



Increasing Income.  
Improving Food Security.

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



Africa is a continent of opportunity. Overall Africa's economy is growing at a rate of almost 6 per cent, poverty is continuously declining, and Africa's markets are becoming more and more attractive. However Africa's 54 countries offer very different opportunities. They are not homogenous in their development. Many African countries have been among the world's fastest-growing economies over the past decade. Others face challenges in areas which are crucial to eradicating poverty and hunger – like rural and agricultural development. Boosting Africa's agricultural potential for the benefit of the poor is key to improving food security, and increasing employment and household income.

AATIF is an innovative and important instrument for pursuing these objectives. The Fund acknowledges Africa's diversity and the opportunities on the ground. AATIF is not only about financing local projects and companies along the agricultural value chain, developing financial markets by providing funding and furthering local expertise in agricultural lending. AATIF also demonstrates with a sound social and environmental management system how responsible and sustainable agricultural investments can be supported. Its innovative Public-Private Partnership structure also shows how private capital can be mobilized for this endeavour.

We are pleased that – within its first full year of operation – AATIF has proven that there is a demand for socially and environmentally responsible agricultural financing. Private sector investors have joined the Fund, thereby increasing the resources available for agricultural lending – despite budgetary pressures and restricted donor budgets. Promising

new investments have been agreed. Sub-loans have been awarded along the agricultural value chain. AATIF investments have scaled up production potential, created employment, improved working conditions, increased salaries for the workers in the field and started developing programs for smallholder farmers – thereby contributing to the African Union's and the G8's vision of eliminating hunger and poverty.

The Fund has also demonstrated that it does not just pay lip service to land ownership and working conditions. AATIF has adhered to its profound Social and Environmental Safeguard Guidelines. The signing of a collaboration agreement with the International Labour Organization (ILO) as the Fund's compliance advisor provides for an independent third party opinion on the Fund's social and environmental impact. AATIF thus continues to present a unique opportunity for partners to support responsible agricultural investments.

AATIF has started to make a distinctive contribution to responsible agricultural finance in Africa. We are convinced that AATIF will continue to boost Africa's agricultural potential for the benefit of the people by improving food security, and increasing employment and household income.

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

## Letter from the Chairperson



Dear Reader,

I am pleased to present to you the Annual Report of the Africa Agriculture and Trade Investment Fund for 2012.

The overall strategy of the AATIF is to unlock Africa's agricultural potential for the benefit of the poor, increasing household income and achieving food security. To achieve its objective, AATIF reviewed a broad range of investment opportunities and successfully committed USD 45 m of which USD 40 m have been disbursed in 2012. Each investment features unique characteristics that reflect the AATIF mission.

The outlook on Africa as a continent is positive. Much is still to be done. Encouraged by structural reforms, Africa's financial sector has evolved over the past decade. Banks are lending to more private businesses which helps increasing economic activity. Meanwhile, 2012, the first full year of AATIF operations, has shown that funding for earlier stage and smaller agricultural projects of USD 5–10 m is still largely unavailable, offered at unsustainable interest rates or is attached to extensive collateralization requirements. To tackle such challenges, AATIF kicked off its on-lending activities by entering into a partnership with PTA, the Eastern and Southern African Trade and Development Bank and Chase Bank (Kenya) Ltd. Both financial institutions commit to increase their agricultural lending using AATIF resources. The Fund made additional support available to these two banks through its Technical Assistance Facility. To enhance local value addition, AATIF also expanded its direct investment portfolio by concluding a transaction with the Ghanaian rice producer GADCO. This loan is intended to help growing the young food security company and will

be applied towards downstream market activities including the purchase of a rice mill.

In addition to growing its portfolio, the Fund also successfully raised fresh capital. Total commitments stand at USD 140 m with new capital from religious institutions, foundations and family offices complementing the initial capitalization provided by AATIF's sponsors: the German Federal Ministry for Economic Cooperation and Development, KfW Development Bank as well as Deutsche Bank AG.

A further milestone was reached in June 2012 when AATIF and the International Labour Organization (ILO) entered into a partnership agreement through which the ILO has taken on the responsibility of AATIF Compliance Advisor with regard to the Fund's social and environmental performance.

Now that AATIF has been in operation for over a year, I am pleased to say that we got off to a very promising start and it appears agriculture in Africa is truly financeable. We are looking forward to a successful 2013, where we intend to especially strengthen activities towards smallholder farmers.

I hope you will enjoy reading the report,

A handwritten signature in black ink, appearing to read 'T. Duve', written in a cursive style.

Dr. Thomas Duve  
Chairman of the Board of Directors

## Letter from the Investment Advisor



Dear Reader,

From the Investment Advisor's perspective, 2012 marks a year in which the Africa Agriculture and Trade Investment Fund focused on its objectives and successfully departed from its infancy stages.

Building new partnerships, especially signing the collaboration agreement with the ILO as the Fund's Compliance Advisor, has helped AATIF to establish a framework for sustainable investments. AATIF is one of the few funds with an independent third party review of all potential transactions on their social and environmental impact. Investment decisions are based on an equally weighted review of economic, technical and social & environmental features, for example contribution to food security, pollution prevention, employment creation and income provision capacity. Wherever the Compliance Advisor's review has identified a material shortfall, action plans have been agreed in the transaction documentation to work towards compliance, often with the initial task of establishing a proper social and environmental management system that allows our partners to identify potential areas of concern themselves.

AATIF also continued to provide innovative funding instruments, for example its flexible rate loan to GADCO, a young rice farm in Ghana. In addition it was key to engage the local financial sector and help increase the provision of local financial services. Agricultural lending is far under-represented when compared to the industry's share in most local

economies. We believe that long term success in improving livelihoods will have to rely on the readiness of local actors to provide the growth capital needed for modern agriculture.

On the funding side, AATIF has welcomed a variety of new private sector investors. At such an early stage of the Fund's life, this is a strong signal that the public-private partnership for agricultural lending in Africa can work. The leverage of scarce public resources through private investments is a priority of the AATIF. We believe that the AATIF model will continue to appeal to investors from diverse backgrounds and geographies, sharing the commitment to unlock Africa's potential in agriculture to the benefit of local communities.

As Investment Advisor, Deutsche Bank continues to believe 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. While innovative funding has been provided to one farm and two financial institutions have agreed to increase their activities in 2012, we are aiming to further adapt financial solutions to the needs of local actors in 2013. We will strive to continue forming agricultural partnerships that work – for Africa and for our shareholders.

Michael Schneider

Anne-Katrin Gruenewald

Christin Schaefer

## Letter from the Compliance Advisor

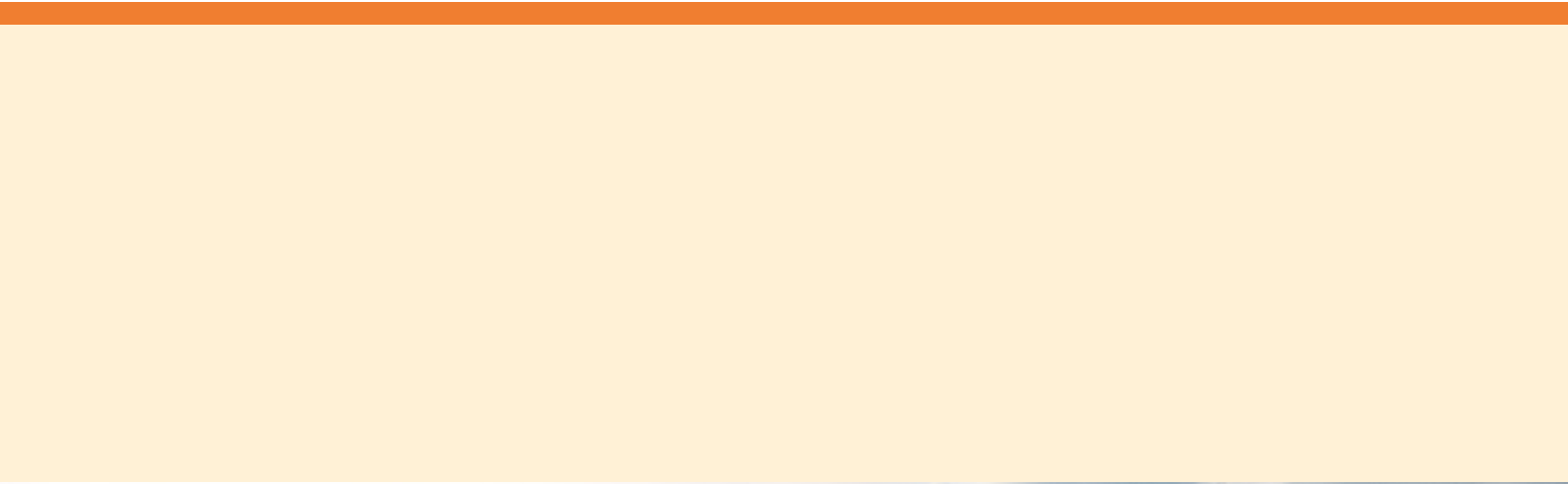


In June 2012, the International Labour Organisation entered into a partnership agreement with the AATIF to take on the responsibility as AATIF's Compliance Advisor.

AATIF seeks to maintain the highest recognized standards for the management of social and environmental risks in its operations. To this end the Fund's Social and Environmental Management System (SEMS) was developed in close cooperation with KfW Development Bank. Since ILO accepted to advise AATIF on its social and environmental impact, the AATIF-SEMS has been even further improved. For environmental concerns ILO closely collaborates with the Regional Office for Africa of the United Nations Environment Program and has formalized this relationship through an interagency agreement in June 2013.

AATIF's new investments in Financial Institutions (FI) open possibilities as well as challenges to improve social and environmental impact. Overall, all investments have made tremendous progress towards improving their social and environmental impact during the reporting year and are on a good way towards complying with the AATIF Social and Environmental Safeguard Guidelines, constantly monitored by the Compliance Advisor.

Together with the Investment Advisor, the Technical Assistance Manager and reputed research institutions, we will increase activities in tracking the developmental impact of AATIF's activities in 2013.





## 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 especially be made to support out-grower 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 its Social and Environmental Safeguard Guidelines.<sup>1</sup>

### **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 scaling-up 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 characterizes AATIF's approach to agricultural lending in Africa.

## Governance structure

The Fund's Shareholders elect 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 or rejects investment proposals brought forward by the Investment Advisor and monitors the activities of the Investment Advisor. The Investment Advisor has been selected in a competitive and public process and conducts the Fund's business on behalf and under the supervision of the Board of Directors. A Technical Assistance Facility accompanies AATIF's lending. Its grants support capacity building and knowledge dissemination in agriculture and agro-finance (including scientific studies or trials e.g. with respect to social impact or climate change effects). The Technical Assistance Facility is supervised by the Technical Assistance Facility Committee representing the Facility's donors. In March 2013, the role of the Technical Assistance Facility Manager has been taken on by the Common Fund for Commodities, an intergovernmental financial institution established within the framework of the United Nations<sup>2</sup>. For further details on Technical Assistance, please refer to section "Summary of Technical Assistance Funding".

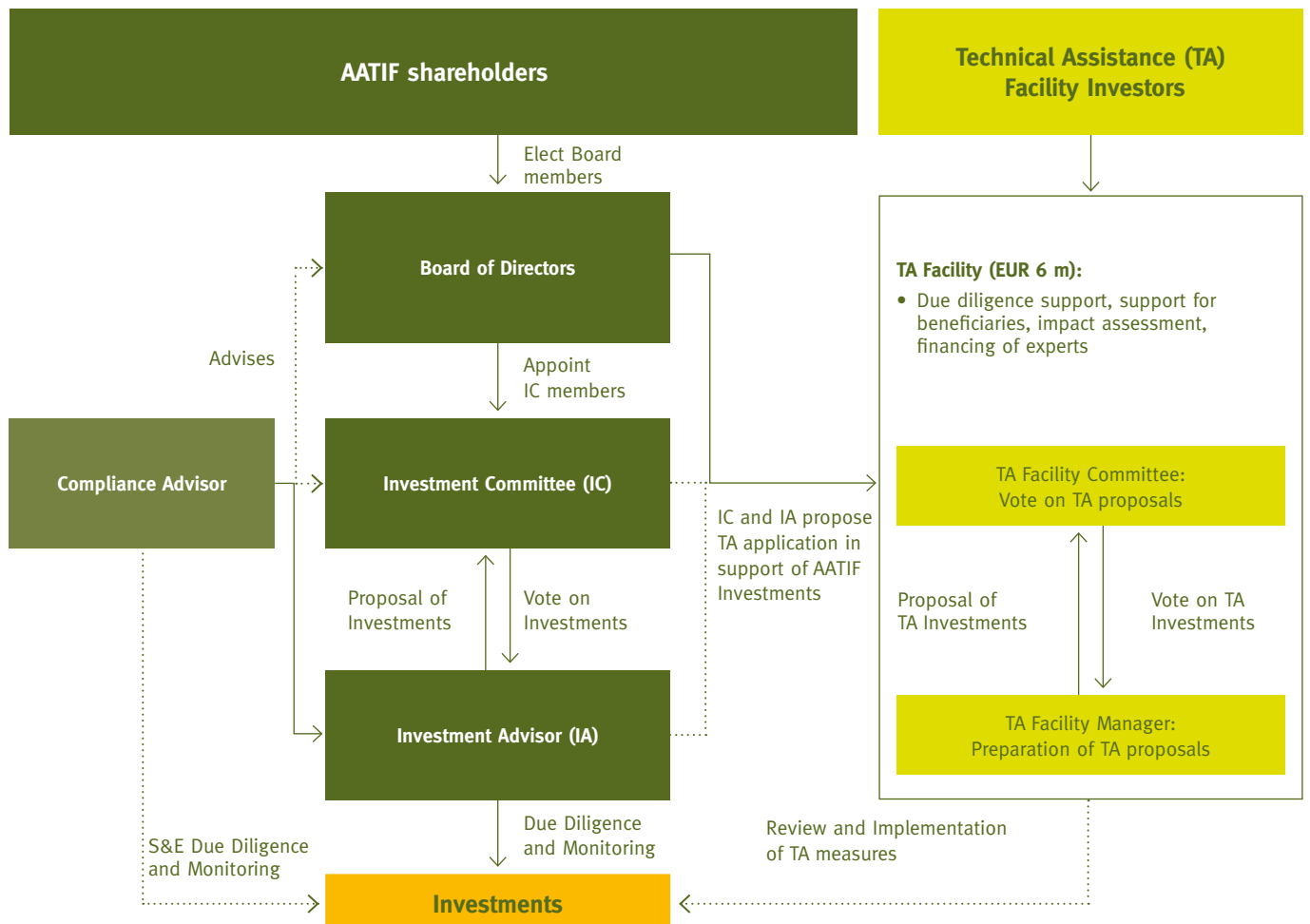
<sup>1</sup> For AATIF Social and Environmental Safeguard Guidelines see [www.aatif.lu](http://www.aatif.lu)

<sup>2</sup> For further information on the Common Fund for Commodities see <http://www.common-fund.org/>

Conducting a due diligence 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 Investment's compliance with the Fund's Social and Environmental Safeguard Guidelines, the Fund has partnered with the International Labour Organization (ILO) a specialized United Nations agency with the mandate to promote decent work. The ILO is AATIF's Compliance Advisor. In concert with other competent partners the Compliance Advisor provides an independent compliance opinion to the Investment Advisor and the Investment Committee before any investment decision is made.



### Organizational structure



# AATIF's scope of business

The AATIF focuses on investments in agriculture. It targets small, medium and large scale agricultural farms as well as agricultural businesses along the value chain. AATIF's investments are direct or indirect: **Direct Investments** can comprise cooperatives, commercial farms and processing companies while **Indirect Investments** relate to 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.

In pursuing its strategy, the Investment Advisor strives 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 risks.

## How to qualify for AATIF funding

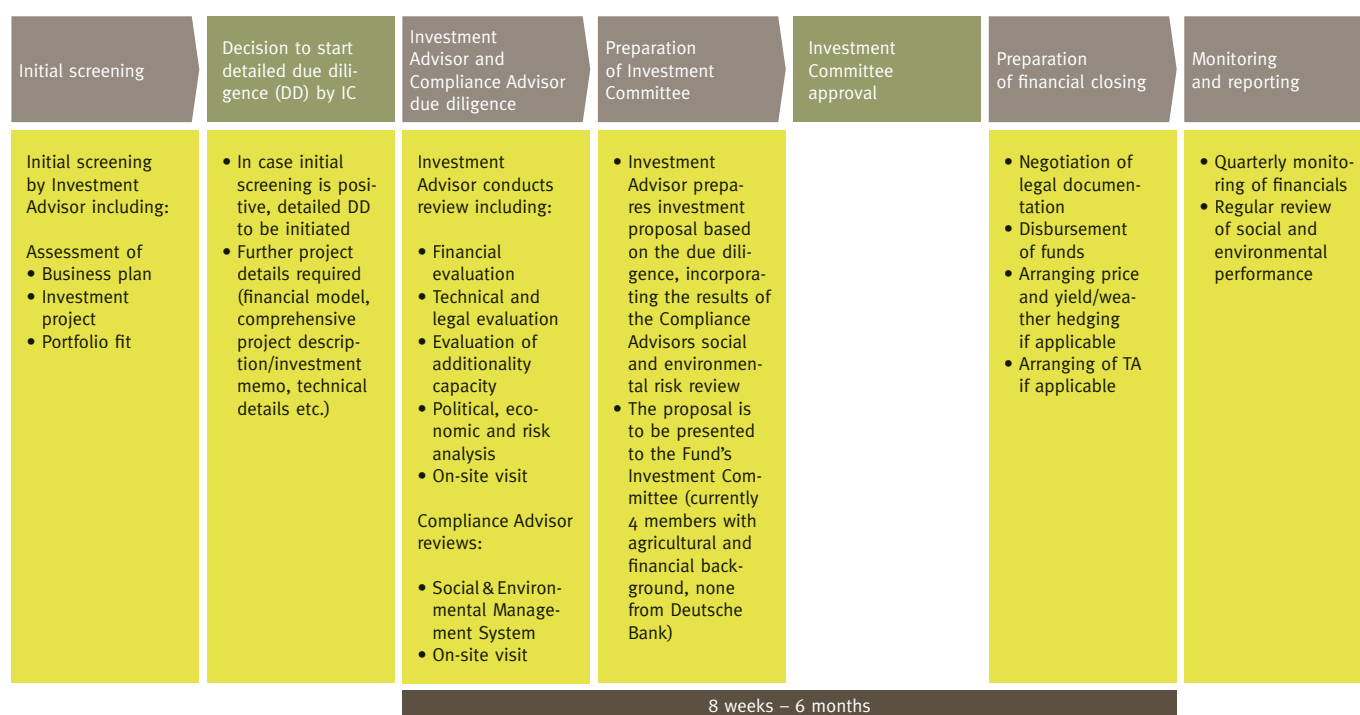
### Requirements for Indirect Investments

- Present a business plan for financing agricultural projects or a suitable pipeline
- Have a social and environmental management system or be ready to implement one
- Require financing typically between USD 5 m and USD 30 m (or local currency equivalent if an economically feasible USD hedging solution exists)

### Requirements for Direct Investments

- Present a complete business case
- Have a social and environmental management system or be ready to implement one
- Require financing typically between USD 5 m and USD 20 m (or local currency equivalent if an economically feasible USD hedging solution exists)

## Investment Process



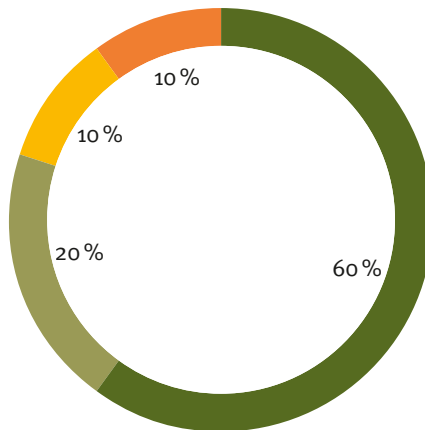
# AATIF Investment Portfolio 2012

In 2012, AATIF closed three transactions. Following the disbursement to the Ghanaian rice farm GADCO of USD 5 m in Q2 2012 (AATIF's second direct investment), AATIF built up its financial institutions portfolio. A senior loan facility was extended to (i) the Eastern and Southern African

Trade and Development Bank (PTA) of USD 30 m in Q3 2012 and (ii) Chase Bank (Kenya) Ltd of USD 10 m of which USD 5 m have been disbursed in Q4 2012. The proceeds of both facilities are to be applied towards agricultural sector lending.

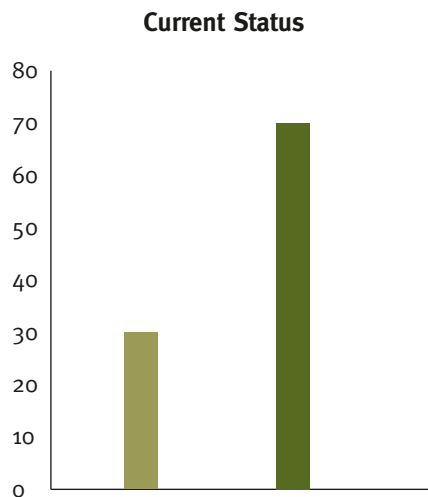
## Portfolio composition by Partner Institution

- PTA (Supranational) (USD 30 m)
- Chobe Agrivision Zambia (USD 10m)
- GADCO Ghana (USD 5 m)
- Chase Bank Kenya (USD 10 m committed of which USD 5 m disbursed)



## Portfolio composition by Investment Type

- FI
- Direct Investment
- Intermediary

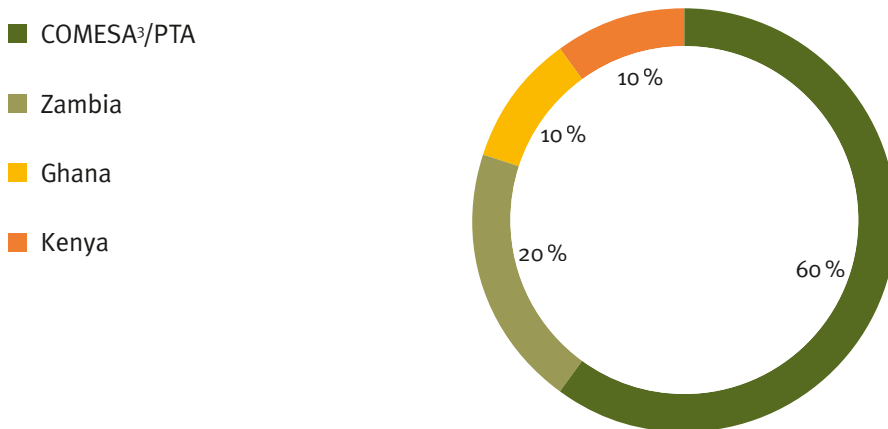


(All figures indicated in percent)



### Portfolio composition by country/region

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<sup>3</sup> Common Market for Eastern and Southern Africa (for further information see: [www.comesa.int](http://www.comesa.int))



## Chobe Agrivision Update

### Investment Update

Chobe Agrivision Company (Chobe) which was established in 2008 is focusing on assembling and cultivating agricultural farm production hubs by growing food crops at selected locations across Zambia. In 2012 Chobe has moved from focusing on maize, soy and wheat to soy and wheat only adjusting its business model to market conditions. Maize is a highly subsidized crop in Zambia resulting in non-sustainable off-take prices for commercial farmers.

The AATIF investment of USD 10m allowed Chobe to scale up the area under irrigation to 1,565 hectares, and increase production potential of soya from approximately 1,000 tons to 5,500 tons and wheat from 2,500 tons to 8,000 tons. While the soy crop already reached projected yields, the wheat crop yields are expected to reach forecasted levels in 2013.

The Chobe model has attracted strong third party investor interest (see also the AATIF 2011 annual report). Zeder Investments Limited, a JSE-listed agricultural company managed and part-owned by PSG, a South African investment firm acquired Chobe's parent company and expanded the agricultural business, thereby securing additional long-term funding.

The AATIF 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 (MIGA, World Bank Group).

### Chobe Social and Environmental Review

In 2012 Chobe continued improving and advancing its social and environmental management system and submitted a detailed annual social and environmental monitoring report to AATIF outlining activities and achievements on identified areas of concern. The company duly submitted its annual report to the Zambia Environmental Management Agency<sup>4</sup> (ZEMA), applied for all relevant permits and has received site visits from ZEMA. For all farm expansions, including dam development, Chobe has or is in the process of obtaining Environmental Impact Assessments in line with ZEMA requirements. The farm clinic is now fully functional and run by a qualified health worker who is onsite daily to run the programs on malaria prevention, HIV awareness, general health, nutrition, baby weighing and infant development. The company has continued improving housing conditions by replacing traditional structures with brick houses that have access to running water.

By the end of 2011, Chobe had complied with the requirement to pay minimum wage to casual workers and adjusted pay

<sup>4</sup> The main function of ZEMA is to ensure the sustainable management of natural resources and protection of the environment, and the prevention and control of pollution in Zambia. As such, it advises government as much as it develops standards and guidelines relating to the protection of air, water, land and other natural resources and the prevention and control of pollution, the discharge of waste and the control of toxic substances and enforces measures aimed at preventing and controlling pollution (Zambia Environmental Management Act 2011).



Area of improvement as per loan agreement covenant	Status
Apply minimum wage as per Zambia Employment Act to casual workers.	✓ (2011)
Adjust registration forms for casual workers to ensure no underage workers are hired.	✓ (2011)
Ensure that rat poison and mosquito spray is stored in a closed storage, indicating that its content is hazardous or in an area marked as hazardous.	✓ (2011)
Set up and implement a system for managing occupational safety and health, which also includes active worker participation.	(2011) Ongoing activity
Ensure that workers and their families are provided with one insecticide-treated mosquito net per household and that these are regularly insecticide treated. Investigate the correctness of and if necessary adjust the mosquito spraying schedules.	(2011) Ongoing activity
Ensure that children of families working at the Chobe Agrivision have access to, at least, primary school.	See Summary Technical Assistance Funding

Employment Impact	Chobe's labour force grew considerably from 258 (2011) to 390 (2012) still with casual labour slightly exceeding permanent employment in numbers. This increase is partially a result of acquiring additional farms. With operations maturing, it is expected that employment figures consolidate in 2013.
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levels by 10% as of January 2012 to provide for increases in minimum wage. Similarly, the payroll system of Chobe reports the registered age of all employees and ensures that no underage workers – both casual and permanent – are employed. Since the end of 2011, chemicals (including rat poison and mosquito spray) have been stored in a secure location and duly labeled. Warning signs restrict access to this area which is equipped with fire extinguishers and new ventilation.

Chobe has improved its occupational safety and health system and consistently keeps records of activities or incidents. While the main system was put in place in 2011, training and monitoring is an ongoing activity and Chobe performs this task seriously. The company is concerned about the health status of farm workers and their family members

which it proves by going beyond upgrading of the occupational safety and health system and considering farm community concerns.

Regarding the schooling situation of farm children, progress still has to materialize. As a result of communication with the Ministry of Education, Chobe received plans for extending Katuba School in order to accommodate the company's farmer's children. However, no contracts for the actual construction work or for purchasing the school buses for commuting to/from the school/farm had been closed by the end of 2012. The AATIF Technical Assistance Facility is financially supporting the Chobe school program and is closely following up on progress.



### **Chobe in the context of Zambia's agricultural sector development<sup>5</sup>**

Agriculture is Zambia's main source of growth. It contributes around 20% to GDP, employs roughly 85% of the population and has been growing above 7% over the past few years. It is expected to steadily grow further, underpinned by Zambia's large agricultural potential of uncultivated arable land and abundant fresh water. However, key drivers of the sector (such as irrigation, infrastructure, research and extension) remain underfunded, leading to low agricultural productivity. Public expenditure on the purchase of maize has increased significantly over recent years and has caused spending overruns, to be financed over the next few years.

Despite bumper maize harvests, problems with the distribution system and poor infrastructure contribute to occasional, localized shortage. The cultivation of maize (mainly a smallholder crop) currently dominates agriculture in Zambia. The government plans to diversify the agricultural sector by supporting crops other than maize, including wheat. The Zambian soy market is self sufficient and growing rapidly with some exports. Crop production other than maize is dominated by commercial farmers and there is considerable scope for production growth – including the potential to improve the lives of many smallholders.

<sup>5</sup> Dr. Claire Schaffnit-Chatterjee, Senior Analyst, DB Research



# GADCO

GADCO is an agri-food company, focused on crop production, processing and marketing of high quality rice. The group's legal structure is incorporated under the Coop laws of the Netherlands, with current operations in Ghana only. It is privately owned and funded by financial and impact investors<sup>6</sup>.

The Company establishes and operates sustainable value chains, in partnership with smallholders, to serve African consumer markets. The Ghanaian model is built around a commercially run nucleus farm integrating smallholder farmers as it grows. The nucleus farm is fully mechanized, state of the art technology being applied including laser based ground contouring to allow optimal flood irrigation. Alongside the nucleus farm roll-out, initial smallholder trials have been carried out in late 2012/early 2013.

A loan of USD 5 m was extended to GADCO where AATIF receives a fixed minimum interest rate plus a fee based on agricultural performance. This innovative approach allows GADCO flexibility in times of unforeseen crop failures or other economic setbacks during the early stages of its business activities. The AATIF loan is i.a. applied for building a rice mill for de-husking, sorting and bagging of rice.

As GADCO builds and establishes its model, essential partners alongside AATIF are: (i) Syngenta as core technology and agronomy partner (seed trials and crop protection), (ii) Finatrade, a Ghanaian wholesaler with established distribution channels in the country as well as (iii) GADCO's existing and new shareholders providing additional liquidity to stabilize operations during the early stages of farm development.

## GADCO Social and Environmental Review

When AATIF started supporting GADCO the company did not have a social and environmental management system in place but was very eager to start building up the same. During 2012, the company made progress towards developing the system and backing it with appropriate resources. As per the GADCO-AATIF loan agreement, GADCO agreed to improve a number of areas (see table p. 18) and is on track reaching the outstanding milestones set for June 2013 or after 18 months of operations of the rice mill.

GADCO is now providing health insurance coverage for all expat staff. All national staff are covered by the national health insurance and issued national health insurance cards. A draft "Staff Handbook" has been submitted for external legal review and will be broadly shared with all staff members for further input. Currently, AATIF's Technical Assistance Facility Manager among others is determining supporting training measures to graduate a GADCO employee into becoming the company's HR manager.

With support of local consultants, GADCO made progress in defining and setting up an Environmental and Social Management Plan which shall be submitted by the end of June 2013.

The smallholder scheme has completed a 5-month pilot phase (Nov 2012 – March 2013) where an on-farm trial was conducted to validate and prove that provision of inputs and services including high-yielding variety seeds, training and mentoring could lead to a substantial yield increase for smallholder farmers. As a result, the trial farmer almost doubled his yield and revenue from rice production (approx. USD 5,000) and quadrupled his net income throughout the season (approx. USD 1,912). In addition to the economic benefit, the farmer improved his farming skills, his knowledge and boosted his confidence in the potential of sustainable rice farming.

<sup>6</sup> Impact Investors are investors investing with the intention to generate measurable social and environmental impact alongside a financial return.

Based on the initial good experience, GADCO has started rolling out a pilot scheme with more than 500 farmers in three locations in the Volta region using two different approaches: lead farmer (demonstrator of good practice) versus aggregator (service provider) model. The scheme

aims to integrate 8,500 smallholders into GADCO's rice production value chain and improve farmer incomes by more than 120% by 2016. The World Bank is accompanying the roll-out with an impact assessment.

Area of improvement as per loan agreement covenant	Status
International staff members are covered by a health insurance and national members of staff are covered by a health insurance and are in possession of health insurance cards.	✓ (April 2013)
Employment contracts comply with national labour and employment law <ul style="list-style-type: none"> <li>• GADCO Employee list verified for written contracts</li> <li>• Apply the daily minimum wage</li> </ul>	Ongoing activity
All containers and bags used or stored on the farm, at the office building or rice mill are labelled indicating the correct content.	Ongoing activity
GADCO set out in writing (A) its human resources policies, (B) a manual for the safety at work and (C) an emergency plan. All members of management and staff have been trained and are familiar with the procedures established in these three documents.	Ongoing activity
GADCO has shared the more defined concept of the smallholder at the latest after the initial training of the first group of smallholder farmers scheme.	✓
GADCO has implemented measures to improve the safety for the community, especially the safety of canals and bridges on the farm and deep canals are protected with shrubs and bridges equipped with rails to minimize the risk of accidents.	Ongoing activity
After 18 months of operation of the rice mill the condition of the Environmental Protection Agency of Ghana on establishing an „Environmental Management Plan“ is extended to include social concerns in an integrated „Social and Environmental Management Plan“.	Ongoing activity
Employment Impact	GADCO has grown tremendously since it started collaboration with the AATIF. In terms of staff, numbers rose from 92 (April 2012) to 168 (April 2013) with the majority being permanent employees.

GADCO has entered into a Joint Venture Agreement (JVA) with the Fievie Tribe on the use of 1,000 hectares communal land. The community leased the land for 50 years and receives rent payments of 2.5% of the market value of the rice harvested and milled for the first 5 years. Thereafter, and for the remainder of the lease contract, the rent to the Fievie Tribe shall be 5% of the market value of rice harvested and milled. In 2012, rent payments from GADCO have been contributed for example to improve local schooling conditions.

### GADCO in the context of Ghana's agricultural sector development<sup>7</sup>

Agriculture remains a key sector of Ghana's economy, accounting for around 25% of GDP and employing 60% of the workforce. Emphasizing the sector's importance for inclusive economic growth, the government is committed to invest in agriculture. Rice is Ghana's second grain after maize, with consumption rising steadily in line with population growth, urbanization and changing consumer preferences. Around 70% of the rice consumed is imported (USD 450m a year of rice imports). The importance of the rice sector in increasing food security, reducing poverty and creating employment is widely recognized. Challenges faced by Ghana's rice industry include the areas of credit, technology transfer and seeds.

<sup>7</sup> Dr. Claire Schaffnit-Chatterjee, Senior Analyst, DB Research



## PTA

The Eastern and Southern African Trade and Development Bank known as Preferential Trade Area bank (PTA) is a multilateral development bank operating in the Common Market for Eastern and Southern Africa (COMESA). COMESA, one of the largest regional economic groupings in Africa, currently includes 19 countries, which are extremely diverse in their socio-economic development, ranging from Ethiopia to the Seychelles. The combined population is over 400m people and the GDP over USD 400bn. The market integration is driving sub-regional cooperation and setting the stage for economic, social and political cohesion in Africa.

Established in 1985, PTA provides mainly private sector related trade and project/infrastructure finance. Its mission is to be at the forefront of providing development capital in the region, through customer focused and innovative financing instruments backed by competitively priced funds. PTA operates out of three hubs: Headquarter Bujumbura, Burundi; Regional and Corporate Support Centre Nairobi, Kenya; Regional Office Harare, Zimbabwe.

Agriculture sector funding is a still young and emerging business line for PTA. Funding is provided along the entire agricultural value chain. While the trade finance division is dominated by fertilizer and agricultural commodities funding, the project/infrastructure finance division covers the entire spectrum from food & beverages to horticulture, floriculture, sugar & confectionary as well as animal husbandry.

AATIF extended a loan of USD 30m to PTA on 28 September 2012 for on-lending to the agricultural sector. The objective is to support and promote increased agricultural production and enhance local value addition in the COMESA region thereby contributing to poverty alleviation as well as employment generation. To successfully continue and advance PTA's agricultural lending activities, AATIF accompanies its investment with technical assistance (see Summary Technical Assistance Funding).



### **PTA Social and Environmental Review**

PTA Bank started developing and implementing a social and environmental management system since 2005 as part of improving its risk management capacity. The system was well developed and only a few action points were outstanding to complete implementation when AATIF started its partnership with PTA in 2012.

PTA Bank has a well staffed social and environmental management structure consisting of one social and environmental senior manager, one coordinator and two champions who have received training and who have grown into their positions. Results of the social and environmental risk assessment and management process are well documented (e.g. by an environmental and social screening memorandum, and an environmental and social management plan summary) and readily available. As PTA did not disburse AATIF sub-loans during the reporting period, no monitoring using this documentation took place.

PTA Bank submitted its annual social and environmental performance report to AATIF. Among the activities in 2012 were further staff training in social and environmental risk assessment focusing on the trade finance department, a revision of PTA's exclusion list which now clearly defines forced and child labour and a further elaboration of the sustainability concept in the company's 2013–2017 corporate plan.



Area of improvement as per loan agreement covenant	Status
PTA shall include a commitment to sustainable development of all its activities on a higher organizational level, for example in its vision or mission statements or its new strategic plan for the years 2013 through 2017.	Partially (2012)
PTA shall further develop and implement a social and environmental management system (i) in accordance with chapter 1 of the AATIF's Social and Environmental Safeguard Guidelines (and more specifically paragraph 23 by 31 December 2013) and (ii) in accordance with additional requirements and milestones as mutually agreed between PTA and AATIF, such as amendments to PTA's operational guidelines for trade finance, and (iii) maintain and further improve the implemented social and environmental management system and conduct its business in accordance with the social and environmental management system.	Ongoing activity
PTA shall closely communicate with AATIF (i) in overseeing the first two sub-loans and (ii) in general with respect to appropriate procedures when on-lending to the small and medium enterprise sector.	Outstanding – no sub-loan agreements yet

### AATIF's investment within the context of COMESA's agricultural sector development<sup>8</sup>

Agriculture plays a critical role in the COMESA region, as a key growth driver, accounting for over 30% of GDP and providing a livelihood for over 80% of the region's labour force. The COMESA agricultural strategy stresses the importance of regional cooperation and co-ordination and recognizes the need for a holistic approach encompassing the key elements of agricultural developments: markets, inputs, funding and infrastructure. COMESA's agricultural programs

are thereby designed to attain two key objectives: regional food security and enhanced regional integration through a freer flow of agricultural trade. The COMESA's strategy is therefore fully in line with the AATIF guidelines.

<sup>8</sup> COMESA Website, 2013, <http://programmes.comesa.int/>

## Chase Bank (Kenya)

Chase Bank (Kenya) Ltd. is a privately owned bank, incorporated in Kenya in 1996 and licensed and regulated by the Central Bank of Kenya. Core focus is the SME business, including agriculture, healthcare, education, transport and ICT. Chase Bank is well established cross-country with more than 20 branches. Its activities and efforts have been repeatedly rewarded with the Annual Banking Award.<sup>9</sup>

At the time of the AATIF investment, Chase Bank's agricultural activities represented a small share of the overall loan portfolio. However, the sector is earmarked to become one of the growth areas, with a focus on targeting input providers, farmers, processing companies and off-takers alike. By way of establishing a dedicated agric desk and featuring a branch network which is spread across the Kenyan agricultural hubs, Chase Bank is well positioned to pursue its objectives.

AATIF committed a loan of USD 10m to Chase Bank, of which the first USD 5 m tranche was disbursed in October 2012. The second tranche is to follow subject to Chase Bank successfully growing its agricultural portfolio. Chase Bank kicked off its on-lending program under the AATIF loan with disbursements totaling KES 26m (USD 308k) as of 31 December 2012. Sub-loans have been disbursed along the agric value chain including feed suppliers, farmers, livestock farming, dairy and tea & coffee companies. To enhance the roll-out of agric lending, capacity building trainings are initiated to improve value chain analysis skills with a particular focus on the dairy and horticulture segment (see also Summary Technical Assistance Funding).

### Chase Bank Social and Environmental Review

Social and environmental thinking in investment decisions is a new area for Chase Bank and hence the bank is just beginning to develop policies and procedures in this domain. The process is substantially supported by technical assistance from Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a subsidiary of KfW.

Since AATIF started collaborating with Chase Bank, AATIF and DEG coordinate their support to the bank's social and environmental management system. While DEG is coordinating and driving the implementation process and the structure of the new social and environmental management system AATIF is contributing to the social and environmental particulars of agricultural finance. By the end of 2012, Chase Bank had developed a social and environmental policy to guide the bank's activities. The definition and implementation of the social and environmental management system are scheduled for 2013.

<sup>9</sup> 2011 – acknowledging their role in creating innovative products for the SME market, in 2009, 2010 and 2012 recognizing Chase Bank as the fastest growing financial institution



#### **AATIF's investment within the context of Kenya's agricultural sector development<sup>10</sup>**

Agriculture in Kenya accounts for around 25 % of the GDP, 60% of employment and 65 % of exports – mostly tea and products of horticulture summing up to almost 40% of total exports. About 75 % of the population lives in rural areas and most derive their livelihood from agriculture. Yields of crops and livestock are far below their optimum and those of maize, sugar cane and dairy are estimated at one-tenth of

the global average. Significantly increasing national average yields of major crops and livestock should be easily achievable through the adoption of appropriate technologies and integrated soil fertility management. Improving access to agricultural inputs and extension services as well as value addition can also help boosting Kenyan productivity.

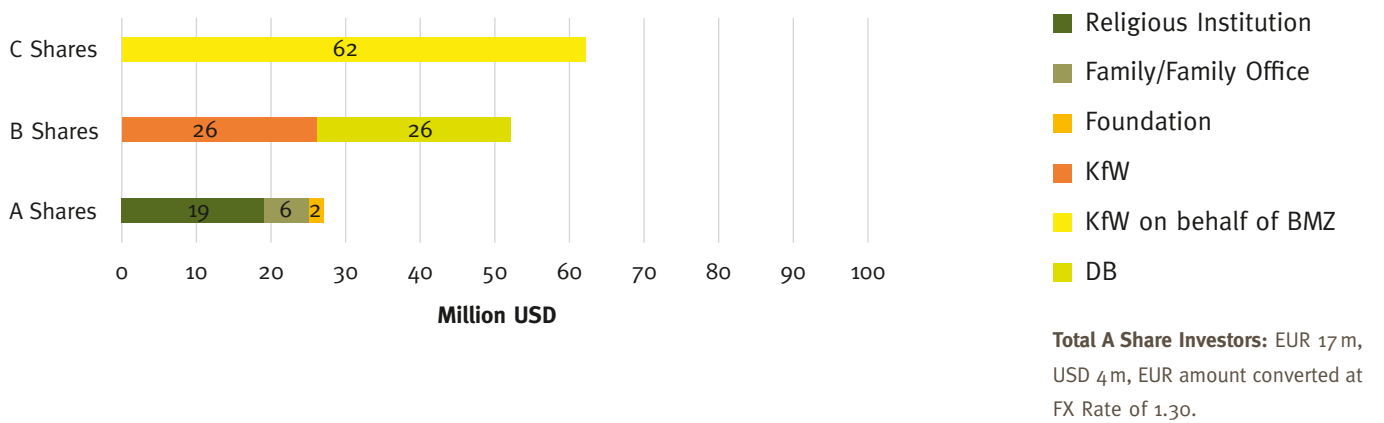
Area of improvement as per loan agreement covenant	Status
Chase Bank shall include a commitment to sustainable development of all its activities on a higher organizational level, for example in its vision or mission statements or its strategic plan.	Outstanding
Chase Bank shall (i) develop and implement a social and environmental management system by 31 December 2013 and (ii) maintain and further improve the system and conduct its business in accordance to it.	Ongoing activity
Chase Bank shall include AATIF in the review and commenting process of all stakeholders with respect to the milestones set out in the environmental and social action plan as agreed between DEG and Chase Bank.	Ongoing activity
Chase Bank shall at all times maintain (i) a social and environmental manager and (ii) a social and environmental coordinator.	Ongoing activity
Chase Bank shall closely communicate with AATIF in overseeing the first two Sub-Loans.	Outstanding – no sub-loans processed through new SEMS yet

<sup>10</sup> Dr. Claire Schaffnit-Chatterjee, Senior Analyst, DB Research

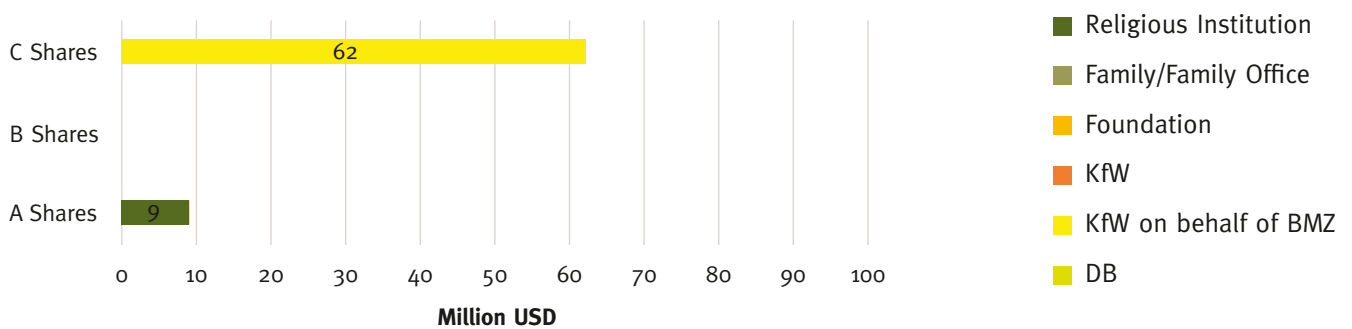
# Funding

Funding overview: AATIF successfully reached out to private sector investors allowing commitments to reach USD 140 m in March 2013.

## Commitments



## Subscriptions









## Summary of the Technical Assistance Funding

# Summary of the Technical Assistance Funding

**Purpose:** The AATIF is supplemented by a Technical Assistance facility (TA Facility) providing hands-on and tailored services to the investees of the Fund. The TA facility is to create capacities in investees with regard to:

- their compliance with the Fund's Social and Environmental Safeguard Guidelines and the Development Policy Guideline
- generation and dissemination of knowledge and lessons learnt
- offer Investment specific support to Partner Institutions and Final Beneficiaries
- provide partial financing of due diligence costs of small scale innovative, potentially financially viable and scalable projects

The services delivered by the TA Facility complement AATIF's investments.

**Activities:** In 2012 the Technical Assistance Facility was formally established and commenced with planning and implementation of four Technical Assistance projects.

First, to assist the due diligence process of the Investment Advisor, a technical expert was funded to review a potential investment in the cassava processing sector in East Africa. This included, amongst others, an assessment of (i) the planned technical layout of the cassava to starch plant as well as (ii) the underlying assumptions of projected cassava yields. The report resulted in additional milestones to be reached and requirements to be fulfilled (e.g. concluding discussions with an established cassava plant manufacturer and off-takers) before AATIF may continue its due diligence process. A special added value was created for the AATIF by attaining an insight into the cassava market, its opportunities and challenges.

Second, AATIF's first investment, a loan to the Chobe farm in Zambia, will be supported by Technical Assistance to rehabilitate and expand the school premises in a nearby village and to purchase two school busses. While the TA Facility does not foresee funding for infrastructure and other capital items, this measure was approved on an exceptional basis in order to provide for sufficient space and an enabling learning environment for the increasing number of school aged children living on the farm premises. This engagement is being supported by the Zambian Ministry for Education with a commitment to increase the number of teachers of the rehabilitated school.

Furthermore, two fact finding missions were undertaken to identify specific Technical Assistance requirements to support PTA Bank and Chase Bank in its agricultural sector on-lending program. As an outcome for PTA, AATIF will share costs of a full time professional with significant experience in agricultural finance in order to institutionally establish a dedicated agricultural unit and to expand PTA's agricultural lending operations. Chase Bank will receive pointed assistance to improve efficiency of its agricultural lending operations and to analyze the dairy and horticulture value chains which indicate strong demand for finance.

## Fund amendments



### Change of Fund currency from EUR to USD

In 2012 the currency of the Fund was changed from EUR to USD as per 30 September 2012.

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 needed to rely heavily on the affordability of available cross currency swaps to service its EUR obligations to the Shareholders.

The change of the Fund currency has been undertaken in light of evidence provided by the Investment Advisor 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.

### Change of Fund accounting year from 31 December to 31 March

In 2012 AATIF faced issues in finalizing its 2011 financial statements resulting from the late receipt of financial statements from its Partner Institutions. To ease the process the Board of Directors and the AATIF shareholders agreed to move the financial year end from 31 December to 31 March. Such change was effected in the extraordinary shareholder meeting on March 28 2013 with effect as of 31 March 2013.

# Financial Statements

## Statement of financial position

For the period from 9 August 2011 (date of incorporation) to 31 December 2012

	31-Dec-12	31-Dec-11*
<b>ASSETS</b>		
Loans to Partner Institutions	50,000,000	10,000,000
Interest accruals on loans	318,897	113,308
Other receivables and prepayments	211,852	19,365
Cash at bank	21,433,409	48,989,307
<b>Total assets</b>	<b>71,964,158</b>	<b>59,121,980</b>
<b>LIABILITIES</b>		
Financial liabilities at fair value through profit or loss	923,186	981,051
Accrued expenses	644,529	1,095,359
Other payable	284,362	168,634
<b>Total liabilities excluding net assets attributable to shareholders</b>	<b>1,852,077</b>	<b>2,245,044</b>
Class A Shares—Tranche 1	9,347,836	—
Class B Shares—Tranche 1	51,926	51,926
Exchange difference resulting from the change of functional currency	(210)	—
<b>Net assets attributable to holders of redeemable shareholders</b>	<b>9,399,552</b>	<b>51,926</b>
<b>Total liabilities</b>	<b>11,251,629</b>	<b>2,296,970</b>
<b>EQUITY</b>		
Class C Shares—Tranche 1		
Share capital	62,721,700	58,416,750
Operating loss	(187,619)	(1,591,740)
Exchange difference resulting from the change of functional currency	(229,812)	—
Retained earnings	(1,591,740)	—
<b>Total equity</b>	<b>60,712,529</b>	<b>56,825,010</b>
<b>Total liabilities and equity</b>	<b>71,964,158</b>	<b>59,121,980</b>

\* The balances are based on the foreign exchange rate as of 31 December 2011 (1 EUR = 1.29815 USD)

## Statement of comprehensive income

For the period from 9 August 2011 (date of incorporation) to 31 December 2012

	31-Dec-12	31-Dec-11*
<b>INCOME</b>		
Interest income on loans	1,224,166	113,308
Interest income on deposits	1,896	424
Unrealised gain on financial liabilities at fair value through profit or loss	53,897	–
Realised gain on exchanges	146,435	8,779
Unrealised gain on exchanges	–	666,901
Other income	1,019,358	246,586
<b>Total income</b>	<b>2,445,752</b>	<b>1,035,998</b>
<b>EXPENSE</b>		
Direct operating expenses	(1,192,406)	(558,869)
Investment management fees	(362,538)	(973,613)
Unrealised loss on financial liabilities at fair value through profit or loss	–	(981,051)
Realised loss on exchanges	(8,628)	(900)
Unrealised loss on exchanges	(238,469)	–
Other expenses	(831,330)	(113,305)
<b>Total expense</b>	<b>(2,633,371)</b>	<b>(2,627,738)</b>
<b>Operating loss</b>	<b>(187,619)</b>	<b>(1,591,740)</b>
<b>Loss for the year/period</b>	<b>(187,619)</b>	<b>(1,591,740)</b>
Other comprehensive income	–	–
<b>Total comprehensive income for the period</b>	<b>(187,619)</b>	<b>(1,591,740)</b>

\* The balances are based on the foreign exchange rate as of 31 December 2011 (1 EUR = 1.29815 USD)

## 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 2012

EUR	Net assets attributable to shareholders*
<b>As at 9 August 2011 (date of incorporation)</b>	–
Issue of redeemable shares (Class B) – Tranche 1	51,926
Redemption of redeemable shares (Class B) – Tranche 1	–
Issue of non-redeemable ordinary shares (Class C) – Tranche 1	<b>58,416,750</b>
Redemption of non-redeemable ordinary shares (Class C) – Tranche 1	–
<b>Increase in net assets attributable to shareholders from transactions in shares</b>	<b>58,468,676</b>
Decrease in net assets attributable to shareholders from operations	(1,591,740)
<b>As at 31 December 2012</b>	<b>56,876,936</b>
Issue of redeemable shares (Class A) – Tranche 1	9,347,836
Redemption of redeemable shares (Class A) – Tranche 1	–
Issue of redeemable shares (Class B) – Tranche 1	–
Redemption of redeemable shares (Class B) – Tranche 1	–
Issue of non-redeemable ordinary shares (Class C) – Tranche 1	4,304,950
Redemption of non-redeemable ordinary shares (Class C) – Tranche 1	–
<b>Increase in net assets attributable to shareholders from transactions in shares</b>	<b>13,652,786</b>
Exchange differences resulting from the change of functional currency	(230,022)
Decrease in net assets attributable to shareholders from operations	(187,619)
<b>As at 31 December 2012</b>	<b>70,112,081</b>

	As at 31 Dec 2012		As at 31 Dec 2011*	
	Net asset value per share (USD)*	Number of shares	Net asset value per share (USD)*	Number of shares
Class A Shares – Tranche 1 (redeemable shares)	40,000.00	233.6959	–	–
Class B Shares – Tranche 1 (redeemable shares)	20,000.00	2.5858	25,963.00	2.0000
Class C Shares – Tranche 1 (non-redeemable shares)	9,695.27	6,262.0738	9,821.19	5,785.9585

\* The balances are based on the foreign exchange rate as of 31 December 2011 (1 EUR = 1.29815 USD)

## Statement of cash flows

For the period from 9 August 2011 (date of incorporation) to 31 December 2012

	31-Dec-12	31-Dec-11*
<b>Operating loss before tax</b>	<b>(187,619)</b>	<b>(1,591,740)</b>
<b>Net changes in operating assets and liabilities</b>		
Net (increase) in interest accruals on loans	(205,589)	(113,308)
Net (increase) in other receivables and prepayments	(192,487)	(19,364)
Increase in accrued expenses and accounts payable	(335,102)	1,263,992
Increase/(decrease) in financial liabilities at fair value through profit or loss	(57,865)	981,051
<b>Net cash flow used in operating activities</b>	<b>(978,662)</b>	<b>520,631</b>
<b>Cash flow from investing activities</b>		
Net (increase) in loans to Partner Institutions	(40,000,000)	(10,000,000)
<b>Net cash flow from investing activities</b>	<b>(40,000,000)</b>	<b>(10,000,000)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of Class A Shares	9,347,836	–
Proceeds from issue of Class B Shares	–	51,926
Proceeds from issue of Class C Shares	4,304,950	58,416,750
<b>Net cash flow provided by financing activities</b>	<b>13,652,786</b>	<b>58,468,676</b>
Net increase/(decrease) in cash and cash equivalents	(27,325,876)	48,989,307
<b>Cash and cash equivalents at beginning of the year/period</b>	<b>48,989,307</b>	
Exchange differences resulting from the change of functional currency	(230,022)	–
<b>Cash and cash equivalents at end of year/period</b>	<b>21,433,409</b>	<b>48,989,307</b>

\* The balances are based on the foreign exchange rate as of 31 December 2011 (1 EUR = 1.29815 USD)



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