Africa Agriculture and Trade Investment Fund

# Increasing Income. Improving Food Security.

AATIF Annual Report 2011

# Contents

# Letter by the German Federal Minister for Economic Cooperation and Development (BMZ)

With rising demand for agricultural products against the background of climate change, the question on how to realize Africa's potential in agriculture sustainably becomes critical.

Joint action is needed to support responsible investments in agriculture that enable farmers and rural households to sustain and improve their livelihoods. Bearing in mind the failures of agricultural investments in the last decades in Africa, the structural shortfalls and the complex set of risks, we know that this is no easy task. In order to succeed, hands-on investment experience is as important as are fair and sustainable agreements for the local population.

This is why KfW on behalf of the Federal Ministry for Economic Cooperation and Development, and Deutsche Bank AG set up the Africa Agriculture and Trade Investment Fund (AATIF). AATIF addresses the specific needs of the agricultural sector in a market-oriented way while aiming at achieving a substantial development impact. The Fund is also an innovative financing mechanism that mobilises public and private capital to achieve its objectives. We are convinced that this is an example how limited public funds may intelligently catalyse private investments and provide financing adapted to the needs of local investors and farmers.

With a sound social and environmental management system, a strong governance regime, the attention to land ownership issues and responsible finance practices, AATIF makes a dedicated effort to demonstrate that agricultural investments can be supported in a sustainable manner and for the good of local population. In doing so, AATIF has a special focus on out-grower schemes, establishing beneficial input financing and off-taking agreements for smallholders.

Since the change of government we nearly doubled our investments in rural development and agriculture, but we realized that without complementary responsible international and local private investments we will not reach our common vision to eliminate hunger and poverty in rural economies—a message that also came out from the G8 summit in 2012 and the youngest declarations from the World Economic Forum.

The Fund was established in August 2011 and already concluded one investment in 2011. More is to follow in 2012. AATIF is on the way to make a distinctive contribution to Africa. We are committed to continue this path in the future.

Dirk Niebel, German Federal Minister for Economic Cooperation and Development (BMZ)

# Letter from the Chairperson

Dear Reader,

I am very pleased to present you the inaugural Annual Report of the Africa Agriculture and Trade Investment Fund, AATIF, covering the period since the AATIF's establishment in August 2011 to December 2011.

AATIF´s mission is to uplift Africa's agricultural potential for the benefit of the poor with the goal of increasing employment and household income as well as improving food security. The mission will be achieved through the promotion of economically, socially and environmentally sustainable projects across Africa by financing local projects and companies along the agricultural value chain and by developing local financial markets by providing funding and advancing local expertise in agricultural lending. The objectives are ambitious however we are convinced that the goals complement each other to spur economic growth in a sector being the only source of income to more than 70% of Africa's poorest population.

The Fund is capitalized by its sponsors the German Federal Ministry for Economic Corporation and Development, KfW as well as Deutsche Bank AG.

The Fund committed a first loan to a project with a total volume of EUR 7.2 million in 2011 and has built a promising pipeline for 2012.

However, our objectives for the next years remain demanding—build our network of partner banks, finance direct projects, increase the share of private investors, and welcome further public partners as investors and technical assistance donors. Hence, I see this report as an encouraging synopsis on our way to further develop AATIF as a powerful vehicle in our common aspiration to enhance responsible agricultural lending and trade in Africa.

I hope you will enjoy reading the report,

Thomas Duve
Chairman of the Board of Directors

# Letter from the Investment Manager

Against the backdrop of the global economic slowdown we started our activities in August 2011 motivated by the immense opportunity to improve African farmers' access to responsible and reliable finance. For African farmers and affiliated actors and industries, financing is largely unavailable, often provided at unsustainable interest rates or comes with prohibitive collateralization requests by local financial institutions.

Since its incorporation it became evident that AATIF's innovative Public Private Partnership structure is a promising answer to the question on how to increase available resources for agricultural lending. Given the budgetary pressures at home, governments are constantly searching for innovative means to provide development assistance. Joining forces with the private sector allows the Fund's public investors and other donors to leverage their resources and to achieve their objectives more efficiently. At the same time, private investors are looking for new sustainable growth markets and so called "impact investments"—such as agricultural investments in Africa that are linked to poverty alleviation and food security. Innovative structures like AATIF represent encouraging signs that the most advanced development finance institutions acting in conjunction with thought leadership at government level could revolutionize the way development assistance is conducted. As Investment Manager, Deutsche Bank believes that private sector involvement along the agricultural value chain paired with market based and innovative financing structures, supervised by a strong social and environmental governance system will continue to be the key success factors for AATIF's strive to improve household incomes in rural Africa.

One of the challenges for AATIF in 2012 will be to prove that funding for viable projects with promising social impact profiles can be provided as an investment at market based interest rates while many conventional observers may consider donations to be the alternative. AATIF's goal of a sustainable improvement of the local agricultural and financial sectors is by definition incompatible with subsidized funding for otherwise bankable projects. Changing thousands of livelihoods across Africa for the better will be a challenge if it relies on restricted donor budgets globally. AATIF's governance allows for a perfect symbiosis of financial sustainability and economic development. We are proud to have been asked to jointly develop that governance in 2011. Now it is time to prove the concept—for the AATIF shareholders and for Africa.

Michael Schneider

Anne-Katrin Gruenewald

Christin Schaefer

# The Africa Agriculture and Trade Investment Fund at a glance

## Mission

The Fund's mission is to realize the potential of Africa's agricultural production, manufacturing, service provision and trade for the benefit of the poor. The Fund aims to provide additional employment and income to farmers, entrepreneurs and labourers alike. Increasing productivity, production, and local value addition by investing in efficient value chains and providing knowledge transfer are paramount. In this context a dedicated effort will also be made to support outgrower schemes.

# The Africa Agriculture and Trade Investment Fund at a glance

## The Fund's principles

**Sustainability:**
AATIF strives to unite economical, social and environmental aspects when considering investments in order to create a lasting and sustainable impact in all of these fields. By financing economically sound investments, the Fund allows for a revolving use of its means. Guided by a strong commitment to sustainable economic development, AATIF intends to complement earlier stage development assistance programs (funded by grants or concessional financing) by providing financing at market based terms. AATIF promotes and builds awareness for responsible finance by providing funding only to those investees that are willing to comply with the Social and Environmental Safeguard Guidelines of the Fund.

**Additionality:**
AATIF observes the concept of additionality by providing resources to areas which are currently experiencing a lack of appropriate financial services. Consequently, AATIF does not intend to provide financing in areas where the private sector does already satisfy demand. Additionality can also be observed by bringing scale to existing development assistance programs or by bridging the gap between such programs and private sector actors with very conservative risk perceptions. Innovation with respect to loan structures and collateral requirements, risk sharing with industry partners or the combination of loan products with insurance mechanisms is also a desired outcome of AATIF's activities in African agricultural lending.

## Geographic scope

AATIF focuses its entire activities on the African continent.

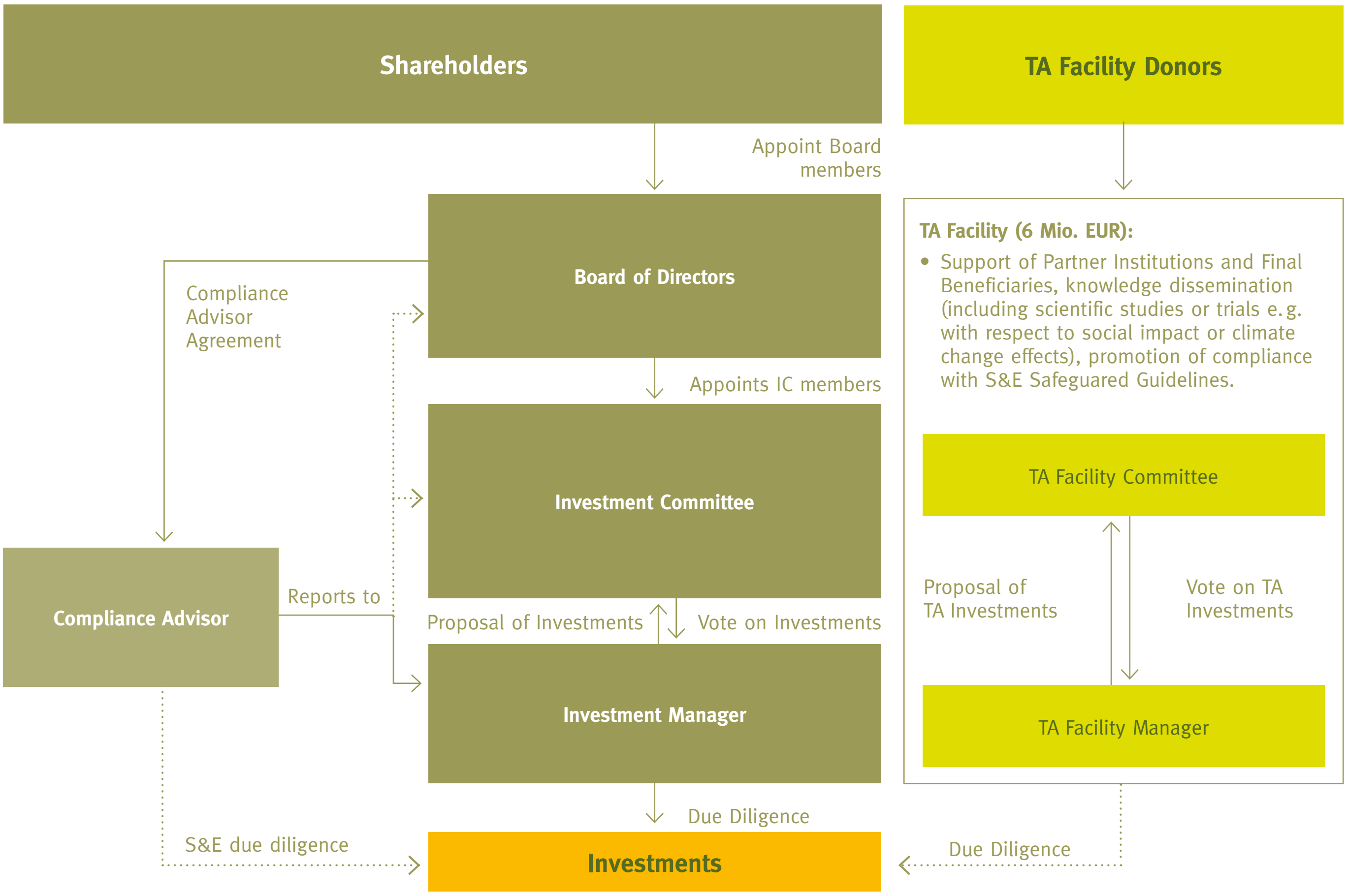
## Governance structure

The Fund's Shareholders are represented by the Board of Directors, which oversees the Fund's activities and is responsible for strategic decisions. The Board of Directors is the legal representative of the Fund. In compliance with AATIF's founding documents and applicable laws and regulations, it has the exclusive power to administer and manage the Fund.

The Board of Directors appoints the Investment Committee which approves investment decisions proposed by the Investment Manager and monitors the activities of the Investment Manager. The Investment Manager has been selected in a competitive process and conducts the Fund's business on behalf of the Board of Directors and the Investment Committee. A Technical Assistance Facility will accompany AATIF and will be funded via donor contributions. The Board of Directors is currently discussing its design and is considering a grant based scheme which among others may support capacity building measures and knowledge dissemination (including scientific studies or trials e.g. with respect to social impact or climate change effects). The Technical Assistance Facility will be supervised by the Technical Assistance Facility Committee representing the Facility's Donors and the Fund sponsors in order to ensure that the Technical Assistance directly supports the mission of the Fund. It approves proposals submitted by the Technical Assistance Facility Manager. For further details on Technical Assistance, please refer to page 21.

- Conducting due diligence in African agriculture requires a breadth of expertise ranging from evaluating economic viability and social and environmental sustainability to considering the legal and tax environments of a specific investment. To assess an Investments' compliance with the Fund's Social & Environmental Safeguard Guidelines, the Fund has partnered with a Compliance Advisor. The Compliance Advisor acts independently and shall provide a compliance opinion to the Investment Manager and the Investment Committee before any investment decision is made. The Board engaged with the International Labour Office (ILO), a United Nations Organisation as compliance advisor for a duration of 3 years starting July,1 2012. It should be noted however, that upon request by the Fund, the ILO has already assessed both direct investments entered into before July 1, 2012 (see description of "AATIF investments 2011" and "AATIF business outlook 2012" in this document).

## Organizational structure



# AATIF's business proposal

The AATIF focuses on investments into the agricultural sector. It targets small, medium and large scale agricultural farms as well as agricultural businesses along the entire agricultural value chain which will be financed directly or indirectly. Direct Investments can comprise cooperatives, commercial farms and processing companies while Indirect Investments relate to investments into local financial institutions or other intermediaries (such as large agribusinesses) which on-lend to the agricultural sector. AATIF intends to strike a balance between direct and indirect investments as both approaches have a positive developmental impact—one through its immediate effects on local populations (direct) and the other through its more long term establishment of reliable access to financial services (indirect).

In pursuing its investment strategy, the Investment Manager will strive to continuously cooperate with established input providers and off-takers already involved in the agricultural value chain as well as with risk insurers to protect AATIF and its clients from insurable weather or political risks. The structural chart displayed below illustrates the investment instruments and relevant eligibility criteria for each investment type.

**The AATIF pursuing a threefold investment approach**

| INDIRECT | | DIRECT |
|---|---|---|
| **Financial Institutions** | **Intermediaries** | **Target Clients** |
| • Selected financial institutions will receive debt instruments with a maturity of up to 10 years<br>• Investment instruments include:<br>  • Senior debt<br>  • Guarantees<br>  • Risk Sharing<br>• Financial institutions disburse sub-loans to their clients to finance agriculture driven projects | • Selected intermediary agribusinesses (commercial agricultural actors that are deeply involved in their value chain and often pre-finance their suppliers/producers) will receive debt instruments with a maturity of up to 12 years<br>• These instruments include:<br>  • Senior debt<br>  • Guarantees<br>  • Risk Sharing<br>• Intermediaries will (i) disburse sub-loans and/or in-kind loans to their producers which are preferably organized in outgrower schemes and/or (ii) finance processing plants directly beneficial to the local economy by enhancing the value addition capacity | • The Fund invests directly into cooperatives, outgrower schemes, commercial farms, processing companies, i.e. along the entire value chain<br>• All investment instruments are available:<br>  • Senior debt<br>  • Mezzanine<br>  • Equity<br>• Target clients may receive financing of around EUR 1–15 m per project<br>• Debt investments may have a maturity of up to 12 years, equity investments can be tailored to the specific needs of the project |
| **Enhancing the agricultural value chain** | | |

## AATIF investments 2011

Only shortly following its launch in August 2011, AATIF successfully closed its first transaction, a direct investment of 10m USD into Chobe Agrivision Company, the Zambian farm operator. Chobe Agrivision Company has a strong focus on improving local and regional food security by the production of wheat and soy in an existing irrigation area. Zambia is currently a net importer of both crops in order to satisfy domestic demand.

Alongside preparing and closing its first investment, the Investment Manager initiated discussions with potential investees including financial institutions, intermediaries and farming operations in need of funding in 2012. Please find more information on the AATIF pipeline on page 14.

## Investment Portfolio and Funding Overview

**Investment portfolio:**
The disbursed portfolio consists of USD 10 million in senior debt to Chayton Atlas Investments, guaranteed by Chobe Agrivision Company, being the ultimate beneficiary of the funding. As the borrower is considered a "Direct Investee Company", the loan represents a technical non-compliance with Section 4.2.7 of the Issue Document that was temporarily waived by the Board and the Shareholders until the allowed maximum investment volume granted to such companies of 50% of AATIF's Total Assets has been reached. The Board of Directors expects that this mathematical imbalance will be cured as the Fund grows in volume in 2012.

**Funding overview:**
Unutilized commitments and subscriptions from the German Federal Ministry for Economic Corporation and Development, KfW as well as Deutsche Bank AG, totaled about EUR 77 million as of December 31, 2012.

# Profile of Partner Institution funded in 2011[1]

**The Investee**
Chobe Agrivision Company which was established in 2008 is focusing on assembling and cultivating agricultural farm production hubs growing food crops (mainly wheat, soy and maize) at selected locations across Zambia. Subsequently, to fully seize the business models' potential, Chobe Agrivision targets vertical business integration across the agribusiness value chain, including the establishment/purchase of fertilizer and processing businesses. It is managed inter alia by a team of farmers with long standing commercial farming experience in Sub-Saharan Africa. The team members have serviced own farms as well as farms of third parties including vertical activities such as processing, marketing and transport.

The investment benefits from a variety of risk mitigants that include weather insurance, an Investment Promotion and Protection Agreement with the Zambian government and political risk coverage provided by the Multilateral Investment Guarantee Agency.

[1] As this is the first investment, the Annual Report 2011 devotes a fair amount of detailed information to this particular investment. In subsequent annual reports the investments will be presented more succinctly.

**Additionality and expected impact of investment**

Following the Funds principles of additionality, AATIF provided long term funding to Chobe Agrivision that was otherwise largely not available from local financial institutions. The loan was disbursed to fund the acquisition of a neighboring farm and long-life assets such as irrigation equipment. The financed equipment enabled the borrower to switch its production to two crop cycles and allowed improved staple crop quality and quantity. AATIF strongly believes that this transaction supported Zambia to better satisfy local as well as neighboring countries' basic nutrition needs.

Before disbursing its loan, AATIF enquired about land rights at the investment site and was informed that in Zambia all land is vested in the President who holds it in trust. The investment area belongs to a farm block that was designated by the Zambian Government following the post-independence nationalization of all land in the 1960s. The initial 99-year leasehold contracts were concluded at the three respective sites of AATIF involvement in 1970, 1973 and 1975. The acquisition or sale / transfer of such leasehold cannot be executed without the consent of the Zambian government which was received by Chobe Agrivision once the three farms were acquired.

With its creation of local employment, a training programme for neighboring smallholders, an employment scheme promoting the development of workers, improvement of housing conditions of farm workers by providing brick and mortar houses as well as enabling school access for farm children, the investment can be considered to be a financing at the forefront of agricultural impact investments once these measures become fully implemented.

**Sustainability—**
**Loan profile and social and environmental covenants**

The senior ranking loan contains elements of mezzanine funding when it comes to the remuneration AATIF receives for the provision of the facility. Some fees paid by the borrower are performance based, thereby allowing Chobe Agrivision Company flexibility in times of unforeseen crop failures or other economic setbacks during the early stages of its business activities. The loan agreement also contains covenants to ensure compliance with the AATIF S&E Safeguard Guidelines. Chobe Agrivision committed, for example, to improve its occupational safety and health system, apply preventative measures against malaria infections as well as ensure at least primary school access for children living on the farm in order to avoid a breach of contract and monitor improvements through an integrated Environmental and Social Management and Monitoring Plan.

**Technical Assistance Support**

The AATIF, once its Technical Assistance Facility is legally established, will provide support to permit farm children to receive at least primary school education.

**Material Information—Change of Control in 2012:**

In a landmark transaction announced on March 29th, Zeder Investments Limited, a JSE-listed agricultural company managed and part-owned by PSG, a South African investment firm, is committing US$46.7 million to acquire and expand the agricultural business that will be known as Chayton Africa. This transaction secures long-term funding for AATIF's borrower and represents a change of control. Zeder Investments Limited is now the ultimate parent of Chayton Atlas Investments. All operations will continue to be led by the existing management team. AATIF has consented to the change of control based on Know Your Customer (KYC) procedures and other customary considerations performed on the new legal entities involved.

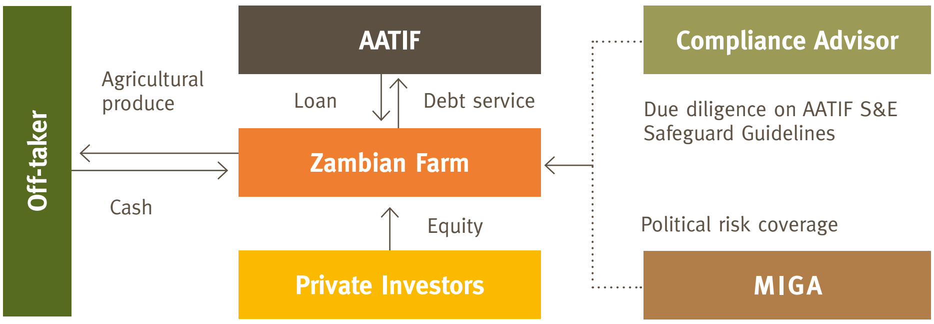
# Chobe Agrivision structure

## Project in brief

Project: Direct funding of a wheat, soy and maize farm
Country: Zambia
Funding: Farm expansion and development financing (incl. acquisition of brown field farms and procurement of irrigation equipment)
Benefits:
1. Enhancement of crop quality and yield per hectare
2. Amelioration of food security in Zambia and neighbouring countries such as DRC (export permit in place)

Local impact:
1. Improvement of local employment situation
2. Fostering an employment scheme promoting the development of workers (from lower to higher skilled labour)
3. Training programme for neighbouring smallholders
4. Improving housing conditions of workers + malaria protection
5. Enabling school access for children living on the farm

## Project structure




## Investment characteristics

Key elements:
- Volume: USD 10 m
- Term: 5 years
- Semi-annual interest payments based on USD Libor

Additionality:
- Currently limited access to longer term funding on the local funding market, especially to acquisition financing (farm expansion)
- AATIF provides funding and thereby opens avenue to further capital (private investors, local financial institutions)

# AATIF business outlook 2012

**AATIF portfolio development 2012 until close of the annual report 2011**

In furtherance to the Zambia wheat and soy direct investment closed in 2011, the AATIF continued to build its investment pipeline throughout Q1 and Q2 of 2012 with four additional investments being negotiated. A brief outline shall be given below.

**Direct Investment No. 2 — A commercial rice farm in West Africa**

Following a due diligence visit in March 2012 and based on the Investment Committee decision of the Fund, AATIF agreed in May 2012 to provide a senior loan facility of USD 5 m to a rice farm in West Africa offering comparable mezzanine funding elements as has been the case for Chobe Agrivision. The borrower, which is a local agri-food company, focused on crop production, processing and marketing of fragrant high quality rice receives AATIF funding to further integrate its business into the agricultural value chain by building rice milling capacity, supporting the mission of the AATIF in promoting local value addition capacity as well as reducing the local dependency on rice imports.

**Intermediary Investments No. 1 and 2 — Cotton out-grower schemes in Southern and West Africa.**

AATIF intends to enter in to a master agreement with an internationally active agribusiness that has strong abilities to organize and support African smallholders growing a variety of export crops such as cotton but also staple foods, for example rice. The master agreement would contain the general terms and conditions of the loan facility while specific schedules would stipulate the use of proceeds and tailor made covenants on social and environmental performance and reporting requirements for each project. AATIF believes that the provision of input financing and management capacity at the smallholder level by rolling out outgrower schemes can significantly increase household incomes in rural Africa. Having professional partners that provide training, act as offtakers of the product and that may even agree to underwrite the local credit risk is paramount to the long term success of these schemes, which is the reason for AATIF's engagement.

**Financial Institution Investment No. 1**

In addition to building a pipeline with farms and intermediaries as outlined above, AATIF also intends to support growth in agricultural lending by local financial institutions. The Investment Manager is in advanced discussions with a variety of local commercial banks in order for them to accept longer term funding while stipulating the use for on-lending to the agricultural sector. Such on-lending facilities may be paired with training activities within the financial institution to improve agricultural lending know how and related risk management. These measures may receive funding from the AATIF Technical Assistance Facility.

## Africa business Outlook 2012

With the AATIF targeting investments across the African continent an outlook on political, economic and agricultural developments shall be given on an aggregate level for the current year.

**Investment climate**

The African continent is remaining in the spotlight of attention from Chinese and European businesses as well as operators in Africa mainly driven not only by its wealth of natural resources (both mineral and oil as well as arable non-cultivated land) but also by its economic growth in the industry and services sector. Increased foreign direct investment (FDI) and close economic ties between Africa and China have been covered extensively by the media with fairly mixed reviews, highlighting that many investments leave room for improvement when it comes to sustainability. There is open debate on how to strike the right balance between private and public sector investment and the interests of the local population when striving to induce economic development.

**Economic review and perspective**

Prospects of economic growth are promising and underlining Africa's growth potential in general. "African GDP has outpaced world growth since the start of the last commodity boom in 2001, reaching 6% in mid-decade. Despite slowing sharply in 2009, as global growth and trade retreated, African growth stayed positive at about 2%, and the downturn has clearly been "V-shaped". In 2011–12 Africa is expected to grow faster than any other region or country in the world, apart from China and India—and this is more than a just a commodity story. Although Africa is not immune to global conditions—as seen in 2009—the continent is fairly resilient. For instance, a downturn a decade ago would have resulted in negative growth of 6–10%, and it would have taken another decade for growth to return to positive territory.

The favourable outlook for the region is based on modest inflation, steadier exchange rates, and a smaller debt burden owing primarily to the debt write-offs in 2006 and 2007 (although some countries have been building up their debt again since then). Thus, with growth prospects buoyant, and the number of African consumers rising, businesses can no longer afford to ignore this vast continent, with its 53 countries—54 now with Sudan—and immense natural resources, including people.

However, although returns can be high, so are the risks. Africa's growth trajectory in 2012 can be mapped by a breakdown into regions: the North, South, East and West. Growth is forecast to hit over 8–9% in some countries in the regions. In West Africa, for example, Nigeria, Angola and the oil-based economies will dominate the region. Ghana also joined the oil club in 2011, with its first commercial output.

East Africa is forecast to be the fastest-growing region. Although Kenya has no natural resources, it is the key financial and business hub, and the Kenyan economy is expected to grow by 5–6% on the back of ongoing development and reforms. Across the border, Uganda's discovery of oil will boost development and growth, and the country will join the oil club in a few years' time. Key mineral producers will also perform well (Tanzania), as will strong agricultural economies (Ethiopia). Africa will become an increasingly important food supplier to global markets. Countries without major resources but with a strong reform record, such as Rwanda, will also join the ranks of high growth achievers."[2]

[2] Source: see Economist Intelligence Unit (2012)

## Political landscape

The comparably low sovereign rating of many Sub-Saharan countries in the single B range (with the notable exception of Botswana, South Africa, Angola and Gabon) is largely driven by its political landscape. Most African countries still have to demonstrate political stability and democratic election processes with a change of a ruling party not throwing the country into political unrest. So far only a few countries, including South Africa, Senegal, Zambia and Ghana have repeatedly demonstrated successful transitions of power. With the motivation of facilitating investments beneficial to the local economy and observing the challenges of the political landscape, international agencies like the Multilateral Investment Guarantee Agency continue to provide support, by offering political risk coverage.

Despite the described political situation, conditions for private sector investments have improved considerably in many African countries albeit from a low level. Examples include South Africa currently ranking 35, Botswana 52, Namibia 78 or Zambia 82 out of the 182 countries on the ease of doing business index created by the World Bank.

**Sub-Saharan Africa Sovereign Ratings as of May 4, 2012**[2]

| | Sovereign local currency ratings (LT/Outlook/ST) | Sovereign foreign currency ratings (LT/Outlook/ST) |
|---|---|---|
| Republic of Angola | BB-/Stable/B | BB-/Stable/B |
| Republic of Benin | B/Stable/B | B/Stable/B |
| Republic of Botswana | A-/Stable/A-2 | A-/Stable/A-2 |
| Burkina Faso | B/Stable/B | B/Stable/B |
| Republic of Cameroon | B/Stable/B | B/Stable/B |
| Republic of Cape Verde | B+/Stable/B | B+/Stable/B |
| Gabonese Republic | BB-/Stable/B | BB-/Stable/B |
| Republic of Ghana | B/Stable/B | B/Stable/B |
| Republic of Kenya | B+/Stable/B | B+/Stable/B |
| Republic of Mozambique | B+/Stable/B | B+/Stable/B |
| Federal Republic of Nigeria | B+/Positive/B | B+/Positive/B |
| Republic of Senegal | B+/Negative/B | B+/Negative/B |
| Republic of South Africa | A/Negative/A-1 | BBB/Negative/A-2 |
| Republic of Uganda | B+/Stable/B | B+/Stable/B |
| Republic of Zambia | B+/Stable/B | B+/Stable/B |

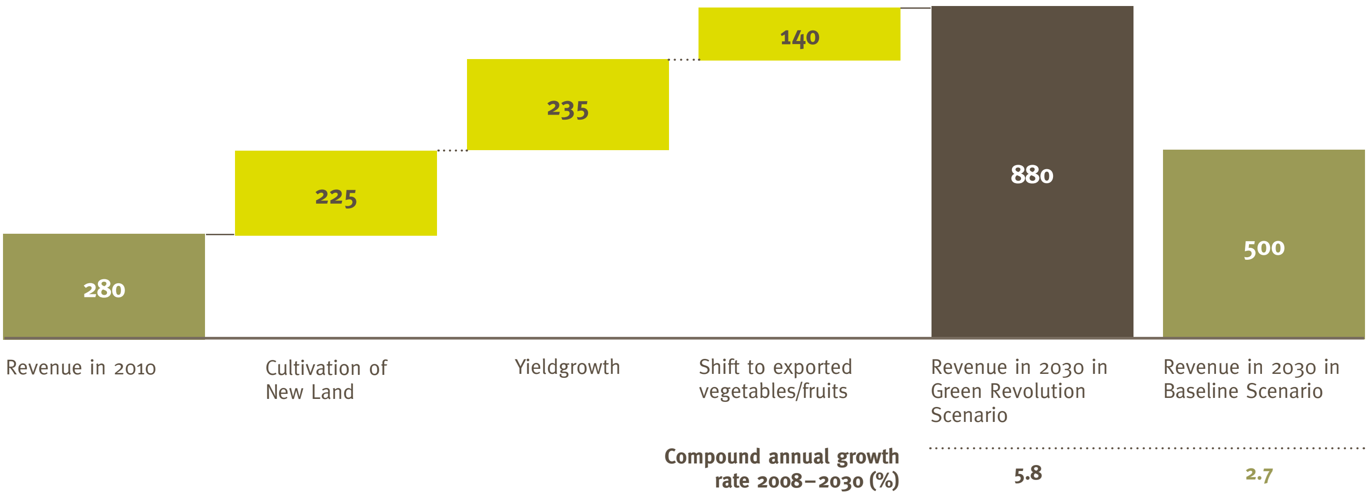
[2] Source: Standard&Poors (05/2012)

**Agriculture sector growth prospects and funding availability**
Although the African agricultural sector faces barriers to be overcome it also holds enormous potential. AATIF believes that great importance should be attributed to promoting investments along the agricultural value chain with the goal of advancing agricultural practices and subsequent yield increases. In addition, growing the local processing capacity for domestic crops should increase employment and reduce the dependency on imports while an increased focus on export vegetables and fruits could bring additional economic growth once local food security has been achieved. All agricultural activities could benefit from the utilization of uncultivated but arable land in Africa, a not so well known fact.

The below analysis by McKinsey illustrates the described opportunities and estimates that the value of annual agricultural output in Africa could increase more than threefold from USD 280 billion today to USD 880 billion in 2030.

All discussed measures would have a significantly positive effect on household incomes, the ultimate goal of AATIF's activities.

**Africa agricultural production revenue potential**

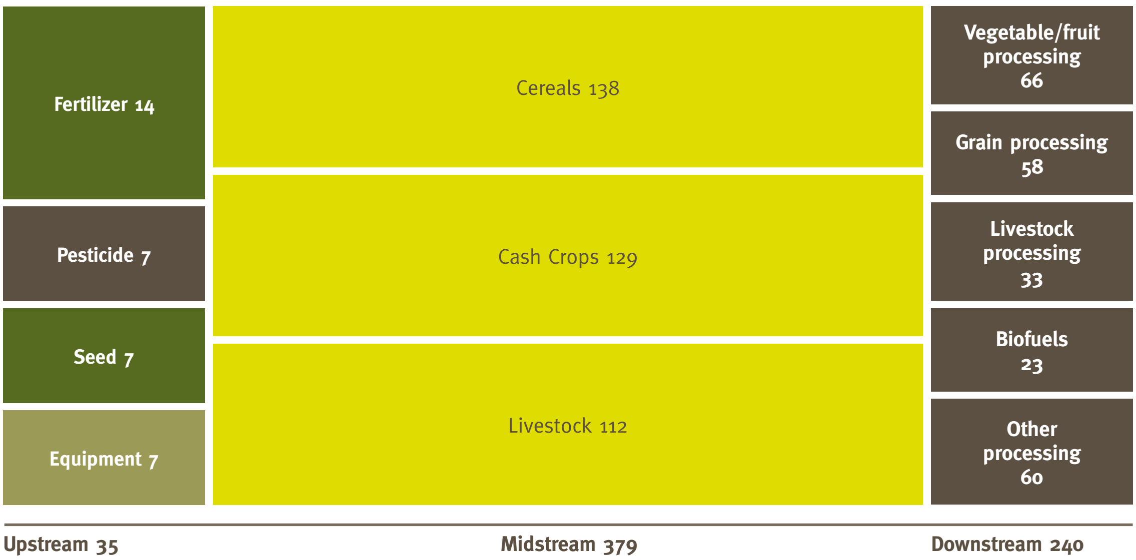



Source: McKinsey Global Institute (2010)

The value addition potential outside of midstream activities is tremendous as the chart on the next page illustrates. Local value chain expansion would include downstream market activities such as grain refining, vegetable and fruit processing as well as biofuel production. Ancillary effects would include raising demand in local markets as the provision of input products such as fertilizers, pesticides, seeds and equipment or would increase import/export trade relationships.

Agricultural projects are lately receiving increased attention because of their positive impact on food security. However, financing is largely unavailable, provided at unsustainable rates or comes with prohibitive collateralization requests by local African financial institutions. Reasons are manifold and can frequently be traced back to limited financial and agricultural know how of staff (e. g. with respect to more complex transactions such as acquisition/growth finance or equipment leasing), poor outreach into rural areas and/or a lack of agricultural risk management tools (price, weather hedging).

## Africa agriculture revenue potential, 2030 in USD billion




Source: McKinsey Global Institute (2010)

# Report on the Social and Environmental Management System

# Report on the Social and Environmental Management System

Before AATIF's inauguration, KfW and Deutsche Bank agreed in principle with the International Labour Organization (ILO) of the United Nations that the ILO will act as Compliance Advisor to the Fund, independently evaluating compliance with and providing advise on ILO occupational safety standards and, with the assistance of experts in the relevant fields, compliance with the Social and Environmental Safeguard Guidelines of the Fund. The roles and responsibilities of the parties were agreed upon in early 2012 and the AATIF Board of Directors has signed the Compliance Advisor Agreement with ILO in June 2012. It should be noted however, that upon request by the Fund, the ILO has already assessed both direct investments entered into before July 1, 2012 (see description of "AATIF investments 2011" and "AATIF business outlook 2012" in this document).

## Development of the Social and Environmental Safeguard Guidelines

AATIF seeks to maintain the highest recognized standards for the management of social and environmental risks in its operations. Consequently, the AATIF Social and Environmental Safeguard Guidelines were established in 2011 and officially approved by the Board of Directors during the Board Meeting of February 07, 2012. AATIF intends to review the guidelines in 2012 in close cooperation with its Compliance Advisor, KfW and the Investment Manager.

Based on the revisited S&E Safeguard Guidelines, the Compliance Advisor together with reputable partners will develop an assessment methodology for the different investment categories of the AATIF (financial institutions, intermediaries, direct investments) and will test the suitability by applying such assessment methodology to AATIF's investments.

For all investments, the Compliance Advisor will provide an opinion to the Fund's investment manager and investment committee on whether an investment is in compliance with the Fund's Development Policy Statement and S&E Safeguard Guidelines and present recommendations to the Investment Committee that would allow the potential investment to become compliant.

In addition, the Compliance Advisor will engage to determine the social impact of AATIF investments. For example, three investments will undergo an assessment of their impact on employment creation, working conditions, skills transfer or improvement of livelihoods.

## Social and environmental risk categorization of Partner Institutions

**Chobe Agrivision Company, Zambia**

Chobe Agrivision Company confirmed compliance with the Social and Environmental Exclusion List by signing the loan agreement on October 26, 2011. Based on the Due Diligence visit's Social Assessment Report, the investment was categorized as a Category B Investment in line with AATIF's Social and Environmental Safeguard Guidelines and findings of the Social Assessment Report were incorporated as action points and loan covenants.

## Social & Environmental Report (S&E Report)

The Chobe Agrivision investment represents the only portfolio company of AATIF as of December 31 2011. This inaugural AATIF S&E Report (as required by Section 21.3 of the Issue Document) will therefore cover this Direct Investee Company and more specifically the reported achievements made by Chobe Agrivision to fulfil the covenants stipulated in the loan agreement through December 31 2011.

1. It is necessary that Chobe applies the hourly minimum wage as per Employment Act 2011 to casual workers and presents proof of corrective measures. The local Farmers Union and the Union of Plantations and Agricultural Workers might be a useful resource.

**Compliance reported as follows by Chobe Agrivision as of 10/31/2011 and updated as per 4/30/2012:**
"Chobe Agrivision Company Limited is a member of the Zambian National Farmers Union. All employees, including permanent and casual employees, are paid above the minimum wage levels. Wage increases for 2012 have yet to be agreed between unions and Zambian government. As a result, the Borrower has been advised by the Zambian Farmers Union to increase the wage rate by 10 %. Chobe has complied with this instruction from January 2012."

2. It is necessary that the registration form for casual workers is adjusted by adding a column for year of birth and another for means of verification (e.g. ID card).

**Compliance reported as follows by Chobe Agrivision as of 10/31/2011 and updated as per 1/23/2012 and 4/30/2012:**
„All workers employed on the farm have reached the legal working age. The payroll system has been customised to meet the requirements of the Lender. The payroll system has the ability to provide a report that reflects the full name of the employee (permanent and casual), their date of birth, hours worked and remuneration per hour."

3. Farm management has to ensure that children can attend at least primary school.

**Progress report by Chobe Agrivision as of 10/31/2011 and updated as per 11/2011 and 4/30/2012:**
"We face two main challenges in ensuring access to education: the first is that there are insufficient facilities to accommodate the children not yet enrolled in school, and the second is that these children have no reliable means of transport to nearby school facilities.

We have identified an existing school in the nearby village of Katuba, approximately 8 km from our operations, which would welcome a partnership whereby we secure funding to expand their facilities. We have engaged with the Ministry of Education to determine how best to meet our requirements; they in turn have provided us with building plans and an accompanying budget to extend the school to accommodate the 127 children currently living on our project's farms.

To date we have supplied 200,000 bricks for the extension of the school. Progress on this initiative is however dependent on the successful grant funding process."

Upon receipt of the above information by Chobe Agrivision and the written confirmation by the Ministry of Education of the Republic of Zambia that the Ministry "will be playing its part by supplying the necessary teachers and other teaching and learning materials required", AATIF is currently considering supporting Chobe Agrivision through its Technical Assistance Facility once it has been set up and is operational.

4. Rat poison and mosquito spray has to be stored in a closed storage, indicating that its content is "hazardous" or in an area marked as "hazardous".

**Compliance reported as follows by Chobe Agrivision as of 10/31/2011:**
"Rat poison and mosquito chemicals are stored in a closed storage with clear signage marking as hazardous.

The chemical and fertilizer storage facility has been moved to a secure location with existing infrastructure. This area is equipped with electricity, secured fencing and permanent security has also been deployed to limit access to unauthorised personnel. The facility comprises of one story buildings which rest on a concrete slab with footing and foundations. The buildings have an iron roof and whirly bird systems will be installed as an added ventilation precaution. The electrical system is 240 volts, in conduit chased into the walls, installed by a qualified electrician meeting local standards and specifications. Lighting is mostly fluorescent and incandescent with switches on both the inside and outside of the building. The buildings are equipped with fire extinguishers. Fire wardens have been selected and trained.

All chemicals are clearly labelled, with clear warning signs noting that hazardous substances are stored. "HAZCHEM" signs have been erected along with "no smoking" and "authorized personnel" signs. Inventory lists are maintained and stock counts are performed noting expiration dates of chemicals."

5. It is important that Chobe sets up and implements a SYSTEM for managing occupational safety and health, which also includes active worker participation.

**Compliance reported as follows by Chobe Agrivision as of 10/31/2011:**

"Occupation, health and safety is a high priority at the farms. An emergency preparedness policy has been implemented with workers being trained on emergency evacuation procedures. The evacuation procedure has also been erected at the main office. Safety training and operational training sessions are conducted with a registry maintained and signed by all employees attending these sessions. A registry of the material safety data sheets (MSDS) is maintained and updated for all new issues indicating what treatment is required in an emergency. An incident report is logged and filed.

An on-site farm clinic has been introduced, which is managed by a qualified health worker. Over-the-counter medication is available to the farm workers and those living on the farms. We run awareness programs such as AIDS and basic nutrition programs."

6. It is necessary that workers and their families have insecticide-treated mosquito nets and once given out, that they are regularly insecticide-treated.

7. It is highly recommended to investigate correctness of the mosquito spraying schedules and if necessary to adjust. Standard ICON 10CS should provide residual control of up to nine months and does not require spraying every month.

**Compliance reported as follows by Chobe Agrivision as of 10/31/2011:**

Mosquito nets have been obtained from the Ministry of Health [and from USAID] and have been distributed to households on the farms. Spraying commenced the week ending 25 September 2011, to coincide with the onset of the warmer weather. Houses will be sprayed once a month and records will be maintained of the activity. These records are available upon request."

Outside of the due diligence performed on site and the ongoing dialogue with Chobe Agrivision and key stakeholders as represented above, screenings performed by AATIF in the public domain and KYC checks produced no indications that Chobe Agrivision Company was in violation with any of the Fund's procedures and guidelines.

# Summary of the Technical Assistance Funding

# Summary of the Technical Assistance Funding

**Technical Assistance Funding**

The AATIF was established with the intention to provide funding to a sector in a region largely lacking access to financial means. To respond adequately/sustainably to such needs and support via initially bridging but ultimately overcoming current shortcomings of agricultural sector funding, the AATIF is accompanied by donor funded Technical Assistance of initially 6 m EUR. The Technical Assistance Facility is managed by the Technical Assistance Manager and provides funding on a grant basis likely be applied towards:

- Providing investment specific support to Partner Institutions: e. g. best practices farming techniques/financial and accounting skills, agricultural risk management (FIs), support of certification processes,
- Promote compliance with the Fund's social and environmental safeguard guidelines and the development policy guideline: e. g. establishment and reporting of health and safety standards
- Conduct Impact Assessments: Analysis of development impact in terms of increased household income or the competitiveness of the sector support by AATIF Investments.

# Fund amendments

## Change of Fund currency from EUR to USD

The Shareholders together with the Board of Directors and the Investment Manager of the Fund are currently considering a change of the currency of the Fund from EUR to USD

While the investment pipeline was expected to be largely in USD, the Fund currency EUR was originally selected to account for the preference of European based private sector investors that had voiced an early interest to invest into the Fund. In order to reduce currency risks, AATIF's initial shareholders agreed in the Issue Document to implement a stipulation to hedge all open currency exposures. Therefore, AATIF currently relies heavily on the affordability of available cross currency swaps to service its EUR obligations to the Shareholders.

The change of the Fund currency is primarily considered in light of evidence provided by the Investment Manager that hedging cost have significantly increased to levels unsustainable for the Fund for a variety of reasons compared to the market situation at AATIF inception in 2011.

Upon review of such reasons the Board of Directors has proposed to the Shareholders the change of the Fund currency as per September 30, 2012.

# Financial Statements

For a full version of the official and audited financial statements, please contact the Fund (see last page for contact details).

## Statement of financial position

In EUR as at 31 December 2011

| | 31-Dec-11 |
|---|---|
| **ASSETS** | |
| Cash at a bank | 37,737,786 |
| Interest accruals on loans | 87,284 |
| Other receivables and prepayments | 14,917 |
| Loans to Partner Institutions | 7,703,270 |
| **Total assets** | **45,543,257** |
| | |
| **LIABILITIES** | |
| Other payable | 129,902 |
| Accured expenses | 843,785 |
| Financial liabilities at fair value through profit or loss | 755,730 |
| **Total liabilities excluding net assets attributable to shareholders** | **1,729,417** |
| | |
| **Net assets attributable to holders of redeemable ordinary shares** | **40,000** |
| Class B Shares—Tranche 1 | 40,000 |
| **Total liabilities** | **1,769,417** |
| | |
| **EQUITY** | |
| Class C Shares—Tranche 1 | |
| Share capital | 45,000,000 |
| Operating loss | (1,226,160) |
| **Total equity** | **43,773,840** |
| | |
| **Total liabilities and equtiy** | **45,543,257** |

## Statement of comprehensive income

For the period from 9 August 2011 (date of incorporation) to 31 December 2011

| | 31-Dec-11 |
|---|---|
| **INCOME** | |
| Interest income on loans | 87,284 |
| Interest income on deposits | 327 |
| Realised gain on exchanges | 6,763 |
| Unrealised gain on exchanges | 513,732 |
| Other income | 189,952 |
| **Total income** | **798,058** |
| **EXPENSE** | |
| Direct operating expenses | (430,512) |
| Investment management fees | (750,000) |
| Unrealised loss on financial liabilities at fair value through profit or loss | (755,730) |
| Realised loss on exchanges | (693) |
| Other expenses | (87,283) |
| **Total expense** | **(2,024,218 )** |
| **Operating loss** | **(1,226,160)** |
| **Loss for the period** | **(1,226,160)** |
| Other comprehensive income | - |
| **Total comprehensive income for the period** | **(1,226,160)** |

# Statement of changes in net assets attributable to holders of redeemable ordinary shares and equity

For the period from 9 August 2011 (date of incorporation) to 31 December 2011

| EUR | Net assets attributable to shareholders |
|---|---|
| **As at 9 August 2011 (date of incorporation)** | - |
| Issue of redeemable shares (Class B) – Tranche 1 | 40,000 |
| Redemption of redeemable shares (Class B) – Tranche 1 | - |
| Issue of non-redeemable ordinary shares (Class C) – Tranche 1 | **45,000,000** |
| Redemption of non-redeemable ordinary shares (Class C) – Tranche 1 | |
| | |
| **Increase in net assets attributable to shareholders from transactions in shares** | **45,040,000** |
| Decrease in net assets attributable to shareholders from operations | (1,226,160) |
| **As at 31 December 2011** | **43,813,840** |

| | Number of shares | Net asset value per share EUR |
|---|---|---|
| Class B Shares – Tranche 1 | 2 | 20,000 |
| Class C Shares – Tranche 1 | 5,786 | 7,566 |

## Statement of cash flows

For the period from 9 August 2011 (date of incorporation) to 31 December 2011

| | 31-Dec-11 |
|---|---|
| **Operating activities** | |
| Interest income on loans received | 87,284 |
| Interest income on deposits received | 327 |
| Realised gain and unrealised gain on exchanges | 520,495 |
| Other income | 189,952 |
| Direct operating expenses | (430,512) |
| Investment management fees | (750,000) |
| Realised and unrealised loss on financial liabilities at fair value through profit or loss | (756,423) |
| Other expenses | (87,283) |
| Loan agreement | (7,703,270) |
| Net (increase) in other receivables and prepayments | (102,201) |
| Increase in accrued expenses and accounts payable | 973,687 |
| Increase in financial liabilities at fair value through profit or loss | 755,730 |
| **Net cash generated by operating activities** | (7,302,214) |
| **Financing activities** | |
| Proceeds from issue of shares | 45,040,000 |
| **Net cash flow provided by financing activities** | 45,040,000 |
| Net increase in cash and cash equivalents | 37,737,786 |
| **Cash and cash equivalents at beginning of the period** | - |
| **Cash and cash equivalents at 31 December 2011** | 37,737,786 |

## Contact information

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## Imprint

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## Disclaimer

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