Food and Agriculture Organization of the United Nations

Agricultural investment funds for development

Descriptive analysis and lessons learned from fund management, performance and private–public collaboration

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Calvin Miller, Toshiaki Ono and Milica Petruljeskov

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Preface

Agricultural investment funds are experiencing significant growth in numbers and volume, underscoring the private sector's interest in agricultural investment and the public's interest due to the fact that they help to address the resource constraints for achieving food security and rural development. The attractiveness of agricultural investments as profitable business ventures — due to higher food prices and growth trends, natural resource scarcity, and improved business climates that favour longer-term investments — however is tempered by the risks associated with such investments. Agricultural investment funds are an investment structure to channel investment while mitigating risks to investors in the sector. This publication builds on the 2010 FAO document "Agricultural investment funds for developing countries", which provided a broad description of private, public and private–public agricultural investment funds and case examples from Africa and Eastern Europe. It was the result of a comprehensive research study undertaken in collaboration with ConCap Connective Capital of the Frankfurt School of Finance and Management, which later formed the Finance-in-Motion fund management company.

The objective of the 2010 document was to help development agencies, governments and potential agricultural investors better understand the operations, growth and potential of agriculture and agribusiness investment funds in developing countries. It included a stocktaking analysis of agricultural investment funds, as well as case studies of distinct funds in Africa and Eastern Europe and fund management structures. This current publication has a global focus but looks more specifically at funds with a development focus and a commercial or quasi-commercial return interest. These funds almost invariably have some public and/or developmental institutional participation as well as private sector investors. This document includes an updated analysis of the original funds described in the 2010 publication — so as to record their changes and performance over time — but now includes a much larger number of additional funds in this fast-growing area of finance. This private–public financing can be a joint co-investment into the funds by private and public actors, but also can be through a blend of private investors who receive collaboration directly or indirectly through grant fund support to investees to build their capacity, or through support in funding or through guarantees and incentives for the investment funds.

Since the 2010 publication, agricultural investment funds have grown rapidly in both number and size, and have become an increasingly popular vehicle for public development agencies to work with the private sector for targeting investment within the agricultural sector. This fast growth has been spurred by both push and pull factors. The food shortages and spikes in food prices in both 2008 and 2011-12 have pushed governments and development agencies to promote increased investment in agriculture. Concurrently, high food and fuel prices and long-term growth expectations in the sector have directed private investors to consider agriculture as a part of their investment portfolio. The financial crisis of 2009, and the instability in traditional investment markets, have contributed in making investment in agriculture more attractive. Some private investors and government sovereign investment funds interest has been toward land acquisitions, which is not the focus of the present publication. Rather, the funds studied therein are largely those that focus on investment in value addition through increased productivity, technologies, processing and other forms that improve value chain competitiveness. Investment funds often focus on the entire value chain to capture the full income potential of the sector while diversify the investment portfolio.

A fundamental understanding is needed of investment fund management. Hence, there is a concerted effort to capture the perception and experience of fund managers because the performance of investment funds relies on their ability to choose good stocks or investee companies. Private–public agricultural investment funds are also compared with the context and experiences of non-agricultural investment funds for development, such as the growing proliferation of microfinance investment funds.

Overall, this publication outlines the importance of connecting less developed financial markets around the world with national and international investors, and in promoting joint efforts by the public and private sectors. The present publication by FAO forms part of a larger analysis and work on agricultural investment by the Social Policies and Rural Institutions Division (ESP) and other parts of the Organization.

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Acronyms and abbreviations

AAAF	Actis Africa Agribusiness Fund
AAC	African Agricultural Capital Ltd.
AIF	agricultural investment fund
ASIF	Africa Seed Investment Fund
CDC	Commonwealth Development Corporation
DCA	Development Credit Authority
DFI	development finance institution
DFID	Department of International Development, United Kingdom
EIB	European Investment Bank
ESG	environmental, social and governance issues
FDI	foreign direct investment
FMO	Netherlands Development Finance Company
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
GIIN	Global Impact Investing Network
GIIR	Global Impact Investing Rating
GRDF	Georgia Regional Development Fund
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IRIS	Impact Reporting and Investment Standards
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau(German Development Bank)
LAC	Latin America and the Caribbean
LLC	limited liability company
MCC	Millennium Challenge Corporation
MCG	Millennium Challenge Georgia
MDG	Millennium Development Goal
MFI	microfinance institution
MIV	microfinance investment vehicle
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organization
NIS	Newly Independent States
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PCP	Pearl Capital Partnership
PPP	public–private partnership
RAI	Responsible Agricultural Investment
RIF	Rural Impulse Fund
SEAF	Small Enterprise Assistance Fund
SME	small- and medium-sized enterprise
SNV	Netherlands Development Organization
SSA	sub-Saharan Africa
TA	technical assistance
TAF	technical assistance facility
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USAID	United States Agency for International Development
WAAIF	West African Agricultural Investment Fund

Glossary

Term	Definition
Asset class	An investment category in which investment managers can allocate investment capital (e.g. equities, fixed income, real estate, emerging markets, commodities, and more recently, microfinance).
Double (or triple) bottom line	An investment aimed at attaining both a financial and social return, often also referred to as "impact investing". A triple bottom line additionally includes environmental impact metrics.
Closed-end fund	A collective investment scheme with a pre-set ending date and a limited number of shares. New shares are rarely issued after the fund is launched with one or two closing dates; shares are not normally redeemable for cash or securities until the fund liquidates but can be traded among existing shareholders. 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.
Crowdfunding	A method of funding a venture by raising funds in small amounts of money from a large number of individuals who are typically not wealthy investors nor accredited under conventional security laws. Equity crowdfunding adopts this concept and allows individual investors to make an investment in exchange for equity in a company, which could offer an eventual financial return in the business.
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 comprising investment funds of wealthy individuals and institutions, and 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 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 pool funds together with the aim of generating more profits. It is synonymous with a mutual fund.
Investment management	The professional management of various securities (e.g. shares, bonds and other securities) and assets (e.g. real estate) to meet specified investment goals for the benefit of the investors.
Mezzanine finance	Subordinated debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. See www.investopedia.com/terms/m/mezzaninefinancing.asp

Open-end fund	A fund without a fixed termination period date. This type of fund raises money by selling shares to the public (shareholders) and investing in a group of assets, in accordance with a stated set of objectives, usually operated and managed by an investment company at a fee.
Patient capital	Another name for long-term capital. With patient capital, the investor is willing to make a financial investment in a business with no expectation of turning a quick profit. Instead, the investor is willing to forgo an immediate return in anticipation of more substantial returns down the road.
Private equity fund	A fund that invests its money in private equity, where it often attempts to gain control or have significant influence over investee 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

CONTEXT

Despite the prevailing view that investment in agriculture is risky, this sector has been 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 agricultural sector in developing countries if there is to be enough food to feed the world population of 9.1 billion in 2050. In sub-Saharan Africa, where investment fund growth has been the highest, the figure was estimated to be 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 expect to increasingly benefit from investments in the agricultural sector in the medium and long term because demand for food and other agricultural products is expected to continue to increase. Population growth and longer life expectancies, as well as increases in the purchasing power of the population in many emerging economies and bio-energy consumption will contribute to this growing demand. However, beside increased agricultural prices and food security concerns, agricultural investment growth is also driven by innovations and experience in risk mitigation of investments in agriculture. Agricultural investment funds, which help mitigate investment risks, increasingly contribute to this growth, as manifested by the proliferation of funds set up to target the agricultural sector.

THIS RESEARCH STUDY

This publication explores agricultural investment funds as a vehicle for financing agricultural businesses and projects. It analyzes capital needs of different agricultural actors along the agricultural value chain and further discusses investment funds and its various types of investors (private, public as well as joint initiatives) and investment objectives. The publication draws heavily from the FAO 2010 publication "Agricultural investment funds for developing countries", which was developed from an FAO-ConCAP research study that identified a broad range of investment funds that target agriculture in developing and transitioning 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 this context, 63 agricultural investment funds fitting the selection criteria were identified and used in this study. The characteristics, summary analysis and classification of these funds are presented in Annexes 8 and 9 of this publication. Annexes 1 through 7 present case studies of investment fund management companies or structures, whereas, Annex 10 presents a stocktaking of the investment fund managers.

This publication documents the way investment funds are structured and how they operate, and provides an understanding of the results and challenges they face. The investment funds are also segmented and analysed in order to understand how they are structured and how they differ according to their investment strategy and target. To help understand changes of investment funds over time, a comparative analysis is made of the evolution of the case study funds that were analysed in the 2010 study. A comparison is also made with other investment funds in developing countries. The continued significant growth of microfinance investment vehicles (MIVs) since the early 2000s as an emerging investment class, is analysed to capture the potential of growth of agricultural funds. A comparison is also made with non-agricultural funds given their potential in light of a growing interest of major pension funds and large investment managers to move into lesser developed countries.

In line with the implications of the research subject, the funds included in the stocktaking involve both public and private investors. This reflects the strong interest of donors and development finance institu-

tions to promote agricultural development in developing and transitioning economies, and the increased interest of private investors to engage in such joint efforts. Many indicators, such as investment return and impact, cannot be compared among such a broad range of investment funds. Therefore, a more in-depth review of eight selected agricultural investment funds and fund managers through the case studies sheds light on the set-up, operations and performance of some of the identified investment vehicles and their management structures.

KEY TRENDS AND LESSONS

Investment in developing countries has been affected by several various major phenomena – food shortages, financial crises, recessions, growth and slowdown of major emerging economies, the investment interest in Africa, with a notable growth of Chinese investment, flows of remittances and also refugees. Seeking new investment opportunities and hedging investment risks are more important than ever. The 2008 food crisis and the following global financial and economic crisis had opposing effects on investments in the agricultural sector: factors that helped trigger the global food crisis attracted the attention of private investors due to expectations of increasing returns, while the global financial and economic crisis led to a slowdown in investments and an increase in risk aversion by the banking sector, thus hampering lending. The need for alternative capital, the risks and opportunities in capital for agriculture, and the desire of some investors to search for alternative investment opportunities to diversify investments from traditional asset classes have all contributed to an increased interest in agricultural investment funds. Another leading factor is the change in agricultural systems, which are becoming organized into value chains, thus making investment more structured and less risky.

The funds analysed show similarities in some of their structures and management processes even across different types of investment vehicles and regions. It is noted that, with the exception of land investment funds whose primary goal is land acquisition and future production, which are not covered in this study, most investment occurs in agribusinesses further downstream along the value chain, where the investment, expertise and market linkages of investors can have an optimum effect.

The stocktaking analysis and case studies show that agricultural investment funds can play a strong role in fostering agricultural development in developing countries, contributing to growth, productivity increases, poverty reduction and, hence, sustainable development. Most of the private and public funds studied were able to invest their resources well within their projected time frame, suggesting that ample opportunities are available in the sector. Despite differing types of investor, return expectations and investment objectives, investment funds offered 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 regarding public and private investment. Public private partnerships (PPPs) can be a valuable tool to increase access to finance for the agricultural sector in developing countries due to its specific characteristics and risks. Public capital can play an important role to attract private investors who otherwise might not be willing to risk investment in agriculture. Governments and international donors in agricultural investment funds should carefully consider their role in how to best stimulate investments. It may be in the form of direct participation with the private sector, more often, in the form of designing appropriate policies and regulations with focus on rural investment and agricultural value chains, as well as addressing risks affecting investment and agricultural innovation.

Chapter 1
Introduction

The world economic context has evolved since the food price crisis of 2008, which helped raise the profile of the agricultural sector. However, with food prices remaining relatively high, and this trend expected to persist in the coming years, the interest of private investors in the sector has continued. At the same time, donor countries have shown more interest in leveraging their relatively limited funds for agriculture investment through investment and co-investment with the private sector, rather than simply administering grants. Consequently, both public and private sector investors have increasingly looked into pooling their resources through investment funds.

This present publication builds from initial research published by FAO in 2010, which identified the growing importance of agricultural investment funds (AIFs) as an instrument for promoting agricultural investment and development. Written during an emerging food and financial crisis that was accompanied by food price hikes and high growth in demand for biofuel, most AIFs at that time were relatively new, and neither their performance nor their resilience could be adequately appraised. The time is opportune to revisit the previously studied investment funds and to track recent developments in this sphere. Specific interest and importance is given to the socioeconomic impact of the studied funds, the changes and evolving nature and growth of agricultural investments, and the management of those investment funds and their specific investments and exits. Hence, in order to follow the industry changes, an additional 45 funds were added to 18 of the original 31 AIFs covered in the 2010 FAO publication. Some of the original funds did not fit the focus of the current publication, or had merged or information was not available. In addition, a dedicated section and cases are devoted to investment fund management companies and structures.

This study focuses on investment funds set up or involving significant public–private collaboration either as direct co-investors, guarantors or co-financiers and/or through technical assistance facilities. Public sector investors include donor agencies and international development organizations, while private sector investors include individual and corporate private sector investors. There are also development financing organizations that mobilize private capital such as the French Development Agency, International Finance Corporation, and the Overseas Private Investment Corporation, among others.

Development investment funds, like other funds in the financial world, tend to invest across asset classes for diversity of risk and the covenants that stipulate the parameters for a particular fund negotiated between the public and private partners. The ability of both to target or increase the portion into agriculture and agribusinesses is noted. The international community now recognizes that investment returns in the agricultural sector make business sense in terms of the risk–reward profile, which allows AIFs to become an asset class in their own right, attracting investments from both the public and the private sector, with the potential for high returns in the long term.

1.1 AGRICULTURAL INVESTMENT FUNDS DEFINED, AND RATIONALE OF INVESTMENT FUNDS

The AIFs described in this publication are defined as a financial vehicle to pool the capital of different types of investors to provide capital to different agricultural stakeholders, especially agro-enterprises and agribusinesses. In general, investment funds offer a way to invest with reduced risk by diversifying investments through a collective investment scheme while also having specialized fund management to support the individual investment. This specialized management can also assist with 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.

Investment funds are vehicles that allow for investment in different asset types and financial instruments, and offer the following advantages:

- have broader leverage in their investment targets (e.g. certain types of companies or sectors) and across different countries;

- share related risks and rewards (financial returns) associated with the investment of capital among a number of different investors;
- allow different investors with similar interests and risk-return expectations to jointly channel their resources in the productive sectors of the economy where capital is needed; and
- provide an opportunity to invest money in a broader range of investment targets than would be possible for a single investor.

1.2 OBJECTIVES AND SCOPE OF THE STUDY AND STRUCTURE OF THE REPORT

The objective of the present study is to assess the development of AIFs within the context of the growing economic and social development of the agricultural sector. The study focuses on those AIFs that have both private and public involvement. The scope of the study includes a re-assessment of the 31 investment funds from the 2010 FAO study, especially concerning their performance and impact; 18 funds are analysed. An additional 45 investment funds were added to the stocktake, making a total of 63 funds for which trends in growth characteristics are analysed. Their geographical distribution shows a continued high level of investor interest on the African agricultural sector as 24 of the 63 funds were solely focused on countries in that region; 25 of the investment funds had investments in at least two regions, and thus were classified as having more of a global focus.

Additionally, the study has been expanded to analyse fund managers in the agri-investment sector in developing countries. The assessment, while not exhaustive, is intended to provide insights on the evolving landscape for agricultural development and the means for evaluating the potential of AIFs. The study also highlights public–private partnerships (PPPs), which are a means to leveraging the resources of private investment to achieve development objectives.

The present publication also provides deeper analysis and elaboration on the challenges of financing and investing in agriculture in developing countries, including the reason why the use of investment funds is increasing. The political implications of this financing vehicle are also noted and how they fit within new development initiatives for increasing agricultural investment. The study also introduces the steps that international development organizations are taking to put in place codes of conduct regarding financial and social performance, thus ensuring social benefits to investee companies and countries, while advocating the sustainable use of resources.

It is recognized that farmland is a very large and important part of agricultural investment. Land tenure, access and rights are also important. However, for food security growth, the focus is on the additionality from increased productivity, efficiency and agro-industrialization resulting from the investment. Hence, even though many private AIFs have important interests in land investments due to the appreciation of land prices, the present study focuses on funds that promote value addition to the agricultural sector, and not mere asset transfers. Hence, investment funds that are driven by farmland purchases are not the focus of this study although a brief overview is given in Chapter 2 on the steps taken by international organizations and development agencies to address the key concerns surrounding land investments in developing countries.

This publication is organized into six chapters. Following this Introduction, Chapter 2 provides a detailed assessment of the importance of agricultural investment in developing countries, and the investment needs and the role played by investment funds in filling this gap. Chapter 3 describes characteristics and examples of investment funds studied, while Chapter 4 analyses their operational performance. Chapter 5 analyses investment funds as an approach to promote agricultural development, while Chapter 6 summarises the findings and makes conclusions.

Chapter 2
The importance of agricultural investment in economic growth, and the role of agricultural investment funds

Several factors drive the growth of investment funds in the agricultural sector. The changes in agriculture, from open market systems to connected value chains, is an important reason. Low interest rates and bond returns in developed countries also improve the attractiveness to other alternatives.

2.1 THE IMPORTANCE OF AGRICULTURE IN SOCIOECONOMIC DEVELOPMENT

Agriculture is a source of livelihood for approximately 2.5 billion people worldwide, of whom an estimated 1.5 billion live in smallholder households and reside in developing countries. Of these households, 800 million people work on smallholder farms of less than two hectares. For many countries, agriculture contributes significantly to the overall share of economic and social growth and household income, proving essential for their development objectives and food security.

Investment in agriculture is important because empirical evidence suggests that improved agricultural performance has the potential to reduce poverty, increase household incomes, make food affordable, and spur structural transformation, thereby contributing to overall economic growth and environmental sustainability.

- **Development of the agricultural sector is known to be an effective instrument to alleviate poverty.** Cross-country econometric estimates show that growth in agriculture is, on average, at least twice as effective in reducing poverty as growth generated in non-agricultural sectors (World Bank 2007; Christiaensen *et al.*, 2011). It is no wonder that agriculture is important in order to meet the new Sustainable Development Goals adopted in September 2015. Seventeen new SDGs have given high relevance to agriculture, especially through SDG1, "End poverty", and SDG2, "End hunger" (FAO, 2015). National governments have developed poverty reduction strategic papers on the most effective way to mobilize the necessary finances to achieve poverty reduction goals, with agriculture as a prominent part of these strategies.
- **Agriculture is a significant source of economic growth and industrial transformation.** About two-thirds of the world's agricultural value added is produced in developing countries, and agriculture is the largest driver of long-term economic growth in these countries. In sub-Saharan Africa, one dollar of income from agriculture can add USD 2 to USD 3 to the overall economy. Rising agricultural incomes and production leads to increased employment opportunities and higher demand for consumer goods, agricultural supplies and services.
- **Improving the productivity of agriculture and food systems is one pathway for enhancing consumers' access to affordable food** (Global Harvest Initiative 2013). An increase in the supply of food, demand being the same, leads to a decrease in the price of food, making food affordable to many people and, thereby, directly contributing to the attainment of global food and nutrition security.
- **Agriculture provides livelihoods for a majority of the rural population in developing countries, and often accounts for an important share of gross domestic product (GDP).** On average, agriculture generates 29 percent of GDP in developing countries and employs 65 percent of the labour force (World Bank, 2007:3, 6).

2.2 THE AGRICULTURE FINANCE AND INVESTMENT GAP IN DEVELOPING COUNTRIES

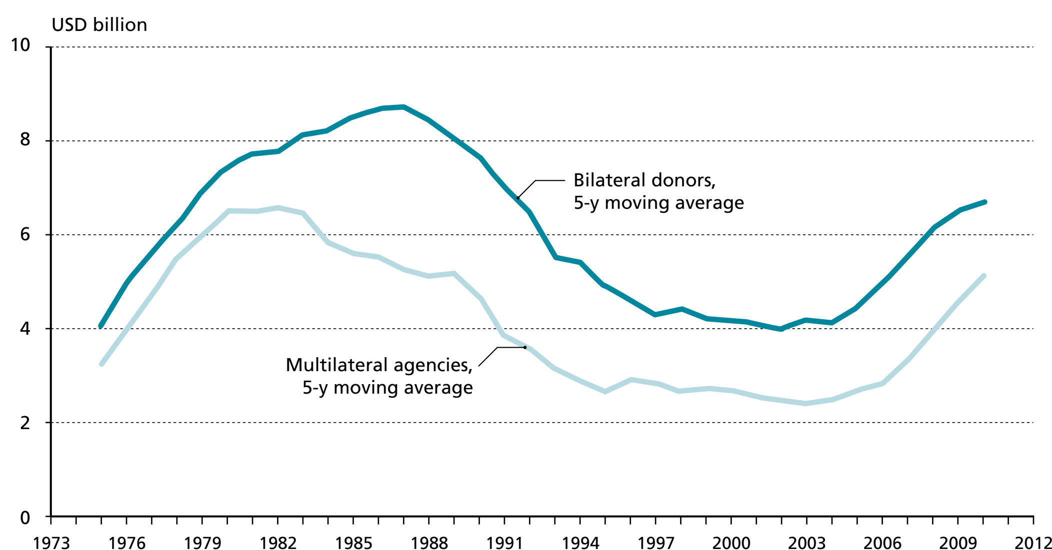
Despite the importance and potential of agriculture in socioeconomic development, investment in the sector in developing countries has been relatively limited. A challenging question to address is why more financial resources have not been channelled into the sector and more priority given to it in national budgets. Multiple factors are responsible for the underdevelopment of agriculture and its low levels of investment — which differ by region and country context — but risk is one common factor.

At the global level, there was a significant and unrelenting decline in official development assistance for agriculture and rural development between 1973 and 2012 (see Figure 1). Bilateral donors more than halved their assistance to the sectors, while multilateral flows fell by almost two-thirds during that period. However, this trend then reversed in both overseas development assistance and concessional multilateral flows, in part after the threat of a global food shortage. However, the nature of the investment is different with less going to direct or target aid (most often through governments and discounted lines of credit) to more involvement with private sector investment that is linked with donor support and a blending of public and private funding.

Foreign aid for agriculture in Africa dropped by 10 percent from 1990 to 2000; and from 1990 to 1999, wealthy countries decreased their overseas agricultural assistance by 30 percent. From 1980 to 2000, it is estimated that the United States Agency for International Aid (USAID) cut agricultural aid to Africa by 57 percent (OECD, 2012). In parallel, the period between the 1980s and 2004 saw a significant reduction in government spending on agriculture for many developing countries as part of structural adjustment programmes. The overall combined effect contributed to a drop in the growth of agricultural productivity. On average, African countries allocate only 4 percent of their budgetary expenditures to agriculture, compared with up to 14 percent in Asia. As of 2010, many African countries only invested an average of 5 percent of the 10 percent annual growth rate in agricultural GDP target, a goal that has been adopted by the New Partnership for Africa's Development (NEPAD) in 2003 through the Comprehensive Africa Agriculture Development Programme (IFPRI, 2008).

The important point is to recognize that funding and financing to agriculture has changed. Neither

FIGURE 1
Trends in aid to agriculture and rural development (ARD) 1973–2012, %-year moving average commitments, constant 2012 prices



Source: OECD, 2014, Chart 1: Trends in aid to (ARD).[1]

[1] http://www.oecd.org/dac/stats/documentupload/Aid%20to%20Agriculture%20data%20to%202011-12%20.pdf

donor funding nor national governmental funding can address the financing needs of the sector. However, the private sector has the financial capacity to meet the financing needs but is often reluctant to do so due to the costs and risks of financing this sector. Yet, by working closer together, the assistance and investment efforts of the public sector can help the private sector play a more active role and use their huge investment potential to help increase the growth rates for agriculture.

According to a 2012 FAO report on investing in agriculture, farmers' investment in on-farm capital stock is the largest source of investment in agriculture. Naturally, much of this is their land, animals and equipment, which is a relative constant investment or annual reinvestment; and while it is often sufficient for maintaining their status quo, other financing is needed for growth and improving technologies. However, in many developing countries, farmers have insufficient access to the types of financial services and investment capital to allow them to bolster this investment. In some instances, the financial institutions lack the financial resources, proper financial service products, and/or the expertise to be able to lend to agriculture and many agribusinesses that are critical to the sector. In other instances, the financial institutions are located in urban and peri-urban areas, and thus are not accessible to the agricultural producers who live in rural areas. Poor infrastructure development, roads, telecommunication and electricity further increase the cost of providing financial services to rural areas. The development and use of information and communication technologies has helped financial institutions to lower transaction costs and improved their outreach in providing financial services to farmers. As indicated above, investment in agriculture in developing countries is challenged by the "type or quality" of financial products offered because a majority of commercial banks and microfinance institutions provide only short term debt products that are appropriate for financing short-term agricultural activities, but they are often inappropriate for capital stock accumulation and do not match the cash flows of the underlying businesses. This shortage of medium- and long-term agricultural financing (e.g. leasing, equity and mezzanine products) is one of the key constraining factors for developing sustainable agricultural value chains. Ironically, due to the inability of banks and other financial institutions to tailor products for the agricultural sector, the country may hold a high level of excess liquidity. For example, the financial institutions within the Economic Community of Central African States have been carrying excess liquidity for the past 15 years, attributed to an effective financial system regulation control by the Central African Banking Commission. Despite this excess liquidity, these resources have not been translated into an increase in agricultural productivity growth.

All of the above factors have kept investment levels in agriculture below their optimal levels. FAO calls for an average annual net investment of USD 83 billion to support expanded agricultural output in developing countries. The International Food Policy Research Institute estimated the global incremental agricultural public investment required — the additional amount necessary to meet the Millennium Development Goal of halving poverty by 2015 — to be USD 14 billion annually for developing countries. For sub-Saharan African countries, required public investment is estimated at USD 3.8 to 4.8 billion. The incremental annual costs for a partly publicly funded input financing scheme that reaches the poorest 50 percent of farmers in Africa would amount to an additional USD 2.3 billion per year.

In conclusion, due to the fact that government spending and international development institutions cannot alone satisfy these financial requirements in the agricultural sector, private investments are needed to fill the growing financial gap, especially for medium- and long-term investment.

2.3 FILLING THE FINANCING GAP WITH AGRICULTURAL INVESTMENT FUNDS

AIFs complement other forms of investment and narrow the funding gap in agriculture, especially in the sphere of medium- and long-term capitalization. Investors include institutional as well as individual investors who are from both the private and public sectors. These include governments, mainly through their development finance institutions, sovereign wealth funds, private agribusiness companies and investment holding groups and high net worth individuals, many of whom may have social and economic return interests, and very often there is a combination of investors.

Public investors (both domestic governments and international donors) and commercial investors have different, albeit complementary, roles in achieving the objective of raising agricultural productivity growth and reducing poverty. While domestic and international public investment is often development oriented, this publication focuses on investment funds with a combined

commercial and development focus. Such funds are structured as public–private partnerships, whereby domestic and donor capital is used in conjunction with commercial investment, especially in research and development or enterprise-support interventions to bolster pro-poor agricultural development systems. Investment decisions for development investment funds are often development oriented with less emphasis on profitable returns, while investment decisions for commercial investment funds are based on current or potential financial returns. These return expectations, therefore, impact the strategy regarding investment targets. Commercial investment funds generally weigh financial return and political and country risks more heavily, whereas donor or domestic funds generally give more weight to more humanitarian, social or political considerations.

Furthermore, this publication distinguishes between two categories of commercial investments. The first includes investment funds that invest directly in land or other assets for productive purposes through a direct purchase or lease in which investor companies have direct control. Examples of such investment funds include Agro-Direct Funds in Latin America and AgriCapital in Sierra Leone with their acquisition of agricultural land in Ethiopia, Sudan and Mali, for direct agricultural production. The second category includes investment funds that invest in small and medium agri-enterprises and occasionally producer organizations in the form of private equity, quasi-equity or debt, either in partnership or directly. Some examples of investment funds that fall within this category include Small Enterprise Assistance Funds (SEAF) and Root Capital. This publication gives more emphasis to the latter. Before leaving the topics of land investments to concentrate on those focused on value addition, it is interesting to note that land investments, while seemingly easier and are of higher interest for investment speculation, do not often provide as attractive returns as those focused on agribusiness and value addition, as noted in a study of funds across Eastern Europe and Central Asia.[2]

[2] "Emerging investment trends in primary agriculture" by Ian Luyt

2.4 FACTORS DRIVING THE GROWTH OF AGRICULTURAL INVESTMENT FUNDS

As noted, investors expect to benefit from investments in the agricultural sector in the medium and long term, as the demand for food and other agricultural products continues to increase, and as agriculture is increasingly viewed as a valid alternative asset class. Various factors identified as responsible for fuelling this investment interest in agriculture include the growing demand for food to meet the needs of an ever-growing world population, and a higher demand for biofuel as a substitute for fossil fuel, which only further increases the demand for agricultural produce as the primary product.

2.4.1 Urbanization, population and environmental concerns

Africa is experiencing the most rapid urban growth in the world (3.2 percent per year). In a matter of a few decades, Africa has travelled the same path that Europe covered in two centuries (Losch, Magrin and Imbernon, 2013). The agricultural outlook (OECD-FAO, 2009) shows that the world's population is expected to grow by 2.3 billion between 2009 and 2050: from 7.0 billion to 9.3 billion. The Organisation for Economic Co-operation and Development (OECD)-FAO Agriculture Outlook estimates the average annual growth rate of global agricultural production between 2013 and 2022 to be "at 1.8 percent which is below the 2.3 percent p.a. witnessed in the last decade. The slowdown in growth reflects increasing shortages of water and suitable land in developing countries and similar limitations with increasing procurement costs with environmental restrictions in developed countries." (OECD-FAO, 2013). Hence, urbanization — with an increased need for processed food and logistics — coupled with the need for production intensification amid environmental challenges requires a significant increase in additional investment.

Climate change is one of those challenges whose consequences are likely to continue to become a more serious and frequent threat to populations and requires costly adaptation of some of the agricultural systems and infrastructure. The types of investment vary. For instance, productivity growth potentially reduces the need for deforestation. Drought-tolerant crops and livestock breeds can improve resilience and education and training can improve management of climate-induced changes in pests, weeds and

diseases. Soil and water management can reduce greenhouse gas emissions and help sequester more carbon in the soil. The latter offers an important potential income source for the poor, if soil carbon sequestration payments are high enough to warrant investment toward it.

2.4.2 Food and input price changes

The increasing population and associated higher demand for food was a key contributing factor for the food price hikes of 2008 as was an increase in biofuels. These factors have contributed to growing opportunities for agricultural investments. The oil price spikes of 2007 and 2008 — driven mainly by a demand for oil — also affected fertilizer and production costs of agriculture. However, low oil prices such as in 2015 and 2016 do not necessarily trigger increases in production although costs are reduced. The low oil prices do affect the use of agricultural production for fuel and over time affect policies promoting subsidies for farmers to produce crops, such as corn and soybeans, for hydrocarbons instead of human consumption. This includes the substitution of corn-based ethanol and oil crops, such as palm oil, as biofuel (biodiesel).

An important decision-making factor for private investors is the duration and volatility in agricultural investments (i.e. whether private investors continue with or withdraw from their investments throughout both good and bad times). Investment is notably reduced during times of low prices, and profit and investment returns can become negative. The fact that investment funds are more diversified can be beneficial to their portfolio companies because funds are often structured to accommodate divestment for shareholder investment recovery and risk reduction. Hence, with their higher ease of divestment, funds are not necessarily more long term than some direct joint-venture business investors in single companies that, during times of low returns, cannot really afford to divest without incurring major losses. In any case, by investing through funds, investors have more "comfort" with their investments.

2.4.3 Agricultural investment ebb and flow

Global investment flows are like an ocean with tides and waves. However, these are often erratic and based on perceived trends, opportunities and fears. The food and financial crises in 2008 and 2009, and the euro zone debt crisis, had ripple effects for agricultural investment. Fuelled by capital diverted from the collapsing housing and financial market, speculation in agricultural futures, and ad hoc market and trade policies, the level and volatility of commodity prices further increased. As food prices rose and were expected to remain higher, some investors took on agriculture as an alternative asset class, which has since attracted institutional investors, including pension funds. In the longer term, it undoubtedly provided an incentive for investors to consider investing more in agriculture, and once building on experience in such an investment, are more likely to continue such investing. However, tighter restrictions within the financial sector on collateral and risk assessment restricted capital access for riskier investments. This also affected some investment funds in their raising of investment capital but made the placement of funds easier for established funds. The financial downturns of the United States and Europe led to significant fiscal stimuli, with fiscal easing and issuance of new government bonds leading to historic lows in the prime rates of lending. Corporate bond returns were also affected as bond markets became more cautious. Hence, by comparison, debt financing became less expensive and more attractive for agricultural investment funds on the supply side, and demand for funding increased because some investees had difficulties reaching the higher collateral requirements for obtaining sufficient capital for their businesses. However, there is insufficient data available to quantify this, or to track the direct relationship between debt and equity investment into agricultural funds, and that of the overall capital market costs and returns to investment.

An increasing number of investors have focused broadly on Africa with its relative political stability, improving governance, more conducive policy and regulatory environment, and more transparent foreign investment regimes. At the macroeconomic level, above-average growth and low levels of government and corporate indebtedness add to the appeal. A key to capital flowing into Africa is the support network that complements investments with capacity building, advisory services, training, technology transfer, and infrastructure benefits.

Many of the larger investment funds are global and offer investors the ability to pool capital in a way that shields some of the country-level effects. Additionally, they offer the advantage of having professional managers whose considerable expertise in the macroeconomy and the agricultural sector far surpasses the business acumen of the average individual investor. Fund managers

provide careful country and investee risk assessments 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.

AIFs are increasingly being utilized by both the public and 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 example, Agribusiness Partners International Fund and the Africa Agriculture Trade and Investment Fund. Some of these have been structured to meet the altruistic aims of combating hunger and poverty or foment economic development in a region or sector, but more of the upsurge in private sector investors is due to an increasing recognition that returns in the agricultural sector are attractive in view of their risk and reward profile. It follows that a primary objective of these private sector investors is to obtain attractive returns by making direct investments in the agricultural sector.

Thus, while AIFs are highly welcome in providing and diverting financing from other development sectors to agriculture, their potential use and impacts in developing countries should be carefully assessed. Most of these funds have multinational spans and bring huge financial resources into a single country or across countries, which often cause micro and macro financial distortions. The objectives of the investment funds are not often in sync with those of the investee countries, which gives reason for careful consideration of motivations and consequences of investments.

2.4.4 Development of information and communications technology

Another important contributing factor to the greater demand for AIFs is innovation deriving from the rise of information and communications technology (ICT), such as the Internet and cell phone communications, and marketing and payment system technologies. These are not only revolutionizing information flows, but also contributing to the integration and participation of rural farmers into the global market economy. Enhanced information flows are creating a much better climate for transparency because investors can follow their investment activities more closely. This facilitation in communicating, improved by the flexibility and management capacity with access to computers and the Internet, is bridging distantly remote areas, which presents development opportunities. This development has made the expansion of agricultural investment funds in these areas a more feasible reality. For example, ICT has enabled a greater deepening in the outreach of microfinance resources to remote areas using mobile money, Internet money transfers, mobile payment for insurance and Internet radio. It has also lowered the costs of investors to communicate, hold electronic investment committee meetings, and share information among all parties involved.

2.5 THE ROLE OF INVESTMENT FUNDS IN PROMOTING AGRICULTURAL DEVELOPMENT

Investment funds are an effective tool for agricultural development because they allow the employment of different financial instruments and often help provide or attract technical support to help mitigate risks and reduce start-up costs.

2.5.1 Development of appropriate financial resources and products

The provision of a wide spectrum of financing — short, medium and long term — enables investment funds to help incubate micro-, small- and medium-sized enterprises (MSMEs), strengthen their value chains and nurture them to fruition, thereby opening opportunities for local and other sources of financing before they exit their investments in those enterprises and move on to others. Their role complements that of commercial banks and monetary financial institutions in developing countries who are less able to adequately address the risks and provide the type of capital resources needed.

Investment fund managers are able to assess the types of financial needs and help match the relevant type of financing for specific activities, and align the funding with the business cycle for the activity and growth strategy of the investee company. Thus, short-term activities are aligned with short-term working capital and trade financing, medium-term financing relies primarily on loans and subordinated loans. For long-term financing, subordinated loans, mezzanine finance and equity investments are often needed to best meet the business needs. This matching fundamentally reduces the risk of default, and creates a suitable and thriving economic environment for MSMEs. While normal debt is generally used as the main financial instrument for most short-term financing, invest-

ment funds also may use more innovative debt instruments that can be more convenient, less costly and not require the typical collateral. These debt instruments include: creative trade financing arrangements, guarantee arrangements, insurance coverage, liquidity finance or lines of credit, lower interest rates with profit sharing agreements and financial leasing, which are applied, according to the context and conditions. In offering these context-designed financing arrangements, investment funds are particularly well-suited for addressing the so-called "missing middle" category of SMEs whose financial needs are too large to be fulfilled by microfinance institutions, and too small to be fulfilled by commercial and investment banks.

2.5.2 Provision of technical assistance

Investment funds with a development perspective often come with a technical assistance package for various levels of development of agribusinesses. In start-up enterprises, such assistance can come in the form of research and development, while in established enterprises, it may come in the form of capacity building and technology transfer. In providing and investing in technical assistance, investment funds open doors for additional investment, improve performance of their portfolio, and reduce financial and governance risks associated with agricultural ventures in developing countries. Investments coupled with technical assistance can bring benefits not only to investors and investee companies, but also to the local economy. An example of such an investment by the Small Enterprise Assistance Fund and the Georgia Regional Development Fund is shown in Box 1. Chapter 3, section 8 provides an in-depth analysis of technical assistance facilities.

2.5.3 Agricultural investing through value chains

The increasingly adopted value chain approach to agriculture, which that links production, processing, marketing and other services, fits well with the investment approach by investment funds. The agriculture value chain is defined as the "full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and consumers final disposal after use" (Kaplinsky and Morris 2001:4.). The value chain approach enables stakeholders — including input suppliers, financial institutions, processors and exporters — to comprehensively understand the development and investment plans of the funds in a value chain, and encourage these actors to invest. This makes the financing of MSMEs in value chains easier and less risky, and allows investment funds to increase their returns because there is better control of their investment exposure, relationships and product transformation along a value chain. It also makes it possible for investment fund managers to better understand and, to a certain extent, have influence throughout the value chain, thereby making better use of their management experience and reducing their risk.

The uncertainty associated with agricultural financing is high but investment funds have the added advantage of reducing risks for investors and investee companies through multiple mechanisms. First, investment funds are managed by an experienced fund manager who is skilled in governance and management and generally has technical experience such as marketing, accounting or agronomy

BOX 1

Investment by the Small Enterprise Assistance Fund and the Georgia Regional Development Fund

The Small Enterprise Assistance Fund (SEAF) has, or is managing, 36 small- and medium-sized enterprises (SMEs) investment funds with a significant stake invested in agribusiness. Approximately one-third of them have a technical assistance facility linked with the investment. For example, the Georgia Regional Development Fund 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. In addition, the investor provided a USD 2 million technical assistance facility that enabled the fund manager (SEAF) to provide management guidance and assistance to address technical issues and help build its marketing and industry network. More information on SEAF can be found in Annex 1.

from other agribusinesses. Investment funds also have the backing of linkages with a support technical team or access to such technical expertise.

Secondly, investment funds make focused and strategic investments that are determined by careful assessment. By aligning and matching financing instruments to the type of agricultural activity, the risks of failure are greatly reduced. Investment fund managers ensure proper investment and marketing plans, and invest in well-developed or high potential value chains, such that production plans are well synchronized with processing and marketing activities. Risks are thus reduced when the enterprises have proper response mechanisms based on market price fluctuations and signals.

Finally, as noted above, investment funds often come with subvention packages for capacity building, which facilitate training programmes for personnel at all levels of the enterprise. This, coupled with stringent management skills and adapted technologies, makes investment funds successful in developing agribusinesses.

The expertise of fund managers and the investor expertise associated with investment funds helps address sustainability risks earlier, and often more effectively, than done so by individual investors. Development impact investment funds are more linked to information to identify critical issues of economic, social and environmental sustainability. With the importance of climate change, and the link between agriculture and natural resources, it has become imperative to monitor the social, economic and environmental impacts associated with investment in agriculture. The principal objective is to adopt strategies focusing on green or greener financing, in which investment practices are associated with climate change mitigation strategies. Examples include improved water efficiency, flood control, improved agricultural production, controlled use of pesticides, and risk mitigants such as insurance. Green financing, for example, which promotes better practices in agricultural processes and technologies, can also help address the transition from subsistence-based agriculture in many African and Asian countries toward more efficient market-based agriculture.

2.6 BALANCING OPPORTUNITIES AND RISKS IN AGRICULTURAL INVESTMENT

Since the 2010 FAO publication, Miller et al. “Agricultural investment funds for developing countries”, there have been many development initiatives for increasing and controlling investment. International development organizations such as FAO, International Fund for Agricultural Development, World Bank, United Nations Conference on Trade and Development, and international non-governmental organizations (NGOs) such as Oxfam, have been reviewing the ethical issues associated with large-scale land acquisition and investment surges in developing countries, especially those in Africa, in light of opportunities and risks that such investments may involve in the fight for poverty reduction, equity and social justice. These acquisitions of land, water and high-potential resource sites in developing countries are seen as a means to garner future returns from agriculture and the prospective carbon market as well as a hedge against changes in other markets. Reducing Emissions from Deforestation and Forest Degradation is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development.

2.6.1 Principles for responsible agricultural investment

Despite the perceived need for substantial increases in private and public investments in agriculture and food systems for eradication of hunger and malnutrition, there is also a concern for the quality of those investments and controlling risks that could be associated with the buying or leasing of large pieces of land in developing countries, on the part of domestic and transnational companies, governments, and individuals. Civil society has played a strong and active role in questioning the motives of some of the new investment trends and their potential implications for local inhabitants of developing countries. This has led to efforts by international development organizations such as FAO, the World Bank, the United Nations Conference on Trade and Development and the International Fund for Agricultural Development, together with the Committee for Food Security, to develop principles to guide countries, investors and companies on their investment selection, design and implementation. The resulting set of principles for responsible agricultural investment (RAI) was approved by more than 100 countries, and provides a common agreement on the key areas of investment concerns to ensure that they respect rights, livelihoods and resources. There have been mixed reactions on the effectiveness of the RAI principles and nuanced debates on land-based investments.

The political issues stem from a concern regarding the inclusiveness of this new wave of agricultural investments. Potential hazards that were highlighted before the development of the RAI principles include: displacement of local populations, undermining or negating existing rights, increased corruption, reduced food security, environmental damage in the project area and beyond, loss of livelihoods or opportunity for land access by the vulnerable, nutritional deprivation, social polarization and political instability. Moreover, historical experience points to the failure of many large farming investments with negative consequences for host countries. There was a concern on the actual ownership of investments in agricultural land, as weak government accountability combined with flexible land right laws put both at a disadvantage in the investment process. The voices of investors are heard given their expected role in agricultural development and governments often make key decisions accordingly in the land allocation process. In contrast, local populations often have a limited voice in the investment and land allocation processes. In the longer term, however, the loss of land by local people may also mean a loss of identity and culture. While returns for investors are expected to be high in the long run, the scope for tax revenues is often reduced by investor tax breaks and other incentives. Return to local populations in terms of social benefits in jobs tends to end up lower than expected.

The RAI principles were built on the research on foreign direct investment in agriculture and other international initiatives for governance of natural resources and investment, including the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security, the Equator Principles, the OECD Guidelines for Multinational Enterprises, the Voluntary Guidelines on the Right to Food, and regional initiatives such as the NEPAD-OECD Africa Investment Initiative. The RAI principles have been field tested and undergone consultative processes.

In July 2012, the Committee on World Food Security initiated an "inclusive consultation process to develop and ensure broad ownership of principles for responsible agricultural investments" (FAO, 2013:1). The principles aim to mitigate risks and promote benefits to global food security, particularly addressing:

- Food security, nutrition and sustainable development (economic, social, environmental and cultural issues;
- Policy coherence and sector development; and
- Governance, grievance mechanisms and accountability (FAO, 2013).

The RAI principles were approved in October 2014 by the 41st Session of the Committee on World Food Security. The objective of the principles is "to promote investments in agriculture that contribute to food security and nutrition and to support the progressive realization of the right to adequate food in the context of national food security" (FAO, 2013:5). The principles are broad in nature and their successful implementation requires commitment and action from all stakeholders, including governments, investors and civil society.

2.6.2 Corporate social responsibility

According to CSR Wire, corporate social responsibility can be defined as the integration of business operations and values, whereby the interests of all stakeholders including investors, customers, employees, the community and the environment are reflected in the company's policies and actions. It concerns not only agricultural investment funds but also investors and investee companies and institutions.

Agricultural and rural companies and industries are facing new demands as their accountability shifts includes not only shareholders but also stakeholders. The effects of agricultural investments on the surrounding communities, labour, communal lands and local customs must be not only considered, and local stakeholders should be involved in order to understand and attempt to accommodate their interests.

2.6.3 Impact investing in agriculture

Impact investing is defined by the World Economic Forum as an investment approach intentionally seeking to create both financial return and a positive social impact that can be actively measured (World Economic Forum, 2013). It has been increasingly recognized as a means to "reconcile key shortcomings in traditional financial markets" (Jay-Kennedy, 2013). Impact investing is generally differentiated from socially responsible investment due to its focus on affirmative investments with a positive impact – also known as additionality – rather than negative investment screenings, which focus on precluding investment for companies that generate a harmful impact (Brest, 2013).

Proponents of this new investment strategy have estimated its market potential to be between USD 400 billion to USD 1 trillion and could offer up to USD 667 billion in profits by 2020. Current reports from the Global Impact Investing Network (GIIN) have estimated commitments of impact investors at USD 8 billion and USD 9 billion worldwide, in 2012 and 2013, respectively (GIIN, 2013), including investors from microfinance, fair trade, social donors and community development institutions. According to a 2010 JP Morgan research report (2010), approximately 18 percent – 208 out of 1,105 – of the deals, and 5 percent – USD 132 million of USD 2 481 million – of capital committed by the respondents surveyed, was dedicated to agriculture. Impact Investment in agriculture offers the opportunity to help solve major social and environmental problems while "leveraging new sources of capital in places that lack sufficient government resources and development aid to address development challenges" (Dalberg, 2011:1). As such, impact investors can be important partners in public–private partnerships, particularly in light of the mounting pressure for private sector companies to integrate ethical, social and environmental issues in their reporting. Nonetheless, given its focus on rural development and SMEs, impact investing is often not successful due to scepticism about achieving both financial and social returns, inflexible institutional practices, small deal sizes causing increases transaction costs, limited exit strategies, and governance problems (Brest, 2013). In order to help face these challenges, the ecosystem of impact investing – including capital providers, investment funds, investment targets or social enterprises, intermediaries, exchanges and/or platforms, networks, rating and certification organizations, accelerators, wealth advisers and depository institutions – seeks to move into the mainstream (World Economic Forum, 2013).

Chapter 3
Stocktaking of agricultural investment funds and fund managers

An investment fund is a mechanism to bring together assets of multiple investors in a collective investment scheme. Investment funds enable investors to pool their capital for specific target groups of companies, sectors and/or regions. This funding mechanism is becoming widely used by public investors and private foundations as a tool to achieve their development objectives and leverage their financial resources. Investment funds are usually managed by fund management companies that have specialized knowledge and experience on the investment targets. If successful, funds can attract investment from the private sector and yield financial returns and development impact within the strategy agreed on by investors.

Investment funds are largely divided into two groups: closed-end funds and open-end funds. Closed-end funds have a defined lifespan (e.g. 10 years), after which the fund is liquidated. They also sell fixed numbers of shares to investors with one or more define "closing" dates for investment. They are designed in this way to provide ease and assurance to investors for exiting out of their investments. Venture capital funds and private equity funds are included in this category. Open-end funds, such as mutual funds, sell their shares continuously, based on the net asset value of funds and may offer ongoing options for debt investors. A majority of investment funds analysed in this publication are closed-end, but some open-end funds are also included.

3.1 FUND SELECTION

The present study uses similar selection criteria as those reported in the 2010 publication to identify AIFs, namely having:

a) A focus on investments in agriculture, agribusiness and other areas linked to agriculture. Given the research subject, the identified investment funds have a sole or significant focus on investments in agriculture and/or agribusiness. The funds might, therefore, target agriculture directly or indirectly (e.g. through investments in microfinance institutions (MFIs) that provide access to finance to smallholders).
b) A focus on developing countries. The investment funds included in the stocktaking focus on investments in developing countries.
c) A focus on funds with a development and a commercial return.
d) An operational track record of at least for two years.

This study does not cover sector-neutral investment funds that target the agricultural sector among other sectors. In line with the 2010 FAO publication on "Agricultural investment funds for developing countries", certain funds such as land investment funds and commodity funds are also excluded. The initial analysis through the above criteria identified AIFs mostly backed by development-oriented investors, including development financial institutions (DFIs) and private foundations. These development-focused AIFs are the primary target of this study.

The study identified 63 AIFs, as of May 2016, to be included in the analysis. An overview of each of them is presented in Annex 8. The information for the analysis was collected through a combination of direct interaction with fund personnel and Internet searches, as well as reviews of industry news and publications. The detailed case studies were drafted in consultation and collaboration with the respective fund's management. A list of AIFs with detailed information can be found in Annex 9.

In this study, AIFs are categorized into five types:

- **Agribusiness funds:** investment funds focused on large-scale agribusiness companies.
- **Agribusiness SMEs funds:** investment funds focused on SMEs[3] within the agribusiness sector.

[3] The definition of SME varies by the funds.

TABLE 1
Overview of agricultural investment funds

	Regional focus			
Type	**Africa**	**Multi-region**	**Other areas**	**Total**
Agribusiness funds	9	0	4	13
Agribusiness SME funds	9	1	1	11
Fund sfor producer organizations	0	6	0	6
MIVs for rural areas	2	8	5	15
Others	4	10	4	18
Total	**24**	**25**	**14**	**63**

Source: Authors' compilations.

- **Funds for agricultural producer organizations:** funds that target producer organizations and their value chain partners. Some of them also finance agribusiness companies (e.g. traders and buyers).
- **Microfinance investment vehicles for the rural and agricultural sector:** investment funds for microfinance institutions that are active in the rural and agricultural sector. Some funds also invest in producer organizations but the exposure is less than 50%.
- **Other agriculture and rural funds:** investment funds with an agriculture or rural focus, including forest investment funds, SME funds and sustainable agricultural funds.

Table 1 summarizes AIFs by type of fund and regional focus.

Out of 63 AIFs, 20 funds were included in the 2010 FAO report, and a comparative analysis has been made between those time periods. Other funds are primarily ones established after the earlier study. In addition to the stocktaking of investment funds, this study collected information on investment fund management companies.

About 60% of the AIF fund managers in this study exclusively focus on the agricultural sector. This may imply that specialized knowledge is highly important for agricultural investment. The data also suggest that first-time fund managers are entering into the agricultural investment with support from DFIs and private foundations. A limitation in the analysis is that some investors and investment managers are reluctant to share information that would be useful for comparative analysis. Also, impact analysis is difficult and costly and requires a multiple year investment history to be valid. By comparing the investment funds in the 2010 FAO study with the current scenario, an attempt is made to assess their longer-term results and impact. Also, while measurement standards for agricultural investment are in the early stages of development by impact investors, significant progress is being made in this regard. It is hoped that the following analysis sheds light on what results and impacts can be expected from agricultural investment funds.

3.2 COMPARATIVE AND SUMMARY ANALYSIS FROM THE STUDY

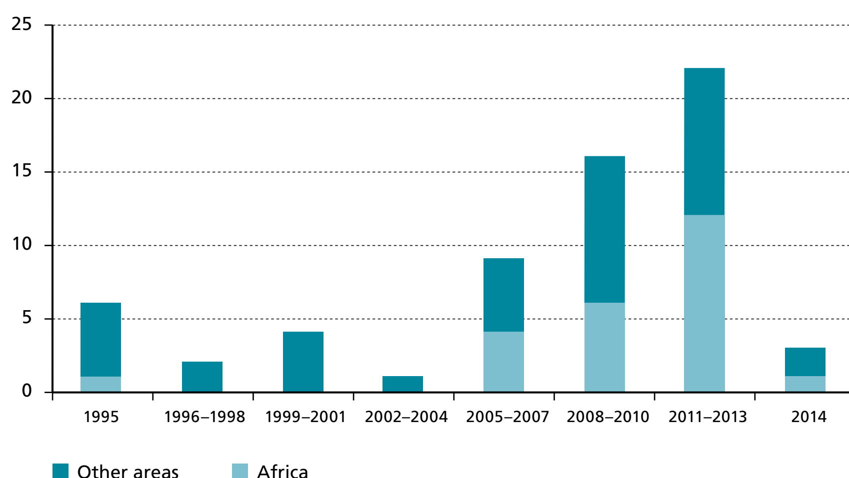
Trends

There is a continued upward trend in the creation of AIFs, especially in Africa. Approximately, 80% of the AIFs in this study have a double bottom line or impact-first target, and most of these funds invest in agribusiness SMEs, farmer organizations, rural MFIs and other investments and projects with a high development impact focus. On the other hand, a group of large-scale funds pursues market returns, mainly through investing in established agribusiness companies. In both groups, development-oriented investors, including DFIs and private foundations, continue to play a major role.

The upward trend in the creation of AIFs, captured in the 2010 study continues, as shown in Figure 2. Eighty percent of the funds in the study were launched or started investment in 2005 and afterwards. Africa has been the most popular region among the AIFs since 2005, and the Africa-focused funds comprise about 40% of the funds analysed (Figure 3).

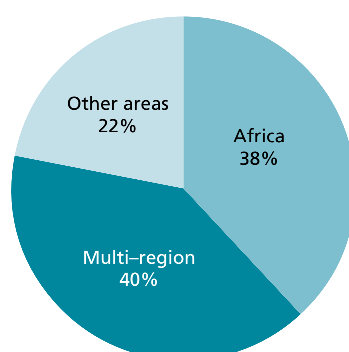
Because the selection criteria of this study are biased towards development-oriented funds, it should be noted that purely commercial funds for the agriculture sector in other regions are not included in the analysis. For this reason, it not surprising that Africa is an important region of focus.

FIGURE 2
Agricultural investment funds by years launched/started investment



Source: Authors' compilation.

FIGURE 3
Agricultural investment funds by geographic focus



Source: Authors' compilation.

A 2014 report from the EMPEA (Emerging Markets Private Equity Association) indicates that the average size of agribusiness-related deals in Asia and Latin America are larger than those of Africa (Table 2). Such trends may indicate that investment opportunities in Asia and Latin America are attractive enough for private sector players and, as a result, development-oriented investors do not play as large of a role in these regions.

Because of their larger size, global funds make up half of the total cumulative assets under management of the funds assessed. The selected funds demonstrate the considerable differences in terms of structure and amount of assets under management. In addition to the investment capital, 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 microfinance investment vehicles (MIVs). For obvious reasons, hybrid funds defyeasy labelling or classification, hence they cannot be strictly labelled "agricultural funds". As a consequence, the total amount of funds being invested, in one form or another, in developing world agriculture is certainly a multiple of the amounts mentioned above.

TABLE 2
Private equity investment in agribusiness sector in 2013

	Emerging Asia	Latin America	Sub-Saharan Africa
No. of private equity deals	17	3	10
Total investment (USD M)	349	38	4
Average size of the deal (USD M)	20.5	12.7	0.4

Emerging Asia: all of Asia, excluding funds where the primary investment focus is Japan, Australia and/or New Zealand.
Source: Authors' compilation based on EMPEA, 2014

Size of selected investment funds (capital base)

The total capital base of the 63 AIFs amounts to approximately USD 7.1 billion. While the size of the funds are widely distributed between USD 4 million and over USD 1 billion, about 70% of the AIFs are smaller than the average size of USD 113 million, as indicated in Figure 4. Smaller funds dominate because many of them are either managed by first-time fund managers who usually cannot raise larger capital without credible track records or are funds with unconventional targets (e.g. producer organizations, agribusiness SMEs and/or rural MFIs) managed by experienced fund managers.

Type and return target

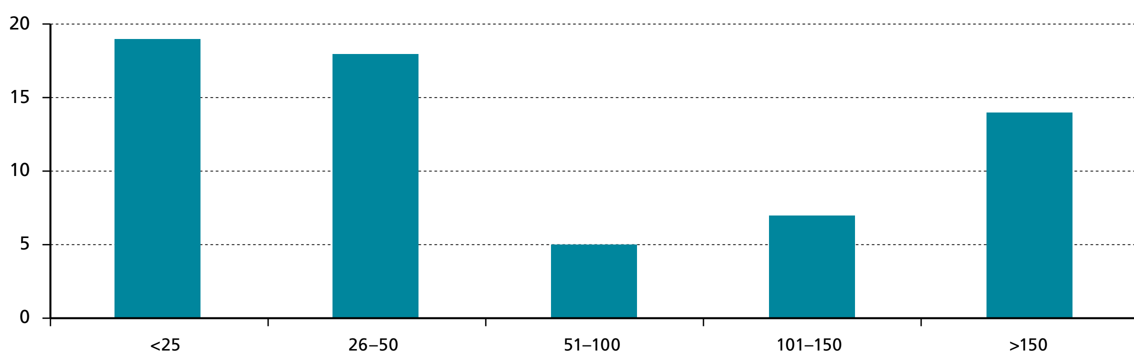
Among the 30 funds directly investing in agribusiness companies and organizations, 11 focus on agribusiness SMEs and 6 invest in producer organizations. The rest is divided into 15 MIVs for the rural and agriculture sector, and 18 funds in the "others" category, including forest funds, SME funds, and funds for sustainable agriculture.

The study categorized the AIFs into four groups according to their return targets (Table 3). The "finance first" group aims at achieving a market rate return, while "impact first" funds accept concessionary returns while pursuing substantial development impacts. Double bottom line funds try to achieve both financial return and social impact.

In the analysis, 19 funds out of 63 AIFs are categorized as impact first funds, pursuing substantial development impact, and another 31 funds are classified as double bottom line investors. Because this study focuses on development-oriented AIFs, the majority of the funds analysed place a strong emphasis on development return. On the other hand, 12 AIFs are finance first funds, investing in more established companies and aim at market return.

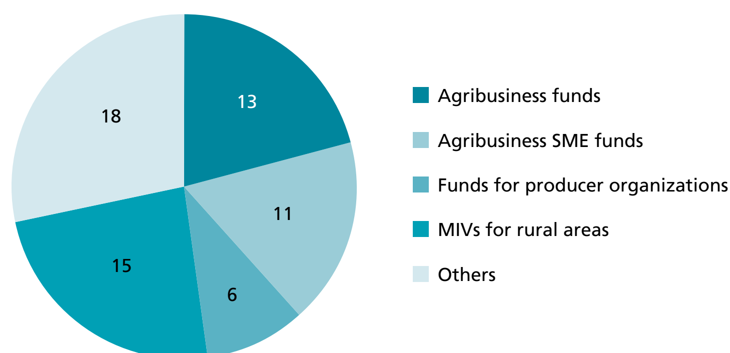
Further analysis revealed that the return target varies widely depending on the type of funds. As Figure 7 indicates, approximately 70% of agribusiness funds are finance first funds pursuing a market

FIGURE 4
Size of agricultural investment funds (USD million)



Source: Authors' compilation.

FIGURE 5
Number of agricultural investment funds by fund type (n=63)



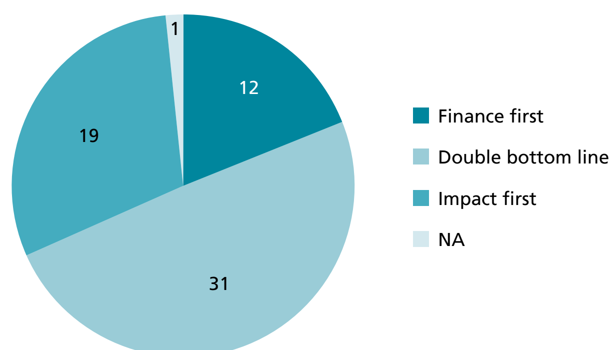
Agribusiness and Agribusiness small- and medium-sized enterprise funds include investment companies
Source: Authors' compilation.

TABLE 3
Investment targets of agricultural investment funds

	Financial return	Investor composition	Investments
Finance first	Market rate	Institutional investors	Tend to be in established companies
Impact first	Concessionary	Development financial institutions, foundations, individuals	SMEs, farmer organizations, MIFs for rural sector
Double bottom line	Seeking market rate	Development financial institutions, foundations, institutional investors, individuals	SMEs, farmer organizations, MIFs for rural sector

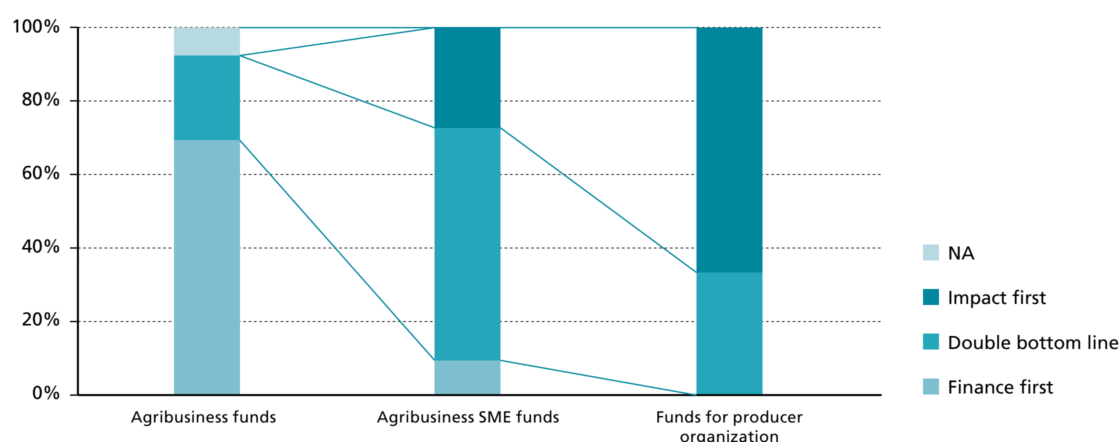
Source: Authors' compilation based on Pacific Community Ventures, 2012

FIGURE 6
Number of funds by investment target (n=63)



Source: Authors' compilation.

FIGURE 7
Investment target by fund types



Source: Authors' compilation.

TABLE 4
Major financial instruments used by agricultural investment funds

	Equity	Quasi-Equity		Debt
		Preferred stock	Subordinate debt + equity kicker*	
Maturity	Infinite (investment funds usually sell shares after a certain period)	Infinite	Fixed / Infinite (when equity kicker is exercised)	Fixed
Claims	Residual cash flows (earnings taken)	Contracted set of cash flows (e.g. dividend) and residual cash flows	Contracted set of cash flows / residual cash flows (when equity kicker is exercised)	Contracted set of cash flows (e.g. interest and principal payments)
Order of claims	Last among investors	Senior to equity and subordinate to debt	Senior to equity and subordinate to debt (last among investors when equity kicker is exercised)	First among investors
Ownership of the company	Management control based on the number of shares owned	No ownership	No ownership (management control based on the no. of shares when equity kicker is exercised)	No ownership
Focus of due diligence	Growth potential, business model etc.	Growth potential, business model, cash flow, capacity of repayment etc.	Growth potential, business model, cash flow, capacity of repayment etc.	Cash flow, capacity of repayment etc.

* Equity kicker includes convertible rights and warrants. It can be attached to preferred stock
Source: Authors

rate return. On the other hand, the two other return targets — impact first and double bottom line — dominate agribusiness SME funds and funds for producer organization categories. This clear difference in return target may suggest that investments in agribusiness SMEs and farmer organizations do not easily yield market return, yet they are attractive targets for development impact.

Investment instruments

The current study also carried out an analysis of the funds directly investing in the agricultural sector (e.g. agribusiness and agribusiness SME funds and fund for producer organizations) and assessed their capital base, instruments used, investment ranges, and grant technical assistance programmes. As a background to the assessment,

typical financial instruments used by AIFs are summarized in Table 4.

Generally speaking, equity and quasi-equity (also called subordinated debt) yield higher financial returns compared with debt, when successful, but also incur higher risk. Equity investors can intervene in the management of investee companies in exchange for the risk they assume. For development-oriented investment, this intervention often develops the capacity of investees and helps them to grow. On the other hand, from the entrepreneur's point of view, debt is cheaper than equity, but requires steady cash flows for repayment and often tangible assets for collateral. Quasi-equity, which has mixed features of equity and debt, is a useful tool to satisfy various needs of both investors and investees.

Agribusiness funds, agribusiness SME funds and funds for producer organizations

Table 5 indicates that agribusiness funds tend to have a larger capital base when compared to SME agribusiness funds. The funds for producer organizations also have smaller capital base, yet slightly larger than that of the SME funds because some of them are open-end funds with a wider base of institutional and individual investors, and often large numbers of producers. Naturally, the investment range of agribusiness funds is also larger (Figure 8) than that of funds for SMEs and producer groups. The so-called "missing middle" is often stated as the main target of the latter two funds, although SME investment funds tend to go for the larger end of the missing middle to pursue attractive financial return from established agribusinesses. This tendency can be also observed in investments from funds for producer organizations due to the high risks and transaction costs in less organized organizations and businesses. In fact, the Council on Smallholder Agricultural Finance, an industry platform of financers for small producers, confirms that less than 10% of loans from their members in 2014 were below USD 300 000. Therefore, "there is a dearth of financing available for earlier-stage businesses that require smaller loans, especially loans within the USD 50 000 to USD 200 000 range" (CSAF, 2015:9). However, these are very hard to reach directly by investment funds and consequently, fund managers would often rather reach them indirectly by investing through their value-chain partners such as traders or buyers.

Funds investing in larger agribusinesses mainly use equity and quasi-equity but may also provide debt financing when needed for working capital shortfalls. In contrast, debt is widely used by SME funds and is the main instrument for the funds for producer organizations. Debt usually yields lower returns than equity but it also tends to have a shorter duration and is often backed by purchase agreements with strong buyers; therefore, it is less risky and relatively easier to disburse based on the cash flow of the investee companies and/or organizations. Most SME funds also make some equity investments or provide quasi-equity subordinated loans to compensate for lower return from their debt investments and achieve higher returns for their investors.

Because investing directly in producer organizations tends to be more debt — both senior debt and subordinated debt — it is also relatively common to have partial guarantees linked with the loans to reduce excessive risks. The guarantees, such as a 50-50% risk share of the lender and guarantee fund, reduce those risks. The debt investments mainly fulfil working capital and trade finance requirements of investees. Long-term finance (both equity and debt) for capital investment is generally considered to be too risky and thus not widely offered by investment funds to producer organizations.

Within the study, more than half of the funds for SMEs and producer organizations are accompanied by grant-funded technical assistance facilities, indicating a strong emphasis on development impact in their investment strategies. The details of these technical assistance facilities are discussed in Chapter 3, section 8.

Investors

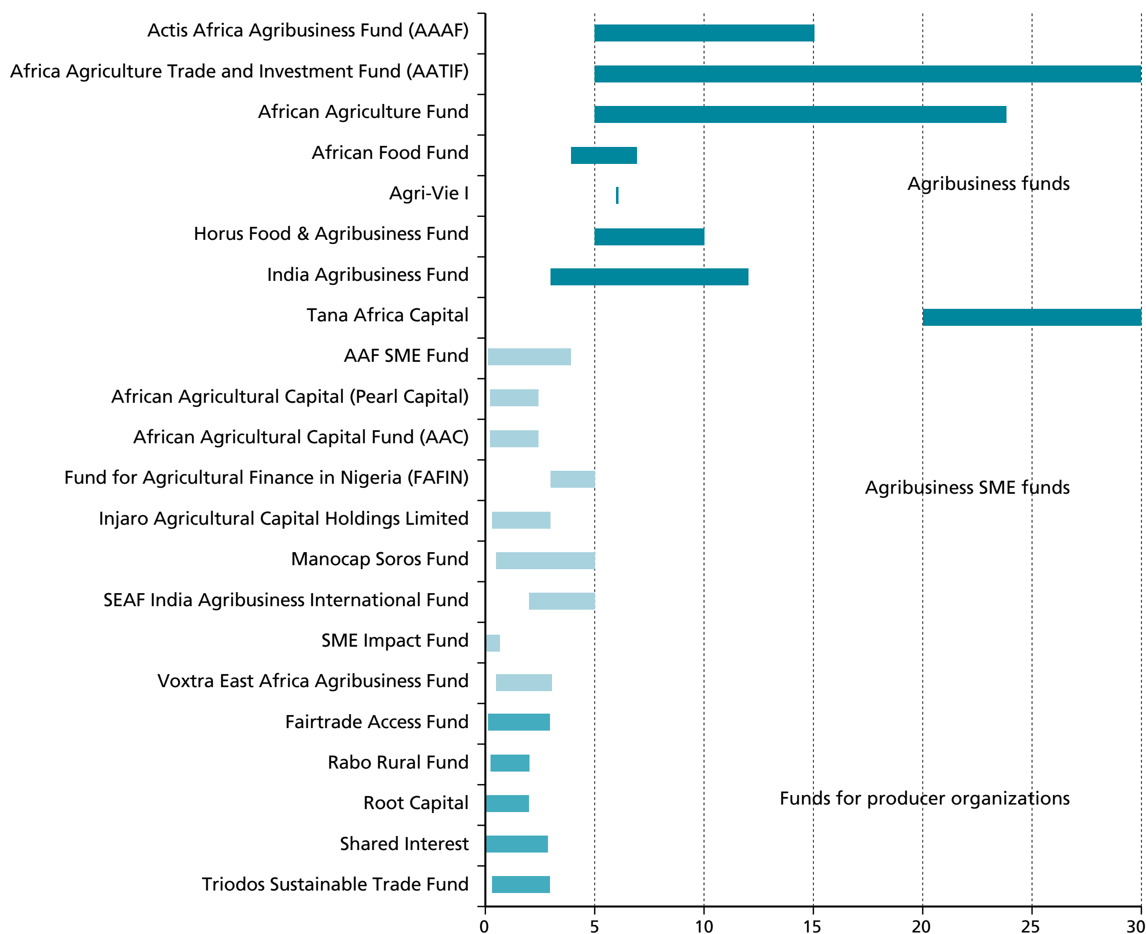
Almost all of the AIFs shown in Figure 8 are funded by development-oriented investors, including DFIs and private foundations. AIFs in general still largely rely on these investors, who place a strong emphasis on the development return in their investment strategies. As noted, some development-oriented investors also provide grants for technical assistance to enhance the development impact of their investments and/or to reduce upfront costs and risks of investment, especially with less developed investee client organizations. On the other hand, several finance first funds have successfully attracted institutional investors, although this is not the norm. Impact investment has recently come to be recognized as an alternative investment strategy, and many AIFs in the study claim to be impact investment vehicles. However, it seems that commercial investors still

TABLE 5
Summary of the funds directly investing in agribusiness companies and organizations

Fund	Capital Base (USD M)*					Instruments			Grant TAF
	25≤	*50≤*	*100≤*	*150≤*	*≥151*	*E/QE*	*D*	*G*	
Agribusiness funds									
Actis Africa Agribusiness Fund (AAAF)			93						
Africa Agriculture Trade and Investment Fund (AATIF)				146					
African Agriculture Fund					216				
African Food Fund		32							
Agribusiness & Food Fund					173				
Agri-Vie I				110					
Aventura Rural Enterprise Fund		50							
Horus Food & Agribusiness Fund		46							
India Agribusiness Fund				120					
New Hope Agriculture and Food Fund II					180				NA
Pampa Agribusiness Fund					365				
Tana Africa Capital					300				
Agribusiness SME funds									
AAF SME Fund		36							
Africa Seed Investment Fund (ASIF)	12								
African Agricultural Capital (Pearl Capital)	9								NA
African Agricultural Capital Fund (AAC)	25								
Annona Sustainable Investment Fund	9								
Fund for Agricultural Finance in Nigeria (FAFIN)		34							
Injaro Agricultural Capital Holdings Limited		49							
Manocap Soros Fund	5								
SEAF India Agribusiness International Fund		42							
SME Impact Fund	11								
Voxtra East Africa Agribusiness Fund	18								
Funds for producer organizations									
Fairtrade Access Fund	17								
Rabo Rural Fund	18								
responsAbility Fair Agriculture Fund		134			200				
Root Capital		114		106					
Shared Interest		36							
Triodos Sustainable Trade Fund	18								

* Capital base - committed as of May 2016 or target whichever available. For open end funds, most recent investment portfolio or net asst value (NAV)
Instruments - E: Equity, QE: Quasi-Equity, D: Debt, G: Guaranty
NA: information was not available
Source: Authors' compilation.

FIGURE 8
Range of the funds directly investing in agribusiness companies and organizations



Agri-Vie I: Average of its investment portfolio.
Source: Authors' compilation.

do not play a major role in this space[4] because the expected financial return is not attractive relative to the risk involved. On the contrary, individual investors seem to accept lower financial return in exchange for substantial development impact. For example, open-end funds such as Alterfin and Shared Interest are largely supported by individual investors.

[4] This does not necessarily mean that institutional investors are not interested in agribusiness sector. To the contrary, they are actively investing in private equity funds that pursue opportunities in multiple areas, including the agribusiness sector. One notable example is the Carlyle Sub-Saharan Africa Fund, which invested in ETG group, an agribusiness company in Tanzania in 2012.

3.3 INVESTMENT ASSESSMENT AND GUIDELINES

Investment can have positive and negative impacts and consequences, some of which are not intentional. Hence, a growing number of initiatives are emerging to measure and guide impact investing and to set guidance standards for responsible investment. For impact reporting, the Impact Reporting and Investment Standards (IRIS) are gradually being accepted as a standard for impact measurement by increasing numbers of impact investors, including those with AIFs. The IRIS, managed by the Global Impact Investment Network (GIIN), comprises a wide range of metrics that capture both cross sector and sector-specific information. As of 2016, 394 investment funds and 2,515 organizations are subscribed to the

ImpactBase Global Online Directory of Impact Investment Vehicles.[5] Moreover, several AIFs are analysed and rated through the Global Impact Investing Rating System, which is based on the IRIS. Some of the funds analysed are classified as impact investing funds because they belong to GIIN, and have the objective of investing in such a way as to bring not only financial benefits and returns, but also to be mindful of the social and environmental effects their financial resources would have on the investee company. It has to do with investment with a human face, where priorities are also given to the sustainability of the environment and the welfare of the inhabitants of the investment location. Examples of impact investing funds are: Root Capital, Incofin, Phatisa, Sierra Investment Fund, and Actis African Agribusiness Fund.

Due to the strong development focus and support from DFIs and private foundations, AIFs covered in the study tend to actively employ various measures to include environmental, social and governance (ESG) considerations into their investment activities. ESG is a widely used term by investors to describe the environmental, social and corporate governance issues that can potentially impact the future of financial performance of their investments. Indeed, DFIs usually require fund management companies to comply with strict ESG standards, including International Finance Corporation Performance Standards on Environmental and Social Sustainability and the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security. While developing and applying a broad framework to manage ESG considerations in the investment decisions is very much new to private equity investors in general,[6] some AIFs have fully integrated EGS in their investment processes. For example, the African Agriculture Fund explains in its Operation Manual that it needs to assess EGS issues during the initial deal identification stage, while continuing to address and control them throughout its investment process.[7]

Moreover, many AIFs go beyond EGS considerations and proactively report their development impact to investors, and sometimes even to the general public. Some quantitative and qualitative data on development impact are available from a number of AIFs, especially those with a strong development focus and track record. For example, several of the investment fund management groups in this study, which work with producer organizations, publish detailed reports on their development impact.

3.4 TARGET GROUPS SERVED BY INVESTMENT FUNDS

Lack of finance can occur anywhere along a value chain and can affect all stakeholders within the chain. For example, when a processing company lacks capital for growth, it can hamper the purchase of produce from local farmers and reduce the bulk of the final product that can be distributed to consumers.[8] It also limits technology upgrading with the subsequent consequence of long-term competitiveness. While they often take a value-chain view of the sectors in which their target investees operate, the various agricultural investment funds target different stakeholders within those agricultural value chains according to their investment covenants. However, they are more likely to target downstream companies that have the capacity to absorb larger amounts of capital and who have stronger management and capacity. Many of the agricultural impact investment funds identified target the missing middle, including agricultural SMEs that are too large to receive loans from MFIs and too small for commercial banks. A good example of investment vehicles targeting the missing middle is African Agricultural Capital, the Africa Seed Investment Fund, and Root Capital. Based on the available information, several AIFs were identified that target companies belonging 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). In these investments, much of the impact on poverty reduction is indirect through the opening of higher value and more market opportunities for the poor, including new and higher value markets, increased access to improved inputs for higher productivity and improved production practices to meet company requirements. Investments in these large processing companies can, for example, range from USD 5 to 30 million as Figure 8 indicates.

[5] See http://www.impactbase.org/info/about-impactbase
[6] SeeINSEAD 2014
[7] See Phatisa 2012
[8] For a review of value chain finance, see Miller and Jones, 2010.

The defined targets of investment funds range from very specific actors within the agricultural value chain to a particular industry; there is also a broad range of value chains within the food system.[9] Those 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 Africa Seed Investment Fund, for example, provides 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 Morocco's olive (oil) industry. Other investment funds, such as the Actis Africa Agribusiness Fund, target investments along various agricultural value chains: from input supply, production and processing, to distribution and marketing. Moreover, some investment funds are also used to set up whole schemes, including the purchase of land, equipment and storage facilities.

Other investment mechanisms that directly benefit particular agricultural actors indirectly benefit other actors linked to them. For example, the Rabo Rural Fund directly supports small- and medium-sized producers and cooperatives. At the same time, the fund benefits smallholders with its funding and guarantees because it requires investee organizations to support small producers with their purchases of producer and supply of inputs.

In summary, investment funds targeting developing countries with public and private investment collaboration can strongly pursue development objectives. Such funds have development goals declared in their mission statement, investment strategy, or through their investor and shareholders base. Because these funds focus on agriculture in developing countries as their investment target, they tend not to make use of complex financial instruments such as trading of commodity derivatives. However, as they strive to achieve a double or triple bottom line (social, ecological and economic), they can have complex shareholder classes or special guarantee arrangements. Overall, about 80% of the funds under analysis were considered to have a clear social, environmental and development mission (categorized as double bottom line or impact first funds). Examples of a strong social and development orientation are the funds' focus on agribusinesses with sound environmental and social practices, and their focus on empowerment through the support of smallholder farmer and female entrepreneurs.

3.5 ORGANIZATION AND MANAGEMENT SET-UP OF AGRICULTURAL INVESTMENT FUNDS

This study revealed that investment in agriculture does not have a common organizational or operational setup. Funds identified were set up as vehicles with a broad range of objectives and purposes in relation to the different interest of their investors. The legal structures of the funds range from foundations to limited partnerships, to more complex structures set up in diverse legal environments, including Mauritius and Luxembourg that are both very advanced and specialized. A closer look at the legal structure must be considered at the individual level of the respective investment fund. A fund's organizational structure can be furthermore distinguished based on location. A distinction is made as to whether the fund is operating from within the target country, or out of the target country, and has representative offices in the region from which it operates. A purely commercial investment fund (e.g. a hedge fund or a typical private equity fund targeting agriculture), has a similar organizational setup to that of any other private equity fund, because the setup is more dependent on regulations and legal requirements than on the asset class the fund invests in or targets.

Fund management

Professional fund management companies usually manage agricultural investment funds. The study of the AIFs identified and analysed 52 investment fund management companies and organizations. The analysis revealed that about 60% of the fund managers of AIFs manage funds exclusively in the agricultural sector. Other companies have wider investment scopes, such as SMEs, MFIs, and energy. Agrifocused fund managers seem to have more exposure to SMEs and producer organizations within the agribusiness sector, while other managers seem to have stronger focus on agribusiness companies (Table 6). Because investments in SMEs and

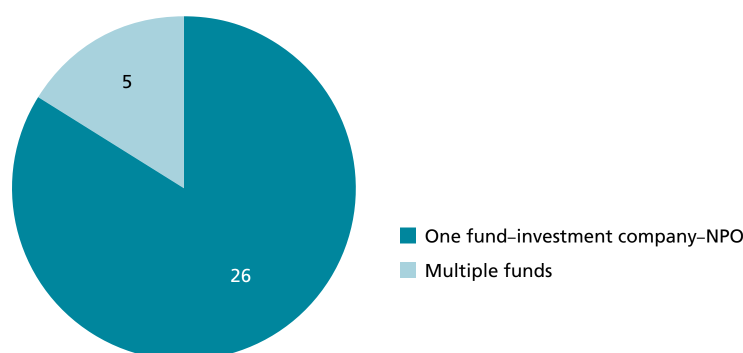
9 See Miller and Jones, 2010

TABLE 6
Type of agricultural investment funds managed

Type of AIFs under management	Agri-focus	Other sectors
Agribusiness fund	19.4%	33.3%
Agribusiness SME fund	22.6%	9.5%
Fund for producer organizations	12.9%	9.5%
MIV	16.1%	14.3%
Others	29.0%	33.3%

Source: Authors' compilation.

FIGURE 9
Agrisector focus fund managers (n=31)



Source: Authors' compilation.

producer organizations require specialized sector knowledge to manage the unique risks that they face, agrifocused managers may have advantages over sector-neutral peers in these spaces. In fact, agrifocused fund managers often have agriculture specialists on their teams in addition to finance experts. On the other hand, the focus on agribusiness companies by other managers may indicate that investments in agribusiness companies can be handled through conventional investment practices that are used for other sectors.

Funds may have an agricultural focus or may have a multi-sector focus of which agriculture is one important sector. Out of 31 fund managers with an agricultural focus, 26 companies manage only one fund. While there are non-profit organizations and investment companies with long histories of investment, such as Oikocredit and Shared Interest, others are currently managing their first and only fund. With support from development-oriented investors, these first-time fund managers actively seek investment opportunities in the agricultural sector.

Successful fund managers build credible investment track records and use this reputation to start their second fund or succeeding investment funds. Their established presence in the field can also provide efficiencies and economies of scale to reduce costs, especially when managing multiple funds. For example, Agri-Vie Investment Advisors built confidence among investors through its USD 110 million agriculture-focused fund, and then launched a second fund targeting USD 150–200 million in the same agribusiness space. EcoEnterprises Capital Management, another example, launched their second fund for sustainable agriculture after successful development of their first one.

Other fund managers begin in one sector or focus and then move into new investment areas in order to pursue additional opportunities and larger development impacts. For example, Incofin, a rural and agriculture-focused fund management company based in Belgium, built a strong track record by investing in rural MFIs and then moving gradually into agricultural lending. The company

then began to also manage a small agricultural fund for producer organizations, which was followed by developing a much larger agricultural investment fund. For details, please see Case Study 2.

In addition, this study identified AIFs that are part of a "fund of funds" structure. One reason behind those with a fund of funds structure is that investors often have more confidence when their investment fund is managed by a proven fund management company or group that already has experience and specialized management in place. Some funds of funds are also able to raise capital from sources that are unavailable to other funds. Examples of this structure are the Sarona Fund and CDC Group plc. Some fund management companies manage a portfolio of funds that might, for example, target different agricultural themes, such as the African Agriculture Fund and the Pan African Housing Fund, which share the same platform. This diversification can reduce sector risks but poses the risk of lacking the depth of expertise and focus for some of the funds, thereby allowing some funds to not receive the desired level of expert oversight that may be needed.

3.6 THE INVESTMENT PROCESS

Each investment from a fund that is made into an investee undergoes a careful process of analysis. The investment process is much more than an economic assessment. Especially in the cases of equity investments, the process involves a "courtship" between investment fund management and the potential investee in order to get to "know each other" and assess their compatibility of interests and vision. Many SMEs, for example, are hesitant to lose some of their autonomy in decision-making and in their returns. Fund managers likewise must be comfortable with the ownership, management and transparency of the investee business. This assessment by the fund management team can be a lengthy process in order to build a convincing case for approval. It is then reviewed and either approved or rejected by the investment committee (or directly by the board in some cases.) This serves not only to assure investors of the expected benefits and risks of their investments, but also highlights specific areas for investment and capacity development. This assessment process can also be important for the potential investee company in order to improve their systems and operations. An example of this process is shown by the Georgia Regional Development Fund (GRDF), depicted in Figure 10 and described in detail in Annex 2.

The GRDF's investment process, shown in Figure 10, is generally typical for many equity investments. It is important to emphasize the importance of the investment assessment and checkpoints because it is much more than an assessment of financial returns and projections. In addition, all ambiguities and differences of vision of strategy, approach and ownership expectations must be addressed and reconciled. Because of this, some investment managers may opt to first develop a lending relationship with the potential investee as a way of working with and getting to know each other, and then later consider an equity investment or conversion of their loan capital to an equity position in the investee.

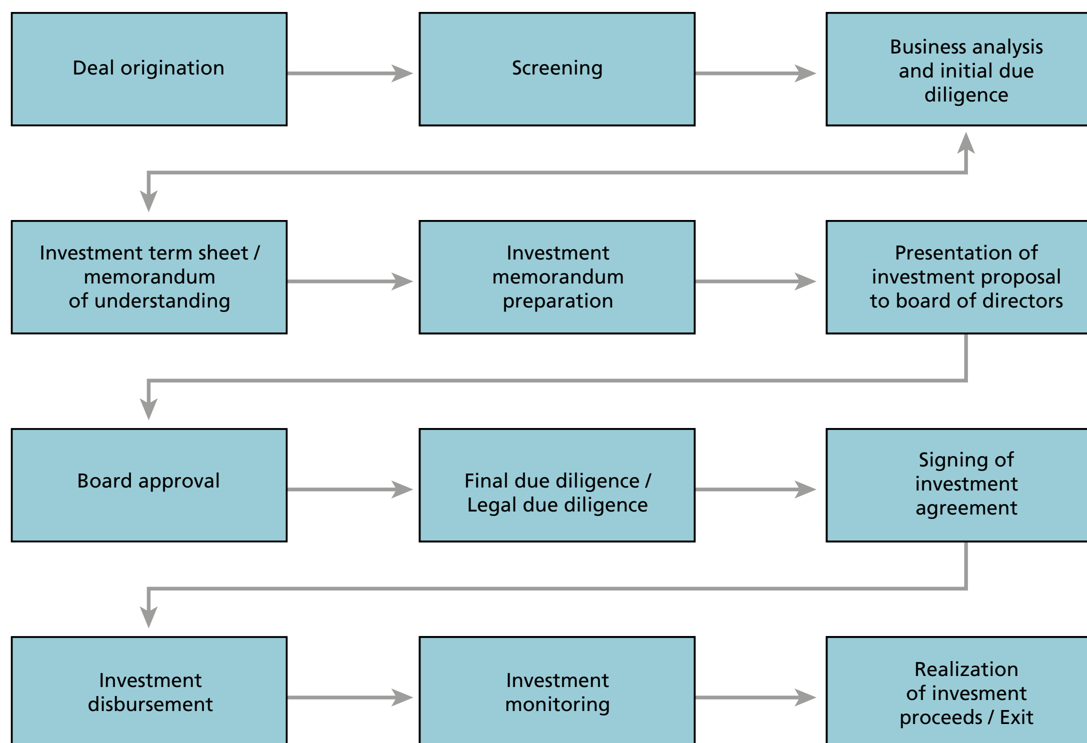
3.7 TECHNICAL ASSISTANCE FACILITIES

Investment fund managers often provide various forms of technical support to their investee companies to help them grow and ultimately achieve an expected return on investment. Typically, the support covers a wide range of subjects from business management, accounting and governance to market access. The costs of this support are usually covered by fund management fees and sometimes additionally by consulting fees. However, for development impact-focused funds, such support is often not enough to respond to the technical assistance needs from their investees. Hence, as shown in many of the funds analysed in this document, technical assistance is also supported by grant funds. Grant-funded technical assistance goes beyond conventional support by fund managers and is used to enhance financial return and the development and social impact of the investment.

This section will first summarize the main features of technical assistance that may accompany the AIFs, and then briefly touch on views of donors and fund managers on grant-funded technical assistance. Lastly, it will review discussions on the efficient use of grant funds along with investments and identify challenges for future development. For the discussion below, technical assistance (TA) is defined as technical support, mainly funded by grants, which accompany investment funds to enhance financial return and development impact. The variety and depth of TA services can be much greater than the technical support by fund managers.

Administration and delivery of TA grants that accompany agricultural investment funds are done through different management and operational modalities. Small grant funds are usually admin-

FIGURE 10
Overview of operations of the Georgia Regional Development Fund



Source: Authors' compilation.

istered directly by fund management companies. On the other hand, larger grant funds are often managed by third party managers as independent technical assistance facilities (TAFs). A notable example of TAFs is the Technical Assistance Facility of the African Agricultural Fund (AAF TAF), which has unique decision-making procedures and is managed by an independent facility manager. There are many variations between the two models. For example, some fund management entities have dedicated TA specialists for handling grant management.

Regarding the contents of TA services, most TA grant funds focus on assistance for investee companies and cover various management issues including accounting, human resources, information technology systems, and marketing. Although small TA funds are often exclusively used to develop capacity of investee companies, large TAFs tend to have larger service scopes, emphasizing more on development and social impact. For example, the AAF TAF supports the development of outgrower schemes and facilitates access to finance in value chains that investee companies belong to.

The content of the TA support activities are usually designed by TA managers (fund management companies or TAF managers) and carried out by third party service providers selected through direct contracts or competitive bidding. Some TAFs have designated service providers that could shorten the turnaround time while ensuring the quality of the services. Investee companies are usually required to provide co-financing (often up to 50%) for services they receive.

Each management and operational model above has advantages and disadvantages. The direct management model by fund managers would lead to the flexible and efficient use of TA funds due to its lean management structure and proximity to investment funds. It could

also maximise synergy between investments and TA support. Investment fund managers who oversee TA grants can easily prioritise support needs according to their investments and carry out tailor-made TA activities. On the other hand, TA management may lead to diversion of limited resources from investment fund management, especially when donors require detailed reporting on TA grant funds. In addition, it is possible that TA would be mainly used to ensure financial return, paying less attention to development and social impact, which are usually the main focus of grant providers.

On the contrary, the TAF structure could ensure greater transparency through its own decision-making and project approval processes. With dedicated management entities, TA requirements could be prioritized based on certain criteria (usually putting emphasis on development impact) and eventually translated into TA activities. However, this model may lead to slower TA implementation, depending on its project approval requirements. Other potential issues may include coordination between investment fund managers and TAFs. Additional time and resources may be required for both parties to agree on the use of TA funds, especially when their priorities are not aligned over financial return and development impact.

Suppliers of such TA grant funds often include DFIs themselves, and donors such as the European Union, Germany, and the Netherlands. Amid the ongoing debate on the optimal use of grant funds along investments, which will be discussed later, TA grant funds are usually justified in the context of the private–public collaboration model of development. International development agencies, civil society organizations and private foundations, promote partnerships among different actors for effective development cooperation in order to improve and/or enhance private investment and also to leverage their limited public funding. In fact, the Fourth High Level Forum on Aid Effectiveness in Busan acknowledged the importance of private sector involvement and the innovative use of aid, especially for effective private sector development (including agricultural development). Strategic use of grants is better justified when higher development impact is expected and agricultural development is widely known to have a significant impact on poverty reduction. The TA grant funds that accompany AIFs support not only investee companies but also the value chain actors, thereby strengthening livelihoods of local communities.

TA grant funds are generally well received by AIFS because TA can mitigate risks by developing the capacity of investee companies and further stimulate their growth. Such TA is especially important to make investment opportunities in SMEs financially viable. In addition, collaboration with TA grant funds is sometimes required by donors and investors, including DFIs, which have a strong focus on development and social impact. According to the analysis of this report, many AIFs funded by DFIs are, indeed, accompanied by grant funds for TA (See Table 7).

Major DFIs have also been actively providing TA support for their own investee companies. For example, the International Finance Cooperation has a TA service called Advisory Service with an annual budget of more than USD 200 million.[10] Bilateral DFIs also provide TA grants with their equity and debt investments. According to a survey done by Proparco, OeEB, Norfund and the Netherlands Development Finance Company (FMO) have relatively large TA grant funds to support their investments.

While it is already widely used, a grant along with investment has triggered numerous debates among development practitioners over its impact and validity. Although such discussions mainly target grants directly subsiding finance from DFIs, the main criticisms are still relevant to TA grant funds along with the investment. Below is a summary of claims by those opposing such measures[11]:

- **Risk of distorting markets.** Direct support for the private sector, especially investee companies through grant-funded TA projects may result in unfair competition in the market.
- **Opportunity costs.** There are other important areas such as healthcare, education and social protection where only grants can play a critical role. Limited grant funds should not be diverted to subsidise private investments.

[10] See IFC, 2015

[11] Summary of discussions from: Griffiths J. 2012. '*Leveraging private sector finance: How does it work and what are the risks?* Bretton Woods Project; and Bilal S. and Kratke F. 2013. *Blending loans and grants: to blend or not to blend?* European Centre for Development Policy Management

TABLE 7
Existing technical assistance facilities

Name of fund	Size of fund (in USD million)	Size of TA grant (in USD million)	Management of TA funds
Africa Agriculture and Trade Investment Fund (AATIF)	146	6,7	TAF (CFC)
African Agricultural Capital Fund (AACF)	25	1,5	Investment fund manager
African Agriculture Fund - SME Fund	36	11,2	TAF (IFAD, Technoserve)
African Agriculture Fund (AAF)	216		
European Solidarity Financing Fund for Africa (FEFISOL)	27	1,6	Investment fund manager
Fund for Agricultural Finance in Nigeria (FAFIN)	34	2,0	Investment fund manager
Georgia Regional Development Fund (GRDF)	30	2,0	Investment fund manager
Grassroots Business Fund (GFB)	49	11,5	Investment fund manager
Injaro Agricultural Capital Holdings Limited	49	4,0	Investment fund manager
Microfinance Initiative for Asia Debt Fund (MIFA)	150	3,3	NA
Rural Impulse fund I and II	172	5,1	Investment fund manager
SME Impact Fund	11	0,3	Investment fund manager
Take-off facility for Microfinance for Africa	4	1,8	Investment fund manager
Voxtra East Africa Agribusiness Fund	18	1,6	Investment fund manager

Source: Authors' compilation.

- **Limited linkages with national strategies and policies.** Agricultural investment funds identify potential investee companies based on their own selection criteria and, therefore, investee companies may not be in line with national priorities. As a result, TA support, especially for investee companies, may have limited linkages with national strategies and priorities.[12]
- **Transparency.** Information of grant funds along with investment may not be fully disclosed to the public because TA usually handles confidential information, including strategies of investment funds and investee companies.
- **Measurement of impact.** Although there are many ongoing initiatives, especially among impact investors, there are no standard evaluation methodologies to assess and measure the impact of grant funds along investment.[13]

The risk of market distortion has been discussed widely among donors and development agencies, especially when a grant-funded TA directly supports private companies, which is often the case. The proponents argue that such intervention can be justified under certain conditions, one of which is where "the market mechanism is ineffective".[14] For example, direct interventions can be justified

[12] Some investment funds and TAFs make extra efforts to enhance linkage with national strategies. For example, the AAF TAF usually assesses government strategies especially to design and implement outgrower projects. The TAF of the Western Balkans Enterprise Development and Innovation Facility, once it is established, will be dedicated to policy support for Balkan governments to strengthen enabling environment for SMEs.

[13] The Impact Reporting and Investment Standards has gradually been accepted as a standard of impact measurement by larger number of impact investors.

[14] See Bloemendal *et al.*, 2011

when grant interventions remove bottlenecks in certain value chains. Other justifications include positive spillover effects to the wider community. This reasoning is often coupled with co-funding from investee companies directly supported by TA, which may contribute to the efficient use of the grant.

Similarly, the proper use of a grant has also been widely discussed among impact investors. Omidyar Network, one of the major impact investors, argues that there is no simplistic "yes" or "no" answer to the use of grants in supporting impact investment. From their experience, risk of market distortion is more probable when grant assistance goes to organizations serving affluent customers in large, competitive markets.[15] In other words, grant support can be better justified for a company active in a small market serving the poor.

To mobilize additional TA grant funds and investments for the agricultural sector, several critical issues need to be addressed.

- **Accumulation of lessons learned and best practices.** Existing TA grant funds usually accompany specific investment funds and as a result, lessons learned and best practices have not been usually shared with wider stakeholders. Such information, if accumulated and disseminated properly, will enable new TA funds to replicate success cases without repeating common pitfalls. Relevant lessons learned can be also drawn from TA grant funds for non-AIFs.[16] Knowledge sharing among TA grant funds will further contribute to the above discussions on the efficient use of grants and investments.
- **Impact measurement.** To prove value addition of TA grant funds, impact has to be measured and evaluated through commonly accepted methodologies. By working together with non-agricultural investment funds and impact investors, such methodologies need to be tested, mainstreamed and promoted.
- **Innovative use of TA grant funds.** To enhance the impact and reduce shortcomings of the TA grant, innovative ideas and models need to be promoted, including new TA implementation mechanisms and service scopes. For example, the TAF of the Western Balkans SEM fund will be used to address enabling environment issues through policy support for governments in addition to technical support to the investee companies.[17] These initiatives would contribute to the learning and accumulation of knowledge for all the stakeholders.

In summary, TA grant funds have been widely used to enhance the development impact and financial return of AIFs, although there are some criticisms. As more grant resources are allocated to support investments, donors, investors and other stakeholders need to make additional efforts to ensure more effective use of grants in this context.

3.8 FINANCIAL PERFORMANCE EXPECTATION OF PUBLIC VS PRIVATE INVESTORS

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

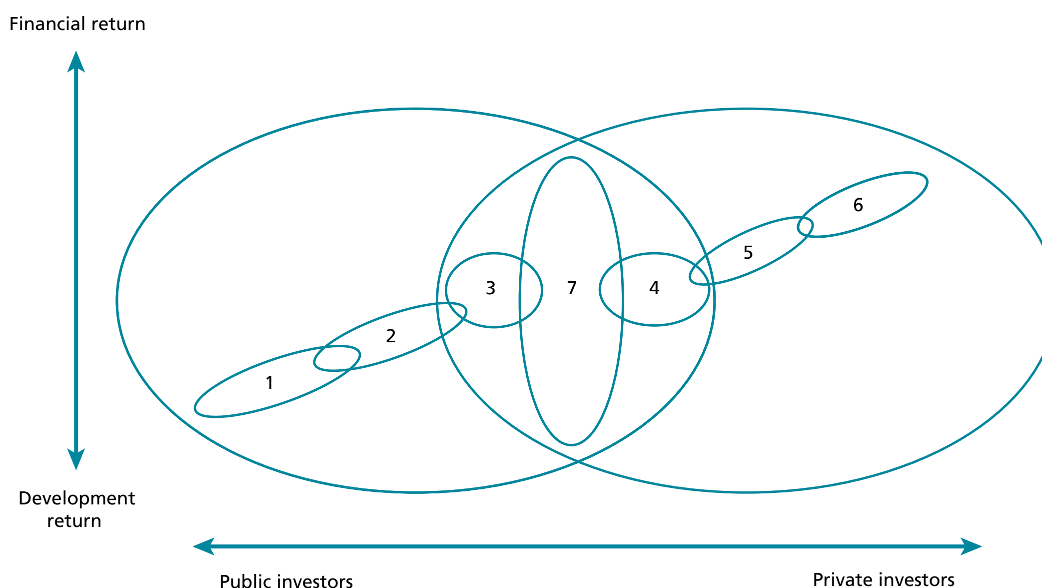
1. **Public investor without profit return expectations.** These types of investors are not seeking financial returns, but rather are interested in achieving high development impact. The investment can often be considered a grant or seed capital investment. The African Agriculture Fund, for example, draws on a grant contribution for the TAF from the European Union, which would belong to this category of investors.
2. **Public investor with limited return expectations.** This type of investor considers investments as support for the institution, and are aware that it may not yield fully commercial financial returns in the near future. The investor is interested in developmental return and often tries to support the institution in other areas. These investors, for example, are mostly public investors who often invest in first-loss tranches of MIVs.

[15] See Bannick and Goldman, 2012. *Do no harm: Subsidies and impact investing*. Stanford Social Innovation Review

[16] A number of TA grant funds exist to support investment funds for energy, environment and SME development.

[17] The technical assistance facility of the Western Balkans Enterprise Development and Innovation Facility: http://www.wbedif.eu/about-wb-edif/technical-assistance-facility/

FIGURE 11
Distribution of agricultural investment funds by return expectations



Source: Authors' compilation.

3. **Public investor in public–private partnership (PPP) models.** These investors primarily aim 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 the Rural Impulse Fund.
4. **Private investor in PPP models.** These investors target investments in agriculture, but prefer 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 otherwise unavailable.
5. **Private investor with interest in agriculture as a new asset class.** These investors consider agriculture an interesting, longer-term, asset class that allows greater diversification of their portfolio and alternative, risk-adjusted returns. These investors are not necessarily interested in development impact, and may include those interested in hedge funds, such as the Emergent African Land Fund.
6. **Private agricultural investors with strong profit orientation.** These investors consider agriculture an asset class with an excellent risk-return profile; most investors in "finance first" funds belong to this category.
7. **Investors with an explicitly stated double bottom line.** These investors include private individuals, foundations and, in some cases, private institutional investors or DFIs. While the investor expects a profitable investment, social impact is also a priority. Investors in African Agricultural Capital, for instance, would like to balance these two objectives. However, different categories of investors can overlap. Figure 11 illustrates the different types of investors (public and private) according to their different return expectations.

In addition to the wide variety of business interests and models, the lack of sufficient historical data that are comparable makes it difficult to assess the various AIFs. The mandates of these funds reflect the distinctive expected risk-return profiles of their investors whose return expectations range from a low 3 percent or even less, to 25 percent or more, depending on the level of commercial orientation of the fund. Most investors in AIFs included in the inventory stocktaking, shown in Annex 9, belong to the third, fourth and seventh categories.

BOX 2
The case of Navis Capital

Navis Capital has a particular investment strategy that predetermines its return expectations. This includes the following elements:
Geography. Navis Capital determines its geographical areas based on a set of comparative advantages. Thus, their investment choice of Southeast Asia was driven by the prospective and boisterous economic, social and political climate along with potential new market outlooks that looked favourable.
SME focus. SMEs are targeted due not only to higher returns, but ease of management given their size; and unlike larger companies, attract less public attention, and thus are less susceptible to political and government interference.
Controlling stake. To influence change in investee companies, Navis Capital strategically opts for a majority stake. This is to ensure authority in guiding the company to meet expected management and profitability returns.
Technical assistance. Providing assistance to SMEs is crucial because it helps to build the professional pool of experts in the different development fields, which are indispensable for company development and productivity growth.

Investments in agricultural funds are largely accessible to institutional investors and sophisticated social investors. Many commercial investors also participate in funds that can trade commodities via derivatives or stocks of companies engaged in agriculture. Such instruments are not considered in this report. Research has shown that many investors actually attempt to determine their return expectations from the onset. An example is Navis Capital, a private fund of multiple stakeholders, whose investment strategy is detailed in Box 2.

3.9 IMPACT OF AGRICULTURAL INVESTMENT FUNDS

Over the years it has become increasingly evident that AIFs can generate noticeable economic and social impact beyond the profit expectations of most investors. Four examples illustrate impacts generated from the funds' investment and technical guidance support from their management, as shown below from the Small Enterprise Assistance Fund, Pearl Capital, West African Agricultural Investment Fund, and Acumen.

Impact from the Small Enterprise Assistance Fund

The SEAF has been managing small enterprise and agribusiness investment funds for more than 25 years. In two impact study reports undertaken of their investments (SEAF, 2007 and 2011), it is amply demonstrated that SMEs are vehicles for economic growth and poverty reduction. SEAF investments in SME companies, of which nearly 40 percent were agribusinesses, helped create jobs for unskilled or low-skilled individuals who then received 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. Globally, SEAF's investment impact can be summarized as shown below:

Impact on employees (SEAF SME data)

- 19 percent average annual increase in wages since time of investment (USD terms)
- Wages are, on average, 54 percent above national averages
- 69 percent of employees receive health and/or pension benefits
- 77 percent of jobs go to low-skilled workers
- 81 percent of companies have provided training to employees since time of investment.

Impact on economic and financial multiplier and out performances of local economy

- Every USD 1 invested generates, on average, an additional USD 13 in the local economy. 33 percent annual revenue growth vs 18 percent average annual GDP growth
- 25 percent annual employment growth vs 1 percent average annual national employment growth.

TABLE 8
Impact on stakeholders, based on the Small Enterprise Assistance Fund small and medium enterprise data

	At time of Investment	At exit 2009	Annual growth rate
Revenue (USD)	USD 2.5 million	USD 6 million	27%
No of employees	187	244	25%
No of suppliers	85	125	34%
No of customers	1 200	2 600	30%
Payment to beneficiaries			
Suppliers	USD 4.5 million	USD 8.1 million	22%
Employees	USD 377 000	USD 894 000	43%
Government	USD 267 000	USD 581 000	49%
Community	USD 1 200	USD 5 200	28%

Source: SEAF 2011

Impact of AIFs in East African agribusinesses with Pearl Capital Partners

Headline figures

- USD 2 567 000 invested in five businesses
- USD 6 213 000 projected gross return to investors
- USD 370 million accumulative wealth creation from the core activities of each investee business
- Positively impacting 1.4 million families in East Africa
- Post investment growth across all five investee companies
- 30 percent turnover increase
- 170 percent profit improvement
- 15 percent customer growth

Developmental impact from core activities

Smallholders

- Estimated 684 000 smallholder farmers benefited at the time of the initial investment, and increased to 1 035 000 in 2011, a 51% increase;
- four out of five investee companies provide smallholders with access to finance or credit
- four out of five investee companies provide smallholder farmers with access to agricultural training
- four out of five investee companies provide access to improved logistics or better equipment

Suppliers

- The number of suppliers to investee companies has increased from 1 590 at the time of investment to 5 625 in 2011, a 254% increase

Employees

- five out of five investee companies have health and safety and human resource policies in place compared with 1/5 at time of investment
- four out of five investee companies provide internal or external training to employees compared with 2/5 at the time of investment
- four out of five investee companies provide performance related bonuses in addition to annual salary compared to 2/5 at the time of investment

One cannot infer that the impressive results from SEAF will be replicated by other AIFs; however, it is well recognized that investment in agriculture does reduce poverty, improve food security, develop local know-how, and contribute to the country's general productivity and growth.

FIGURE 12
Impact of the Acumen Fund

Social impact of agriculture portfolio

	Investees	Major achievements in 2011	Farmer impacted since investment
Irrigation	• GEWP	• Has sold 40,694 micro-irrigation kits in 2011	• 119,204
	• Microdrip	• Plans to reach 20,000 farmers over 5 years	• ~9,000
Seeds	• Western Seed Company	• Over 300,000 farmers served in 2011–2011 season	• 300,000+
Financial Services	• Juhudi Kilimo	• 9,000+ clients and 1.4x portfolio growth in 2011 YTD	• 9,000+
	• NRSP Bank	• Plans to reach 300,000 borrowers over 5 years	• 127,018
Dairy	• Jassar Farms	• 6 embryo bulls in farm that will begin producing semen in Q1 2012	• -
Cash Crops	• Gulu Agriculture Development Company	• Providing market to over 50,000 cotton farmers, many of whom are internally displaced persons, in N. Uganda in the 2011–12 season	• ~50,000
		TOTAL	• ~600,000

Source: Acumen Fund

Impact of AIFs in East African agribusinesses with Pearl Capital Partners

A publication by the Gatsby Trust Foundation and Pearl Capital Partners (2012), analysing investments in five SME agribusinesses in East Africa (Africert, Africado, Western Seed, Bee Natural and Neseco) across three countries (Kenya, Uganda and Tanzania) shows remarkable performance. Pearl Capital Partners is an impact investment fund and part of GIIN. The challenge is "to demonstrate that the investment model is sustainable, that it creates strong businesses, it provides positive social impact and that the returns to investors are competitive" (Gatsby Trust Foundation and PCP, 2012:1). Pearl Capital Partners has invested in these agribusinesses since 2006, and highlights of its financial and social impact are shown below.

These results demonstrate that a DFI fund can help not only investee companies but also the agriculture sector where they operate. Many times this involves connecting those along the agricultural value. Investee companies often, for instance, provide smallholder farmers access to markets, finance and technical support, which not only helps to meet their procurement needs but can also stimulate innovation and growth.

Impact of the West Africa Agricultural Investment Fund

WAAIF is an AIF that has fomented impact on smallholder agricultural productivity growth in West Africa. It was created in 2008 on a PPP platform among stakeholders that include the Alliance for a Green Revolution in Africa Foundation, Gatsby Trust Foundation, Lundin Foundation, and Injaro, with an aim to boost the production and distribution of quality seeds to smallholder farmers in the West African countries of Niger, Mali, Burkina Faso, Nigeria, Ghana and Benin. The investment targets small- and medium-sized seed production and distribution companies, with the rationale that viable seeds and fertilizer use would contribute to improved smallholder productivity, increased food production and enhanced household income.

- In Mali, after just two years of partnership between Faso Kaba and WAAIF, seed distribution in this small company went from two stores working with 150 women, to multiple stores distributing to more than 30 000 farmers across Mali. Seed distribution from KABA FASO reaches as far as Ghana.
- In Ghana, M&B Seed Company anticipates distributing seeds to more than 100 000 smallholder farmers in the Volta region in the years to come.
- The investment companies' mobilization of funds increased from USD 0.59 million from inception to USD 1.51 million in 2011, and there has been a 248 percent increase in local fund raising, from USD 116 000 to USD 288 000, with the number of jobs increasing from 45 to 240.

Impact of the Acumen Fund
Another example is that of the Acumen Fund, which serves over 600 000 smallholder farmers as shown in Figure 12.

3.10 PRINCIPAL ISSUES, CONSTRAINTS AND OPPORTUNITIES

The study identified issues related to AIFs, which by their characteristics require further detailed review and analysis. There has been a continual increase in the number of investment funds for agriculture, but this varies significantly by region, depending on the overall investment environment and the perceived potential from the investment. In some regions, agricultural land has become an important asset class that attracts investors. Larger-scale investment in agricultural land has sparked concerns regarding the ethical motivations, which are perceived to go beyond addressing the issues of hunger and poverty alleviation. Some of these issues are described below.

- **Investment funds in agricultural farmland.** These investors are interested in agricultural production, particularly *farmland*, often due to the high return expectations (in some cases) and future food security concerns. The approach, sometimes thought of as "land grabbing", is to buy farmland in countries where land is still inexpensive and soil is fertile (e.g. in Sub-Saharan Africa 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. Globally, Valoral Advisors' assessment is that the food and agriculture value chain provides an ever-growing pool of investment opportunities. At present, over 240 funds are operating in the food and agriculture sector, compared with 33 in 2005. As of 2014, these funds manage around USD 45 billion in assets." (Valoral, 2015)
- Overall, a growing number of investment funds investing in farmland globally are currently being witnessed (Henriques, 2008) and a significant number of investors have been attracted to the farmland deals in sub-Saharan Africa (Deininger *et al*., 2011). Some investors are attracted by the long leases of 50–99 years
- **Environmental sustainability and natural resource control.** Investors may pool their funds to invest in water and natural resources. In some cases this may be interpreted as "water grabbing" and "carbon grabbing", [18] but could also be for resource preservation. Global environmental politics, political economies and policies are increasingly concerned about climate change mitigation. Water access rights are becoming more valuable as are carbon credits for compensation for counter-balancing carbon emissions. As with land acquisitions, the impacts on the local population are always a concern.
- **Investment funds vs company structures with an agricultural investment strategy.** In the Russian Federation, and the Newly Independent States in particular, many investment activities are channelled through corporate structures following an agricultural investment strategy. These structures generally acquire and cultivate arable land and expand overall operations in this area.[19] The operations and impact as well as the advantages and disadvantages of company structures with an agricultural investment strategy on developing countries, varies and is, in part, determined by the operating environment. A FAO study from 2013 revealed

[18] Land Deal Politics Initiative (http://www.future-agricultures.org/panel-a-session-summaries/7540-panel-2-environment-carbon-grabs)-

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

that both of these structures can work but that such investments on a larger scale often must overcome significant hurdles during their course of operations.

- **Investment funds with agriculture as a diversification strategy.** Investment funds are usually distinguished according to their geographic focus or their specific investment concentration and interest. Some are multi-sectoral but are concentrated in one region, and other investment funds have more specific themes (such as the overall objective to invest in the SME sector), which usually leads to some investments in the agricultural sector. Only some investment funds were identified that have clear investment strategies towards agriculture or businesses related to agriculture. Many others simply have some agricultural investments in their portfolios as a diversification or other reason, but no focus on the sector. This publication, however, does not provide a close look at these vehicles, although in many cases the investment funds included in the stock-taking have diversified their portfolio to a certain extent towards other areas. This differentiation is due to the fact that this research primarily focuses on investments in agriculture with a development and economic focus and the lessons to be drawn from them.

Chapter 4
Operations, performance and a comparative analysis of agricultural investment funds

It is important to understand how fund models operate, what can be learned from their performance and how they compare with each other and with non-agricultural funds. This section provides an overview of selected funds' operations and performance, while detailed information is shared in Annexes 1–8. A comparative analysis of a larger universe of investment funds and fund managers investing in agriculture is shown in Annexes 9–11. The investment funds and fund managers were selected to provide a comprehensive overview of different types of AIFs 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 AIFs and their management structures are provided below.

4.1 SELECTED FUND MANAGEMENT COMPANIES AND FUNDS

Investment funds are generally managed by specialized fund management companies or institutions. They play a fundamental role not only in applying investment expertise in the management of the fund, but also in facilitating the development and implementation of funds. Fund management companies can also provide benefits such as greater cost efficiency for the registration of funds. Furthermore, the management company and the fund are often separated for legal and "firewall" risk protection.

Many investment funds are, or began as, stand-alone funds, but often are, or become part of, a family of funds. A family of funds is a group of funds managed by one specialized fund management company. The family of funds may be similar types of funds but focus on distinct regions, or distinct investment structures, such as an equity fund or a debt fund, or also may be focused on different target sectors or profiles of investee. They generally start with one fund and, once operating well, begin a second fund, and so forth. Hence, it is quite common that the difference of one fund from another in the fund family is simply the chronological time in which they were started, and with differing fund sizes and investors. The benefit of the various funds is the ability to have management economy of scale efficiencies and be able to operate on lower operating margins. Also, many agricultural focused investment funds in family of funds are together with non-agricultural ones.

Funds may be a second-tier fund of funds that invests all or some of its portfolio into other funds. These are similarly managed by the actual fund manager but in this case, the fund of funds manager does not have to have an active role in each business investment. Although this can raise overall administration costs, this investment strategy can ease management responsibilities of fund of funds managers and can serve to both expand the investment portfolio and reduce risk by co-investing with other funds.

The 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, in addition to those highlighted in this publication, are briefly introduced below in order to distinguish them from the funds under management that follow. This publication seeks to show a representative sample of investment structures, including stand-alone funds, families of funds, and fund of funds, and guarantee funds.

Small Enterprise Assistance Fund (see Annex 1)
The 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 26 years of experience investing in small businesses has 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. With 35 investment funds managed to date, each with a different set of investors, SEAF identifies and invests in promising companies that deliver both positive financial results and significant economic and social benefits to their employees and their communities.[20]

Georgia Regional Development Fund
The 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 a limited liability company registered in the State of Delaware in the United States. MCG has contracted SEAF for a 10-year period to manage the fund, which is run out of SEAF's Georgia office, with oversight and support from SEAF headquarters in the United States.

GRDF also has a companion USD 2 million TAF that 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 31 December 2014, GRDF has invested USD 30 million into 14 Georgian businesses. 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 gained independence.

SEAF India Agribusiness Fund
Launched in 2010, the SEAF India Agribusiness Fund is a USD 41.8 million[21] fund focused on investing in SMEs along India's agribusiness value chain. The fund has invested USD 25.6 million into nine portfolio companies, in sectors such as seed oil processing, the manufacture and supply of wheat products, a restaurant chain, spices, and fertilizer production. SEAF has coupled its investment capital with active portfolio management, working with each company to address key operational issues, reach new markets and target growth opportunities. The portfolio as a whole has seen growth in the valuations, and the companies have added much needed jobs across several markets. SEAF is confident in India's future growth potential and in agribusiness' potential to create impact across the country.

Incofin Investment Management (see Annex 2)
Incofin IM is a private fund management company, specialized in developing and managing investment funds that target microfinance institutions, producer organizations and companies with a developmental impact. As a specialist in rural microfinance, Incofin IM's main goal is to ensure financial access to people who are active in the agricultural sector or who live in remote rural areas. By doing so, Incofin IM aims to generate an attractive double bottom line return to its investors. Incofin IM's head office is in Belgium and it has four regional offices in Bogota, Colombia; Nairobi, Kenya; Chennai, India; and Phnom Penh, Cambodia. Incofin IM currently has facili-

[20] See www.seaf.com

[21] The SEAF India Agribusiness Fund utilizes a parallel fund structure. The Domestic Fund is based in India, and has USD 19.3 million in capital commitments from Indian investors. The International Fund is based in Mauritius, and has USD 22.5 million in capital commitments from international investors.

ties under management totalling over USD 725 million. The mandates under management include the Impulse Microfinance Investment Fund, Rural Impulse Fund I and II, Fairtrade Access Fund, Fonds pour la Promotion de la Microfinance, Incofin CVSO, VDK Microfinance Institution Loan portfolio, Belgian Investment Company for Developing Countries and Volksvermogen, Invest in Visions and Agricultural Rural Impulse Fund.[22]

Fairtrade Access Fund

The Fairtrade Access Fund (FAF) launched in 2012 is a social impact fund dedicated to financing small producers, mainly through their organizations and through the financing of their value chain partners. This open-end fund, backed by public and private investors, provides long- and short-term debt products to mainly fair-trade producer organizations. Trade-backed finance is the most prevalent because producer organizations have few assets to pledge. As compared with other funds managed by Incofin, FAF has grown slowly with high seasonal fluctuations in the outstanding portfolio amounts. FAF, a USD 20 million fund wholly focused on agriculture, requires closer management and higher risks, despite the link with Fairtrade International. Given the need for support to producer organizations, Incofin and the founders established a technical assistance facility to support the investees of FAF. In order to overcome some of the risks and seasonality, the subsequent Agricultural Rural Impulse Fund has a diversified portfolio, albeit solely in agriculture.

Rural Impulse Fund (See Annex 2)

The Rural Impulse Fund (RIF) was launched in August 2007 for investment in commercially viable MFIs and advised by Incofin IM. Given the focus of mainstream microfinance investment vehicles largely in urban areas, Incofin IM saw an opportunity to target rural MFIs, which was supported by company stakeholders. The RIF is a closed-end fund with a lifetime of ten years (until 2017) that can be extended twice for one year each. The fund has a total capital base of USD 38 million, with an investment period of three years. The fund's capital is structured with different levels of seniority, reflecting the different risk "appetite" of its 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.

Roughly 37 percent of loans to investee MFIs were invested in agriculture. As of September 2013, the fund was primarily invested in Central and Eastern Europe, and Newly Independent States with an allocation of 45%, and an allocation of 28% in Latin America. The African portfolio consists of 15% and finally the Asian portfolio represents the remaining 12%.

RIF is an example of how access to finance can be improved for micro-and small-sized enterprises in rural areas. Given the target investees and 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.

Pearl Capital Partners (see Annex 3)

Actis LLP, a specialist private equity investor in emerging markets, has a geographical focus on Africa and South Asia and, as of February 2013, had USD 5 billion under management and more than 70 companies in their portfolio. This fund differs from most other AIFs in that it is managed from within Africa (Nairobi, Kenya) rather than from Europe or the United States. Actis also has an office in London with support from its partner offices in Johannesburg, South Africa and Lagos, Nigeria.

Injaro Agricultural Capital Holdings (see Annex 4)

Established in 2012, Injaro Agricultural Capital Holdings (IACHL or Injaro) is an investment holding company with a target capitalization of USD 50 million focused on agricultural SME investments in West Africa. Core target countries include Burkina Faso, Côte d'Ivoire, Ghana, Mali, Niger and Sierra Leone. IACHL was formed as part of a restructuring of two existing funds, which were managed by Injaro Investments Ltd. The West Africa Agricultural Investment Fund invests in seed companies and the West Africa SME Growth Fund invests in small and medium sized business in the region.

Injaro's objective is to deliver long-term capital appreciation for its investors, while generating positive social development impacts in the West Africa region, by providing growth funding to high potential SMEs in the agricultural sector. Injaro invests between USD 300 000 and USD 3

[22] See Incofin website at: www.incofin.com

million in debt, quasi-equity, and equity in SMEs operating along the agricultural value chain, encompassing the full range of activities from seed and inputs, through primary production, conditioning, aggregation, to the processing of food and other agricultural-based products.

West African Agriculture Investment Fund

The West Africa Agricultural Investment Fund (WAAIF) is a Mauritius-based fund set up in May 2010 to invest in companies that produce and distribute seeds to smallholder farmers. It is a USD 7.5 million fund with the objective of increasing private sector development and promoting viable SME seed companies in West Africa. The fund was established by AGRA Foundation, Lundin and later joined by Injaro, which as of April 2012, injected USD 30 million to support in investments to funds, including WAAIF. WAAIF's investment strategy and focus is to promote seed production SMEs through direct investments and partnerships, to ensure viable seed development and production with the objective of unlocking the productivity potential of smallholder farmers.

The investment strategy posits that access to viable seeds and adequate fertilizer use are critical elements for emerging SMEs, and would foster the development of sustainable agribusinesses along established value chains. Regarding farmer and SME impact, investments have significantly increased seed distribution outreach to farmers. For example, Faso Kaba had only 2 stores and 150 workers, mainly women at the time of the partnership, but now distributes seeds to more than 30 000 farmers across Mali and into Ghana. Furthermore, post-investment, impacts also show that these SME agribusinesses have created almost 200 new jobs and doubled their sales as well as the volume of business they conduct with their respective local partners.

Acumen Fund (see Annex 5)

Founded in 2001 and based in New York, Acumen Fund is a non-profit social venture capital fund whose vision is to help build a world beyond poverty through investing in companies, leaders and the spread of ideas. Acumen understands patient capital to be debt or equity investment in an early-stage enterprise, which in turn provides low-income consumers with access to healthcare, water, housing, alternative energy or agricultural inputs (Acumen Fund, 2013). The Acumen Fund has invested more than USD 85 million in 73 mission-driven businesses in Ghana, India, Kenya, Nigeria, Pakistan, Rwanda, Tanzania and Uganda, and that have collectively served more than 100 million customers (GIIN, 2014). Its country offices in Ghana, Kenya, India and Pakistan work closely with the global team to identify, support and scale up promising business models.

African Agriculture Fund (see Annex 6)

The African Agriculture Fund (AAF), which was launched in 2009 and becaming fully operational in 2011, invests primarily in food production and distribution. It was started by European and African development finance institutions to respond to the African continent's food crisis. The USD 246 million fund has an AAF SME Fund (an AAF subsidiary fund, focused on SMEs to boost development returns) and a TAF of € 10 million to finance studies and capacity building for small firms and larger outgrower and smallholder schemes across portfolio companies.

Rabobank Group (see Annex 7 for Rabo Rural Fund)

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 worldwide. 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.[23]

4.2 OTHER AGRICULTURAL INVESTMENT FUNDS

Five other funds supporting agricultural investment are shown below to exemplify additional models of organization.

Actis Africa Agribusiness Fund

Actis Africa Agribusiness Fund (AAAF), launched in 2006, predates most agribusiness funds of its kind. The fully invested USD 92.7 million private

[23] See www.rabobank.com

equity fund invested across the entire agribusiness value chain and has a portfolio of eight companies operating in southern East, and West Africa in the tea, sugar, forestry, arable farming and rubber industries, with deal values between USD 5 and 15 million. For example, one of AAAF's investments is in a tea company named Tatepa, whose market capitalization grew from USD 3.3 million to USD 5.8 million in six years under AAAF's stewardship. Tapeta has a 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. Current activity includes developing a sawmill and a wood processing facility that will enable the firm to export products to the Far East, Europe and North America.

Successfully exiting from an investment is a goal of most investment funds. Within 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.

The fund's sole investor, CDC Group plc, a United Kingdom government-owned fund of funds, has a 60-year track record of 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 issues in all its business activities and investments. Its primary objective is to deliver a top-quartile financial return for the sector.

African Agricultural Capital Limited

Founded in 2005 and based in Uganda, African Agricultural Capital Limited (AAC) was established to support agricultural development through private sector investment in East Africa. AAC was set up with an initial capital of USD 8 million by two philanthropic institutions, the Rockefeller Foundation and the Gatsby Charitable Foundation, together with Volksvermorgen NV, a private investment company based in Belgium. AAC grew to have USD 42 million under management 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 purpose of the loan was to contribute to improving the quality of seeds and further extend their distribution.

Capital Alternative Investment Providers

Capital Alternative Investment Providers is a leading United Kingdom investment firm that attracts both individuals and institutional investors. Besides its interest in agricultural land promotion in Africa and Eastern Europe, it also has a vested interest in forestry development and promotion in Brazil, and investing in climate change development through carbon financing and trading and investments in other tangible assets such as gold, silver, platinum and wine. The fund has its operational office in Freetown, Sierra Leone although it is registered in London.

Agricapital

AgriCapital was founded in 2007 by Capital Alternative Investment Providers. AgriCapital investments target the acquisition of land for the production, processing, distribution and marketing of rice domestically and internationally. The current production capacity of rice in Sierra Leone meets less than 64 percent of the demand for its population of 6 300 000 people. As a private equity, investors buy and own shares of the company in nominal value and also in leasehold title of deed in proportion to the amount of investments. To ensure that selling land remains an easy process, AgriCapital will assist in sourcing a buyer for a one-off charge of 3% of the sale price. Exit is by sell out, during which the cultivated land would have appreciated at about 7% per annum.

Commonwealth Development Corporation Group, PLC

The Commonwealth Development Corporation (CDC) Group plc is a United Kingdom Government fund of funds that provides capital in all its forms: equity, debt, mezzanine and guarantees. As a fund of funds, it invests through fund managers aligned with its aims as well as some direct investments. It is focused on emerging economies, primarily those in Africa and Asia. It is an example of a large, old, diversified fund established in 1948 and owned by the government's Department of International Development (DFID). It has net

assets of over USD 4 billion. While the agribusiness sector accounts for only 5 percent of its total portfolio, this amounts to over USD 200 million. CDC draws on more than 50 fund managers. Its only shareholder, DFID, does not require a dividend from CDC. Instead, its profits, which average around 6.9%, are re-invested in funds throughout the target emerging markets. CDC has received no government capital for a decade.[24]

8 Miles Fund and Eleni LLC

Agribusiness investment is not restricted to the value chain itself and can include any supportive investment to agricultural development. An example of innovative investment of this nature is the investment of the 8 Miles Investment Fund in Eleni, LLC into agricultural exchanges and their development. In 2013, a consortium comprising 8 Miles, International Finance Corporation and Morgan Stanley invested in Eleni LLC, a Kenya-based company that "designs, builds and deploys turn-key commodity exchanges in Africa, including the ancillary supporting infrastructure", in an effort to promote food security in the region (8 Miles, 2013). The consortium follows the successful experience of the Ethiopia Commodity Exchange (ECX), having built ECX into an entity with a turnover in excess of USD 1.2 billion in 5 years. The company's business model is based on delivering projects on a PPP basis, with the support of private sector investment, know-how, technology and management, in support of the exchange project (Business Wire, 2013).

The 8 Miles Fund, named for the closest distance between Europe and northern Africa, makes private equity investments in agribusiness and financial services, among other sectors. With 80 percent of exports from Africa being unprocessed raw materials, the investment team considers manufacturing to be a key opportunity in the region (Nsehe, 2011) as well as supportive businesses. 8 Miles seeks majority or influential minority positions in companies, with individual investments ranging between USD 15 million and USD 45 million.

4.3 COMPARING AGRICULTURAL FUNDS WITH OTHER FUNDS

Investors often categorize investments with a unique set of characteristics in "asset classes". It can be argued that AIFs are distinct from other funds due to the intrinsic nature of agriculture and the special understanding needed for investment in this area. AIFs do have many common characteristics with other funds while specific aspects are unique, and AIFs themselves vary widely due to their diverse investor base, target groups and type of investment.

It is important to draw lessons from other asset groups in developing countries. Because the growth of AIFs has been driven by both social and development interests 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 MIFs that have often generated attractive financial returns to public and private investors, and then, with non-agricultural private and private–public investment funds. It should be noted that both AIFs and MIFs often have an impact investment focus. Whether or not one classifies impact investment as a separate asset class or a subset of different asset classes, is less important than to simply recognize the growing appetite for impact investment by some investors.

4.3.1 Microfinance investment funds

Agricultural investment in many developing countries through this specialized fund has yet to become popular and is recognized as belonging to an 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 difficulty to manage. Difficulties faced include: the lack of a proper regulatory framework in most countries and passive enforcement in countries where frameworks exist; inadequate infrastructure and logistics; and poorly developed professional capacity in the sector. Among other things, this increases transaction costs and, as a consequence, costly to the microfinance sector. However, this was equally true of microfinance less than a decade ago. Today, it is a widely recognized and growing investment class that provides an example of what AIFs could become in the future.

MFIs operate all over the globe. In 2015, there were an estimated 10 000 MFIs worldwide with about 100 million micro-borrowers. For example, among over 2 000 MFIs benchmarked by the MIX Market in 2015 (serving 70 million borrowers) there is an estimated USD 87 billion in outstanding loans. In order to cover the loan demand deficit from equity and savings deposits, MFIs borrow an estimated USD 23 billion (MicroBanking Bulletin, 2015). This deficit between deposits

[24] See www.cdcgroup.com

and loans and the many MFIs not authorized to collect savings deposits, has fuelled the growth in investment funds. Nonetheless, many poor people in the world still have limited access to adequate financial services and private investors, and investment funds are increasingly seeking to address this gap. The global microfinance market has grown 10–15% in 2016. While this represents a relative deceleration compared with 2015, microfinance remains resilient due to solid fundamentals. (ResponsAbility, 2016). One example of the explosive growth of an MIF is that of MicroVest, which began as an MIF start-up in 2004 with USD 15 million dedicated to providing debt and equity investments. Over the course of time it has expanded beyond microfinance, and consequently has grown to be a family of multiple MIF and SME funds, including agriculture, with total funds under management amounting to USD 350 million in 2016.

Microfinance funds, however, have some major differences: a majority of them 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 an initial equity investment, which is leveraged to obtain loans as needed. MIVs also have a more stable and more easily projected investment flow, plus the investment funds invest in MFI institutions rather than agricultural investments, which are more likely to invest directly in the business. Consequently, while there are many lessons to be learned 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.

4.3.2 Non-agricultural funds in developing countries

When comparing AIFs to non-agricultural investment funds, it is necessary to review some of their structural differences and investment philosophies of different types of investors. In many cases, because 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 (e.g. government bonds, high-grade bonds, high-yield bonds) as well as loans, real estate, foreign exchange and commodities, infrastructure projects, derivatives and emerging markets. Within the area of emerging markets, one finds investments in developing world agriculture, which, as evidenced in this publication, have attracted increased interest by investors.

In addition to their specialized investment requirements, the identified AIFs differ from non-AIFs in other ways. Some of the purely commercial funds specialize in agriculture, whereas other hybrid models mix diverse types of investment with agriculture. Although often a different mix, even agricultural PPP funds generally include a mixture of agricultural and non-agricultural investments. This also makes stocktaking and categorization of agricultural funds difficult.

Many agricultural funds, and the focus of this study, have a social interest with a "double" or "triple bottom line", by 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 not often clearly expressed by many purely commercial sector investments, even though investors today have an obligation to sustainable investment. GRDF, for example, was funded by MCC[25] with development goals in mind, and its prospectus states 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." Although such language would not be found in similar documentation for purely private funds a decade ago, due to the advent of social movements towards stronger corporate social responsibility, environmental sustainability and frameworks such as the "Equator Principles"[26], it is increasingly mandatory for investment funds, to incorporate the environmental bottom line in their balance sheet assessment. The underlying premise is that more than ever before, the sustainable use of environmental assets must be factored into the accounting of project profitability, similar to that of other assets, because their depletion ultimately has a negative effect on the project bottom line. This is why the notion of a "triple bottom line" instead of a "double bottom line" is promoted by proponents of environment and social sustainability in investment considerations.

A third distinction is that of risk. Hybrid funds in the private sector are accustomed to highly

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[7] See https://www.mcc.gov/

[26] See http://www.equator-principles.com/

quantitative risk models that involve credit and other similar types of risk analysis that are not transferable to agriculture. Also, non-agricultural funds generally invest in investments with higher liquidity, so as to reduce risk whereas agricultural funds demand a longer-term perspective, given the nature of the sector. Moreover, some of the risk factors of agricultural funds are different. Given the geographic location 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. Political risks in the developing country context include not only country risk, terrorist attacks and ease of repatriation of funds, but also, and often 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 "land funds", AIFs often target their investment in agribusinesses and post-production value-addition agro-industries, rather than production.

The structure of funds and many of the practices regarding AIFs are similar to non-AIFs. Agricultural investment funds are often envisioned as a tool for promoting developing world agriculture through leveraging private investor capital and expertise to serve agriculture, and helping lead the way with the investments playing an "early mover" role in the sector. While there has not been sufficient time to draw final conclusions regarding the impact of these fund structures, the associated agro-investments, intermediate impact analysis shows positive headway. 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 agriculture and agribusiness.

4.3.3 Scale and growth for agricultural investment

A sample of 63 agricultural related funds were identified and analysed in the stocktaking. Of these, 30 specialized in agriculture and had approximately USD 2.6 billion under management. While the overall total from the stocktaking figures would be much higher as would global figures, it is evident that the specialized AIFs address a very small amount of the vast investment need for developing agriculture in emerging markets. Much more is needed to transform agriculture but the potential for further expansion of the sector is substantial given the increased investor interest in specialized agricultural funds. For a growing number of large investors from the Middle East, the Saharan region is viewed as an investment opportunity for expansion. The frontier markets of sub-Saharan Africa (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 and SSA was previously seen as exceptionally risky. 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 is typically demanded by the sector.

One example of an emerging market investment includes a sizable investment from an American pension fund that was placed into a private equity vehicle run by the USD 3 billion United Kingdom-based hedge fund manager Emergent Asset Management.[27] Some of the largest United States pension funds, such as the California Public Employees' Retirement System (CALPERS), have initiated plans to increase their 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. For example, if 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, 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

[27] 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.

investments in Latin America, Africa and Eastern Europe and Central Asia. Sovereign wealth funds (SWFs) are also getting more involved in agriculture, albeit largely for food security reasons, but a number of them are seeking greater diversification; land acquisitions are important investments for them but will 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 potential investments in the sector into perspective, the hedge fund industry alone has been estimated at over USD 1.5 trillion under management. Therefore, even if a very small percentage of these funds, together with those of 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 is 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 augur well for the sector.

Another point to be underscored is that, to date, most investments in these 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 the overall success of current and future projects, 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 businesses by cutting back on administrative requirements to start new business ventures.

4.4 LESSONS LEARNED AND THE EFFECTS OF THE GLOBAL FOOD AND FINANCIAL CRISES

The global food and financial crises in 2008 and 2009 served as a wake-up call to investors, development agencies and governments. Investors saw new opportunities in agriculture and as a diversification of the risks of Wall Street. Development specialists realized the risks of under-investment in agriculture for future food security. These concerns continue, especially as they relate to the investment needed to combat the effects of climate change and population growth on water availability and land resource in many areas. This section analyses such opportunities and challenges as well as their associated risks. It will also address constraints that need to be overcome through concerted global approaches that include policy and investment endeavours towards a sustainable food security and development.

4.4.1 Effects of the food and financial crisis on investments in agriculture

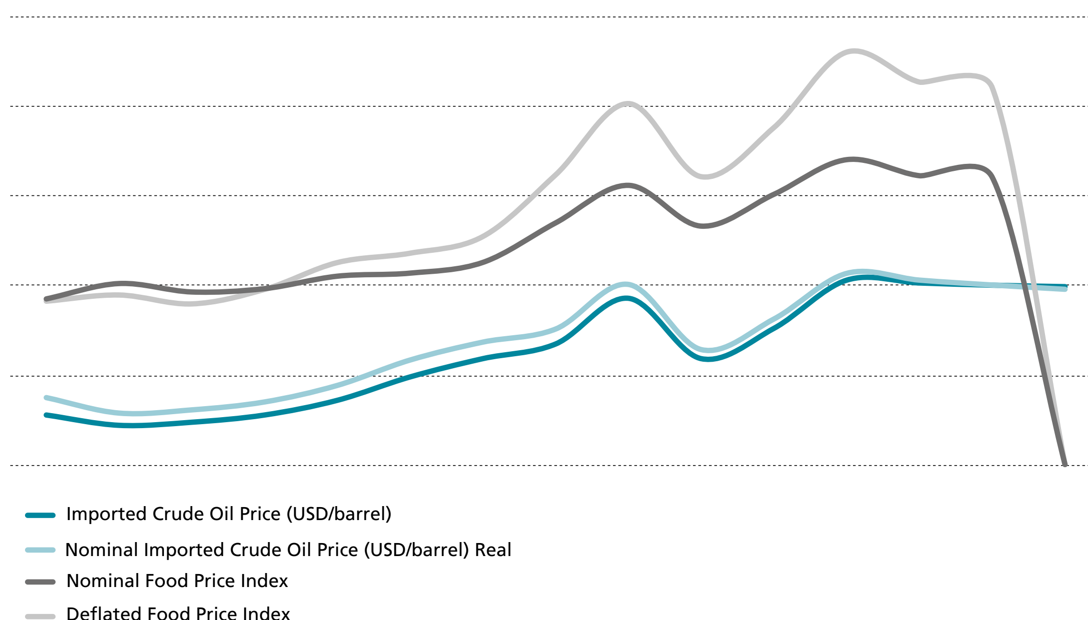
One effect of the food and financial crisis was an increased awareness of the need for a higher and more sustained level of investments in agriculture as a means to ensure food security. A 2009 FAO study on "*How to feed the world by 2050*" takes a long-term perspective of the development outcomes by 2050 that provide investment opportunities accruing from higher food demand in the long term. The world population is projected to grow to 9.6 billion by 2050, compared with today's 7.2 billion (United Nations, 2009). About 70 percent of this population will be living in urban areas, which is 49 percent higher than today, and this will require significant investment in food processing and logistics. Consequences of this population surge include a higher demand for food in quantity and quality by the richer middle class population. Food production would need to increase by 70 percent to meet the needs of the projected population. For example, cereal production would need to rise to 3.0 billion tonnes from 2.1 billion today.

The study further argues that meeting the projected food production would be possible if the required level of investments is backed by policies that are conducive to promoting agricultural production. Thus, on average, developing countries will need about USD 83 billion yearly to meet investment needs to achieve expected levels of food production, which represents about 50 percent more than current investments levels.

Impact of fuel and food prices

Meeting the socioeconomic exigencies of a rising highly urbanized and potentially richer middle class population, especially in developing countries, will entail higher and sustained investment

FIGURE 13
Evaluation of food and fuel prices, 2000 to 2014



Source: OECD-FAO 2009.

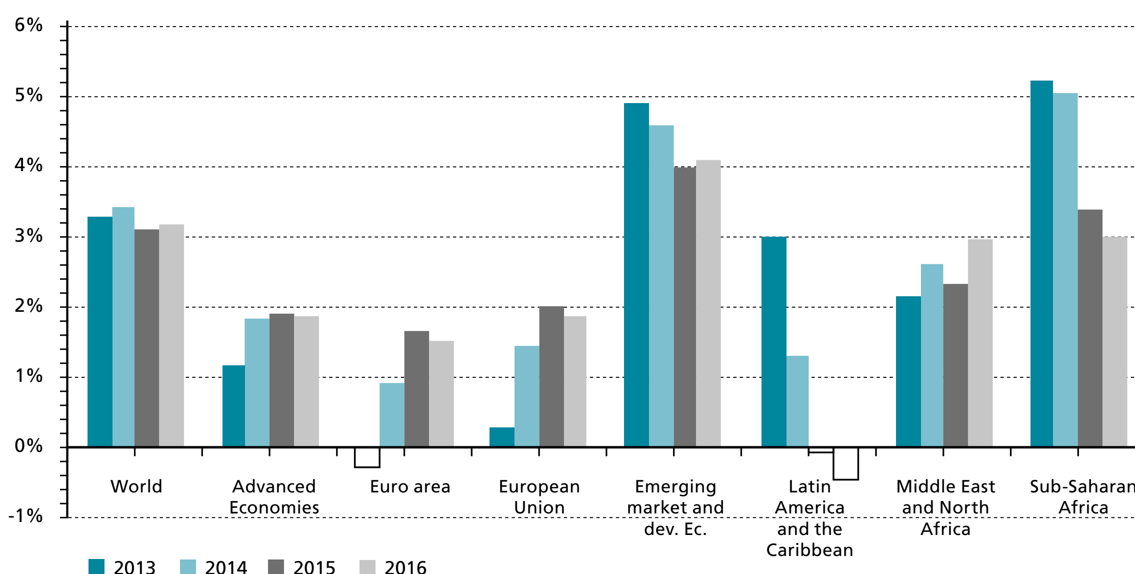
growth in the agricultural sector. Such investments will be necessary both in increasing output, partially through efficiency gains, and strengthening lines of trade and distribution of food through improved access and outreach. For developing countries, especially those of SSA with higher susceptibility to hunger in times of crisis, there will also be a greater demand for increased investment in primary agricultural production. These increases can be achieved through the intensification of smallholder agricultural farmlands, with the use of fertilizers and improved seeds. While such investment in developing countries would mostly be in substituting labour with capital and moderating total factor productivity, production will remain labour-intensive in many regions.

There is a strong correlation between food prices and fuel prices. The demand for biofuel depends heavily on the price of fuel, as well as governmental incentives and regulations. In the United States, for example, the diversion of corn and other commodities to biofuel contributed to the high food prices during the food crisis and only a few years later the major increase in “fracking” for oil contributed to low fuel prices and lower food prices. The systematic connection between fuel and food prices is shown in Figure 13. For investors, fuel is an important cost consideration in agriculture for production, including fertilizer production as well as value addition in drying and processing, thereby affecting returns on investment in agriculture.

Impact of agricultural research and development

From the 1980s onward, much of the productivity growth in agriculture, responsible for the stable prices of major foods such as cereals and fibres, has been a result of research and development in the agricultural sector. Looking forward, the focus of research to increase productivity in developing countries would be through the intensification of land-use systems with greater use of fertilizers and improved seeds. The use of biotechnology for climate-smart agriculture with drought resistant and pest-resilient seeds and seedlings, and improved efficiency of fertilizer use, are examples. Improvements in water use and irrigation, however, are examples where such investment is needed. The adoption of improved storage and logistics to reduce post-harvest losses and waste, and greater investment in processing and conservation tech-

FIGURE 14
Global GDP growth per country groups, 2013–2016



Source: International Monetary Fund, World Economic Outlook Database, 2016.

nologies are other examples. These investments go much beyond what is possible from investment funds. However, investment fund managers bring not only the funding but also the management and technical capacities of their investors, which contribute to trend-setting models of innovation and application of research learning that can be emulated by others.

Policies and investment in social issues related to human development

Another important ingredient for enhancing investment in agricultural productivity to ensure food security is policy. Government policies, political will and governance, access to good health, education and basic infrastructures and amenities such as electricity and potable water are important for a country's development and social cohesion. It is the role of governments to provide an environment to enable investors and community groups, the private sector, industrial leaders and consumer groups to work together. It is important to note that investment in schools, roads and health systems make it more inviting for investors to put their money and expertise in the region.

4.4.2 Availability and impacts of investment funding in agriculture

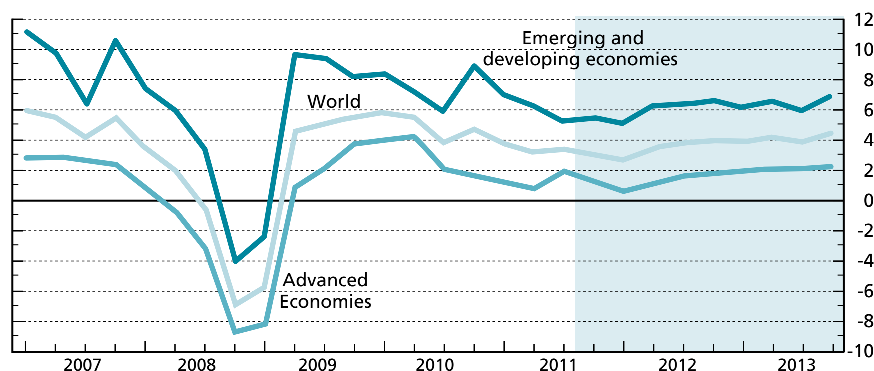
Impact on the availability of investment funds

The increase in investment instruments and funds and the growth in their investments provides increased availability for funding to promising agribusinesses and sectors. Overall growth is insufficient even though it is higher in many developing countries than in richer ones. Figure 14 shows GDP growth, with the lowest found in developed economies and the highest in developing countries. More importantly, the growth in developing countries varies widely from one country to another, driven by controllable factors such as the enabling environment and by less controlled factors such as commodity and oil prices and conflict.

The IMF projection of the world's GDP growth rate shown in Figure 14 illustrates that overall growth is low. Global growth in 2015 was 3.2 percent and projections are similar for 2016, prompting the IMF to state that growth is "too slow for too long".[28] Hence, to meet the demands

[28] World Economic Outlook, IMF, April, 2016.

FIGURE 15
Global GDP growth



Source: IMF staff estimates.

for food and agriculture, growth in the sector must be higher than overall growth in GDP.

Volatility impact of foreign investment and investment funds

Many investment funds, with the exception of some sovereign and governmental investment funds, and virtually all private–public investment funds with a social and economic focus are driven by foreign investment. Foreign investors look very closely at country risks and currency exchange risks. These include sovereign risks in relation to payment risks, as defaults in payment terms might trigger a liquidity squeeze that is likely to increase exchange rate volatility through currency hedging. Many investment funds invest through debt, and while they are most often done in hard currency, such as the US dollar or euro, currency fluctuations raise the risks of their investments. Furthermore, developing countries are generally net importers of inputs such as herbicides, fertilizers and vaccines for livestock from developed countries to boost their productivity; therefore, these countries are likely to suffer most from volatility in foreign exchange. Consequently, this affects producers and SME agribusinesses that commonly have all or much of their income in domestic currency. This is especially the case when their credit for pre-financing production and investments in capital goods for agriculture are denominated in foreign currency. Foreign investment can bring capital flight risks to investee agribusinesses because their foreign investors may want to “flee” in times of uncertainty.

It is not uncommon for undercapitalized agribusinesses and producer organizations to not seek foreign investment for the risks above as well as their risk of losing their full control of their businesses. There is greater acceptance of those with a social mission since they are expected to be more willing to invest in times of uncertainty in order to fulfil their mission. Even so, fund managers seeking to invest in sub-Saharan Africa and other areas where investment risks are perceived as being higher, complain that there are too few investment opportunities and a surplus of funds seeking to invest in the same agribusinesses.

Cost of funds

Country risk, especially in times of financial crisis and inflation or currency risk, significantly raise the cost of capital from all investors, including investment funds. Local bank financing and investment capital may even be higher. The cost of funds, or cost of capital, reflects investors’ attitudes towards risks. Both debt and equity investors then expect higher returns, and this affects the cost of doing business among agribusinesses and value-chain actors.

Interest rates and the cost of capital have been at the centre of debate for agricultural development for many years. Lowering the interest rates through subsidies or decrees makes financial resources cheaper but can have many unintended and negative effects overall on a country. In addition, the cost of capital is often not the real issue as shown in American and European economic stimulus programmes, which brought interest

rates to almost zero percent. Rather, because of the pessimistic business climate, characterized by slow or negative economic growth rate, it does not foment the expected benefits in investment. In France, for example, farmers were granted zero percent interest loans; but that did not stimulate economic growth due to the poor investment climate.[29]

Given the outlook for agriculture and food security, United Nations organizations and others have called for increased investment in agriculture, with a particular focus on developing countries where small-scale farmers and rural families would be most vulnerable to further shocks in price hikes and food shortages. Financial shortages and costs in developing countries affect all stakeholders along the value chain: from input suppliers to market supply and distribution. In order to overcome the conservative lending practices and high costs of capital — in part driven by the poor portfolio quality of many agricultural lenders — development agencies have turned to alternative approaches to help address investment needs. The blending of grants with loans and investment, and the increased use of guarantees and insurance (often subsidized), has become popular whereas in the past, interest subsidies were promoted. Technical assistance grants, investment guarantees, and insurance all fit with the investment and management plans of investment funds.

Implications for investor incentives in agriculture

Financial crises have helped create a new set of opportunities for investment in agricultural assets that have alternative risk profiles. This diversion from conventional asset classes comes as a result of many investors seeking alternative investment opportunities that are decoupled from international financial markets, and that contribute to a greater diversification of their portfolio. Land and agribusiness investment from production to value addition throughout the value chain fits this profile. The role of foreign investment in agriculture has moved beyond the more traditional focus of export commodities towards one in which food crops also became a focus of attention. In this context of under-investment for food security, the role of donors and government programmes has become more important than ever to maintain the operations of the agricultural supply and production chain during crises and good times.

[29] Financement à zéro pourcent: Midi-Pyrénées Info // Numéro 39 septembre/octobre 2010

Chapter 5
Investment funds as a new approach to promoting agricultural development

5.1 THE INVESTMENT APPROACH TO PROMOTING AGRICULTURAL DEVELOPMENT

5.1.1 Moving from sector financing subsidies to value-chain development and private-sector engagement

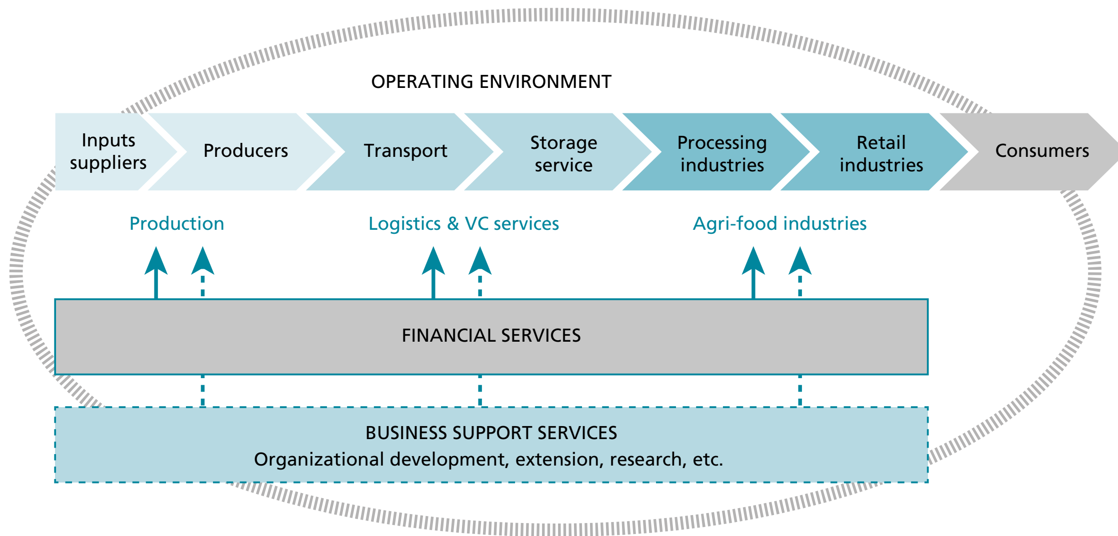
Typical traditional approaches to promote agricultural development in developing countries has, in the past, relied primarily on government financing, subsidies and donor assistance for increasing production and food supplies. Many farm-level enterprises and agribusiness chains have been dependent on state subvention and foreign aid. With the aim of boosting foreign exchange earnings, government and foreign assistance-led agricultural promotion has emphasized export cash crops such as cotton, cocoa, coffee and rubber. Producers were typically price-takers, with prices sometimes dictated by governments; this consequently dis-incentivized food crop production and low-income countries began importing more food, especially processed food. Over time, the support became a burden on national budgets.

Today, agriculture is increasingly driven by private-sector capital and investment, and agriculture is a key driver of GDP for African countries and many others. Renewed interest in agricultural investment has not only been fuelled by the prospects and realization of higher profitability from higher prices and improved technologies, but also due to the nature and approach of investment. Increasingly, investors have favoured the value-chain approach, which improves the management and risk control of finance and investment, and the whole production and marketing process. The value chain is defined as the "full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and consumer's final disposal after use" (Kaplinsky and Morris 2001:4.). In this new approach, drivers of the agricultural sector have shifted from the traditional production-led approach to a more market-led approach that promotes professional and market-based agriculture enterprises with much stronger linkages within the farm-to-market value chain. This approach is 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 (especially women farmers) and sustainable agriculture. As the World Bank describes:

> *"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, 2005:4).

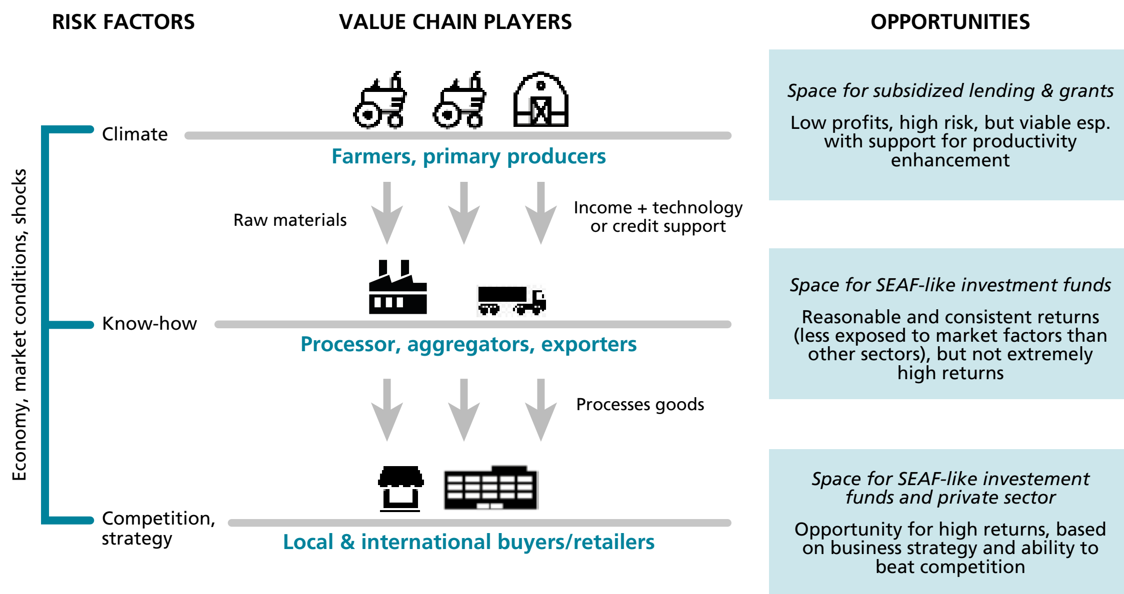
The value-chain approach to investment involves an analysis of the value chain (or chains) to identify leverage points, which are points of weakness or constraints along the chain that present opportunities for improvement, and thus productivity growth. For investment funds, special emphasis is given to SME agricultural enterprises, including investment opportunities of farm input and service suppliers, processors, traders and retailers. It is often at these downstream levels where investment can lead to the most growth in the value chain. Figure 16 outlines the agricultural value chain and provides a basic overview of the linkages among the relevant agricultural stakeholders.

FIGURE 16
Product and financial flows within the value chain



Source: Adapted from Miller and Jones, 2010.

FIGURE 17
Agricultural stakeholders' risks and opportunities



Source: Adapted from SEAF, 2009.

Of particular importance is the development of a dynamic, private agribusiness sector, which plays a vital role for growth in the agricultural and rural non-agricultural sector. Agribusinesses play a crucial and often driving role in the value chain and are often an efficient point for providing finance into and through a value chain. International investment funds, which can use a diverse array of investment instruments, including debt, equity capital as well as expertise and market linkages to enhance the growth and returns on investment to such agribusinesses, can generate impact at all levels of the value chain. This role and opportunities for agribusiness investment are illustrated by SEAF in Figure 17. This agribusiness model has proven effective in achieving their success over many years and in many countries.

5.1.2 Changing stakeholder perspectives on agricultural investment

As noted earlier, both the private and public sector have taken notice of the expected growth in the demand for food and energy of agricultural production, including animal, fish and forestry products. For example, due to population growth and longer life spans, the global population is expected to increase from the current 7.2 billion to more than 9.6 billion by 2050, with the majority of the population growth occurring in developing countries, and more than half in Africa (United Nations, 2013). Also, 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.[30]

Private sector investment drivers are more than simply the large growth potential. There are other new opportunities and incentives for agricultural and agribusiness investors, including the following:

- Investments in new technologies, such as tissue culture to improve seed and crop quality, have opened new doors to reduce post-harvest risk and losses, which improve efficiency and increase competitiveness. These also are areas for increased private and public investment.
- Another factor is the global demand for renewable energy sources, including biofuels. There is a strong interdependence between energy and agriculture, especially with industrialized farming where hikes in fuel prices can impact structural elements related to agriculture, such as transport, processing and marketing costs.
- A third factor is climate change and global warming, with more demands for green finance and investment with a sustainability focus, as exemplified by the equatorial principles,[31] increasing the demand for more technologically friendly and environmentally sound agricultural investment.
- Additionally, it is important to note the investment in water resources, including irrigation, water conservation and water quality.
- Finally, capacity development is occurring across developing countries, with the result of strengthened entrepreneurial and technical skills, which are critical for attracting investment and are necessary to further expand the local agriculture and agribusiness culture. While much more investment is needed in this area, the fact that public-sector development agencies and governments are willing to partner and support this development, is as important driver of private investment.

5.2 INVESTOR AND FUND MANAGERS' PERSPECTIVES

The quality of investment policies directly influences the decisions of all investors, be they small or large, domestic or foreign. These policies form the basis of a healthy and attractive business climate. Through the promotion of transparency, non-discrimination and property rights, they can lead to increased investment in the agricultural sector. At the same time, reaping the full benefits of investment in agriculture requires responsible behaviour by both governments and investors and effective coordination between them. To ensure these benefits, and as part of creating a favourable climate for investment, governments should improve regulatory quality and public-sector integrity. This will also boost investor confidence, facilitate business operations and support development efforts.

In carrying out the research, four questions were asked of fund managers to get their perspectives on agricultural investments. Most investment

[30] 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 and 20 per day.

[31] http://equator-principles.com/index.php/the-ep-strategic-review

BOX 3.
Injaro Agricultural Capital Holdings Ltd. (Injaro)

1. What has been your largest challenge in investing in agriculture and agribusiness? What have you found works best to address this?
   - *Management capacity* of agribusinesses in West Africa: There is a low supply of quality talent. Injaro resolved this challenge by utilizing the technical assistance (TA) facility, which provides capacity development trainings and sometimes dedicated professionals to portfolio companies on critical management areas such as accounting. The TA facility has a pool of qualified professionals (e.g. accountants). Portfolio companies are usually expected to provide co-funding (10–50% of the total cost) for the TA.
   - *Climate change* is another key challenge for investing in agriculture. A reliable source of seeds can be negatively impacted by extreme weather conditions.
   - *Underdeveloped and inefficient value chains* are an overarching challenge for investments in agriculture. For instance, if there is not a well-defined market, then there is no incentive for increasing productivity or yields.
2. What are the most important indicators for measuring impact for private-sector investors in agriculture? For public- and social-impact investors (e.g. sustainability, growth potential, exit strategy, returns, inclusiveness)?
   - Injaro measures a number of different indicators – including gross revenue, wages paid, employees, number of smallholders benefitted and taxes expensed. Their indicators are based on their target beneficiaries of rural farmers and low-income persons.
   - Injaro's investment thesis is based on the belief that real sustainability comes with profitability; agriculture isn't a social gain, but a business. Social benefits, however, can be attributed to investing in agriculture. In their portfolio companies, wages average USD 3.20/day when the national average is USD 2/day.
3. Are fund managers able to successfully manage both commercial and impact investments?
   - Related to the previous question, Injaro seeks social objectives that are in line with their investment strategy.
4. What is the best role of the public sector in the promotion of investments in agriculture and agribusiness?
   - Regulatory and legal structures that are put in place domestically could be beneficial to investors (i.e. tax benefits that provide incentives for investors to make investments).
   - The public sector should discuss with private sector investors any challenges and where public investment such as infrastructure is most needed to stimulate private investment.
   - The public sector should seek to not put capital into projects that distort the market (e.g. the distribution of seeds for free – the consequences for the local market need to be considered). The public sector often kills a nascent market if it directly distributes a good or item directly to farmers.

fund managers alluded to the risky nature of agriculture as the primary challenge for picking good stocks to invest in. Moreover, in some destination countries, there were noted technical issues with securing quality produce for investee companies in the downstream of the value chains. Others noted the lack of governance, both with internal issues and risks of the investees and with the overall legal and regulatory issues that affect compliance in a country. The four questions and the exemplary responses from one fund manager are summarized in Box 3.

Other issues of concern for fund managers and investors are viability and size. Smaller funds generally require a greater management and thus have a higher fee percentage. In addition, management agreements often stipulate a percentage fee that is reduced as the fund size grows. Higher fees for small funds are still not as profitable for fund managers as one with a larger size and smaller average fees. Higher fees also affect funds' returns for investors. As illustrated in Box 4, investment funds of less than USD 20 million, for example, struggle to cover their management costs and risks. A size of USD 50 million or more is often the target size of a fund, and management fees are generally less because the size of the funds under management increase.

BOX 4
FOPEPRO – size matters

Fondo para los Pequeños Productores Rurales en América Latina (FOPEPRO), which is based in El Salvador, is a private, social investment fund for agriculture and SME agribusinesses. FOPEPRO provides working capital, credit lines, and loans to groups of farmers, processors and rural microfinance institutions, and targets the production, processing, and marketing of staple food crops (corn, beans, and rice) as well as high value added non-traditional exports, such as coffee, cocoa, bananas, sugar, sesame, vegetables, fruits, and dairy. Investing in a variety of commodities across a portfolio of nine countries serves to limit the fund's exposure to price fluctuations or the effects of natural disasters. In addition to investment capital, FOPEPRO has provided small grants to strengthen the management of organizations, training for farmers' groups, and support the certification of crops and products.

Created by Alterfin and SIDI (a French social investment company) along with other investors, including development agencies and social investors, FOPEPRO, which was originally managed by ACEROLA, aims to raise USD 20.5 million to finance at least 70 small rural producer organizations from the BoP in nine countries. However, slow fund-raising, a disbursed nature of investments for a small fund, and the investment costs of reaching target investees has strained management costs, leading Alterfin in 2015 to take over management of FOPEPRO and consolidate its management with that of other funds it manages.

Source: ALTERFIN[32]

5.2.1 Perspectives of host countries

On the demand side, developing countries are aware of the necessity of enhancing both the quality and quantity of agricultural investments in order to improve food security and reduce poverty. The challenge is to improve governance and the local and national capacity to promote an investment-led and market-oriented policy of agricultural development. In order to attract private investments while meeting national development goals, NEPAD-OECD suggests that African governments take appropriate measures in a wide range of policy areas. To begin, the policy framework for investment in agriculture, which was developed by 60 OECD and non-OECD countries in 2006, has been adapted for the African context through the NEPAD-OECD African Investment Initiative. The initiative emphasizes improvement in the following policy areas:

- Investment policy
- Investment promotion and facilitation
- Human resource and skills development
- Trade policy
- Environment
- Responsible business conduct
- Infrastructure development
- Financial sector development
- Taxation

5.2.2 Specific risks related to investments in agriculture

Generally, investments in agriculture are associated with a set of risks that are related to the asset type. These risks are often classified as endogenous or exogenous[33] to the agricultural investment portfolio.

Endogenous risks are risks factors directly associated with agricultural activities and the value chain, and include production, price and logistics. Financing and investments are, therefore, affected and, due to the critical element of timeliness of access to capital for inputs and harvest, for example, finance can also directly be an endogenous risk. Some examples of how these effects are dealt with include the following:

- **Production and price risks**. Uncertainty and high variability often characterize production outcomes in agriculture, both locally and globally, and these in turn affect prices. Weather and diseases often influence the

[32] https://www.alterfin.be/en/news/fopepro-special-latin-america-fund

[33] DGC Asset Management, 2011

amount and quality of agricultural output generated. Climatic hazard factors can lead to a total or partial loss of crops or herds, and might have long-term implications. Agricultural production has a longer production cycle and, thus, investment is a fixed cost once the land is planted, and changing crops plantations is not feasible until the next cycle. Investors have many approaches to mitigate production risks. First, proper land assessment prior to investments would ensure that chemical and biophysical properties of the soil are suitable, and the property has water for irrigation that is accessible or available. Second, price hedging in futures markets can help ensure minimum revenue to produce. It is noted that AIFs are much more heavily invested in commodities that are export-oriented, where prices can be more easily predicted and hedged. Third, when production involves a large number of smallholder producer organizations, a guarantees, insurance coverage and "fair price" buyer agreements and/or stabilization funds are used to help provide a minimum commodity price to producers and a more stable value-chain relationship with stakeholders.

- **Structural risks.** Investee countries or companies often face structural risks, such as lack of roads, warehouses, electricity and water. Several additional factors, such as the remoteness and dispersed demand of potential clients, in addition to agricultural risks, can make the risk return ration on investment unacceptable for investment. Many structural risks can be reduced and their effects controlled if there is the will and investment required. However, mitigating structural risks often goes beyond the sole role of investors. Governments and development organizations may need to participate in the development of infrastructure, through risk sharing and matching grants.
- **Financial risk.** Agricultural production cycles are characterized by a long-time horizon and lags between financing needs and revenues from sales, which might lead to possible cash flow problems and the inability of stakeholders to meet financial obligations. Furthermore, problems can also arise from limited access to finance. Mitigating financial risks often calls for the development of strong legal frameworks for the financial sector, implementing a systematic procedure for capacity building in financial management (regular supervision and control of investment portfolios), and developing adapted financial instruments for the agricultural activities along a value chain.
- **Institutional or management risk.** Structural, organizational and regulatory changes in organizations can unexpectedly affect producers and might, for example, lead to changes in import or export regimes or sanitary regulations. Poor management of financial institutions and agribusiness establishments can lead to moral hazards that can affect investments in agriculture. Building a strong institutional capacity through regular training programmes along with the implementation of effective prudential ratios, often goes a long way to mitigate institutional risks.

Exogenous risk factors are those outside the investor's control. Certain exogenous risks are intrinsic to agriculture, and while these factors cannot be eliminated entirely, effective planning and asset management can mitigate these risks to a certain extent. Exogenous factors include extreme weather conditions, floods, droughts, undesirable rainfall patterns (e.g. rainfall during harvesting of some grains can cause damage to crops), hail, frost or uncharacteristic cold spells, weeds, pests and diseases, fire, and the possibility of generally worsening conditions associated with climate change. Any of these factors, individually or in combination, may have adverse consequences to agricultural incomes and/or values. Some of these factors include:

- **Political risk and country risk:** While an enabling environment might not being an inherent risk to agricultural investments, some AIFs focus operations on countries with instable political situations. Political risks include, 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). Many regulatory agencies that exist today provide indications about the state of political stability in countries, and this is valuable for investors. In Africa, for example, the Mo Ibrahim index of governance provides information

about the state of governance and political democratic stability of countries, which has become the basis for investment choice and participation for projects. Other regulatory indices include the "Doing Business Index" and Transparency International, which identifies the status of corruption in a country. Political or country risks are difficult to mitigate. However, countries with high political risks also have higher costs for borrowing as reflected in interest rate payments. Insurance premium for goods and services in high-risk countries are also comparatively higher.

- **Currency risks:** Because most investment transactions are in the local currency of the investee country, there is always a risk of money value loss from currency fluctuations, with global economic dynamics resulting from exchange rates. Currency depreciation or appreciation may very seriously undermine returns for agricultural goods and services. Such fluctuations may significantly impact investment returns. To mitigate currency risks, most investors opt to hold an insurance policy that tries to enhance the value of the financial transactions within a specified period of time. However, currency risks are also linked to the political stability of the country, which in many situations cannot be predicted. For example, it would have been impossible for anyone to predict five years before it happened, the euro zone currency crisis in 2011, which threatened to undermine the social and economic stability of Europe, with repercussions worldwide.
- **Covariant risks:** These are risk factors associated with profound, drastic and unpredictable impacts to agricultural investments. These include climatic and environmental factors such as droughts, floods and pests that can have direct and long-lasting impacts on physical production. Examples of such factors are the tsunami experienced in Indonesia in 2008 and the flooding in Pakistan in 2009. Index insurance is growing today as one of the most important instruments for mitigating covariant risks in agricultural investments. Such index insurance covers a wide range of geographical areas, whether dedicated within national borders or even across countries, and can serve as the basis for promoting agricultural financing and productivity growth.

Other risk factors Include:

- **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. subsidies and price controls). With scarce public budgets and the opening of international markets in recent years, the involvement of private sector players has gained importance. However, the lack of price controls and public interventions in the agricultural sector requires all players to rethink their approach to more formerly regulated markets.
- **Time horizon of investments**. Capital needs in agricultural production range from short-term investments, such as trade finance, to long-term investments in capital intensive machinery and goods, which may amortize over a longer period of time. As indicated above, the cyclical nature of the agricultural business, combined with the uncertainty of price developments, makes cash flow predictions much more difficult than in other industries.

5.3 THE ROLE OF AGRICULTURAL INVESTMENTS AS A CAPITAL SUPPLIER

5.3.1 Capital needs according to different agricultural stakeholders

To foster agricultural development and contribute towards poverty reduction, the various actors of the agricultural value chain need access to capital to secure their economic activity (e.g. to purchase raw materials and inputs) and promote productivity growth. Capital, which is defined here as the stock of resources necessary to bring about change, comes in many forms: financial capital, productive capital, fixed capital, working capital, as well as human capital, social capital and natural capital (FAO, 2011). Emphasis in this case has been placed on financial resources, which are provided by formal financial institutions, the owners' equity and self-financing, or other actors in the value chain.

5.3.2 Matching financial needs with capital sources and agricultural activities.

Along with limited medium- and long-term financing, which are better delivered with investment funds, another challenge to financial access in developing countries in the promotion of agri-

TABLE 9
Capital activity access, matching agribusiness cycle with finance cycle

Agribusiness activity cycle	Type of financing (finance cycle)
Short-term activities (3–12 months) ▪ Annual crops and vegetables, cattle fattening ▪ Aggregators and traders ▪ Marketing and distribution	**Short-term financing instruments** ▪ Microfinance institution and credit union loans ▪ Commercial bank loans ▪ Trade and value-chain finance ▪ Investment fund loans ▪ Liquidity funds ▪ Insurance
Medium-term activities ▪ Perennial crops and medium-term production ▪ Investments in small agribusiness equipment ▪ Mills and processors ▪ Input suppliers and small wholesalers and retailers	**Medium-term financing (12–30 months)** ▪ Microfinance institutions and credit union loans ▪ Commercial bank loans ▪ Investment and development bank loans ▪ Investment fund equity and subordinated loans ▪ Guarantees ▪ Insurance ▪ Innovative financing ▪ (micro venture and crowdfunding, blending, value-chain finance, leasing, warehouse receipts)
Long-term activities (> 18 months) ▪ Factories ▪ Industries ▪ Plantation development and forestry ▪ Machinery, tractors, trucks ▪ Retail chains and supermarkets	**Long-term financing (> 30 months)** ▪ Investment bank and development bank financing ▪ Equity investment funds, venture capital ▪ Leasing ▪ Guarantees

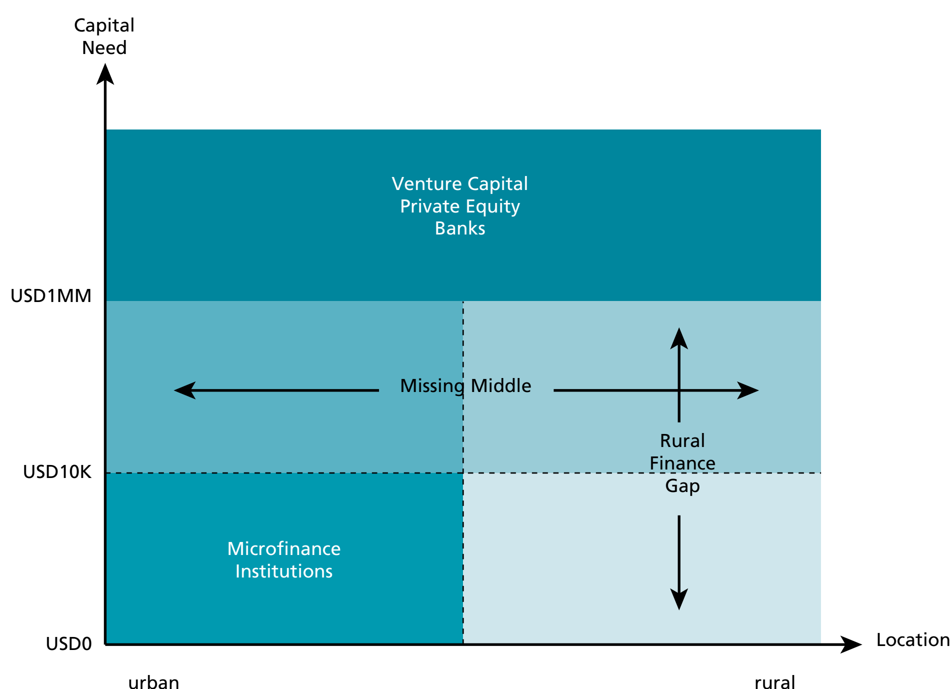
Source: Authors' compilation

culture is the asymmetric matching of agricultural activities with appropriate financing. The term "matching" here implies harmonizing the cycle of financing with the cycle of agricultural activities. Essentially, agricultural activities are cyclic in nature. For example, cereals have a short growing cycle of three months, and tree crops, while perennial, have a cyclic fruiting season. Identifying the cycle of production, processing and marketing along the value chain to match a given type of financial term paves the way for enhanced performance in transactions, and results in a sustainable financial and economic return.

The type of financial institution plays a critical role in determining the viability of agricultural financing, because these institutions are vehicles for mobilizing and distributing financial resources for development. Generally, most of the financial resources mobilized in developing countries come from commercial banks. But such resources are "sight deposits" that are characteristically volatile, given that depositors can withdraw funds for their use on short notice. These financial resources are only suitable for short-term transactions, which can be mobilized by microfinance and commercial banks. On the other hand, medium- and long-term financial resources need better adapted financial institutions such as investment funds. Table 9 provides a non-comprehensive illustration of agribusiness cycles and appropriate types of financing.

As noted above, commercial banks fit in some scenarios while credit unions and MFIs fit in another. Short-term financing is normally the easiest type of financing for conventional institutions to address, but timeliness, risk and cost of transactions make even this type of financing unavailable to small rural farmers and households and agri-based SMEs. Many MFIs have attempted to address the challenges related to the provision of financial services in rural areas and some have developed dedicated agricultural and rural finance products (including loans, savings, leasing and insurance), but it is far from adequate and generally very expensive. In addition, innovations in information technologies, such as the use of mobile phones and Internet services for banking, have provided improved access to financial services and information to rural populations.

FIGURE 18
Representation of the missing middle



Source: Miller, 2008.

MFIs have proven to be a valuable financial instrument to reach the poor through a linkage approach. Many MFIs can be linked either to classical financial institutions or development banks and, increasingly, with agricultural investment funds. Such linkages are often extended to agribusinesses to create a tripartite linkage in which the MFI receives funding or investment from the bank or investment fund and in turn works with the smallholder farmers either through a farmers' association or directly with the farmers as clients. There is a considerable opportunity for growth in this approach.

5.3.3 Financing for the missing middle

The missing middle represents the gap of financing that many SMEs face in their expansion stage of development. According to Doran et al. 2009:11,[34] "the observation is widespread that there is, indeed, a missing middle, that is, that loans (and equity investments) are rarely provided in the size range between where micro lending ends and where large-scale corporate lending begins."

Figure 18 attempts to summarize the different tapped and untapped capital needs of rural people who mostly derive their income from agricultural activities. It classifies 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 up to USD 1 million, especially in remote or rural locations. This rural finance gap is perceived for capital needs between USD 10 000 and USD 1 million (the missing middle) (Milder, 2008).

Other scholars have attempted to place financial needs between USD 5 000 to USD 500 000. SNV and Kilimo Trust (2010)[35] estimate the missing middle financing for East African countries to vary between EUR 50 000 and EUR 1.5 million. This range of financial needs is important to SMEs that are at a critical stage of growth expansion.

[34] Alan Doran, Ntongi McFadyen and Robert Vogel, 2009, The missing middle in agricultural finance Relieving the capital constraint on smallholder groups and other agricultural SMEs.

[35] The Hague, 2010; Global Conference on Agriculture

Although it is not always the case, larger agribusinesses with financial capital needs of more than USD 1–2 million have relatively more access to finance and are more attractive to traditional commercial banks and venture capital financing than smaller ones that are too big for microfinance and development agency direct support or subsidies.

Depending on the respective role of a given agrifocused SME in the missing middle, capital access can vary with the size of the agricultural business and the development and organizational stage of the enterprise, as well as its position within the agricultural value chain. A combination of financial instruments may be used, including debt, equity participation, micro-ventures, venture and risk capital, mezzanine and leasing guarantee instruments. Each of these different financial instruments has their own peculiarities and implications; options must be carefully weighed against the potential risks associated with the agribusiness activity in question.

- **Debt capital**, commonly called loans or credit, is needed to fund the purchasing of fixed assets such as machinery and 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 product. However, in assessing debt financing, the size of the loans or credit must be matched with the cycle (short, medium and long term) of the agricultural activity.

  Some actors — such as banks, credit unions and MFIs — can serve financial capital needs in the agricultural sector, but in general, these finances are often far from adequate. Other actors from within the value chain, such as input suppliers and traders, play a very important role in financing other agricultural stakeholders. Some SMEs and even larger agricultural enterprises also need access to debt capital financing. This type of capital need can either be provided through a local, or in some cases an international, financial intermediary directly, or indirectly through investors or AIFs.
- **Equity financing** may be important after reaching a certain stage in organizational growth 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 startup companies.

  There are, however, other 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 due to the high risks generally associated with agricultural term investments, and the decline of secular terms of trade of agricultural products. While difficulties are perceived in the provision of equity to these enterprises, equity investments are essential because they target enterprises such as processing companies, which have important linkages in the agricultural value chain (Hollinger, 2004).
- **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 or international 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). An important example of a current guarantee instrument in agricultural promotion is the Development Credit Authority in use by the United States Agency for International Development in developing countries as shown in Box 4.[36]
- **Insurance,** as an enhancing instrument,

[36] Draft Report, 2007: Assessment of the DCA guarantee mechanism in Senegal with CBAO/Attijari bank and Ecobank Senegal,

BOX 5.
Development Credit Authority as an example of a guarantee instrument in agricultural promotion

According to a USAID report (2007):
To mitigate the perceived risks with regard to the SME market, banks in developing countries have adopted extremely conservative lending practices. Consequently, smaller businesses face difficulties accessing the credit they need to invest in growing and expanding their enterprises. To encourage financial institutions to lend to creditworthy but underserved borrowers at a reasonable cost, USAID uses the Development Credit Authority (DCA) to stimulate lending through the use of partial credit guarantees. These guarantees, which cover up to 50 percent of defaults on loans made by private financial institutions, is designed to promote more conform to financial institutions and stimulate them in using their excess liquidity to lend to growth led SME in non-traditional sectors in a commercially viable way. It is expected that over the time, the bank will integrate the newly entered market segments in their traditional target markets.

BOX 6
The case of Mozambique

Mozambique has made significant improvements in its business environment, which were made primarily through alterations to the Commercial Code, 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 only 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 of 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, including collaboration of private and public investors in a coordinated agricultural investment corridor in the country.

can be very effective at mitigating risks in agricultural financing, and has been gaining grounds in developing countries in the last few years. At the financial institutional level, loans are insured but index insurance policies have increasingly been developed to mitigate covariant risks resulting from widespread environmental occurrences such as floods, droughts and insect or bird attacks.

5.3.4 Investment environment for agricultural funds

It is important to emphasize here the importance of a country's investment climate, which affects investment fund investors and other types of investors. Governments should have policy initiatives and compliance of laws to protect the interest of investors, while maintaining an alignment with country development priorities. An important aspect of the policy environment for investors is a country's governance. According to the World Bank (2007), governance challenges include: (i) addressing the issue of corruption; (ii) better balancing of public private roles, which is more challenging in agriculture than in others sectors; (iii) improving local and national state capacity; (iv) strengthening voice (particularly of marginalized and vulnerable groups); and (v) improving the efficiency of agricultural public spending. Another investment policy concern is that of repatriation

of capital. Many potential investors, particularly from the private sector, do not invest in some countries due to investment laws that limit the ability of foreign investors to take capital gains in hard currency from the investee countries.

However, there are also many countries with policies and incentives that foment investment. The case of Mozambique, shown in Box 5, is one example.

AIF managers pay particular attention to the investment environment of a country or region and their analysis of an investee includes country risks and opportunities. While standardized benchmarking is still not well developed, there are a growing number of assessment tools. For example, the World Bank developed the Investment Climate Assessment, which helps investors and fund managers to understand the strengths and bottlenecks of investment in a particular country.

5.3.5 Investment readiness for agricultural funds

Despite the requests and need for investment in agriculture, especially in a way that benefits small farmers and smaller agro-enterprises, the reality faced by investment funds is that there is a lack of investable agribusinesses and small-farmer organizations that meet the investment criterial of the investment funds. Too often, multiple funds court the strongest organizations for the opportunity to invest with them while others are deemed either too risky and/or costly to invest in. In part, the limitation has to do with the size of the investment because investment funds, especially international ones, cannot handle small investments and have a hard time covering costs when their investment size is small. Many of the businesses need less investment.

Investment in producer organizations also faces constraints of size of investment when investing into first-tier organizations, therefore many AIFs invest in second-tier organizations such as an association of coffee producers. While this can address the scale of investment, it presents another risk because, commonly, second-tier organizations have few assets for collateral, with local organizations holding the bulk of the equity and assets. Hence, for example, if a trade finance-backed investment has difficulties and cannot deliver contracts used for the investment security, then fund managers have few resources available to cover their losses if the association does not have the collateral. Furthermore, when a second-tier association has difficulties, the stronger first-tier organizational members in it have been known to leave the association and negotiate sales directly, causing even more problems of repayment from the association.[37] Experience shows that such risks are common among AIFs, and is a reason that many invest through agribusinesses rather than at the base of the value chain.

[37] Author's experience and dialogue with fund managers.

Chapter 6
Conclusions and recommendations

6.1 SUMMARY OF FINDINGS

After decades of declining levels of investment, the trend has reversed. Investment in agriculture is now universally accepted by development organizations and national governments as a critical ingredient for improving future food supply, reducing hunger, promoting social and economic development and reducing poverty. While investing in agriculture has long been perceived as a risky venture, new advances and approaches have helped mitigate and diffuse that risk. Investment through investment fund structures is one approach to share and distribute risks among multiple investors and multiple investments while also reducing management risk by oversight and involvement of the fund managers.

This renewed focus on agricultural investment has resulted in many new private and public investors and helped create agricultural investment as a new asset class for investment. Never-the-less, private investors focus on investments with shorter returns on investment, and on more agribusiness and land ventures with a more proven track record. Hence, the need for longer-term investments and those that most benefit poorer rural communities and smaller agro-enterprises. In recognition of this need, development agencies and investors have become increasingly involved in directly collaborating with private sector investors as a way of leveraging their investments and providing incentives for them to accept investment challenges that otherwise would not be considered. Such collaboration has shown to be both in the form of direct co-investment of private and public investors, with or without differences in share structures, and in other cases as providers of incentives for investment that reduce the risk and/or costs of the private investment. These incentives include: a) provision of technical assistance funding for investees, b) debt and equity investment guarantees or share risk mechanisms, c) country and catastrophic risk guarantees, and d) as shareholders with subordinated investment shares.

What are the intrinsic qualities that give impetus to agricultural investment funds? While, investment funds have been popular in other economic sectors, in agriculture, their principal value is seen in terms of the following:

- **Flexibility in time horizon** – Funds can provide financing over a range of time horizons from the short, medium and long term. Such flexibilities enable funds, unlike most bank finances, to meet the needs of a range of actors along a value chain.
- **Quality of money** – Investment is linked to the value-chain needs, with a management support to help guide the investment capital to where and when it is most needed and in the form needed. This is distinct from conventional commercial bank funding, which is more available for shorter-term activities.
- **Investment funds** – These are often are supported with accompanying technological packages. Pre- and post-investment support can provide skills and technology transfer, capacity building that can bridge knowledge gaps, and accelerate agricultural development.
- Investment fund investment may work with an array of financial instruments, such as in venture capital, trade finance, leasing, warehouse receipts, guarantee instruments and even microfinance linkages that adapt to a country's social, cultural and economic conditions.

The inventory stocktaking of AIFs provided an overview of different kinds of investment funds that target agricultural stakeholders in developing countries and a relatively comprehensive view of AIFs with private–public collaboration. The research revealed commonalities as difficulties in comparing and interpreting the existing funds due to their different contexts and nature. The research also underlines the conclusions of the World Bank development report (2007): "(…) 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).

Some of the funds analysed have been in operation for a relatively short amount of time while others have completed their investment and divestment lifespan. A continuing analysis of the success or failure of these different initiatives would be needed to fully understand the full impact of these investments.

This publication illustrates the potential of investment funds, and some of the pitfalls and successes, in order to facilitate understanding their role and lessons learned for establishing effective investment vehicles for agricultural development. However, it is beyond the scope of this report to provide a role model of an AIF that can be easily replicated. Such a "recipe" is also not recommended because a key point is that such funds must be structured according to the context and the value chains and their actors.

An important consideration for equity investors through investment funds is the limitation in many countries that restrict investment to accredited (high net worth) investors. This presents a significant constraint for smaller businesses that need an investment that is smaller than higher-net worth investors are interested in pursuing. For example, in the United States prior to 2014, only accredited investors (i.e. those with USD 200 000 in annual income or a USD 1 million net worth) were eligible to fund startup companies.

It was found that AIFs operate in a similar fashion as many non-agricultural ones, and use investment instruments. A difference is that agricultural investments have specific risks and costs that must be addressed, and which set them apart from other asset classes. Systemic risks of climatic hazards, prices and markets increase the challenges. Price elasticity, and the fact that many small-scale producers are involved in some of the sectors and value chains, may increase the cost and complexity of investment.

An important observation is that food price increases and concerns for food security draw investment funds to the agricultural sector. Global financial and economic crises, while affecting AIFs, can both reduce the available investment capital and steer investment fund investors to the sector as a "safe haven" investment diversification. In this way, agriculture in developing countries offers investment opportunities to investors who desire to invest in alternative asset classes. Many of them prefer investment through funds that can provide risk diversification among countries and individual investments.

While not exhaustive, the following technical and policy-level recommendations are provided. Particular emphasis in this document has been placed on the role of PPPs, the recent developments in environmental sustainability and climate change, and new options for the international community to develop policy guidelines to check the positive and negative impacts of an investment. This report concludes with recommendations for further potential research.

6.2 RECOMMENDATIONS

6.2.1 Technical consideration for agricultural investment funds

- **Clear and coordinated roles of governments and international donors in setting up PPPs.** Private–public cooperation, including PPPs, can be a valuable tool to increase access to finance for the agricultural sector, especially given the specific characteristics and risks related to agricultural investment. Public capital can be important in attracting private investors who otherwise would not be willing to risk exposure to agriculture. Public funds can reduce private investor risks and provide incentives and comfort with a sector that otherwise would not be considered. When structuring investment funds with a developmental objective, public investment must look at the leverage effect of their investment and determine if they are willing to accept below-market returns and/or incentives to attract private investment. Are the social and economic returns in line with the use of public funding from taxpayers? Well-structured and coordinated joint efforts of the public and private sector have shown that they can make a sustainable contribution to the development of the agricultural sector in developing countries.
- **Local presence of the fund management.** 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 (e.g. 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 that is 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 risks, which are beyond the control of the agricultural producer as well as the investor. This risk impacts 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 is needed in setting up AIFs, 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 more easily attract investors and be easier to develop.
- **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).
- **Size matters.** International investment funds require economies of scale. Research shows that those funds that are too small are making small investments struggle to survive due to the costs of administering them with the proper due diligence. Many funds are not able to attract sufficient capital and adequately diversify risk. They may also spread these investments across too large an area for the fund's earning capacity and/or make small investments that exacerbate the fund income-cost relationship.
- **Smallholder investment is difficult.** Investment funds that try to directly reach smallholder organizations are especially difficult. The risk due to their limited capacity and often weak governance is high and requires higher costs and higher losses. Their very limited collateral and investment size also provide limited returns to the investment fund to cover these higher costs. Hence, careful structuring of how and where to invest in an agricultural value chain is critical to success, with higher success being noted from those who invest in agribusinesses and companies, rather than directly to smallholder associations.
- **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 AIFs to mitigate related risk. They can increase interests from investors and facilitate access to capital at a lower cost.
- **The role of foreign exchange risk.** All investment vehicles that provide capital in a currency that is different from the income generated by the debtor, face foreign exchange risk at a certain level. Special attention should be paid to this fact when structuring AIFs because the income of agricultural producers might often be obtained in a local currency, while investment funds are interested in providing capital to be invested in foreign currency. In cases where income is obtained in a foreign currency (e.g. by an agricultural cooperative that exports products to international markets), the foreign exchange risk might be eliminated.
- **Agricultural expertise of decision-making bodies.** The set-up and daily operations of an AIF require a thorough understanding of the agriculture sector in developing countries. The need for highly specific expertise of fund managers and decision-making bodies (e.g. 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.** 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 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 AIFs identified in this report 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 AIFs (e.g. Case Studies on the Georgia Regional Development Fund and Pearl Capital Partners in Annexes 1 and 3, respectively) have implemented innovative tools to measure impact. The means for measuring the impact of investing should be integrated right from the beginning when structuring AIFs.

6.2.2 Policy recommendations

The growing attractiveness of investment funds for agriculture has been established. Policy recommendations must go beyond the expectation of high returns linked to rising land values and productivity, and by a desire to diversify investment portfolios and so better manage risk (IEED, 2012) in order also to address the increasing social, economic and environmental concerns associated with such investments. Because the promotion of AIFs seek to address the growing demand for food, stabilize price volatility and meet the demands for biofuels or agrofuels, policy concerns must, therefore, be viewed at three levels in order to stimulate investments in agriculture in developing countries.

- ***Policy considerations at the local level.*** Policy is often set at a national or global level but its effectiveness is observed best at the local level. Investment policies for agriculture require dialogue and learning from others, and development agencies and development finance agencies have an important responsibility to support this process. It is also important for investors and investment fund managers to be engaged in the dialogue. Some policy recommendations are highlighted below.
  - **Global support to agriculture** by developed countries and multilateral development organizations can play an important catalytic role in attracting private funding to needed rural areas of less developed countries that otherwise could not qualify for investment financing by virtue of their risk or lack of investment readiness. Donor support is needed to build the capacity needed for investment. Donor funding can help create PPP platforms and help those in the agricultural sector to develop or have access to the necessary infrastructure and capacity that enhances the growth in agricultural productivity. This includes collaboration with, and the involvement of, AIFs but is much broader.
  - **Social protection policies in agricultural investments** will provide safety nets and reduce the vulnerability of countries and communities that are heavily affected with severe food shortages in time of crisis. Global responses to social protection include reduction of post-harvest losses and investments to help address adequate buffer stock against a crisis, including improved infrastructure such as grain silos and warehouses.
  - **Investing in global markets to improve food security** is important. As investment in agricultural increases, global policies should aim at better regulating trade to accommodate agricultural goods and services from developing countries. Agricultural trade policies that subsidises farmers in developed countries and that leads to market speculation of agricultural commodities not only distort the market, but contribute greatly to food insecurity in developing countries.
  - **Tax incentives for impact investment**. Any tax-related regulation that has an impact on the economic returns of an investment is relevant for investors and investment funds. While from a developmental perspective it is crucial that both international and local investment contribute to sustainable local development, including a sharing of the economic benefits of investments to the region and the nation as whole, carefully targeted incentives can make investment fund managers more interested in investing in agriculture.
  - **Investments in infrastructure.** Support toward investments in infrastructure can enhance productivity and efficiency for agricultural production, logistics and the whole value chain. 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.

- **Investments in technology and education.** The basis for future growth is a solid development and transfer of technology and know-how, as well as an investment in education. It can be assumed that during the coming years, the level of technology used in agriculture in developing countries will significantly increase, following the path of transition economies, and taking into consideration the opportunities that 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, large and small agribusinesses 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.
- **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 are key to building the institutional framework that will provide a market-friendly environment that investors, particularly private sector ones, require. In this sense, the various ministries of agriculture, trade, planning and prime ministers' offices need to seek advice from local entrepreneurs and communicate directly with international private sector institutional investors.

- ***Policy for investee companies at the local level.*** There are guiding policies both for investee companies and for countries so as to set the right conditions and enabling environment, not only to attract AIFs, but also to achieve the full benefits from investment opportunities.
- **Policy and regulation affecting agricultural production the local area.** While global enforcement of regulations are an imperative, more targeted government intervention is often necessary to check non-market based price controls, direct or indirect subsidies that distort the market and dampen market access to smallholder farmers. Policies and regulations that support investment and a market-based approach that is conducive for the participation of smallholder farmers should be encouraged and promoted to attract investors.
- **Policies that encourage inclusive growth with an emphasis on women and smallholder farmer participation in agricultural investment along a value chain**. In developing countries, women are responsible for producing about 90 percent of the food grown and produce 50 percent of the food grown worldwide. Therefore, all investment initiatives need to address the full participation of women as a means to increase productivity and social equity.
- **Policy and regulation affecting ownership to land rights.** These policies can significantly affect investment decisions in agriculture as the nature of the regulations might hamper investments in many developing countries, especially foreign direct investment. Investments in agriculture require secure property rights, contract enforcement and execution rights. They play a particular role with regard to land markets, social protection and employment.
- **Policies regarding 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 out of the country. Difficulty in capital repatriation or even fear of such difficulty inhibits investment.

- ***Policy considerations for equitable and sustainable development.*** Investment is of little development advantage if its benefits are not shared. The rationale for public sector collaboration with and/or in AIFs is precisely to foster greater social and economic impact. Some policy considerations are described below.
- **A "win-win"** policy environment that enables investee companies and the investee country to share in the benefits of the investments is most desirable. Such policies should stipulate what social and fiscal benefits the communities and the country will receive from the investment process. Governance issue, however, come into play because most non-democratic governments would sign and enforce investment contracts that do not bring any social benefits to the communities.
- **Transparent and good business ethics** poli-

cies should be encouraged for investee companies investing in developing countries. It is often the case that most investors neglect to take into account the social protection of the local communities, and it is often the smallholder farmers and women who are marginalized. These ethical issues go beyond social considerations to environmental concerns, and it is for this reason that development organizations have set up the Responsible Agricultural Investment (RAI) framework. Although the RAI principles are still undergoing testing, they show how ethical issues linked to agricultural investments are taken seriously. On the other hand, investors have taken the responsibility to form the Group of Impact Investors Network, which is also an indication of how investors are giving consideration to social and ethical issues that are linked to their investment environments. Other ethical policy issues for investors include respect for environmental resources and their rational use in order to ensure sustainability and enhance productivity growth of the agricultural sector. Another important aspect is transparency in fiscal issues and the transfer of funds out of the investee country to tax havens.

- **Technical assistance and technological transfers** are important policy issues for investee companies to respect. Investee companies should also respect the use of modern technologies with internationally accepted norms, instead of obsolete and pollutant technologies that cannot be used in developed countries. This is particularly the case in agriculture, where outlawed pesticides and insecticides are used in developing countries to reduce the costs of production and increase financial returns, but with harmful effects to the environment and sometimes to the local communities.
- **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 coming 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 that 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.

6.2.3. Recommendations for further research

This report provides an analysis and synthesis of lessons learned from a broad range of investment funds with private and public collaboration that target the agricultural sector in developing countries. Given the development interest in the agricultural sector due to food security, climate change and poverty reduction, there has been a growing body of knowledge on AIFs but there is also a recognition that much more is needed. Recommendations for further research are described below.

- *Evidence-based technical recommendations*
- **Demand-gap analysis on access to finance for the agricultural sector in developing countries**

  There appears to be a large unmet demand for increased finance of and investment in the agricultural sector, and there are a growing number of funds serving the sector, although there is a large mismatch. Investment fund managers highlight the difficulty of finding sound investment opportunities while potential investees feel there is a lack of funding opportunities. Additional empirical research is needed to better understand and address the gap between the supply and demand, including how best to address the demands of multiple stakeholders along the agricultural value chains. Gathering this information is challenging due to the unwillingness of some investment fund managers to divulge of much of this information, and due to the covenants and legal constraints of some of the investment funds that limit what information can be shared.
- **Structuring of a "model" agricultural investment fund**. Structuring a "model" AIF would entail a combination of best practice features derived from the various existing investment funds and 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 because 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 and proprietary information and in-depth field research. In particular, any analysis should pay special attention to measures that can mitigate the risks for investors.

- **Roles of the public and private sectors in AIFs.** Stakeholder interests are different. Public investors have strong social and often political interests, and they must publicly report on how taxpayers' money is spent. In contrast, private sector stakeholders want to maximize economic returns, and their activities often take place in the form of private partnerships, where much of the information is shared only between the participating parties but with the general public. Hence, there can be considerable misunderstanding, and more dialogue is needed to understand how they best work together in co-investing and/or in collaborating to increase and improve investment.
- **Review of the different modes 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 is needed on other approaches of agricultural investment such as company structures as there is a need for multiple investment structures to fit varied and diverse investment contexts, as well as to review the complementarity of various investment means. However, corporate structures are often not as easily adapted to PPPs as investment funds are.
- **Risk-return profile of agricultural investment vehicles**. Risk is central to investment decisions in agriculture, and is perceived to be relatively high. Understanding the "tricks of the trade" for risk mitigation cannot be achieved by simple research but rather through direct experience in the field backed by more imperial evidence. This includes both an improved investee agribusiness investment assessment and a sector risk mitigation, as well as investor portfolio risks with the use of differentiated share classes, insurance, guarantees and incentive structures. With regard to tiered share capital structures, it would be useful to assess the financial performance of different risk classes and how well the subordination mechanisms and risk ratios in place mitigate potential losses for the more senior tranches.
- **Agricultural investment vehicles as alternative asset class.** Investments are generally "packaged" in asset classes based on the risk, returns, investment terms and nature of the investment. Much research is needed on categorizing risk and pricing it into investment models in relation to realistic profit levels.
- **Impact investment as a social development vehicle.** There are numerous investment funds whose primary goal is to promote social objectives. Developing investment vehicles for assisting the poor and addressing the missing middle is of particular development interest. What are the triggers for their involvement and how can their good intentions be best invested toward that end? Such research must also consider how to best make use of "crowdfunding" and Internet-based investment platforms in order to best inform potential impact investors of what to expect and what pitfalls to avoid.
- **Conducive policies and regulation.** For fomenting investment into the agricultural sector, a conducive policy environment in the target country needs to be fostered. Continual evidence and analysis is needed to inform policy-makers and stimulate dialogue for improving policies and regulations in developing countries in order to attract the required investments and achieve the desired results in the sector.

- *Recommendation regarding foreign land ownership and opportunistic land grabs:* Community concerns, including communal land and cultural rights, climate change and the socioeconomic benefits of investment has brought the issue of land investments to the forefront. Although the focus of this publication is more on investment funds that are associated with PPPs in developing countries, and which will create a synergy for promoting agricultural productivity along the value chain, nonetheless, land investments cannot be ignored. Land investments

in developing countries are more numerous than those for agricultural and food purposes, but also from those related to water rights, carbon sequestration opportunities, and national reserves. Additional research is required to better understand the driving forces of the investments, their potential and risks, and the policies that are needed to provide the structure and oversight for securing a beneficial impact to all parties.

- ***Regulations and evaluation of agricultural investments:*** Promotion of investment itself is not a goal for agricultural investment. Instead, the focus should be on attracting the right investment to achieve the results. What are the guiding principles for understanding and steering investors? What regulation is needed, and at what level or levels: global, country or local? The RAI principles offer a platform for investment that respects rights, livelihoods and resources. The RAI principles could offer guidance for an emerging regulatory framework to promote responsible international investment in the agricultural sector of developing countries. Other evaluation agencies include GIIR and International Private Equity and Venture Capital Evaluation guidelines, developed by the Association Française des Investisseurs en capital, the British Venture Capital Association, and the European Private Equity and Venture Capital Association.[38] Companies that invest in developing countries want their investment to be profitable and to benefit the host country and local community as much as possible. However, they often lack the tools to ensure that these benefits materialize. More dialogue and work are needed.
- ***Quality of finance and investment:*** To increase the accessibility of finance to the agricultural sector, especially to the rural poor, improving the quality of finance is important. Governments can develop guarantees and risk-sharing instruments to enable the use of short-term financial resources for medium- and long-term investments, while simultaneously furthering collaboration with investment banks to create new financial products that embrace the principles of financial inclusion.

[38] http://en.hvca.gr/fileadmin/webfiles/pdfs/evca_international_valuation_guidelines.pdf

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Annex 1
Case study – Small Enterprise Assistance Fund (SEAF)

I. OVERVIEW AND BACKGROUND ON THE INVESTMENT FUND

Founded in 1989 and based in Washington DC, the Small Enterprise Assistance Fund (SEAF) has evolved into an independent organization specializing in the sponsorship and management of investment funds targeting growth-oriented emerging enterprises, and has a long track record of investing in small- and medium-sized enterprises (SMEs) in emerging markets worldwide. In 1992, SEAF opened its first office in Europe with its first Fund in Poland, CARESBAC Polska. Since then, it has expanded to 25 fund offices and has invested in over 33 countries worldwide. As of December 2014, SEAF's investments were primarily located in Central and Eastern Europe (44 percent), with investments also in Latin America & the Caribbean (25 percent), Central & South Asia (22 percent) and East Asia & the Pacific (8 percent).

SEAF also has established funds in East Africa, such as SEAF KASI Agriventures, for marginalized agribusiness producers in the United Republic of Tanzania. In South America, SEAF has multiple investment funds in Colombia, such as the SEAF Colombia Agribusiness Fund (SCAF), with support from USAID/Colombia.

Through its team of specialists and its network of external experienced consultants and industry advisers, SEAF seeks to provide local management with access to new customers and global market opportunities, insight into industry best practices, advanced training and strategic planning skills. To accomplish its objectives, SEAF has developed a fund management system that is both cost-efficient and professional. It sponsors and oversees the management of its 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.

Given its international scale and scope, it uses a centralized, internet-based system of accounting, control, information-sharing and valuation services to provide technical capabilities to its field team of specialists. Through this central coordination, SEAF's management team applies institutional knowledge and best practices to enforce effective oversight of SEAF funds worldwide, and to provide regular and accurate reporting, compliance, and disclosure functions to SEAF's investors. The economic incentives for each of SEAF 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 investors.

II. INVESTMENT STRATEGY

SEAF has significant experience with agribusiness investments, ranging from primary production to processing, retail and wholesale operations. Through its fund management, it has provided these enterprises with access to indispensable resources and know-how to improve not only their production, but also their fundamental business operations. This aids them in acquiring new technologies and modern inputs, building working capital and accessing the necessary markets for expansion. For each investment in its portfolio, emphasis is put on ensuring SMEs have access to capital and credit. This is especially the case for agribusiness investments, with particular attention paid along the value chain in order to reduce unwarranted risk-aversion in the local financial sector.

Larger institutional investors (e.g. IFC, OPIC, FinnFund, Union Bank of India, EBRD and MCC) are often the main contributors to SEAF's investment vehicles, which include investment funds, facilities and finance companies. Committed capital ranges from USD 5 million to USD 161 million with funds generally falling within USD 10-40 million (SEAF Investment Vehicles).

III. TECHNICAL ASSISTANCE – CEED

SEAF actively supports its portfolio companies

through tailored technical assistance services (TA), which is often funded by investors through TA-specific grants in addition to investor's commitments in an investment fund. SEAF's investment teams bring in-depth market knowledge and managerial experience in addition to the investments. Portfolio companies can also access sector specific knowledge through SEAF's network of external experts. The Center for Entrepreneurship and Executive Development (CEED), a grant-funded program managed by SEAF, also provides a wide range of training and mentoring services to the entrepreneur communities of their base countries.

TA and CEED are two distinct forms of capacity building for SMEs. In the case of the former, SEAF partners with the SME after an investment is made to ensure the success of its investments. In many cases, the management of the SME needs information, insights, and training as much as capital. The entrepreneur can appreciate that with SEAF's help, his or her business will grow more rapidly. The type of TA is specific to the needs of each SME, broadly speaking, the types of TA activities are as follows:

- Corporate governance;
- Financial control and operational improvement; and
- Marketing/strategy.

CEED was born out of the over 1 000 technical assistance interventions conducted by SEAF, which found that entrepreneurs were generally not as equipped to deal with rapid business growth. They frequently lacked the knowledge and tools to assess new markets and struggled to gain access to capital. Entrepreneurs also lacked access to the right networks, primarily with other entrepreneurs who had experience entering regional and international markets and in bringing their businesses to scale. CEED was created to address these challenges by enlisting successful entrepreneurs to mentor those looking to grow their businesses. CEED was developed using a peer-to-peer model, where entrepreneurs would share their experiences, help others overcome challenges, and develop trust in others in the network. CEED provides unique accelerator programs, network learning events, and successful entrepreneurs to mentor those looking to grow their businesses.

TA and CEED centres are managed at each country office but with close coordination with the headquarters in Washington, DC. SEAF's scale and geographic scope, as well as centralized, web-based systems, permits it to efficiently field or develop full teams of specialized personnel worldwide. As a global organization with a focus on building strong local teams, SEAF is uniquely able to generate qualified SME investment opportunities, provide management with hands-on operational support and provide entrepreneurs worldwide with the global know-how and connections that accelerate their growth and profitability. Through the central coordination of these resources and teams, SEAF is able to apply its institutional knowledge, enforce effective oversight over its funds and CEED centres, and provide regular and accurate reporting and compliance to its investors.

CEED does not generally provide TA services to SEAF portfolio companies. Instead, CEED is open to early stage, high-growth entrepreneurs in 12 countries (Bulgaria, Romania, Slovenia, Macedonia, Kosovo, Moldova, Serbia, Armenia, Albania, Morocco, Tunisia, Bangladesh, and Tanzania). CEED develops entrepreneur networks in each country, and through these networks it deploys the training and advisory work needed to help stimulate local entrepreneur ecosystems. Companies in the CEED network range from start-up companies to more established companies seeking to expand internationally.

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

Description	Activities
Deal origination	The identification and sourcing of potential investment targets using the local fund manager's network, as well as SEAF's international information networks from consisting of local and international communities (including personal networks, banks, business associations, economic development projects, etc.). Locally sourced deals not only allow SEAF to invest funds more efficiently, but they also provide a means of avoiding the fees and conditions associated with intermediaries. Finally, in developing markets, SEAF's network provides important background information on investment targets to support sound decision making in the investment process.
Screening	SEAF initially screens potential investments in order to determine either a quick exit from the pipeline or if they merit further review. On average, SEAF invests in approximately one out of 40 to 50 targets screened.
Business analysis and initial due diligence	This stage involves an in-depth review of the business, including site visits, discussions with management, sector analysis, review of projections and financial statements, and financial modelling. It also involves assessing shareholders and the Board of Directors, as well as the environmental, social, and governance impact of the potential investee company.
Investment term sheet	A set of structured terms and initial valuation provided by investment targets, as well as market and other sources that SEAF uses to determine 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 as a basis for an investment memorandum of understanding (MOU). This document addresses investment merits and risks and presents a structure that seeks to create a sustainable business model, one which would provide an adequate financial and development return to the investors. The fund manager must present these proposals to its internal investment committee for approval.
Board approval	SEAF officials present the Investment Memorandum to the Board for initial approval. The Board is typically composed of successful local and international entrepreneurs. 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 verify the information provided by the investment target. Any material finding can merit a revision of the investment terms.
Signing of investment agreement	After concluding necessary due diligence, 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 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 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 function is akin to a partnership, in which both sides work jointly and contribute 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 dividends) 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.

IV. AGRICULTURAL INVESTMENT FUNDS

SEAF has been actively investing in the food and agribusiness sector through its sector neutral funds. Based on this experience in the industry, they established two agricultural investment funds in India as shown below.

Name	**SEAF India Agribusiness International Fund**	**SEAF India Agribusiness Fund**
Year established	2010	2010
Size	USD 22.5 million	USD 19.3 million
Target	SMEs in the Indian agribusiness value chains including inputs, seeds, agrochemicals, food processing, supply chain firms, commodity exchanges, food and retail services, infrastructure, and retail. Size of investment: USD 2 million to USD 5 million in companies with revenues from USD 6 million to USD 60 million	
Investors*	Life Insurance Corporation of India, Omidyar Network Fund, Inc., Sarona Asset Management, Small Industries Development Bank of India, Syndicate Bank, Unigrain, Union Bank of India, SEAF. (*The fund is structured as a parallel entity, making pro rata investments into portfolio companies. Indian-based investors are partners in the domestic fund, international investors are partners in the International Fund)	
Investees	Tropilite Foods (food ingredients company), Abhay Cotex (cotton seed processing company), Khyati Foods (organic cotton and soybean processor)	
Name	**SEAF Bangladesh Ventures**	
Year established	2010	
Size	USD 12 million	
Target	SMEs in Bangladesh that represent strong growth opportunities but lack access to traditional sources of finance, including technology, food & agriculture, manufacturing and services. Size of investment: USD 100 000 to USD 500 000.	
Investors	International Finance Corporation (IFC)	
Investees	11 Investees – Solaric (solar energy manufacturer), Accord (shipping), Mowdok Agro- Industries (wheat flour), New Hoogly (cookies), etc.	
Name	**SEAF Colombia Agribusiness Fund (in development)**	
Year established	2015	
Size	USD 70 million (target) with a TA facility of USD 3 million	
Target	SMEs in Colombia that are operating in the agribusiness sector, and either based in rural Colombia or with operations that can positively impact the rural Colombian agribusiness sector	
Investors	USAID, SEAF, Colombian Development Banks, Family Offices, Local Pensions	
Investees	N/A	
Name	**SEAF KASI Agriventures (KASI)**	
Year established	2015	
Size	USD 10 million	
Target	Providing debt and equity to growing businesses and producers in Tanzania's agricultural sector, with a focus on animal feed producers and distributers; export oriented fruit, vegetable, and/or spice processors; equipment leasing finance providers; and non-bank financial institutions servicing small, growing agribusinesses. Supporting investees through a USD 1 million CEED TA vehicle; Estimated size of investments: USD 500k to USD 3m.	
Investors	United States Department of Agriculture (USDA)	

Georgia Regional Development Fund

The GDRF, a documented case study in the 2010 publication, is an example of SEAF investments at the end of the investment fund cycle.

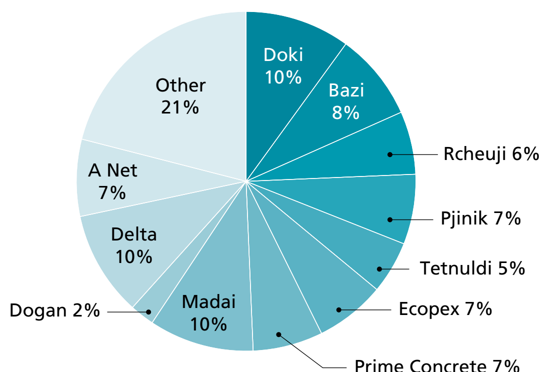
Name of fund	Georgia Regional Development Fund (GRDF)
Fund manager	SEAF Management LLC
Country of incorporation (Start-up date – exit date)	United States of America (December 2006 – April 2016)
Geographical focus	Republic of Georgia (80% of investments must be outside the capital of Tbilisi)
Investment instruments	Debt; Equity
Fund size	USD 30 million in capital investment
Primary investor(s)	Millennium Challenge Georgia Fund (Georgian Government Agency sponsored by the United States Government Millennium Challenge Corporation)
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 Tbilisi; to demonstrate successful mechanisms for the deployment of technical assistance and improve management capacity
Investment strategy	Provision of "mezzanine-like" financing to facilitate long-term growth/expansion of early stage, small- and medium sized enterprises (SMEs).
Target sectors	Agribusiness and tourism
Primary results	USD 30 million invested into 14 Georgian growth-oriented SMEs (as of December 31, 2015)

V. OVERVIEW AND BACKGROUND ON THE GRDF INVESTMENT FUND

SEAF invested in the struggling Republic of Georgia when the Central-Eastern Europe and Newly Independent States (CEE-NIS), started opening up its economy to the western free market system in a backdrop of conflicts in the region. Situated between the Black Sea, Russia, Armenia, Azerbaijan, and Turkey, the country has strategic importance as a transit corridor for trade in the region. Funding came from the Millennium Challenge Corporation (MCC) through Millennium Challenge Georgia (MCG). The fund focused on businesses operating outside the capital of Tbilisi and in agribusiness and tourism – two sectors with significant growth potential in the country. By 2011, GRDF was fully invested in fourteen (14) companies throughout Georgia, with an average investment deal size of USD 2.3 million. On April 6, 2011, 100% of the membership interest in the Fund was transferred to the Service Agency at the Ministry of Finance of Georgia. GRDF has distributed a total of USD 5.8 million, which is likely to be utilized to support activities of STEM higher education project. The GRDF is a closed-end fund set to be finished by the end of 2016. Hence, in the winding down stage, as of May, 2016, it had divested from four companies and had a realized and unrealized fair market value of USD 30 million in those remaining, while having realized earnings from those whose equity stakes were sold. The TA facility has also been drawn down. Figure 1 shows the portfolio investments.

Since the fund's inception in 2006, the country has faced various political and economic challenges, including continuing political unrest, tensions with Russia, and the global financial crisis, all of which have greatly slowed local development and investments. Consequently, some companies in GRDF's portfolio have faced unexpected challenges in managing and growing their businesses. GRDF has worked to help its investees through

FIGURE 1
Georgia Regional Development Fund investment portfolio



Source: America-Georgia Business Council.

this period towards achieving long-term growth and success given the untapped development potential of the country. While doing well overall as a fund, a portion of the portfolio has been written-off due to non-performance or a cease of operations. This is despite the fact that the GRDF, like many funds, also had a separate USD 2 million grant TA facility that provided business support for the investees, as well as training for their local employees.

Under the fund's *Investment Policy Guidelines*, initial investments were required to be less than USD 3 million – unless otherwise approved by the Board. The fund also limited equity investments to 11% of invested capital, well below the cap of 33%. In general, the investees were required to meet the following criteria prior to investment: (1) maximum of 250 employees, (2) maximum revenue of USD 5 million, (3) presence in Georgia, and (4) minimum of 15 percent average annual growth projected for five years for the four development indicators (revenues, wages, taxes, payments to suppliers). Certain businesses were excluded under the investment policy guidelines for public policy or ethical reasons – such as businesses that produce or sell armaments, tobacco or hard alcohol related products; businesses that engage in activities related to gambling or businesses whose operations pose significant harm to the environment. The fund also did not engage in speculative investments, such as real estate, commodities or forward contracts, nor did it engage in hostile take-over bids.

For individual investees, investments typically consisted of a large debt investment with an option to purchase equity, described in the industry as "debt with an equity kicker". In some cases, the debt investments themselves consist of a fixed interest rate with a revenue royalty, whereby the revenue royalty serves as a "kicker". While the fixed rate is typically lower than bank rates in Georgia, the combined projected rate of return and the revenue royalty is higher than bank rates to compensate for associated risks. In some cases, a fully fixed rate is applied 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 financial investments ranged from four to seven years and loans often included a grace period on the principal, and periodically on the interest as well. The duration of equity investments is typically the same, the fund aims to exit its equity investment through a sale-back to the local partner. In most cases, pre-agreed buy-back terms are included in the investment agreement or a sale is made to a third party 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 the case in Georgia given the small size and scope of the Georgian stock market and the size of the companies themselves. Some of the investments included:

Piunik, Georgia: GRDF Investment of USD 2 million (2008) – establishment of a domestic hatching egg production business line. The FUND has exited from Piunik in the year 2013.

TABLE 1

Millennium Challenge Corporation key performance indicators

Key Performance Indicators	End of compact target	Percent compact target satisfied (2014)	Percent compact target satisfied (Sept 2011)
Increase in Gross Revenues of Portfolio Companies	USD 22 200 000	475%	76%
Increase in Portfolio Company Employees	1892	55%	11%
Increase in Wages Paid to the Portfolio Company Employees	USD 3 118 000	389%	57%
Funds Disbursed to the Portfolio Companies	USD 22 000 000	146%	122%
Portfolio Companies	20	70%	60%

Source: MCC Table of Performance Indicators

Madai, Georgia: GRDF Investment of USD 3 million (2009) – a participatory loan and equity investment in Madai, a Black Sea anchovy fishing company to purchase a fishing and transport boats, trucks and land for relocation of the company's processing facility. Madai became the first Georgian company to utilize a fishing license rather than leasing out to Turkish ships" Madai realized increases in revenue over the most recent period, showing continued growth. (SEAF, 2015).

Foodmart, Georgia: GRDF Investment: USD 3 million (2011) – GRDF invested in Foodmart for expansion for operating more than 50 grocery stores throughout the country. The growth has led to a joint venture with SPAR, a European grocery chain, which has led to further success in the country and to attract new financing from private equity and banking institutions. The company has seen increases in its revenues and wages paid, and has created several jobs, key development impact indicators. (SEAF, 2015).

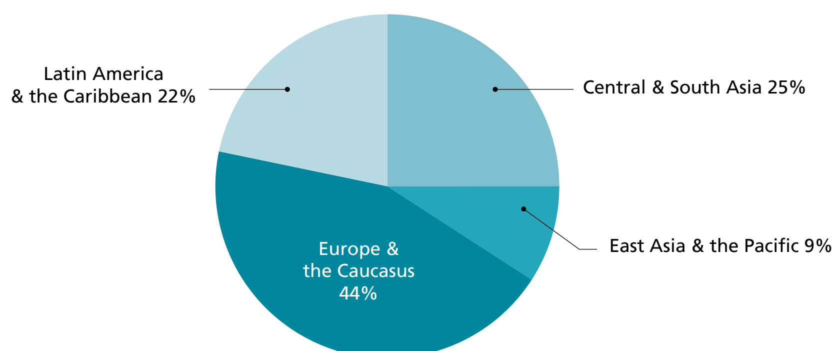
VI. GEORGIA REGIONAL DEVELOPMENT FUND: PERFORMANCE, IMPACT AND RESULTS

In the context of political and financial turmoil in Georgia, they have successfully managed to deploy capital, with USD 30 million invested into Georgian growth-oriented SMEs. As seen in Table 1, the GRDF made progress on key performance indicators for its portfolio companies, including an increase in gross revenues, employees and wages paid to employees.

VII. KEY ISSUES WITH THE GEORGIA REGIONAL DEVELOPMENT FUND

- **Timely access to working capital** was important for smaller companies, particularly those operating in the agribusiness sector;
- **Supply from small primary producers** was challenging due to their lack of technology, capacity and financing and providing them support was needed;
- **External economic shocks** war and other shocks caused liquidity and market disruptions and made the partnership with the GDRF more important to address the investment funds can have a critical role in surviving shocks. These included a) loss of crises.
- **Access to foreign markets** was made possible with SEAF's provision of hands-on business support to help companies acquire technology and expertise and assists with networking to access new markets.
- **Financial management** was weak for all agribusinesses and the GRDF Technical Assistance Grant Facility was important in helping to address it.
- **Qualified fund** management with SEAF's relevant prior experience proved beneficial in the management of GRDF.
- **Bonus incentives** tied to investor goals (a combination of financial and development impact) were effective but should be simple to calculate.

FIGURE 2
SEAF's geographical focus as of December 2014



Source: SEAF, December 2014.

VIII. SEAF OPERATIONS/INVESTMENT PORTFOLIO

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. Historically, SEAF had an initial focus on Central and Eastern Europe, but more recently, the majority its investment vehicles have been established to target opportunities in **Asia** and **Latin America.**

SEAF has launched its first investment program in Africa, SEAF KASI Agriventures, in 2015 which focuses on investing in growing businesses along the agribusiness value chain in rural Tanzania, as noted above. Figure 2 shows SEAF's geographical focus as of December 2014.

SEAF is generalist investor and, as a result, has accumulated sector specific knowledge in a wide range of industries and services. It designs investment strategies for investment vehicles to address market and economic realities in each of the countries in which it works. A significant portion of SEAF's portfolio has been dedicated to agribusiness. **Figure 3** shows a breakdown of its investment portfolio by industry as of December 2014 with nearly 50 percent of its investments in rural development, which includes agribusiness, tourism and renewable energy. The industry mix was reported to remain similar in 2016.

IX. PERFORMANCE, IMPACT AND RESULTS

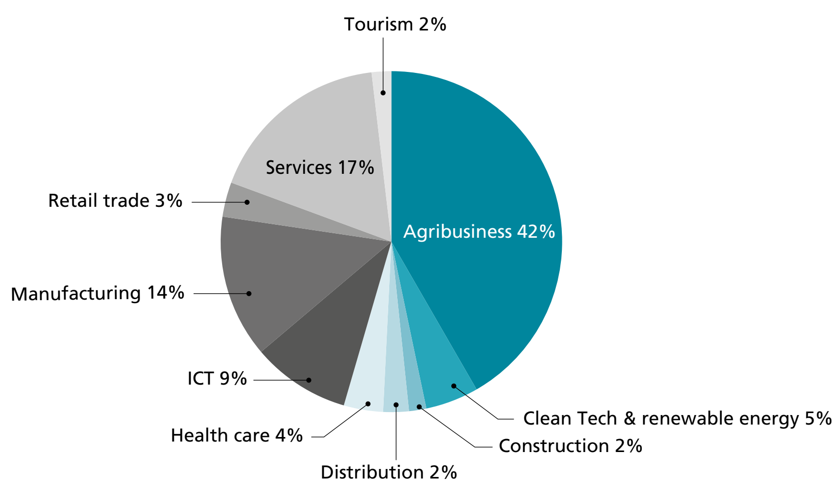
Overall, SEAF has made 398 and exited 241 risk capital investments through 36 investment vehicles across 33 countries. In total, committed capital has amounted to USD 694 million with invested capital of USD 387 million since inception.

The economic rate of return is approximately 83 percent and the financial rate of return is 23 percent. Generally, SEAFs outperforms the local economy in which it invests. Statistics from 192 companies in 2009 shows that SEAF average annual growth was 33 percent compared to 18 percent of country GDP and 25 percent employment growth versus 1 percent national employment growth rate, furthermore, for every USD 1 invested generates, on average, USD 13 to the local economy.

The following provide examples of specific performance and impacts of funds and companies within SEAF's portfolio.

Abhay Cotex (SEAF India Agribusiness Fund): SEAF IAF invested equity capital in Abhay Cotex (AC) in 2011, a company with proprietary technology that enhances the crushing of oil seeds, producing high quality, moderately priced animal proteins and edible oils. The technology also reduces energy use in production by 70% and uses significantly less water due to recycling efforts. Since investment, the company has: a) created more than 280 jobs; b) expanded its product line while reducing the cost-to-farmers to approximately 30% less than conventional mixes; and c) expanded its market internationally.

FIGURE 3
SEAF's industry portfolio breakdown



Source: SEAF, December 2014.

Gomex: Gomex is a grocery chain operating in northeaster Serbia. The SEAF South Balkan Fund invested USD 1.7 million in equity into the company in 2007. Since the time of investment, the store count has grown by more than 100% with SEAF helping in capacity building by bringing in outside industry consultants to improve operational standards and financial efficiency. The company has also focused on local sourcing, as nearly 97% of its 430 suppliers are local. Over the investment period, the company has created over 900 jobs, many going to the young and unskilled workforce of Serbia, vital at a time when Serbia has a 20.8% unemployment rate of whom 49.4% are youth[39].

Sunshine Mango (SEAF Fondo Transandino Peru): In Peru, SEAF invested in Sunshine Export, a company that operates three plants that process and export fresh, frozen, and dried fruits, primarily mango along with avocado and grapes. Sales have grown by 40% over the past 4 years, as Sunshine has grown to the largest mango exporter in the country. Since 2005, the company has brought together 450 small-scale farmers producers, packers, processors, and exporters in a value chain relationship that has created more than 3000 jobs. Sunshine also promotes sustainable farming practices among their producer base, through training in management, technical assistance in production, and partial financing of organic certification costs.

[39] United Nations Development Programme Statistical Office of the Republic of Serbia, 2014

X. LESSONS LEARNED

Agribusiness funds should be recognized as a development tool: Through years of investing in emerging markets, SEAF has come to recognize that the processing or transformation component of the agricultural value chain is a bottleneck. By addressing this gap, impetus has to be given on value addition and agribusiness development in order for many primary production projects to integrate the market economy. In addition, agribusiness is a key sector in many developing countries, acting as a driver for local economies and a significant source of employment.

Agribusinesses present opportunities for stable and reasonable returns: Agribusiness development, with proper management and expertise, offers viable opportunities, with stable and consistent returns in emerging markets. Resulting from the risks associated with the primary component of the agricultural chain, higher returns are often associated with investments at the higher market end of the chain, because it is less exposed to price fluctuation. To offset this tendency, development finance institutions and social donors are strategic vehicles in the production component of the chain while private investments are attracted to the higher end of the agricultural development chain.

According to SEAF's experience, technical assistance funds and/or grants combined with an investment fund are almost always valuable to enhance or ensure the success of SMEs in developing countries: These must be effectively managed. In agribusiness development, capital alone is rarely sufficient, especially for small companies in difficult environments. From the outset, it was found important to have national and international consultants provide technical assistance to investee companies, especially assisting to set development objectives, a marketing scheme and reporting standards befitting of the firms' industry.

Investment partnership is as valuable as investment funding: Strategic guidance and support provided as part of the investment partnership is an important component of what is needed for investment success. The animal feed producer Dogan, an investee of the Georgia Regional Development Fund, for example, has benefitted from SEAF's work and partners to develop better supply networks, including potentially sourcing fish meal from Peru through a contact of SEAF's Peru fund.

Coordinate with other development initiatives: Pooling investment resources and coordinating investment development initiatives is important in making strategic priorities in national development. However, viable investment opportunities must be available regardless of development priorities. The business may be enhanced by such coordination but does not guarantee success.

Focus on proven business models: 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. For example, 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. Hence, SEAF prioritizes investments in production of a product for which there is already an existing or clearly latent demand rather than unproven ones where returns are slower and riskier.

Ensure strong information management and business transparency: Establishing a strong management information system is particularly important to a business to provide checks and balances, supervision, financial supervision, control and monitoring of cash flow.

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 along the value

Small Enterprise Assistance Funds summary profile

Name of fund	Small Enterprise Assistance Funds (SEAF)
Fund manager	SEAF (Management Company)
Country of incorporation (Start-up date)	USA (1992)
Geographical focus	Global
Investment instruments	Debt and equity
Mission	Investing in SMEs in emerging markets.
Primary goals	SEAF seeks to provide local management with resources and capacity to reach new customers and global market opportunities, and have access to insight into industry best practices, advanced training and strategic planning skills.
Investment strategy	SEAF sponsors and oversees 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.
Target sectors	Agribusiness, tourism, renewable energy, manufacturing, construction, health-care, services, retail trade, information and communications technologies, distribution.
Primary results	Invested in 398 SMEs, exited from 241; managed 36 Funds; invested in 33 countries; committed USD 694 million. SEAF investees' average annual growth was 33% compared to 18% of country GDP and 25% employment growth versus 1% national employment growth rates. On average, every USD 1 invested generated USD 13 to the local economy.

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. Helping ensure timely sourcing of debt financing is part of this analysis.

Developing local supply networks, even when long and onerous, often leads to significant payoff and meaningful development impacts: Agribusinesses in emerging markets often face structural problems domestically as a result of poorly developed infrastructure, which explains why it is easier for buyers to import some commodities that can be produced locally. With SEAF support, 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 those farms to obtain organic certification.

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Annex 2
Case study – Incofin IM

OVERVIEW OF THE FUND MANAGEMENT COMPANY

Incofin IM ("Incofin") is a private fund management company, specialized in developing and managing investment funds targeting microfinance institutions, producer organizations and SMEs with a developmental impact. As a specialist in rural microfinance, Incofin's main goal is to bring financial access to people who are active in the agricultural sector and/or who live in remote rural areas. By doing so, Incofin aims to generate an attractive double bottom line return to its investors.

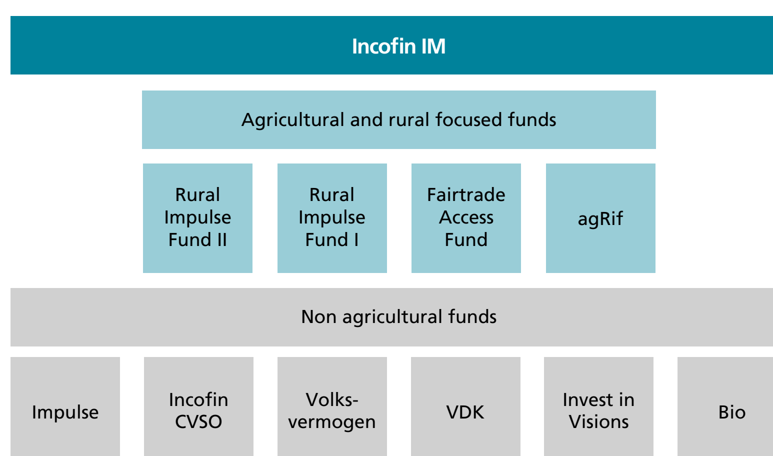
Incofin has its head office in Belgium and operates four regional offices: Bogota, Colombia; Nairobi, Kenya; Chennai, India; Phnom Penh, Cambodia. Incofin currently has assets under management of more than USD 725 million in as shown below.

The Figure 1 describes that Incofin manages or advises three types of funds: (a) typical MFI and SME investment funds such as impulse fund; (b) microfinance funds with specific focus on rural and agricultural institutions such as RIF I and II; and (c) funds that are agricultural focus which invest through producer organizations and trading companies etc. in addition to agricultural focused financial institutions (e.g. FAF and agRIF). Below we focus on the experiences of (b) and (c) including notes of differences and challenges as the agricultural focus becomes higher.

AGRICULTURAL INVESTMENT FUNDS UNDER MANAGEMENT

Among the above USD 750 million in funds under Incofin's management, four are rural and agricultural investment funds (AIF): Rural Impulse Fund I, Rural Impulse Fund II, Fairtrade Access Fund and agRIF. The Rural Impulse Fund I (RIF I) was launched in August 2007 to invest in commercially viable microfinance institutions. Given the focus of mainstream microfinance investment vehicles (MIVs) largely in urban areas, Incofin saw an opportunity to target rural

FIGURE 1
Funds under management



Source: Adapted from Incofin.

MFIs, which was supported by its stakeholders. RIF I is a closed-end fund with a lifetime of ten years (until 2017) that can be extended twice for one year each. The fund has a total capital base of USD 38 million, with an investment period of three years. The RIF I invested the deal flow initially planned in half the expected time, which shows the strong demand for rural microfinance. The success of RFI I led to the launch of the Rural Impulse Fund II (RIF II) in 2010, for which EUR135 million was raised. In 2012, Incofin established another AIF, the Fairtrade Access Fund (FAF), with assets of USD 30 million to invest directly in producer organizations through short and long-term lending. The latest development of their AIFs is the agRIF, which has reached USD 119million. The fund invests in financial intermediaries that enhance smallholder farmers and agricultural SMEs.

RIF'S INVESTMENT STRATEGY

RIF I and II share the same objectives: (i) provide an attractive financial return to investors; (ii) strengthen rural MFIs' financial structure; and (iii) improve the outreach and impact of rural MFIs and provide opportunities to the rural poor. However, considering the success of RIF I, RIF II placed more emphasis on rural and agricultural sectors in the selection criteria of potential investees compared to those of the RFI I as follows:

RFI I:
MFIs having at least 20% of their clients living in rural areas. For the purpose of measuring the rural presence, at least 20 percent of the points of sales of the potential partner MFI will be located in rural areas. MFIs will have a minimum of three years of operational self-sustainability.

RFI II
Qualify as "Rural": "Rural" MFIs are defined as MFIs, having at least 30% of their clients living in rural areas or being engaged in primary agricultural production, or MFIs having at least invested 30% of their portfolio volume in rural areas or in primary agricultural production. For the purpose of measuring the rural presence, at least 30 percent of the points of sales of the potential partner MFI will be located in rural areas.

CAPITAL STRUCTURE OF THE RURAL IMPULSE FUND

Both funds have capital structures with different levels of seniority reflecting the different risk appetites of the investors. For example, in RIF I, 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 RIF II has a similar capital structure with DFIs and institutional investors taking class "A" equity. The fund manager (Incofin) subscribes to class "B" equity, which provides the

TABLE 1
Overview of investors of Rural Impulse Fund I and II

	Rural Impulse Fund I	Rural Impulse Fund II
Country (Start – exit)	Luxembourg (2007–2017)	Luxembourg (2010–2020)
Fund size	USD 38 million	EUR135 million
Investors	BIO, EIB, FMO, IFC, KBC Private Equity and Incofin cvso	IFC, EIB, KfW, Microfinanza 1, ACV CSC Metea, FMO, NMI, BNP Paribas Fortis, Proparco, Storebrand and SPP Livsforsäkring AB
Capital structure	Equity, subordinated debt, senior debt	A class equity, B class equity, senior debt
Investment instrument(s)	Equity and debt	Equity and debt
Target	Microfinance institutions in developing countries	
Investment strategy	The RIF funds invest in rural, commercially viable MFIs which provide financial services to the poor in rural areas in developing countries.	

Sources: Incofin website and RIF II Annual Report

opportunity to receive carried interest and a partial catch-up. The overview of the funds including investors is outlined in Table 1.

GOVERNANCE STRUCTURE OF THE RURAL IMPULSE FUND

RIF I and II have similar governance structures, where the Supervisory Board of Directors is in charge of the supervision of the fund. However, RIF II is managed by Incofin IM, the Alternative Investment Fund Manager, while the Board of Directors manages RIF I. In both funds, the investment committee makes decisions related to the investments. In the case of RIF II this is a committee of the fund manager (Incofin) while with RIF I, the investment committee comprises members appointed by the shareholders of RIF I. RIF II also has the Technical Assistance Committee which oversees technical assistance projects.

INVESTMENT INSTRUMENTS OF RIF

The RIF funds provide debt and equity investments (see Table 2).

While debt has widely been used under RIF I, equity plays a major role in RIF II as shown in Figure 2.

In fact, RIF II was launched with a larger equity tranche than RIF I to capture some of the benefits of equity identified through the RIF I including:

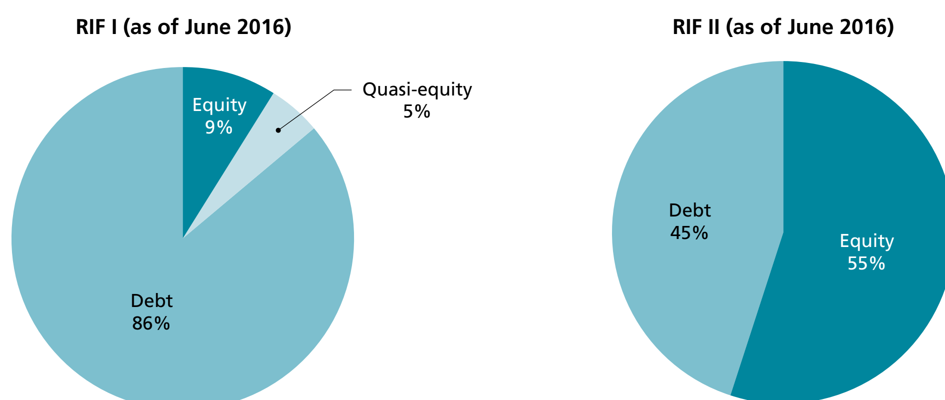
- RIF I equity investments provided a significant contribution to the financial return of the fund.
- The equity investments also enable the fund manager to have significant governance involvement (active role on the board and helping to set out the strategy and company direction of the investees) and a strong impact.

TABLE 2
Investment instruments of the Rural Impulse Fund

Fund	**RIF I and II**	
Instruments	***Debt***	***Equity***
Currencies	USD/local currency	Local currency
Amount	USD 0.5 to 5 million	USD 0.5 to 5 million
Investment horizon	1 to 5 years	5 to 10 years
Security	Negative pledge, promissory notes	
Pricing	Market rates	internal rate of return 18– 25%

Source: Authors' compilation from: http://www.mixmarket.org/sites/default/files/medialibrary/1501.2483/Incofin_MFIfolder_online.pdf

FIGURE 2
Investment instruments of the Rural Impulse Fund



Sources: Author interviews (August, 2016) and Incofin website, RIF I Q2 16 https://www.incofin.com/en/node/3948/html

Sources: Author interviews (August, 2016) and Incofin website, RIF II Q2 16 https://www.incofin.com/en/node/3949/html

GEOGRAPHICAL DISTRIBUTION OF RIF INVESTMENT

As of June 2015, RIF I primarily invested in Latin America with an allocation of 37% and in Central-Eastern Europe and Newly Independent States (CEE-NIS) with an allocation of 32%. The Asian portfolio makes up 26% of the total portfolio and the African portfolio represents the remaining 5%. In the RIF I, sub-Saharan Africa has been identified as the region with the highest need and demand for financial support to rural MFIs, but at the same time it is perceived as one of the most challenging markets because many potential investees usually require non-financial support to become investment ready.

In order to be closer to its investments, Incofin has established a network of regional offices over the last several years. This helped RIF II to expand its geographic coverage: Asia has been the largest investment destination of RIF II, representing 29% followed Latin America with 22%, CEE-NIS with 19% and Africa with 15% (see Figure 3). As can be noted, newer funds have an increased proportion of investment in Africa.

TECHNICAL ASSISTANCE OF RIF

Because the TA component in RIF I was identified as a critical success factor in the fund, RIF II has a captive technical assistance facility with over EUR4.6 million from diverse donors (funds raised in 2014) mainly comprised of public investors of the fund. The TA facility has been used to finance a wide range of interventions mostly for African and Asian MFIs which account for 60% and 21% of the allocated funds to date, respectively. These interventions are performed by specialized service providers and cover various areas including product development, strengthening of the MFIs' operations and guidance through transformation processes (whether to a bank or a licensed deposit-taking MFI). In order to manage the TA facility, Incofin engaged one full time employee for coordination and monitoring of these TA projects.

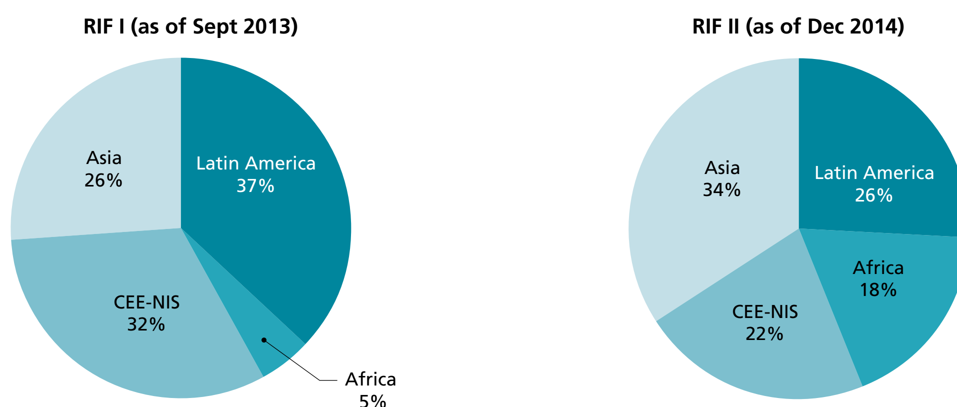
PERFORMANCE, IMPACT AND RESULTS OF RIF

The performance of RIF I and II and the evolution of their net asset values (NAVs) are summarized in Table 3. The RIF I has recorded IRR of 9. 7% as of June 2015. The small, but well performing equity investments for a social impact fund, positively contributed to the overall combined debt and equity return, thus making the case for RIF II's larger equity component. The NAV of the RIF II has been recovering rapidly after the launch of the fund in 2010.

Incofin uses the rural score as a proxy to measure the proportion of MFI clients living in rural areas. It is defined as the number of MFIs points of sale located in villages and small towns divided by the total number of MFI's points of sale. The rural score enables international comparisons of the MFIs' presence in rural areas and avoids that MFIs provide different interpretations about the rural level of their clients. The MFIs in the portfolio of the RIF I and RIF II have a robust rural profile with average rural scores of 71% for both funds as of June 2015.

As an investor that is pursuing "double bottom line" approach, Incofin proactively measures

FIGURE 3
Geographical distribution of the RIF



Sources: RIF I Q2 2015 Report

Sources: RIF II Q2 2015 Report

FIGURE 4
Technical assistance facility of the RIF II

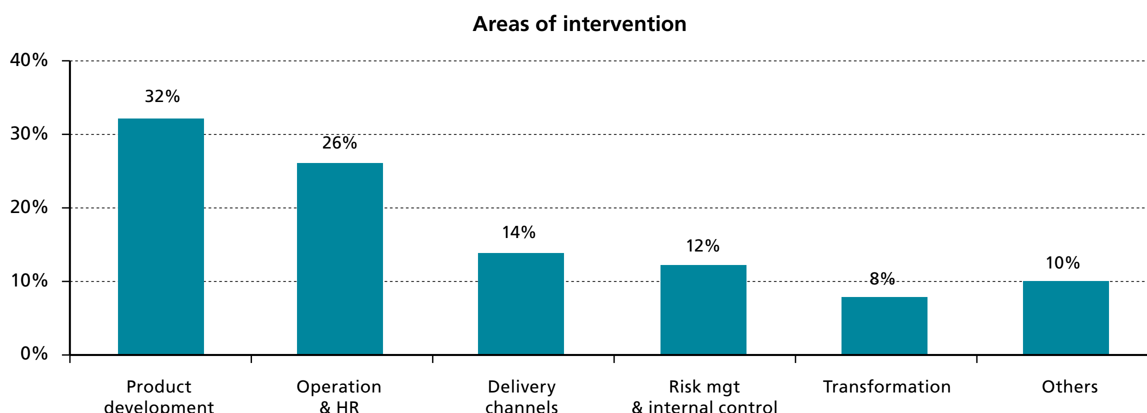
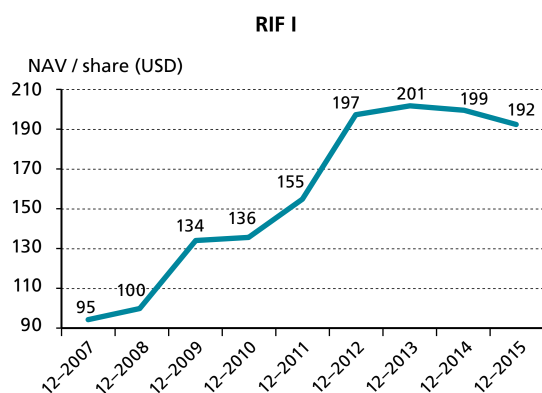


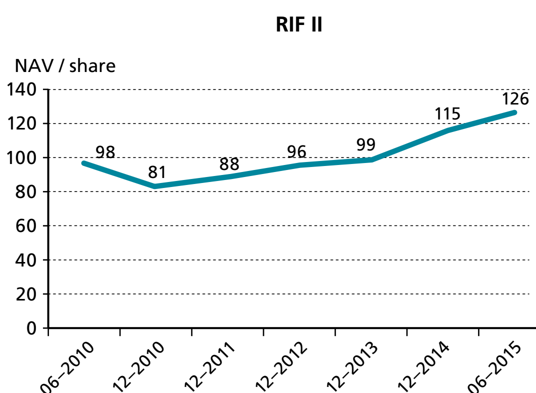
TABLE 3
Financial performance of the Rural Impulse Fund (as of June 2015)

	RIF I	RIF II
# Equity investments	3	20
Underlying internal rate of return equity investments	20.0%	14.3%
Average equity size	USD 1.3 million	USD 3.2 million
No. of cumulative debt investments	113	94
Underlying internal rate of return loan portfolio	8%	7.5%
Average loan size	USD 1,3 million	USD 2,5 million

Source: Incofin IPOF Statistics Dashboard Q2 2015

FIGURE 5
Financial performance of the Rural Impulse Fund





Sources: RIF I Q2 2015 report

Sources: RIF II Q2 2015 report

social performance of their investment through the ECHOS tool they developed in 2007. This evaluation tool calculates the score of an MFI through a set of questions on the following five dimensions:
- The extent to which an MFI puts its social objectives into practice
- Its outreach and contribution to society
- Level and quality of the service provided and respect for the client protection principles
- Human resources
- Respect for the environment and implementation of the principles concerning corporate social responsibility

MFIs need to have at least above 55% in the ECHOS to be eligible for funding from Incofin. The average ECHOS score of the MFIs under the RIF II stands at 75%.

LESSONS-LEARNED FROM INCREASED AGRICULTURE AND RURAL FOCUS

RIF funds are unique in their focus on targeting rural MFIs. However, analysing the impact of MIVs on the agricultural sector in developing countries requires a more comprehensive study on the outreach. Incofin, as a fund manager, has established the following lessons:
- Investing in rural MFIs can be commercially viable – financial track record (IRR of the RIF I: 9.7%) and social performance evidenced by the rural score and the ECHOS tool.
- Rural MFIs are a viable investment class and PPP played a critical role – public investment from DFIs crowded-in private investors; and RIF II successfully raised EUR115 million, much more than RIF I.
- Rural MFIs require capacity development in financial management techniques and outreach.

By targeting rural MFIs, RIF funds indirectly realized a significant exposure to agriculture. From 2008 to 2012, the exposure (of RIF portfolio companies) to agricultural activities (reflected via agricultural loans of the outstanding loan portfolio) increased from 29% to 33%. Nevertheless, this positive evolution (+4%) has been stagnating in the last years. The potential for strong additional improvement is likely limited as most MFIs need to maintain a good risk diversification in terms of exposed sectors and often do not have adapted products to reach out to agri-clients.

MANAGEMENT OF AGRICULTURAL FOCUSED FUNDS

In 2012, Incofin launched the Fairtrade Access Fund (FAF), and then in 2015 launched AgRIF. FAF works to directly benefit smallholder producers by investing in producer organizations. This open-end fund, backed by public and private investors, provides long and short-term debt products to mainly fair-trade producer organizations. The initial target region was Latin America where there are a larger number of producer associations which are certified by Fairtrade International. In 2014, FAF was expanded to Africa. The fund has grown steadily but slowly with high seasonal fluctuations in the outstanding portfolio amounts due to the high levels of investment into coffee and cocoa. This is being offset slowly with increased diversification and long-term lending. It grew 30% in 2015 which has continued faster into 2016.

TABLE 4
Overview of the Fairtrade Access Fund

	Fairtrade Access Fund
Region and start-up	Registered in Luxembourg (2012) , open-end fund targeting Latin America and Africa
Fund size	Invested portfolio: USD 21.6 million as of March 2016
Investors	Fairtrade International, Grameen Foundation, KfW, FMO, Incofin cvso, Starbucks Coffee Company and others
Investment instrument	Senior and subordinated debt, through working capital, trade finance and term investments
Target	Farmers' cooperatives and associations. The fund started in Latin America and expanded to Africa, with a planned expansion into Asia.
Primary goals	To benefit smallholder farmers by investing primarily in well-run producer organizations that are Fairtrade certified or have applied for certification
Investment strategy	The fund focuses on providing long-term loans to the market, but also offers trade finance and working capital

Source: FAF 2016 quarterly report

TABLE 5
Overview of agRIF

	agRIF
Country (Start – exit)	Registered in the Netherlands; closed-end fund (2015–2025)
Fund size	USD 119 million (target size: USD 200 million)
Investors	EIB, Proparco, BIO, SIFEM, Volksvermogen, ACV-CSC Metea, KBC Bank, Bank für Kirche und Caritas, VDK Spaarbank and Incofin IM
Investment instrument	Equity and debt
Target	Financial intermediaries in emerging economies (Africa, Asia, LAC Region, CEE-NIS), as well as producer organization and agriculture value chain SMEs
Primary goals	Enhance financial inclusion of smallholder farmers and rural micro-, small and medium sized entrepreneurs (MSMEs) in the agricultural value chain

It is important to note that Incofin has found that FAF, being wholly focused on agriculture, requires closer management and higher risks, despite the link with Fairtrade. Incofin, with support of KfW, has established a technical assistance facility to support the investees of the Fairtrade Access Fund. The fund has found it must work hard to achieve its goals of portfolio diversification and longer-term investment. The most readily accessible investment opportunities have been in the coffee sector due in part to the strong export market for fairtrade coffee in relation to other commodities. Trade finance has also been easier for investment with producer organizations because they often lack available collateral beyond their sale contracts. Collateral impediments plus the risk and readiness for longer term investment, which is a goal of FAF, have hindered term investment. FAF has also found that in order to reach small producers, sometimes it is best to work through financing their traders, but with close assessment and monitoring to ensure that the buyer-seller relationship is indeed a mutually beneficial one.

The agRIF fund held its first closing in June, 2015 and has grown rapidly. It invests in financial intermediaries in emerging economies (Africa, Asia, LAC Region, CEE-NIS), that enhance financial inclusion of smallholder farmers and rural micro-, small and medium sized entrepreneurs (MSMEs) in the agricultural value chain. Hence, as opposed to the FAF, the agricultural investment target is primarily with financial intermediaries with only a small portion of the investments (10%) allowed to go to direct financing of producer organizations. Like RIF funds, but unlike FAF, agRIF is a hybrid fund that makes use of a mix of debt and equity. Financial returns to investors are expected to be higher due to the investments being made through the financial intermediaries. AgRIF is a 10-year, closed-ended mixed fund, making equity and debt investments that average in size from USD 1 million to USD 10 million.

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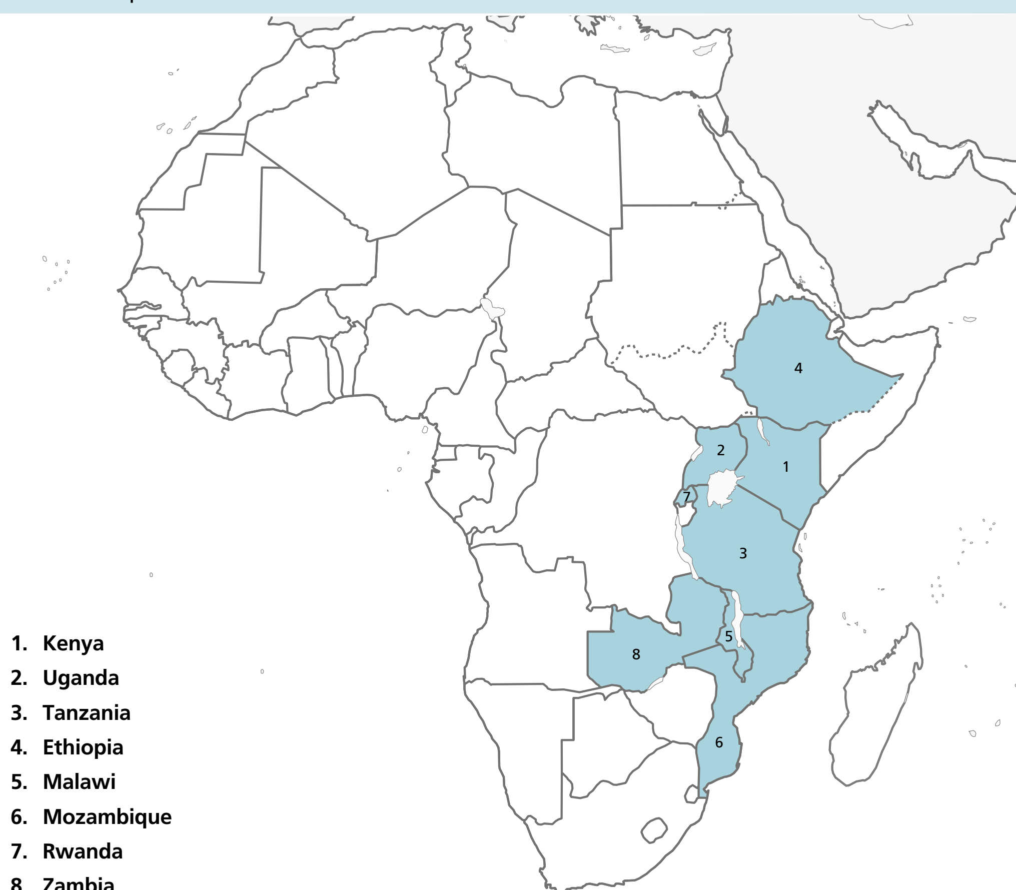
Annex 3
Case study – Pearl Capital Partners

FIGURE 1
PCP investment map



I. OVERVIEW AND BACKGROUND ON THE INVESTMENT FUND MANAGER

East Africa is dominated by small-scale farm production, characterized by declining soil fertility, low intensification and small farm sizes compounded by climatic disruptions. There is an emergence of agricultural SMEs, especially in Kenya where export-oriented market activities are growing. A challenge is facilitating and linking smallholder producers to emerging agribusiness SMEs in order to strengthen these businesses and facilitate smallholder access to capital and the export markets.

Founded in 2005 and based in Uganda, Pearl Capital Partners (PCP) is a specialized African agricultural investment fund manager who provides private sector investment in East Africa to address agricultural development challenges. PCP manages portfolio on behalf of their original investment company African Agricultural Capital Ltd (AAC), African Seed Investment Fund (ASIF), and African Agricultural Capital Fund (AACF).

PCP focuses on early stage businesses within the agriculture value chain (horticulture, agroforestry, food crops and livestock) with a particu-

lar focus either on inputs and service provision to farmers, or on providing farmers with improved access to market opportunities.

II. FUNDS UNDER PEARL CAPITAL PARTNERS

African Agricultural Capital Ltd (AAC)

AAC was established by three shareholders: Rockefeller Foundation (USA), the Gatsby Charitable Foundation (UK) and Volksvermogen (Belgium) in 2005 in order to meet agricultural development challenges through private sector investment in East Africa. In 2010 AAC established PCP as its investment manager, which is licensed by the Mauritius Financial Services Commission.

AAC invests in high-growth SMEs and aims to achieving a commercial return which would "crowd in" other investors, while impacting large numbers of smallholder farmers by bringing them into better markets (The Gatsby Charitable Foundation, 2011). The area where AAC invests is described in Figure 1.

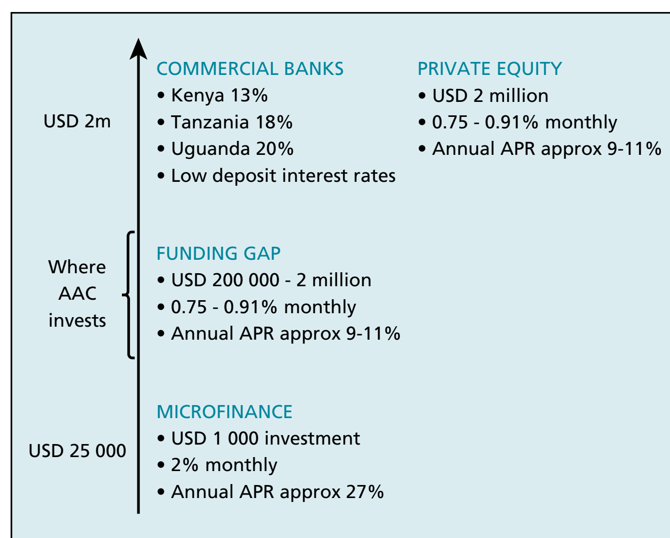
AAC was set up to improve the livelihoods of small-holder farmers in East Africa by investing in "three models of agribusiness". Firstly, input companies provide farmers with the tools to be productive, mostly improved seed, but also small "acre packs" of fertilizer and chemicals. Secondly, market off-takers provide farmers with higher prices for their produce, or open up new categories of product for which no market previously existed. Finally, service businesses add value indirectly: certification for high-value exports, for example (The Gatsby Charitable Foundation, 2011). Depending on the investee's needs, the company provides equity, quasi-equity and debt. The initial capital base of the Fund of USD 9 million is fully invested, with investments ranging from USD 200 000 to USD 2 million.

African Seed Investment Fund (ASIF)

The USD 12 million ASIF was founded in 2010 to invest in small- and medium-sized seed companies in southern and eastern Africa – including Ethiopia, Kenya, Rwanda, Mozambique, Malawi, United Republic of Tanzania, Uganda and Zambia – using equity, quasi-equity and long-term loans at competitive market rates.

From 2009 to 2012, Pearl has, through the African Seed Investment Fund, PCP has committed over capital of more than USD 98 million to 131 seed businesses in East and Southern Africa, and, based on its current pipeline, the remaining USD 3 million will be invested by the end of next year is retained to cover Fund costs through the Investment period. The Fund is performing well in line with the expectations and is jumpstarting a well-capitalised, competitive and efficient regional seed

FIGURE 1
AAC area of investments



Source: Gatsby, October 2011.

industry; with commercial incentive to produce, distribute and market improved seed varieties that meet farmers' demands. A significant increases in the volumes of seeds produced and marketed by the Fund's investee businesses is evident, which include both Western Seed and Dryland Seed in Kenya, along with other commitments in Uganda, Malawi, Mozambique, Tanzania and Ethiopia (AGRA, 2012). The fund has been fully invested in 2013, in 13 agribusinesses.

African Agricultural Capital Fund (AACF)

AACF was launched in September 2011 in order to deliver much needed growth capital and boost the productivity and profitability of Africa's undercapitalized agriculture sector. On behalf of AACF, PCP is investing USD 2540 million and so far, it has been invested 70% of that amount in 8 agribusinesses. AACF focuses on making equity investments in the agriculture sector in Kenya, Uganda and Tanzania from USD 250 000 up to USD 2.5 million per transaction.

The fund understands that a good business needs to be turned into a good return on capital and sets a goal of minimum of 15% gross annual rate of return. Beside this financial target, the fund sets high social goals ahead and tries to positively affect the lives of at least 250 000 smallholder farmer households. ACCF also takes a more explicit approach to measuring social benefit. The deals will be screened up front by an "Impact Committee", and then at least a proportion will be formally evaluated so that the impact of SME finance on smallholders can be better understood.

III. INVESTMENT CRITERIA

Potential investees are analysed according to four types of criteria, which include:

a. Business environment criteria:
   - The business should have no state marketing interventions in the subsector, no domestic price controls on agricultural products and no unduly restrictive regulatory burdens on the subsector;

b. Enterprise criteria:
   - It should be able to show a growth trend in historic and forecasted demand;
   - It should have a regionally competitive cost of production, a product quality which matches or exceeds regional industry standards and stable market prices for the product;
   - The enterprise must have a positive track record with a minimum of one-year of audited financial records, positive reputation with banks, suppliers and customers;

c. Management criteria:
   - Enterprise performance is also based on the management team, including an evaluation of the professional and technical skills present in the team, its continuity, management and workforce turnover and reliance on key individuals;
   - The enterprise should have a well-researched and realistic marketing plan, defensible business assumptions, appropriate risk-sharing financial structure and an achievable implementation plan;

d. Developmental criteria:
   - The investee must have positive social and economic impact, with no adverse environmental impact.

IV. INVESTMENT PORTFOLIO

PCP has more than 20 ongoing investments that, besides providing strong financial returns, also strengthen agricultural subsectors and use smallholder farmer networks to generate significant income for millions of families across East Africa. Some of the investments are described below.

Western Seed Company, 2007 investment by ASIF and AAC

Western Seed is the leading provider of maize seed technology to smallholder farmers in Kenya that provides 11% annual rate of return to PCP and its investors. Its seed production has increased from 1 200 to over 2 700 metric tonnes from 2007 to 2011, when Western Seed had a market share of 30 percent in Kenya's mid-altitude market. On average 280 000 Kenyan subsistence farmers use Western Seed annually and around USD 80 million of additional income has been generated by Kenyan smallholder farmers since 2007. AAC initially provided two loans of USD 400 000 and USD 600 000, which were converted into equity in 2008.

[40] USD 17 million in equity investment from the Bill & Melinda Gates Foundation, the Gatsby Charitable Foundation, and the Rockefeller Foundation and USAID's Development Credit Authority guaranteed 50 percent of an USD 8 million commercial loan from J.P. Morgan's Social Finance Unit to AAC (Feed the Future: The African Agricultural Capital)

Bee Natural Uganda, 2008 investment by AAC
Bee Natural is the leading producer of honey products in East Africa that provides 11% annual rate of return to PCP and investors. The company sources its produce from nearly 3,800 smallholder farmers who each earn an average of USD 24 per annum, which demonstrates their market share of 50% of Uganda's market. Bee Natural has provided USD 277 000 of additional income to farmers in the region since 2008.

NASECO, 2010 investment by ASIF
NASECO is the producer of high-performing seeds to Ugandan smallholder farmers that provides 10% annual rate of return to PCP and investors. NASECO provides employment to more than 200 staff. Each smallholder receives on average USD 70 annual additional income for better performing seed. The good performance is yet confirmed from the fact that USD 350 000 investment created over USD 173 million of additional income to smallholder farmers and the turnover has doubled during ASIF's investment period. Upgraded seed production due to the ASIF's investment now exceeds 3 000 MT per annum, resulting in the increased provision of improved seed varieties to smallholder farmers.

KK Foods, 2014 investment by AACF
KK Fresh Produce Exporters Limited (trading under "KK Foods") is a Ugandan-based company whose primary business is the export of locally produced fresh vegetables and fruits to the European market. Its main exports produce are fresh chillies, hot pepper, ground nuts, bananas, okra, egg plants and which it freights to its wholesale clients in Europe. The business sources its fresh fruits and vegetables from smallholder farmers in central and western Uganda. PCP's investment of USD 1.5 million is to finance working capital, expansion of cold chain facilities and support further engagement with smallholder farmer groups – activities which combined are expected to propel KK Foods' export volumes.

V. TECHNICAL ASSISTANCE AND SUPPORT

Investees through the African Agriculture Capital Fund can also benefit from access to a USD 1.5 million Technical Assistance facility (TAF) financed by USAID, through which they are able to access independent business development and technical support services.

TAF is designed to help investee enterprises towards successful business growth and expansion. Beside access to much needed capital, entrepreneurs need access to high quality business development and management support in order to obtain business growth. The technical assistance support directly benefits organizations through marked business performance improvement in the short, medium and long term.

VI. LESSONS LEARNED

PCP is clearly dedicated to the agricultural sector, in particular agricultural SMEs in East Africa that require venture capital taking into consideration backward and forward linkages within the value chain. It offers a variety of financial instruments tailored to the needs of the target group. The company has a pronounced development objective and might therefore be interesting for investors seeking both development impact and acceptable financial returns. It is located in East Africa region, thus providing the opportunity to operate with in-depth market knowledge and ensuring close monitoring.

PCP demonstrates that an agricultural investment vehicle can promote grassroots agricultural development in a developing country. The model works within value chains and provided targeted financial instruments to leverage points within them to enhance production and productivity.

Pearl Capital Partners profile summary

Number of funds	**3**
Country of incorporation (start-up)	Uganda (2005), Previously called African Agricultural Capital Ltd. (AAC)
Geographical focus	Kenya, Tanzania, Rwanda, Uganda, Malawi, Mozambique, Zambia, Ethiopia
Investment instrument(s)	Equity, Quasi-equity and debts
Fund management size	USD 46 million under management
Primary investor(s)	Bill and Melinda Gates Foundation, the Gatsby Charitable Foundation, J.P. Morgan, the Rockefeller Foundation, United States Agency for International Development (USAID), The Alliance for a Green Revolution in Africa (AGRA) and Volksvermogen NV
structure (private-public coordination)	Private
Mission	To improve the livelihoods of smallholder farmers in East Africa by delivering 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 10 percent per annum on funds invested.
Target sectors	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.
Primary results	Improved seed to 860 000 farmers, bought produce from 5 000; and provide jobs for over 700 employees; seven exits have been completed to date. The fund is on track to deliver targeted return.

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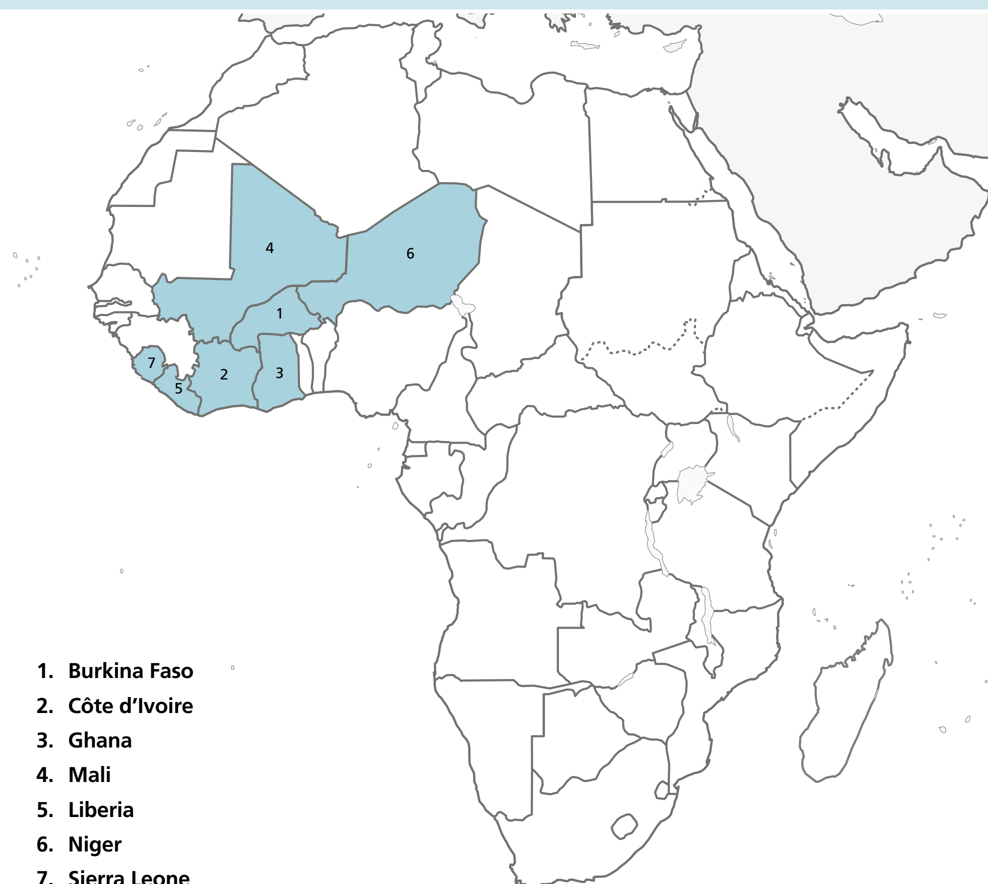
Annex 4

Case study – Injaro Agricultural Capital Holdings Limited (IACHL)

FIGURE 1
INJARO investment map



I. OVERVIEW AND BACKGROUND ON THE INVESTMENT FUND

Established in 2012, Injaro Agricultural Capital Holdings (IACHL or Injaro) is an investment holding company with a target capitalization of USD 50 million focused on agricultural SME investments in West Africa. Core target countries include Ghana, Mali, Burkina Faso, Niger, Sierra Leone and Côte d'Ivoire. Injaro was formed as part of a restructuring of two existing funds, which were managed by Injaro Investments Ltd ("IIL"): (i) The West Africa Agricultural Investment Fund (WAAIF) set up in May 2010 to invest in companies that produce and distribute seeds to smallholder farmers and (ii) West Africa SME Growth Fund (WASGF) set up in October 2010 to invest in small and medium sized business in the region. Injaro's objective is to deliver long-term capital appreciation for its investors, while generating positive social development impacts in the West Africa region, by providing growth funding to high potential small to medium sized enterprises in the agricultural sector.

Injaro's investment approach is to provide capital, business advice and capacity building to high potential SMEs to enable them to achieve ambitious growth objectives. This is delivered by a management team with extensive business experience and local knowledge reinforced with the resources of an associated technical assistance facility. Its cornerstone investors are the Soros Economic Development Fund (SEDF), Alliance for a Green Revolution in Africa (AGRA), and the Lundin Foundation. The company's other investors include family offices based in North America and Europe.

II. INVESTMENT STRATEGY

Investment objectives and themes

Injaro makes investments in debt, quasi-equity, and equity in small-and medium-sized enterprises operating along the agricultural value chain - encompassing the full range of activities from inputs, through primary production, conditioning, aggregation, to the processing of food and other agricultural-based products. Investments range from USD 300 000 to USD 3 million and expected net internal rate of revenue is around 10 percent, with lower net returns expected for seed production companies. Injaro's strategy is to help fill two critical gaps: the financing gap for SMEs typically referred to as the "missing middle" and the lack of access to finance experienced by the agriculture sector in West Africa. This includes benefitting low income persons and rural smallholder farmers. Its social impact objectives are:

a. Job creation within the target group;
b. Wage growth within the target group;
c. Supply of goods and services to people in the target class with preference for those products that make a significant impact on their lives (e.g. improved seeds, affordable processed agricultural produce, healthier food);
d. Increase revenue through procurement of products from persons within the target class, mainly smallholder farmers;
e. Continuous improvement in health, safety, environmental and corporate governance within investee companies.

In order to achieve the dual goals of financial returns and positive social impact, Injaro proactively seeks investment opportunities that match the following investment themes:

a. Sustainably increasing the supply and affordability of improved seeds for smallholder farmers;
b. Capitalising on value creation opportunities along agricultural value chains;
c. Building on competitive advantages for selected export markets;
d. Supplying essential products and services to the growing local consumer markets.

Investee criteria

To be considered for investment, companies are required to meet the following criteria:

- Alignment with one or more of Injaro's investment themes;
- Track record and quality of management team;
- Demonstrable growth potential;
- Positive social impact;
- Feasible exit options.

Important investee criteria used by Injaro for investment also include a financial performance that is attractive over the investment period of the investors and a development performance that includes improved technologies, such as improved seeds, and the involvement of women and smallholder farmers.

Investment portfolio

As of 2015, Injaro has investments in nine countries along the agricultural value chain. Seed production companies have been one target agribusiness profile with investments in seed companies in multiple countries. For example,

Alheri, 2012
Alheri produces cowpea, sorghum, millet and groundnut seeds primarily in Dogondoutchi located just north of the Niger/Nigeria border. The company supplies seeds to smallholder farmers. The investment impact is to increase the supply of affordable improved seeds to smallholder farmers through increasing the production of improved seed and hence improving farmer yields.

Nafaso, 2008
Neema Agricole du Faso SA ("Nafaso") is a Burkina Faso company that produces improved maize, rice and cowpea seeds at affordable prices to resource-poor, small-scale farmers in the rural western and southwestern regions of Burkina Faso. In 2008, the company received a grant from AGRA over two years to stimulate production and promote improved seed adoption in Burkina Faso. Nafaso increased production eight-fold between 2008 and 2011 and is currently working

towards achieving an annual production of 10 000 tons per annum by 2020. The company's production track record demonstrates strong potential to reach thousands of farmers with improved seeds, particularly hybrid seeds.

Injaro also invests further along the value chain such as with cashew processing company as illustrated:

Kona, 2011 investment by WASGF
In 2011, WASGF (now part of Injaro) invested in Kona Agro processing Ltd ("Kona"), a Ghanaian Company that processes cashew nuts for export. Located in the Brong-Ahafo region which is one of Ghana's major cashew producing areas, Kona had an installed processing capacity of 1 000 MT but prior to the investment, Kona utilized less than 25% of its capacity due to working capital constraints. With the investment, Kona has more than doubled its processing output, improved maintenance procedures, accounting function and corporate governance.

III. PERFORMANCE AND RESULTS

The results of Injaro investments of USD 9.3 million in seven companies up to the end of 2013 show that the companies were able to:

- generate over USD 6.9 million in annual revenue;
- recruit 520 people to fill various permanent and temporary jobs;
- procure over USD 5.1 million of raw materials and supplies from local vendors including small holder farmers; and
- provide products and services for over 9500 small holder farmers.

IV. TECHNICAL ASSISTANCE AND SUPPORT

Injaro's investees have access to a dedicated Technical Assistance Facility ("TAF") co-funded by the Lundin Foundation ("Lundin") and the Global Affairs Canada (GAC), formerly Canada International Development Agency (CIDA). The TAF, managed by Lundin, offers grants to subsidize the cost of procuring technical expertise to build capacity in financial management, corporate governance, company operations, or compliance with health, safety and environmental regulations. Recipient investee companies are expected to contribute between 10% and 50% of the total technical assistance cost (at the discretion of the TAF manager, Lundin). Investees are eligible for TAF support both pre and post investment provided that the recipient has been approved for full due diligence by the relevant Injaro investment committee. Moreover, Injaro and AGRA support business development services to their seed investee companies, including continual advice on issues such as seed production, storage, distribution and seed company management. Distributors are also trained on the appropriate use of seeds and other inputs such as fertilizer, to promote the most efficient, safe and environmentally sound use of resources.

Examples of support provided by the TAF for Injaro's current and potential investees include:

- Provision of a maintenance engineer to implement preventative maintenance systems and behaviors in manufacturing plant thus reducing downtime and improving asset maintenance;
- Provision of accounting software and training of staff to use new software for improved reporting and management;
- Temporary provision of a business development manager to improve operational execution, management procedures and team efficiency
- Provision of a company secretary and legal expertise to help ensure compliance with regulatory reporting and improve corporate governance.

V. KEY LESSONS AND CHALLENGES

Key lessons learned and challenges encountered by Injaro on agricultural and seed value chains are described below.

Lessons learned

- Most companies are technically sound agricultural companies, but need a lot of support to also become well managed, commercially viable businesses.
- The timing and amount of rainfall is a critical factor in the performance of many agribusiness companies. It affects both production and sales and hence companies must find ways to mitigate this risk through diversification, insurance, markets, etc.
- Risk assessment along the entire seed value chain is very important. A disruption in one area can slow down growth for many seed companies depending on a shared supplier of a critical element e.g. foundation seed, government-owned warehouse and processing facilities.
- Most companies need technical support on both the organizational and managerial levels.

Challenges faced

- Insufficient financial records slow the investment process.
- With the exception of cash crops, the prevalence of under-developed agricultural value chains with inadequate market linkages slows down the uptake of commercial production amongst smallholder farmers.
- Effort to build business management skills within investees uses up investment manager time post investment and further slows the pace of investment in other companies.
- The emerging seed industry is not yet a desired destination for urgently needed middle management talent. This makes it challenging for seed companies to hire qualified people.

VI. SUMMARY PROFILE

Name of fund	Injaro Agricultural Capital Holdings Limited
Fund sponsor	Injaro Investments Limited
Country of incorporation (start-up date)	Mauritius Island (2012)
Geographical focus	West Africa (Burkina Faso, Côte d'Ivoire, Ghana, Mali, Liberia, Niger, Mali and Sierra Leone)
Investment instrument(s)	Equity, quasi-equity and debts
Fund size	USD 17 million in commitments; USD 50 million target fund size
Primary investor(s)	Foundations (Lundin Foundation; Alliance for a Green Revolution in Africa, Soros Economic Development Fund, Injaro Investments Limited)
Structure (private-public coordination)	▪ Investments in private SMEs (limited liability companies) involved in the production, distribution and marketing of seeds; ▪ Investments in private SMEs operating along the agricultural value chain with a potential to positively impact the lives of rural smallholder farmers and low income persons.
Vision	To release the potential of West Africa's agricultural SMEs as the engine for the region's economic growth.
Mission	To become the premier conduit for capital to SMEs in West Africa by supporting entrepreneurs to develop strong businesses that will be a catalyst for economic growth and that will improve the livelihood of the communities in which they operate
Investment strategy	Injaro invests a combination of debt, equity or quasi-equity instruments into each investee company and provides technical assistance to build managerial and financial capacity within investee companies
Business targets	Smallholder famers in West Africa
Target sector(s)	Agricultural value chain
Primary results	▪ Increased investment in an underserved but important sub-segment; ▪ Increased production of improved seed; ▪ Increased utilization of improved seeds by smallholder farmers; ▪ Improved farm yields and incomes for smallholder farmers.

Source: Injaro Agricultural Capital Holdings Limited

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Annex 5
Case study – Acumen

I. OVERVIEW AND BACKGROUND ON THE INVESTMENT FUND

Acumen's mission is to change the way the world tackles poverty by investing in companies, leaders, and ideas. The fund raises charitable donations to invest patient capital in business models that deliver critical goods and services to the world's poor, improving the lives of millions. Since 2001, Acumen has invested over USD 100 million in over 90 companies around the world. There are over 800 million people directly dependent on agriculture for livelihoods in the eight countries the Acumen works across South Asia, East Africa and West Africa, and Latin America. In each of the countries, a majority of the population is living on below USD 2 a day.

Acumen launched its agriculture portfolio in 2008 with a USD 6.7 million facility from the Bill & Melinda Gates Foundation. Prior to the formal launch of its agriculture portfolio, Acumen had been active in the sector for five years, with investments in IDE-India in India and Micro Drip in Pakistan, which both sell low-cost drip irrigation solutions to low income farmers.

II. INVESTMENT STRATEGY

Acumen's investments in the agriculture sector serve to better the lives of smallholder farmers by improving their access to essential products and services. Acumen's agriculture portfolio focuses on four strategic areas: agri-inputs, agri-processing, livestock and infrastructure and enablers. Within these areas, the fund management focuses on investments in high-potential subsectors:

Agri-inputs	seeds, irrigation, extension services, farm machinery, fertilizer and crop protection
Agri-processing	staple foods, fruits & vegetables, cash crops, oilseeds and pulses
Livestock	dairy, poultry and small animals
Infrastructure and services	finance, warehousing, cold chain, retailers and distributors, market exchanges, skill development and training

Acumen invests patient capital in a variety of institutions in the agriculture sector, reflecting the diversity of business models that can be effective in reaching the "base of the pyramid" (BoP). Eligible institutions for investment range from non-profit organizations seeking to scale their operations and achieve financial sustainability, to small and medium for-profit companies in need of capital, to larger companies that are starting specific business units to serve the BoP. Typical capital commitments range from USD 250 000 to USD 2 000 000 in equity or debt with an equity exit or loan payback or exit in seven to ten years. Acumen evaluates investment structure for each investee independently, combining different financial instruments to provide an appropriate investment package and efficient capital structure to meet the needs of each particular investee. Overall the agriculture portfolio is split approximately 50/50 between equity and loans – which includes a combination of term loans and working capital loans.

Acumen requires that investments satisfy the following criteria (Acumen, 2013):

a. **Geography:** Be located in or have significant operations or impact in East Africa, West Africa, India, Pakistan or Latin America.
b. **Sectors:** Have operations in one of the investment sectors of Agriculture, Energy, Education, Health, Housing, or Water
c. **Investment size:** Be seeking investment capital in the range of USD 0.25-USD 2 million, structured as either debt or equity.
d. **Stage:** Be an early-mid stage company that is in the process of scaling. Acumen rarely invests in pure start-up companies.
e. **Potential for significant social impact:** Make a product or deliver a service that addresses a critical need for the poor in our sectors and geographic focus. These products or services need to be economically better or create greater social impact than what is currently available on the market or through charitable distribution channels.
f. **Potential for financial sustainability:** Have a clear business model that demonstrates the

TABLE 1
Basic statistics on the target population

	Agricultural population (millions, 2010 est.)[42]	Avg. size of land holding (ha)[43]	Population below USD 2 a day (%)[44]
India	587.4	1.23[45]	80.4
Pakistan	78.8	3.1	73.6
Kenya	28.9	2.5	58.3
Tanzania	33.0	2.0	89.9
Uganda	24.8	2.5	75.6
Rwanda	9.4	0.72	82.4
Ghana	13.1	N.A.	51.8
Nigeria	39.4	N.A.	84.5

Source: Authors' compilation

potential for financial sustainability within a five to seven year period; including the ability to cover operating expenses with operating revenues.

g. **Potential to achieve scale:** Be able to demonstrate a clear path to scale the number of end users over the period of our investment and be positioned as one of the leading service providers in the market.
h. **Strong management team:** Have a strong and experienced management team with the skills and will to execute the business plan with a clear and compelling vision. The management team is dedicated to serving low-income individuals and has unyielding ethics.

III. OPERATIONS/INVESTMENT PORTFOLIO

Its investment portfolio includes Global Easy Water Products (India), Jassar Farms (Pakistan), Western Seed Company (Kenya), GADCO (Ghana), GADC (Uganda), Juhudi Kilimo (Kenya), National Rural Support Program Microfinance Bank (Pakistan), Virtual City (Kenya) and BASIX (India). Highlighted below is

GADCO, Ghana

Acumen Investment: USD 1.5M equity, 2011
GADCO aims to transform smallholder farmer livelihoods, develop a reliable local food market and ensure the environmental sustainability and responsible stewardship of Ghana's agricultural land. The company operates a large-scale, mechanized rice farm that has quickly become Ghana's largest rice producer. By operating across the value chain, from production of staple crops to processing of finished goods, GADCO will increase smallholder farmer incomes through a combination of improved yields, agri-services and access to end-consumer markets in Ghana under its Copa brand. GADCO will triple incomes and build skills for 7 000+ smallholder farmers, increase the stability and quality of domestic food products in Ghana and share value with the local community from which it leases land.

GADC, Uganda

Acumen Investment: USD 0.7M debt, 2010; USD 2.5M debt, 2011; USD 1.5M debt, 2012
Total Invested: USD 4.7M
Gulu Agricultural Development Company (GADC) is a cotton ginning company which provides more than 55 000 smallholder farmers in the Gulu region of northern Uganda with access to the international agricultural market. GADC aims to rebuild the cotton industry in Gulu. While destroyed by decades of war and political instability, the cotton industry provides former refugees with critical support to improve their livelihoods. GADC is the only commercial cotton ginning enterprise in northern Uganda and plays a vital role in empowering local smallholder farmers by providing them with support, training and agricultural inputs. GADC has helped 7 500 farmers gain organic certification and is exploring the viability of other value chains, including sesame, to help

[41] FAOSTAT
[42] African Development Bank, Smallholder Agriculture in East Africa: Trends, Constraints and Opportunities, April 2010
[43] *Source:* WDR 2008; WDI 2010
[44] India Agricultural Census, 2005-06

farmers supplement their incomes.

National Rural Support Program Microfinance Bank, Pakistan

Acumen Investment: USD 1.9M, equity, 2010
National Rural Support Program (NRSP) Microfinance Bank provides financial services to rural, agricultural markets in Pakistan. NRSP focuses on rural communities with the highest need and plans to serve nearly 625 000 borrowers in the next five years. The investment supports rural communities with crop and livestock loans, insurance products, bank working capital. NRSP Microfinance Bank has more than 200 000 clients who have deposited over USD 7.2 million into the bank and borrowed more than USD 33 million.

BASIX Krishi, India

Acumen Investment: USD 2.0M equity, 2012
BASIX Krishi delivers affordable extension services to smallholder farmers in India. The company trains and employs a network of Livelihood Service Providers (LSPs), extension agents who visit each customer at least once every 14 days. BASIX Krishi provides services that enhance farmers' productivity and reduce input costs, thereby increasing farmers' overall income. The BASIX Krishi model can increase smallholder farmer incomes by an estimated 30 percent through a combination of improved productivity and reduced input costs.

IV. PERFORMANCE, IMPACT AND RESULTS

Acumen tracks social, financial, and operational metrics. Social metrics include households impacted and number of employees. Financial metrics include standard metrics such as revenue, gross margin, operating profit and cash balances. Operating metrics are specific to the particular company and may include measures such as sales force productivity and product mix. Acumen uses "Pulse", a web-based tool, to gather and manage the financial, operational and social data of its portfolio companies across different geographies and industries. The data is collected monthly or quarterly to help assess the real-time health and impact of the portfolio companies. This tool, built in a secure and confidential data management environment, allows portfolio managers to apply industry standard metrics, or to create a set of custom metrics unique to their investment. Pulse adheres to the Global Impact Investing Network's (GIIN) Impact Reporting and Investment Standards (IRIS) taxonomy, which was developed with support from the Rockefeller Foundation, B Corporation, Acumen Fund, Pricewaterhouse-Coopers and Deloitte. As of 2013, Acumen from investments in 81 companies, it reports creating or supporting 58 000 jobs or livelihoods. Acumen investees have leveraged over USD 448million in follow-on and co-investment capital, with 13 companies exited successfully and USD 13 million cash returned from investments (Acumen, 2013).

V. LESSONS LEARNED

Grants: Grants have proven in some cases to be catalytic and in other cases either disruptive or distortive. Identifying whether a social business is at the stage to benefit from either catalytic grants or capital is critical.

Funding gap: Without grant capital, some early-stage ideas might not be able to proceed past the pilot and initial stages of the business cycle. Grants could enable them to tap into impact investment and later, commercial capital. The preponderance of impact investing capital and interest is being directed towards later stage, more commercial ventures, and there is too little communication between early-stage grant makers and impact investors about what it takes to move a business through its stages of growth.

Social enterprises and public goods: Unlike commercial ventures, most social enterprises face a more difficult operating environment and are often creating value chains from scratch. This is a public good – competitors can gain value from social enterprises' market-development work – and is often a valuable place for grants to play a role.

Access to working capital from local banks: Access to working capital is particularly important for seasonal businesses like agriculture. Acumen's portfolio companies have had varying success in accessing working capital or credit from local banks, which are often wary of lending without real estate offered as collateral.

Access to skilled labour: There is a lack of a skilled and committed talent pool, particularly in the agriculture sector, often as a result of companies' location in rural geographies, the difficult nature of many positions and companies' inability to offer attractive salaries and benefits.

VI. ACUMEN PROFILE SUMMARY

Fund manager	Acumen
Country of incorporation (start-up date)	United States, India and Pakistan (2003)
Geographical focus	India, Pakistan, East Africa, West Africa, Latin America
Investment instrument(s)	Loans and equity
Fund size	Acumen has invested more than USD 100 million in over 90 mission-driven businesses in South Asia, East Africa and West Africa, and Latin America
Fund structure (public-private coordination)	Non-profit social venture capital fund
Vision	Acumen's vision is that one day every human being will have access to the critical goods and services they need – healthcare, water, housing, energy, agriculture and education- so that they can make decisions and choices for themselves and unleash their full human potential, and that we will have cultivated a global community of change-makers dedicated to executing this vision.
Mission	Acumen's mission is to change the way the world tackles poverty by investing in companies, leaders, and ideas.
Investment strategy	The agriculture portfolio is a mix of debt and equity investments, with an approximately 50-50 split between equity and a combination of term loans and working capital loans
Business targets	4 strategic areas of focus of Acumens' agriculture portfolio: agri-inputs, agri-processing, livestock and infrastructure and enablers
Target sector	Agriculture
Primary results	The companies in their agriculture portfolio have collectively served more than 115 million customers

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Annex 6
Case study – African Agriculture Fund

OVERVIEW OF THE FUND

The formal appointment of Phatisa as Fund Manager in July 2009 launched the African Agriculture Fund (AAF) into the market. This was a coordinated response to the continent's food security from a pool of European and African development finance institutions. The Fund reached first close at USD 151 million in November 2010, operations commenced in January 2011 and, within six months AAF's first investment was concluded in Sierra Leone, West Africa. AAF final closed in mid-2013 at USD 246 million.

To enhance its impact on development, the Fund has deployed two influential instruments: the AAF SME Fund (an AAF subsidiary fund, focused on small to medium sized enterprises to boost development returns) and a Technical Assistance Facility (TAF) of EUR 10 million to finance studies and capacity-building for small firms and larger outgrower/smallholder schemes across portfolio companies.

The AAF's priority investments are in food production and distribution, in cereals, livestock farming, dairy, fruit and vegetables, beverages, FMCG food, crop protection, logistics, fertilisers, seeds, edible oils, smallholders, and agri services in Africa, with a particular focus on sub-Saharan Africa. One quarter of the Fund will be invested in primary agriculture.

To combat the chronic undercapitalisation in the African agri business and food sectors, the Fund, equipped with an innovative returns structure, also attracted private sector capital, bringing valuable commercial experience and input to the Fund's investment and management process and the companies it invests in.

The impetus behind this unique African investment vehicle is to support private sector companies that implement strategies to enhance and diversify food production and distribution in Africa, by providing equity funding - strengthening their management, enabling modernisation, transferring skills and enabling more transparent corporate governance.

OVERVIEW OF THE FUND MANAGEMENT COMPANY

Phatisa is a specialized private equity fund manager that invests throughout sub-Saharan Africa. The firm, established in 2005, is well represented throughout the continent, operating from offices in Mauritius, South Africa, Zambia, Kenya and Ghana, as well as maintaining a European presence in London. The firm currently has two sector-specific funds under management the African Agriculture Fund (AAF) and the USD 42 million Pan African Housing Fund (PAHF).

INVESTMENT STRATEGY

AAF aims to support private sector companies which implement strategies to enhance and diversify food production and distribution in Africa, by providing equity funding – strengthening their management, enabling modernization, transferring skills and enabling more transparent corporate governance. To ensure diversification of its portfolio, AAF mainly targets at three subsectors of food and agriculture value chains including:

- **Primary agriculture:** land development, cereals and staples, dairy and livestock farming, aquaculture, fruit and vegetables, ranching, plantations and edible oils; especially produce for local consumption
- **Secondary agriculture:** maize and wheat milling, soya processing, sugar milling and refining, production of animal feeds, beverages and branded foods as well as packaging
- **Tertiary agriculture:** services and infrastructure including logistics, storage, seeds, subcontracting, physical inputs, crop protection, input financing and fertilizer.

Potential investee companies are selected based on the following criteria:

- Investment required from AAF: USD 5 million - USD 24 million;
- Experienced management team with a compelling business vision and a willingness to collaborate with a financial investor;
- Proven financial and operational track records and potential for future growth;

- Commitment to transparency and proven sustainable industry-competitive advantages;
- Agreement on company valuation;
- Ability to achieve a profitable liquidity event in the medium term (exit from the investment); and
- Degree of participation of local partners and smallholders to stimulate local economic development

AAF established a dedicated SME fund (AAF SME Fund) with an initial investment of USD 30 million, which reached a final close in 2014 of USD 36 million. Databank Agrifund Manager Limited (DAFML), a subsidiary of the Databank group in Ghana, manages this fund and has made six investments in six African countries as of December 2014. The SME fund shares a similar vision as AAF, but has a set of unique investment criteria:

- Investment requirement: USD 150 000–USD 4 million;
- SME with no more than 300 permanent employees;
- SME with a total asset value of no more than USD 15 million;
- Strong management team with a demonstrable entrepreneurial background and willingness to collaborate transparently with an engaged investor;
- Clearly articulated and compelling vision for the business showing significant growth potential; and
- Entry valuation that is realistic which allows the ability to achieve a profitable liquidity event in the medium term (investment and exit).

CAPITAL STRUCTURE

AAF is funded through an innovative share structure, whereby purely commercial investors are afforded a level of downside protection and a preferred return above certain developmental institutions.

INVESTMENT INSTRUMENTS

AAF aims to invest for a majority or significant minority shareholding in investee companies to secure meaningful shareholder rights, preferably board representation. The investment period is typically four to seven years and targeting an overall fund return of around 15 percent. Potential exit strategies include trade sale, management buy-out, secondary buyout, and initial public offering.

TECHNICAL ASSISTANCE FACILITY

One distinct feature of AAF is a large-scale Technical Assistance Facility established through a EUR 10 million grant from the European Union together with contributions of totalling EUR 350 000 by the Alliance for a Green Revolution in Africa, Italian Development Cooperation and United Nations Industrial Development Organization. The TAF, managed by IFAD, aims to provide technical assistance (TA) to investee companies of the AAF and related value chain actors, creating new commercial opportunities for smallholder farmers, farmer business groups,

TABLE 1
Services of the Technical Assistance Facility

Components	Agricultural value chain component	SME component
Target group(s)	Investee companies of AAF and relevant value chain actors	SMEs invested in by AAF SME Fund
Budget allocation	36%	53%
Services	Design outgrower schemes Build the capacity of smallholder farmers Provide TA and training to farmer groups or cooperatives Develop donor proposals to secure funding for additional / ongoing farmer support Conduct financial services needs assessments for outgrowers supplying AAF companies Map and disseminate information about rural finance in the areas surrounding AAF companies Facilitate access to finance / inputs / support services for farmers	Train staff on management and technical skills Improve financial management and controls Conduct market research and facilitate market linkages Support SMEs to obtain quality certification Support SMEs to increase / enhance inclusive business practices

Source: AAF TAF team

micro-entrepreneurs and rural communities. More concretely, the TA, which is provided through the two components described below, will benefit an estimated 15 000 smallholder farmers in Africa[45].

TechnoServe, a US-based non-profit service provider, implements the TAF in close coordination with Phatisa and DAFML which are also members of the Technical Assistance Committee (TAC), a governing body of the TAF. High level TA requirements are first identified by AAF and AAF SME investee companies and other relevant value chain actors. TechnoServe then works with these partners to develop detailed recommendations for TA support. Upon approval from the TAC, TA service providers are selected and contracted depending on the services required. TechnoServe monitors the delivery of the TA services.

To ensure the effective use of the grant resources, TAF places certain conditions for the TA as described below:

- TAF can fund projects worth up to EUR 600 000 or 30% of the value of the AAF investment (whichever is smaller) per AAF investee company
- TAF projects cannot last longer than three years (The duration of the TAF as a whole is for seven years)
- TAF funds will not subsidize long-term operating costs or capital expenditures of the beneficiaries
- Portfolio companies must demonstrate commitment to the outcomes of the projects and in some cases will be expected to provide match funding
- All TAF projects must deliver development outcomes with a particular focus on jobs created and income increases

GOVERNANCE STRUCTURE

AAF is primarily governed by an Advisory Board comprised of major promoters of the fund. The investment committee reviews and clears investment deals for approval by the Board of Directors of AAF. The TAF has its own decision-making committee (Technical Assistance Committee – TAC) comprised of TAF donors for the approval TA proposals. Smooth coordination between the fund and the TAF is ensured by having Phatisa, the AAF Advisory Board Chairman, and DAFML as its members.

CURRENT PORTFOLIO

AAF seeks investment opportunities in Africa with a strong focus in sub-Saharan Africa. Existing investment portfolio of AAF and AAF SME Fund have been made in Cameroon, Côte d'Ivoire, Democratic Republic of the Congo, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Nigeria, Sierra Leone, South Africa, Zambia and Zimbabwe. These investments cover various commodities and segments of the agricultural and food value chains in Africa and are supported through a range of TA services as summarized in the Table 2:

As of December 2014, TAF had scoped projects at 16 companies and designed 36 projects worth over EUR 4 million - 19 under the AVC Component and 16 under the SME Component.

PERFORMANCE, IMPACT AND RESULTS

After investing nearly half of the committed funds, the portfolio companies of AAF employ in excess of 8 000 people, have built business relations with around 110 000 outgrowers and vendors in Africa, and produce more than 450 000 tonnes of inputs, food and beverages. Phatisa aims to triple this output within five years. These direct outputs from investment will be enhanced through TA from the TAF.

LESSONS-LEARNED (ACHIEVEMENTS AND LIMITATIONS)

AAF is one of the most successful and high profile AIFs in Africa with the following distinctive features.

- A large-scale agricultural investment fund managed by an African fund management company: Phatisa and major promoters of the fund have successfully secured about USD 250 million for equity investment in African agriculture. This is one of the largest AIFs captured in the study for this publication. After almost three years into its operation, about half of the committed capital has already been invested in a diverse group of companies.
- Subsidiary fund for SMEs and TAF for development impact: AAF established and invested USD 30 million in the AAF SME Fund, a dedicated fund for SMEs in the African agricultural sector. The TAF accompanies both AAF and AAF SME Funds and provides TA support to their investee companies as well as relevant actors in the value chains with a particular focus on smallholder farmers. In comparison to other similar tech-

[45] Southern Africa Trade Hub 2012

TABLE 2

Portfolio of AAF (total of USD 123 million, including a USD 30 million investment in the African Agriculture Fund small-and medium-sized enterprises)

No*	1	2,3	4	5	6	7	8
Commodity	Palm oil		Poultry	Mineral water	Service / input supply	Input supply	Service / input supply
Country	Sierra Leone	DRC	Zambia	Côte d'Ivoire,	Malawi	Malawi, Mauritius, Mozambique, Zambia and Zimbabwe	Kenya
Segment	Plantation and processing		Production, distribution	Processing, distribution	Agricultural engineering and equipment distribution	Fertilizer production, distribution	Packaging
Date	Aug 2011	Dec 2012, Nov 2013	Apr 2012, Dec 2012	Feb 2013	Nov 2013	Oct 2014	Dec 2014
TA	Access to finance for Outgrower replanting; outgrower scheme; development and maintenance plan for roads	Outgrower scheme feasibility study	Evaluation of BoP egg distribution opportunities; TA for smallholder soya suppliers; Pilot BoP egg distribution scheme	NA	NA	Fertiliser Improvement Programme	NA
TA (Size)	EUR 360K	EUR 60K	EUR 340K	NA	NA	EUR 600K	NA

* The table does not include the investment in AAF SME Fund

TABLE 3

Portfolio of African Agriculture Fund small- and medium-sized enterprises

No.	1	2	3	4	5	6	7
Commodity/ business	Mixed farming	Input supply		Bakery	Food products, production	Food products	Poultry
Country	Cameroon	Madagascar	South Africa	Nigeria	Zimbabwe	Zambia (Zimbabwe, South Africa)	Burkina Faso
Segment	Production	Fertilizer production, distribution		Processing, distribution	Production, Processing, distribution	Processing, distribution	Production, processing
Date	Oct 2012	July 2013	July 2014	Dec 2013	Sep 2013	Oct 2013	Nov 2014
TA	Agronomic TA MIS support Pig advisory services Smallholder support scheme	Local marketing support Export strategy Agro-dealer capacity building scheme	Scoping in progress	Distribution strategy	Outgrower scheme	NA	BoP egg distribution scheme Smallhodler soya support scheme
TA* (Size)	EUR 370K	EUR 340K	NA	EUR 40K	EUR 200K	NA	EUR 260k

* Including match funding from portfolio companies

AFRICAN AGRICULTURE FUND PROFILE SUMMARY

Name of fund	African Agriculture Fund
Fund manager	Phatisa
Country of incorporation (start-up date – exit date)	Mauritius (2011 - 2019), Closed -ended fund
Geographical focus	Africa
Investment instrument(s)	Equity
Fund size	USD 246 million
Primary investor(s)	AFD, Proparco, African Development Bank, AECID, the Development Bank of Southern Africa (DBSA), the West African Development Bank (BOAD), the ECOWAS Bank of Investment and Development (EBID), *Overseas Private Investment Corporation* (OPIC), etc.
Structure (private-public coordination)	Public Private Partnership (PPP)
Primary goals	To support private sector companies that implement strategies to enhance and diversify food production and distribution in Africa, by providing equity funding - strengthening their management, enabling modernisation, transferring skills and enabling more transparent corporate governance
Investment strategy	The fund provides equity finance as well as other hands-on support to commercially sustainable businesses with a proven track record. The fund is also equipped with the Technical Assistance Facility to finance capacity building for SMEs and large outgrower schemes across portfolio companies
Target sectors	Across the food value chains from primary production to processing, distribution and input providers in Africa, particularly in sub-Saharan Africa

nical assistance facilities, the TAF is one of the largest in size and also has a unique and transparent management structure.

The TAF goes a long way in enhancing the development impact of the funds but there are also some important lessons to be learned.

- Time lag for implementation of the TAF: The implementation of the TAF has been much slower than that of the fund: AAF has already invested about 50% of the capital committed, but the TAF has only committed about 15% of the available funding. This is because there is a natural time lag between the fund making an investment and the TAF being able to engage the management team of the investee company on TAF projects. The TA Facility should kick in a few years after the fund starts investing and should continue supporting investee companies until the fund exits.
- Flexibility of TA funding: Given that the portfolio of the fund is unknown at the outset, it is critical that the TA funding is flexible in order to respond to the needs of the portfolio companies. The AAF TAF had dedicated significant funding towards contract farming or other outgrower schemes that are not applicable at most of the AAF portfolio companies. However, several of the companies would benefit from bottom of the pyramid distribution schemes that employ micro-entrepreneurs. The TA policy of the AAF TAF needed to be adjusted at the mid point of the programme to account for this.

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Annex 7
Case study – Rabo Rural Fund

I. OVERVIEW AND BACKGROUND ON THE INVESTMENT FUND

The Rabo Rural Fund was created with the aim of targeting agribusinesses and cooperatives which have grown past the stage of donations and microcredit, but are not yet developed enough to be eligible for standard bank financing, and as such face considerable difficulty in attracting finance. The Rabo Rural Fund supports agribusiness cooperatives and SMEs in selected developing countries across the globe, by offering these enterprises access to pre-finance for purchases, and working capital and trade finance for processing and export sales. The Fund finances sustainable value chains in mostly non-perishable agricultural products like coffee, cocoa, cotton, spices, nuts, peppers, soya and processed fruits and vegetables. It operates in 25 countries in East Africa, Latin America and Asia.

The fund is a private company with two main shareholders, namely the Rabobank (through Rabobank Foundation and Rabobank Netherlands) and Cordaid, and it was set up in 2011. Rabobank Foundation has 80% of the shares while Cordaid owns 20%. The fund has a portfolio of USD 30 million.

The fund presents itself as a social fund with a fair trade principle and only provides financing to companies and producer organizations that respect gender, and value and reward women's work properly. Together with Rabobank Foundation, the Rural Fund has developed his own methodology to objectively assess the social impact of its activities. Until 2012 the Rural Fund was supported by the Dutch Ministry of Foreign Affairs and from 2013 has been financially sustainable.

II. OVERVIEW OF THE FUND MANAGEMENT COMPANY

The Rabobank Foundation, supported by but operating independently from the Rabobank Group.[46] It was founded in December 1973 to improve "the lives of the underprivileged and disadvantaged groups of people in society by providing them with the opportunity to live full and independent lives." It provides much of its funding to NGOs for development interventions in rural areas of emerging economies with about 25% of its support is for projects in Netherlands.

Cordaid is the Catholic Organization for Relief and Development Aid. It is one of the biggest international development organizations in the Netherlands, has a network of nearly 900 partner organizations in 28 countries in Africa, Asia, the Middle East and Latin America who work in diverse areas of development including participation, emergency aid and reconstruction, health and well-being and entrepreneurship.

II. INVESTMENT STRATEGY

The Rabo Rural Fund, originally set up as the Sustainable Agricultural Guarantee Fund, provides short-term finance and loan guarantees. It finances working capital and short-term trade finance to producer organizations and SMEs with a usual maximum term of one year. The Fund's guarantees share the credit risk with local banks either by extending part of the loan to a cooperative or business (funded risk participation) or by guaranteeing the bank loan. The size of the loan generally varies between USD 300.000 and USD 1.5 million, making the Rural Fund a key player in the 'missing middle' of the agricultural sector.

Alongside its investments and guarantees, the fund and Rabobank Foundation share expertise and support capacity development with the support of its partners. For example, cooperatives receive training in price and production risk man-

[46] Note: Rabobank is a Dutch multinational banking and financial services co-operative headquartered in Utrecht. It is a global leader in Food and Agri financing and in sustainability-oriented banking. Rabobank is traditionally a farmers' bank and it still holds an 85%–90% market share in the agrarian sector in the Netherlands. Throughout the years, the company has also started targeting small- and medium-sized companies.

agement and financial management. The fund also promotes the use of new production, fertilization and storage techniques. The Rural Fund also puts effort in linking its clients to its network of technical assistance providers and potential off-takers as well. Eligibility requirements for organizations to receive funding from the Rabo Rural Fund include presenting audited financials and having good track record, especially with exports. Hence is clients are more established than some of the recipients of the Rabobank Foundation. In some cases Rabobank Foundation and the Rural Fund work together, each extending finance to a particular cooperative. In other instances the responsibility is passed on: cooperatives that have outgrown the support of Rabobank Foundation but cannot yet qualify for a commercial bank loan can turn to the Rural Fund for help. Although the Rural Fund's work has mainly focused on somewhat larger producer and agribusiness organizations, its strategy since 2015 has more focus on smaller and less well established farmer cooperatives. Figure 1 exemplifies the different kinds of services offered by the two entities, and their main targets in the value chain.

IV. OPERATIONS/INVESTMENT PORTFOLIO

The geographical distribution of the Rabo Rural Fund's portfolio as of 2014 is as follows: Latin America – 71%, Africa -20%, Asia – 19%. Like other similar agricultural investment funds, it started with a Latin American focus on coffee and cocoa and in 2014, it was extended to other commodities such as nuts, quinoa, and vegetable oil. Below are listed some Rural Fund investment examples.

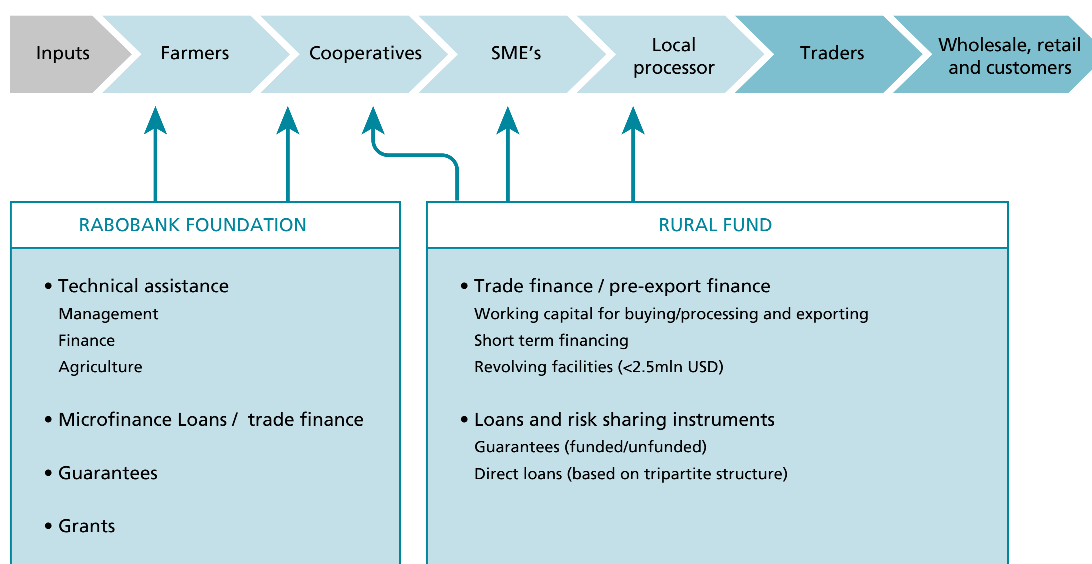
Del Campo Cooperative in Nicaragua

Producer cooperative Del Campo in Nicaragua processes and sells the sesame seeds produced by its 1900 members on the international market. Del Campo provides financing and helps its farmers gain a significantly higher price for their organically grown sesame seeds by processing them into end-products for consumers. Rabo Rural Fund helps Del Campo finance the purchase, processing and export of the farmers' sesame produce. In cooperation with Etico (UK), the Fund management also helps them to develop new markets and products, such as sesame oil for the Japanese market.

Natural Habitats in Ecuador

Natural Habitats is a Dutch company sourcing palm oil from Ecuador. The company is one of only three organic and fair trade palm oil producers in the world. Natural Habitats guarantees a reliable supply from 'Farmer to fork' by utilizing a vertically integrated supply chain using only organic

FIGURE 1
Services and targets in the value chain of Rural Fund and RaboBank foundation



Source: Rabobank

and sustainable production practices. Technical assistance is given to small farmers to boost yields and Organic and Fair Trade certifications give them access to an international niche market to receive a notable premium for their palm oil and consequently increased farmer incomes.

For this investment, Rabo Rural Fund teamed up with Rabobank Rotterdam. Rural Fund finances the first step in the value chain by providing working capital. This enables the cooperative to pay the farmers on delivery. When the palm oil reaches the Rotterdam harbor, Rabobank takes over until delivery of the palm oil to the final customer.

Ankole Coffee Producers Cooperative Union Limited in Uganda

Ankole Coffee Producers Cooperative Union Limited (ACPCU) is a 6 500 member Ugandan coffee cooperative. The organization is a major player in the economic development of the small farmers in the region who are able to make a better living. The cooperative has worked with Rabobank Foundation since 2008. Initially Rabobank Foundation's support was aimed at capacity building of the organization and certification of its members, subsequently it has provided financing to the organization. During this period of cooperation, ACPCU managed to grow its organization and the collaboration has therefore been extended to Rabo Rural Fund, which furnished the cooperative with an additional trade finance. This capital enables ACPCU to purchase the coffee from farmers on delivery. In addition to the Rural Fund trade financing of USD 1,5 million, the Rabo Foundation Client Fund provided ACPCU with a loan to build a new processing factory. This enables ACPCU to control the entire coffee processing and to export its coffee directly for better prices.

V. PERFORMANCE AND RESULTS

- **Outreach**: In 2013, the Fund reached over 50 000 smallholders through its activities (of which 14% were women), and around 1,800 agricultural workers (19% of which were women).
- **Loan portfolio**: in 2014, the Rural Fund has extended over USD 25 million in credit, an almost twofold increase compared to the previous year.
- **Profitability**: for the 2011–2014 period, there has been a break-even in the budget from an operational point of view.

VI. RABO RURAL FUND PROFILE SUMMARY

Fund manager	Rabobank (Rabo Foundation, Rabo Netherlands and Cordaid)
Country and start-up	Netherlands (2011)
Geographical focus	Africa, Asia, Latin America
Investment instrument(s)	Trade finance/pre-export finance, loans and loan guarantees
Fund size	USD 17 million, portfolio size is USD 30 million
Fund structure (public-private coordination)	Social investment fund with a fair trade principle
Mission	Rural Fund's mission is to contribute to improved trading opportunities for organized small producers and sustainable economic development in a socially and ecologically sound manner.
Investment strategy	Short-term working capital and trade finance to producer organizations (over 70%) and SMEs. Fund provides guarantees, sharing the credit risk with a local bank by extending part of the loan to a cooperative or business (funded risk participation) or by guaranteeing a bank loan.
Business targets	Producer organizations, agribusinesses and SMEs
Target sector	Agriculture

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Annex 8

Investment funds – overview

		Target region					Type of fund (investment target)						Return target			Technical assistance
		Africa	Asia	Latin America	Europe	Multi-region	Agribusiness	Agribusiness SMEs	Producer groups	Microfinance, financial institutions	Forest & environment	Others	Finance first	Double bottom line	Impact first	Provision of technical assitance
1	AAF SME Fund	X						X						X		X
2	Actis Africa Agribusiness Fund (AAAF)	X					X						X			
3	Acumen fund					X						X			X	
4	Africa Agriculture Trade and Investment Fund (AATIF)	X					X			X				X		X
5	Africa Seed Investment Fund (ASIF)	X						X							X	
6	African Agricultural Capital (Pearl Capital)	X						X							X	
7	African Agricultural Capital Fund (AACF)	X						X						X		X
8	African Agriculture Fund	X					X							X		X
9	African Food Fund	X					X						X			
10	AgDevCo	X										X			X	
11	Agribusiness & Food Fund			X			X						X			
12	Agri-Vie I	X					X						X			
13	Alterfin					X			X	X					X	
14	Althelia Climate Fund					X					X			X		
15	Annona Sustainable Investment Fund					X		X						X		

		Target region					Type of fund (investment target)						Return target			Technical assistance
		Africa	Asia	Latin America	Europe	Multi-region	Agribusiness	Agribusiness SMEs	Producer groups	Microfinance, financial institutions	Forest & environment	Others	Finance first	Double bottom line	Impact first	Provision of technical assitance
16	Aventura Rural Enterprise Fund	X					X									
17	BlueOrchard Microfinance Fund					X				X				X		
18	Capital for Communities Fund (WCCN - Working Capital for Community Needs)			X					X	X					X	
19	EcoEnterprises I			X							X			X		
20	EcoEnterprises II			X							X			X		
21	European Solidarity Financing Fund for Africa (FEFISOL)	X							X	X					X	X
22	Fairtrade Access Fund					X			X					X		
23	Fondo para los Pequeños Productores Rurales en América Latina (FOPEPRO)			X					X	X					X	X
24	Fund for Agricultural Finance in Nigeria (FAFIN)	X						X						X		X
25	GEF Africa Sustainable Forestry Fund (GASFF)	X									X		X			
26	Georgia Regional Development Fund (GRDF)				X							X		X		X
27	Grassroots Business Fund (GFB)					X						X		X		X
28	Green Resources	X									X			X		
29	Hivos-Triodos Fund					X				X				X		X
30	Horus Food & Agribusiness Fund	X					X						X			
31	Impact Finance Fund SICAV-SIF					X						X		X		
32	India Agribusiness Fund		X				X						X			

		Target region					Type of fund (investment target)						Return target			Technical assistance
		Africa	Asia	Latin America	Europe	Multi-region	Agribusiness	Agribusiness SMEs	Producer groups	Microfinance, financial institutions	Forest & environment	Others	Finance first	Double bottom line	Impact first	Provision of technical assitance
33	Injaro Agricultural Capital Holdings Limited	X						X						X		X
34	International Guarantee Fund, finance for human development					X						X			X	
35	Lignum Forestry Fund			X							X			X		
36	Manocap Soros Fund	X						X					X			
37	Microfinance Enhancement Facility					X				X				X		
38	Microfinance Initiative for Asia Debt Fund (MIFA)		X							X				X		X
39	Microvest Capital Management					X				X				X		
40	Moringa S.C.A					X					X			X		X
41	New Hope Agriculture and Food Fund II		X				X						X			
42	Oikocredit					X			X	X					X	X
43	Olea Capital Fund	X					X							X		
44	Pampa Agribusiness Fund			X			X						X			
45	PEAK II	X										X		X		
46	Phaunos Timber Fund					X						X	X			
47	Rabo Rural Fund					X			X						X	
48	responsAbility Fair Agriculture Fund					X			X					X		
49	Root Capital					X			X						X	X
50	Rural Impulse fund I					X				X				X		X
51	Rural Impulse fund II					X				X				X		X
52	Sarona Asset Management					X						X		X		

		Target region					Type of fund (investment target)						Return target			Technical assistance
		Africa	Asia	Latin America	Europe	Multi-region	Agribusiness	Agribusiness SMEs	Producer groups	Microfinance, financial institutions	Forest & environment	Others	Finance first	Double bottom line	Impact first	Provision of technical assitance
53	SEAF India Agribusiness International Fund, SEAF India Agribusiness Fund		X					X						X		X
54	Shared Interest					X			X						X	X
55	SME Impact Fund	X						X							X	X
56	Social investment fund 2010			X					X	X					X	X
57	Social investment fund 5.0			X					X	X					X	X
58	Take-off facility for Microfinance for Africa	X								X					X	X
59	Tana Africa Capital	X					X						X			
60	Terra Bella Fund					X					X			X		
61	Triodos Sustainable Trade Fund					X			X						X	
62	Verde Ventures					X					X				X	
63	Voxtra East Africa Agribusiness Fund	X						X						X		X

Annex 9

Investment funds stocktaking

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
1	Actis Africa Agribusiness Fund (AAAF)	Actis LLP	Agribusiness fund	Finance first (a top-quartile financial return)	2006	Africa - SSA (Cote d'Ivoire, Zambia, Tanzania and South Sudan, Kenya)	Agribusiness and forestry sector	USD 93M	Equity and quasi-equity	USD 5M - 15M	CDC	
2	Acumen fund	Acumen fund	Others - social enterprise fund (open end)	Impact first	2001	Multi-region - Latin America, Africa and Asia	Social entrepreneures	USD 45M	Equity, debt	USD 250K - 3M	Private foundations, family offices, private companies etc.	
3	Africa Agriculture Trade and Investment Fund (AATIF)	Deutsche Bank	Agribusiness fund, MIV	Double bottom line	2011	Africa	Agribusinesses companies across the value chain including financial institutions	USD 146M	Equity, debt and guarantee	USD 5M - 30M	German Government, KfW etc.	Grant TAF - EUR6M (Managed by CFC)
4	Africa Seed Investment Fund (ASIF)	Pearl Capital Partners (PCP)	Agribusiness SME fund	Impact first (3% return)	2010	Africa - East and Southern Africa	Small and medium sized seed companies	USD 12M (fully invested)	Equity, quasi-equity and debt investments.	USD 50K -	AGRA	
5	African Agricultural Capital (Pearl Capital)	Pearl Capital Partners (PCP)	Agribusiness SME fund	Impact first	2005	Africa - East Africa	Agribusiness SMEs across the value chain	USD 9M	Equity, quasi-equity, debt	USD 250K - 2.5M	Gatsby Foundation, Rockefeller Foundation and Volksvermogen	

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
6	African Agricultural Capital Fund (AACF)	Pearl Capital Partners (PCP)	Agribusiness SME fund	Double bottom line (15% return)	2012	Africa - East Africa	Agribusiness SMEs across the value chain	USD 25M	Equity, quasi-equity and debt	USD 250K - 2.5M	Bill and Melinda Gates Foundation, JP Morgan Social Investing, Gatsby Foundation and Rockefeller Foundation etc.	Grant TAF - USD 1.5M (funded by USAID)
7	African Agriculture Fund	Phatisa	Agribusiness fund	Double bottom line	2011	Africa - mainly SSA	Food and agribusiness companies (including primary production)	USD 216M (Excluding investment in the AAF SME fund)	Equity	USD 5M - 24M	AECID, AFD, AfDB, BOAD, DBSA, EBID, Proparco, OPIC, private investors, etc.	Grant TAF - EUR10M (Funded by EU, AGRA, IFAD, UNIDO etc. and managed by IFAD and implemented by Technoserve)
8	African Agriculture Fund SME Fund	Databank Agrifund Manager Limited	Agribusiness SME fund	Double bottom line	2012	Africa - mainly SSA	Agribusinesses SMEs across the value chain	USD 36M	Equity	USD 150K - 4M	African Agriculture Fund	Grant TAF (Shared with AAF)
9	African Food Fund	Silk Invest	Agribusiness fund	Finance first (25% return)	2011	Africa	Agribusiness companies (excluding agricultural production)	USD 32M	Equity	USD 4M - 7M	NA	
10	AgDevCo	AgDevCo	Others - agricultural project development company	Impact first (10% on debt)	2009	Africa - SSA (Mozambique, Ghana, Zambia, Malawi, Tanzania and Uganda)	African SME agribusinesses that work with smallholder farmers	>USD 100M	Equity, quasi-equity, and debt	USD 250K - 4M	DFID, USAID, Dutch Government, AGRA, The Rockefeller Foundation etc.	
11	Agri-Vie Agribusiness Private Equity Fund I	Agri-Vie Investment Advisors	Agribusiness fund	Finance first (above average return)	2008	Africa - SSA	Agribusinesses companies across the value chain	USD 110M	Equity and quasi-equity	USD 6M (average)	DBSA, Norfund, EIB, IFC, and Kellogg Foundation etc.	

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
12	Agribusiness & Food Fund	Aqua Capital	Agribusiness fund	Finance first	2012	Others - Latin America	Agribusiness companies	USD 173M	Equity	NA	Developing financial institutions in US, Europe, Latin America, endowments, family offices etc.	
13	Alterfin	Alterfin	MIV with investments in producer organizations (open end)	Impact first (Debt: near market Equity: IRR > 12%)	1994	Multi-region - Latin America and the Caribbean, Middle East and North Africa, Sub-Saharan Africa, South Asia	MFIs (rural focus) and agricultural value chain organizations (fair trade partners)	USD 50M	Debt and guarantee	USD 50K - 1.5M	Investments are financed through issuing shares. Individual shareholders account for 95.8% of the total number and contribute 82.5% of the total share capital. Dividend to shareholders was and 1.50% in 2014 and 1.75% in 2015.	
14	Althelia Climate Fund	Althelia Ecosphere	Others - forest fund	Double bottom line (25% return)	2014	Multi-region - Africa, Latin America,and Asia	Sustainable land use and conservation	USD 117M	Debt	NA	EIB, Finnfund, FMO etc. (Also supported by a risk sharing loan guarantee by USAID)	
15	Annona Sustainable Investment Fund	Annona	Agribusiness SME fund	Double bottom line (12-20% return)	2009	Multi-region - SSA and Latin America	Agribusiness SMEs along value chains	EUR8M	Equity, quasi-equity, debt	EUR500K -	Pension funds in the Netherlands	
16	Aventura Rural Enterprise Fund	Aventura Investment Partners	Agribusiness fund	NA	2008	West Africa	Agribusiness companies that respond to the needs of SME farmers for goods and services	USD 50M	Equity, debt, guarantee	NA	NA	

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
17	BlueOrchard Microfinance Fund	BlueOrchard Finance	MIV (rural, open end)	Double bottom line (Return target: LIBOR 6M + 3-4%)	1998	Multi-region	MFIs offer access to financial services to low-income groups	USD 360M (NAV in April 2016)	Debt	Average: >USD 1.3M	Institutional and individual investors (Fixed income fund)	
18	Capital for Communities Fund	Capital for Communities Fund (WCCN - Working Capital for Community Needs)	MIV with investments in producer organizations (open end)	Impact first (Debt: 8% - 11%)	1991	Others - Latin America	MFIs and agricultural cooperatives	USD 13M (Portfolio in 2014)	Debt	NA	Individual investors, other partners	
19	Fondo EcoEmpresas	EcoEnterprises Capital Management, LLC	Others - forest and sustainable agriculture	Double bottom line	2000	Others - Latin America	SMEs in sustainable agriculture, sustainable forestry, ecotourism, non-timber forest products etc.	USD 6.3M	Quasi-equity	USD 500M - 3M	IDB, EIB, FMO, Nature Conservancy, Hivos-Triodos Fund, Oikocredit, Calvert Foundation etc.	
20	EcoEnterprises Partners II	EcoEnterprises Capital Management, LLC	Others - forest and sustainable agriculture	Double bottom line	2012	Others - Latin America	SMEs in sustainable agriculture, sustainable forestry, ecotourism, non-timber forest products etc.	USD 35M	Quasi-equity	USD 500M - 3M	IDB, EIB, FMO, Nature Conservancy, Hivos-Triodos Fund, Oikocredit, Calvert Foundation, JPMorgan Chase etc.	
21	European Solidarity Financing Fund for Africa (FEFISOL)	Alterfin, Etimos, Solidarité Internationale pour le Développement et l'Investissement (SIDI)	MIV with investments in producer organizations	Impact first	2011	Africa	MFIs and producer organizations	EUR23.8M	Equity, debt, guarantee	Equity: - EUR2M Debt: - EUR1M	EIB, FISEA (Proparco), SIDI etc.	Grant TAF - USD 1.6M (Funded by EIB and Proparco)

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
22	Fairtrade Access Fund	Incofin	Fund for producer organizations (open end)	Double bottom line	2012	Multi-region	Farmer/ producer organizations (Fair trade)	USD 16.6M	Debt	USD 150K - 3M	Fairtrade International, Grameen Foundation, OPIC, KfW, Starbucks Coffee etc.	
23	Fondo para los Pequeños Productores Rurales en América Latina (FOPEPRO)	Alterfin	MIV with investments in producer organizations (open end)	Impact first (No information on return)	2009	Others - Latin America	Smallholder organizations and SMEs (65% of the portfolio) in pre-selected value chains and MFIs in rural areas (35%).	USD 3.8M	Debt	USD 100K - 1M	Alterfin, SIDI, FOGAL, Calvert Foundation, IDB etc.	Grant TAF - USD 5M (target) (funded by IDB etc.)
24	Fund for Agricultural Finance in Nigeria (FAFIN)	Sahel Capital	Agribusiness SME fund	Double bottom line	2014	Africa - Nigeria	Agribusiness SMEs across the value chain and financial institutions for on-lending to SMEs and farmers	USD 34M (Target size: USD 100M)	Equity and quasi-equity	USD 3M - 5M	KfW, Nigerian Government, and Nigeria Sovereign Investment Authority (NSIA) etc.	Grant TAF - USD 2M (Target, to be funded by KfW etc.)
25	GEF Africa Sustainable Forestry Fund (GASFF)	Global Environment Fund	Others - forest fund	Finance first (commercial return)	2010	Africa - SSA	Existing and green field plantations, natural forest concessions, and forest products processing and manufacturing facilities	USD 160M (Target size)	Equity	US15M - 30M	CDC, IFC, SIFEM etc.	
26	Georgia Regional Development Fund (GRDF)	SEAF	Others - SME fund (with agribusiness focus)	Double bottom line	2006	Others - Georgia	SMEs in agribusiness and tourism sectors	USD 30M (Fully invested)	Equity, quasi equity, and debt	USD 600K - 3M (Average USD 2.3M)	Millennium Challenge Corporation (MCC) through Millennium Challenge Georgia Fund (MCG)	Grant for business assistance - USD 2M (Funded by MCG)

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
27	Grassroots Business Fund (GFB)	Grassroots Business Partners	Others - SME fund (with agribusiness focus)	Double bottom line	2011	Multi-region (Kenya, Tanzania, India, Indonesia, Bolivia, Colombia, Ecuador and Peru)	For-profit companies that bring development impact at the base of the economic pyramid (BoP)	USD 49M	Equity, quasi-equity, debt, guarantee	USD 500K - 2.5M	OPIC, FMO, German Government, Calvert Foundation, Deutsche Bank Americas Foundation etc.	Grant funded Business Advisory Services - USD 11.5M (Funded by FMO, OeEB, Norad, Canadian Government etc.)
28	Green Resources	Green Resources	Others - forest investment company	Double bottom line (12-15% return)	1995	Africa	Forest plantations	USD 300M (invested since inception)	Equity	NA	Institutional investors including Phaunos Timber Fund	
29	Hivos-Triodos Fund	Triodos Investment Management	MIV (rural, open end)	Double bottom line	1994	Multi-region	MFIs	EUR70M (Portfolio in 2014)	Debt	NA	Triodos bank, individual investors	Technical assistance from Hivos is available.
30	Horus Food & Agribusiness Fund	EFG Hermes Private Equity, Prime Corp. , Rabobank	Agribusiness fund	Finance first	2006	Egypt	Agribusiness companies	USD 46M	Equity	USD 5M - 10M	EIB etc.	
31	Impact Finance Fund SICAV-SIF	Impact Finance Management S.A.	Others (Impact enterprises fund with agribusiness focus, open end)	Double bottom line	2011	Multi-region	Impact enterprises (strong focus on food and agribusiness value chains)	USD 23M	Debt and equity	USD 0.3M - 5M	Private and institutional investors	
32	India Agribusiness Fund	Rabo Equity Advisors	Agribusiness fund	Finance first (20% return)	2009	Others - India	Agribusiness companies operating in the pre-selected value chains	USD 120M (Fully invested)	Equity	USD 3M - 12M	CDC, IFC, DEG, Rabobank, FMO etc.	
33	International Guarantee Fund, finance for human development	International Guarantee Fund, finance for human development	Others - guarantee Fund	Impact first	1996	Multi-region - Mostly Latin America	MFIs and cooperatives	CHF3.6M (Funds available for guarantee)	Guarantee	Max. 50% of the loan	Spanish Agency of International Cooperation for Development (Main investor)	

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
34	Lignum Forestry Fund	Foresta Administradora de Fondos de Inversión S.A.	Others - forest fund	Double bottom line	2006	Others - Chile	Forests and land owned by small and medium landowners	USD 39.4M	Equity (securitization of acquired assets)	NA	Asset Chile. Foundation Chile, IFC etc.	
35	Manocap Soros Fund	Manocap	Agribusiness SME fund	Finance first (at least 30% return)	2009	Africa - Sierra Leone	Small agricultural and agribusiness companies	USD 5M	Equity, quasi-equity	USD 500K - 5M	Soros Economic Development Fund	
36	Microfinance Enhancement Facility	BlueOrchard Finance, Cyrano, responsAbility	MIV (rural)	Double bottom line	2009	Multi-region	Sustainable and well-established MFIs	USD 695M (Commitments as of Dec 2015)	Debt	NA	IFC, German Government, KfW, SIDA, OeEB, OFID, EIB etc.	
37	Social investment fund 2010	Global Partnerships	MIV with investments in producer organizations	Impact first	2010	Others - Latin America and the Caribbean	MFIs and cooperatives	USD 15.4M (Current capital deployed as of Mar 2016)	Debt	Average: USD 0.56M (Cumulative as of Mar 2016)	Foundations, development banks etc.	Grant from private companies, private foundations, individuals are used to build a pipeline for the funds
38	Social investment fund 5.0	Global Partnerships	MIV with investments in producer organizations	Impact first	2013	Others - Latin America and the Caribbean	MFIs and cooperatives	USD 43.7M (Current capital deployed as of Mar 2016)	Debt	Average: USD 0.72M (Cumulative as of Mar 2016)	Foundations, development banks etc.	Grant from private companies, private foundations, individuals are used to build a pipeline for the funds
39	Microfinance Initiative for Asia Debt Fund (MIFA)	BlueOrchard Finance	MIV (rural)	Double bottom line	2013	Others - Asia	MFIs - tire II and tire III organizations	USD 149.6M (NAV in Mar 2016)	Debt	Average: USD 2.04M (Since inception as of Mar 2016)	KfW, IFC, German Government, EU, private investors etc.	Grant TAF - EUR3M (Funded by German Government and EU)

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
40	Microvest+, Microvest 2, Access Africa and others funds	MicroVest Capital Management	MIV with investments in producer organizations	Double bottom line	2003	Multi-region	Low income financial industry, especially 1st, 2nd & 3rd tier MFIs in developing countries and agricultural value-chains finance	USD 380M (total assets)	Equity, debt	USD 1M - 12M	Socially responsive private investors, family foundations, institutional investors	
41	Moringa Fund	Moringa Partnership SCA	Others - agroforest fund	Double bottom line	2013	Multi-region - SSA and Latin America	agroforestry projects - forestry activities (timber, industrial tree crops or fruit trees) with cattle, staple food crops or niche export crops	USD 90M	Equity and quasi-equity	EUR4M - 10M	La Compagnie Benjamin de Rothschild (CBR), FISEA (AFD), CAF (Development Bank of Latin America), Finnfund, FMO, AfDB etc.	Grant TAF (Agroforestry Technical Assistance Facility) - EUR4.3M (Funded by France, AFD etc.)
42	New Hope Agriculture and Food Fund II	Hosen Capital	Agribusiness fund	Finance first	2014	Others - China	Agribusiness companies	USD 180M (Target)	Equity	NA	IFC etc.	
43	Oikocredit	Oikocredit	MIV with investments in producer organizations (open end)	Impact first (Debt: market base rate + cost + small to risk)	1975	Multi-region	Cooperatives, financal institutions or small to medium enterprises	EUR900M (Portfolio as of Dec 2015)	Dept and equity	Equity: EUR50K - 5M Debt: NA	Institutional and individual investors. Annual dividend of 2% will be paid in 2016.	Grant funded capacity development programme (EUR1.7M spent in 2015. 30% was used for agriculture VC development)
44	Olea Capital Fund	Olea	Agribusiness fund	Double bottom line	2007	Others - Morocco	Farmers and agribusiness companies in olive value chain	USD 82M	NA	NA	AfDB, private companies etc.	

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
45	Pampa Agribusiness Fund	Pampa Capital	Agribusiness fund	Finance first	2007	Others - Latin America	Agribusiness companies	USD 365M	Equity	NA	IFC etc.	
46	PEAK II	Equity for Tanzania	Others - Leasing company	Double bottom line (24-28% return)	2012	Africa - Tanzania	SMEs and farmer groups (50% of the portfolio will be agribusiness and agriculture)	USD 5M	Debt (Equipment finance)	USD 10K - 60K (in TZS)	IFC, FMO, Equity for Africa, Lundin Foundation, Truestone, Hooge Raedt Social Venture, Cordaid and the Baring Foundation	
47	Phaunos Timber Fund	Stafford Capital Partners	Others - forest fund (open end)	Finance first	2006	Multi-region - including US and NZ	Forest plantations and related projects	USD 279M (NAV as of Dec 2015)	Equity	NA	Institutional and individual investors	
48	Rabo Rural Fund	Rabobank Foundation	Fund for producer organizations with investments in agribusiness companies (open end)	Impact first	2010	Multi-region	Farmer/ producer organizations and SMEs	USD 18M	Debt and guarantee	USD 200K - 2M	Rabobank Foundation, Dutch Government, Cordaid	Partnership with Rabobank foundation
49	responsAbility Fair Agriculture Fund	responsAbility	Fund for producer organizations with investments in agribusiness companies (open end)	Double bottom line (3-5% return)	2011	Multi-region	Fair-trade-oriented institutions (Producers, traders, associations of producers and traders)	USD 200M (Fund volume in Apr 2016)	Debt (Pre-harvest, harvest working capital, long-term finance)	NA	Institutional and individual investors	

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
50	Root Capital	Root Capital	Fund for producer organizations (open end)	Impact first	1999	Multi-region - Africa, Latin America and the Caribbean	Farmer associations and private businesse in agricultural sector	USD 106M (Outstanding balance - Q1 2016)	Debt (Short-term trade credit and pre-harvest loans, long-term fixed-asset loans)	USD 50K - 2M	OPIC, USAID, IDB, Bill & Melinda Gates Foundation, individuals, and private corporations	Grant funded Financial Advisory Services program (Trainings for potential and existing clients on accounting, financial planning, financial risk management etc.)
51	Rural Impulse fund I	Incofin	MIV (rural)	Double bottom line	2007	Multi-region	Commercial MFIs which offer financial services in disadvantaged rural areas	USD 38M	Equity and debt	USD 500K - 3M	EBI, FMO, BIO, private companies, private foundations etc.	Grant TAF - EUR4M+ (Funded by AFD, EIB, FMO etc.)
52	Rural Impulse fund II	Incofin	MIV (rural)	Double bottom line	2010	Multi-region	Commercial MFIs which offer financial services in disadvantaged rural areas	EUR120M	Equity and debt	NA	EIB, IFC, FMO, Proparco, KfW, private companies etc.	Grant TAF (shared with Impulse fund I) - EUR4.6M in 2014 (Funded by AFD, EIB, FMO etc.)
53	Sarona Frontier Markets Fund 1 & 2, MEDA Risk Capital Fund	Sarona Asset Management	Others - PE fund	Double bottom line	2010 (investment company established)	Multi-region	Agri-businesses, producers organizations, MFIs	USD 200M	Equity, quasi-equity, debt	NA	Socially responsive private investors, family foundations, institutional investors	Grant TAF (MEDA Risk Capital Fund)

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
54	SEAF India Agribusiness International Fund, SEAF India Agribusiness Fund	SEAF	Agribusiness SME fund	Double bottom line	2010	Others - India	SMEs in the pre-selected agribusiness value chains (Companies with revenues from USD 6M to 60M)	USD 41.8M	Equity, quasi-equity, and debt	USD 2M - 5M	Life Insurance Corporation of India, Omidyar Network Fund, Inc., Sarona Asset Management, Small Industries Development Bank of India, Syndicate Bank, Unigrain, Union Bank of India, SEAF	Grant from investors and donors for TA
55	Shared Interest	Shared Interest	Fund for producer organizations (open end)	Impact first (Market interest rate to clients)	1990	Multi-region	Fair trade producers and buyers	£24.9M (net loan balance in BS in 2015)	Debt (Pre-harvest loans, long-term loans, shop loans for buyers etc.)	£5K - 2M	Investments are financed through members, predominantly individuals. Interest paid to shareholders is 0.5% in 2014.	Grant funded Shared Interest Foundation provides technical support to producer groups and SMEs.
56	SME Impact Fund	Match Maker Fund Management	Agribusiness SME fund	Impact first (6% return)	2013	Africa - Tanzania	Agribusiness SMEs across the value chain	EUR10M (Target size)	Debt (working capital and investment finance)	USD 60K - 600K (TZS100M - 1B)	Hivos and Cordaid etc.	Grant TAF - EUR240 000 (Funded by Dutch Government)
57	Take-off facility for Microfinance for Africa	Grameen Crédit Agricole Foundation	MIV (rural)	Impact first	2013	Africa - SSA	Medium-sized MFIs with agricultural and rural focus	EUR4M	Debt	EUR50K - 500K	AFD	Grant TAF - EUR1.6M (Funded by AFD and The Grameen Crédit Agricole Foundation)
58	Tana Africa Capital	Tana Africa Capital	Agribusiness investment company	Finance first	2011	Africa	Agricultural and consumer businesses	USD 300M	Equity	USD 20M - 75M	E. Oppenheimer & Son International and Temasek	

No.	Fund	Fund manager	Type of fund[1]	Return target[2]	Year in which investment started[3] or companies established (fund mgt companies)	Target region	Investment focus	Capital base[4] or approx. asset invested in rural/ agricultural sector[5]	Financial instruments[6]	Investment amount range/ average	Primary investors[7]	Provision of grant funded technical assistance
59	Terra Bella Fund	Terra Global Investment Management LLC	Others - forest and sustainable agriculture	Double bottom line (25-30% return)	2012	Multi-region	Community-based forest and land-use carbon projects	USD 50M	Equity and debt	USD 5M - 10M	OPIC etc.	
60	Triodos Sustainable Trade Fund	Triodos Investment Management	Fund for producer organizations with investments in agribusiness companies (open end)	Impact first	2008	Multi-region	Farmer cooperatives and private companies in agricultural value chains (Organic agriculture and fair trade)	EUR16.4M (Portfolio as of Dec 2014)	Debt (pre-harvest loans)	USD 300K - 3M and up to 60% of the value of the export contract(s)	Dutch Government, Hivos, Calvert Social Investment, SECO (Guarantee)	
61	Verde Ventures	Conservation International	Others - sustainable agriculture	Impact first	1999	Multi-region	SMEs which contribute to conserving biological diversity	USD 12.3M (funds committed)	Debt	USD 30K - 50K	AFD, GEF, OPIC, IFC, private companies etc.	
62	Voxtra East Africa Agribusiness Fund	Voxtra	Agribusiness SME fund	Double bottom line	2012	Africa - East and Southern Africa (Kenya, Tanzania, Uganda, Burundi, Ethiopia, Malawi, Mozambique, Rwanda and Zambia)	Agribusiness SMEs which benefit smallholder farmers	USD 18M	Equity, quasi-equity	USD 500K - 3M	Norfund, Grieg International, and Kavlifondet etc.	Grant TAF - USD 1.6M (Funded by Norad)
63	Injaro Agricultural Capital Holdings Limited	INJARO Investments Limited (IIL)	Agribusiness SME investment company	Double bottom line	2012	Africa - West Africa (Burkina Faso, Côte d'Ivoire, Ghana, Mali, Niger and Sierra Leone)	Agribusiness SMEs across the value chain	USD 49M	Equity, Quasi-equity and debts	USD 300K - 3M	AGRA, Lundin Foundation, Soros Economic Development Fund, CDC, FMO, and PROPARCO	Grant TAF - USD4M (Funded by Canadian Government and Lundin Foundation)

Annex 10
Fund managers

No.	Name	Target sector	No of funds currently managed	HQ	Funds under management / current portfolio (USD M)					Type of organization	Type of AIFs under management
					<50	50-100	101-250	251-500	500<		
1	Actis	Multi-sector	7	UK					X	Private	Agribusiness fund
2	Deutsche Bank - Alternative investment	Multi-sector	8+	Germany					X	Private	Agribusiness fund
3	Agri-Vie Investment Advisors	Agriculture / Rural	1	South Africa			X			Private	Agribusiness fund
4	Aqua Capital	Agriculture / Rural	1	Brazil			X			Private	Agribusiness fund
5	Aventura Investment Partners	Agriculture / Rural	1	Netherlands/ Senegal	X					Private	Agribusiness fund
6	Olea	Agriculture / Rural	1	Morocco		X				Private	Agribusiness fund
7	Rabo Equity Advisors	Agriculture / Rural	1	India			X			Private	Agribusiness fund
8	Tana Africa Capital	Agriculture / Rural	1 (invesment co.)	South Africa				X		Private	Agribusiness investment company
9	Annona	Agriculture / Rural	1	Netherlands	X					Private	Agribusiness SME fund
10	EFG Hermes	Multi-sector	4	Egypt					X	Private	Agribusiness fund
11	Databank Agrifund Manager Limited	Agriculture / Rural	1	Ghana/South Africa	X					Private	Agribusiness SME fund
12	Match Maker Fund Management	Agriculture / Rural	1	Tanzania	X					Private	Agribusiness SME fund
13	Hosen Capital	Multi-sector	3+	China	NA					Private	Agribusiness fund

No.	Name	Target sector	No of funds currently managed	HQ	Funds under management / current portfolio (USD M)					Type of organization	Type of AIFs under management
					<50	50-100	101-250	251-500	500<		
14	Pearl Capital Partners (PCP)	Agriculture / Rural	3	Uganda	X					Private	Agribusiness SME fund
15	Pampa Capital	Multi-sector	NA	UK				X		Private	Agribusiness fund
16	Phatisa Fund Managers	Multi-sector	2	South Africa				X		Private	Agribusiness fund
17	Silk Invest	Multi-sector	5+	UK	NA					Private	Agribusiness fund
18	ManoCap	Multi-sector	2	Sierra Leone	X					Private	Agribusiness SME fund
19	SEAF*	Multi-sector	35	USA				X		Private	Agribusiness SME fund; others - SME fund
20	Sahel Capital	Agriculture / Rural	1	Nigeria	X					Private	Agribusiness SME fund
21	Voxtra	Agriculture / Rural	1	Norway	X					NPO	Agribusiness SME fund
22	Injaro Investments Limited (IIL)	Agriculture / Rural	1	Ghana/Cote d'I voir	X					Private	Agribusiness SME investment company
23	Rabobank Foundation	Agriculture / Rural	1	Netherlands	X					Private	Fund for producer organizations
24	responsAbility	Multi-sector	9	Switzerland					X	Private	Fund for producer organizations (open ended)
25	Triodos Investment Management	Multi-sector	24	Netherlands					X	Private	Fund for producer organizations (open ended)

No.	Name	Target sector	No of funds currently managed	HQ	Funds under management / current portfolio (USD M)					Type of organization	Type of AIFs under management
					<50	50-100	101-250	251-500	500<		
26	Root Capital	Agriculture / Rural	1 (nonprofit org.)	USA			X			NPO	Fund for producer organizations (open ended)
27	Shared Interest	Agriculture / Rural	1 (cooperative)	UK	X					NPO	Fund for producer organizations (open ended)
28	Alterfin	Agriculture / Rural	4	Belgium		X				NPO	Fund for producer organizations, MIV (open ended)
29	BlueOrchard	Multi-sector	6	Switzerland					X	Private	MIV
30	Grameen Crédit Agricole Foundation	Agriculture / Rural	1 (foundation)	Luxembourg	X					NPO	MIV (rural)
31	Microvest Capital Management	Multi-sector	5+	USA				X		Private	MIV
32	Incofin	Agriculture / Rural	10	Belgium					X	Private	MIV (rural); Fund for producer organizations
33	Global Partnerships	Agriculture / Rural	3	USA		X				NPO	MIV, Fund for producer organizations
34	Oikocredit	Agriculture / Rural	1 (cooperative)	Netherlands					X	NPO	MIV, Fund for producer organizations (open ended)
35	Etimos	Multi-sector	4	Italy	X					NPO	MIV, Fund for producer organizations
36	Working Capital for Community Needs (WC CN)	Agriculture / Rural	1 (nonprofit org.)	USA	X					NPO	MIV, Fund for producer organizations (open ended)

No.	Name	Target sector	No of funds currently managed	HQ	Funds under management / current portfolio (USD M)					Type of organization	Type of AIFs under management
					<50	50-100	101-250	251-500	500<		
37	Foresta Administradora de Fondos de Inversión S.A.	NA	NA	Chile	NA					Private	Others - forest fund
38	AgDevCo	Agriculture / Rural	1 (invesment co.)	UK			X			NPO	Others - agricultural project development company
39	Moringa Partnership SCA	Forest	1	France/ Swizerland		X				Private	Others - agroforest fund
40	Global Environment Fund	Multi-sector	NA	USA					X	Private	Others - forest fund
41	EcoEnterprises Capital Management, LLC	Forest / Agriculture	2	Costa Rica	X					Private	Others - forest and sustainable agriculture
42	Terra Global Investment Management LLC	Forest / Agriculture	1	USA		X				Private	Others - forest and sustainable agriculture
43	Stafford Capital Partners	Multi-sector	60+	USA etc.					X	Private	Others - forest fund (open ended)
44	Sarona Asset Management	Multi-sector	3	Canada			X			Private	Others - PE fund
45	Althelia Ecosphere	Forest	1	UK			X			Private	Others - forest fund
46	Equity for Tanzania (EFTA)	Multi-sector	1	Tanzania	X					NPO	Others - Leasing company
47	Acumen fund	Multi-sector	1 (nonprofit org.)	USA	X					NPO	Others - social enterprise fund (open ended)
48	Green Resources	Forest	1 (invesment co.)	Norway				X		Private	Others - forest investment company

No.	Name	Target sector	No of funds currently managed	HQ	Funds under management / current portfolio (USD M)					Type of organization	Type of AIFs under management
					<50	50-100	101-250	251-500	500<		
49	International Guarantee Fund	Agriculture / Rural	1 (cooperative)	Switzerland	X					NPO	Others - guarantee Fund
50	Impact Finance Management S.A.	Multi-sector	1	Switzerland	X					Private	Others (Impact enterprises fund with agribusiness focus, open end)
51	Grassroots Business Partners	Agriculture / Rural	1	USA	X					NPO	Others - SME fund (with agribusiness focus)
52	Conservation International	Environment	1	USA	X					NPO	Others - sustainable agriculture

*No. of funds Include the ones fully invested and funds show the capital invested to date

Food and Agriculture Organization of the United Nations (FAO)
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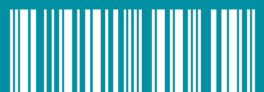

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