SOUTHERN AFRICA TRADE HUB

Technical Report:

Study on Private Equity in Agribusiness in Southern Africa

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LIST OF ACRONYMS

AAAF	Actis Africa Agriculture Fund
AAF	African Agriculture Fund
AVCA	African Venture Capital Association
CEO	Chief Executive Officer
DFI	Development Finance Institutions
Finnfund	Finish Development Finance Company
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
ILPA	Institutional Limited Partners Association
LP	Limited Partner
MIGA	Multilateral Investment Guarantee Agency
PE	Private Equity
PROPARCO	Investment and Promotions Company for Economic Cooperation
ROI	Return on Investment
SADC	Southern African Development Community
SATH	Southern Africa Trade Hub
SME	Small and Medium Enterprise
TA	Technical Assistance
TAF	Technical Assistance Facility
USAID	United States Agency for International Development

DEFINITIONS

Term	Definition
Upper Quartile	Quartile is a statistical term describing a division of observations into four defined intervals based upon the values of the data and how they compare to the entire set of observations. The upper quartile is the top 25% of a select group.
Friends & Family	A company's shares that are offered to preferred individuals in early stages of the company. Issuers and bankers may offer "friends and family shares" to business associates, family members or friends, prior to the stock's launch to the public, allowing them a stake in the future success of the company. These shares may represent a small percentage of an offering, typically less than 5%, but can create significant gains for the holder.
Management Buy-Out	This transaction consists of the managers and/or executives of a company purchase controlling interest in a company from existing shareholders.
Management Buy-In	A corporate action in which an outside manager or management team purchases an ownership stake in the first company and replaces the existing management team. This type of action can occur due to a company appearing undervalued or having a poor management team.
Management Fee	A charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their time and expertise. It can also include other items such as investor relations expenses and the administration costs of the fund.
Interest Carry	A share of any profits that the general partners of private equity and hedge funds receive as compensation, despite not contributing any initial funds. This method of compensation seeks to motivate the general partner (fund manager) to work toward improving the fund's performance. Traditionally, the amount of carried interest comes out to around 20-25% of the fund's annual profit.
Hurdle Rate	The minimum amount of return that a person requires before they will make an investment in something. This is the rate of return that will get someone "over the hurdle" and invest their money.
Greenfield	A form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees.

Definitions from Investopedia

EXECUTIVE SUMMARY

The overall objective of this report is to identify potential interventions to enhance the capacity of newly created private equity funds in agriculture and/or agribusiness in Africa, especially the stimulation of technical assistance to agricultural value chains.

Through the application of specifically designed criteria, a total of ten funds out of a potential 110 investment vehicles were selected for this analysis. An analytical framework for analysis of the selected funds was constructed and applied to each of the ten funds. Where possible, case studies of specific investments were documented, reflecting obstacles, social impact, or social outreach. Given the extensive experience of one particular fund and its track record (Actis African Agribusiness Fund) the case study in that particular case reflects risks perceived and lessons learned by their management.

Findings emanating from this evaluation revealed firstly that Development Finance Institutions (DFIs) are new but also very crucial contributors to agricultural private equity funds. This welcome development is however complicated by different and more tedious funding procedures of DFIs compared to traditional private equity investors. A second finding revealed that, while technical assistance funding is desired by all the chosen funds, technical assistance is not an ingredient of fund offerings at this juncture. A third and final finding cited lengthy regulatory procedures involving governmental institutions as a stumbling block to funds which typically have a limited time span (usually 10 years or less).

Based on the findings the following are recommended:

1. Facilitate the timely private equity funding process by streamlining the DFI due diligence process and merging this process with that of traditional private equity investors;
2. Coordinate technical assistance funding and DFI funding to increase technical assistance funds at the disposal of fund managers and also facilitate the process to obtain funds;
3. Increase technical assistance funds available to fund managers available to portfolio companies by funding a dedicated technical assistance or challenge fund; and,
4. Remove barriers preventing funds from achieving timelines by influencing government policies on acquiring rights and permits common to private equity agribusiness investments.

Emile Matthee

March 15, 2012

1. Introduction

The overall goal of the United States Agency for International Development (USAID) Southern Africa Trade Hub (SATH) is to increase international competitiveness, intra-regional and international trade and food security in the Southern African Development Community (SADC) region. SATH delivers targeted technical assistance (TA) to government, the private sector and civil society organizations in support of advancing regional integration and increasing the trade capacity of selected value chains within Southern Africa. SATH works through partnerships with private companies, business associations and government entities to build sustainable service delivery mechanisms to achieve its goals.

1.1. Background of the Study

Against the background of continually increasing food and agricultural commodity prices, as well as a rapidly growing world population, food security is a common theme. Investors and developmental organizations alike are increasingly seeking opportunities to increase food production and are turning to Africa due to its microclimates, highlands, agricultural diversity and logistics.[1]

Africa contains 60% of the world's uncultivated, arable land[2], much of which lies within Southern Africa.

From 2000-2007, agriculture in Africa grew at a compounded annual rate of 7.5% -- higher than all other industries except for manufacturing, resources and public administration. Agriculture contributed to 12% of the overall GDP growth of Africa during this period.[3] Private equity funds played a minimal role in this development.

Since 2009, however, a number of private equity funds have been raised with the specific mandate to invest in agriculture and/or agribusiness in Africa. At least 15 private equity funds have been established, or are being formed, with the specific objective of investing in agricultural production and processing in Africa, representing potential investment inflows of more than US$2 billion. Moreover, generalist funds that historically avoided the high risks of agriculture are opening their portfolios to investments in the sector.

The increased investments directed towards agriculture will provide much needed access to capital across the growing agriculture industry. In particular, these investments create greater access to inputs and markets. This is evident across the varying mandates of many agriculture funds, which range from certified seed and primary production to downstream food and processing. Investment funds' farm operations can drive down the costs of seeds, fertilizers, packaging and equipment and stimulate the development of TA and consulting services. In some cases, the locally adapted seeds and technologies provide stepping-stones for development of the smallholder and emerging farmers of Africa.

As a result of the developmental capital investing in the funds, as well as acknowledgement that community support can increase available supply and facilitate

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[1] Susan Payne of Emergent Asset Management, "Foreign Investment in Developing Country Agriculture – the Emerging Role of Private Sector Finance", FAO, June 2009.

[2] "Growth through Private Equity Investments in Africa", AVCA, June 2011.

[3] "Growth through Private Equity Investments in Africa", AVCA, June 2011.

land issues, smallholder integration is a fundamental component of these funds. The funds generally intend to work with small-scale farmers by incorporating some form of contract farming, nucleus/satellite farming systems or otherwise providing TA, financing, organization, storage, processing and procurement services.

Therefore, the growth of private equity investment in agribusiness in Southern Africa has the potential to yield powerful economic benefits in terms of market linkages, financing and managerial capabilities, as well as social impact in terms of community support, TA and food security. Dedicated SATH resources could catalyze the activities of private equity funds to facilitate this development.

1.2. Objectives of the Study

The study presents a comprehensive analysis of international private equity funds with significant investment or planned investment in agriculture and agribusiness in Southern Africa. These funds were analyzed according to the methodology below to provide a detailed overview of each fund, with the objective of understanding the fund economics, investment strategy and portfolio activity. A social perspective was also applied to understand the outreach activities of the funds and experiences to date.

The data and narratives collected in the study were analyzed to produce a set of findings of interest to SATH. These findings provide key information that serves as a basis for the recommendations on how SATH can facilitate the successful development of private equity investment in agriculture towards building internationally competitive agricultural value chains.

2. Methodology

Private equity funds differ based on a number of financial and qualitative parameters that dictate their investment strategy, financial performance and social impact. This study evaluated all pertinent parameters to define i) a set of criteria for inclusion in the study, and ii) a framework for analysis of the selected private equity funds.

2.1. Criteria for Inclusion

The mandate of the study requires that the analysis include funds with very specific parameters, as noted in Table 1 below.

Table 1: Criteria of Type of Funds to be Included in Analysis

Criteria Category	Criteria Level I	Criteria Level II
Geographic Scope	Funds with portfolio investments in, or a documented strategy towards:	SADC Specific focus on Tanzania, Mozambique and Zambia
Fund Size	Capital commitments or fund raising target of:	Minimum of $50 million <$50 million if investor takes minority stakes in transactions that fit criteria below
Investment Strategy	Lifecycle strategy includes funding during the following types of transactions:	Venture funding Expansion Capital Privatizations Turn-arounds Management Buy-outs / Buy-Ins Acquisitions
	Investment Products eligible:	Private Equity
	GP Management style required:	Active / "hands-on" Board seat taken
	Investee Structure:	Targets must be operating companies
	Target Returns:	Minimum ROI target of 15%
	Target Ownership strategies eligible:	Minority investment: Minimum of 25% of post-money equity Majority investment in consortium Sole investor
Sector Focus	Funds must have portfolio investments in, or a documented strategy towards:	Agriculture, including Primary: Production of crops (high value or commodity), Seeds, Poultry, Livestock Secondary: Agro-processing Tertiary: Services, support, infrastructure Retailers of farm inputs Crop storage Export trade of agricultural products Financial services for agriculture

2.2. Analytical Framework for Funds

The parameters selected to design the analytical framework for the study are broader than the parameters selected above as criteria for inclusion. In addition to ensuring that the funds satisfy the requirements for inclusion in the study, the framework will seek to better understand how they link, intend to link or fail to link social outreach to their investment portfolio. Table 2 provides the full detail of the Analytical Framework.

Table 2. Analystical Framework for Analysis of Funds

Analysis Item	Analysis Item Level I	Analysis Item Level II
Fund Structure	Ownership	List of LPs Type of investor (i.e. Pension Fund, Private Investor, Fund of Fund, Donor, Multilateral organization, etc.) Amount committed Fund Board / Investment committee composition
	Fund Status	Fundraising vs. closed Investing vs. closed Funds committed to date Total fund size target
	Investment status	$ Invested to date # portfolio companies Average investment size % committed capital invested
	Domicile of fund	Country
	Fund Dates	Launched First Close / Second Close / etc. Fund Life Investment Period Target Holding Period
	Geographic focus	Region Focus on specific countries
	Fund incentive economics	Management fee Hurdle rate Carried interest rate
Fund Managers	Formal entity managing the fund	List key decision-makers Prior experience in Africa/agri-business Previous funds raised / managed GP Commitment % Raised and marketed fund or tendered for Fund Manager role Management Style (active, passive)
Investment Strategy	Product: Private Equity	
	Sectors	Subsectors
	Investment stages (i.e. early stage, growth capital)	
	Average target Investment size	
	Average target transaction size	
	Average target size (turnover)	
	Target Returns	
	Diversification requirements across geographies, sectors or companies	
	Ownership Requirements	Target ownership stake / Majority or minority
	Risk mitigation strategies (i.e. heding currencies)	
Investments	List of investments	Amount invested per investment (incl committed and unfunded) Date of Investment Location of Headquarters Location of Business Operations Type of agriculture/agribusiness solution Plans for expectations of business Business social initiatives to date and planned Portfolio Status (i.e. Current, Exited)
Support to Investees / Outreach structures	Type of services may include:	Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit Compare frequency of outsearch services to convey need for services in market
	Format of outreach, which may include:	Use of investment capital, distinct Technical Assistance Facility, allocations of grant capital, dedicated management time and support systems, development of input schemes
	For any specific social capital adjacent to primary fund:	Provide economics of fund and outline target services
	Obstacles to outreach	Obstacles identified in implementing outreach or preventing outreach interventions, Suggestions for third party role to eliminate obstacles
New technologies/ systems introduced	Types of technologies/systems	Precision farming, zero tillage, conversation, laser levelling, storage, hybrid seed
Partnerships	Description of cooperation with organizations including:	Local farmer organizations, donors, government programs, outgrower schemes, input financing schemes (internal or via MFI organizations), export trading businesses

Exit strategies	Management buy-outs/Buy-ins, Outright sale to Investor or Strategic, Merger, [IPO]	
Track Record	Fund Investment Performance	ROI realized Number of Exits Method of Exit Total Capital Paid In % of total Capital Pain In
	Social Performance Indicators: Unique across business but could include:	# of direct employment opportunities created, total $ salaries paid to community, $ increase over previous average daily incomes, # indirect employment opportunities created, estimated $ paid to community through indirect business, # bicycles distributed, # schools built, # wells built, # employee homes built
	Mini case studies for successful or problematic investments	Story of deal sourcing, diligence conducted, performance of company after investment, social initiatives launched, rationale for success or failure

3. Fund Analysis

The analysis reviewed 110 investment vehicles that complied with at least one criterion and warranted further investigation. The Funnel in Table 3 shows the basis for exclusion of 98 funds, and the process through which the first stage of the study produced 10 Private Equity Funds for further analysis. See Table 4 below for the complete list of funds included in the analysis. Significant research was conducted on each of these funds through online documentation, email exchanges, telephone calls with the fund managers and other appropriate sources and compiled into the Fund Profiles in Section 3.1.

Table 3: Funnel of Excluded Funds

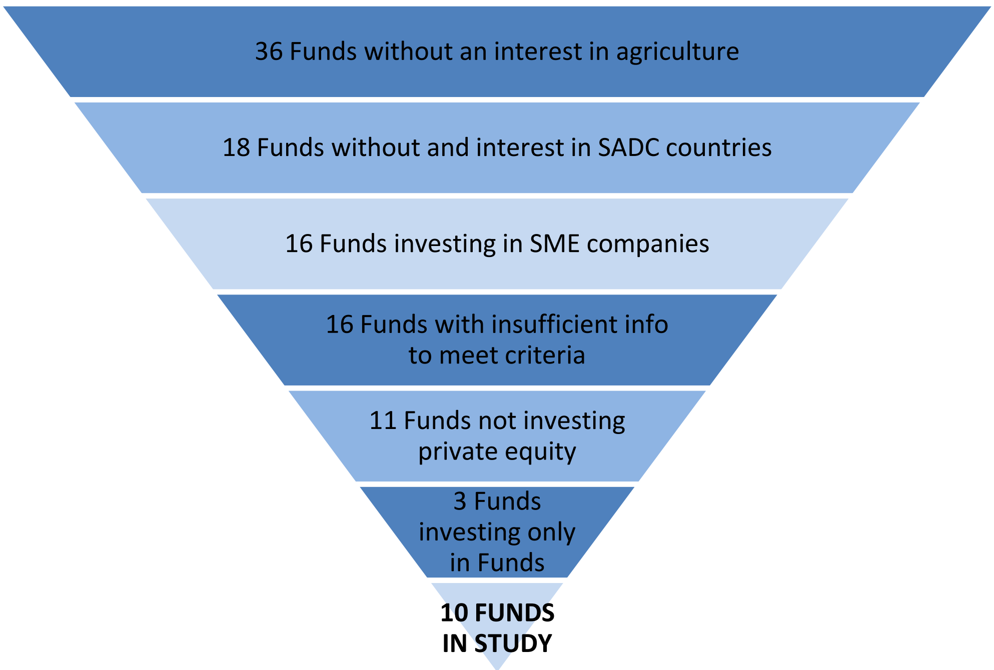

Table 4: List of Funds in Analysis	Fund Size	Sector	Geographic Focus
Actis Africa Agribusiness Fund	$93	Complete agribusiness value chain	Sub-Saharan (Cote d'Ivoire, Zambia, Tanzania and South Sudan, Kenya)
Advanced African Solutions	1,000.00 €	Road construction, education, energy, agro-business, health-care, residential, hotel/leisure	Pan-Africa
African Agricultural Fund	$135	Agriculture across primary, secondary and tertiary segments	Pan-Africa, with a focus on Sub-Saharan Africa
African Agricultural Land Fund	2,638.00 €	Agricultural sectors - including crops, biofuels, livestock, game farming and timber	Sub-Saharan (South African Botswana, Zambia, Mozambique, Swaziland and the DRC)
Agri-Vie Agribusiness Fund	$110	Food and agribusiness value chain	Sub-Sahara Africa particularly SADC and East Africa
Carlyle Group Sub-Saharan Africa Investment Group	500	Consumer goods, financial services, agriculture, infrastructure and energy	Sub-Saharan
Chayton Atlas Agricultural Company	$150-200	Agriculture - primary	SADC (Zambia, Botswana, Malawi, Mozambique, and Tanzania)
Futuregrowth Agri Fund	$4,500	Agricultural land, agri-businesses and farming infrastructure	SADC region with carve-out specific to South Africa
Silverlands Fund	$450	Value chain in agribusiness w/focus on farmland/primary production businesses	SADC Region (Zambia, Botswana, Malawi, Mozambique, and Tanzania)
Standard Bank Private Equity	$1bn AUM	Generalist, includes agriculture	Sub-Saharan

3.1. Selected Fund Profile Information

Analysis Item	Analysis Item I	Actis Africa Agribusiness Fund
Fund Structure	Domicile of fund	United Kingdom
	Ownership	CDC Group plc (Sole Investor): $92.7 million[1]
	Fund Status	$92.7 million fund closed with investment near complete, $75 million available for follow-ons or additional investments[1]
	Fund Dates	10-year Fund launched on January 1, 2006[1], Investment period of 4 years
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	100% Donor-funded
	Investment status	Fund launched with 6 investments carved out of CDC when Actis was spun out of the Donor in 2004. The Fund is currently fully invested Fund across 8 companies operating in East, Southern and West Africa[1]
	Geographic focus	Sub-Saharan Africa (Cote d'Ivoire, Zambia, Tanzania and South Sudan, Kenya)
Fund Managers	Formal entity managing the fund	Actis LLP (investment professionals based in Nairobi (primary), Johannesburg and London with support from Actis' office network in Casablanca, Lagos and Cairo) Actis currently has over $3-billion funds under management across the emerging markets in Africa, Asia and Latin America, of which over $1-billion is managed by Actis in Africa. Actis has 60 years of experience investing in Africa[2] Michael Turner - Partner and Fund Manager[2] Huw Williams, Andrew Tillery and Keith Alexander and associate Patrick Oketa - Investment Principals
Investment Strategy	Sectors	Agribusiness and forestry, entire agribusiness value chain from input supply, through production, processing, distribution to marketing, tea and coffee processing, aquaculture, horticulture, forestry and bio-power[3]
	Average Investment size	$5-15mm
	Investment stages	- Mainly expansion capital (organic/M&A), no greenfield startups - Change of control transactions (MBOs, MBIs, P2P, strategic alliances) - Privatizations (generally under-capitalized requiring modernization)[6]
	Target Returns	Top quartile returns for sector
Investments	List of portfolio investments	Launched Fund with existing portfolio of 6 companies in East, Central and West Africa in the tea, sugar, forestry, arable farming and rubber industries. Currently 8 funded projects.[1] 1. Tanzania Tea Packers (Tatepa): Small tea investment involved in consumer marketing within Tanzania. It has 55 percent share of the Tanzanian tea market and provides employment to 17 000 people (including outgrowers). 2. Tanwat: CDC was involved in Tanwat from the 1950s. Tanwat become a major centre of economic activity in the Southern Highlands of Tanzania, providing the focus for the development of other local businesses. 3. Kilombero Valley Teak Co. Ltd: Greenfield plantation investment in Tanzania, set up 7 800 ha in 1992 to develop a quality commercial teak plantation in the southern region, to be maintained and harvested on a sustainable basis. 4. Mpongwe: The development at Mpongwe was the largest arable farm in Zambia, comprising 57,000 ha of land, of which 15,000 ha was farmed. It produced 100,000 tons per annum of wheat, soya, maize on 8,000ha of dry land and 5,000 ha of irrigated land. Mpongwe produced 50% of the Zambian crop of wheat, as well as coffee and cattle. 5. Nanga: 2,000 ha of sugarcane supported by cattle ranching in Zambia. 6. Grain Bulk Handlers Limited: Actis took a minority equity stake in a bulk grain-handling terminal at Mombasa Port in Kenya (only such facility in east Africa) in 2007 with an investment of $15 million. It commenced operations in 2000 and is the most efficient bulk grain handling facility in Africa, with a daily discharge rate from bulk grain vessels of over 10 000 tons per day and is currently expanding its silo storage capacity to over 150 000 tons. 7. Equatoria Teak Company: Controlling interest in ETC, which holds plantations in the State of Western Equatoria (gross area of 18 000ha and 1 600 ha of plantation). 8. Cavally: Actis made a $29 million investment in a rubber plantation and factory in western Cote d'Ivoire with production of >12,000 tons per annum.

Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	1. Tatepa: Assistance to become the first private company to list on the Dar Es Salaam Stock Exchange (access to shareholder expansion capital), helped increase wholesale tea prices, obtained Fair Trade status (premium of USD 0.45 for every kilogram of Tea direct tea sold has gone towards the Tea direct Premium Fund, which has helped finance local projects, such as new schools, text books, and health centres).[1,4] 2. Tanwat: AAAF was involved in developing an added-value sawmill facility. Tanwat developed various businesses that were then sold on, for example, Tanseed and the Kibena tea estate noted under Tatepa. 3. Kilombero Valley Teak Co. Ltd: Assistance for the development of private- or community-owned teak plantations in the region, development of a social fund established to contribute to the local communities. At certain times of the year, employment is provided to 600–800 people directly and indirectly through contractors. 4. Mpongwe: Farming skills base in northern Zambia 5. Nanga: Significantly expanded sugar cane during AAAF ownership 6. Grain Bulk Handlers Limited: Expanded its silo storage capacity to over 150,000 tons. 7. Equatoria Teak Company (ETC): ETC established a sawmill facility and is in process of obtaining Forestry Stewardship Council Certification, and is the first employer of any scale in Western Equatoria 8. Cavally: Expanded the plantation to 4,000 ha and built modern rubber processing plant to produce crumb rubber for export mainly to Europe.
	Format of outreach	Management time and support systems primarily Technical assistance & support: – promotes the highest standards in social, economic and environmental areas – provides guidance on strategic, governance and financial matters through close management contact[8]
Technology	Types of new technologies/systems introduced	Outgrower model is important to mitigate agribusiness risk by providing feedstock for processing facilities[6]
Partnerships	Description of cooperation with organizations including	- Government of Zambia - Through allocation of land on a 99-year lease for a nominal rental, free water rights and free connection to national electricity grid for Mpongwe. - DFIs to raise third party capital in some investments
Exit strategies	Management buy-outs/Buy-ins, Outright sale to Investor or Strategic, Merger, IPO	Primarily trade sales to strategic acquirers
Track Record	Fund Investment Performance	AAAF sold Tanwat in 2006. In 2006/07, it sold Mpwongwe in two parts to new investors who continue to develop its operations. AAAF sold Nanga to a Zambian-listed company (Zambeef) in 2008. Actis sold Cavally in 2007.[10]
	Social Performance Indicators	Actis' ESG Code covers issues of environment, social issues, health safety, business integrity, governance, and climate change. All of CDC's portfolio companies need to comply with CDC's business principles, including health and safety, business integrity and social policies.

CASE STUDY 1: RISKS AND KEY LESSONS HIGHLIGHTED FROM ACTIS AFRICAN AGRIBUSINESS FUND (AAAF) INVESTMENT EXPERIENCE

RISKS

Management skills: Often limited entrepreneurial/managerial expertise available in countries where investment takes place.

Information availability: Lack of reliable information on the investee sector or industry necessitates external expertise to dig out information required for due diligence on potential projects.

Pricing risk: Limited ability to compare prices casts uncertainty about viability at required price levels.

Debt availability: Local financial markets may lack liquidity and/or have high cost levels such as real interest rates of 20%

Exit risk: Capital redemption mechanisms and strategic buyer screening to assess exit prospects

Legal and regulatory framework: Ability to enforce legal agreements may be difficult, lengthy or even impossible and cultural principles may favor borrowers/debtors in default.

Country risk: Political stability may be difficult to predict over a ten year period.

Exchange rate risk: Aggravated by depreciating local currency but this risk can be mitigated by foreign exchange denominated earnings

LESSONS LEARNED

Management: Having the correct mix of skills for the specific project conditions (right management) is important for the success of a project. An ideal local partner must add value to the project and its goals must be aligned with investors' objectives. Due diligence needs to be exercised in the assessment of soils, climate, operating conditions and markets. It is also critical to have some links with research institutions in countries or regions where investment takes place.

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

Deal structure: Exits can be difficult therefore the return to investors should preferably include financial yield (dividends or interest) in addition to value growth at exit.

Market: An ideal marketing strategy must consider local and regional markets, as well as export markets. The assessment of accessibly of these markets is also critical; there are significant differences between land-locked countries and countries with a coastline. The business environment is a critical factor for sustainable businesses. In most cases, agribusiness investments involve acquiring large pieces of land, which tends to make them controversial. The investors therefore need to be sensitive to social and cultural issues related to land. For instance, in the case of Mpongwe, there was a clear, undisputed land title based on a 99-year lease from the Government of Zambia.

Technology/certification: Choose commodities with a successful track record for the prevailing growing climate and where appropriate certification for location, conditions and target market is possible.

Analysis Item	Analysis Item I	Advanced African Solutions
Fund Structure	Domicile of fund	
	Ownership	
	Fund Status	$250 million investment planned over two years in Zambian agricultural and tourism sectors [3]
	Fund Dates	
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	
	Investment status	
	Geographic focus	Pan-Africa
Fund Managers	Formal entity managing the fund	Advanced Africa Solutions, USA Keith John Smith - Managing Director Chris Helm - Managing Director Craig Bayley - Managing Director Jeff Fischer - Managing Director
Investment Strategy	Sectors	Mobile hospitals, Agribusiness, Hospitality, Commercial/Retail and Infrastructure [1] Subsectors in Agribusiness- Food Processing: Fruits and vegetables, milk and milk products, meat and poultry, packaged / convenience foods, alcoholic beverages and soft drinks, grains, health food and supplements
	Average Investment size	$100 million
	Investment stages	Green-field ventures
	Target Returns	
Investments	List of portfolio investments	Variety of large investments in off-farm post harvest food processing activities such as food and food processing technologies, skills and infrastructure, especially in areas of canning, dairy packaging, frozen food / refrigeration and thermo processing. 1) Acrow Corporation of America. The deal is for the design and construction of steel bridges across the country 2) Mann Lake is the largest manufacturer of honey processing and bee keeping in the United States of America 3) $100m earnmarked to construct grain silos throughout Zambia[2]
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	Value addition to food products has assumed vital importance. Advanced African Solutions are currently involved in a variety of development projects aimed at providing the underlying processes that will mitigate food deterioration and spoilage and, to devise appropriate measures and methods of preservation in order to ensure availability, acceptability, and safety of foods.[1]
Technology	Types of new technologies/systems introduced	Shelf-Life: Value is added by changing their form, colour and other such methods to increase the shelf life of perishables. Post- harvest loss reduction technology: Encompasses the usage of optimum harvest factors, reduction of losses in handling, packaging, transportation and storage with modern infrastructure machinery, processing into a wide variety of products, home scale preservation with low cost technology. [1]
Partnerships	Description of cooperation with organizations including:	Zambia Development Agency (ZDA) later signed a letter of intent with Advanced African Solutions of the United States for a $250 million investment in the tourism and agricultural sector

Analysis Item	Analysis Item I	African Agricultural Fund
Fund Structure	Domicile of fund	Mauritius
	Ownership	European and African DFIs: AFD, AfDB, AECID, FISEA acting by its manager Proparco, DBSA, BOAD, EBID, Phatisa (in aggregate $151 million)[1], OPIC ($100 million)[6]
	Fund Status	$251 million fund with fundraising target of $300 million
	Fund Dates	10 year Fund as of November 9, 2010, Investment period of 5 years. First Close: $151 million on 11/9/2010, Second Close: $100 million in 7/1/2011[1,5,6]
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	2% / 20% with catch-up once hurdle achieved / 6%[2]
	Investment status	$10 invested in 1 portfolio company (4% committed capital)
	Geographic focus	Pan-Africa, with a focus on Sub-Saharan Africa
Fund Managers	Formal entity managing the fund[4]	Phatisa Fund Managers, Limited (Mauritius, Kenya, South Africa (primary), Zambia and Ghana) Duncan Owen - Managing and Founding Partner Stuart Bradley - Founding Partner
Investment Strategy	Sectors	Priority investments are in food production and distribution in cereals, livestock farming, dairy, fruit and vegetables, crop protection, logistics, fertilizers, seeds, edible oils, smallholders and agri services. A quarter of the Fund will be invested in primary agriculture, excluding: bio-fuels, timber and alcoholic beverages[1]
	Average Investment size	US$ 5 million to US$ 20 million[4]
	Investment stages	Management buy-outs and buy-ins, expansions, acquisitions, refinancings and start-up new ventures with proven partners, no seed capital, short-term bridging or debt finance. Mission to build in-country empowered integrated agri businesses, for example: white protein (soya production, storage, expelling, animal feeds and poultry).
	Target Returns	Mid teens
Investments	List of portfolio investments	Goldtree S.L. Ltd, Sierra Leone: Brownfield palm oil plantation and milling company in the Eastern Province of Sierra Leone. In August 2011, AAF invested $10 million alongside FINNFUND and the sponsors in Goldtree, Sierra Leone to bring the total investment to US$ 20 million.[3]
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	Strengthening management, modernization and organization of the agricultural sector via the AAF Fund. The TAF Fund can conduct the study, design and fundraising for its interventions, which are then funded through grant capital. This could include funding projects such as: designing outgrower schemes; organizing and building the capacity of smallholder farmers; providing technical assistance to farmer organizations; facilitating third party input finance for outgrowers; training farm service providers; quality certifications; improving accounting standards and procedures; conducting market research; improving market linkages; developing growth strategies; and improving human resource systems.[4]
	Format of outreach	- Dedicated SME sub fund of a target size of US$ 60 million (initially US$ 30 million) - Technical Assistance Facility (TAF) of €11 million, to support outgrower/smallholder schemes in large companies and business development services (finance studies, capacity building) in SMEs. TAF is focused on assisting agri and food related companies invested in by the AAF, improving linkages with outgrowers, smallholders and/or SMEs supplying AAF investee companies with goods or services. [4,5]
	Economics of specific social capital adjacent to primary fund	TAF is an €11 million grant based facility to improve linkages between outgrower, smallholders and the companies invested in by the AAF and enhance rural financing opportunities in areas where AAF invests. The purpose of this facility is to provide technical assistance to agri and food related businesses that receive investment through the AAF, allowing them to create new opportunities for smallholder farmers, farmer business groups and rural communities. The TAF is funded primarily by the EC and overseen by IFAD and co-sponsored by the IDC, UNIDO, AGRA and the AAF. TechnoServe was appointed in October 2011 by IFAD to manage this facility. TAF can fund TA up to US$ 500,000 per company invested in by AAF. [5]
	Obstacles to outreach	The TAF may only Fund i) the maximum of $500,000 or 30% of the investment, ii) for up to 2 years and iii) for specific interventions as outlined in the operating TAF Manual. Therefore, there are limitations on the outreach of the TAF Funds. The TAF cannot fund infrastructure or capital expenditures, which can limit market linkages. For instance, feeder roads to facilitate transport, or a mill for the outgrowers to process maize. Other obstacles exist in finding the balance between Management's buy-in and the development impact, as they know that funding is available for development (development impact vs. risk mitigation), and putting controls in place to ensure that TAF funds do not boost returns without incurring the desired social impact.[4,5]
Technology	Types of new technologies/systems introduced	Crop rotation systems expected, potentially also market information services, databases to manage farmers, bulk SMS, brokering finance for new equipment (crop insurance, irrigation, etc)[5]
Partnerships	Description of cooperation with organizations	<u>Cooperation with DFIs</u> TAF - Funded by the EU and managed by IFAD LPs - Lead investors such as AFD and AECID, together with BOAD and EBID have pooled their shares into a first loss risk taking mechanism that will provide private investors into AAF with an accelerated return There will be three classes of shares:[2] •"A" shares - lowers the risk for C shareholders up to 6% return; • "B" shares - neither give nor receive any benefit of A shares; and • "C" shares - to receive a benefit from A shareholders.

Exit strategies	Management buy-outs/Buy-ins, Outright sale to Investor or Strategic, Merger, IPO	The AAF targets a liquidity event over 4-7 years. The exit strategy is always well-thought through in order to secure the combined interests of the Fund, the company, its founding members and management. Exit strategies will include the sale of the Fund's interests in portfolio companies to trade players, majority shareholders, local communities, secondary MBOs and listing on local exchanges, which are seeing increasing liquidity as asset management in Africa grows, in addition to dual listings, which improve fungibility.
Track Record	Fund Investment Performance	No exits to date, Pipeline of over US$250 million in opportunities
	Social Performance Indicators	Social Environmental Management System that features an environmental and social risk management system, guidelines for optimal use of the technical assistance facility and, for the first time in agri business private equity, a Code of Conduct for Land Acquisition and Land Use in agricultural and agri business projects to prevent unsustainable practices. All TAF projects must deliver development outcomes with a particular focus on the number of direct and indirect jobs created and the incomes increased by the projects. It is estimated that TAF, working with AAF, will reach 20,000 smallholder farmers in Africa. AAF is expected to directly create between 2,000 and 4,000 jobs and indirectly drive the creation of thousands more.[4]

CASE STUDY 2: AFRICAN AGRICULTURE FUND (AAF) PRIVATE EQUITY AND TA INVESTMENT IN GOLDTREE S.L. LIMITED

INVESTMENT

In August 2011, the AAF invested US$10 million in Goldtree, a brownfield palm oil plantation and milling company in the Eastern Province of Sierra Leone. The Finnish Development Finance Company (Finnfund) co-invested in the business to reach a total investment of US$20 million. Technical Assistance Facility (TAF) funding will be allocated to upgrade feeder roads, develop a scheme for replanting trees as well as organizing and financing a network of outgrowers.

STRATEGY

Goldtree will procure fresh fruit bunches for processing into palm oil from over 8,000 independent outgrowers across 30,000 hectares located within a 40km radius of the mill at Daru. The original mill was destroyed in the civil war in the early 1990s, and AAF and Finnfund's investment will finance a new and larger mill on the same site. The palm oil produced will largely be consumed in the domestic market.

Oil palm is indigenous to tropical West Africa and is part of the local diet. Globally approximately 90% of palm oil produced is used in food products, with industrial consumption accounting for the balance. Palm oil is a key ingredient in a wide variety of foods, primarily margarine and vegetable cooking/frying oil. Palm oil can be a replacement for butter fat and as an ingredient in ice cream, biscuits and mayonnaise. In Sierra Leone it is consumed daily and while per capita consumption is below the average for West Africa, demand is growing. Currently, the 'in country' processing method is inefficient and unsafe in terms of the oil extraction process, producing a low quality consumer product and unwarranted water pollution. Goldtree will be the first commercial crude palm oil mill to operate in Sierra Leone since the war. Goldtree management has a close and cohesive relationship with the community. The company leases, rather than owns, its nucleus palm oil plantation land from the village council at two sites, with the input and guidance from the Government of Sierra Leone.

OBSTACLES

With a small nucleus farm, Goldtree is almost entirely sourced to outgrowers, which is a project of significant magnitude to develop. The farmers need to be organized as outgrowers and a robust replanting program will need to be initiated. Organization of farmers alone can take years to execute, and the TAF cannot fund beyond the second year after the investment of the AAF. Moreover, the working capital required for the new plants, as well as the training over a long period of time, will exceed the amount of funding that the TAF is able to provide (maximum

US$500,000). Therefore, the TAF will largely develop the plan for the outgrower scheme and raise the funding required for the execution of the project. At a later stage, any ongoing interventions will need to secure additional funding from developmental sources not yet identified. It is expected that this first investment will need future funding to develop the strategy for replanting, logistics of collection and delivery, pricing contracts, training on crop rotation, etc. The TAF also is not the executing organization for the social interventions and, as such, service providers must be procured from the local market.

Analysis Item	Analysis Item I	African Agricultural Land Fund
Fund Structure	Domicile of fund	Luxembourg
	Ownership	Toronto Dominion Bank (Canada)[6]
	Fund Status	Target budget of €3bn[7]
	Fund Dates	First Close: 8/2008, Second Close: 9/2008, New sub-fund launched at end of 2009 to meet demand for subscriptions, currently fundraising for 7-year Fund[3,8]
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	Sub-fund economics: 2.5% / 20%-30% (determined by overall Fund performance)[8]
	Investment status	Investments in 5 countries: Zambia, Zimbabwe, Mozambique, Swaziland and South Africa, with plans to invest in 14 countries throughout SADC region[1]
	Geographic focus	SADC Region[1]
Fund Managers	Formal entity managing the fund	EmVest Asset Management, JV between Emergent Asset Management (London-based hedge fund) and Grainvest (South African agricultural traders)[1] Susan Payne, CEO, Emergent – EmVest Anthony Poorter - Managing Director EmVest Stephen van Schoor - Fund Manager EmVest
Investment Strategy	Sectors	Agricultural sectors - including crops, biofuels, livestock, game farming and timber. Two-fold strategy to develop virgin land into arable land using irrigation and then use the arable land to produce food crops[1]
	Average Investment size	1000-2000 ha of land[2]
	Investment stages	Greenfields, growth capital
	Target Returns	In excess of 25%[3]
Investments	List of portfolio investments	Investments aggregating 100,000 ha of land across 5 countries in Sub-Sahara Africa[2,5] 1. Emvest Limpopo – Matuba Farm, will develop virgin land into arable land to produce food crops using irrigation 2. EmVest Biofuels and Deep Water Produce (Mozambique) 3. EI Ranch (Swaziland) 4. EmVest Nuts, Evergreen, Foods, Eastern Cape (South Africa) 5. EmVest Evergreen 6. EmVest Foods 7. EmVest Eastern Cape 8. Ariston Holdings (Zimbabwe) 9. EmVest Livingstone (Zambia)
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	Modern management disciplines and introduce improved farmland techniques Fully integrated company: turf to table Developed own food distribution network[5]
	Format of outreach	Improve yields using modern farming techniques and capex - Increase cash crops/ horticultural products - Increase produce qualities with knowhow - Consolidate smaller plots - Higher value-added agri-processing - Expand market access - Develop outgrower scheme
Technology	Types of new technologies/systems introduced	Modern farming techniques, investing in technology such as irrigation to build arable land, and large-scale mechanisation
Partnerships	Description of cooperation with organizations including:	Grainvest: Firm of professional agricultural traders and one of the top five participants on the South African Securities Exchange, involved in agriculture locally, including farming, manufacturing, and transport and trading
Track Record	Fund Investment Performance	In the two years to March 2011, the Fund was up over 10%[9]
	Social Performance Indicators:	Considering social (human) and natural (environmental) factors, particularly employment creation
	Mini case studies for successful or problematic investments	EmVest Limpopo currently has 2,000 of land in Mozambique under dispute. The Investors were seeking and potentially granted 2,000 ha of land for the project. However, a provisionary title of land rights was granted for only 1,000 ha. Due to community concerns and conflicts, it appears unlikely now that the Company will receive the rights to the remaining 1,00 ha of land.[1]

Analysis Item	Analysis Item I	Agri-Vie Agribusiness Fund
Fund Structure	Domicile of fund	Dual Structure: South Africa and Mauritius[3]
	Ownership	SP-aktif, Sanlam Private Equity, IFC, AfDB, Norfund, Industrial Development Corporation (IDC), Kellogg Foundation, DBSA, EIB, South African and international investors, Makotulo Consortium[1,6]
	Fund Status	$110 million fund, ~50% invested[3]
	Fund Dates	Final Close in on September 30, 2010 with termination in 2019, target realization in 7-10 years[1]
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	Private
	Investment status	7 investments
	Geographic focus	Sub-Sahara Africa particularly SADC and East Africa
Fund Managers	Formal entity managing the fund	Agri-Vie Investment Advisors (Pty) Ltd with active fund management by SP Fund Managers (Pty) Ltd (South Africa) Sanlam Private Equity is one of the largest PE firms in S. Africa with around R5.3 billion in assets under management Herman Marais - Managing Director Izak Strauss - Executive Director & Chief Investment Officer
Investment Strategy	Sectors	Food and agribusiness value chain Subsectors: Food and beverage FMCG, Convenience foods, including fresh packed and prepared foods, Protein products including from poultry, aquaculture and beef, Value added dairy products, including yoghurts, desserts, cultured milk, Health & wellness products/ nutraceuticals, Forestry and timber products, Agricultural inputs including seeds, bio-friendly fertilizers and crop-protection, Food logistics – cold chain, warehousing, distribution, Renewable energy and - in the context of integrated rural development - Agri-Vie's mandate includes investments in ecotourism.[1]
	Average Investment size	ZAR 40m/ $6 million[1]
	Investment stages	Growth capital: Business expansion and consolidation ('buy-and-build'), corporate unbundling, privatization, MBO's[1]
	Target Returns	Above average
Investments	List of portfolio investments	7 current portfolio investments[1] 1. AfricaJUICE: Passion fruit in Ethiopia, vertically integrated grower and processor of tropical fruit juice. Investment of R25.5 million ($3.5 million).[9] 2. Asilia Africa: Safari lodge in Tanzania 3. Coconut oil plant in Mozambique 4. Dew Crisp: Convenience salads in S Africa with 45% product from farming groups 5. Fairfield Dairy: High quality, medium sized dairy in South Africa. Agri-Vie purchased 26% stake in December 2009.[8] 6. New Forest Company: One of only two plantation forestry and timber companies of scale in East Africa. Investment of nearly R50 million ($6.7 million).[9] 7. Hygrotech: Market leader in vegetable seed marketing and distribution in South Africa. Agri-Vie purchased 37% stake in February 2011.[11]
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	Active management as shareholder/ directors, Hands-on, consultancies, project management (situation specific)[3]
	Format of outreach	Setting up a Technical Assistance Facility from 2012[3]
	Economics of specific social capital adjacent to primary fund	TA facility 40% - 50% subsidized from 2012[3]
	Obstacles to outreach	TA Limitations: Need strengthening of TA funding to do more, inclusive or organizing outgrowers and other micro-enterprises Pipeline development: Industry needs concessional capital to act as 'feeder fund' to smaller, earlier stage food & agribusinesses that could allow them to 'graduate' to PE funding level Project management support: Needed to liaise and organize between local business stakeholders such as communities, NGO's, government etc[3]
Technology	Types of new technologies/systems introduced	Outgrower schemes - Under this scheme, a strategic company will provide training and technology transfer to these farmers. The Fund will seek to replicate such models.[7]
Partnerships	Description of cooperation with organizations	Cooperate with LP's including DFI's, relevant NGO's, Global Impact Investment Network (GIIN)
Exit strategies	Management buy-outs/Buy-ins, Outright sale to Investor or Strategic, Merger, IPO	All standard and customary exit options:[1] - Strategic (trade) or financial sales - Sales back to management or other shareholders - Listing on a main or alternative stock exchange - Appropriate dividend policies Specific exit strategy for Fairfield Dairy is consolidating the Fairfield business with other businesses in the sector and listing or through a trade sale to another company.
Track Record	Fund Investment Performance	Private, Fund was oversubscribed and closed 10% higher than anticipated[4] Expecting to complete investment in 2-3 years and raise 2nd fund in 2013 0r 2014 of $200-300 million[10]
	Social Performance Indicators	Multi-criteria clustered into social, environmental, governance, economic.[1] 1) A demonstrably positive impact in general on rural socio-economic development: wealth creation, rural employment, entrepreneurship, diversification of the economic base 2) Participation by local entrepreneurs and shareholders in ownership & management 3) Utilization of local resources 4) Socially and environmentally sustainable 5) Sound corporate governance

CASE STUDY 3: PROVEN SUCCESS ACROSS PRODUCTION AND SMALLHOLDER INTEGRATION AT africaJUICE

africaJUICE

INVESTMENT

In December 2008, Agri-Vie invested US$3.5 million in africaJUICE, a company that is establishing fruit production and processing operations in East Africa. Its first operation is in Ethiopia, growing yellow passion fruit, mango and papaya. The development of the business involves converting a 1,200 hectare state-run farm into a partnership with both management and co-investors.

STRATEGY

Ethiopia's dry and moderate climate combined with plentiful water for drip irrigation offers ideal growing conditions for passion fruit. Agri-Vie's investment, in africaJUICE, is aimed at capturing a slice of the lucrative European and Middle Eastern juice market. Izak Strauss, Director at Agri-Vie, has stressed that European companies usually source passion fruit juice from South American producers, but can find the supply and quality to be irregular. africaJUICE has already negotiated agreements to sell its fruit juice to a number of buyers. Cash flow is currently generated through vegetables and citrus fruits that are being harvested on the land for local marketing[10 13]. africaJUICE Chief Operating Officer (CEO), Harry van Neer, explained that "yellow passion fruit has so far not been commercially grown in Africa, but Ethiopia, with its dry and moderate climate, offers the perfect growing conditions as it has low levels of rainfall, combined with plentiful water for drip irrigation".

In February 2010, the company began construction of the processing facility with the support of a World Bank Multilateral Investment Guarantee Agency (MIGA) guarantee to cover its equity investment and non-shareholder loan. africaJUICE is the first investment in Ethiopia to receive this guarantee. The plant and technological line was completed in April 2010, rendering the company functional to produce high quality fruit juice for the European market[12]. The company launched juice exports in November 2010 and has since expanded its product offering to mango puree.

SOCIAL IMPACT

The company, which employs between 2,000 and 2,500 people depending on season, will apply for Fair Trade accreditation – making it the first Fair Trade-accredited tropical juice producer in Sub-Saharan Africa – and is aiming to transform the lives of the local community by offering a stake in the business to a farmer cooperative which represents the outgrowers in the local community. Agri-Vie CEO Izak Strauss has expressed that "the Upper Awash area of Ethiopia, where africaJUICE is situated, had very little formal employment previously, so the company is providing new skills and employment opportunities to the local community and is also helping local subsistence farmers by providing them with sustainable earnings growth".

Agri-Vie identified the opportunity to develop an outgrower scheme impacting more than 1,000 farmers who will supply fruit to africaJuice on a long term basis. Under Agri-Vie, the company formed an Outgrower Incubator Project team to facilitate the arrangements for the smallholder farmers to start production. In December 2009, they announced the commitment of the first group of smallholders to provide passion fruit, which commenced planting with 13 hectares in May 2010. The outgrowers formed the first cooperative, signing an outgrower contract to secure a purchase price beneficial to all actors in the value chain.

Analysis Item	Analysis Item I	Carlyle Group Sub-Saharan Africa Investment Group
Fund Structure	Domicile of fund	
	Ownership	
	Fund Status	Fundraising
	Fund Dates	Proposed $500 million launched in March 2011
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	
	Investment status	
	Geographic focus	Sub-Saharan Africa
Fund Managers	Formal entity managing the fund	Carlyle Group (Johannesburg and Lagos) Since 1999, Carlyle has invested $6.4 billion in equity in emerging markets, $16.6 billion in AUM in emerging markets
Investment Strategy	Sectors	Consumer goods, financial services, agriculture, infrastructure and energy
	Average Investment size	
	Investment stages	Buyout and growth capital investments
	Target Returns	
Investments	List of portfolio investments	
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	Industry specialization, deployment of human capital and access to Carlyle's global network

Analysis Item	Analysis Item I	Chayton Atlas Agricultural Company
Fund Structure	Domicile of fund	Mauritius
	Ownership	DFI Funding from European organizations
	Fund Status	First close $10 million Friends&Family round with fundraising target for additional $150 more [7]
	Fund Dates	6 year Fund launched in 2009. First Close: $10 million in 11/2010, Second Close: $150 million expected by end of 2011 [7]
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	2% / 20% / 8%
	Investment status	$10 million invested in 3 businesses in Zambia. Currently in process of negotiating five acquisitions to coincide with the Second Close.[2] Target to establish 3-5 production hubs across sub-Saharan markets, each with 10,000-20,000 hectares under irrigation (7-10 acquisitions expected per hub) [1,7]
	Geographic focus	SADC Region (Zambia, Botswana, Malawi, Mozambique, and Tanzania) [1]
Fund Managers	Formal entity managing the fund[2]	Chayton Africa (London, South Africa) Led one of the largest vertically integrated agricultural companies in Zimbabwe Neil Crowder - Managing Director and Co-Founder Andrew Baird - Do-Founder Dabney Tonelli - Managing partner of Chayton Capital LLP and MD of Chayton Africa (Pty) Ltd. Stuart Kearns and Philip Nicolle - Commercial farmers
Investment Strategy	Sectors	Agriculture - primary: staple crops: maize, soya and wheat[1]
	Average Investment size	$10 million (minimum of $1 million), with a typical transaction comprising 2,000 to 5,000 hectares of land
	Investment stages	No greenfield projects, only developed projects (i.e. existing farms with assets, land and water rights, etc.). The acquisition strategy targets underperforming production sites with under-exploited water access and resources
	Target Returns	Commercial - 25% per annum[2]
Investments	List of portfolio investments	$10 million equity invested in Chobe Agrivision in Mkushi, Zambia through the purchase and expansion of irrigated cultivation on six farms (four closed last month) to be developed as one and linked to adjacent farms. Corn and soya production is in effect with plans is to sell in continent (80% region, 20% local). Chayton mobilized the financing of an additional $13 million in debt, including from Africa Agriculture and Trade Investment Fund, to complete the transaction.[7,8]
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	- Achieve economies of scale through the creation of service businesses along the value chain, for example upstreaming the production into milling, storage and transportation[1] - Create jobs and improve conditions for the farming workforce and their families - Conduct training within communities through outreach programmes and formal education - Cultivate next generation of farm management from within the local communities - Provide access to markets and to centralised services, storage and equipment[2]
	Format of outreach	As the Fund strategy is to get 10,000 ha of irrigation within a 50 km radius, the Fund creates a central pool of equipment[7]

Technology	Types of new technologies/systems introduced	Advanced farming techniques and irrigation methods, Integrate storage and milling at each hub[1,3] Zero tillage: Creates natural fertilizing effects, increases organic matter in soil and improves soil structure, protects against erosion, conserves moisture, reduces farm labor, expands growing window between planting and harvest Double-cropping: Boosts yields significantly, enriches soil, expands crop diversity. Commercial farm operators can introduce routes to market for crops (i.e.) soya, enabling local farmers to increase their income while improving the quality of their soil from the legume with a natural nitrogen fixing effect on the soil. Over time, the productivity of the maize/soya farmers will increase, which further increase their income as maize yields rise in response and surpluses can be sold.[5] Precision farming: Uses a combination of global positioning and geographical information systems and remote sensing data, programming trucks to spread tailored fertilizer and pesticide deposits, reducing waste and optimizing input usage Satellite tracking: Enables shipment tracking and weight monitoring, providing a level of security and risk management to protect the business Low cost techniques like conservation tillage and crop rotation can easily be introduced to local farmers by neighboring large-scale commercial operators.
Partnerships	Description of cooperation with organizations	MIGA: MIGA will provide political risk cover for Chayton's investments in Zambia and Botswana, conditional guarantee supporting up to $50 million of agribusiness investments[4] Debt Providers: The Fund has also raised a significant amount of debt funding from [the German Government, the Africa Agriculture and Trade Investment Fund and local finance[7]
Exit strategies	Management buy-outs/Buy-ins, Outright sale to Investor or Strategic, Merger, IPO	Each asset purchased is a SPV to facilitate exits by providing the option to sell the individual companies or value chains. Targets either listing companies on European or South African stock exchanges, or a sale of the combined assets[7]
Track Record	Fund Investment Performance	No exits yet In previous initiaitives, planted 2,000 hectares of irrigated wheat in 1974 and gew to produce 100,000 tonnes of grain crops per annum from 22,500 hectares in 1997[1]
	Social Performance Indicators	Annual monitoring to World Bank requirements, including indicators such as employment, salaries and environmental factors such as quality of water and soil

CASE STUDY 4: CHAYTON DEVELOPS FIRST HUB THROUGH AGGREGATION OF FARMS IN ZAMBIA

INVESTMENT

Chayton has US$10 million equity invested in Chobe Agrivision in Mkushi, Zambia, through the purchase and expansion of irrigated cultivation on six farms (four recently closed in September 2011) to be developed as one and linked to adjacent farms. The key products include corn and soya, which the company plans to sell regionally (80% region, 20% local). Chayton mobilized the financing of an additional US$13 million in debt, securing the first investment from the newly launched Africa Agriculture and Trade Investment Fund, for a total transaction value of US$23 million.

STRATEGY

The Chayton strategy of consolidation relies on significant opportunities to leverage high-quality machinery and equipment across larger production hubs to increase revenues and achieve optimal productivity on additional primary production farms. Machinery and equipment can be exploited to optimize productivity of pipeline farm assets. Chayton initiated the development of this production hub by investing in adjacent farms cultivating rain-fed maize and soya on two properties totaling 2,504 hectares in the heart of the Mkushi Farm Block to be developed as one and linked to adjacent farms. These farms have existing irrigation, fertigation systems, a dryer and silo complex. The farms also share the benefit from water infrastructure, as both farms have shares in Masebe Dam constructed recently on the Munshiwemba River. Chayton identified the opportunity to leverage joint water rights to the dam to support expansion of irrigation schemes from 210 ha on Farm 1 to 800 ha across both farms.

SOCIAL OUTREACH

Chobe has a 14 year lease from the Zambian government and expected to hire 3,000 people locally during 2011. While Chobe will build its own processing mills for wheat, corn and soy, it will add spare capacity for local small-scale farmers so that they can earn more income. While small-scale farmers cannot afford large irrigation systems, they can learn zero till farming, which reduces the erosion and helps to lock nutrients into the soil. Chobe has a strong sense of commitment to the local community and intends to provide employment for these villagers/neighbors. These small-scale farmers will receive training and technique intended to boost yields by over three times (3 tons of maize per hectare to 10) while reducing their negative impact on the environment through harmful farming techniques.

Analysis Item	Analysis Item I	Futuregrowth Agri Fund
Fund Structure	Domicile of fund	South African
	Ownership	International investors in Britain, China, the Netherlands, and the US[8]
	Fund Status	R 7.5 billion (including 4.5 billion reserved just for South African investments)[2]
	Fund Dates	12 year Fund launched March 1, 2010.[1] First Close: 9/2010, Second Close: 12/2011
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	1.75% / 20% of outperformance of benchmark payable on wind-up of Fund[1]
	Investment status	One investment to date
	Geographic focus	SADC region with carve-out specific to South Africa
Fund Managers[1,3]	Formal entity managing the fund	Futuregrowth Asset Management / United Farmers Fund Management Futuregrowth manages around R100 billion of investor Funds James Howard - Investment Manager Erwin Bouland - Joint Managing Director at UFF and Investment Manager Duncan Vink - Joint Managing Director at UFF and Investment Manager
Investment Strategy[1]	Sectors	Public Private Partnership with government to transition land from white farmers to black locals[9] Agricultural land, agri-businesses and farming infrastructure: Row crops (e.g. nuts and maize), Permanent crops (e.g. citrus and deciduous fruit), Timber, Cattle and dairy
	Average Investment size	R 100 million per farm
	Investment stages	Land Reform Model: Public private partnerships to reform land with existing farm assets
	Target Returns	CPI + 10%
Investments	List of portfolio investments	Futuregrowth has invested in a large farm 150km northeast of Johannesburg that will be run by an established agri-business firm looking to sell oranges internationally (Dec 2011)
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	SRI policy Land reform (target 50%), Commercial agricultural farmland development (target 50%)[2] Futuregrowth brings in a Farm Operator to execute the land reform and provide training and education for the local community as employees and future owners of the farm
	Format of outreach	The Futuregrowth Agri-Fund selects suitable farms from the Government recommended list to buy and empower before final hand-over to the community. In ~10 years the Government buys the empowered farm back for purposes of land reform. After 5-10 years, and when the farm is running smoothly, the Department of RDLR fulfills the contract and transfers ownership to the community, backed by a World Bank guarantee of the value. Employment, skills transfer, training, health care and education programs (partnering with Carecross and Open Learning Group).[2]
	Economics of specific social capital adjacent to primary fund	Not applicable
	Obstacles to outreach	- Existing difficulties and confusion obtaining the land rights in Mozambique - Farmland is not a recognized asset class (Non-traditional real estate). - Agri-business deals with investment mandates, such as liquidity requirements (i.e. listed and traded) and regular valuation. - There are restrictions on ownership rules in some jurisdictions (i.e. some jurisdictions prohibit corporate, institutional and/or foreign ownership). - On-the-ground management, such as farmland property management, is often underdeveloped. Also, quality farmlands can be hard to find. - Many entrepreneurs will raise money for farmland investments but only the ones with the track record to deploy capital and manage effectively will thrive. - Farmland is an investment, not a trade, and a long-term focus is to be maintained. Farmland investments do not bring immediate profits.
Technology	Types of new technologies/systems introduced	Proprietary IT system that monitors every aspect of how the farm is run, computerized irrigation, every section of every row of crops bar-coded so crops (i.e. oranges) can be traced from the moment it is picked to the moment it goes on sale a couple of weeks later.[8]
Partnerships	Description of cooperation with organizations	<u>Government of South Africa / Department of Rural Development and Land Reform (RDLR)</u>: identifies farms to form part of the land reform program and assist in the process of land reform transfer <u>World Bank</u>: Guarantee of value during the transfer of the ownership of the land back to the community[2] <u>SNS</u>: Provides international backing and access to European investors. <u>CareCross and Open Learning Group</u>: Healthcare and training providers
Exit strategies	Management buy-outs/Buy-ins, Outright sale to Investor or Strategic, Merger, IPO	After 5-10 years, and when the farm is running smoothly, the Department of RDLR fulfills the contract and transfers ownership of the land to the community, backed by a World Bank guarantee of the value.[2]
Track Record	Fund Investment Performance	Private
	Social Performance Indicators	Futuregrowth operates under an SRI Policy monitoring: land development, environmental conservation reform, employment, health care, community ownership, housing, education, food security.[1] Futuregrowth Asset Management is a signatory of the United Nations Principles for Responsible Investment initiative.

Analysis Item	Analysis Item I	Silverlands Fund
Fund Structure	Domicile of fund	Luxembourg
	Ownership	3 DFIs: CDC, Finfund and Danish Development Group. Other investors include Pension Funds, Insurance Companies, Endowments and Foundations in Europe and the US[3,6]
	Fund Status	Fund of $13 million, ongoing fundraising with $60 million subscribed and an additional $112 million committed. Target of $200 million with flexibility to close at $300 million[7]
	Fund Dates	10 year Fund launched in 2010. First close: $13 million in 1/2011 with $93 million by 3/2011. Second Close: Expected to reach $200 million in 1/2012[1, 7]
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	2% / 20% / 7% (only once all investors are paid out)[1, 7]
	Investment status	No investments yet, target of 15 agribusinesses
	Geographic focus	Southern/Central Africa (Malawi, Mozambique, South Africa, Tanzania, Uganda, and Zambia)[2]
Fund Managers	Formal entity managing the fund	Silver Street Capital (South Africa) Gary Vaughan-Smith - Chief Investment Officer
Investment Strategy	Sectors	Value chain in agribusiness with a focus on farmland and primary production businesses, specifically producing crops such as grains, soya, fruits, vegetables, sugar, tea, and coffee. Commercial farms will function as hubs where local small-scale farmers can receive crop fertilizers, education, technical assistance, and compensation for their harvest.[3]
	Average Investment size	Approximately $15 million, as target portfolio will have 12-15 companies
	Investment stages	Expansion capital
	Target Returns	Commercial, 20-25% per annum
Investments	List of portfolio investments	No investments yet
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	Diversifying across the value chain: For a business that grows maize and wheat, they can purchase a maize mill. For a business that produces grains such as soya and maize, they can introduce oil, soya cakes, fish proteins, etc. Or, they could go in the other direction and produce better seed.[7] Irrigation, mechanization (scale and cost efficiencies), processing of outputs to enhance profits, marketing (timing and logistics of farming is a critical element to delivering profitability), storage facilities to manage timing
	Format of outreach	Dedicated management time from Fund Managers with deep knowledge of agriculture in Africa, Support systems Hub and outgower model: Seeking to invest in large commercial farms. Outgrower scheme leads to community buy-in, which provides i) Security of land tenure ii) Increased levels of production --> Economies of scale that may justify moving up value chain (i.e. can now justify having a mill rather than selling to other millers)
	Obstacles to outreach	Credit for farmers: Fund cannot provide this crucial capital. The capital is required for working capital for the outgrowers, and will allow them to fund seed, chemicals, labor, etc. The Fund is investigating partnerships with NGOs or MFIs to provide such credit but had not yet found an ideal solution. Training for smallholders is also a key need that they have not secured in every region, and identify linkages to market as an expected obstacle in the future.[7] Pipeline Sourcing: Hindered by lack of centralized information base for companies with DFI funding that may be soon prepared for proper investment; need more organizations like AgDevCo Investment: Agriculture has become more mainstream to pension funds, but they are still largely ignorant about the risk/reward profile of Africa[7]
Technology	Types of new technologies/systems introduced	- Planting technologies: include conservation farming, planting on time, using mulch properly, zero tillage, rotation, planting in lines and crop selection - Input finance: Arrangement of credit systems for input finance - Irrigation: Irrigation ensures delivery of a crop even in drought conditions. Over and above the water security, a reliable water source ensures that the farm is able to plant early, and therefore increase crop yields, and, more importantly grow a winter crop, typically wheat. The ability to grow a second crop in winter is an important competitive advantage of farming in Africa as this is not possible in most grain produce areas globally.[6,7]
Partnerships	Description of cooperation with organizations	TA Partner: Foundations for Farming in Zambia; they will need to identify TA partners in other regions where investments are made. TA Partners will provide farming assistance to outgrowers to improve techniques through fairly basic methods as discussed in technologies above. They will be granted land on the site to form a training center and test farm of 100-150 ha. Foundations for Farming is a non-profit organization that is based in Zimbabwe but is currently doing work in 8 countries across the African continent. The Foundation has helped to train farmers working some 350,000 Hectares across Africa.[6,7] MIGA: MIGA will insure some of the Fund's investments for political risk covering currency inconvertibility and transferability, expropriation, war and terrorism and non-honoring of soverign rights[1] OPIC: OPIC has awarded a $150 million loan to replace the burden of high cost debt for working capital (irrigation, machinery replacement, other) within acquired businesses
Exit strategies	Management buy-outs/Buy-ins, Outright sale to Investor or Strategic, Merger, IPO	-"Consolidate and IPO" plan, where strategy includes listing a consolidated company on the United Kingdom Exchanges[1] - Strategic sale of combined or individual businesses
Track Record	Fund Investment Performance	No investments yet, developing pipeline for diligence
	Social Performance Indicators	Signatory to the United Nation's Principles for Responsible Investment and United Nations has a Global Compact, a strategic policy initiative for businesses committed to aligning operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption[3] Social investment metrics: The fund's goal is to reach 100,000 small farmers in each country of operation over ten years, which would lead to an estimated increase in total food production of 2.8 million tons per year. KPIs include food production, additional people fed, number of families engaged, increase in family income, saving of donor funding[1]
	Mini case studies for successful or problematic investments	Key success drivers: Target Prime Farmlands only, Install top management teams, Modern equipment to raise productivity Case study of missed opportunity: Identified target farm in Zambia, mapped out smallholder plan of inclusion, location of training facility and activities of Foundations for Farming and other key outreach plans. Business was purchased while they were conducting diligence. Obstacle is timing required to conduct proper diligence (longer diligence needed to incorporate social factors).[7]

Analysis Item	Analysis Item I	Standard Bank Private Equity
Fund Structure	Domicile of fund	
	Ownership	Investment arm of Standard Bank Plc, a public company listed on the Johannesburg Stock Exchange[4]
	Fund Status	Investing
	Fund Dates	Average holding period of 5-7 years, though no fixed investment period[3]
	Fund incentive economics (Management Fee, Interest Carry, Hurdle Rate)	
	Investment status	Approximately $200 million[2]
	Geographic focus	Global, South Africa office focus on Sub-Saharan Africa
Fund Managers	Formal entity managing the fund	Standard Bank Private Equity (London, UK with offices in Johannesburg, South Africa, and São Paulo, Brazil)[4] Global private equity business has funds under management of over $1 billion Ms. A. Bilge Ogut - Deputy Global Head and Chief Executive Officer of Private Equity Mr. Navaid Burney - Head of Private Equity Mr. Edward Hammer - Senior Vice President Mr. Jaques Fourie
Investment Strategy	Sectors	Generalist, includes agriculture
	Average Investment size	$10m to $50m in companies with an enterprise value in excess of R100 million ($14.34million)[4]
	Investment stages	- Acquisition funding for leveraged buyouts, management buyouts and de-listings - Expansion funding for businesses that require cash for growth opportunities - Replacement capital for changes of ownership and acquisitions[1]
	Target Returns	Above 20%, in line with market returns
Investments	List of portfolio investments	Agriculture-related Investments[1] 1. CJP Chemicals (South Africa, 2007): Acquired from CJ Petrow Holdings in MBO. Remaining shareholding being held by management. CJP Chemicals supplies a comprehensive range of specialised chemical raw materials for the food, pharmaceutical, personal care, agricultural and industrial markets. 2. Dairybelle (2007): Acquired in MBO from Tiger Brands. Dairybelle manufactures, distributes and markets dairy, dairy related and fruit juice products throughout South Africa. Multiple investments in company between 2007-2009 totalling $36 million for 69% of the business[5] 3. The Company of Wine People (2003): Acquired share in MBO. Company is one of South Africa's top wine producers and the country's fifth largest packaged wine exporter (selling 80% of volume to foreign markets).
Support to Investees / Outreach structures	Type of services (i.e. Subcontracting, training, organization, processing, storage, input supply, quality control, logistics, distribution, marketing, price risk mgmt, credit)	Standard Bank aims to partner with management to provide strategic advice and direction in medium to long-term investments aimed at growing each business, and improving its performance and efficiencies[1]
	Mini case studies for successful or problematic investments	Insight on LPs in African Private Equity: DFIs (CDC, IFC, FMO) have done a great job at seeking the industry. Some countries, such as S Africa have local money. In many countries, other private sources of local funding, such as pension funds cannot yet invest in private equity. This is likely to become a big source in the coming years. The final market for private equity funding, the traditional LP market from the US and Western Europe institutional investors, has not been tapped in any great depth.[6]

4. Study Findings and Further Analysis

These findings cover themes across the lifecycle of a private equity fund, including fundraising and limited partner (LP) relations, pipeline generation, due diligence and generating value accretion for portfolio companies. No significant obstacles were highlighted with regards to exit opportunities, despite exits taking a prominent role in general private equity concerns. This disconnect may be ascribed to the fact the funds included in this study are largely in very early stages and therefore have not experienced obstacles with their marketed theories for successful exits.

Beneficial Impact of Development Finance Institutions (DFIs) as LPs may Complicate Traditional Private Equity Model

The majority of the funds included in the study have a unique investor base that includes traditional institutional investors (LPs), as well as DFIs. The DFIs enter into the fund alongside the traditional investors, and thus essentially become LPs. For purposes of this report, the term LP will define the traditional investor base, largely consisting of institutional investors such as pension funds, and DFI will represent the developmental organizations investing alongside these LPs.

While it is has traditionally been less common for DFIs to invest in private equity funds, these organizations have an increasing interest in providing capital to investors in agriculture in Africa due to the increasing awareness of the effectiveness of equity capital in development. The Commonwealth Development Corporation, a DFI with a long history of investment into equity funds, explains that DFI investment into investment funds can "demonstrate investment potential of the continent" and "leverage investment capital through mobilizing other investors."[4] A growing interest in private equity was demonstrated by European and Asian DFIs in 2009 with the endorsement of the Institutional Limited Partners Association's (ILPA) Private Equity Principles to align with traditional LPs on governance and transparency.[5] The Preqin Investor Intelligence database recorded that 51 DFIs have invested in Africa-focused private equity funds, representing 9% of all LPs investing in private equity in the region.[6]

Although both types of investors are providing capital to the same funds, they have slightly different incentives and roles overall. Institutional investors seek profits, though more and more investors are realizing that social impact can increase returns through impacts on community buy-in, employee relations and land right, among others. The DFIs, on the other hand, are seeking development and social benefits. While they understand the importance of profits in building sustainable solutions, their priorities are slightly different from their counterparts.

In fact, it is often precisely DFI capital that enables the funds to raise the large amounts of capital that are profiled above. DFIs in the African Agriculture Fund, for example, take a first loss position, allowing the traditional investors to reduce their risk without lowering their expected returns. Despite the for-profit nature of private equity, DFIs are taking this role as first loss investors in order to facilitate greater amounts of equity into agribusiness. Additionally, according to a news article discussing the Africa Forum 2011, "the participation of DFIs provides transparency and attracts private money."[7]

This dual-investor model[8], however, leads to complications that private equity funds focusing on other industries do not face. From discussions conducted during the study, it grew apparent that, while DFIs are increasing their presence in fund investment, these organizations do not yet operate as efficiently as LPs. In many cases, this discord can lead to impediments in investment, as represented by the following examples from the study:

i. The process to secure capital often takes far longer than achieving an investment from a traditional LP. In addition to time, requirements to secure the capital from the DFIs is often far more onerous and in an entirely unique format to the reports requested by the LPs. This results because the DFIs generally:
    a. Are often not familiar with traditional Fund due diligence processes and therefore create an internal process that may differ broadly from the process of LPs.

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[4] "Private Equity in Africa - a DFI Perspective", CDC, May 2010.

[5] "EDFI members endorse ILPA Private Equity Principles", EDFI, December 2009.

[6] "Development Finance Institutions investing in African private equity", Preqin website, March 2011.

[7] "Unlocking Investment in Africa: Could Private Equity be the Key?" ReConnect Africa.

[8] Note, dual-investor refers not to two investors, but rather two unique forms of investors pooling together to capitalize the Fund: DFIs and LPs.

b. Do not yet have conformity in application requirements even across DFIs (for example, multiple potential DFI investors requiring unique long essays).

c. Are not driven by the same timelines (i.e. return of capital to investors in 5-10 years).

ii. DFIs have expressed a lack of interest to pay certain common transaction fees, such as legal costs that may exceed the expectations of DFIs and yet be acceptable to traditional LPs due to the importance of carefully prepared transaction documentation.

iii. The DFI mission prevents these organizations from crowding out the private sector, and therefore they cannot compete or bid against a private sector firm or investor.[9] This can sometimes lead to conflict between the objective to allocate capital and the higher mission.

iv. DFIs may not invest in a fund after the first close of capital, even if the first close was a small Friends & Family round of financing (an early fundraising round where the entrepreneur builds a relatively small amount of capital from his or her personal network). This does not necessarily follow investor logic, whereby often the risk is reduced by a successful Friends & Family round.

v. Many DFIs balk at the concept of allocating money to companies and instead provide money to the service providers that execute the TA. These restrictions may limit the uses of the TA funding or increase the difficulty tying the funding to an investment strategy designed by the investors.

As clarification, this study is not implying that the traditional LP diligence process is ideal and complete for the needs of DFI investors; however, the process of the former is comprehensive across both qualitative and quantitative aspects of the business. Traditional LPs complete diligence on environmental factors to mitigate potential future liabilities, and are increasingly conducting diligence on social aspects (which is productive even if such information may only be used in marketing materials). DFIs generally conduct less intensive financial investigation and focus more on qualitative aspects and social benefits. As a result, it is unclear why the DFI diligence process can take more than double the time of LPs. A suggestion from one party interviewed suggested the lack of experience in conducting due diligence sessions and the lack of understanding that the uniqueness of each DFIs diligence process can lead to substantial delays in the fundraising process. The study is not suggesting that DFIs change their objectives, but that perhaps with greater training on private equity deal processes and increased mechanization of the diligence process, the DFIs could be more efficient as investors and reduce the time required to close a fund.

TA Funding is Desired by Funds and yet not Integrated with DFI Investors

TA funding is understood among agribusiness investors to enhance both the social impact of the funds as well as competitive performance of the portfolio companies. It assists fund managers in i) fundraising with traditional LPs, ii) due diligence – by opening up a pipeline of potential investments that may not be as attractive without the opportunity to provide additional capital towards capacity building, and iii) exits, if we assume that the TA

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[9] "Development Finance Institutions: Profitability Promoting Development", Thomas Dickinson.

Funding has been appropriately funded and has improved the business in the intended ways. As subsidized capital, TA can make exits available by increasing the financial performance (and thus returns on investment (ROIs)) of the business.

A PROPARCO (Investment and Promotions Company for Economic Cooperation) newsletter from July 2011 announces "TA, a development tool serving the private sector: Including consultancy as part of the investment package not only increases businesses' chances of survival but also their ability to improve living conditions for local communities." The report goes on to announce that "Combining funding and TA" is more effective than simply providing grants to for-profit businesses. It is clear that DFIs acknowledge the importance of TA funding. Yet, European DFI resources for technical support amount to less than 0.85% of annual funding for 2010. As a comparison, the International Finance Corporation (IFC) spent approximately 3.95% on similar activities in 2010.[10]

This study has identified three key roles that DFIs play in the lifecycle of a private equity fund: i) as Investors in the Fund, ii) as capital providers for a structured TA facility, and iii) as capital providers for the execution of TA programs.

i. <u>Investors</u> – DFIs are investing in private equity funds. This theme has been discussed throughout the report thus far.
ii. <u>TA Facility</u> – A dedicated TAF is a structured fund of capital to provide TA to businesses. Private equity funds can raise such a fund adjacent to an investment fund with the mandate to allocate TA funding to portfolio investments to enhance the performance of such businesses. TA facilities exist in distinct funds as well, such as the African Enterprise Challenge Fund[11], and the fund manager has the option to apply for TA funding alongside the investment from the fund.
iii. <u>Program Funding</u> – Multiple funds included in this study expressed a limitation in executing TA programs desired to increase the social and economic performance of their portfolio companies. One example included a fund that will design an input finance scheme to assist satellite smallholder farmers to gain resources required to supply a central farm, but the fund cannot provide the working capital facility. A second example included a fund that will design an outgrower scheme, including the formation of associations. However, the fund cannot provide the capital to execute the program. Both funds expressed that, at a later time, they would approach the DFIs to secure funding for the schemes discussed.

These forms of capital have traditionally been raised by funds in distinct processes, each of which traditionally require lengthy due diligence investigations as discussed above. An observation derived from this study is that these three forms of capital allocation may not need to be so disjointed. A fund forming a strong relationship with a set of DFIs may be able to leverage that DFI across its capital needs.

The following disconnections were identified regarding TA.

i. Of the funds included in the study, at least the following have DFI Investment: Actis Africa Agribusiness Fund, African Agriculture Fund, Chayton Atlas Agricultural

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[10] Private Sector & Development, PROPARCO's Magazine, No11 / July 2011.

[11] AECF is funded by the following DFIs: Australian Government Aid Program, the UK Department for International Development (DFID), the International Fund for Agriculture Development (IFAD), and the Netherlands Ministry of Foreign Affairs (NMFA). Source: "The Politics of "Win-Win" Narratives, Land Grabs as Development Opportunity?" Elisa DaVià–Cornell University.

Company, Silverlands Fund, Agri-Vie, Africa Agriculture and Trade Investment Fund. Additionally, nearly all funds have discussed implementing outgrower schemes into their portfolio companies. However, only one dedicated TA fund exists to date, and thus for the others, the implementation will require lengthy capital raising processes in the future.

ii. The only fund in the study with a dedicated TA Fund is the AAF, though Agri-Vie will be launching a TA Fund in 2012. The AAF raised the funding for the TA Facility from the EC, which is a DFI distinct to the DFIs in the investor base of the fund. The TA capital raise process took nearly two years, and was entirely unique to the raising of the fund.

iii. Given the different nature of the capital across the DFI as an investor and the DFI as a TA capital provider, it has been observed that the DFI operates the two activities from different departments within the DFIs, with little information sharing or coordination to facilitate.

iv. TA funding is often discussed in reference to small and medium enterprises (SMEs), but can have significant impact on larger companies as well, in such areas as the organization of outgrower schemes, arranging input financing agreements or other market linking activities.

Traditional Diligence Process Extended due to Agricultural and Social Factors

A common obstacle for all development is the difficulty and time involved in the due diligence process for agriculture private equity investors in Africa. A number of required rights and usage permits must be obtained during the development of agribusinesses and are generally conditions to close for private equity transactions. Such rights include land permits, water rights, environmental impact assessments and business licensing. Environmental studies generally also include soil, hydrology and topography analysis, among others.

With regards to rights and usage permits, broad industry remarks refer to general inefficiency or lack of resources within various permit organizations, many of which fall under Government Ministries. Applications can take over a year to result in authorizations and often little, or no, feedback or transparency is provided during the process. As choking as such obstacles can be on direct investment overall, it is a dire issue for private equity.

While many Direct Investment Projects are developed over 10-25 years, the funds in this study typically have a life of 10 years, with a holding period of only 5-7 years. Therefore, it can be detrimental for a permit to delay activity for even one year. This issue affects both fundraising (as a deterrent to traditional LPs) and exits, which may be delayed beyond the targeted holding period or complicated by difficulties in transferring rights and permits.

5. Recommendations

The recommendations presented below cover a range of activities in which SATH could play a key role to remove barriers and increase the impact of private equity investment in agribusiness.

5.1. Recommendation #1: Facilitate the PE fundraising process by streamlining the DFI diligence process and merging this process with that of LPs.

Private equity in African agribusiness would benefit greatly from i) more education broadly for the DFIs on the common processes for due diligence in private equity, and ii) standardization within and among DFIs on the PE investment process.

Implementation

Recommendation 1 can be executed with workshops, training sessions or even DFI investment conferences. The mission of such events would be for DFIs to gain more education about private equity investment, and to build internal policies on how to conduct efficient diligence on such funds in a way that leverages the information compiled for the diligence of the traditional LPs, expanded for the needs of the DFIs. An initiative by SATH could make a more streamlined process for evaluating the social benefits of a fund.

It is expected that DFIs will be open to mechanisms that allow them to be more efficient in their investment processes. One component of such a workshop could be a "list of diligence items for social investors". Multiple rounds of questions create longer processes, as DFIs may think up new follow up questions. While no list can be exhaustive and all-inclusive, a social diligence list ensures that the DFIs acquire a robust amount of information early in the process. This list should also be merged with the diligence process of the LPs where possible, as discussed in greater detail below, with guidance on how to merge the two processes. Lastly, such a list could be made public for the funds, so that fund Managers can prepare for DFI questions from the outset. There are many public due diligence checklists for proper LPs and yet the information is not common in social investment.

Preparation

In the planning of such a program, it would be necessary to conduct preliminary research within the DFIs to better understand the motives, procedures and restrictions of DFIs as investors in Private Equity Funds. There is little public information available on this topic and thus interviews would be required to gather such information.

Sample topics for investigation include analyzing what systems are currently in place at the DFIs to evaluate fund manager proposals, how the diligence processes differ (in detail) for the DFIs and LPs and what key hurdles exist in the DFI diligence process that may be more efficient in the LP process (or vice versa). Once the motives across a variety of DFIs are understood, SATH can compile a diligence list of themes common to DFIs in general.

A process to merge the diligence processes for the LPs and DFIs would begin with a search for commonalities between the diligence lists of the two types of investors. While there is much public information available on traditional LP diligence requests, there will likely need to be investigation into the diligence processes of the DFIs. Such information is expected to be obtained in the follow-up study suggested in recommendation 1.

Once common themes have been identified, SATH could form the questions in a manner suitable to address both concerns, thus reducing the time required for a business to respond. Two examples are provided below:

i. An LP wants to ensure that there are no environmental concerns to ensure that the company has no liabilities for future remediation costs. Such a diligence question may ask a business to discuss any environmental risks and liabilities on the balance sheet. A DFI is interested in environmental concerns to complete a triple bottom line analysis – to ensure that the investment yields a positive impact on the environment. Such a question may ask a business to discuss the net environmental impact (both positive and negative).

ii. An LP will investigate the number of employees and salaries for a variety of motives, such as to ensure that a company has a sufficient employee base, low turnover and market-based salaries. This information is generally provided to investors in an excel chart. A DFI might require the same information to gauge the impact on the local society of jobs created and wages paid. However, they often ask for such information in the form of essays to describe this specific social impact.

SATH can develop and provide standard preparation/diligence topics that encompass similar concerns of both the DFI and LPs, allowing the business to largely address the issue once with a comprehensive answer.

5.2. Recommendation #2: Streamline TA funding and DFI funding to increase TA funds available to fund managers and facilitate the process to obtain the funds.

The findings and analysis observe the multiple roles that DFIs hold in allocating capital to private equity funds and providing TA. Recommendation 2 promotes the coordination of these capital allocations within the specific DFIs.

Implementation

Recommendation 2 also requires some education and training for the DFIs, which may be combined with the activities required for Recommendation 1. In the workshops or training sessions, the DFIs can be educated about the various forms of capital that they can contribute to the private equity process, which may be useful for DFIs not yet providing all three.

Moreover, SATH can provide recommendations on how to coordinate the different types of funding into one overall program, whereby a DFI commits to a more global form of capital allocation rather than just as the Fund Investor, by, for example, tying TA to investments made by a fund in which they are an investor. In the future, a DFI capital allocation could include a fund commitment and side-by-side commitment to a TAF, eliminating the need for a fund to engage in a distinct, intensive diligence process to raise the TAF.

Additionally, there may also be value to developing an overall promotion campaign for TA funding with private equity. Many of the funds in the study intend to use operational capital/working capital to conduct initiatives that warrant TA funding, and have yet to understand their options.

Preparation

In the planning of such a program, it would be necessary to conduct preliminary research within the DFIs (thus leveraging the interviews in Recommendation 1). Topics of investigations include: which forms of TA are provided by various DFIs; which format funds are allocated in (i.e. investment in a TA Facility, as grants on a case by case basis); how the distinct forms of capital/TA Funding are allocated (i.e. from which departments in the DFI and what the specific process from application to allocation is); and whether there would be any conflicts of interest with DFIs providing both investment capital and side-by-side TA Funding.

5.3. Recommendation #3: Increase TA funds available to fund managers available to portfolio companies by funding a TAF or Challenge Fund.

Recommendation 3 also addresses the mission of Recommendation 2, but with SATH taking an active funding role. SATH could fund a TAF / Challenge Fund targeted specifically for TA funding in conjunction with private equity investment.

Implementation

SATH would develop, fund and promote a TAF. The private equity funds, in conjunction with the portfolio companies, would apply for TA funding for very specific activities deemed acceptable by requirements to be designed for the SATH TAF. Proposals to the SATH TAF would need to detail the activity to be funded, the timeline and process for execution, stakeholders and responsibilities and the expected financial and social impact of the TA funding.

This solution, however, would not allow investors to make their investment decision based on the inclusion of TA funding, as it would be difficult for the SATH TAF to award funding to the fund prior to the investment, or the TAF could expend a lot of energy approving grants for investments that do not ever get executed (thus, there would not be a fund to implement the plan outlined in the Challenge Fund grant proposal). Moreover, this recommendation contemplates an application process for each portfolio company, and therefore, while attractive for promoting TA, it is still less efficient than the potential outcome from Recommendation 2.

Preparation

To develop a TAF, SATH would need to define a set of parameters that would guide the grant process of the fund. Further investigation into best practices of TAFs and Challenge Funds is recommended to determine, for example: average size of grants; intended TA uses of grant0; duration of time in which grant can be utilized; whether grant funds are provided pre- or post-investment; and whether a funding match is required from management. The information provided in this study on the TAF of the AAF could serve as a basis for this investigation.

5.4. Recommendation #4: Remove specific barriers directly preventing funds from achieving required timelines by influencing policies on acquiring rights and

permits common to private equity agribusiness Investments, perhaps through an advocacy organization.

This is perhaps the most difficult topic to address with a concrete recommendation. SATH has participated in initiatives to improve the ease of doing business in Southern Africa, such as its role in the development of the Namibia Investor Roadmap in 2005[12]. Many of the activities in this Roadmap contemplated building more efficiency into the policies of building businesses. This study suggests that SATH focus on areas with a direct influence on all private equity transactions (rather than some policies that may be more applicable to Greenfield development). Further, the recommendation would be for this policy advocacy to be conducted across the SADC region.

<u>Implementation</u>

An option for implementation of Recommendation 4 would be the formation an advocacy organization for private equity in SADC with the purpose of influencing governments to standardize certain processes that have a direct impact on private equity. With many simultaneous demands on governments, the initiative may not be effective and thus it is recommended to begin by focusing on one or two key policies.

An option to increase efficiency of such an organization would be to use the platform of an existing advocacy organization, such as the African Venture Capital Association (AVCA) or the South African Venture Capital and Private Equity Association (SAVCA). Such organizations already have sponsorship and directorship from premier investment professionals in Africa, as well as administrative systems and prominent marketing. However, although a declared objective of the SAVCA is "lobbying on behalf of the industry"[13], it appears from public information that these organizations focus largely on linking stakeholders to promote private equity and venture capital (via a news portal, jobs page, conferences) and providing industry information (via conferences, research and publications). SATH may be able to assist these organizations to launch a new initiative with the specific purpose of influencing governments to facilitate private equity.

A first initiative could include the transfer of land rights and permits. The transfer of land is a distinct process to the mere usage of land and is more applicable for private equity investors. There are an increasing number of organizations to help businesses understand which permits they require and how to initiate the process, but thereafter the status of transferring the right lies solely in the hand of these permit organizations, whose employees have little or no incentive to work quickly through applications or prioritize private equity project applications.

<u>Preparation</u>

To commence with an advocacy initiative, it is suggested that SATH contact the AVCA and SAVCA to research any exposure into policy advocacy these organizations currently take and to propose a union for the development of the Advocacy efforts presented above.

Additionally, the initiatives selected must be researched within the context of each SADC country. It will be fundamental for SATH to understand the following information before

[12] Technical Report: The Namibia Investor Roadmap Audit, AECOM International Development, June 2010.

[13] SAVCA website, www.savca.co.za.

designing any programs to influence such processes. Using the transfer of land as an example:

i. What is the land law, i.e. regulations on owning, selling and transferring land?
ii. Who are the organizations that play a role in processing these transfers?
iii. What applications/forms are required for the process?
iv. What other requirements exist for the transfer of land (i.e. company documents, such as a business plan)?
v. What is the current timeline for the transfer? How much time does it take to pass through each step in the chain?

With a complete understanding of the organizations and processes currently in place to execute the transfer of land, SATH or the advocacy organization will be able to understand where to direct actions aimed to achieve key efficiencies and how to design a more efficient process.

SATH will need to acquire the cooperation of these organizations to complete this preparation analysis, but also to implement the efficiency improvements.

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