]. This SEAF document matches investment merits and risks, and presents a structure that will result in a sustainable business and provide an adequate financial and development return to the investors. SEAF must present these proposals to its internal Board for approval.

Board approval. SEAF officials present the Investment Memorandum to the Board for final approval. The Board is typically composed of local and international entrepreneurs with successful track records. They provide valuable inputs and modifications to the proposal before final approval.

Final investment and legal due diligence. With the investment approved, accounting and legal due diligence teams come in to verify information provided by the investment target. Any material finding can merit a revision of investment terms.

Signing of Investment Agreement. Upon due diligence culmination, final legal documents are drafted and signed. This confirms the investment and provides the framework for the SEAF-managed investment fund to become a shareholder/lender of the investment target.

Investment disbursement. Once the usual preconditions for disbursement are met, the fund is free to disburse the investment to the investee company accounts and receives in exchange a confirmation that it is a shareholder/lender of the company.

Investment monitoring. SEAF takes an active role in working with the investee company management and Board of Directors in order to create value. This monitoring and advisory is akin to a partnership, where both sides are working jointly and contributing their strengths. Typically, this involves combining management's available knowledge of the business with SEAF's financial advisory and network.

Realization of investment proceeds/exit. The investment fund regularly collects proceeds from its investments (for example, debt amortization payments) or at the end of the investment life (for example, sale of equity stake in the investee company). SEAF performs market analysis in order to determine the optimum exit opportunity and sources potential buyers for its stakes.

Development impact

Over the past two decades, SEAF has directly witnessed the positive impact that investments in SMEs have had on development within the communities and countries in which the investee companies operate, and in which SEAF fund management teams live and work. In assessing the development impact of SEAF's investments, SEAF has produced two comprehensive reports using a stakeholder-based evaluation system, modelled on the method developed by the Economic Department of the International Finance Corporation (IFC). The Stakeholder Model examines nine groups: financiers, employees, customers, suppliers, competitors, producers of complementary goods or services, local communities, and the rest of society in the local economy. To build the model, SEAF used data provided by the company, including

financial statements, market statistics, and extensively used information obtained through interviews with the company's stakeholders (such as managers, employees, customers and suppliers). In analysing the development impact on each stakeholder, the model examines the company's marginal economic effect on each stakeholder. To quantify development impact, SEAF used cash flow models to calculate the return to investors (financial rate of return) and added the return to other stakeholders to determine the blended, development and pro-poor, economic rate of return. In the investments selected, SEAF was able to calculate the additional dollars generated in the local community per dollar invested into each company.

SEAF's 2007 development impact study report – *From poverty to prosperity: understanding the impact of investing in small and medium enterprises: data survey and case study analysis of SEAF investments*, noted in Section 2.12, presents the quantitative and qualitative impacts, the latter of which captures the story behind the figures, such as the impact on lives of individual employees, suppliers and markets.[33] The study demonstrated that SMEs are vehicles for economic growth and poverty reduction. SMEs create jobs for unskilled or low-skilled individuals who then receive training and see significant growth in their wages and overall benefits. In addition, each company provides economic benefits to a host of other stakeholders, from its suppliers, customers and competitors – through tax payments, social security contributions and frequent philanthropic donations – to the local government and community. SEAF's analysis, which was supported by the Ford Foundation, the Department of International Development, UK (DFID), the Swiss State Secretariat for Economic Affairs (SECO) and the United States Agency for International Development (USAID), shows that for every USD 1 invested in an SME, an additional USD 12 in benefits returns to the local society. With stable and secure jobs and growing incomes, for the first time, families can begin to plan for their futures – investing in improved housing, preventive healthcare and education for their children, which can end the cycle of poverty.

Community interaction and involvement

SEAF's investees tend to have close links with their local communities, tending to hire and source locally, and often contracting with micro-enterprises or hiring low-skilled employees, thus generating jobs for the poor. Based on data collected from 40 SMEs in ten countries as part of SEAF's *Development impact survey* (2005 data), 72 percent of jobs generated since SEAF's initial investments have gone to unskilled or semi-skilled employees, and each company has generated an average of USD 3 million in business for local suppliers (manufacturers, distributors, service providers equipment suppliers, and micro-suppliers and farmers). In addition, SEAF has helped to build local fund management capacity otherwise lacking in most rural developing communities, mainly by developing the skills of local staff in investment analysis, equity investing and fund management. Finally, most SMEs, though small, provide some kind of voluntary support to their local communities by contributing an average USD 3 000 to local charities or organizing charity events.

33 www.seaf.com/impact.htm

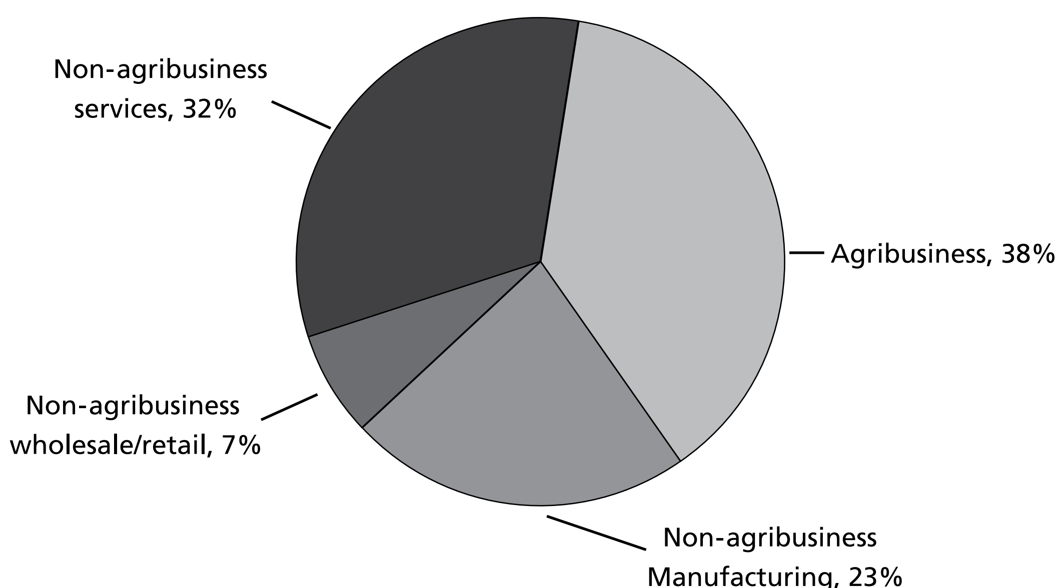
Agribusiness

SEAF has significant experience with agribusiness investments, ranging from primary production to processing, retail and wholesale operations. SEAF, through its fund management, has provided these enterprises with the necessary access to resources and know-how to improve not only their production, but also their fundamental business operations. This has helped them acquire new technologies and modern inputs, build working capital and access the necessary markets for expansion.

Access to capital and credit for SMEs, especially in the agribusiness sector, is limited by underdeveloped or risk-averse local financial sectors, a lack of knowledge of agribusiness in traditional banks, unfamiliarity on the part of agri-entrepreneurs with Western business practices, and other business constraints. Despite these constraints, agribusiness SMEs in emerging markets are regularly poised for industry growth and offer promising investment opportunities. Recognizing the potential of agribusiness SMEs, SEAF-managed funds have invested nearly USD 75 million in the agribusiness sector through these growing businesses across its funds geographies.

Overall, nearly 40 percent of the investments made by SEAF through its funds (107 investments out of a total of 285) have been in the extended agribusiness sector, including widespread rural investments (as of 31 March 2009), from which 24.8 percent of the total invested amount was allocated to this industry. In Bulgaria and Poland, in particular, due to regional development priorities associated with SEAF's first funds there, nearly 60 percent of the investments were made in agribusinesses. SEAF's investments in the agribusiness sector through its currently active funds have yielded an internal rate of return (IRR) of 16.2 percent and a multiple of 1.6 times capital invested.

Figure 13. SEAF industry portfolio breakdown



Note: *As of 31 March 2009. Total invested capital: USD 300 million; total number of investments: 285.

Africa agribusiness pipeline: value chain catalyst fund

SEAF, in partnership with SNV Netherlands Development Organisation (SNV), is raising funds for an East and Southern Africa agribusiness fund, the Value Chain Catalyst Fund. The Fund will be established to serve as a catalyst to unlock economic value to marginalized agribusiness producers in South Sudan, Ethiopia, Kenya, Uganda, the United Republic of Tanzania, Rwanda, Mozambique, Zambia and Zimbabwe (the target countries). The Fund, by making pinpoint investments at agricultural value chain bottlenecks, will unlock economic value that is not being developed in the existing chains. A bottleneck is defined as a process, service, procedure or function in a supply chain that hinders the economic maximization of individuals or limits the viability or productivity of a sector and/or industry. A value chain consists of a series of activities that add value to a final product, beginning with the production, continuing with the processing or elaborating of the final product, and ending with the marketing and sale to the consumer or end user. The interdependent linkages of the chain and the security of a market-driven demand for the final product provide the producers and processors with an assured market. This reduces risk, thus making it easier to obtain financing and at lower cost from banks and other financiers.

In association with SNV, SEAF has identified three focus areas for improvement of the agricultural value chains in Africa, which will have the biggest impact on value chains and therefore on the social and financial development of the SME stakeholders.

The focus areas include:

- Opening up new distribution markets and channels
- Increasing quality of products, processes and services
- Creating economies of scale.

Resolving value chain bottlenecks is crucial for development stakeholders (e.g. governments and donors as well as for lenders, agribusinesses and producer organizations) interested in improving the economic structure of SMEs, which are the primary source of employment thus wealth creation. It is therefore critical for them that their efforts are complemented with effective tools and instruments that stimulate the private sector to innovate new ways of including the poor in markets. Bringing marginalized sectors into markets requires innovative public and private collaboration to find new ways of doing business. Until now, traditional market participants were reluctant to enter into rural markets, which are less attractive from standard risk-return model.

Nevertheless, long-term sustainable impact in terms of pro-poor growth can best be achieved by resolving value chain bottlenecks. SEAF hopes to unlock the potential of SSA agribusiness value chains by focusing its financing, and technical assistance and business services on value chain SME actors with promising sustainable and significant impact.

European agribusiness track record

SEAF began its career of fund management in Europe when, in 1992, it established its first fund in Poland: CARESBAC Polska. Since then, SEAF has opened numerous fund offices throughout Central and Eastern Europe and has invested in Poland, Bulgaria, Croatia, Romania,

Macedonia, Estonia, Latvia, Lithuania, Georgia, Serbia and Montenegro. SEAF's history in Europe includes many exited investments and five retired funds. Since 1992, SEAF has made 79 investments in agribusinesses in Europe for a total of USD 43 789 707 in committed capital (committed capital as of 31 March 2009 valuation data). Agribusiness SMEs constitutes 44 percent of SEAF's total number of portfolio companies in the region. In addition, SEAF recently successfully closed its Romania fund with an impressive gross IRR of 39 percent and a multiple of 2.4 times capital invested. Twenty-seven percent (3 out of 11 investments) of Romania's investments were in the agribusiness sector and 26 percent of the total capital was invested in this industry.

Lessons learned

The following lessons learned and identified best practices are based on SEAF's almost 20 years investing in emerging market SMEs, including its experience with managing GRDF.

- **Agribusiness funds should be recognized as a development tool.** Through its years of investing in emerging markets, SEAF has recognized that the middle level of the value chain in the agricultural sector is relatively underdeveloped in most emerging markets. As such, a development strategy addressing this value chain gap in place of, or in addition to, projects focused on primary agriculture can be effective for completely achieving development goals.

- **Access to capital and credit for SMEs, especially in the agribusiness sector, is limited in emerging markets.** This is a result of underdeveloped or risk-averse local financial sectors, a lack of knowledge of agribusiness in traditional banks, agri-entrepreneurs' unfamiliarity with Western business practices, and other business constraints.

- **Agribusinesses present opportunities for stable and reasonable returns.** Focusing on investment of agribusinesses (i.e. processors, aggregators and exporters) presents viable opportunities for investment in emerging markets. This sector typically offers stable and consistent returns, assuming proper management and expertise is in place. Although weather risks and global commodity prices and overall demand impact primary agriculture, the impact is softened for businesses higher in the value chain due to their greater flexibility in the market and the ability to reflect input price changes in their products. The sector is also less exposed to other market factors than are other sectors. However, because returns are typically not particularly high, development finance institutions and other donors can help fill this space, as purely private sector investors would typically seek a greater upside return. As such, development finance institutions (DFIs) and other donors can utilize an agribusiness development fund as a vehicle to achieve or enhance a strategy for agricultural development.

- **Technical assistance funds and/or grants combined with an investment fund are almost always valuable to enhance or ensure success of SMEs in developing countries, but must be effectively managed.** Capital alone is rarely sufficient when dealing with small companies in difficult environments. The Technical Assistance Facility is proving to be important and is expected to continue to be very valuable for GRDF. The investments into the ten portfolio companies were generally recently made, and

companies are just beginning to complete their deployment of investment funds (for capital investment, working capital, etc.). During this period and after, while SEAF is in the early stages of its partnership with investees, SEAF and company managers are able to develop a clear understanding of where attention and support is needed. The grant funds are proving useful to deploy for such purposes, without weighing down or overleveraging the company's financial position. However, to be effective, it is important that both SEAF and the investee believe in the value of the consultants to be brought in. Identification of qualified consultants, whether foreign or local, who have the right balance of technical expertise and understanding of the local environment, is equally important.

- **Investment partnership is as valuable as investment funding.** For GRDF and other SEAF-managed funds, the strategic guidance and support that SEAF provides as part of the investment partnership is a valuable, if not critical, component of what is needed to lead to investment success. Technical Assistance grants mentioned above are valuable because they help to enhance the Fund Manager's ability to support and monitor investees. Additionally, a number of SEAF investees have found the SEAF network to be a valuable part of the post-investment partnership. Among the GRDF examples is the animal feed producer Dogan, in which SEAF is helping to develop better supply networks, including potentially sourcing fish meal from Peru through a contact of SEAF's Peru fund.

- **Coordination with other development initiatives.** Integrating investment selections with national development priorities can be strategic in that other donors and development programmes can serve as valuable resources for investees. However, a logical and attractive investment opportunity must be in place regardless of any development priorities. In addition, the fund manager must take into account that even well-run development initiatives are frequently delayed in achieving their results and often less effective than anticipated. Thus, the business may be enhanced by such coordination but should not depend on it for success.

- **A focus on proven business models that are "closer to cash" and that can be expanded or introduced into the emerging market are preferred over new or unproven technology or business models.** SEAF has experienced investment success with businesses that are "close to cash". For example, SEAF is currently considering a cold storage facility start-up investment that would supply existing wholesalers and retail stores, which in turn would service local consumers or producers. SEAF has invested in companies that provide farmers with automatic poultry feeding systems or sheds where the cost advantages for such investments are easy to prove and the payback period is rapid. SEAF has invested in opening grocery stores in some cities where no such stores had existed before (Macedonia, Romania and Poland), in snack food companies where consumer demand is rapidly rising as working hours increase (China), in organic fruit marketing companies looking to integrate backwards into processing (Poland and Peru), and in distribution companies supplying hotels and restaurants with everything from kitchen equipment to selected food items (Croatia), where such hotels and restaurants are expanding to meet rising tourist demand. SEAF, based on its experience, prioritizes investments for which an existing or clearly latent demand exists, rather than invest in a processing plant for a product for which a ready market does not exist.

- **A fit with the entrepreneur is paramount for any investment.** One of SEAF's most important lessons learned and best practices consistently applied is that the presence of an entrepreneur and/or management team with substantial expertise and capabilities is a prerequisite for all investments. In all cases, this is the most important among all other business and market characteristics of an investment opportunity. An investment into a solid business sector cannot be successful if strong owners and managers are not in place. Further, it is equally important that the fund team and the entrepreneur develop a real partnership and alignment of interests that allow and incentivize both to succeed together, rather than a sense that one will succeed at the other's expense.

- **A focus on information management and business transparency before and after investment.** If a business structure does not have a sufficient information management system, and checks and balances in place to ensure transparency, as well as the ability to sufficiently monitor cash, adjustments need to be made to the business and/or investment structure to achieve such.

- **Analysis of the seasonality of the business is particularly critical for due diligence on agribusinesses.** Primary agriculture is a seasonal business, as are agribusinesses further up the value chain such as food processors. Accordingly, it is important to analyse and understand the impacts of seasonality on cash flow to ensure that a company can service its loan obligations throughout the year and that it will be positioned to meet working capital needs so as not to lose a season. SEAF has also found that with specialized staff or consultants, it can help potential and current investees better diversify their businesses to even out seasonality (e.g. bringing in processing of new fruits/vegetables that have a different growing and harvesting cycle).

- **Development of local supply networks can take time and be challenging, but often with significant payoff and meaningful development impacts.** In emerging markets with underdeveloped agribusiness sectors, agribusinesses often face challenges developing reliable supply networks domestically, thus depending on import of many raw material inputs. Even though these countries are typically agrarian economies, they cannot meet the business network demands largely due to their informal and fragmented structure of individual farmers without the capital or coordination to provide a continuous and reliable supply flow. However, with concerted effort, it is possible to develop a local supply network. An investee with SEAF's Poland fund, for example, was able to develop a network of organic farms for sourcing fruits and berries for jam production. This was achieved through the use of a demo farm, and financial and technical support for farms to obtain organic certification. SEAF's agricultural expert is now helping one investee to develop a better local supply network for tomatoes for tomato paste production, which will lead to better prices and better quality than importing from China.

Annex 2. Case Study – Georgia Regional Development Fund

I. Market environment and general framework

The Georgia Regional Development Fund (GRDF) is a USD 30 million risk capital investment fund that focuses on long-term growth-oriented investments in growing and dynamic SMEs in the Republic of Georgia. The Fund focuses on businesses operating outside the capital of Tbilisi and those operating in agribusiness and tourism – two sectors with significant growth potential in the country. GRDF was established by Millennium Challenge Georgia (MCG), a Georgian government agency sponsored through a Compact with the United States Government's Millennium Challenge Corporation (MCC), which has provided it with funding to promote private sector development and poverty alleviation in the country.

After Georgia became an independent country in 1991, it underwent some difficult times. Its agricultural sector, for example, experienced major contraction and drops in productivity, but recently the trend has turned upwards. At the time of GRDF's creation in late 2006, the Georgian Government had been making meaningful progress in instituting market reforms (reduced corruption, improved investment environment, improved business and legal regulations, changes in tax regimes, etc.). The country ranked as "Top Reformer" among the Commonwealth of Independent States by the World Bank and 37th in the Ease of Doing Business Index, both in 2006 (up from 115th in 2005, to 37th in 2006 among 175

countries). However, while significant economic improvements were being made in Tbilisi, development was notably absent in the suburban and rural regions of Georgia, away from the capital. Despite Georgia's developed and expanding banking sector, small- and medium-sized enterprises (SMEs) operating outside of Tbilisi had less access to essential development capital, due to their limited track records and lack of urban-centralized collateral. In addition, despite the developed banking sector, risk capital equity investors were less prevalent in the market.

The vast majority of capital in Georgia was financing real estate development in Tbilisi. Other sectors, in particular agribusiness, remained less developed and less pursued by lenders and investors. Although known for agribusiness in Soviet times, after the collapse of the Soviet Union, there were significant contraction and drops in productivity in the agribusiness sector. Visible market barriers and gaps in the supply chain presented added exogenous risks to entrepreneurs, but moderate improvements in the sector and a rise in global food prices were beginning to set the stage for new investment opportunities. A recognized potential for tourism in Georgia was constrained by a lack of infrastructure outside the capital (lack of hotels, tourism packages, activities, etc.).

In this context, GRDF was set up as a growth capital investment fund to support and promote development of enterprises operating outside of Tbilisi, with a focus on agribusiness and tourism. While the above-described situation remains, the fund is successfully identifying promising opportunities in the market and has made ten investments in thriving small businesses to date.

Since the fund was established at the end of 2006, the country has faced various political and economic challenges, culminating in a Russian invasion in August 2008. In November 2007, mass political protests in Georgia led the Government to hold an early presidential election that resulted in a shift in executive political power and growing uncertainty in the Georgian investment environment. The Russian invasion blocked all imports to and exports from Georgia for the month and caused a drastic drop in trade and travel to the country during the height of the tourism season (summer/fall).

The war also resulted in physical damage to farms near or in the conflict areas and production, output and sales losses in the summer/fall season for farms and agribusinesses that were unable to access supplies or transport goods. The war, combined with the subsequent global financial crisis, led to a significant decrease in the availability of private, foreign and domestic lending, a decrease in foreign and domestic investment, and pressure on the Georgian currency and the state budget. The political protests in the spring of 2009 also strained the economy in Tbilisi and further hindered local and foreign investment.

As a result of continued economic and political stress, some of the companies in the GRDF portfolio have faced unexpected challenges in managing and growing their businesses, but through business support and, in some cases, follow-on investment, GRDF has been able to help its investees through this period to achieve the long-term growth and success anticipated, given the underlying potential for development and market opportunities that remain unrealized in the country.

II. Overview and background on the investment fund

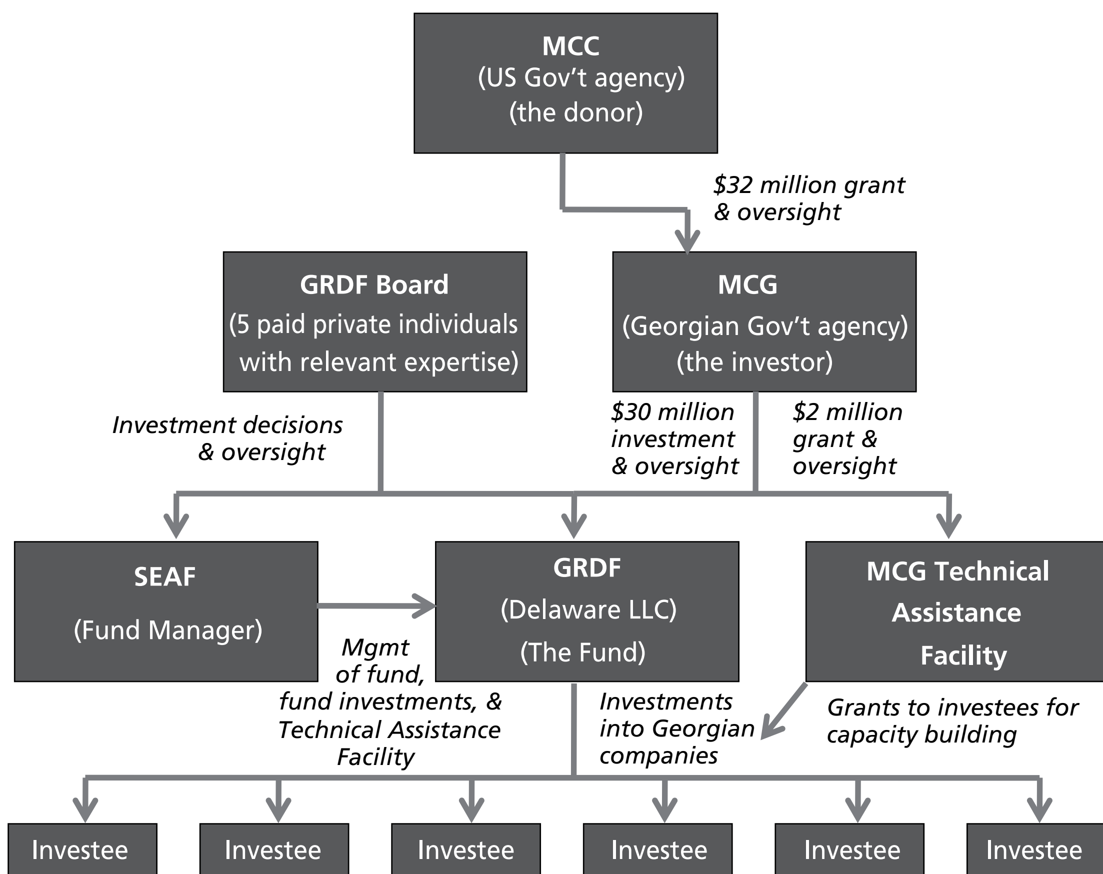
Fund overview

In 2005, MCC, a United States Government corporation providing foreign aid with the mission of reducing poverty through the promotion of sustainable economic growth, awarded a USD 395 million grant to the Georgian Government to promote development in the regions outside the capital. MCG, established by the Georgian Government to manage the grant, chose, with the approval from MCC, to establish the USD 30 million GRDF as a private sector approach to facilitate enterprise development in the regions and serve as an example to attract future investors to Georgia. In a tender process, Small Enterprise Assistance Funds (SEAF) won the bid to act as the Fund Manager for this new SME investment vehicle in Georgia.

Legal set-up, organization and structure

GRDF is set up as a limited liability company (LLC) registered in Delaware, United States. MCG awarded SEAF a ten-year contract to manage the Fund. The management is run out of SEAF's office in Georgia, with oversight and support from SEAF headquarters in the United States of America. MCG established a USD 2 million grant facility, also managed by SEAF, to sponsor consultants and other capacity development activities for the companies in which the Fund invests. Figure 14 shows an organizational chart of GRDF.

Figure 14. Organizational chart of the Georgia Regional Development Fund



Investors – individuals and institutions involved

MCG is the sole investor for GRDF. MCG is a Georgian Government agency, which, as described under "Fund Overview", is the recipient of a grant from the United States Government to promote economic development in Georgia.

Board of Directors

The Fund has a Board of Directors consisting of private individuals selected by MCG, with approval by MCC, to whom MCG as the investor has relinquished all discretionary oversight and decision-making power (investment decisions and other Fund decisions, oversight of SEAF as the Fund Manager, etc.).

Management group and track record

As Fund Manager, SEAF seeks, analyses, identifies, presents, executes, manages and exits investments. There is oversight by the GRDF Board of Directors (ultimate investment decision making), MCG and MCC. MCG as the sole investor of the fund, as well as MCC and the MCG Fiscal Agent serve as additional layers of review for compliance, and maintain control over cash.

Trust

As laid out in the GRDF operating agreement, a Trust shall be established to receive the eventual proceeds generated by of the Fund. The proceeds will be used for developmental purposes for Georgia.

Fund manager compensation

- The Fund Manager was reimbursed for organizational/set-up expenses based on a budget devised by SEAF and approved by MCC.

- The Fund Manager receives a fixed quarterly management fee, equal to a percentage of the total Fund size during the investment period, reduced to a percentage of capital invested (capital invested into companies minus repayments to the Fund) after the investment period.

- For the first four years of the Fund, the Fund Manager is eligible for a performance bonus tied to cash flow to the fund, amount invested and four development impact indicators: (a) annual revenue growth of portfolio companies; (b) wages; (c) taxes paid; and (d) payments to suppliers. The structure and calculation worksheet for the bonus are included in the GRDF Fund Management Agreement, and the specific targets and weighting of the indicators are set at the beginning of each year by the GRDF Board of Directors.

Other GRDF expenses

The GRDF fund documents specify a maximum budget amount for its ongoing expenses (cost of audits, legal due diligence, Board compensation and travel expenses, etc.). The Budget is managed by the Fund Manager, approved by the GRDF Board of Directors, with oversight by MCG and MCC.

Investment strategy

Statement of fund purpose

"To expand and diversify the SME sector in Georgia, principally in areas beyond Tbilisi by investing in and providing business assistance to SMEs that are managed by entrepreneurs resident in Georgia and that: (a) further the development of the local economy and contribute to the reduction of poverty in Georgia; and (b) have the opportunity to grow and expand on a sustained and profitable basis and serve as models for other entrepreneurial activities by Georgian SMEs."

Objectives:

Primary objective: "Maximize development impact, while achieving a reasonable and positive financial return from investments in SMEs in agribusiness, tourism and other sectors, primarily outside of Tbilisi."

Secondary objectives:

- Promote sustainable business activities that encourage the flow of additional private capital into investees and by providing an investment example for others to invest in Georgian SMEs.
- Demonstrate successful mechanisms for deploying technical assistance funds under the Technical Assistance Facility to complement investment.
- Develop Georgian management capacity and business support for the Investees and training for their local employees.

Investment criteria

Under the Fund's *Investment Policy Guidelines*, investments must meet the following criteria:

Portfolio allocation based on invested capital:

- Maximum 33 percent equity investments
- Minimum 80 percent regional businesses
- Minimum 33 percent agribusinesses
- Minimum 50 percent agribusiness or tourism businesses
- Maximum 15 percent start-up businesses.

Investee characteristics prior to investment:

- employment of 250 people or less – no exceptions;
- revenues of USD 5 million or less – no exceptions;
- Georgian presence – unless otherwise approved by the Board;
- no conversions/warrants – unless there is Board justification/scrutiny;

- minimum 15 percent average annual growth projected for five years for the four development indicators (revenues, wages, taxes, payments to suppliers) – unless there is a Board waiver;

Characteristics of investments:
- Investment must represent over 25 percent of the company's capitalization – unless various governance and exit rights are present;
- Initial investment must be USD 2 million or less – unless approved by the Board.

Certain businesses are excluded under the investment policy guidelines for public policy or ethical reasons, including production or sale of armaments, tobacco and hard alcohol-related products, activities related to gambling and those that pose harm to the environment. The Fund will also not engage in speculative investments such as real estate, commodities or forward contracts, and will not engage in hostile take-over bids. An overview of the GRDF investment process is shown in Figure 9.

Investment instruments

Under the GRDF investment policy, a minimum of 66 percent of investment capital must be debt, and a maximum of 33 percent may be equity. As of 30 September 2009, 91 percent of invested capital is debt and 9 percent is equity.

For individual investees, the Fund's investment typically consists of a large debt investment with a small accompanying equity investment, described in the industry as "debt with an equity kicker". In some cases, the debt investments themselves consist of a fixed interest rate and a revenue royalty, whereby the latter also serves as a "kicker". While the fixed rate for such a structure is typically lower than bank rates in Georgia, the combined projected rate of return for the fixed portion and the revenue royalty is higher than bank rates to reflect the risk associated with such a structure. (In this way, the Fund participates in higher risk and thus also participates in higher returns.) In some cases, a fully fixed rate is used with no royalty, either because of the existence of the equity kicker, or in select cases where a fully fixed structure was negotiated.

The term of the debt investments ranges from four to seven years and often includes a grace period on principal, and sometimes on interest as well. Equity investments typically have an expected term of the same duration, whereby the fund aims to exit its equity investment through a sale-back to the local partner (accordingly, in most cases, pre-agreed buy-back terms are included in the investment agreement) or sale to a third party strategic or financial investor. While exits via initial public offerings (IPOs) – sale on a public stock market are common in the industry for larger investments in larger markets, this is not anticipated in Georgia given the small scope of the Georgian stock market and the size of the companies themselves.

The growth capital risk sharing investments that GRDF provides, together with post-investment business support through the investment partnership allow Georgian agribusinesses and other Georgian companies to make long-term investments in their business. This is particularly important for the agricultural sector, since investees are able to pursue opportunities that not only generate profits, but also address supply chain gaps or other

weaknesses in the agricultural sector and generate impacts for stakeholders such as suppliers, customers and employees.

Current status overview

See Table 4 for the overall status of the GRDF as of 30 September 2009. Data on specific investment structures are not provided due to confidentiality.

Table 4. Overview of current investments – the Georgia Regional Development Fund portfolio

Company	Sector	Business	Location	Stage
DOKI	Retail and wholesale trade	Construction materials retailer	Tbilisi	Existing
Bazi	Agribusiness	Food processing (canning/jarring apple and tomato concentrate	Regional	Existing
Rcheuli	Tourism	Locally owned hotel chain	Regional	Existing
Piunik	Agribusiness	Integrated poultry business	Regional	Existing
Tetnuldi	Tourism	Mountain hotel	Regional	Start-Up
Ecopex	Agribusiness	Hazelnut processing/export	Regional	Existing
Prime Concrete	Construction products	Concrete production	Regional	Existing
Madai	Agribusiness	Fishing and processing of fish	Regional	Existing
Dogan	Agribusiness	Animal feed/pet food producer	Regional	Existing
Delta	Technology	Technology/internet cable construction	Regional	Existing
Total amount invested (disbursed) (USD)				20 630 000
Average investment amount per company (USD)				2 063 000
Largest investment (USD)				3 000 000
Smallest investment (USD)				700 000

Positioning with and within the value chains

GRDF investments serve as good examples of working in, or filling a gap in, a value chain. The small and growing SMEs provide a necessary service or product to the larger Georgian agribusiness value chain that adds value to the sector as a whole, which is reflected in the following examples:

- Ecopex buys hazelnuts from independent local farms, promoting the success and expansion of the local suppliers, and connecting these suppliers with foreign markets.

- Piunik shifted its operations away from imports and exports and towards local production, which stimulates opportunities in the local Georgian economy through employment and supplier growth.

- Dogan provides customers with more affordable, quality animal feed as an alternative to imported animal feed, and sources a significant amount of its inputs from within Georgia.

Technical assistance and support

GRDF has a companion USD 2 million Technical Assistance Facility provided by MCG to support disbursed and prospective portfolio companies. The Fund Manager (SEAF) proposes the use of technical assistance funds for specific companies, and the Board approves the disbursal. Although the facility is grant-financed, a cost share agreement is generally required from the portfolio company.

In addition to the Technical Assistance Facility, GRDF is exploring the possibility of working with another donor programme focusing on Western Georgia as well as the potential synergy with a small grants programme targeted to farmers, some of whom are suppliers to GRDF projects.

The role of the Government and development agencies

Investment incentives

There are no direct incentives from the Georgian Government made into either the GRDF or its investees, but the Compact with the Government of Georgia is funding an array of infrastructure – key roads for agribusiness transport, tourism, and water and energy projects – that will benefit the Fund's investees over the longer term.

Strengths, weaknesses and risks, and comparison with other models

Strengths

Priorities have been clearly laid out in the SME arena, where there is often a lack of clarity about the importance of development impact with respect to financial return. GRDF boasts:

- a clear mandate for the Fund Manager and Board to seek to maximize developmental impact while achieving a reasonable financial return;
- a clear focus on target sectors of agribusiness and tourism, as well as a rural focus; and
- a clear focus on SMEs and on smaller investment sizes (up to USD 3 million).

Weaknesses and risks

- The Fund is possibly too proscriptive in terms of investment structuring parameters and eligibility standards of companies.
- Target sectors are financially risky, particularly when combined with a rural focus, but if successfully structured, they have potential for significant development impact.

Comparison with other models

The partial equity, majority debt fund model has merit if the constraints are not so severe as to make adjustment to market conditions difficult. Having a required target sector focus increases risk, but if the investments are successful, the developmental impact is greater. The concept of an annual bonus to incentivize achievement of near-term targets based on fund objectives has been very effective.

Outlook

In the context of political and financial turmoil in Georgia, the Fund has been very successful in deploying capital, with USD 21.63 million disbursed to companies (ten

companies) within 2.75 years. The set of companies represents a broad, appropriate range of sectors in line with targets, exceeding the target for rural investments (as opposed to businesses operating in Tbilisi) as well as for both the tourism and agribusiness sectors. Georgia's unique political and financial difficulties experienced in 2009 are placing a strain on some of the portfolio companies' performance. However, assuming no other major shocks or negative political or economic events, the long-term performance of the portfolio can be expected to be positive, based on the underlying business structures and opportunities of each company.

IV. Performance and results

Financial analysis and impact

During its short history, GRDF has invested USD 20.63 million into Georgian businesses (as of 30 September 2009). Cash inflow from investees as of 30 June has been USD 947 561. However, as laid out in the Fund Operating Agreement and Fund Management Agreement, GRDF has a dual objective of achieving financial returns and development impacts in Georgia. Using business principles, the Fund aims to maximize reflows from investees to the Fund, which will then be used to establish a trust in Georgia dedicated to humanitarian/development aid. As such, while most investment funds aim to maximize the Fund IRR (i.e. which measures the time-value of money performance), GRDF aims to maximize its "money multiple" (ultimate dollar amount returned to the Fund from investments).

To achieve its goals, the Fund Manager, with oversight from the Board of Directors, applies comprehensive due diligence and investment monitoring as would any private sector fund, with the understanding that the financial success of the investees is fundamental to long-term, sustained development impact. The financial incentives and development return incentives in place for the Fund Manager help to ensure a focus on and achievement of the Fund goals.

Benefits and impact of the investment fund

As mentioned above, GRDF aims to maximize development impact while achieving a reasonable and positive financial return. As sustained profitability and growth of the companies in the portfolio is fundamental to development impact, the Fund Manager and the Board of Director put great emphasis on financial performance.

In addition, the Fund includes a performance incentive for the Fund Manager, whereby the annual bonus for the Fund Manager is in part tied to the performance of four indicators of development impact for each company. The four indicators are: (a) annual growth in company revenues; (b) the company wage bill; (c) taxes paid; and (d) payments to local (Georgian) suppliers. Targets are set annually and the bonus is paid out annually. The Fund Manager makes five-year growth projections at the time of investment, as shown below, along with actual performance for 2008 (growth from 2007 to 2008). The impact results of the investment are shown on Table 5.

Table 5. Projected growth rates for development indicators – the Georgia Regional Development Fund portfolio

Development indicator	Projected average annual growth rates for the first five years of investment (%)*	Actual annual growth rate for 2008 (%)*
Revenues	30	41
Wage bill	24	51
Taxes	34	-3
Local purchases	50	79

*For each indicator (revenues, wages bill, taxes paid, and payments to local suppliers), SEAF has made projections of dollar values for the first five years after investment; the figures in the table represent the average annual growth rate (simple average) projected for each indicator for the five years for all ten companies in the portfolio. Actual data is the average for 2008 (growth from 2007 to 2008) for three companies only; companies in which GRDF invested in December 2008 or later are excluded.

Table 6. Impact of investment on workforce and suppliers

Company	Baseline investment date	No. of employees		No. of suppliers	
		Baseline	June 2009	Baseline	June 2009
Doki	August 2007	112	105	28	42
Bazi	August 2008	0	71	0	14
Rcheuli	November 2008	45	48	39	41
Ecopex	December 2008	5	37	3	7
Tetnuldi	December 2008	13	40	19	37
Prime Concrete	December 2008	0	4	0	8
Madai	December 2008	47	60	6	25
Total		222	365	95	174
Percentage growth (%)			64		83

Note: Data are available only for seven of ten companies invested in.

As can be seen from Table 6, most of GRDF investments were made recently. There has already been demonstrated growth in the number of employees and suppliers, but SEAF expects much more significant growth over the lifespan of the investments.

Highlights of the GRDF development impact beyond quantitative indicators

GRDF investees are mostly based in the regions outside of the capital city and serve as key drivers of development in their local communities as well as the businesses. The growth capital risk sharing investments that GRDF provides allow Georgian agribusinesses and other Georgian companies to make long-term investments in their business. This is particularly important for the agricultural sector because investees are able to pursue opportunities that not only generate profits, but also address supply chain gaps or other weaknesses in the agricultural sector and generate impacts for stakeholders such as suppliers, customers and employees. Also, the post-investment business support that the Fund Manager SEAF provides – directly by being an investment partner, and indirectly through support from the complementary Technical Assistance Grant facility – has a meaningful development impact. In particular, given the complex issues involved with the development of the agricultural sector in Georgia and the technical aspects of agribusiness, this business support is valuable in enhancing the probability for investment success.

As of 30 September 2009, GRDF has invested USD 20.63 million into ten Georgian businesses, six of which are agribusinesses. SEAF, the Fund Manager, believes each of the GRDF investments represents meaningful opportunities for company growth, investment success and larger positive impacts on the Georgian economy. GRDF's agribusiness investments are helping companies to acquire equipment and technology to improve quality and competitiveness, overcome market barriers, seize new opportunities and access foreign markets. The following highlights the development impacts for each company in the GRDF portfolio.

DOKI

- Business: construction materials retailer.
- Expected development impacts: provision of a better priced and more diversified range of products and generation of new employment opportunities and more competitive salaries.
- SEAF/GRDF value added: facilitated and supported acquisition and implementation of a system for more effectively managing financial and operational information across stores, warehouse, and headquarters. It has also helped to bring in more qualified financial and marketing managers.

Bazi

- Business: food processing.
- Expected development impacts: increased job creation and demand for local farm produce, export promotion, import substitution and impact on quality of food products available in Georgia.
- SEAF/GRDF value added: facilitated access to equipment and technology for expansion as well as access to foreign markets.

Rcheuli

- Business: local hotel chain with regional locations.
- Expected development impacts: Improvement to Georgia's tourism sector, job creation and job skills development as well as a demonstration effect for rural hotel development.
- SEAF/GRDF value added: development of hotels in key tourism and business areas outside of the capital, where the presence of hotels of reasonable or international standards is lacking. In addition, SEAF helped improve hotel design and hotel management.

Piunik

- Business: integrated poultry business
- Expected development impacts: supply of hatching eggs, day-old chicks and animal feed to small and medium-sized farmers and poultry businesses in Georgia.
- SEAF/GRDF value added: insufficient data available because investment has been made for less than one year.

Tetnuldi

- Business: hotel
- Expected development impacts: serving as a "first mover" in the Svaneti Region to provide more attractive hotel accommodations and enhanced winter and summer activities, and thus create more jobs, skills development and indirect income generation.

- SEAF/GRDF value added: assistance provided to the company during the construction and design to better tailor interior design to foreign tourists and to incorporate attractive value-added tour services. SEAF supported and encouraged marketing outreach through website enhancement and the services of a marketing consultant.

Ecopex
- Business: hazelnut processing/ exporter.
- Expected development impacts: linking of local nut growers with export markets and rejuvenation of employment, mostly women, in the stagnant business.
- SEAF/GRDF value added: SEAF facilitated the company's introduction to a consultant to help with land selection and production quality enhancement.

Prime Concrete
- Business: concrete production.
- Expected development impacts: provision of a larger and more consistent supply of quality concrete for construction/development projects as well as improved environmental practices and employment.
- SEAF/GRDF value added: insufficient data available because investment has been made for less than one year.

Madai
- Business: fishing business.
- Expected development impacts: generation of new fishing jobs and skills for Georgians with revitalization of the fish industry in Georgia by acquiring modern fishing and transportation vessels and modernizing the fish processing plant.
- SEAF/GRDF value added: SEAF provided Madai with support in ship selection and its due diligence.

Dogan
- Business: animal feed/pet food processor.
- Expected development impacts: increased and higher quality inputs from local suppliers, thus serving as motivation to improve quality and capacity. Customers throughout Georgia (mainly small farms), as well as Armenia and Azerbaijan will have access to animal feed that is reliable and of high quality and less expensive than the imported feed used currently.
- SEAF/GRDF value added: SEAF helped Dogan build the company's network through the SEAF international network and reach potential customers through other agri-business development programmes with which SEAF cooperates.

Delta
- Business: technology/Internet cable construction.
- Expected development impacts: better access to quality Internet provided to end-user retail customers of the companies that buy portions of the Georgian Optical Network Project (GONET) from Delta Comm. The GONET Internet network project aims to build a fibre optic network infrastructure with the largest coverage and reserve system in Georgia in order to provide high-speed, quality and affordable Internet to all regions in the country and high-speed and secure local exchange of information.

- SEAF/GRDF value added: insufficient data available because investment has been made for less than one year.

Specific problems faced and how they were addressed

The lessons learned from SEAF, as described earlier, are applied in GRDF. However, dealing with specific problems and challenges, which are encountered with any investment, provides useful learning for any investor.

Lack of working capital

- *Problem*: Smaller companies, particularly those operating in the agribusiness sector, face greater difficulties obtaining bank credit than other companies. This is partly because agriculture is not seen as a priority sector by banks in Georgia, and because such companies typically lack working capital in Tbilisi, the capital. Working capital is particularly important for agribusinesses, given the seasonality of most agribusinesses and the need to buy inputs in advance (often a result of small suppliers' lack of access to capital).
- *Solution*: Providing working capital forms part or all of GRDF investments into agribusiness - companies and is a crucial ingredient for the success.

Insufficient supply from small primary producers

- *Problem*: Primary producers of raw materials are mainly small farmers in Georgia and lack the technology, capacity and financing (banks do not consider primary producers as priority clients) to produce the quantities and quality required for competitive processing businesses.
- *Solutions*:
  - Providing an agribusiness consultant to work with the portfolio companies to develop better relationships and contracts with farmers, including providing farmers with fertilizers and other agricultural inputs needed to produce with sufficient quantities and qualities.
  - Helping several companies improve their marketing to increase sales.
  - Working to bring its investees together, such as facilitating Madai (fishing company) to provide increased and better quality fish oil to the animal feed producer Dogan, and facilitating Dogan to provide pre-starter poultry feed to Piunik (an integrated poultry farm).

External economic shocks

- *Problem*: Due to the loss of sales and supply inputs as a result of the war of August 2009, with depreciation of the Georgian currency straining imported input costs while sales were focused domestically, and with less capital available from local banks for working capital, one of the companies in the portfolio faced cash flow problems.
- *Solution*: Recognizing the fundamental long-term viability of the company, the GRDF provided a follow-on working capital loan so that the company can maximize performance for the upcoming season.

Challenges accessing foreign markets

- *Problem*: Foreign buyers, such as those in Western Europe, typically have high quality standards and require large supplies, as well as a track record of performance/deliveries.

Significant investment is required to have the capacity to supply such qualities and quantities, and it is risky to invest in such capacity without a guarantee of future customers.
- *Solution*: The type of financing that the Fund provides is "risk capital", whereby the Fund shares in the risk, and therefore the profits, of the company. This is typically done by providing interest with slightly lower fixed interest rates in exchange for a revenue royalty, or by providing equity. Once invested, SEAF also provides hands-on business support to help the company to acquire technology and expertise, and assist with networking to access new markets.

Financial constraints of farmer customers
- *Problem*: The small-scale farmer customers who buy day-old chicks and animal feed from two of the Fund's companies, an integrated poultry farm and an animal feed producer, have limited purchasing power due to their lack of access to bank financing and overall financial limitations.
- *Solution*: SEAF management is helping the two companies to further develop their financial strength so that they can sell products on a more extended consignment basis (i.e. allowing farmers to defer payments).

Financial management
- *Problem*: Most small- and medium-sized enterprises (SMEs) in Georgia, but particularly agribusinesses, lack strong financial management and accounting. This is partly as a result of weak financial accounting systems of the companies. Not only is this a risk for outside investors and lenders, but it also prevents the company from being able to properly analyse the business.
- *Solution*: Utilizing the GRDF Technical Assistance Grant Facility, SEAF has brought in a highly qualified financial manager to work with all of the companies in the GRDF portfolio to improve their financial management, starting with improving charts of accounts and accounting procedures, developing financial report templates, and making recommendations for financial management changes.

Recommendations for replication

Clarity of investment goals and guidelines
The case study shows that GRDF has clear goals and parameters for investment targets of the fund. This is considered an important foundation for any such fund.

Appointment of qualified fund manager
The Fund Manager, SEAF, had relevant experience prior to managing the GRDF in: managing emerging market SME private equity funds; investing in agribusiness; combining financial and development goals; and financial and development impact reporting. This experience is also considered an important contributor to the success of the fund thus far.

Investment structure guidelines
A minimum of 66 percent of the GRDF's investments must be debt (as opposed to equity), a rule set out in the Fund Management Agreement. It is recommended that such an allocation be left to the discretion of the Fund Board of Directors or Fund Manager, given that financial markets and the needs of SMEs can change relatively quickly. In the case of Georgia, a need for debt

structures was identified prior to establishment of the Fund. By the time the Fund was launched, debt availability from banks was at its peak, suggesting that provision of equity may have fulfilled a gap in the market. Soon after, the August 2008 war and the global financial crisis changed the market again, whereby the availability of debt was drastically limited. In place of a strict guideline in the Fund Management Agreement, a general statement on the type of financing to be provided (e.g. risk capital, mezzanine structures, etc.) would be more effective.

Bonus incentive

The bonus incentive for fund manager tied to investor goals (in this case, a combination of financial and development impact) has been effective. However, SEAF recommends a simpler bonus calculation structure. Overall, the idea of an annual bonus based on non-financial impact is appealing and provides strong incentives to the local team to seek out the types of investments that are consistent with the investors' goals.

GRDF profile summary

Name of investment fund	Georgia Regional Development Fund
Name of fund management group/company	SEAF Management LLC
Key investor	Millennium Challenge Georgia Fund (Georgian Government agency sponsored by the United States Government Millennium Challenge Corporation)
Fund start-up date	December 2006
Investment period	December 2006 – October 2011
Exit date	April 2016
Region or countries	Republic of Georgia (80 percent of investments must be outside the capital of Tbilisi)
Country of incorporation/ legal structure	United States of America (State of Delaware-registered LLC)
Fund mission	To expand and diversify the SME sector in Georgia, principally in areas beyond Tbilisi.
Primary goals	To maximize development impact, while achieving a reasonable and positive financial return from investments in SMEs in agribusiness, tourism and other sectors, primarily outside of Tbilisi.
Secondary goals	To promote the flow of private capital, demonstrate successful mechanisms for deployment of technical assistance, and improve management capacity and business skills.

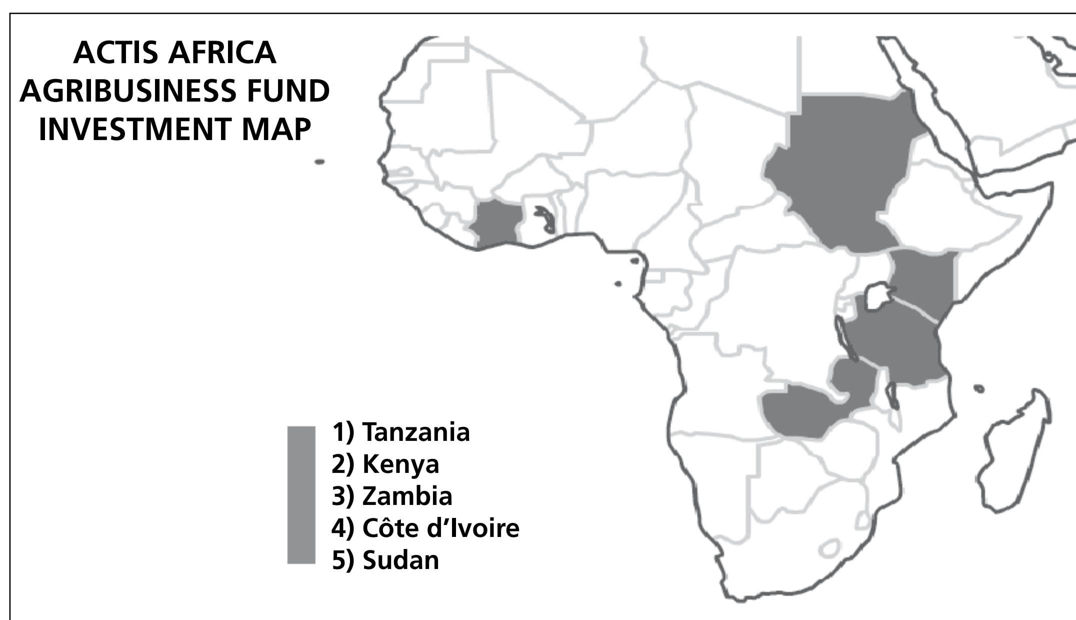
Investment strategy	Provision of "mezzanine-like" financing to facilitate long-term growth/expansion of early stage, small- and medium-sized enterprises (SMEs).
Strategic indicators	(a) Money multiple (fund performance is measured by this rather than IRR); (b) cash flow to the fund; (c) amount invested; and (d) growth in portfolio company revenues, wage bill, taxes paid and payments to suppliers.
Target sectors	Open to all sectors, but emphasis on agribusiness and tourism. Minimum requirement of 50 percent of invested capital in agribusiness and tourism; minimum requirement of 33 percent of invested capital in agribusiness.
Percent/sector	Current allocation: 44 percent agribusiness, 16 percent tourism, 40 percent other (retail, manufacturing, IT/telecom).
Fund size	USD 30 million in committed capital; USD 20.63 million invested into portfolio companies as of 30 September 2009.
Fund structure	Limited liability company, single investor: Millennium Challenge Georgia Fund (MCG).
Investment instruments	Minimum requirement of 66 percent of investment capital must be debt, and maximum, 33 percent equity. To date, 91 percent is debt, whereas 9 percent is equity, whereby debt investments typically consist of participatory debt earning a fixed interest rate and a revenue royalty.
Board profile	MCG as the investor has established a paid, independent Board of Directors (to remove government influence on investment) consisting of five individuals with experience in private equity, banking, and business. The Board includes a mix of Georgian and non-Georgian nationals, some with experience living/working in Georgia.
Return on investment projections	Targeted IRR: 17 percent debt, 25 percent equity.
Return on investment to date	Not applicable. Still in the investment period.

Key results	USD 20.63 million invested (almost 70 percent of fund capital) in ten companies to date. USD 947 561 million in cash flow to the fund (30 June 2009). Expected average annual growth rates for the first five years of investment for existing ten companies: Revenues: 30% Wage bill: 24% Taxes: 34% Payments to suppliers: 50%

References and websites

SEAF 2004 and 2007. *Development impact reports*:
www.seaf.com/impact
www.seaf.com
www.seaf.ge
www.mcg.ge
www.mcc.ge

Annex 3.
Case Study –
Actis Africa Agribusiness Fund



I. Market environment and general framework

Agriculture is the backbone of most economies in sub-Saharan Africa (SSA). This is mainly illustrated by the share of the sector in their GDP. For at least 29 countries in SSA, the share of agriculture relative to gross domestic product (GDP) exceeds 20 percent, and for countries such as Central African Republic, Ethiopia, Liberia and Sierra Leone, agriculture accounts for more than 50 percent of total output. Nearly 80 percent of the population in SSA lives in rural areas and 70 percent of this rural population are dependent on food production through farming or livestock keeping for their livelihood. Moreover, agro-processing accounts for the bulk of the manufacturing sector. However, agriculture and agro-processing (agribusiness) in SSA remains underdeveloped.

One of the most serious barriers to sustainable agribusiness development in SSA is lack of investment capital in growing businesses. Commercial investors often shy away from the sector, since it is often seen as very risky and less profitable. Yet, long-term economic growth and poverty alleviation in these countries hinges on agribusiness development. Indeed, agricultural development is regarded as a vital tool for achieving the Millennium Development Goal No. 1, which calls for a 50 percent reduction in the share of people suffering from extreme poverty and hunger by 2015 (World Bank, 2007: xii). Agricultural investment can also be seen as an investment in peace building.

II. Overview and background on the investment fund

Providing financial support to growing businesses in the agribusiness value chain and forestry is the focus of the Actis Africa Agribusiness Fund (AAAF). It is a USD 92.7 million fund managed by Actis LLP, a specialist private equity investor in emerging markets. The Fund differs from most other agribusiness investment funds because it is managed from within Africa (Nairobi office) rather than from Europe or the United States.

AAAF was launched in April 2006 with a portfolio of six companies operating in East, Southern and West Africa in the tea, sugar, forestry, arable farming and rubber industries. The Fund had a further USD 75 million for investment either through the expansion of its existing portfolio or in new agribusiness companies with high growth potential. It is managed by investments professionals based in Actis's offices in Nairobi, Kenya (from where it is managed) and London, UK, with support from Actis's office network in Johannesburg, South Africa, and Lagos, Nigeria. On a high-level, long-term basis, agribusiness is seen as an important component of the economies in SSA and one where availability of land with good soils and water should give rise to significant growth and value creation, with all the developmental benefits that will bring.

AAAF uses conventional private equity investment practices (buying discipline, backing good management, active shareholder participation in decision making, focus on clear strategy and implementation tactics) in the agribusiness space. AAAF predates most agribusiness funds that have recently sprung up to take advantage of the food crisis. Actis was foresighted to identify agribusiness as an expanding and priority sector in SSA. This is also in line with one of the goals of the Fund's investor to be innovative and a pioneer in their work.

Investor and investment group

Actis was created in 2004 following a restructuring of CDC Group plc (previously the Commonwealth Development Corporation).[34] AAAF's sole investor is Group plc, which is a United Kingdom Government Fund of Funds. The CDC invests in private equity funds focused on the emerging economies in Africa, Asia and Latin America, with a particular focus on those investing in low-income countries in SSA and South Asia. It is wholly owned by the Government's Department of International Development (DFID). In mid-2009, 56 percent of its total portfolio was towards Africa compared to 39 percent for Asia, while the agribusiness sector accounted for 5 percent of its total portfolio. CDC has at least 50 fund managers. The Fund Manager, Actis, has a geographical focus on Africa and South Asia. It has more than 25 funds under its management.

Actis is committed to promoting the sustainable growth of the private sector in the emerging markets. Its aim is to ensure that the capital raised and managed makes a lasting, tangible and positive difference in the countries in which it operates.[35] The Actis-managed AAAF has scope to invest across the entire agribusiness value chain from input supply, through

34 CDC is a United Kingdom Government-owned fund of funds and has been investing in emerging markets for nearly 60 years.

35 Extract from the Actis website: www.act.is.

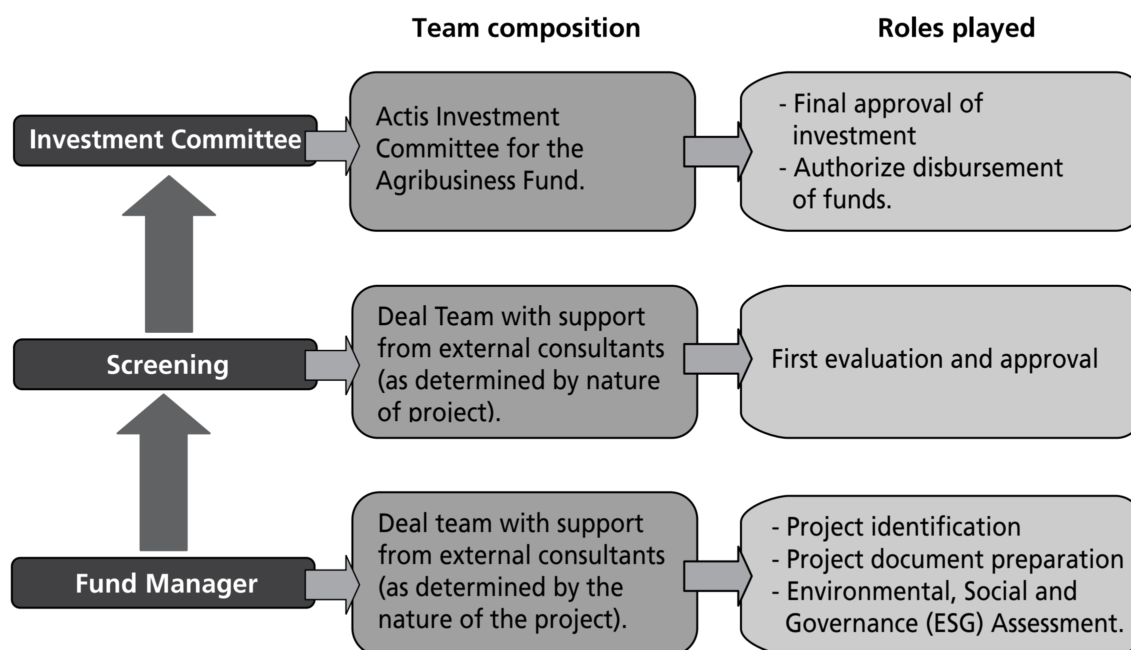
production, processing and distribution, to marketing. The focus of the fund is on expansion capital, change of control and buy-and-build transactions. Deal values are between USD 5 million and USD 15 million.

When Actis launched AAAF in 2006 by Actis, the investment group consisted of six team members; this was reduced as the fund matured and by 2009 the team was reduced to two.

Investment decision making and monitoring

The decision-making process is a three-step process that ensures that proper due diligence is exercised before approving a project for funding. The initial project documents are prepared by a deal team from the Fund, and after careful analysis, are considered by a screening group of Fund and Investment Committee Members. Following further due diligence, analysis and negotiation, the deal is then taken through a full Investment Committee process with a minimum of two stages before final decision. Actis demands rigorous analysis of environmental, social and governance (ESG) issues in all its business activities and investments, and during the investment, continuously monitors adherence to these issues. In turn, CDC monitors how Actis works with investee companies to ensure responsible business practices.

Figure 15. Overview of investment decision making in the Actis Africa Agribusiness Fund



Source: Authors' compilation.

Management group and track record

The Actis Management Team has many years of experience of investing in Africa and in the agribusiness sector, which facilitates its operations and the interest by investees.

III. Description of operations

The primary objective of AAAF is to deliver a top-quartile financial return for the sector. To this end, the Management Team is able to draw on its over 30 years of experience in investing in SSA, as well as experience from elsewhere within the Actis organization, and the team's knowledge of agribusiness operations and markets, from both investor and management perspectives.

Another success factor of the AAAF is that it is sector- and region-specific. As noted above, the Actis Agribusiness Team has deep industry insight and provides the knowledge required to identify and find hidden value in investment opportunities. When combined with its understanding of the local market, the team can tailor their agribusiness-specific advice to local conditions. Furthermore, although the Fund Manager, Actis, has 11 offices globally, it operates as a single firm, sharing staff and experiences, and leveraging knowledge across the whole organization. Actis believes that its "One Firm Approach" is critical to their track record of deal successes.

A number of factors that work together for the functionality of AAAF overlaid on the team's investment and management experience ensure responsible investment and sustainable private sector development, Actis demands rigorous analysis of ESG issues in all its business activities and investments. The ESG analyses are guided by Actis' Environmental, Social and Governance (ESG) Code, which covers issues of environment, social issues, health safety, business integrity, governance, and climate change. The Code is supported by detailed guidelines, which define principles, policies and management systems with respect to ESG issues, and an exclusion list.[36] According to the principles, AAAF can only invest in businesses:

- comply with all applicable laws;
- minimize adverse impacts and enhance positive effects on the environment, workers and all stakeholders;
- commit to continuous improvements with respect to management of the environment, social matters and governance;
- work over time to apply relevant international best practice standards with appropriate targets and timetables for achieving them; and
- promote international best practices in corporate governance.

Regarding exclusions and with relevance to the agribusiness sector, no investments can be made in businesses that produce or trade products deemed illegal under applicable local/national laws or regulations, or banned by global conventions and agreements, such as hazardous chemicals, pesticides and wastes, ozone-depleting substances, and endangered or protected wildlife and wildlife products. Moreover, AAAF money cannot be engaged in

36 For the Actis ESG code, refer to http://www.act.is/custom/actis-web/res/editor/Misc/Actis_ESG_Code_English.pdf.

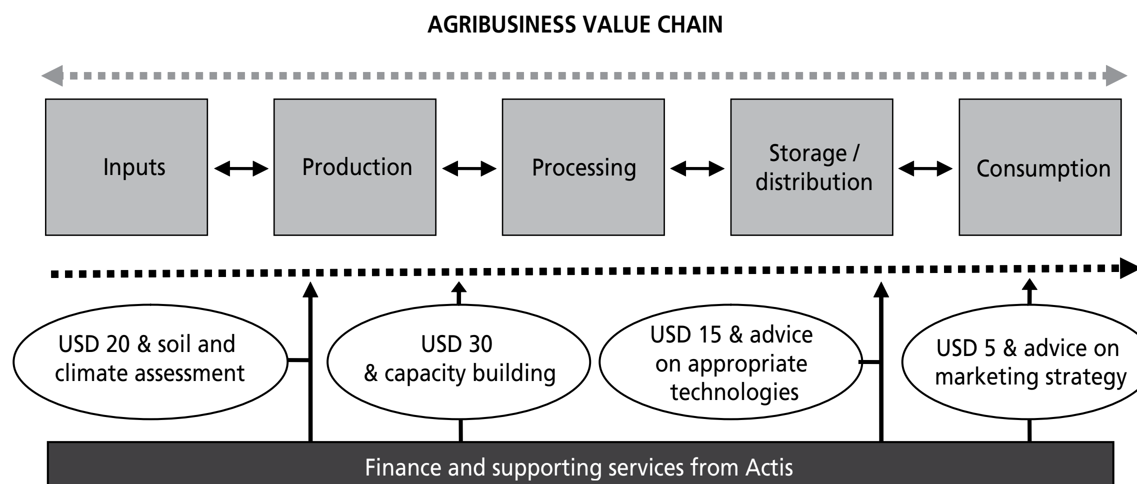
producing tobacco or tobacco-related products. These business principles and the list of exclusions are outlined below.

By reason of its being an investment fund with CDC as an investor, AAAF also complies with CDC's Investment Code, which is compatible with the 2006 International Finance Corporation Policy and Performance Standards on Social and Environmental Sustainability.[37] Moreover, CDC has prepared a Tool Kit, which is a practical guide for fund managers to assist them in the implementation of the Investment Code.[38]

How businesses register interest and the selection criteria

AAAF sources deals through its extensive contact network and through financial and investment intermediaries that know and understand AAAF's interests. The Fund invests in growing companies, both start-ups and those with a proven track record. Investment criteria are primarily financial in order to ensure adequate return for the risks involved and the drivers that generate that return – good production conditions (soils and climate), market growth, proven management, appropriate technology, and opportunities for value addition.

Figure 16. Indicative diagram of financial flows and support services of the Actis Africa Agribusiness Fund



Source: Authors' compilation.

AAAF has positioned itself mainly in the centre of the value chain, with only one small tea investment involved in consumer marketing within the United Republic of Tanzania. Each investment within AAAF operates independently with its own specialized management team. At the project development stage, the management team assists in a number of activities depending on where along the value chain the proposed investment is being undertaken.

37 See www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards.

38 The Tool Kit was developed together with Forum for the Future.

Activities include: project feasibility studies following the ESG code, negotiating input supply agreements and arranging additional funding from third parties.

Technical assistance and support

Fund management provides guidance on strategic, corporate development, governance, and financial matters through Board participation and close management contact. The Fund also provides contacts and advice on governmental, technical and marketing matters.

SWOT analysis of the Fund and comparison with other funds

Strengths

- Sector focus but diversified enterprises: AAAF responds to investment needs of the countries in which they operate. Agriculture development is a priority area for countries in SSA, as outlined in the Comprehensive Africa Agriculture Development Programme (CAADP) of the New Partnership for Africa's Development (NEPAD).
- Considerable experience of African environment and agribusiness sector by Fund Management: CDC has been involved in projects such as Tanwat for more than 60 years and Actis being a spin-off of CDC has this experience as well. Additionally, the management team has a great deal of experience in the agribusiness sector, both through AAAF projects and previous experiences.

Weaknesses

- Wide geography: The countries in SSA are heterogeneous in a number of aspects such as soils, climate and business environment, thus a great deal of country specific knowledge is required before investments are undertaken. AAAF's eight projects are spread across five countries covering East, Southern and West Africa.

Opportunities

- Higher food prices since 2008 and growth in the agricultural sector offer opportunities for higher returns on agribusiness investments,

Risks/threats

Risk is an important aspect of the agribusiness sector. The uncertainties of weather, yields, prices, government policies, global markets, and other factors can have a significant impact on the profitability of agribusiness activities, hence return on investments. By focusing on the agribusiness sector, AAAF projects are exposed to some of the common agricultural risks including production and market risk, as detailed in Chapter 3.2. For example, AAAF dealt with production risk and market risk issues earlier in the life of the Mpongwe project in Zambia.

Role of the government and development agencies

Governments in some countries have provided investment incentives such as tax cuts, land, co-investment, and infrastructural development. In some instances, they are standard incentive packages and have played a fundamental role to achieving required investment return. For example, the Zambian Government played a critical role in the development of Mpongwe through allocation of land on a 99-year lease for a nominal rental and of free water rights as well

as free connection to national electricity grid. It has also liberalized its economy over time by abolition of price controls. The Government of the United Republic of Tanzania, for example, has also embarked on reforms that support agricultural development. The Fund has also worked with development finance institutions (DFIs) to raise third party capital in some investments.

IV. Performance and results

The key value of AAAF is improved competitiveness and economic growth in the sectors in which it invests. Another important impact of the Fund is the promotion of highest standards in health and safety, environmental, social and climate change areas, in addition to sound corporate governance and transparent accounting practices in the countries in which they operate. To date, AAAF has invested in eight projects. Each project has had its specific impacts at the company and the community level.

Summaries of these investments and their impacts are noted below.

A. Tatepa

- **Tatepa's year 2000 market** capitalization of USD 3.3 million had grown to USD 5.8 million by 2006.
- It has 55 percent share of the Tanzanian tea market.
- It provides employment to 17 000 people (including outgrowers).
- CDC involvement with Tatepa from its inception has had a significant development impact on the company, particularly on the working conditions of its staff at the Kibena and Wakulima estates.
- It provided assistance to Tatepa become the first private company to list on the Dar Es Salaam Stock Exchange gave it access to shareholder expansion capital and helped increase wholesale tea prices.
- Obtaining Fair Trade status benefited local communities by providing some degree of economic stability in a volatile commodities market.
- The Fair Trade premium of USD 0.45 for every kilogram of Teadirect tea sold has gone towards the Teadirect Premium Fund, which has helped finance local projects, such as new schools, text books, and health centres.
- Tatepa runs an extensive HIV/AIDS education and training programme throughout local communities.

B. Tanwat

- CDC was involved in Tanwat from the 1950s.
- Tanwat become a major centre of economic activity in the Southern Highlands of the United Republic of Tanzania, providing the focus for the development of other local businesses.
- AAAF consolidated previous work and was involved in developing an added-value sawmill facility.
- Tanwat developed various businesses that were then sold on, for example, Tanseed and the Kibena tea estate noted under Tatepa. Tanwat was instrumental in developing the social, HIV/Aids and Fairtrade policies subsequently managed by Tatepa.
- AAAF sold Tanwat in 2006.

C. Kilombero Valley Teak Co. Ltd. (KVTC)

- Kilombero Valley Teak Co. Ltd. (KVTC) is a greenfield plantation investment in the remote Kilombero Valley of the United Republic of Tanzania. It was set up in 1992 to develop a high quality commercial teak plantation in the southern region of the country to be maintained and harvested on a sustainable basis.
- KVTC holds approximately 28 000 ha in the Kilombero Valley under a 99-year lease and has developed around 7 800 ha of teak plantation.
- It is currently commissioning a sawmill and wood processing facility, which will export products to the Far East, Europe and North America.
- It has brought considerable economic development to its region primarily through work opportunities (at certain times of the year, employment is provided to 600–800 people directly and indirectly through contractors), through assistance for the development of private- or community-owned teak plantations in the region, through tax and duty payments to the Government of the United Republic of Tanzania and through contributions to a social fund, which has been established to contribute to the local communities.
- AAAF has a controlling interest in KVTC.

D. Mpongwe

- The development at Mpongwe was the largest arable farm in Zambia. The leasehold comprised 57 000 ha of land in northern Zambia, of which 15 000 ha was farmed. It produced about 100 000 tonnes per annum of wheat, soya, maize on approximately 8 000 ha of dryland and 5 000 ha of irrigated land. Mpongwe produced around 50 percent of the Zambian crop of wheat, as well as coffee, and retained a herd of cattle.
- It contributed substantially to the farming skills base in northern Zambia and to the Zambian Exchequer.
- It was not environmentally controversial because the Miombo woodland that was cleared was not considered of high ecological value and is widespread in Zambia.
- AAAF had a controlling interest in Mpongwe, and in 2006/07, it sold the business in two parts to new investors who have continued to develop its operations.

E. Nanga

- Nanga is a farm in Zambia with approximately 2 000 ha of sugarcane, supported by cattle ranching.
- It was significantly expanded during AAAF ownership and contributes strongly to the Zambian economy through sales of its cane to Zambia Sugar Co.
- AAAF sold Nanga to a Zambian-listed company (Zambeef) in 2008.

F. Grain Bulk Handlers Limited

- AAAF took a minority equity stake in Grain Bulk Handlers Limited (GBHL) in 2007.
- GBHL is a bulk grain-handling terminal at Mombasa Port in Kenya; it is the only such facility in east Africa.
- It commenced operations in 2000 and is the most efficient bulk grain handling facility in Africa.
- It is capable of a daily discharge rate from bulk grain vessels of over 10 000 tonnes per day and is currently expanding its silo storage capacity to over 150 000 tonnes. As such, it is an important resource for the food supply of East Africa.

G. Equatoria Teak Company (ETC)

- The Fund has a controlling interest in Equatoria Teak Company (ETC) with both institutional and local minorities.
- ETC holds plantations in the State of Western Equatoria, with a gross area of over 18 000 ha and approximately 1 600 ha of plantation. The teak is mature and ready for harvest.
- The teak resource is of high quality (with a proportion suitable for marine decking) and ETC established a sawmill facility, which was commissioned in 2009.
- ETC is in process of obtaining Forestry Stewardship Council (FSC) Certification.
- ETC is the first employer of any scale in Western Equatoria, where there has been almost no formal employment opportunities for decades.

H. Cavally

- Cavally is a rubber plantation and factory in a remote part of western Cote d'Ivoire.
- AAAF expanded the plantation to approximately 4 000 ha and built a modern rubber processing plant to produce crumb rubber for export mainly to Europe.
- There is production of more than 12 000 tonnes per annum.
- It is the only significant employer in its immediate region. It has made a significant contribution to Cote d'Ivoire through its export earnings and payment of taxes and duties.
- It continued operations throughout the unrest and civil war periods in Cote d'Ivoire and thereby made a strong contribution to social and political stability in an unstable part of the country adjacent to Liberia.
- AAAF sold the business to an established plantation operator so that its development could be continued under new ownership.

Lessons learned

Simple but fundamental lessons can be drawn from AAAF's experience with its eight funded projects as well as broadly from the experience of the Fund Manager:

- Having the correct mix of skills for the specific project conditions (right management) is important for the success of a project.

- An ideal local partner must add value to the project and its goals be aligned with investors' objectives.

- Due diligence needs to be exercised in the assessment of soils, climate, operating conditions and markets. In the case of primary production, agronomic fundamentals entail good quality soils, relatively reliable climate and substantial irrigation potential. It is also critical to have some links with research institutions in countries or regions in which an investment takes place.

- Operational structure – The outgrower model is attractive for its ability to provide feedstock for processing facilities.

- Deal structure – Exit can be difficult; therefore, the return to investors should preferably include financial yield (dividends or interest) in addition to value growth at exit.

- Market – Ideally, it is best to start with a solid marketing strategy that considers local and regional markets, as well as export markets. The assessment of accessibly of these markets is also critical; there are significant differences between land-locked countries and countries with a coast.

- Technology/certification – It is wise to choose a commodity where there has been a successful track record for the prevailing growing climate and where appropriate certification for location, conditions, and target market is possible.

- The business environment is a critical factor for sustainable businesses. In general, an investment fund is better-off focusing on countries with market and "business-friendly" policies so as not to be delayed by unnecessary bureaucracy.

- Agribusiness investments in most cases involve acquiring large pieces of land, which tends to make them controversial. The investors therefore need to be sensitive to social and cultural issues related to land. For instance, in the case of Mpongwe, there was a clear, undisputed land title, based on a 99-year lease from the Government of Zambia.

- It is noteworthy that even the best of ventures can fail due to inherent risk in the agricultural sector. As such, there is need to mitigate risk through geographical/country spread and mix of activities in different parts of the value chain.

- Like many business encounters, Actis has faced a variety of problems, but regular and open communication with officials and communities are seen to be key in resolving issues and misunderstandings.

Possibility for replication and conclusions

The AAAF model is primarily one of private equity investment in the agribusiness space; accordingly, the model is flexible, with individual investments managed separately and with their own resources suited to local conditions. It is a flexible model, drawing in specialist skills as required, and could be replicated in other countries.

V. Overview of current investment portfolio of the Actis Africa Agribusiness Fund

Table 7. Current status overview of projects funded by Actis Africa Agribusiness Fund 31

Company	Country of operation	Agribusiness sector	Investment status	Investment type	Date of original investment	Exit date	Exit method	Company website
Kilombero Valley Teak Co. Ltd. (KVTC)	United Republic of Tanzania	Teak plantation (forestry)	Current portfolio	Growth capital	1992			www.kvtc-tz.com
Grain Bulk Handlers	Kenya	Grain handling and storage (Agribusiness infrastructure)	Current portfolio	Growth capital	2007			www.grainbulk.com
Tanzania Tea Packers Ltd. ("Tatepa")	United Republic of Tanzania	Tea production and processing	Current portfolio	Growth capital	1995			
Mpongwe Development Company Ltd.	Zambia	Arable farming	Exited	Growth capital		2006-7	Trade sale	
Nanga Farms Limited	Zambia	Sugarcane production	Exited	Growth capital		2008	Sold to Zambeef	
Compagnie Heviecole de Cavally SA	Cote d'Ivoire	Rubber plantation and production	Exited	Growth capital		2007	Trade sale	
Tanganyika Wattle Company	United Republic of Tanzania	Timber plantation, wattle, sawnwood, power	Exited	Growth capital		2006	Trade sale	
Equatoria Teak Company Limited	Sudan	Teak plantation (forestry)	Current portfolio	Start up	2006			www.equatoriateak.com

VI. The Actis exclusion list

CDC/ Actis's capital will not be invested in the following businesses or activities:

- Production of or trade in any product or activity deemed illegal under applicable local or national laws or regularities, or banned by global conventions and agreements, such as certain:
  - hazardous chemicals, pesticides and wastes;[39]
  - ozone-depleting substances;[40] and
  - endangered or protected wildlife or wildlife products;[41]
- production of or trade in arms, i.e. weapons, munitions or nuclear products, primarily designed or primarily designated for military purposes; or
- production of, use of, or trade in unbonded asbestos fibres.[42]

CDC/ Actis's capital will not be invested in businesses for which the following activities or products are, or are intended to be a significant source of revenue:

- gambling
- pornography; or
- tobacco and tobacco-related products.[43]

Actis Africa Agribusiness Fund profile summary

Name of investment fund	Actis Africa Agribusiness Fund
Name of family of funds	Actis Funds
Name of fund management group/company	Actis LLP
Investor	CDC Group plc
Region or countries	sub-Saharan Africa (SSA)
Country of incorporation	United Kingdom

39 This includes: (a) those specified in the 2004 Stockholm Convention on Persistent Organic Pollutants (POPs), www.pops.int; (b) the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, www.pic.int; and (c) the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, see www.basel.int; as may be amended from time to time.

40 As covered in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer, see www.ozone.unep.org, as may be amended from time to time.

41 As covered in the 1975 Convention on International Trade in Endangered Species or Wild Flora and Fauna (CITES), see www.cites.org, as may be amended from time to time.

42 This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20 percent.

43 Except in the case of tobacco production, with an appropriate timeframe for phase-out of the investment, http://www.cdcgroup.com/uploads/cdcinvestmentcode.pdf

Fund mission	To invest in equity and quasi-equity in the agribusiness and forestry sectors of SSA.
Primary goals	To achieve top quartile return to investors for the agribusiness sector
Investment strategy	To back management teams with proven expertise and capability in building world-class businesses.
Target sectors	The entire agribusiness value chain and forestry.
Percent/sector	No specific sector allocation, but proportional limits on individual sector and country allocations.
Fund structure	Private equity investor
Investment instruments	Equity
Deal/transaction size	USD 5 million – USD 15 million
Board profile	Fund team with a combination of considerable experience of business and investment in Africa, deal- structuring skills, agribusiness management and financial and analytical skills.
Start-up date	January 2006
Exit date/plan	Ten-year fund from 1 January 2006.
Fund size – start-up	USD 92.7 million.
Return on investment projections	Target IRR – top quartile for sector.
Key results to date	The Fund is fully invested and has weaned off half of its projects.

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Website

www.act.is

Annex 4.
Case Study –
Agribusiness Partners International Fund

I. MARKET ENVIRONMENT AND GENERAL FRAMEWORK

Though only 10 percent of the land of the former Soviet Union is arable, the Russian Federation has traditionally been among the world's leading cereal producers together with Ukraine. With the collapse of the former Soviet Union, the state planning model for agriculture, which was based on large state farms (*sovkhoz*) and collective farms (*kolkhoz*), broke down. Combined with major land reforms, the agricultural sector was privatized and new farm structures evolved, including also medium-sized commercial farms next to family farms. Particularly in the Russian Federation and Ukraine, however, large private companies were also allowed to lease or buy shares in previous state farms, which resulted in larger, highly mechanized commercial farms. In particular, the creation of such medium and large private farms allowed for improved management and, hence, facilitated new investments and increased profitability, also providing investment opportunities for foreign investors given the huge market potential for crops, not only for the domestic markets, but also for food exports.

In addition to investments into commercially run farms, the food processing industry offers interesting investment opportunities for foreign capital. In the Russian Federation alone, around 8 000–10 000 food processing plants represent an attractive investment target next to the 6 000 large, profitable commercially run farms that produce around 80 percent of the total agricultural output of the country.

II. Overview and background on the investment fund

Based on the investment opportunities perceived in the region after the collapse of the former Soviet Union, Agribusiness Partners International Fund (APIF), a private equity fund with a capital base of USD 100 million, was set up by the investment management company Burlington Capital Group.[44]

Based on the company's previous experience in the target region, which dates back to setting up various agribusiness-related projects in the former Soviet Union in previous decades, the idea developed to make use of investment opportunities that opened up during the 1990s.

Legal set-up

The Fund was set up as a limited partnership.

Organization and structure

The Fund was managed by Agribusiness Management Company, LLC, which is headquartered in the United States and opened a local representative office in the Russian Federation.

The Fund was closed-end and backed by access to credit and a guarantee from the Overseas Private Investment Corporation (OPIC), an agency of the United States Government.

Investors – individuals and institutions involved

Investors comprised private institutional and individual investors. The first closing of the Fund was held in 1995, with a second and final closing following in 1997.

Management group and track record

The General Partner of APIF is the Burlington Capital Group LLC, formerly America First Companies. The investment group was founded in 1984 as a financial service firm that manages private and public investment funds. The company focuses on real estate development and management as well as money management and investments in agribusinesses in emerging markets. The Group has different subsidiaries, including some non-profit entities serving communities in the United States. As reported by the company, it has been a General Partner for 17 public limited partnerships and four private partnerships, managed a total volume of about USD 4 billion and served more than 100 000 investors.

According to the available information, the management team has ample experience in managing agribusiness private equity investments in the former Soviet Union and some experience with Government food aid programmes.

44 This case study in based on information obtained from the Internet.

Investment strategy

Mission and investment objectives

APIF was set up to invest in developing food and agribusiness companies in the countries of the former Soviet Union. The Fund thereby aimed at addressing the capital needs of the agribusiness and food sector in these countries and aimed to increase the quality and quantity of consumer products.

Investments were expected to produce high investment returns to investors while being time- secure, as the principal was guaranteed by the Overseas Private Investment Corporation (OPIC). Moreover, investments aimed at increasing productivity through new equipment and technology, also intending to support the compliance with higher environmental standards.

Investee group

The Fund invested in agribusiness and food processing companies in the countries of the former Soviet Union. Investments included typical agribusinesses such as poultry as well as businesses such as glass container manufacturing and packaging production, which were related to agribusiness but reflected a broader approach. The Fund invested in seven companies in the target region.

Investment instruments

The Fund pursued private equity investments with holding majority stakes in these companies. According to the available information, exits were pursued through sales to strategic investors, management buy-outs and possibly Initial Public Offers (IPOs) on the Russian or international stock markets.

Current status overview

The Fund was fully invested in seven agribusiness/food processing companies in the Russian Federation, Kazakhstan, Georgia, Moldova and Ukraine. The invested capital was fully returned to investors.

Examples of investments

Chicken Kingdom. The Fund made its first investment in a broiler production company based on perceived shortcomings in poultry production, which strongly declined after the breakdown of the former Soviet Union. The investment contributed to an upgrading of the processing company and expansion of operations. While the company was first managed by foreign experts, the company eventually became a 100 percent Russian-managed company. In 2007, the company – with revenues of USD 150 million and 3 000 staff – was sold to a larger Russian poultry company. The initial capital invested by the Fund amounted to USD 22.5 million, which resulted in a total return of USD 130 million to the Fund.

Acodec Cheese. The Fund invested in a Russian start-up company engaged in the production of cheeses, which was later on sold at a loss in 2006 because the company faced problems in the supply of inputs.

III. Description of operations

AOIF is a USD 100 million private equity investment fund, which was set up in 1995 by a financial service firm. Once the Fund was established, the Management Company established a representative office in Moscow, Russian Federation, to ensure local presence in the target region.

Role of the government and development agencies

The Fund received credit support and a guarantee from OPIC, an agency of the United States Government that supports the United States private sector to invest in emerging markets to foster private sector development in these emerging market countries. OPIC supports several investment funds for this purpose.

Seventy-five percent of the Fund's capital base was protected by OPIC. This structure aimed to ensure that the return to investors would be at least equal to their total investment capital, preventing them from losses in case the Fund performed poorly or in case of failure in the economic transformation in the target countries.

Positioning with and within the value chains

The Fund invested in large agribusinesses and food processing companies in the target region. In addition, capital was provided to other businesses such a glass container producer and a company engaged in the packaging and labelling industry. According to the available information, some of the companies developed to become some of the market leaders in the respective country.

Strengths, weaknesses and risks

Strengths

- It is expected that the guarantee provided by the United States agency allowed the Fund Manager to attract investors since the guarantee ensured a return of at least the invested capital.
- Foreign Direct Investment (FDI) via a private equity fund might contribute to private sector development, including know-how and technology transfer and job creation in transition economies. However, the developmental impact of such investments requires a more careful analysis.

Weaknesses

- This particular example of a private equity fund is not fully transparent, in particular with regard to the investor structure and performance.
- Some of the investee companies were later sold to large international food corporations. The question therefore should be addressed in more detail as to what extent such investments – clearly bearing financial returns to private equity funds and international corporations – also benefit the respective developing or transition economy in a sustainable manner.

Risks

- The success of investments in such an environment strongly depends on the political environment, e.g. on the privatization policy. Investments in countries that transform from planned to market economies offer vast opportunities, but at the same time pose high risk on investors, given the uncertainties in the political environment.

IV. PERFORMANCE AND RESULTS

Financial analysis

The Fund refinanced its OPIC debt in June 2004 and returned more than 100 percent of the original capital investment to the OPIC-insured investors, which comprised 75 percent of the initial capital base. According to the available information, the gross internal rate of return (IRR) on the unprotected equity was 37 percent.

Benefits and impact of the investment fund

Based on the information available, the Fund intended to sustain employment opportunities and foster job creation by investing in formerly state-owned companies to facilitate their growth and development. At the same time, it aimed to increase the productivity of the investee companies through know-how and technology transfer, and investments in new equipment and to promote the introduction and adherence to improved environmental standards.

Lessons learned

The Fund has made use of the window of opportunity provided by the collapse of the former Soviet Union and its transformation into a market economy. It can be assumed that investment funds backed by guarantees of a governmental agency such as OPIC helps to attract certain types of investors, for which investment endeavours would otherwise have been too risky. Investment funds such as APIF clearly focus on realizing high financial returns to investors and not on achieving development impact. However, the possible impact of private equity funds on job creation as well as technology and know-how transfer in developing and transition economies should be further studied.

Possibility for replication and issues for wider consideration

APIF shows some of the general features that are instrumental in making successful agribusiness investments on commercial terms: (i) the involvement of an experienced investment management company with an ample track record in the former Soviet Union and private equity instruments in agriculture; (ii) early bird market entry whenever there are still ample good investment opportunities, (iii) OPIC backing, which particularly protected United States investors; (iv) purchase of majority stakes in the investee companies to exercise strong control over the companies.

APIF clearly follows the classic model of a traditional private equity investment strategy that aims at maximizing profitability. Following such a traditional approach, the art of the fund manager is to select investees who have the potential to become “stars” and that can level out investments in companies that turn out to be “lemons”. Given the extremely limited number of investments, it is even more important to ensure that some of the “star investees” are outperforming and develop into industry leaders, which apparently has been the case.

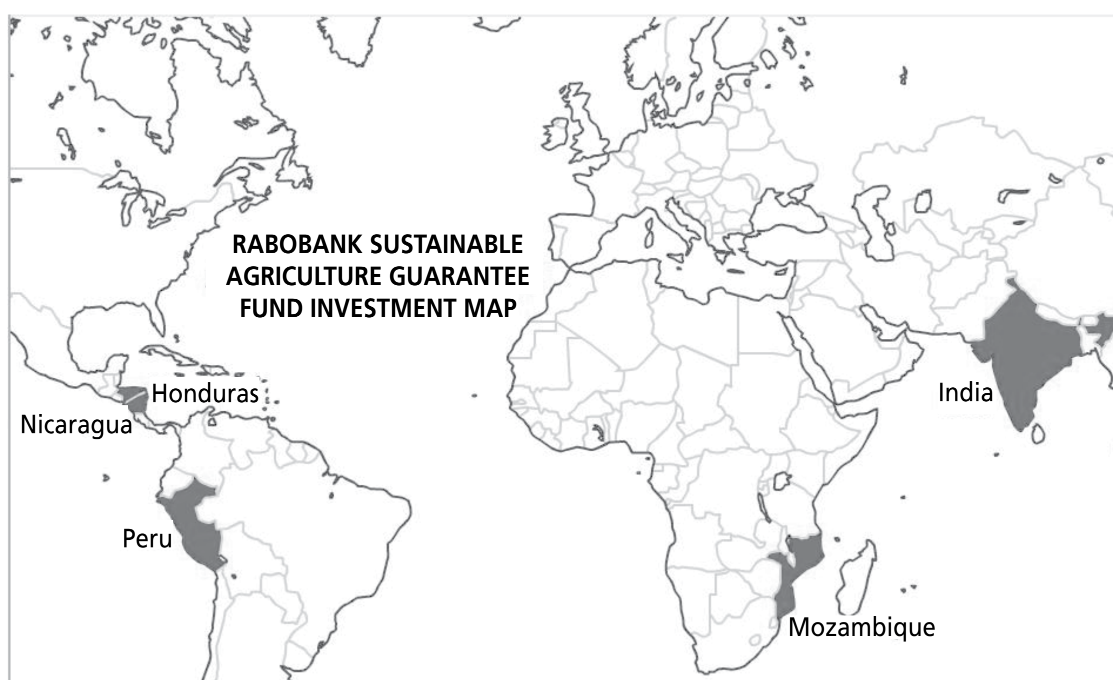
Agribusiness Partners - International L.P. Fund - profile summary

Name of investment fund	Agribusiness Partners International L.P.
Name of fund management group/company	Burlington Capital Group/ Agribusiness Management Company, LLC
Start-up date	1995
Exit date	2005
Region or countries	Russian Federation and the Newly Independent States (NIS) (including Kazakhstan, Georgia, Moldova and Ukraine)
Legal structure	Limited partnership
Main objective	The Fund was set up to invest in developing food and agribusiness companies in the former Soviet Union.
Investment strategy	Achieve high investment returns to investors. Provide secure investments: the principal is guaranteed by a United States Government agency. Provide much-needed capital to the agribusiness/food sector of the former Soviet Union economy. Contribute to the increase of the quality and quantity of consumer products.
Target sectors	Agribusiness and food processing companies
Fund size	USD 100 million
Fund structure	Private
Investment instruments	Private equity
Return on investment	The gross IRR on unprotected equity was 37 percent.
Key results	The Fund aims to: support the development of local and regional economies by fostering employment opportunities; and contribute to the increases in productivity with new equipment and technology, while also fostering the adherence to higher environmental standards.

Websites

www.burlingtoncg.com/api.shtml
www.amc-api.com/about.shtml

Annex 5. Case Study – Sustainable Agriculture Guarantee Fund



I. Market environment and general framework

In developing countries, access to finance is crucial for small- and medium-sized enterprises (SMEs) and cooperatives engaged in the agricultural sector to ensure sustainable agricultural production and enable them to trade commodities on international markets on commercial and sustainable terms. SMEs and cooperatives linked to export markets therefore need to overcome time lags in their financial flows, since usually, the suppliers (i.e. small producers) of the agricultural input need to be paid once the input is received, and the off-takers abroad only pay once the final goods are obtained. To bridge these financing needs, access to short-term pre-export financing is required.

SMEs and agricultural cooperatives in developing countries however often do not have access to local financial intermediaries, since agriculture is often perceived as a sector associated with inherently higher risks than others. In addition, such SMEs and cooperatives often lack fixed assets that they could provide as collateral or their assets are already pledged as collateral for other long-term commitments. Often, local banks focus on providing financing to large agro-processors and rarely lend to cooperatives or SMEs that export and buy from small-scale farmers. Therefore, in order to foster sustainable economic development at this level, access to local financial intermediaries for these actors needs to be strengthened which can be fostered by use of guarantee funds.

II. Overview and background on the investment fund

Based on the results of the World Summit on Sustainable Development in 2002, the Directorate General for International Cooperation of the Netherlands (DGIS) set out plans to enhance the role of the private sector in fostering sustainable development in developing countries. The goal has been to establish partnerships with the private sector to foster sustainable development and poverty reduction.

The Sustainable Agriculture Guarantee Fund (SAGF) was set up in early 2008 by Rabobank International. The Fund was set up to receive a grant contribution since the Dutch Ministry inviting submittals for proposals for public-private partnership (PPP) initiatives. The initiative also reflects the corporate social responsibility (CSR) of Rabobank Group.

SAGF was initiated and is supported by:

- **Rabobank International.** Rabobank International is part of Rabobank Group, which operates on the basis of cooperative principles and is considered the largest all-finance bank in the Netherlands, with a strong international focus on the food and agricultural sector.

- **Rabobank Foundation.** The Foundation is part of the Rabobank Development Programme, the development arm of the Group that provides support in strengthening and building capacity for rural member-based organizations (cooperatives) that operate primarily in the field of savings, credit and micro-insurance. Rabobank Foundation provides or facilitates technical assistance to small producer organizations in the focus countries.

- **The Dutch Ministry for Development Cooperation.** The Ministry has contributed to SAGF through the provision of a grant.

- **Cordaid.** The institution is a Dutch development organization with more than 90 years of development experience operating with partners on a global scale in the areas of emergency relief, poverty reduction, social development and policy dialogue.

Legal set-up

The Fund has been set up as a guarantee and risk-sharing programme with a separate legal status, a foundation under Dutch law.

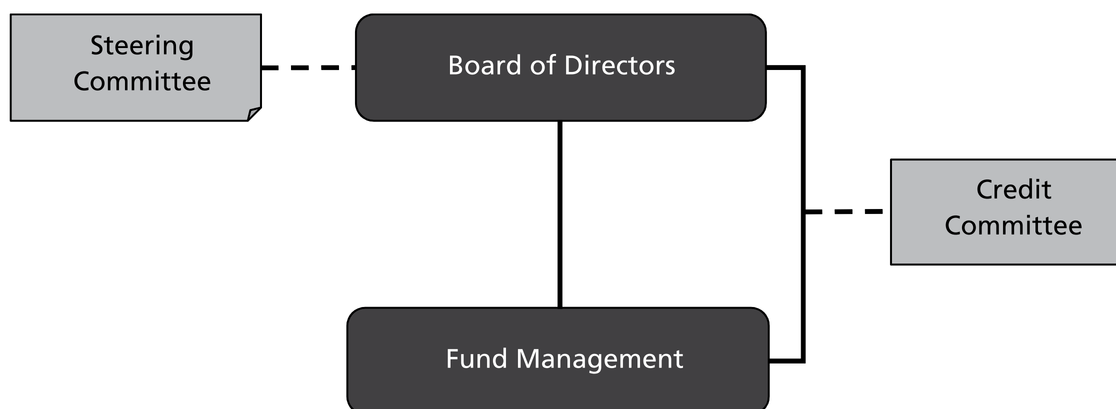
Organization and structure

The Board of Directors (BoD) overseeing SAGF is comprised of three members of the shareholders of the Fund (Rabobank International, Rabobank Foundation and Cordaid). The BoD is advised by the Steering Committee, which comprises representatives of DGIS. The Steering Committee provides strategic and operational guidelines to the BoD.

The Fund Manager is in charge of programme implementation and reporting to the BoD, and is the responsible project manager at Rabobank International. The Credit Committee

deciding on the individual deals is composed of three representatives of the Fund's shareholders, who are different from the BoD members. In addition, the Fund Manager draws on additional resources from Rabobank International for operations. Rabobank International does not charge a fund management fee either to the Fund or to the financial intermediary.

Figure 17. The management and governance structure of the Sustainable Agriculture Guarantee Fund



Source: Authors' compilation.

Investors – individuals and institutions involved

SAGF received a grant of EUR 1 million from DGIS. The remainder of the capital base is provided by the other three current shareholders of the Fund. The founding shareholders do not expect their investment to generate commercial returns, but rather, they aim at achieving a development impact by facilitating access of agricultural SMEs and cooperatives to local financial institutions. SAGF seeks to attract new commercial investors; however, this first requires the adoption of the newly envisaged guarantee mechanism (see section on "investment instruments").

Management group and track record

The Fund's operations are managed daily by professionals from Rabobank International, which draws on its world-wide network. Rabobank International also provides the required infrastructure for facilities such as issuing guarantees and payments/receivables, and renders the necessary legal and fiscal support.

Investment strategy

Mission and investment objectives

The **mission** of SAGF is to enhance the access of selected small- and medium-sized producers of sustainable agricultural products in developing countries to working capital credit (pre-export trade finance) on the basis of commercial and sustainable terms.

The **main objective** of SAGF is local financial sector deepening, which is defined as "increasing access to financial services for those who previously had restricted or no access". The aim is to provide, increase and improve access to formal finance on sustainable terms.

This is meant to lead to a change in the approach of local banks regarding rural and innovative lending to the SME sector. The Fund is thereby committed contributing to achieving sustainable changes in the approach of the local banks towards these clients.

Investee group

The Fund issues credit guarantees to financial intermediaries (banks and other financial institutions) in the focus countries that engage in financing agricultural cooperatives and SMEs. The Fund is interested in establishing long-term partnerships with the respective financial institutions. Ideally, the Fund focuses on two to three partner banks in each partner country.

SAGF has defined different criteria, which should be fulfilled by the partner countries, the financial intermediaries considered for cooperation, and the cooperatives and SMEs benefiting from those guarantees:

Financial intermediaries should:

- show interest and experience in agriculture;
- have a strategy to focus on new clients or intend to increase their portfolio in the agricultural sector;
- have a local presence in rural areas;
- be interested in a long-term partnership with SAGF;
- underwrite the Fund's objectives and social mission;
- be willing to take more risk each year on the same conditions; and
- conduct their own due diligence of the client.

Cooperatives and SMEs benefiting from these guarantees should:

- be structured, organized and/or function as a member-based and -oriented organization;
- produce for and export to international markets on a fair trade basis;
- have a proven track record in exporting (three years);
- maintain a long-standing relationship with international buyers;
- purchase raw materials from small producers on a fair trade basis at a fair price;
- be credit-worthy and have audited financial statements of the last three years;
- have the desire to receive long-term access to the formal financial sector.

Partner countries are selected on the following criteria:

- have a strong agricultural sector;
- have an active export trade flow (on a fair trade basis);
- trade commodities involving smallholders;
- have a strong legal structure for "cooperatives";
- project sufficient agricultural and agribusiness volume/pipeline for the Fund;
- have difficulty in accessing commercial financing for the agricultural sector.

Focus commodities include, but are not limited to, coffee, cacao, cotton, nuts/oil seeds, tea, fresh fruit and horticulture.

Examples of investments are shown below.

Agromantaro – Peru. In 2004, local farmers in the Mantaro valley, who, to date, had only grown typical crops, were approached by a local company to start growing artichokes, which

are processed and exported by the company. Artichokes, which are sold at a higher price than the traditional crops, are bought from producers, who cultivate on average 2 ha of land. The artichokes are purchased by General Mills, one of the leading global United States-based food corporations. The company currently reaches out to approximately 500 farmers, and impact is expected to increase given the growth perspective of the business. The cultivation of artichokes has contributed to income generation in the region and is expected to make rural-urban migration less attractive.

The Central Piurana de Cafetaleros (Cepicafe) – Peru. Cepicafe is a second-tier organization that consists of 71 smaller member organizations, which represent a total of 5 000 producers of coffee, cacao and sugarcane producers located in the mountain area and northeast of the country. Cepicafe provides different services to the members and purchases the agricultural produce at fair trade prices. Previously, the organization has received loans from 12 different (social) lenders from abroad. With the guarantee provided by SAGF, sustainable access to local financial institutions will be facilitated.

Investment instruments

SAGF issues credit guarantees to financial intermediaries, including banks and other financial institutions.

Based on the provided credit guarantee, the financial institution grants a credit line to the cooperative or SME at local commercial terms. The sales contract serves as collateral for the SME. The guarantees are short-term/revolving (based on the sales contract and usually with a maturity of nine months) and can be renewed on an annual basis.

These guarantees amount to a maximum of 80 percent of the principal. The minimum amount of the guarantee amounts to USD 500 000 and the indicative maximum to USD 1.5 million per transaction. Amounts above USD 1.5 million are subject to syndication. As a basic principle, all risks are shared and there is no subordination between the different guarantors and the local bank. This aims at increasing the commitment and the degree of diligence at the level of the local financial institution.

Current status overview

The Fund's current capital base is fully invested. SAGF has issued USD 5 million in guarantees and is operating in five countries (Peru, Nicaragua, Honduras, India and Mozambique), where it has established partnerships with seven banks. In Peru, for example, the Fund has partnered with three banks belonging to the largest five banks of the country.

Currently, the Fund Manager is in negotiations with the European Investment Bank (EIB) and the Netherlands Development Finance Company (FMO) for a possible investment in the Fund.

At the time of preparation of this study, the Fund has not experienced any losses or late repayments.

III. Description of operations

- SAGF issues (partial) credit guarantees as a risk-mitigating instrument for local financial intermediaries. To date, it has deposited 100 percent cash collateral with the local intermediary. In the future, it is foreseen that SAGF will be able to increase its impact by leveraging its funds. In this case, only 50 percent of the total contract value would have to be deposited locally. SAGF then issues credit guarantees (in the form of stand-by letters of credit, which conforms to business practices in the target country and is backed up by a memorandum of understanding) to financial intermediaries, including banks and other financial institutions.

- The respective financial institution offers commercial credit to farmer organizations for the production and export of agricultural produce on better terms than would be possible without the guarantee from SAGF. The respective client pays the Fund a guarantee fee (on average 2.5 percent per year, depending on the risk assessment) and the interest to the local financial institution, which totals 9–12 percent per year. The loan is disbursed in United States dollars.

- The credit guarantee will be phased out step-by-step during the following loan cycles. The partner financial institution is thereby expected to increase its share in the risk (phasing in). After a period of three to four years, the guarantee should be fully phased out, whereas the conditions for the buyer should not change. This period allows the client to build up a track record with the respective local bank. The bank is also able to acquaint itself with the processes and procedures concerning collateral and contract enforcement.

- The local bank must finance the clients on the basis of a sales contract, which is the collateral. This enables borrowers to use their fixed assets as security for their long-term financial needs. Without the guarantee agreement with SAGF, which only based on the sales contract, the SME or agricultural cooperative would have to over-collateralize its loan with personal guarantees and fixed asset pledges.

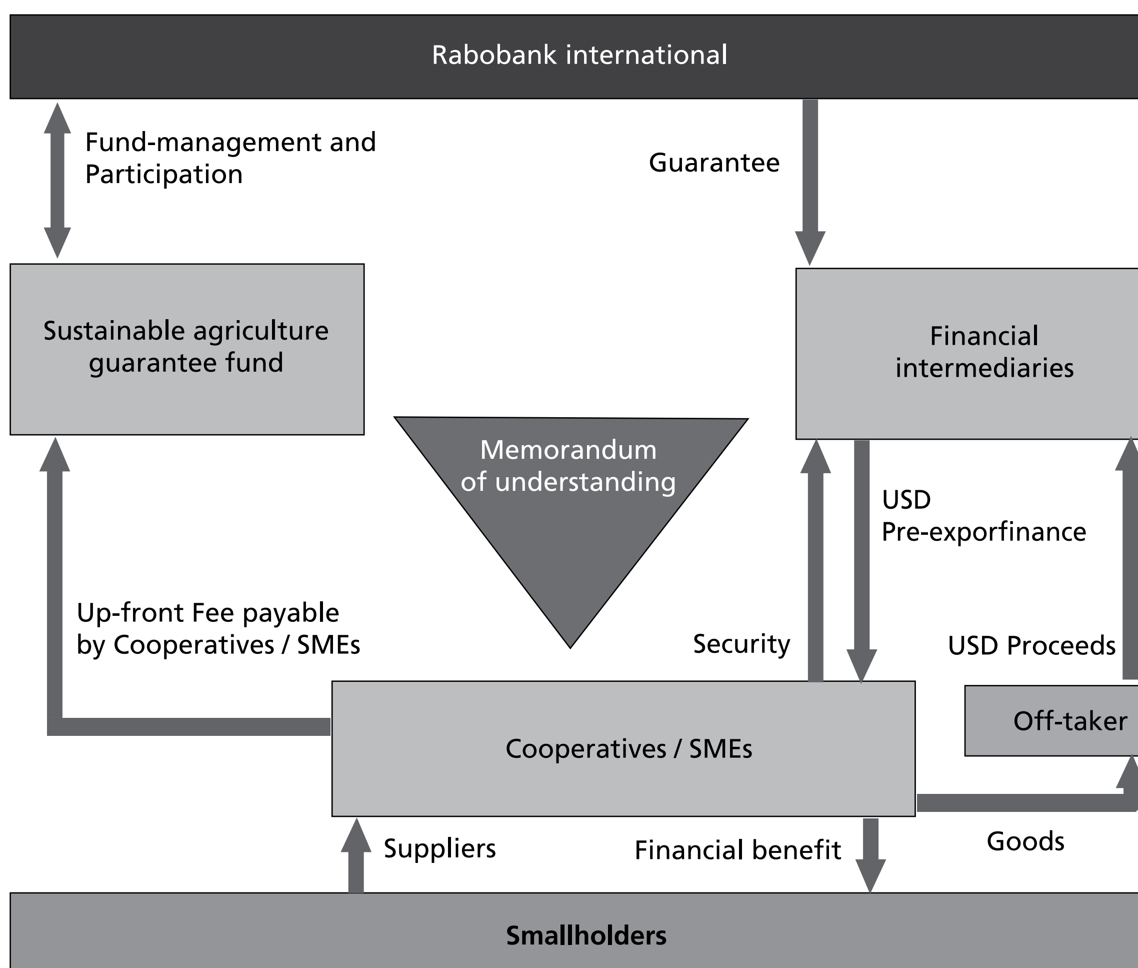
- Using the sales contract as collateral, the loan provides the financial institution as well as the Fund with a security since the buyers are well-esteemed international buyers from the Organisation of Economic Co-Operation and Development (OECD) countries that are not likely to default. Often the buyer is a client of the Rabobank network, which provides additional comfort to SAGF.

- Payments of the international buyers are transferred to an account opened by the local bank.

In case of default of the borrower, in most cases, the local bank would function as collection agent.

Figure 18 reflects the guarantee structure of SAGF.

Figure 18. The guarantee structure of the Sustainable Agriculture Guarantee Fund



Source: SAGF Brochure,
www.rabobank.com/content/images/G5334%20RI_MVO_fund-LR_tcm43-50951.pdf

The investment process

Rabobank International is involved in the **daily management of the Fund** and responsible for establishing the strategic partnerships with the Fund's target group (local banks). It is also involved in the identification and screening of the end-borrowers (SMEs and cooperatives). The management team also structures the transactions, provides legal assessment support, issues the guarantees and monitors the risks. Support is provided through the Bank's Legal Department for analysis of the banks as well as for links with local law firms in all partner countries.

Deal initiation. SAGF is either approached by a producers' organization or bank in the target country. The Fund Manager thereby also draws on contacts to banks and cooperatives already established by Rabobank International. In case of more specialized products (e.g. artichokes), SAGF is normally approached with requests by a local financial intermediary. Information on a possible export contract is required.

Due diligence. In principle, the due diligence is conducted jointly by the Fund and the local partner bank. In case contacts are already established with the local bank, information on the cooperative/SME is provided by the bank. In case contacts are to be established with a new bank, the Fund conducts a more detailed analysis of the bank as well as the respective cooperative/SME.

Credit analysis and credit decision. The local bank and the Fund carry out their credit analysis and separately come to a final conclusion.

Contracting. In case of agreement, the contract (the memorandum of understanding) is signed by all three parties. Upon the final agreement on the terms, a loan agreement is signed by the bank and the borrower. The SAGF then issues a stand-by letter of credit.

Monitoring. The performance of the borrower is monitored jointly by the local bank and the Fund.

Positioning with and within the value chains

SAGF targets the upper segment of cooperatives/SMEs, which are part of the agricultural value chain. These actors should already have a track record in exporting, but are still facing a lack of access to local financial intermediaries.

Technical assistance and support

The Fund is planning to provide technical assistance to its partner banks, to which end it is currently exploring opportunities of cooperation with Root Capital. It is envisioned to locate a technical assistance expert in the Latin America region for this purpose.

Role of the government and development agencies

The Fund draws on a grant contribution of EUR 1 million from the Dutch Government. In the target countries, no investment incentives are provided.

Strengths, weaknesses and risks, comparison with other models and outlook

Strengths

- The scheme aims at facilitating sustainable access to serve the financing needs of the final target group. It strengthens the linkages among the real economy (agriculture) and the local financial sector as well as those within the value chain, including those to the small producers and the export markets.

- The Fund allows local financial intermediaries to become familiar with international standard lending practices of pre-export financing. With its phasing in, phasing out approach, the Fund carefully introduces its approach to the institution and consequently transfers more ownership to the local counterpart.

- Access to finance is provided at market rates. The Fund seeks to not crowd-out capital that would be regularly provided by the local financial sector. By operating as a facilitator for access to local finance, market distortions that are possibly generated through subsidized funding or funding that is suddenly withdrawn is not expected.

Weaknesses

- A fund such as SAGF, based solely on generating income from issuing guarantees, is expected not to be attractive to private investors since returns to investors would be very low. The Fund structure therefore draws on grant contributions, Rabobank funding and potential contributions from development finance institutions (DFIs), which are willing to accept below-market returns.

- The operational set-up and approach of the Fund is cumbersome and relatively time-consuming since it not only requires cooperation with one investee (i.e. the bank), but also the involvement of two additional parties (the final beneficiary and the off-taker).

- Given the fact that the Fund has only been operational for one year, it is too early to draw conclusions as to whether the targeted impact can be achieved.

Risks

- Given the relatively small size of the partner institutions with respect to that of single guarantees issued, a default on a larger transaction may lead to difficulties.

- The division of some responsibilities as well as joint efforts, for example, with regard to the credit analysis and monitoring. might lead to increased credit risk since one of the parties might rely too heavily on the work undertaken by the other parties involved.

- Given that the fund manager is centrally managing SAGF, which is operating globally, there might be shortcomings regarding access to in-depth market knowledge.

Comparison with other models

While the study has identified other models that provide financing to agricultural cooperatives in developing countries, SAGF is the only model identified that is cooperating with financial intermediaries through a guarantee mechanism and that does not directly finance the final target group. In comparison with the other funds identified, the scheme serves a very specific need of agricultural cooperatives and SMEs, providing access to short-term pre-export financing.

Outlook

The Fund aims at reaching USD 30 million in credit guarantees by 2011. Although operating on a global scale, operations are expected to have the strongest focus on LAC, based on experience with regard to acceptance of legal documentation required by the Fund. In addition, expansion plans to sub-Saharan Africa (SSA) were adjusted downwards. The Fund aims at increasing outreach to additional partner countries and banks.

IV. Performance and results

The SAGF has not suffered from delayed payment or defaults. Given the return expectations of the shareholders, the currently low guarantee volume and the fact that, to date, only 100 percent cash collateral has been issued, the venture is financially unattractive for investors. The envisaged change to leverage guarantees will significantly improve the profitability of the Fund. Syndication may also provide an interesting source of income for the Fund, although its major

aim is structural impact on-site. Also, from the perspective of Rabobank, it is important to know that many of the buyers who are guaranteed are customers of the bank, which provides additional comfort to the bank.

Benefits and impact of the investment fund

The provision of partial credit guarantees by SAGF aims at facilitating the sustainable access of farmer organizations such as cooperatives and SMEs to the formal financial sector in the respective country and it requires a strong long-term commitment from the local financial institution. Based on the guarantee scheme, short-term, pre-export financing is provided at acceptable commercial rates and based on less restrictive conditions, e.g. collateral requirements. The guarantee mechanism can help the final borrower to develop a credit history and establish a partnership with a local bank. Moreover, local linkages are strengthened as cooperatives are targeted that purchase raw materials from small producers on a fair trade basis and access to export markets is supported, all of which support income growth and employment.. Moreover, it is envisaged to support the capacity development of local banks through the provision of technical assistance.

With the Fund only being operational for about one year at time of the Case Study, impact assessment tools have not yet been in place. Eventually, impact is planned to be assessed on three levels: (a) on the individual producer; (b) on the cooperatives/SMEs; and (c) on the local partner banks. On the level of the individual producer, impact on the direct beneficiaries (the producer) and indirect beneficiaries (the family members) will be measured. As of 2008, it was estimated that the Fund had reached approximately 27 000 direct and 135 000 indirect beneficiaries.

Lessons learned

From a developmental perspective, SAGF is an innovative model that aims at catalysing sustainable access to finance provided by local financial intermediaries with a clear objective to benefit the agricultural sector in developing countries. At the same time, the model is only interesting for investors that are not focused on generating financial returns. Inefficiencies regarding the fund operations, procedures and processes that might contribute to increased operational and credit risk are being perceived.

After being operational for one year, the following conclusions can be drawn, as indicated by the fund manager:

- The perception of local banks regarding the final target group seems to change. The aversion of local banks to new types of lending and in providing services to remote areas is perceived to be decreasing. The partner financial intermediaries of SAGF are also demonstrating willingness to adopt new skills to serve this target group, such as in risk analysis and monitoring.

- SAGF has stimulated the provision of new loans and has not replaced or crowded out funding from local sources.

Possibility for replication and issues for wider consideration

The Fund operates on a global scale and can expand operations to other target markets. It could be considered to develop similar guarantee facilities that enable access to local banks for other capital needs, such as long-term loans.

However, from the outset, the structure is not expected to generate any commercial returns. Therefore, it requires both a subsidized funding base and, in this particular case, indirect subsidies for the guarantee fund's operations by drawing on resources from Rabobank International without paying fees at a commercial level. The complex structure that combines the issuance of guarantees, legal support as well as operational support to run business at the global level largely benefits from drawing on the world-wide network of Rabobank.

Furthermore, the limited fund size together with the lack of leverage on the guarantee provided (only 100 percent cash collateral to back up the guarantee is accepted at present) make it even more difficult to offer the guarantee services as a sustainable service, calling for a larger fund size combined with a considerably larger leverage in order to operate in an economically viable manner.

The investment strategy and selection criteria for partners, including investees, are clearly spelled-out and comprehensive. Also, the guarantee scheme addresses a very particular and well-defined financing need as a result of the lack of funding during the pre-exporting period.

Sustainable Agriculture Guarantee Fund profile summary

Name of investment fund	Sustainable Agriculture Guarantee Fund (SAGF)
Name of fund management group/company	Rabobank International
Region or countries	Africa, Asia, Latin America
Country of incorporation	Netherlands
Fund mission	The Fund aims to enhance the access of selected small- and medium-sized producers of sustainable agricultural products in developing countries to working capital credit (pre-export trade finance) on commercial and sustainable terms.
Main objective	The core objective of SAGF is local financial sector deepening, which is defined as "increasing access to financial services for those who previously had restricted or no access".
Investment strategy	The Fund provides credit guarantees to financial intermediaries in the focus countries that commit themselves to pre-finance cooperatives and SMEs. The Fund is interested in establishing long-term partnerships with the respective financial institution.

Target sectors	Agricultural cooperatives and SMEs engaged in the production of coffee, cacao, cotton, nuts/seed oil, tea, fresh fruits and other agricultural products. Cooperatives should be organized as member-based organizations, produce for and export to international markets on a fair trade basis and purchase raw materials from small producers on a fair trade basis.
Fund structure	Private-public-partnership (PPP)
Investment instruments	Partial Credit Guarantees
Board profile	Comprised by shareholder representatives and Managing Board of Directors
Start-up date	2008
Current fund size	USD 5 million
Growth projections	USD 30 million by 2011
Return on investment projections and actual results – return on assets (ROA), return on equity (ROE), internal rate of return (IRR)	n.a.
Key results (to date)	SAGF currently (2009) operates with seven banks in five partner countries and has issued guarantees for the total amount of USD 5 million. During its first year of operations, the Fund reached about 27 000 direct beneficiaries (individual producers) and 135 000 indirect beneficiaries (family members).

References

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Website

www.rabobank.com/content/corporates/tcf/raboagrifund

Annex 6. Case Study – Rural Impulse Fund

I. Market environment and general framework

In developing countries, farmers as well as micro- and small entrepreneurs often lack access to formal financial institutions due to a lack of collateral or regular income. In rural areas, in particular, the supply of savings and loan products by formal financial institutions to such clients is limited because borrowers that derive their income from agriculture are perceived as more risky than those employed in other sectors of the economy. In addition, outreach to these areas increase (transaction) costs, which often hinder formal financial institutions to expand operations to rural areas.

Microfinance has been a means to tackle the problem and to provide financial services in rural areas in developing countries, where three quarters of the world's poor live and 86 percent of the population depend on agriculture for their livelihoods (World Bank, 2007:3). However, providing access to financial products for households and agricultural producers in rural areas in developing countries is still a challenge. There is need for further support to develop sustainable financial institutions that provide access to financial services in these remote areas and eventually contribute to poverty reduction.

II. Overview and background on the investment fund

The Rural Impulse Fund (RIF) was established at the end of 2007 based on the initiative to set up a fund that invests in rural, commercially viable microfinance institutions (MFIs) since mainstream microfinance investment vehicles (MIVs) typically target MFIs serving urban areas.

The idea for setting up the RIF stemmed from the Fund Manager, who had perceived a market niche for setting up a fund that targets rural MFIs. The idea was supported by the feedback obtained from the company's stakeholders.

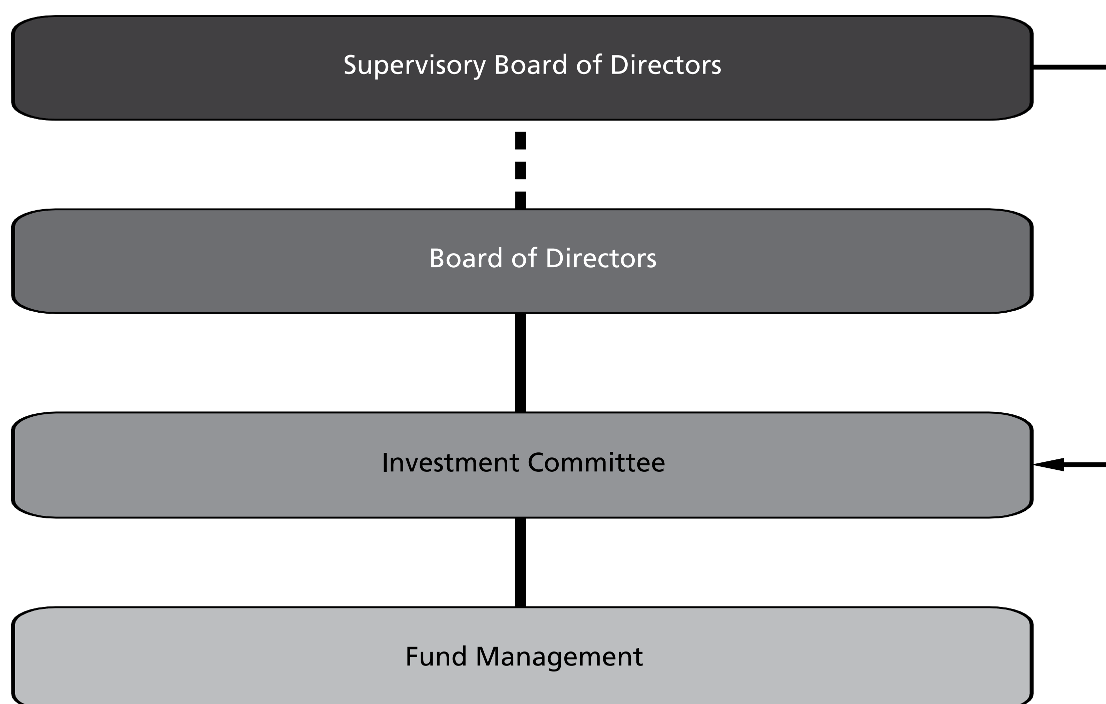
Legal set-up

The Fund is a specialized investment fund (SICAV-FIS) licensed under Luxembourg law.

Organization and structure

The RIF is a closed-end fund with a lifetime of ten years (until 2017), which can be extended twice for one year each. The Fund is set up as a public-private partnership (PPP). It is overseen by a Supervisory Board of Directors (BoD), which is in charge of the overall supervision of the BoD and is composed of a maximum of nine members of shareholder representatives. The Fund's BoD, composed of three members, is responsible for the fund management and is proposed and elected by the Fund Manager. The Investment Committee is subordinated to the BoD and comprises two members of the Supervisory BoD and one member of the BoD.

Figure 19. Management and governance structure of the Rural Impulse Fund



Source: Authors' compilation.

Investors – individuals and institutions involved

The Fund has a total capital base of USD 38 million, which shall be invested during a period of three years.

The Fund's capital is structured with different levels of seniority reflecting the different risk appetite of the investors. The equity (first loss) amounts to USD 9 million, which is provided by DFIs and private investors at an equal share. The mezzanine tranche of USD 10 million is provided by DFIs only. Senior debt of USD 19 million is provided by seven private institutional investors. The breakdown of investors is outlined in Table 8.

Table 8. Overview of investors of the Rural Impulse Fund

Equity (USD 9 M)	Subordinated debt (USD 10 M)	Senior debt (USD 19 M)
European Investment Bank (EIB)	European Investment Bank	KBL Bank
Netherlands Development Finance Company (FMO)	FMO	VDK Spaarbank
Belgian Investment Company for Developing Countries (BIO)	BIO	Pax-Bank
KBC Private Equity	International Finance Corporation (IFC)	Bank für Kirche und Caritas
Incofin		Monarch Fund
M.R.B.B.		ACV Metaal
Volksvermogen		Kringloopfonds
Raiffeisen/Cera Foundation		
50 percent private funds, 50 percent development finance institutions (DFIs)	100 percent Development Finance Institutions	100 percent private funds

Source: RIF presentation, 2009, p. 9, www.accioninternational.org/Document.Doc?id=260

Management group and track record

Incofin is a private social investment company that manages RIF. In addition to its own portfolio, Incofin manages other MIVs with different profiles. Incofin currently works with 64 MFIs in 26 countries, which makes it one of the largest Belgian investors in microfinance.

By the end of May 2009, Incofin had more than EUR 122 million of assets under management, comprising the portfolios of RIF, the Impulse Microfinance Investment Fund, VDK Microfinance institution (MFI) Loan Portfolio and Volksvermogen; about 25 percent of those assets are invested in RIF.

Investment strategy

Mission and investment objectives

RIF is an innovative fund that invests in rural, commercially viable MFIs. The Fund thereby invests in MFIs that provide financial services to the poor in rural areas to strengthen the rural MFI's financial structure as well as to improve their rural outreach, impact and sustainability.

Moreover, the Fund contributes to improving credibility of rural microfinance towards the investors' community. The Fund intends to contribute to poverty reduction with a double-bottom line, combining attractive returns to investors with a demonstrable development impact.

Investee group

Potential investees need to fulfil the following eligibility criteria:

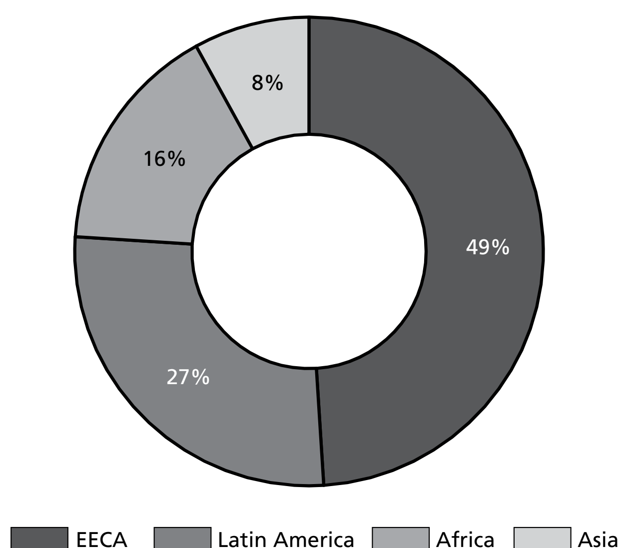
- at least 20 percent of the points of sales of the potential partner MFI in rural areas;
- a minimum of three years of operational self-sustainability;
- a minimum total portfolio of USD 2 million;
- portfolio at risk (PAR) 30 < 5 percent (in exceptional cases up to a maximum of 10 percent);
- professional management, solid business plan and strategy; and
- externally audited accounts and preferably rated.

With regard to outreach to the agricultural sector, currently about 50 percent of the investee MFIs have invested 25 percent or more of their portfolio to borrowers active in agricultural sector. Approximately 25 percent of the partner MFIs provide more than 50 percent of their portfolio to the agricultural sector. About 1 percent of the current investees only serve clients active in the agricultural sector.

In terms of the geographic scope, the Fund targets rural MFIs in all countries of the Development Assistance Committee (DAC) List.[45] The Fund has planned to invest a minimum of 25 percent in African, Caribbean, and Pacific Group of States (ACP) members. However, investment targets in this region have been adjusted downwards.

Figure 20 shows the geographic distribution of investments at the end of 2008.

Figure 20. Geographic distribution of investments of the Rural Impulse Fund



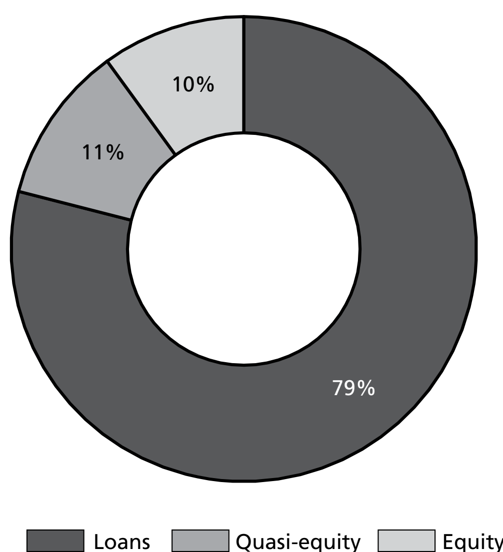
Source: Authors' compilation as of 31 December 2008 from Incofin 2008 Annual Report.

45 The List of Recipients of Official Development Assistance (ODA) from the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD).

Investment instruments

RIF provides equity participations and loans, and potentially guarantees to its investees. Figure 21 shows the portfolio breakdown of the RIF at the end of 2008.

Figure 21. Investment portfolio according to investment instruments of the Rural Impulse Fund



Source: Authors' compilation as of 30 June 2009. www.incofin.be/static/en/what_we_do/for_investors/rural_impulse.aspx

Table 9 summarizes the details of the Rural Impulse Fund investment instruments.

Table 9. Terms and conditions of the Rural Impulse Fund

	Debt	Equity	Guarantee
Currencies	EUR/USD /local currency	Local currency	EUR/USD
Loan amount	USD 0.5 to 3 million	USD 0.5 to 3 million	USD 0.5 to 3 million
Investment horizon	1 to 5 years	5 to 10 years	1 to 5 years
Principal repayment	Bullet repayment or amortization over the life of loan		
Interest repayment	Quarterly or semi-annual		
Expected return	Gross 8–10%	IRR>15%	Gross 3–4%
Security	Negative pledge, promissory notes		Negative pledge, promissory notes
Pricing	Market rates		Market rates

Source: Authors' compilation from www.incofin.be/static/en/what_we_do/for_mfis/products.aspx

Current status overview

At the end of 2008, the Fund held equity stakes in the two MFIs, Asomi and Confianza in India and Peru, respectively. In addition, the fund extended 19 loans. The Fund had a total invested portfolio of USD 32 903 788 at year end. RIF's partner institutions have thereby reached out to about 1.3 million borrowers. The Fund's rate of investment was faster than originally expected and a second Fund, Rural Impulse Fund II, is being launched.

III. Description of Operations

As the RIF targets MFIs predominantly operating in rural areas, the Fund Manager has developed a **definition** according to which a potential MFI is defined as being rural as the number of points of sale in villages and small towns in relation to the total number of points of sale is greater than 20 percent. According to this definition, the following formula should apply:

- If more than 50 percent of the points of sale are located in villages and small towns, the MFI is considered predominantly rural. Points of sale include branches, sub-branches and representative offices. Urban MFIs expanding to rural areas are also included. To be considered for a potential investment, the institution would need to reach a rate of at least 20 percent.

- Moreover, MFIs are selected based on a double scoring system developed by Incofin, which comprises two pillars: a counterpart risk analysis and a social performance analysis, which assesses the MFIs development agenda through the evaluation of different criteria.

The investment process

Potential deals are pursued proactively through the fund manager or based on demand, i.e. the Fund Manager is approached by an institution. In principle, RIF's Chief Investment Officer oversees the investment activities. In case the fund manager is interested in a possible investment, responsibilities are further delegated to a responsible investment manager. On-site due diligences are in principle undertaken by two investment managers. Following the due diligence, an investment memorandum is put together and submitted to RIF's Investment Committee for approval. Equity investments are pursued in countries in which a local representative of Incofin is situated.

Positioning with and within agricultural value chains

The RIF targets MFIs that focus at least 20 percent of their operations on rural areas. Approximately one half of these partner institutions have 25 percent of their outstanding portfolios dedicated to the agricultural sector and one fourth of them target agriculture by more than 50 percent, clearly demonstrating that the Fund reaches smallholders and agricultural MSEs.

Technical assistance and support

In case of equity investments, technical assistance is provided for strengthening capacities in specific areas, such as the management information system (MIS) and in corporate governance. Incofin thereby draws on its own funds and external expertise.

Strengths, weaknesses, risks and outlook

Strengths

- The RIF is a specialized MIV that focuses on rural MFIs, thereby benefiting the agricultural sector by indirectly providing credit to smallholders and agricultural MSEs.
- The Fund serves different capital needs of the target MFIs by providing different financial instruments (equity, debt and guarantees).
- The Fund has been set up as a successful PPP initiative with a double bottom line, also providing attractive returns to the investor base.

Weaknesses

- While a combined rural-urban diversity is a strength, a weakness is that the rural impact is difficult to measure.
- The Fund performs on-site due diligence assessments, but mainly runs its operation out of Belgium with little overall on-site presence.

Risks

- The number of MIVs has increased significantly over the last years, with many focusing on financially viable MFIs. Competition in this respect may impact the profitability of the Fund.
- Deterioration in the financial sector in some countries may lead to a negative impact on the portfolio performance.

Outlook

As the Fund is closed-end and almost fully invested, the Fund will focus on the constant reinvesting of debt during the remaining Fund's lifespan. Operations will focus on deal origination and due diligence for new deals. At least one additional equity investment is foreseen in the near future. The Fund Manager is furthermore planning to set up a follow-up fund to the RIF.

IV. Performance and results

Table 10 provides an overview of the underlying performance of the Fund's partner MFIs.

Table 10. Performance of the partner MFIs of the Rural Impulse Fund

Sum of MFIs total loan portfolio (in USD million as of 31 March 2009)	646
Average loan size (in USD as of 31 March 2009)	1 065
PAR 30 (as of 31 March 2009)	2.98%
Return on assets (ROA) (as of 31 December 2008)	5.2%
Return on equity (ROE) (as of 31 December 2008)	21.4%

Source: Authors' compilation.

From Table 10, it can be concluded that the partner MFIs have been performing well on a consolidated basis, especially against the background that approximately 50 percent of the portfolio is invested in other regions than EECA and that the effects of the current global and financial crisis have often been most strongly felt during the first quarter of 2009. The small average loan size indicates the significant outreach to the final micro and small entrepreneur target group.

Benefits and impact of the investment fund

The RIF specifically aims at contributing to poverty reduction and development through the provision of refinancing to MFIs that specifically target the population in rural areas.

Overall, MFIs that have received an investment from the RIF have shown growth and significant expansion, especially to rural areas. Two partner MFIs only provide loans to women. In addition, average loan sizes in some partner MFIs are very small. RIF has provided capital to one MFI fully dedicated to serve only rural clients with average loan sizes of USD 95 thereby targeting the most marginalized segments of the population. At the same time, the Fund provides support to strengthen the institutional capacities of their investees through the provision of technical assistance. A social performance assessment tool to measure development impact has been developed by Incofin for implementation with RIF.

Lessons learned

RIF is one of the many MIVs set up recently, but is unique in its focus on targeting rural MFIs. However, to analyse the impact of MIVs on the agricultural sector in developing countries, a more comprehensive study on the outreach of MIVs needs to be conducted.

After being operational since 2007, the following conclusions can be drawn, as indicated by the fund manager:

- MFIs can be successful in providing services to the rural population. To increase outreach, the development of suitable products and services is crucial. Large potential of technology innovations is foreseen, such as mobile phone banking.
- It seems that a hybrid fund providing equity as well as debt capital to MFIs meets market demands.

- It was also indicated that SSA has the highest need and demand for financial support to rural MFIs, but at the same time is perceived as one of the most challenging markets for various reasons.

Possibility for replication and issues for wider consideration

Investors in RIF can choose between equity, debt, or higher-risk sub-ordinated debt. This multiple share class structure of RIF provides investors with different risk and return investment options. Consequently, because of a fund structure, a proven fund management structure and varied investment options, private investors may be attracted to invest in countries and the rural sector where otherwise they would not have done so,

RIF has a clear-cut focus on debt financing but adding quasi-equity and equity participations to the portfolio mix provides some additional up-side potential. However, in principle, managing these different financing instruments generally calls for specialized management teams since the nature of equity investments is very different from debt transactions. These are further complicated by the fact that they bear a direct FX risk because they are denominated in local currency.

Rural Impulse Fund profile summary

Name of investment fund	Rural Impulse Fund (RIF)
Name of fund management company	Incofin
Key initiators/investors	BIO, Netherlands Development Finance Company (FMO), European Investment Bank (EIB), KCB Private Equity, Incofin, International Finance Corporation (IFC), Volksvermogen, M.R.R.B., Raiffeisen/CERA Foundation and other private institutional investors
Start-up date	2007
Exit date/plan	2017
Region or countries	Global
Country of incorporation/legal structure	Luxembourg/SICAV-FIS
Main objective	The Fund invests in MFIs that provide financial services to the poor in rural areas to strengthen the rural MFI's financial structure and to improve their rural outreach, impact and sustainability.

Investment strategy	The Fund invests in rural, commercially viable MFIs which provide financial services to the poor in rural areas in developing countries. To be eligible for an investment, at least 20 percent of sales of the institution must be conducted in rural areas.
Target sectors	Rural microfinance institutions
Fund size	USD 38 million, closed-end fund
Fund Structure	Public-public partnership (PPP)
Investment instruments	Equity, debt and guarantees
Board profile (composition type)	The Fund is overseen by a Supervisory Board of Directors (BoD) and a BoD.
Return on investment projections – return on assets (ROA), return on equity (ROE), internal rate of return (IRR)	For equity investments, an IRR>15 percent is expected.
Key results	By the end of 2008, the Fund held equity stakes in two institutions and extended 19 loans. In total, investments were placed in 17 countries globally. RFI's partner institutions have reached about 1.3 million borrowers in total.

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Website

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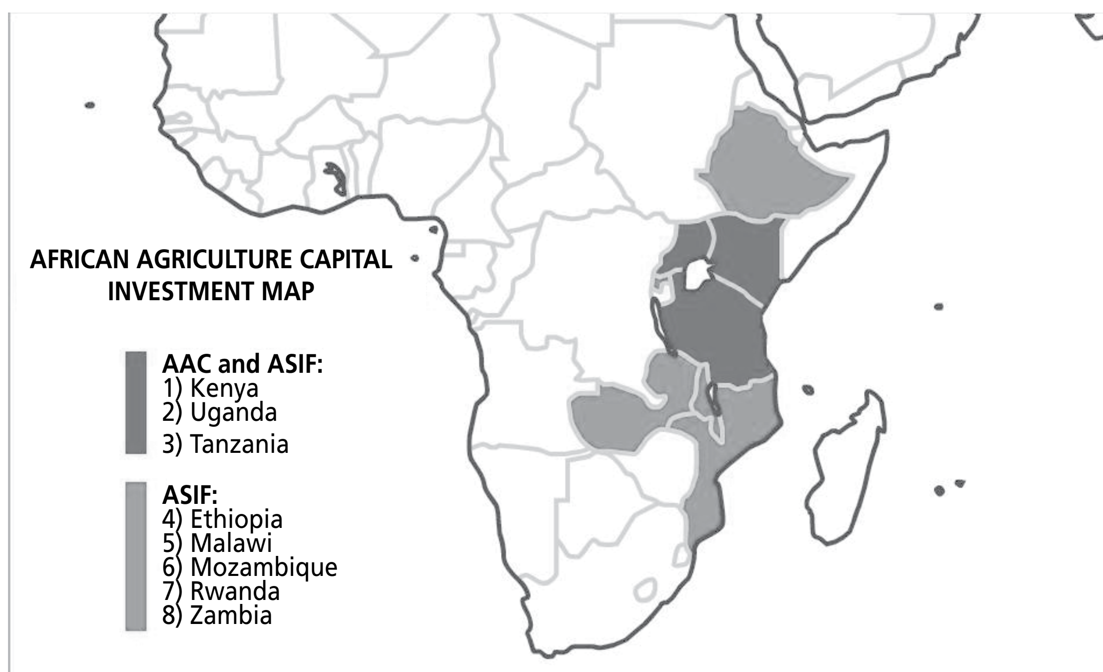
Annex 7.
Case Study – African Agricultural Capital



I. Market environment and general framework

Shortages of food supply severely hit East Africa during the food crisis in 2008, which led to the need for some of the countries in the region to receive emergency food assistance. At the same time, the region was strongly affected by droughts and/or war and civil conflict, which have hampered farming activities. The current global economic turmoil has created a more difficult operating environment for East African businesses, which have been facing increases in input prices, such as fuel and seeds, and a decreasing demand for their products on export markets.

The agricultural sector plays a crucial role for development and poverty reduction in East Africa. In Uganda, for example, agriculture contributes to 32.4 percent of the GDP and employs 69.1 percent of the local labour force; 87.5 percent of the population lives in rural areas (World Bank, 2007:321). Shortcomings that hinder agricultural developments hence act as a key constraint to rural job creation, food security and development.

The agricultural sector in Kenya and the United Republic of Tanzania is being dominated by smallholder farming, with farmers confronted with declining soil fertility due to population pressure, inappropriate land use and climatic disruptions. At the same time, agricultural small- and medium-sized enterprises (SMEs), for example in Kenya, successfully produce for the

local market as well as tackle export markets. Processing of agricultural produce is considered to have vast potential for increased demand for products from smallholders (GTZ Sustainet, 2006:3–4). To further promote the development of agriculture, particularly of small- and medium-sized agricultural enterprises in East Africa, facilitating access to export markets and capital is required.

II. Overview and background on the investment fund

African Agricultural Capital Limited (AAC) was established in 2005 to facilitate investments in private sector agriculture in East Africa.

The founders of AAC observed that many entrepreneurs employed in the agricultural sector in this region faced a lack of access to finance and technical assistance, which impeded the growth and expansion capacities of their businesses. These shortcomings have hindered the adoption of improved technologies, products and services to the agricultural sector.

In response to the lack of an investment vehicle that provides capital to these enterprises, the company was established by the Rockefeller Foundation, the Gatsby Charitable Foundation and Volksvermogen NV:

- Rockefeller Foundation: The Rockefeller Foundation was established in 1913 by the Rockefeller family and is a leading philanthropic institution. The foundation operates on a global scale with different programmes, backed by assets of about USD 4 billion. Its historical mission is to promote the well-being of humanity. The Foundation addresses the effects of globalization, particularly those affecting the poor and vulnerable segments of the population through various projects. It also facilitates dialogue on new policy ideas, and new products and services, and conducts research activities.

- Gatsby Charitable Foundation: The Foundation is a grant-making trust that makes funds available to charitable causes. The Foundation's capital has been provided by the founder, David Sainsbury, who established the foundation in 1967. The Trustees makes grants by using the Foundation income- and occasionally by drawing on the capital base. Support is focused on the areas of plant science, neuroscience, mental health, science and engineering education, governance, arts and African development.

- Volksvermogen NV: The institution is a Belgium-based private limited company, which invests in MIVs and small-and medium-sized enterprises (SME) funds in developing countries. Volksvermogen relies on Incofin, a Belgium-based private social investment company, for the management of its investment portfolio.

Legal set-up

The company was set up as a limited company, which is domiciled in Uganda.

Organization and structure

AAC invests the funds that have been provided by the founders in the form of equity and preferred shares. At the same time, AAC has been mandated to manage the African Seed Investment Fund (ASIF), a fund set up in partnership between AAC and the Alliance for a Green Revolution in Africa (AGRA) in April 2009. While the AAC's own investments are on the balance sheet of the company, the newly obtained mandate is managed under a separate agreement.

The AAC Board of Directors (BoD) is composed of the Chairman, the Managing Director and six independent non-executive directors from different backgrounds. Three members of the BoD are appointed by the shareholders.

The role of the BoD is to determine the direction and strategy of AAC in line with its investment policy, monitor the achievement of business goals and ensure that the responsibilities to the company's shareholders are met. Certain topics are subject to decision/approval by the BoD. In addition, there is a clear delegation of authority to the Managing Director for other specific issues. BoD members retire from the Board after three years of service.[46]

Figure 22. African Agricultural Capital – Composition of the Board of Directors

Source: Authors' compilation.

Investors – individuals and institutions involved

The currently committed capital amounts to USD 8 million, which is provided by the three shareholders of the company: the Rockefeller Foundation, the Gatsby Charitable Foundation and Volksvermogen NV. Funding provided by the Gatsby Charitable Foundation is channelled through Kilimo Trust, which owns a majority stake in AAC.

Kilimo Trust was established in July 2005 through funding from the Gatsby Charitable Foundation and focuses its work on facilitating innovations leading to market-led sustainable agriculture for development in East Africa. It is a grant-management organization that aims to contribute to wealth creation and the reduction of poverty through the promotion of agriculture and agribusiness in the region.

46 For a detailed description of the BoD composition, refer to the AAC Ltd. (2008).

Management group and track record

AAC currently draws on the expertise of one chief investment officer (CIO) and one investment manager. Prior to his current assignment, the CIO gained work experience in managing other SME/agricultural investment funds and at the East African Development Bank in various positions.

Investment strategy

Mission and investment objectives

AAC's **vision** is "to improve the livelihoods of small-holder farmers in East Africa". The **mission** of AAC is "to be a leading agribusiness-focused investment fund in Africa that delivers positive financial returns to its investors, supports its investees through the provision of affordable and flexible capital, and aims to have a high social and development impact on smallholder farmers and rural economies, thereby encouraging greater investment in the agriculture sector."

The AAC targets businesses with a committed and competent management dedicated to develop and grow the enterprise. The AAC focuses on early stage businesses that need risk capital and where high long-term investment returns are expected. Moreover, AAC intends to leverage its funds and capacity through cooperation with other investors active in the region and the sector. It also aims to establish and maintain a sustainable relationship with the investee company, through the provision of relevant business management expertise to improve business performance. Overall, AAC aims to provide capital that complements that of other shareholders and financial intermediaries. In terms of equity investments, AAC usually buys minority stakes in target companies that lack the asset base or track record to access financing from commercial banks.

Targets and success criteria

The company aims to earn a minimum gross return of 12 percent per year on the funds invested and reach a minimum of 150 000 smallholder households in the target region by mid-2011, with an envisaged income benefit per household of at least USD 100 per year.

Investee group

AAC invests in early stage businesses within the agriculture value chain with a particular focus either on inputs and service provision to farmers, or on providing farmers with improved access to market opportunities. Agriculture is defined in a broad sense and includes horticulture, agro-forestry, food crops and livestock businesses. AAC's current focus includes the following subsectors:

- Plant breeding and seed production
- Cereal crop handling and marketing
- Agricultural production and agro-processing – companies that contract small farmers as outgrowers and/or suppliers; sectors include horticulture, coffee, dairy and other food crops.

- Aquaculture
- Apiculture
- Peripheral/support business opportunities.

Potential investees are SMEs that require risk capital to expand operations or introduce a new technology or production system. The company would invest in these enterprises in case physical conditions and/or market access create competitive advantages on a national, regional or international scale. Moreover, the investee selection focuses on businesses with strong entrepreneurial and management capacity. In addition, investees should show good market knowledge, a proven track record and leadership skills, and have a good reputation.

AAC has also defined criteria in four areas in more detail, which should be fulfilled by the potential investee: business environment criteria; enterprise criteria; performance criteria and developmental criteria:[47]

(a) Business environment criteria
- No state marketing interventions in the subsector.
- Absence of domestic price controls on agricultural products.
- No unduly restrictive regulatory burdens on the subsector.

(b) Enterprise criteria
- Segment and market growth: growth trend shown in historic and forecast demand volume.
- Competitive advantage:
  - regionally competitive cost of production.
  - product quality matching or exceeding regional industry standards.
- Stable prices: increasing or stable forecast product prices.

(c) Performance criteria
- Track record:
  - minimum of one-year of audited financial records;
  - positive reputation with banks, suppliers and customers.
- Management team:
  - professional and technical skills present in management team;
  - continuity; low management and workforce turnover;
  - team approach; not excessively reliant on one or two individuals.
- Growth plan:
  - well-researched and realistic marketing plan;
  - defensible business assumptions;
  - appropriate risk-sharing financial structure;
  - achievable implementation plan.

47 Refer to http://www.aac.co.ke/web/information-for-investees.html.

(d) Developmental criteria

- Social impact:
  - overall job creation resulting from growth plan;
  - skills development in rural communities;
  - equal opportunities by age, gender and health status.
- Economic impact:
  - benefits from economic growth accruing to rural communities.
- Environmental impact:
  - no apparent adverse environmental impact.

Examples of investments[48]

Victoria Seeds is a large Ugandan seed company that serves smallholders in the country as well as in South Sudan and the Democratic Republic of the Congo. AAC provided a loan of Ush 460 million (USD 233 500) at a fixed interest rate of 9 percent per year for three years. The loan should contribute to improving the quality of seeds and further extend their distribution.

Western Seed Company based in Kenya received two loans of USD 400 000 and USD 600 000 with interest rates of 9.5 percent and 8 percent per year, respectively. Later on, those loans were converted into equity. With financing provided by AAC, the production of hybrid seed maize is expected to almost triple by 2011.

Africado is a start-up company based in the United Republic of Tanzania that grows and exports avocados to the EU. The company has received a loan of USD 1 million at 10 percent interest per year. The company is setting up an outgrower scheme that will target approximately 750 small-scale farmers who will farm about 100 ha of land.

Investment instruments

Depending on the investee's needs, the company provides equity, quasi-equity and debt to its target group. The company may provide loan capital without an accompanying equity investment and may make equity investments without an accompanying loan investment.

In principle, investments are made in the functional currency of the businesses in which the Fund invests.

Current status overview

The initial capital base of the Fund of USD 8 million is fully invested. AAC is financing 16 ventures in the region including Kenya, Uganda and the United Republic of Tanzania. The Fund is open to attracting new shareholders in order to be able to grow the investment portfolio. However, it has not yet reached break-even.

48 For an overview of current investees, refer to http://www.web.aac.co.ke/investment-portfolio.html [couldn't open] Try http://www.aac.co.ke/web/investment-portfolio/kenya.html (There is portfolio Uganda, and Tanzania but the above URL is what you get when you click on investment portfolio- please adjust as you see fit)

III. Description of operations

AAC could, for example, provide the following:

- **Equity.** Usually, ACC provides about 25 percent of the company's equity to demonstrate a meaningful ownership partnership and to enable the company to play a role in BoD decisions. However, equity investments could be lower, depending on the previous ownership structure. Usually, AAC builds into its equity investment agreement the right to appoint at least one director to the BoD of the investee, together with the right to receive regular status reports, management accounts and other relevant information as required.

- **Loan capital.** Debt is usually provided over period of 3–7 years and priced at commercial rates of return adjusted for business risk.

- Moreover, AAC can offer the opportunity to the investees to **convert loans into equity**, provide a **loan guarantee** to a commercial lender or participate in **co-financed deals**.

Investment criteria and process

- Currently, investments are made in Kenya, Uganda and the United Republic of Tanzania. Depending on the availability of additional funding, the company might expand operations to the greater East Africa Region.

- AAC strives for a broad portfolio diversification according to subsector and agricultural value chain actors.

- AAC can invest a maximum of 15 percent of its committed capital in a single company.

- Although there is no minimum investment size, investments below USD 100 000 will most likely not be pursued.

Deals are originated either based on a company's request or on investment opportunities perceived by the company. Businesses interested in receiving an investment from AAC are required to submit various documents, such as a business plan, audited financial statements and a description of the expected impact on smallholder farmers and the rural community, etc. Following the request of the business, the investment process is initiated comprising a thoroughly due diligence.

In addition, ACC has introduced a system for measuring and reporting the development impact of the target group, which is indicated to be used also in the investment appraisal and due diligence process.

Positioning with and within the value chains

AAC addresses the capital needs of agriculture-related SMEs in East Africa at early development stages that require capital for growth to expand their business. It has a special interest in SMEs that focus on providing input supplies and services to farmers. The Fund

has, for example, provided capital to seed companies, a honey business that buys honey from about 2 000 farmers in Uganda in 2009, an agricultural certification company, a producer of agro-chemical inputs to the agricultural sector in East Africa. All investments aim to stimulate productivity of the target enterprises as well as expansions in terms of processing facilities. Linkages to smallholder farmers and to export markets as well as the production of organic and fair trade products are facilitated through these investments.

Technical assistance and support

Business development support is provided to the investee company as needed, in order to add value to the investments and build institutional capacities. This support is provided through the Fund's active investment management, building on its financial and business management expertise.

In addition, AAC plans to draw on external experts to provide technical business support (as indicated, if possible by making use of donor-funded private sector support programmes in the region) to assist management in all relevant areas to build a strong and successful company.

Strengths, weaknesses and risks

Strengths

- The company is clearly dedicated to the agricultural sector, in particular agricultural SMEs in East Africa that require venture capital. In its investment decisions, AAC takes into consideration backward and forward linkages within the value chain.
- AAC offers a variety of financial instruments according to the specific needs of the target group.
- The company has a pronounced development objective and might therefore be interesting for investors that focus on achieving a development return and that are willing to accept below-market returns.
- The company is located in the target region, providing the opportunity to operate with in-depth market knowledge and to ensure close monitoring.

Weaknesses

- The company has been unprofitable to date, and future investors should expect below-market returns from investment into AAC. The small average investment size drives costs up and impacts profitability.
- Relative to the total invested capital, the portfolio is very diversified.
- Shareholders comprise only foundations and social investors that do not expect high returns.
- Investments are very illiquid, and exit could be difficult in the short and medium term.
- Target return expectations are relatively low for equity investments, i.e. given the high risk involved.

Risks

- Since the investment in AAC is in UGX, the investor is exposed to FX risk.
- Any significant write-offs will not allow the company to become profitable, and further capital erosion could lead to difficulties to maintain operations.

- The low returns and difficult market conditions will make it difficult to attract new investors.
- The region has developed from an African showcase to a less politically stable one.

IV. Performance and results

In its third year of operations AAC has increased its total assets from USD 4.6 million to USD 7 million, with the bulk of assets being invested in loans and advances. The asset growth was financed by redeemable preferred shares paid in by the founding shareholders. The financial year ended June 2008 was characterized by a significant increase in operating expenses (over 400 percent) mainly caused by impairment losses on the investment portfolio. At the same time, income from investments increased from USD 0.2 million to USD 0.6 million. However, the relatively small investment portfolio leads to unsustainable operations due to high start-up cost and high fixed cost associated to the investment management. Overall, the AAC has generated a loss of USD 0.6 million in the financial year 2008, after a loss of USD 0.7 million in 2007.

AAC expects to break even in the financial year ending June 2010. This would require significant growth in the investment portfolio and good returns on the actual portfolio. A particular challenge to AAC is the fair value assessment required by the International Financial Reporting Standards (IFRS) for highly illiquid investments, which most likely leads to a significant negative impact on the capital base of the company in the financial year ending June 2009. In order to be able to grow, additional funding from investors is required, which is a challenge, given the current financial markets and the high risk environment within which ACC is operating.

Benefits and impact of the investment fund

AAC provides venture capital to agricultural SMEs in East Africa and strives to serve the particular capital needs of those enterprises through the provision of different financial instruments. The Fund's investment focus on agriculture-related SMEs that benefit smallholders and foster linkages to export markets is expected to have strong social impact but is a constraint for having a more diversified and faster-growing portfolio.

The Fund has introduced a system for measuring and reporting developmental impact of its investees, which is built into the investment appraisal and due diligence process. Through the system, investees will self-report their performance on an annual basis. Information to be provided includes job creation and smallholder engagement as well as the community and environment. No concrete figures on the impact achieved to date are available, but clear impact on community development and outreach to smallholder farmers has been perceived.

Lessons learned

AAC is an investment vehicle focused promoting agricultural development in East Africa through the dedicated provision of capital according to the specific needs of the investees. While it does reach out to the target group, the financial performance to date leads to the

conclusion that vehicles such as AAC will only be interesting for socially responsive investors willing to accept below-market returns. Since the capital has been fully invested, it can be concluded that there is additional demand by the target group for such capital in the respective market.

The investment strategy and eligibility criteria of investees are well defined. Furthermore, the regional focus on East Africa combined with the company being located in one of the target countries provide the opportunity to operate with in-depth market knowledge and to ensure close monitoring and support to its investees.

AAC combines equity and debt in one relatively small, single fund. This is likely not an investment structure that traditional private institutional investors are looking for since they generally prefer either a clear private equity profile or debt instruments only. Considering that the Fund's investment management team consists of two to three people only, managing equity and debt instruments in parallel might also not be in line with best industry practices, which require a clear separation between equity and debt teams.

V. African Seed Investment Fund (ASIF)

AAC serves as the investment manager for African Seed Investment Fund (ASIF),[49] which was set up in cooperation between AAC and AGRA in April 2009. The Fund plans to invest in at least 20 small- and medium-sized seed companies in southern and eastern Africa during a period of five years.

Similar to AAC, the idea is to provide risk capital and expertise to the seed sector to pave the way for increased productivity and income of farm households in the region. For this purpose, equity, quasi-equity and long-term loans will be provided at below-market rates. In addition to financial support, the Fund intends to provide business development services (BDS), including advice on topics such as seed production, storage, and distribution and seed company management. Distributors will also be trained on the appropriate use of seeds and other inputs such as fertilizer in order to ensure their most efficient, safe and environmentally sound use.

In addition, the Fund plans to invest in approximately ten early-stage businesses which have large potential, with loans of USD 50 000–150 000; USD 1 million is reserved for investments in such early-stage companies.

Target countries. These comprise Ethiopia, Kenya, Rwanda, Mozambique, Malawi, United Republic of Tanzania, Uganda and Zambia.

Target beneficiaries. The Fund intends to reach out to poor farm families through its investees. ASIF expects to achieve a positive impact on poverty alleviation in the region,

49 For the information obtained on ASIF, refer to www.web.aac.co.ke/africa-seed-investment-fund.html; and www.agra-alliance.org/content/news/detail/920.

primarily by increasing household income levels, either through direct employment creation or through linkages to smallholder farmers. The respective seed companies would therefore strive for creating direct employment in poor rural areas, especially for women. The idea is to provide seed inputs of high quality to smallholder farmers, which would allow them to increase yields and quality of production.

Strategic orientation. Capital will be provided to early stage businesses with committed and competent management and with the vision and desire to grow the business. Investments will focus on companies in need for capital where high long-term investment returns can be generated. As with the AAC fund, active cooperation with other investors active in the region and the sector, and a strong relationship between the investee and the Fund will be sought.

Return expectations. The Fund will seek a net return of 3 percent on its investments, thus clearly placing it in the realm of social, rather than commercial investment.

African Agriculture Capital Ltd. profile summary

Name of fund management group/co.	Africa Agriculture Capital Ltd. (AAC)
Region or countries	East Africa: Uganda, Kenya, the United Republic of Tanzania
Country of incorporation	Uganda
Company vision	To improve the livelihoods of smallholder farmers in East Africa.
Company mission	To be a leading agribusiness-focused investor in Africa that delivers positive financial returns to its investors, supports its investees through the provision of affordable and flexible capital, and has a high social and development impact on smallholder farmers and rural economies, thus encouraging greater investment in the agriculture sector.
Investment strategy	The company invests in early stage businesses in East Africa, where risk capital is needed and where high long-term investment returns are expected. To earn a minimum gross return of 12 percent per annum on funds invested.
Business targets	To reach at least 150 000 smallholder households in East Africa via the investees with an income benefit per household of at least USD 100 per annum by mid-2011.

Target sectors	AAC invests in early stage businesses within the agriculture value chain with a particular focus either on inputs and service provision to farmers or on providing farmers with improved access to market opportunities. Agriculture is thereby defined in a broad sense and includes horticulture, agro-forestry, food crops and livestock businesses. Subsectors include plant breeding and seed production, cereal crop handling and marketing, agricultural production and agro-processing, apiculture and aquaculture.
Structure – private, public-private partnerships, etc.	Private
Investment instruments	Equity, quasi-equity and debt
Board profile (composition type)	Non-executive Board of Directors
Start-up date	2005
Company size – start-up or current	The initially committed capital amounts to USD 8 million and is fully invested.
Growth projections	AAC intends to reach a total volume of USD 30 million under management in six to seven years.
Return on investment projections – return on assets (ROA), return on equity (ROE), internal rate of return (IRR)	Minimum gross return of 12 percent per annum is planned; to date accumulated losses are USD 1.7 million.
Return on investment to date – ROA, ROE, IRR	Break-even is envisaged for the financial year ending June 2010.
Key results (to date and/or projected) – scope, volume, growth, employment, etc.	AAC is currently financing 16 ventures in three countries in East Africa.

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Website

www.web.aac.co.ke/

Annex 8. Investment fund summaries – overview

	General information			Countries of operations and target group			Financing	
Name of fund	**Type of fund**	**Fund structure**	**Founding date**	**Region**	**Countries**	**Target group served**	**Capital base**	**Financial instruments**
sub-Saharan Africa								
1. Actis Africa Agribusiness Fund (AAAF)	Private equity fund		2006	SSA	Kenya, Cote d'Ivoire, Zambia, United Republic of Tanzania, south Sudan	Agribusiness and forestry sector. Invests in agribusiness projects across the agribusiness value chain from input supply, production, processing and distribution to marketing.	USD 92.7 million	Equity and quasi-equity investments Deal size: USD 5 million to USD 15 million
2. Africa Invest Malawi (Africa Agri Fund)			2006	SSA	Malawi	Investments have focused on agricultural production (large-scale commercial farming and smallholder farming extension schemes), food processing and food storage.	USD 18 million	
3. Africa Seed Investment Fund (ASIF)			2009	SSA	Uganda, Kenya, United Republic of Tanzania, Rwanda, Malawi, Ethiopia, Mozambique, Zambia	Small and medium-sized seed companies. It is planned to invest in at least 20 of these companies. In addition, the Fund plans to invest in about ten early stage businesses.	USD 12 million	Equity, quasi-equity and debt investments. Deal size for ten early stage businesses will range from about USD 50 000 to USD 150 000 each.
4. African Agricultural Capital (AAC)	Venture Capital Fund	Ltd.	2005	SSA	Kenya, Uganda, United Republic of Tanzania	Small and medium-sized agricultural enterprises including horticulture, agro-forestry, food crops and livestock businesses, thus focusing on various subsectors.	Initially committed capital: USD 8 million, which is fully invested in 16 ventures.	Equity, quasi-equity and debt investments. Most likely there are no investments below USD 100 000.

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	Financial performance/ analysis	Organizational and operational set-up	Principal issues, constraints and opportunities	Provision of technical assistance	Examples of funded projects	Reference/ URL
	sub-Saharan Africa						
1.	The sole investor in the AAAF is CDC Group plc., a UK-based fund of funds wholly owned by DFID. The Fund is managed by Actis LLP, a specialized private equity manager of investments in emerging markets.		The Fund is managed by investment professionals based in Actis' offices in Nairobi, Kenya, and London, UK, with support from Actis' office network in Johannesburg, South Africa, and Lagos, Nigeria.	Actis promotes responsible investments, which includes the analysis of environmental, social and governance (ESG) issues in all its business activities and investments, and adherence to a social and environmental exclusion list.	The fund management provides guidance on strategic corporate development, governance, and financial matters, through BoD participation and close management contact. The Fund also facilitates contacts and provides advice on governmental, technical and marketing matters.	The Fund currently has a portfolio of eight companies operating in the tea, sugar, forestry, arable farming and rubber industries as well as agribusiness infrastructure.	*www.act.is *www.engineeringnews.co.za/article/100m-actis-africa-agribusiness-fund-launched-2006-04-20 *www.cdcgroup.com/uploads/cdcinvestmentcode.pdf *www.cdcgroup.com/uploads/cdc2008annualreview.pdf
2.	Managed by Africa Invest Fund Management Ltd. based in UK. The capital invested in the Africa Invest Malawi scheme originally stems from the ARCH Funds, which have been managed by the fund management firm ARCH Financial Products LLP.	Net monthly return for 2008 was 2.45%. Returns to investors for Africa Invest Malawi will be delivered in 2015.	The Fund establishes private equity businesses (Africa Invest Ltd.) or buys existing companies in different countries with the aim of producing crops such as rice. The business also plans to process and store these crops. With regard to smallholder farmer extension schemes, it is planned to establish clubs of 20 smallholders and then to operate microfinance through this system.	According to a website fund management firm, it is illiquid at the moment. In addition, the Fund Manager got some negative media coverage at the time of conducting this research. It seems that Africa Invest Malawi was a pilot investment programme, which is now planned to be integrated into a larger fund, the Africa Agri Fund; the latter is planned to be set up.	Training in modern farming techniques shall be provided to clubs of smallholder farmers. Community services are also supported (female literacy, pre- and post natal health, nutrition and income generation).	Africa Invest (Malawi) Limited now has seven farms with combined arable land of 2 600 ha. Africa Invest Malawi offered a UK-based investment opportunity that raised over USD 18 million to place the entire land under irrigation, enable crop storage, create double cropping programmes and stringent farm management.	*www.cruim.com
3.	The fund was set up in cooperation between African Agricultural Capital (AAC) Ltd. and the Alliance for Green Revolution in Africa (AGRA).	The fund will seek a net return of 3% of it's investments. Capital will be provided below market rates.		ASIF plans to implement a gender policy that works to involve women actively as entrepreneurs, workers and smallholder farmers.	The Fund plans to provide BDS, including advice on topics such as seed production, storage, and distribution and seed company management. Distributors will also be trained on the appropriate use of seeds and other inputs such as fertilizer, to ensure their most efficient, safe and environmentally sound.		*www.agra-alliance.org/content/news/detail/920 *www.web.aac.co.ke/africa-seed-investment-fund.html
4.	Capital is provided to the company by the Rockefeller Foundation, the Gatsby Charitable Foundation and Volksvermogen NV.	Min. gross return to investors of 12% per year envisaged. At this point, the company has not yet reached break-even.	Limited company domiciled in Uganda, which invests the funds that have been provided by the founders.	The company has introduced a system for measuring and reporting the development impact of the target group, which also seems to be applied in the investment appraisal and due diligence process.	Business development support is provided if needed. The Fund also plans to draw on external experts to provide those services, possibly to draw on donor-funded private sector support programmes in the region.	The Fund currently has a portfolio of 16 companies including, inter alia, seed companies, a honey business, a poultry business and an avocado growing and exporting venture.	*www.aac.co.ke/web/

		General information			Countries of operations and target group			Financing	
Name of fund		Type of fund	Fund structure	Founding date	Region	Countries	Target group served	Capital base	Financial instruments
5.	African Agribusiness Investment Fund (Agri-Vie)	Private Equity Fund		2008	SSA	South Africa, Botswana, Kenya, United Republic of Tanzania, Uganda, Ghana, Nigeria	Investing in the agribusiness sector across SSA along the agribusiness value chain.	USD 100 million	Equity and quasi-equity investments.
6.	Aventura Rural Enterprise Fund		Limited partnership	2008	SSA	Senegal, Mauritania, Mali, Niger and Nigeria, also possibly Angola, Mozambique and Zambia.	Plans to invest in agribusinesses along the food system value chain and rural services. Investees will comprise early stage businesses and start-ups with a rural and agri-business focus.	The total capital base of the fund is expected to reach EUR 40-60 million.	Investments of EUR 0.5-3 million.
7.	Barak Structured Trade Finance Fund	Structured trade finance fund	Open-ended investment company	2009	SSA	Ethiopia, Uganda, Kenya, United Republic of Tanzania, Malawi, Mozambique, Zambia, South Africa, Nigeria, Zimbabwe		USD 200 million	Mezzanine debt invested into agricultural trade finance (either in conjunction with banks or stand-alone). Investments range between USD 2 million and 10 million.
8.	Emergent African Land Fund	Hedge fund/ mutual fund		2008	SSA	South Africa, Botswana, Zambia, Mozambique, Swaziland, the Democratic Republic of the Congo	Investments into farmland to consolidate small plots into more productive holdings and to introduce better equipment.	EUR 2 billion	

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	**Financial performance/ analysis**	**Organizational and operational set-up**	**Principal issues, constraints and opportunities**	**Provision of technical assistance**	**Examples of funded projects**	**Reference/ URL**
5.	Joint initiative between Sanlam Private Equity and the investment group SP-Aktif. First closing took place at USD 40 million, with initial investments from the insurance and development finance industries and the United States organization WK Kellogg Foundation. AfDB holds a USD 15 million equity participation in the fund.	The fund is projected to generate a net financial return in excess of 16.1% per year over the life of the fund.		The Fund intends to make a meaningful contribution to empowering women and seeks investments in commercially attractive agribusiness projects with sound environmental and social practices.	A key target group is out-grower farmers. Under the out-grower scheme, a strategic company will provide training and technology transfer to these farmers.		*www.agrivie.com/ *http://allafrica.com/stories/200809221357.html *www.afdb.org/en/news-events/article/afdb-promotes-agribusiness-investment-funds-equity-participation-of-usd-15-million-in-agribusiness-investment-fund-agri-vie-fund-mpcc-4276/
6.	Currently, the fund has five institutional investors: EIB, FMO, CDC, BIO, and Finn Fund with a total contribution of EUR 20 million.		Closed-end fund with a ten-year lifetime, subject to an extension of one to two years. The fund will pursue different exit strategies. Aventura Investment Partners is a limited company (AI). At the time of the first closing, the Fund will be formed as C.V. (limited partnership). AI will enter the Fund as a limited partner.		The fund plans to deliver technical assistance through portfolio company management and via suppliers or joint-venture partners.	Current pipeline (pre-closing): five projects valued at about EUR 0.6 million. After closing: an additional six investments, at about EUR 10 million. Over the life of the fund, about 30 additional projects are estimated at about one million each.	*www.aventurainvest.com/901.html
7.	Institutional investors and individuals. The fund is managed by Barak Fund Management Ltd. is a Mauritian-registered fund management company.	The mezzanine debt is expected to attract equity returns. Net after fee USD return: 22.91%.	The Fund is domiciled at the Cayman Islands and planned to be listed on the Irish Stock Exchange. There is strategic access to 481 warehouse locations in seven African countries.			As of April 2009, eight transactions were made. The average tenor per transaction is 36 days.	*www.barakfund.com/
8.	Interest raised of institutional investors such as pensions, insurance companies, endowments and sovereign wealth funds. EUR 1 billion (USD 2.9 billion) have been raised but the target is to raise a total of EUR 3 billion. The Fund is managed by Emergent Asset Management.	The target return is 25% per year.		The Emergent fund is one of a growing roster of farmland investment funds based in the UK. The Fund plans to provide clinics and schools for local labour.			*www.eaml.net/?func=PageAfricanLandFund *http://uk.reuters.com/article/idUKL1920141720080519

		General information			Countries of operations and target group			Financing	
Name of fund		Type of fund	Fund structure	Founding date	Region	Countries	Target group served	Capital base	Financial instruments
9.	Sierra Investment Fund	Private equity fund		2008	SSA	Sierra Leone	The fund invests in all sectors, except mining with a focus on new and existing businesses in agriculture and agro-processing. Other sectors include fisheries; construction; tourism; light manufacturing, services and the financial services sector.	USD 25 million	
10.	Phatisa African Agri Fund	Private equity fund		2008	SSA	Zambia, United Republic of Tanzania, Mozambique, Malawi, Uganda, Ethiopia, Zimbabwe	The fund invests in arable, plantations, forestry, processing and animal feeds, and services/ infrastructure (storage, fertilizers and other inputs).	USD 300 million at first closing	Private equity, others

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	Financial performance/ analysis	Organizational and operational set-up	Principal issues, constraints and opportunities	Provision of technical assistance	Examples of funded projects	Reference/ URL
9.	Investors include private sector individuals and institutional investors (e.g. London-based). The Fund is closing an investment with a DFI and with the Soros Economic Development Fund. The fund is managed by ManoCap, a private equity fund manager which manages equity investments in post-conflict and other emerging African economies.						*www.manocap.com/investment_fund
10.	Investors comprise private individuals and institutions. The Fund is managed by Barak Fund Management Ltd.			The Phatisa African Agri Fund shares the same platform with two other agricultural funds - the Barak Commodity Derivative Fund and the Barak Trade Finance Fund. All three funds cover agriculture in Africa, each focused on a different segment of the agricultural value chain.			*www.phatisa.co.za/images/file/AAF%20 Press%20release%20FINAL.pdf

		General information			Countries of operations and target group			Financing	
	Name of fund	Type of fund	Fund structure	Founding date	Region	Countries	Target group served	Capital base	Financial instruments
EASTERN EUROPE AND CENTRAL ASIA									
11.	Agribusiness Fund/East European Food Fund	Equity fund		1995	NIS/Central and Eastern Europe	These include Hungary, Poland, Romania	The Fund invests in food and beverage companies in the NIS and Central and Eastern Europe, i.e. agribusinesses, majority of which are unlisted companies issuing shares through private placements and privatizations.	USD 80 million	Equity and equity-related investments, ranging from USD 1 million to USD 10 million.
12.	Agribusiness Partners L.P (United States of America/Russian Federation)/ Agribusiness Partners International Fund	Private equity fund	Partnership	1995	NIS/Central and Eastern Europe	Russian Federation, Kazakhstan, Ukraine, Moldova, Georgia.	Agribusiness and food processing companies.	USD 100 million	
13.	Georgia Regional Development Fund (GRDF)		LLC	2006	NIS/Central and Eastern Europe	Georgia, mainly the regions outside Tbilisi	Provides early stage and expansion capital for SMEs with a focus on agribusiness and tourism. Others include retail, manufacturing and IT/ telecommunication.	USD 30 million	Equity and debt investments, ranging from USD 700 000 to USD 3 million.

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	Financial performance/ analysis	Organizational and operational set-up	Principal issues, constraints and opportunities	Provision of technical assistance	Examples of funded projects	Reference/ URL
EASTERN EUROPE AND CENTRAL ASIA							
11.	Investors include the European Bank for Reconstruction and Development (EBRD), Commerzbank AG and other institutional investors. The fund is managed by Jupiter Asset Management Ltd., an international investment management company.		The fund is closed-end until 2015 and is currently fully invested. Exits usually after 5-8 or 8-15 years.		No technical assistance is provided.		*http://permanent.access.gpo.gov/ lps3997/9512jupt.htm
12.	Investors comprise institutional investors and individuals. The fund was managed by the US-based Burlington Capital Group LLC (formerly American First Companies).	The Fund returned more than 100% of the original capital invested to the OPIC-insured investors. The gross IRR of unprotected equity was 37%.	The fund was closed-end and received credit support and a guarantee from the Oversees Private Investment Corporation (OPIC), a United States Government agency. Once the Fund was set up, the Fund Manager established a representative office in Moscow, Russian Federation.			The Fund was fully invested in seven agribusiness/food processing companies, including, for example, typical agribusinesses such as poultry and others related to agribusiness, such as glass container manufacturing and packaging production.	*www.burlingtoncg.com/api.shtml *http://ro-b.redorbit.com/news/ business/1048811/agribusiness_partners_ international_lp_finalizes_sale_of_chicken_ kingdom/index.html
13.	Shareholder (100%): Millennium Challenge Georgia (MCG), a Georgian government agency set up to invest the grant contribution received by the Millennium Challenge Corporation, a US government corporation. The fund is managed by SEAF, a global investment firm specialized in the management of private equity and mezzanine funds in emerging markets.	Gross IRR to date: 8%. Target IRR: 17% for debt and 25% for equity.	The fund management is run out of SEAF's Georgia office, with oversight and support from SEAF headquarters in the United States.		MCG also established a USD 2 million grant facility to sponsor technical assistance for the portfolio companies. A cost share agreement is generally required from the respective company.	The Fund has currently invested USD 21 million into ten Georgian businesses, six of which are agribusinesses, including a hazelnut or a tomato processing company.	*www.seaf.com *www.seaf.ge *www.mcg.ge

		General information			Countries of operations and target group			Financing	
	Name of fund	Type of fund	Fund structure	Founding date	Region	Countries	Target group served	Capital base	Financial instruments
OTHER REGIONS OF THE WORLD									
14.	India Agribusiness Fund	Private equity fund	LLC	2008	SA	India	The Fund will invest in companies operating in the more than 38 subsectors of food- and agribusiness as well as in agri-infrastructure such as cold chain logistics and warehousing.	USD 100 million	Equity investments, expected to range from USD 3 to 10 million.
15.	Fondo para los Pequeños Productores Rurales en América Latina (FOPEPRO)	MIV		2009	LAC	Bolivia, Colombia, Ecuador, Peru, Guatemala, El Salvador, Honduras, Nicaragua, Paraguay	Smallholder organizations and SMEs (processing & marketing) shall comprise 65% of the portfolio. MFIsand Credit unions working in rural areas shall comprise 35% of the portfolio. Target commodities include: coffee, cocoa, bananas, maize, beans, sesame, high value vegetables, dairy, etc.	USD 20.5 million: common shares 8 million, preferential shares 2 million, long-term loan 10.5 million. Maximum leverage of 1.5.	Medium-term investment lending and subordinated or senior debt to MFIs.
16.	Horus Food & Agribusiness Fund	Equity fund		2006	MENA	Egypt	Food and agribusiness industries (primary products and processing, companies often export to the European market)	USD 50 million	Equity investments. The fund mostly acquires minority stakes (15-30%) in unlisted companies. Minimum investment at EGP 15 million (EUR 2 million). Investments usually range between USD 5-10 million.

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	**Financial performance/ analysis**	**Organizational and operational set-up**	**Principal issues, constraints and opportunities**	**Provision of technical assistance**	**Examples of funded projects**	**Reference/ URL**
OTHER REGIONS OF THE WORLD							
14.	IFC, Entwicklungsgesellschaft (DEG), Rabobank, FMO. In June 2009, CDC committed USD 10 million to the Fund The Fund is managed by Rabo Equity Management Company Ltd. based in Mauritius. Rabo Equity Advisors Private Ltd. will be the Investment Adviser.	Target IRR: 20%				The fund has already made its first investment, in Sri Biotech Laboratories, a company which produces and sells organic agricultural products that improve and protect crop yields.. Rabo acquires about 20-28% stake in each company and has a right to take a call on any management decision.	*http://www.altassets.net/private-equity-news/by-region/asia/article/nz16090.html *www.fmo.nl/smartsite.dws?id=1164 *www.financialexpress.com/news/rabobank-to-close-pe-deals-worth-40-m/396806/
15.	Currently assessed by ten potential investors: five multilateral donors, two bilateral donors, one bank and two development organizations. Currently there are firm commitments with IADB (FOMIN), Calvert Foundation, Desjirdans. And conversations wit AECID, IADB (Opportunities for the Majorities). Alterfin (Belgium), SIDI (France) & FOGAL (SOS Faim),are the founders of the Fund, registered in Panama. And have set up the management company (Acerola Management SA) incorporated in Panama and operating from El Salvador.	Scenario "Positive Thrust"(Scenario "Investors Return"): ROA 2.7% (3.4%), ROE common shares 5 % (7%), preferred shares 3.5% (3.5%), IRR 6.0% (8.0%),	Maturity of the fund: ten years.		Technical assistance will be provided to build up the local management company. A separate, donor-funded USD 5 million technical assistance fund is being set up to assist FOPEPRO's clients (producer cooperatives).		
16.			The fund is a closed-end fund with a maturity of ten years and is currently in its build-up phase.				*www.primecorp.com/services/horus.htm

		General information			Countries of operations and target group			Financing	
Name of fund		Type of fund	Fund structure	Founding date	Region	Countries	Target group served	Capital base	Financial instruments
17.	Lignum Forestry Fund			2006	LAC	Chile	Forestry	USD 39.4 million (equity only)	Leasing (land)
18.	Nicaragua Credit Alternatives (NICA) Fund As of December 2009- name changed to Capital for Communities Fund	MIV		1998	LAC	Nicaragua	Farmers and entrepreneurs, particularly women, with little or no access to credit	USD 8.6 million	Loans to MFIs
19.	Olea Capital Fund			2007	MENA	Morocco	Olive industry, rural farmers: The Fund intends planting and growing olive oil in 10 farms with an average of 1 000 ha each, using state of the art technology. It is planned to grow 20 million trees and to produce 30 000 tonnes of oil, which would expand the country's oil output by 50%.	1.8 billion dirhams, or USD 225.3 million (in 2007)	
20.	UNIDO Food and Agribusiness Equity Fund	Equity fund		2008	MENA	Egypt	The fund will invest in equipment, processing and services within the post-harvesting supply chain cycle. The idea is to reduce post-harvest losses in Upper Egypt (which can reach up to 70%).	USD 500 million	Equity investments. Non-start-ups.
21.	Yes Bank Food and Agri Business Equity Fund	Private equity fund		2008	SA	India	Investment in companies engaged in farm imports, food retailing and business of organic foods and ready-to-eat food business.	USD 75-100 million	

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	Financial performance/ analysis	Organizational and operational set-up	Principal issues, constraints and opportunities	Provision of technical assistance	Examples of funded projects	Reference/ URL
17.	Fundacion Chile, 4-6 Chilean institutional investors and IFC (equity)		The objective is to purchase land use rights of dry eroded land with no agriculture value from small- and medium-scale landowners and farmers. Then, to make this land productive, they would plant trees that would generate profits once harvested. The project intends to set up long-term land use right agreements with landowners who obtain an annual fee and a portion of the wood sale's proceeds. It will also sell forestry-backed bonds to the Chilean capital market. The Fund will be registered in the stock exchange.				*www.ifc.org/ifcext/pressroom/ ifcpressroom.nsf/PressRelease?openform&8 BC155D531BD71908525715A0065FF4F *www.ifc.org/ifcext/spiwebsite1.nsf/1ca073 40e47a35cd85256efb00700cee/04D1FC2C E1046E8A85256F2E006CDA64
18.	The Wisconsin Coordinating Council on Nicaragua (WCCN), institutional and individual investors	ROA: 0.004%, ROE: 0.023%	A Loan Fund Manager (in Madison) oversees NICA fund portfolio, maintains direct contact with the investors, and ensures timely repayment of the investors' capital and interest. A Loan Fund Representative (in Nicaragua) maintains day to day contact with the partner agencies. The NICA Fund's Oversight Committee - a group of experts in finance, law, and economic development - meets monthly to monitor the NICA Fund's financial situation and to guide lending decisions.				*www.capitalforcommunities.org http://www.capitalforcommunities.org/ node/492
19.	Investors include the AfDB (EUR 34 million loan in 2008), Moroccan Credit Agricole, French Société Générale and Olea.			The project is expected to create 560 direct permanent jobs and 4 000 seasonal jobs. It is also planned to promote women's employment and farms operated by small producers. In addition, attention is paid to social and environmental standards.	Technical assistance is planned to be provided to small producers.		*www.flex-news-food.com/pages/11346/ Africa/Vegetable/moroccos-fund-launches-bold-olive-growing-project.html *www.afdb.org/en/news-events/article/ afdb-group-private-sector-provides-euro-34-million-to-olea-capital-fund-3390/
20.	The Fund will be managed by Delta Rasmala, an Egyptian asset management firm.		The Fund will be closed-end with a maturity of about ten years.	The Fund is in the process of currently being set up. The project intends to support business solutions that have local ownership and support.	Technical assistance will be provided including business planning and capacity building for a local governments, techincal assistance packages for producers, processors and retailers.		*www.entrepreneur.com/tradejournals/ article/192415499.html *http://rawya.ramsco.net/worldnews.htm
21.	Investors: financial institutions, public sector banks, multilateral institutions, developmental agencies and other corporates.	Target return of 20-25% per year.	The Fund plans to build a diversified portfolio of 10-15 investments, across the food and agribusiness sector in next 1- 2 years.	It seems that the Fund has been merged with other funds.			*www.yesbank.in/releasedisp.php?pid=197

		General information			Countries of operations and target group			Financing	
	Name of fund	Type of fund	Fund structure	Founding date	Region	Countries	Target group served	Capital base	Financial instruments
GLOBAL									
22.	Alterfin	MIV	Cooperative society with limited liability	1994	Global	Bolivia, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Peru, Laos, Cambodia, Benin, Morocco, Niger, Togo, Uganda, France	Farmers/producers of organic and fair trade agricultural products and rural MFIs.	EUR 26.8 million (portfolio)	Loans to MFI and fair trade producer organizations. Guarantees (2% of the portfolio). Equity (4% of the portfolio).
23.	Altima One World Agriculture Development Fund	Private equity fund		2009	Global		Agricultural production, land and farm operators.	USD 625 million	
24.	GAIA World Agri Fund	Equity fund		2008	Global	Former Soviet Union, Africa and Latin America	Invests in upstream farming operations, agri-land, equipment and technology and related businesses in emerging regions.	n.a.	Invests in listed and unlisted equities and pre-IPO situations.
25.	Microvest	MIV	Limited partnership	2004	Global	Global, but predominant in EECA and LAC. Examples include Azerbaijan, Peru, Ecuador, El Salvador, Kyrgyzstan, Bosnia, Georgia, Nicaragua, Mongolia, Ghana, Mexico, Bolivia and the United States of America.	First-, second- and third-tier MFIs in developing countries.	*USD 140 million *MVI USD 41 million *CDO USD 39 million *MV II USD 60 million	Equity and debt.
26.	Oikocredit	Financing institution/ MIV	International co-operative society under Dutch Law with excluded liability.	1975	Global	69 active countries	MFIs, cooperatives and SMEs.	Total lendable funds (end of 2008): EUR 356 million	Debt investments.

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	Financial performance/ analysis	Organizational and operational set-up	Principal issues, constraints and opportunities	Provision of technical assistance	Examples of funded projects	Reference/ URL
GLOBAL							
22.	Private institutions and individuals				Cooperatives that receive pre-financing sometimes provide technical assistance to their members.	*Fair trade coffee in Café Organico Marcala, Honduras. *Fair trade cocoa in Acopagro, Peru. *Fair trade bananas in Urocal, Ecuador.	*www.alterfin.be
23.	IFC (largest equity investment in agribusiness of USD 75 million). The Fund will be managed by Altima Partners LLP.						*www.eastagri.org/news/index.asp?id=178 *http://www.ifc.org/ifcext/media.nsf/AttachmentsByTitle/AM09_Agribusiness/$FILE/AM09_Agribusiness.pdf
24.	The Fund is managed by GAIA Capital Advisors, a Geneva-based investment advisory group specializing in emerging markets and natural resources.						*www.gaiacap.ch
25.	Private individuals and institutions, private NGO development institutions (founders CARE, MEDA, Seed Capital) and others.	IRR: 9.43% per year as of 30 June 2009.		Microvest has grown from one fund to become a family of funds under a holding company structure, with each fund having a general partner-limited partner structure. The Fund focuses on social impact business principles.	Technical support is provided to improve the management and governance of partner MFIs.	*USD 750.000 loan to Prestanic, Nicaragua (USD 17 million portfolio) of SME and agriculture/livestock loans *USD 3 million loan to CredAgro, Azerbaijan (USD 44 million portfolio) *USD 750 000 loan to PRISMA, Peru (USD 8 million portfolio) *USD 2.4 million equity to Edyficar, Peru (USD 150 million portfolio) .	*www.microvestfund.com
26.	Private individual and institutional investors.	Modest dividend of 2% per year.	Head office in Netherlands with 11 regional offices for Asia, Africa, Latin America and Eastern Europe and Central Asia.		Technical assistance is provided.		*www.oikocredit.org/site/en/

		General information			Countries of operations and target group			Financing	
Name of fund		Type of fund	Fund structure	Founding date	Region	Countries	Target group served	Capital base	Financial instruments
27.	Rabo Sustainable Agriculture Guarantee Fund (SAGF)	Guarantee fund	Foundation under Dutch law	2008	Global	Peru, Honduras, Nicaragua, India, Mozambique	Financial intermediaries that commit themselves to pre-finance agricultural cooperatives and SMEs.	USD 30 million (by 2011)	Credit guarantees: the fund issues (partial) credit guarantees in favour of financial intermediaries, allowing them to offer commercial finance to agricultural cooperatives and SMEs. Guarantees range from USD 300 000 to USD 1 200 000.
28.	Root Capital			1999	Global	SSA, Latin America, Asia	Missing middle: small grassroots businesses such as coffee farmer cooperatives and artisan associations	USD 25 million	Trade credit
29.	Rural Impulse Fund	MIV		2007	Global	Bosnia and Herzegovina, Kyrgyzstan, Tajikistan, Georgia, Armenia, Azerbaijan, Bolivia, Guatemala, Peru, Nicaragua, Ecuador, United Republic of Tanzania, Nigeria, Kenya, Ghana, India, Cambodia	Rural MFIs	USD 38 million	Equity, quasi-equity, debt, (guarantees). Investments usually range between USD 500 000 to USD 3 million.

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	Financial performance/ analysis	Organizational and operational set-up	Principal issues, constraints and opportunities	Provision of technical assistance	Examples of funded projects	Reference/ URL
27.	Rabobank International, Rabobank Foundation, Dutch Ministry of Development Cooperation, Cordaid. The Fund is managed by Rabobank International.		The Fund's operations are managed on a daily basis by professionals from Rabobank International, which draws on its world-wide network. The fund issues (partial) credit guarantees, which will be phased out step-by-step during the following loan cycles. The local bank finances the clients on the basis of a sales contract.		The Fund is planning to provide technical assistance to its partner banks and is currently exploring opportunities for cooperation.	The Fund has, for example, established relationships with three banks in Peru. In the country, guarantees issued by the SAGF helped a local company to start processing and exporting artichokes. In addition, cooperatives involved in coffee, cacao production have benefitted from the Fund.	*www.rabobank.com/content/corporates/tcf/raboagrifund/
28.	Institutional and private investors (debt)	To date, at least 100% repayment to investors.	Loans to farmers and local producers are guaranteed by future sales from buyers such as international corporations. When the natural products are shipped, the buyer pays Root Capital directly for the interest and principal. The net of payments will then be forwarded to the local producers.		Root capital provides financial literacy training and other workshops to its borrowers.	For example, Root Capital provided a loan to a coffee-producing cooperative, which was guaranteed by Starbucks. Since receiving the loan, the quality of the output improved and the sales of the community doubled.	*www.rootcapital.org/
29.	Equity of the fund is provided by private contributions and DFIs, mezzanine by DFIs, senior debt by private investors. Investors include BIO, FMO, EIB, KBC Private Equity, IFC, Incofin and three additional private Belgium companies (Volksvermogen, MRRB and CERA). The Fund is managed by Incofin, a Belgium-based private social investment company.		Closed-end fund with a ten-year lifetime, with a maturity until 2017. The Fund has been almost fully invested.	The Fund Manager is planning to set up a follow-up fund.	In case of equity investments, technical assistance is provided for strengthening capacities by external experts in specific areas.		*http://www.ifc.org/ifcext/media.nsf/content/SelectedPressRelease?OpenDocument&UNID=621479A3EB1794728525737B006525C4 *www.incofin.be/

	General information			Countries of operations and target group			Financing	
Name of fund	**Type of fund**	**Fund structure**	**Founding date**	**Region**	**Countries**	**Target group served**	**Capital base**	**Financial instruments**
30. Triodos Sustainable Trade Fund	Trade finance facility	Foundation under Dutch Law	2008	Global	Africa, Latin America, Eastern Europe	Certified organic and fair trade producers which need to pre-finance their export contracts with foreign buyers in the EU and US.	EUR 10 million	Trade finance loans
31. AgriCapital	Private equity fund		2008	Global	These include the Philippines, Turkey, India, Sudan and Mali.	Investments will be channelled into the farm sector (food production, livestock, biomedicine, biofuels and agriculture technology).	USD 1 billion (targeted)	Investments mainly in unlisted companies.

	Financing		Organization and other issues				
	Shareholders/investors/ founders/fund managers	**Financial performance/ analysis**	**Organizational and operational set-up**	**Principal issues, constraints and opportunities**	**Provision of technical assistance**	**Examples of funded projects**	**Reference/ URL**
30.	The Dutch development organization Hivos is one of the Fund's launching partners. Refinancing is provided by Triodos Bank. The Fund is managed by Triodos Investment Management.		Trade finance loans at commercial interest rates, amounting up to 60% of the contract value. Loan periods usually range from 6 to 12 months. Usually, no collateral required beyond the receivables related to the export contracts. All payments on the contract are made through a Triodos bank account.			20 organizations/ cooperatives reached to date.	*www.triodos.com/com/international_ funds/sustainable_trade/tstf/
31.	Private institutional investors, as well as sovereign wealth funds.			Complemented by two other funds: InfraCapital, which is focused on developing infrastructure, and the Unique Global Islamic Hospitality Development Fund, which invests across the global hospitality sector.		AgriCapital is in the process of being set up and no investments have been placed yet.	*www.dfm.ae/documents/News%20 Files/184cec2b-161c-4a32-94b5-11e5cae76653.doc *www.cpifinancial.net/v2/news.aspx?v=1&aid=1009&sec=Alternative%20Investment

Annex 9. Investment fund summaries – funds, sectors, instruments and types

	Investment sector															Type of investment					Type of fund				
	Agriculture and Agribusiness									**Other (not targeted)**															
	Agro-industries/agri-business	Food/beverage	Seed/fertilizer companies	Smallholders/cooperatives	Horticulture/fruits	Grains/pulses	Livestock	Dairy	Rural/agri-infrastructure	Eco-tourism	Land acquisition	Forestry/fisheries	Microfinance/banks	Other SMEs	Other sectors	Equity fund	Debt fund	Debt/equity fund	Guarantee fund	Other funds	Private capital fund	Private and public fund	Commercial	Socially responsible investment	Technical assistance provision
SUB-SAHARAN AFRICA																									
1. Actis Africa Agribusiness Fund	X								X			X		X		X						X	X	X	X
2. Africa Invest Malawi (Africa Agri Fund)	X			X	X	X			X		X					X						X	X		X
3. Africa Seed Investment Fund (ASIF)	X		X															X				X		X	X
4. African Agricultural Capital (AAC)	X		X		X	X	X					X						X			X		X	X	X
5. African Agribusiness Investment Fund (Agri-Vie)	X				X	X	X	X				X			X	X						X	X	X	X
6. Aventura Rural Enterprise Fund	X								X									X				X	X	X	X
7. Barak Structured Trade Finance Fund	X												X							X	X		X		
8. Emergent African Land Fund	X								X		X									X	X		X		
9. Sierra Investment Fund	X											X		X	X	X						X	X	X	X
10. Phatisa African Agri Fund	X		X						X		X	X				X					X		X		
EASTERN EUROPE AND CENTRAL ASIA																									
11. Agribusiness Fund/East European Food Fund	X	X														X						X	X		
12. Agribusiness Partners L.P (USA/Russia)/ Agribusiness Partners International Fund	X	X						X							X	X					X		X		
13. Georgia Regional Development Fund (GRDF)	X	X												X	X			X				X	X	X	X
OTHER REGIONS OF THE WORLD																									
14. India Agribusiness Fund	X	X							X							X						X	X	X	
15. Fondo para los Pequenos Productores Rurales en America Latina (FOPEPRO)				X									X				X					X	X	X	X
16. Horus Food and Agribusiness Fund	X	X														X						X	X		
17. Lignum Forestry Fund											X	X								X		X	X	X	
18. Nicaragua Credit Alternatives (NICA) Fund													X				X				X			X	
19. Olea Capital Fund	X	X		X	X													X				X	X	X	X
20. UNIDO Food and Agribusiness Equity Fund	X	X							X							X						X	X	X	X
21. Yes Bank Food and Agri Business Equity Fund	X	X														X						X	X		
GLOBAL																									
22. Alterfin				X	X								X				X				X		X	X	X
23. Altima One Word Agriculture Development Fund	X	X									X					X						X	X	X	
24. GAIA World Agri Fund	X								X		X					X					X		X		
25. Microvest													X					X			X			X	X
26. Oikocredit				X									X					X			X			X	X
27. Rabo Sustainable Agriculture Guarantee Fund (SAGF)													X						X			X	X		
28. Root Capital				X	X					X		X		X	X		X				X			X	X
29. Rural Impulse Fund													X					X	X			X	X	X	X
30. Triodos Sustainable Trade Fund	X				X	X														X	X		X	X	
31. AgriCapital	X	X					X								X	X					X		X		

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