Africa Agriculture and Trade Investment Fund

2015
Outline

1. Fund Structure
2. Objectives
3. Investments
4. Case Studies
5. AATIF Chase Bank Funding
1. Fund Structure

The Fund targets small, medium and large scale agricultural farms as well as agricultural businesses along the entire agricultural value chain which will be financed directly (e.g. cooperatives, commercial farms, processing companies) and indirectly via local financial institutions or other intermediaries (such as large agribusinesses) which on-lend to the agricultural sector.

AATIF is organised under Luxembourg law in the form of a public limited liability company. The fund’s shareholders are represented by the Board of Directors. The Board of Directors appoints the Investment Committee which approves investments (discretion) that are proposed by the Investment Manager and supervises the activities of the Investment Manager.

AATIF is structured to allow investors to come in at three different levels, each offering a unique risk/return profile with dividends being paid following a waterfall principle.
2. Objectives

The Fund's mission is to realise the potential of Africa's agricultural production, manufacturing, service provision and trade for the benefit of the poor. The Fund aims to provide additional employment and income to farmers, entrepreneurs and labourers alike. In this context a dedicated effort will also be made to support contract farming arrangements.

### Mission

The Fund's mission is to realise the potential of Africa's agricultural production, manufacturing, service provision and trade for the benefit of the poor. The Fund aims to provide additional employment and income to farmers, entrepreneurs and labourers alike. In this context a dedicated effort will also be made to support contract farming arrangements.

### Objectives

#### Economic development objectives
- Enhance local value addition capacity
- Bridge the funding gap
- Increase agricultural production

#### Social development objectives
- Create quality employment
- Increase household income
- Reduce poverty

#### Environmental objectives
- Prevent or abate pollution
- Conserve biodiversity
- Manage natural resources sustainably
### 3. Investments

**AATIF pursues a threefold investment approach**

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<tr>
<td><strong>Financial Institutions</strong></td>
<td><strong>Intermediaries</strong></td>
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<td><strong>Target Clients:</strong> Selected financial institutions which on-lend to the agricultural sector.</td>
<td><strong>Target Clients:</strong> Selected intermediary agribusinesses (commercial agricultural actors that are deeply involved in their value chain and often pre-finance their suppliers/producers).</td>
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</table>
| **Instruments:**  
- Senior debt  
- Guarantees  
- Risk Sharing | **Instruments:**  
- Senior debt  
- Guarantees  
- Risk Sharing | **Instruments:**  
- Senior debt  
- Mezzanine  
- Equity |
| **Tenor & Volume:**  
- Up to 10 years  
- USD 10-30m | **Tenor & Volume:**  
- Up to 12 years  
- USD 10-30m | **Tenor & Volume:**  
- Up to 12 years  
- USD 5-15m |
| **Objective:** Facilitate on-lending to smallholders and/or to small and medium sized enterprises (SMEs) in the agricultural sector. | **Objective:** Intermediaries will (i) disburse sub-loans and/or in-kind loans to their producers which are preferably organized in outgrower schemes and/or (ii) finance processing plants directly beneficial to the local economy by enhancing the value addition capacity. | **Objective:** Enable growth of target clients along the agricultural value chain to ultimately increase productivity, production and local value addition. |
3. Investments

**AATIF Portfolio**

**Wienco**
Intermediary, Ghana
AATIF loan: USD 20m, Term 3 years
- Distributor of inputs, off-taker of maize & cotton
- Collaboration with smallholder farmers (cocoa, cotton, maize)

**Balmed**
Direct Investment, Sierra Leone
AATIF loan: USD 1m, Term 5 years
- Blockfarming and trading
- Strengthening of local cocoa and coffee value chain

**BancABC**
Financial Institution, East Africa
AATIF loan: USD 25m, Term 5 years
- Supporting growth of local agric funding
- Credit protection in the form of risk sharing

**Chobe Agrivision**
Direct Investment, Zambia
AATIF loan: USD 10m, Term 5 years
- Wheat, maize and soy farm
- Assembling/cultivating farms growing soy, maize and wheat

**[To be disclosed]**
Intermediary, Pan Africa
AATIF loan: USD 30m, Term 5 years
- Integrated agricultural supply chain manager and processor
- Vast majority of commodities are acquired from small scale farmers

**GADCO**
Direct Investment, Ghana
AATIF loan: USD 5m, Term 5 years
- Rice Farm
- Partnership with smallholders
- Serving African consumer markets

**Chase Bank**
Financial Institution, Kenya
AATIF loan: USD 10m, Term 5 years
- SME Bank
- Agricultural sector earmarked to become a major growth area, with a focus on input providers, farmers, processing companies and off-takers alike

**PTA Bank**
Financial Institution, COMESA
AATIF loan: USD 30m, Term 5 years
- Multilateral development bank
- Private sector related trade & project/infrastructure financing
- Agriculture almost 10% of its portfolio

**Cape Concentrate**
Direct Investment, South Africa
AATIF Loan: USD 8m, Term 5 years
- Processing of tomatoes
- Tomato supply mostly via mentorship farming programmes with local communities

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## 3. Investments

### Key considerations

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<th>Business plan, historical and projected financials</th>
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<td>Size</td>
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<td>Sponsor equity contribution</td>
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<td>Management and sponsor track record</td>
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<td>Greenfield versus brownfield</td>
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<td>Country and strategic fit of investment</td>
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<td>AATIF S&amp;E guidelines</td>
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<td>AATIF investment restrictions</td>
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<td>Additionality</td>
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<th>Transaction structuring</th>
<th>Investment instrument</th>
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<td>Repayment profile</td>
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<td>Intercreditor relations</td>
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<td>Operational and S&amp;E undertakings &amp; financial covenants</td>
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4. Case Studies – Ghana

_Wienco_

**Project in brief**

<table>
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<tr>
<th>Project</th>
<th>Direct investment into Ghanaian agribusiness conglomerate</th>
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| Key elements | Volume: USD 20m  
Term: 3 years  
Market based interest payments (Libor based) |
| Funding | AATIF provides funding to Wienco (Ghana) Ltd, a key player in the Ghana agribusiness sector which has been involved in supporting the development of the smallholder farming sector in Ghana for five years and currently provides fertilizer and agrochemicals on credit to smallholder farmers in cocoa, cotton and maize. |
| Impact | 1. Supporting the continuous regional expansion of outgrower-schemes specifically in cocoa, cotton and maize  
2. Provision of training in input application methods, as well as key aspects of business training to all smallholder farmers  
3. Increasing local income level and food security  
4. Sustainable improving the agricultural production and establishing a long lasting trade network.  
5. Strengthen of smallholders’ position in crop technology providing industry. |
| S&E | 1. Development and Implementation of a Social and Environmental Management System  
2. Review working conditions and remuneration of subcontractors  
3. In outgrower schemes: Improvement of internal certification standards, contracts with smallholder farmers/ repayment, capacity of smallholder farmers, e.g. storage and application of chemicals, |

**Project structure**

- AATIF
- AATIF Compliance Advisor
- Crop Technology Provider
- Seeds, Fertilizers, Agrochemicals
- Effective Farming Techniques, Trading Network
- Loan
- Debt service
- Due diligence on social and environmental guidelines
- Cotton & Maize Smallholder program
- Rice Smallholder program
- Cocoa Smallholder program

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4. Case Studies – Kenya

Chase Bank

Project in brief

**Project**
Senior Loan to local Kenyan SME Bank

**Key elements**
Volume: USD 10m
Term: 5 years
Market based interest payments (Libor based)

**Funding**
AATIF provides funding for a leading East African SME Bank to support the roll-out of its agribusiness sector strategy, including its domestic expansion. Sub-loans have been disbursed along the agric value chain including i.a. feed suppliers, livestock farming, dairy and tea & coffee companies.

**Impact**
1. Support the expansion of lending activities to the agricultural sector
2. Provision of funding for a young and growing financial institution
3. Sub-loans support and promote agricultural production and enhance local value addition

**S&E**
1. Development and Implementation of Social and Environmental Management System (Strategy, standards and procedures)
2. Linkage S&E Management System to staff performance system
3. S&E study

**Technical Assistance**
1. Improvement of efficiency of Chase Bank’s agricultural lending operations
2. Analysis of the dairy and horticulture value chains, sectors with a strong demand for finance

Project structure

**Compliance Advisor**
Introduction of S & E Management System

**Sub-Borrowers**
Sub-Loan
Debt Service

**Chase Bank**
Loan
Debt Service

**Technical Assistance**
Value Chain Analysis
AATIF Chase Bank Partnership:

- **Chase Bank (Kenya) Limited** (“Chase Bank”) is a privately owned bank, incorporated in Kenya in 1996 and licensed and regulated by the Central Bank of Kenya.

- Core focus is the SME business, including agriculture, manufacturing, trade, building and construction, healthcare, education and transport.

- With a group network of over 60 branches & 750 agents we serve over 400,000 customers globally.
Chase Agriculture Portfolio

• The agricultural financing unit of Chase Bank Kenya Limited was established in 2012. The department is a critical component of Chase Bank’s strategy that has been aligned to the Vision 2030 of transforming Kenya into a middle income economy. Chase Bank has therefore committed itself to becoming a leader in this critical sector as it consolidates its position and ambition to be a tier 1 leading bank in Kenya.

• As of 30 September 2015, Chase Bank had, through repeated seasonal financing, on-lent USD 10M worth of AATIF loans to the food processing, tea, dairy, sugar and maize sectors with an additional focus on horticulture. The bank is already leader in Warehouse Receipt Financing in Kenya (maize).

• The number of outstanding loans was approx. 260 with an average outstanding loan amount per Chase Bank client of between USD 30,000 and 40,000.

• Through the funding, the Bank has been able to focus on key value chains in Agriculture such as dairy, cereals and horticulture and grow the loan book through serving small and medium scale farmers directly and indirectly.

• The funding resulted in growth of Chase Bank loan by 50%, with additional similar partnership the bank projects to close the year 2016 at an asset book of USD 30M.
AATIF Chase Bank Funding:

Facility Structure:
- **Type of Facility**: Term Loan
- **Tenor**: 5 Years
- **Disbursement**: 2 equal installments within availability period of twelve months.
- **Pricing**: Market based pricing structure (Libor-based)
- **Purpose**: Financing of agricultural sector customers including but not limited to; entrepreneurs, agribusiness companies, producer cooperatives, small, medium and large sized farmers as well as export-oriented producers in the agricultural sector.

(Key) Conditions:
- Implementation of a Social and Environmental System including hiring/nominating a Social and Environmental Coordinator.
Chase Bank Social and Environmental Review

• The bank has established a formal Social and Environmental Management System (SEMS) which has been rolled out to all branches in 2015.

• Throughout 2014/2015, the bank’s S&E manager and S&E coordinator closely worked with the AATIF Compliance Advisor and a consultant of DEG to fine tune the different components of the SEMS prior to its launch including an innovative facilitated S&E appraisal for agricultural loans below USD 100,000.

• Jointly, training of front and back office staff in the use of S&E procedure was implemented, tools for the facilitated S&E appraisal were developed, and a social risk guidance document was drafted and tailored to the Kenyan context.

• An ongoing study found:
  • Technical difficulties incorporating the S&E checklists in the bank’s credit system.
  • Further staff feedback identified a need for additional training for back office staff.
  • Closer monitoring framework to ensure that staff are carrying out S&E assessments
Some of the milestones achieved this year are:

- Establishment of the maize, tea and potato sector information system
- Implementation of the Social and Environmental Guidelines.
- Agri-specific credit policy to enhance agricultural lending and grow the portfolio (a first in Kenya).
- Training of the agri team on agri credit finance skills.
- Signing of additional strategic partnerships to enhance our lending within the agricultural sector in Kenya.

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<thead>
<tr>
<th>Partnership:</th>
<th>Facility</th>
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<tbody>
<tr>
<td>John Deere Financial</td>
<td>Financing of Tractors and Agri Equipment</td>
</tr>
<tr>
<td>East African Grain Council (EAGC)/CGS Millers</td>
<td>Ware House Receipt System (WHR)</td>
</tr>
<tr>
<td>East Africa Maltings Limited (EAML)</td>
<td>Input Finance for Contracted Barley Farmers</td>
</tr>
<tr>
<td>Green Farming Systems/Growing Kenya Solutions</td>
<td>Financing partnership with a Dutch consortium to finance SME horticultural growers to acquire enhanced green house and irrigation systems</td>
</tr>
<tr>
<td>Kenya Seed Company Limited</td>
<td>Input Finance for Contracted Maize Seed Growers.</td>
</tr>
</tbody>
</table>
Lessons Learnt:

- Improved risk management
- Improved efficiency through training of Agri staff.
- Win new customers.
- Diversification into new sectors.
- Impact on the Knowledge hub.
The ILO – with support of the UNEP (United Nations Environment Program) Regional Office for Africa – collaborates with the AATIF as compliance advisor, to:

- Review of AATIF S&E Safeguard Guidelines
- S&E assessments of potential AATIF partners
- S&E studies
- Provide small TC to AATIF investees
- Develop training materials
- Build capacity for social risk and impact management
6. S&E Management: ILO – AATIF collaboration
S&E Safeguard Guidelines

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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<tbody>
<tr>
<td>Social and Environmental Management System</td>
<td>Enables identification, assessment and management of social and environmental risk and impacts. Considers both adverse and beneficial risks and impacts.</td>
</tr>
<tr>
<td>Labor and Working Conditions</td>
<td>Protection of basic rights for workers and prevention of child and forced labour.</td>
</tr>
<tr>
<td>Community Health, Safety and Security</td>
<td>Minimizing risks and impacts to community health, safety and security that may arise from investment activities (e.g. equipment accidents).</td>
</tr>
<tr>
<td>Land Acquisition and Involuntary Resettlement</td>
<td>No funding of projects involving involuntary resettlement.</td>
</tr>
<tr>
<td>Biodiversity Conservation and Sustainable Natural Resource</td>
<td>Protecting and conserving biodiversity—the variety of life in all its forms, including genetic, species and ecosystem diversity—and its ability to change and evolve.</td>
</tr>
<tr>
<td>Indigenous Peoples</td>
<td>Avoiding and minimizing the risk of exposing indigenous people to severity of impacts (including loss of identity, culture, natural resource-based livelihoods, and exposure to impoverishment and disease). Apply principle of free, prior, and informed consent.</td>
</tr>
<tr>
<td>Cultural Heritage</td>
<td>Safekeeping of irreplaceable cultural heritage and guidance for investees on protecting cultural heritage in the course of their business operations.</td>
</tr>
<tr>
<td>Pollution and Abatement</td>
<td>Monitor &amp; diminish the amount of pollution to air, water &amp; land that may threaten people &amp; environment caused by investment.</td>
</tr>
</tbody>
</table>
6. S&E Management: ILO – AATIF collaboration
Requirements for Financial Institutions

- Social and Environmental Management System (SEMS):
  - Proactive and communicative management regarding S&E issues
  - Communication of S&E guidelines within the organization (e.g. training, workshops)
  - Organizational capacity for SEMS management
  - Sub-investments analysis and monitoring: ability to identify S&E risks, S&E exclusion list and exclusion of Category A sub-investments, check compliance with relevant laws and applicable guidelines

- Stakeholder engagement: System of dealing with external communication on S&E matters

- Labour and working conditions
6. S&E Management: ILO – AATIF collaboration
Case Studies

Chase Bank
SME Bank, Kenya

- Initially bank did not have a formal SEMS
- Bank got support through AATIF – ILO and other Lenders to develop SEMS and integrate it into its operations:
  - S&E strategy and standards
  - S&E procedure, including social guidance note for credit staff
  - S&E appraisal for loans < USD 100’000
  - S&E responsibilities and training
- Linkage S&E Management System to staff performance system
- S&E Study to assess effectiveness of the new appraisal technique

Snapshot of the results of the S&E baseline study:
- Avg. loan amount request’: 17’681 USD
- Avg. repayment period request’: 2.5 years
- Many clients have implemented some S&E measures – most frequently cited referred to: wage increases, energy efficiency, workplace safety, organic farming
- High awareness of benefits from managing S&E risk – most frequently cited benefit is ‘reduced operating costs’ + ‘profitability’
- Firms that score high on social risk also tend to score high on environment risk.
BancABC

African Commercial Bank, Botswana

- Operates in Mozambique, Botswana, Zambia, Zimbabwe, Tanzania
- AATIF risk sharing agreement to grow the agricultural lending portfolio (transactions along the entire agricultural value chain)
- At the outset, the bank had a set of generic tools to assess and manage social and environmental risks but no comprehensive Social and Environmental Management System (SEMS)
- BancABC is being supported to improve its SEMS in relation to agricultural lending:
  - Drafting a Group Environmental and Social Risk Policy and Procedure Manual based on the existing Group Environmental and Social Review Appraisal Procedure
  - Adapting S&E tools to the country’s context (legal & regulatory context, common S&E risks)
  - Develop and implement an S&E training strategy for staff
- Commitment to hire a Group Coordinator for S&E to oversee SEMS implementation
# Contacts

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<th>Africa Agriculture and Trade Investment Fund</th>
<th>Chase Bank</th>
<th>International Labour Organization</th>
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<td>Patricia Richter</td>
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