



Increasing Income.
Improving Food Security.



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Letter from the Chairman



Dear Reader,

I am proud to present to you the annual report of the Africa Agriculture and Trade Investment Fund (AATIF) for the period of April 2013 to March 2014. It was an eventful year in AATIF's quest to unlock Africa's agricultural potential for improved food security, better employment and increased household incomes.

AATIF disbursed more than USD 50m, thereby doubling its assets under management to over USD 100m with around USD 39m of shareholder commitments currently unspent.

Special attention was paid in 2013/2014 to supporting contract farming schemes. Many models exist – ranging from cooperative set ups and block-farming to the nucleus model. The schemes enjoy increased popularity. They are believed to be a promising attempt to effectively solve numerous input supply and market access challenges of smallholder farmers. Successful set ups can reduce risks caused by adverse weather or market prices and can facilitate product certification, becoming increasingly advantageous when marketing in Europe or the United States.

Effective linkages between the input provider and off-taker on the one hand and thousands of smallholder farmers on the other hand typically require an organized setting with farmer associations, cooperatives or informal farmer groups. However, there is no conclusive empirical data available which shows one model to be more beneficial than another. As we progress in our investments, it is one of AATIF's development ambitions to determine the implications of AATIF supported contract farming schemes and share such knowledge to achieve a widespread advancement of smallholder farmer livelihood conditions.

In 2013/2014, AATIF intensified its footprint in funding out-growers by extending USD 21m to Wienco Ghana. The company is an input provider and off-taker for about 35,000 smallholder

farmers in the cocoa, cotton and maize sector across Ghana (2013/14 season). While cocoa and maize farmers are organized under the umbrella of an association, the cotton farmer groups are directly linked to Wienco by way of input and off-take agreements. AATIF has decided to regularly review the impact of the Wienco investment and the underlying contract farming schemes with dedicated efforts.

Outside of funding contract farming activities in West Africa, AATIF continued to build its portfolio in East Africa by extending an innovative risk sharing facility of USD 25m to BancABC, a regional financial institution. The 2013/2014 investment cycle was concluded by extending a trade finance facility to Balmed, an agricultural and trade enterprise that is committed to the development of the cocoa, coffee and cashew sector in Sierra Leone.

Finally, AATIF expanded its network of partners established under the framework of the United Nations by engaging the Common Fund for Commodities who took on the role as Technical Assistance Facility Manager in March 2013. In addition, the United Nations Environmental Programme (UNEP) agreed to support AATIF's Compliance Advisor, the International Labour Organization (ILO), with regard to the fund's environmental compliance.

I am pleased to say that the financial year 2013/2014 was successful. We are looking forward to an exciting and busy 2014/2015.

I hope you will enjoy reading the report.

A handwritten signature in black ink that reads "Duve".

Thomas Duve
Chairman of the Board of Directors

Letter from the Investment Manager



Dear Reader,

In 2013/2014, the Africa Agriculture and Trade Investment Fund continued to build its unique footprint.

Increasing availability of funding to smallholder farmers has been one of the principal goals inscribed in AATIF's mission. In this context, funding Wienco in Ghana is a landmark project. It demonstrates how a theoretical concept of organizing, training and supporting thousands of smallholder farmers can be put into practise. Its actual effectiveness must now be monitored over time and AATIF has committed to do so. For example, all parties involved in the Wienco transaction agreed to an interest rate premium in case there is no measurable and positive socio-economic impact for the smallholders – another AATIF innovation.

AATIF's mission, however, goes beyond promoting contract farming schemes. It is equally imperative for AATIF to increase the appetite of the local financial sector to fund agricultural transactions. The shortfall of funding has been one of the most critical impediments to the growth of African agriculture. While, historically, AATIF has provided senior facilities to its financial sector clients asking to on-lend these sums to agricultural entities, AATIF started to provide a bigger incentive in 2013 – risk sharing. This innovative concept is based on the understanding that many African banks consider the default risk in the sector too high and avoid lending altogether. AATIF therefore offered to accept 45 % of the losses from incremental agricultural

lending via its new client BancABC. In return, BancABC pays AATIF a higher return for assuming this risk than under a conventional loan. This structure is based on the hope for an expansion of business through more local agricultural lending by BancABC.

AATIF's first stakeholder meeting in October 2013 was indicative of the great attention this fund has attracted within the investor community. Corporate actors active in African agriculture as well as existing and potential investors alike gave overwhelmingly positive feedback on AATIF's achievements and expressed the need to further grow the AATIF model. We are encouraged by the feedback and strongly believe that the fund will continue to appeal to investors from diverse backgrounds and geographic regions, sharing the commitment to unlock Africa's potential in agriculture to the benefit of local communities. The Board of Directors therefore envision to start an additional fundraising round later in 2014.

As Investment Manager, Deutsche Bank continues to believe that innovative financing structures, supervised by a strong social and environmental governance system, will remain the key success factors to achieve the AATIF mission of increasing household incomes in rural Africa. We will strive to continue to form agricultural partnerships that work – for Africa and for our shareholders.

Michael Schneider

Anne-Katrin Gruenewald

Astrid Heck

Letter from the Compliance Advisor



Over the past year, AATIF has continued its endeavour to maintain the highest standards for managing the social and environmental risks in the Fund's operations. At the same time, AATIF has grown on this task as the Fund's Social and Environmental Management System (SEMS) matured.

In June 2013, the AATIF Compliance Advisor (International Labour Organization) and the United Nations Environment Programme (UNEP) signed a 2-year agreement through which UNEP is providing technical inputs and advice on environmental compliance of AATIF investments. As the first step, UNEP joined the Compliance Advisor to revise the AATIF Social and Environmental Safeguard Guidelines.¹ In March 2014, the Board of Directors approved the revised guidelines which now integrate the latest amendments of international law and standards.

In October 2013, members of the Board of Directors and the Investment Committee, the Investment Manager, and the Compliance Advisor convened at the first AATIF stakeholder meeting to answer questions from AATIF shareholders. The noticeable interest in sharing further knowledge of the social and environmental impact of AATIF activities encouraged the Board to enact an impact framework towards the end of 2013. This framework shall guide the impact review process of the Investment Manager, Compliance Advisor and Technical Assistance Manager for each investment.

2013/14 was a particularly stimulating year in terms of reviewing social and environmental risks and impact due to AATIF's increased outreach to smallholder farmers and related additional facets of the impact chain. By funding Wienco, for instance, AATIF is reaching tens of thousands of smallholders and considering the social and environmental risk and impact of these smallholder farmers. In terms of compliance, AATIF engages in rendering land assets more productive and profitable for smallholders themselves, respecting land ownership and usage rights. On the other hand, smallholder farmer schemes may involve credit extension, which inevitably carries the risk of over-indebting farmers. Especially where land serves as collateral, fair design of the contracts that underlie the relationship between scheme organizer and farmers is crucial. In its social and environmental risk and impact assessment, AATIF analyses contractual obligations of each party with the goal of ensuring transparency (e.g. tasks of each party; validity of contract; input/off-take prices; quality requirements), risk sharing and fairness of returns.

Overall, both mature and new AATIF investments continue to make progress towards improving their social and environmental footprint despite, at times, challenging external conditions.

¹ For AATIF Social and Environmental Safeguard Guidelines see www.aatif.lu



The Africa Agriculture and Trade Investment Fund at a glance

Mission

The Fund's mission is to realise the potential of Africa's agricultural production, manufacturing, service provision and trade for the benefit of the poor. The Fund aims to provide additional employment and income to farmers, entrepreneurs and labourers alike. 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 economic, 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 programmes (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 investees that are willing to work towards compliance with AATIF's Social and Environmental Safeguard Guidelines.

Additionality:

AATIF provides 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 already satisfies demand. Such positive "crowding-in" effects can also be observed by scaling-up existing development assistance programmes or by bridging the gap between such programmes 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 characterize 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.

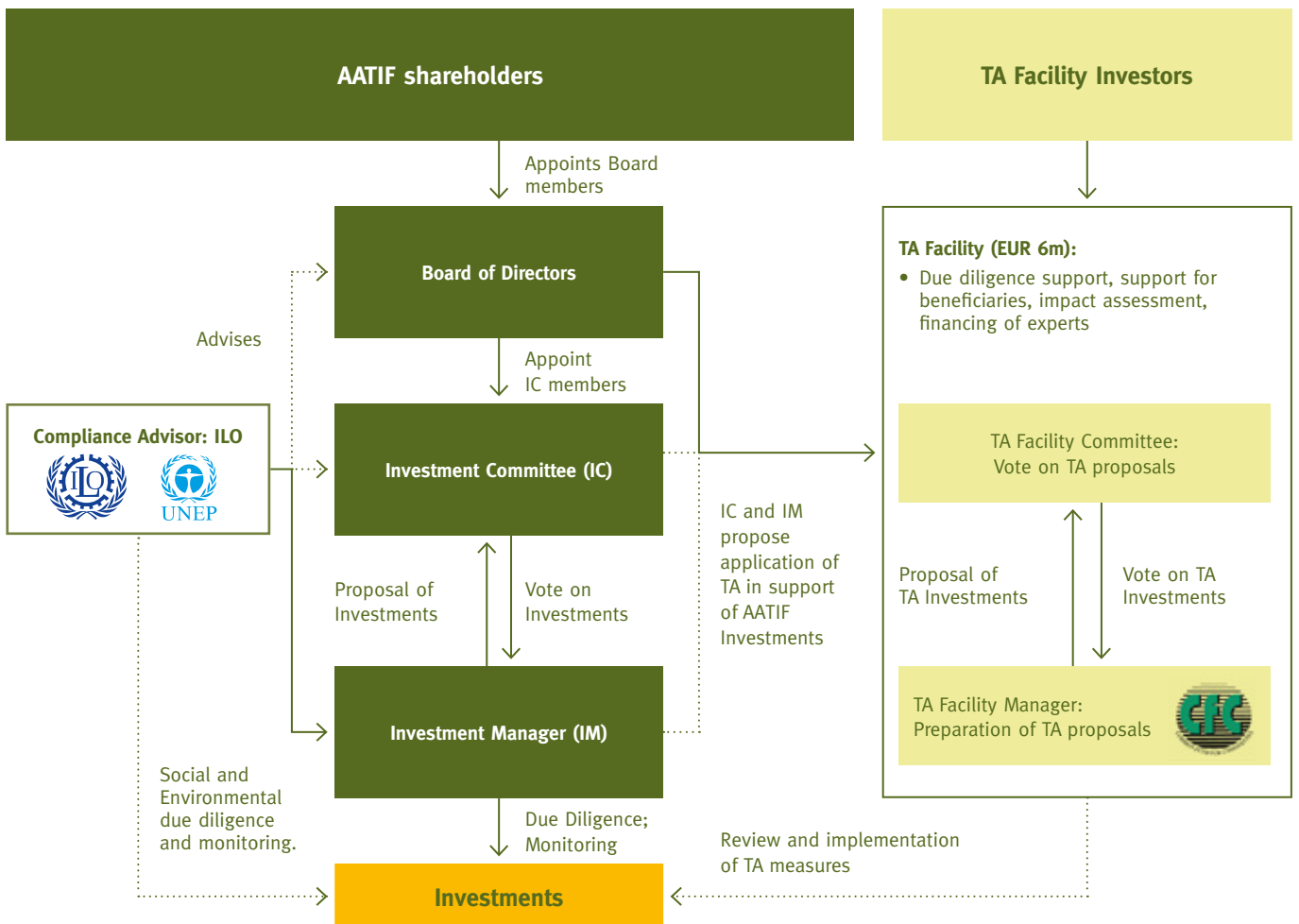
The Board of Directors appoints the Investment Committee which approves or rejects investment proposals brought forward by the Investment Manager and monitors the activities of the Investment Manager. The Investment Manager was selected in a competitive and public process and supports and advises the Board of Directors in relation to ongoing fund management measures. A Technical Assistance Facility (TA Facility) accompanies AATIF's lending. The TA Facility is supervised by the Technical Assistance Facility Committee representing the Facility's donors. It is managed by the Common Fund for Commodities, an intergovernmental financial institution established within the framework of the United Nations.² The focus of the TA Facility is to grant capacity building support as well as ensure knowledge dissemination on agriculture and agro-finance (including scientific studies or trials concerning factors such as social impact or climate change effects). Capacity building measures may comprise support through hands-on and customized services to the investees of the Fund to achieve results such as the Partner Institution's (PI) compliance with the Fund's Social and Environmental Safeguard Guidelines and the Development Policy Guidelines or by improving agronomic/management/credit analysis skills through offering investment specific support to PIs and Final Beneficiaries.

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

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 investment’s compliance with the Fund’s Social & Environmental Safeguard Guidelines, the Fund has partnered with the **International Labour Organization (ILO)**, a specialised United Nations agency with the mandate of promoting decent work. As the Fund’s Compliance Advisor, ILO focusses

on the social risk and impact component of AATIF’s Social and Environmental Safeguard Guidelines and has signed a 2-year agreement with the United Nations Environment Programme (UNEP) to receive technical input and advice on environmental compliance related to the AATIF investments. In concert with UNEP and other competent partners, the AATIF Compliance Advisor provides an independent compliance opinion to the Investment Manager 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 or distributors of agricultural inputs) which on-lend AATIF funding in cash or kind into 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 Manager 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.

Contract farming

Promoting the agricultural sector across Africa is one of the most important measures to achieve broad-based economic growth, poverty reduction and food security. One of the critical reasons is that approximately 50m smallholder farms in Sub-Saharan Africa depend on agricultural income.³ Farm income is decidedly dependent on access to inputs, financial services, technical advice and the accessibility of off-take markets. Often, smallholders sell their crops through traditional supply chains, which begin with village collectors and continue through a series of aggregators. Frequently, the lack of direct accessibility to off-take markets results in diminished farmer returns – a percentage of the margin is lost by the farmer with each additional aggregator being involved in the trading chain. At the same time, off-takers equally suffer from increased prices caused by middlemen and often have an interest in directly accessing the produce, thereby ensuring sustainability of supply as well as quality of produce. Contract farming is a measure to address these and other challenges to achieve a win-win situation for both the farmer and the final off-taker/processor.

Organising a contract farming scheme can take several shapes. In general, contract farming is defined as a forward agreement stating the obligations of farmers to supply the volumes and qualities as specified, and the off-taker's obligation to purchase the goods and make the payments as agreed.⁴ The different models, as well as their advantages and disadvantages from a buyer's perspective, are illustrated on the following page. The more formalised arrangements (e.g. centralised and nucleus schemes) tend to offer the most

intensive support to smallholder farmers such as delivery of inputs (e.g. seeds, fertilizers, plant protection products), pre-financing of input delivery on credit and non-financial services (e.g. extension, training, transport and logistics).

Farming contracts may vary considerably in respect to the level of formality, specificity of obligations, or duration. This presents a challenge, not only but particularly for farmers, as incomplete information on the nature of the agreement can put farmers at disadvantage in relation to their off-taker. It is therefore critical that the contractual design accounts for these aspects in order to achieve a mutually beneficial agreement.⁵

The success of contract farming arrangements is ultimately influenced by product features, market opportunities, farmers' and off-takers' capabilities, quality of business development services and trust in the arrangement.

Some studies on contract farming in various African countries have identified income and productivity gains for farmers, as well as a positive link between contract farming and farmers' well-being.⁶ However, evidence is still mixed and few results have been published on the actual income benefit for the farmer in each of the different models. For each project, an income impact review is thus essential to establish the concept's effectiveness and to determine possible model improvements.

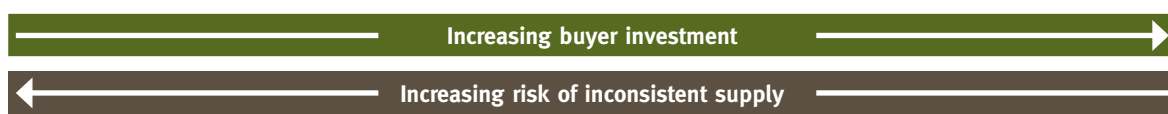
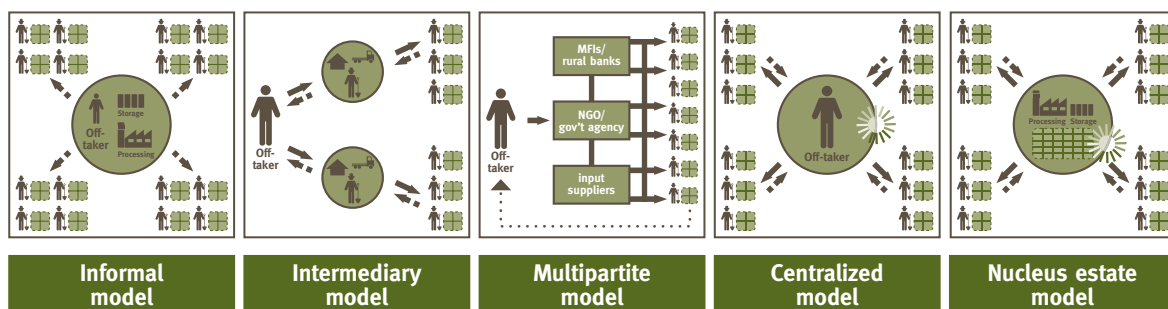
³ Schaffnit-Chatterjee, Claire. *Agricultural value chains in Sub-Saharan Africa*, Deutsche Bank AG, 2014, p.17

⁴ Will, Margret. *Contract farming handbook – A practical guide for linking small-scale producers and buyers through business model innovation*, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), 2013, p.16

⁵ Prowse, Martin. *Contract Farming in Developing Countries – A Review*, Agence Française de Développement (AFD), 2012, p.97

⁶ Porter and Phillips- Howard (1997), Warning and Key (2002), Bolwig et al., (2009), Minten et al., (2009), and Bellemare (2012) as cited in Kirk, M., Gobien, S., Vāth, S. *Life Satisfaction, Contract Farming and Property Rights: Evidence from Ghana*, Joint Discussion Paper Series in Economics No 15, 2014, p.2

Outgrower models and defining characteristics, including (dis-)advantages from a buyer's perspective



	Informal model	Intermediary model	Multipartite model	Centralized model	Nucleus estate model
Input/credit	○	◐	◑	◒	◓
Extension services	○	◐	◑	◒	◓
Use of contracts	○	◐	◑	◒	◓
Farmer grouping	○	◐	◑	◒	◓
Grower management	○	◐	◑	◒	◓
Centralised production/processing	◐	◑	◒	◓	●
Post-harvest logistics (packaging, transport)	◐	◑	◒	◓	●
Summary: speculative, seasonal sourcing on an ad-hoc or semi-formal basis and spot-market transactions; few if any inputs/services provided to farmers; minimal firm/farmer coordination; little to no product specification by buyer	Summary: semi-formal to formal subcontracting by buyers to partner intermediaries (e.g. lead farmers, farmer groups, buying agents) who manage outgrowers & provide services; limited direct firm/farmer interaction; enhanced but limited product specification	Summary: buyer sources from farmers & farmer groups; technical assistance/input/credit provision & grower management via 3rd parties; limited firm/farmer coordination; higher level of product specification necessitates close monitoring/supervision of production	Summary: buyer provides technical assistance/inputs directly, purchases crop, handles many post-harvest activities; farmers provide land & labour; high degree of firm/farmer coordination; strict product specifications monitored by in-house technical staff; often linked to processing	Summary: buyer operates centralized production and processing (estate), supplementing throughput via direct contracting with outgrowers; buyers often own/control land used by farmers who supply labour; buyer provides technical assistance/inputs/credit; close monitoring/supervision	
Pros: little to no buyer investment in technical/financial support; low operational costs; high level of sourcing flexibility	Pros: reduced risk, assuming effective management; minimal buyer investment in technical/financial support; marginally improved supply chain management; low cost of switching to new partners	Pros: limited investment & reduced costs due to partner cost-sharing; reduced risks (vs commercial production) due to geo-dispersal of outgrower	Pros: enables high level of control over product quality & volumes; frequent interaction with farmer inhibits side-selling	Pros: high level of control over supply chain; simplified technical assistance/extension/farmer oversight; reduced risk of supply rupture	
Cons: limited control over production (i.e. products, varieties, quality, etc.); high risk of supply ruptures; strong buyer competition	Cons: lower buyer visibility among farmers; marginal control over production (volumes, quality)	Cons: greater risk of side-selling; no core production, reliant on smallholder production; high transport costs	Cons: high level of investment in in-house technical assistance and pre- and post-harvest logistics and related infrastructure	Cons: requires heavy investments (land, labour) in production; higher crop-related risks; limited flexibility/options in selecting outgrowers	



AATIF Investment Portfolio 31 March 2014

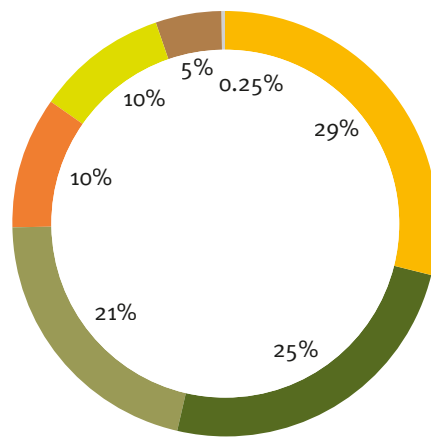
In 2013/14, AATIF closed three transactions totalling USD 47m. Following the disbursement to Wienco Ghana of USD 21m in Q4 2013 (AATIF's first intermediary investment), AATIF extended USD 25m to BancABC Botswana under a risk sharing facility as well as USD 1m to the Sierra Leonean cocoa and coffee trader Balmed. In addition, AATIF disbursed

a second tranche of USD 5m to Chase Bank (Kenya), thus increasing the amount available for on-lending into the agricultural sector to USD 10m.

An overview of the current portfolio breakdown is depicted below.

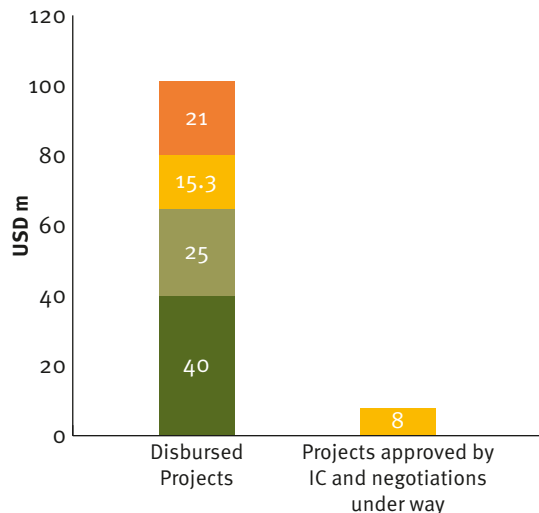
Portfolio Composition by Partner Institution

- PTA (Supranational) (USD 30m)
- BancABC (USD 25m)
- Wienco (USD 21m)
- Chase Bank Kenya (USD 10m)
- Chobe Agrivision Zambia (USD 10m)
- GADCO Ghana (USD 5m)
- Balmed (USD 1m committed of which USD 0.25m disbursed)



Portfolio Composition by type of Partner Institution

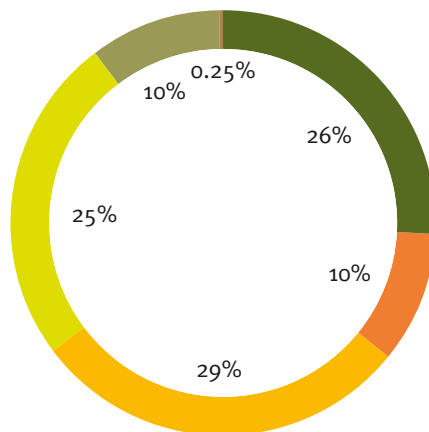
- Intermediary Investee Company
- Direct Investee Company
- Financial Institution – Risk Sharing
- Financial Institution – Senior Debt





Portfolio Composition by Country Groups

- Ghana
- Zambia
- Kenya
- Botswana
- Sierra Leone
- COMESA/PTA



AATIF Investment Portfolio in Detail by Country

Ghana

Ghana macro overview and agricultural sector development⁷

With a GDP of close to USD 40bn and around 25m people, Ghana is one of Africa's most established democracies. Twin deficits are high: current account deficit was 12% in 2013 and fiscal deficit 7% – largely due to a high wage bill. With high inflation and Cedi depreciation, the country faces tough challenges in the short term. On the positive side, growth is expected to remain robust (around 5% in 2014) and pick up afterwards due to favourable prospects for oil and gas. The latter, combined with strong governance, are driving high FDI inflows (USD 3.3bn in 2013, 7.2% of GDP).

Agriculture remains a key sector of Ghana's economy, accounting for around 25% of GDP and employing 40% of the work force. Emphasizing the sector's importance for

inclusive economic growth, the government is committed to investing in agriculture and extending to the wider agricultural sector its success in boosting cocoa production. With 700,000 smallholder producers, cocoa production has been a major driver of growth and poverty reduction and has accounted for 28% of agricultural growth since 2000. Government and global cocoa and chocolate manufacturers are working to increase yields which are estimated by the FAO to be 50–80% below potential. The second grain consumed in Ghana after maize is rice. Rice consumption is rising steadily in line with population growth, urbanization and changing consumer preferences.

⁷ Dr Claire Schaffnit-Chatterjee, Senior Analyst, DB Research

Wienco

Wienco (Ghana) Ltd ("Wienco"), which was established in 1979, is an importer and distributor of agro-chemicals to commercial and smallholder farmers in Ghana. In the 2013/2014 season, Wienco supplied inputs on credit to 35,000 smallholder farmers across Ghana. Since 2006, Wienco has been strategically moving up-stream in cocoa, maize and cotton through organizing and providing input on credit to out-grower schemes. Organising the Cocoa Abrabopa Association (CAA), which operates in Dunkwa, kick-started this process in 12/2007. This was followed by the establishment of the maize association Masara N'arziki (in Northern Ghana) in 2010 and the establishment of a cotton division within Wienco that is carrying out its smallholder business under a government concession after the Ghana Cotton Company in 2010 discontinued its operations.

On 17 October 2013, AATIF disbursed a USD 21m senior loan to Wienco. AATIF's financial commitment will allow Wienco to significantly expand the scope of its smallholder operations over the next five years. It is the aspiration of Wienco and AATIF to help substantially increase the smallholders' productivity, improve the farmers' livelihoods and contribute to regional food security at the same time.

The TA Facility, as part of its mandate to undertake Impact Assessments of AATIF investments, is currently preparing to conduct an in-depth baseline study of the two WIENCO out-grower schemes Cocoa Abrabopa Association and Masara N'arziki, which together have approximately 25,000 member farmers in the 2013/2014 season. The gathered data will form the basis for the future assessment of various development aspects and the overall impact on this particular AATIF investment.

Cocoa Scheme

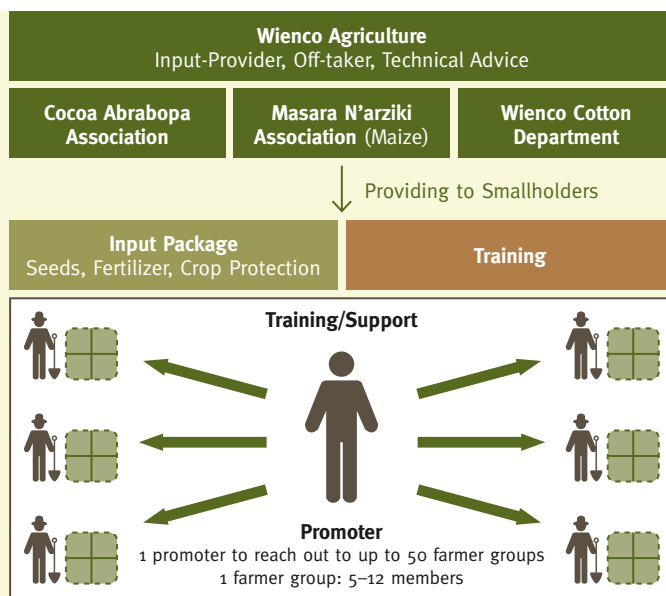
The Cocoa Association known as Cocoa Abrabopa Association (CAA) was founded in 2007 and is headquartered in Dunkwa-on-Offin in the middle of Ghana's Western cocoa region. The association currently operates in all seven cocoa growing regions (Ashanti, Brong Ahafo, Central, Eastern, Western North and Western South). In the 2012 season, 16,000 cocoa farmers cultivating 1–2 ha each signed up for CAA. More than 50% of the farmers were double-certified by UTZ and Rainforest Alliance. In 2013, the number of farmers registering for the CAA scheme decreased to 10,000 farmers, 98% of whom were double-certified. The total volume of cocoa produced under the umbrella of the association, however, did not drop as acreage per farmer increased. The reduced number of farmers according to Wienco was mainly a result of political intervention in the market, such as free supply of inputs.

Through the association, cocoa farmers receive regular agronomic training as well as quality agric inputs, while the off-take is predominantly organized through private buying companies, licensed by the state owned and run Cocobod. Additional services provided by the association to its farmers include:

- GPS mapping of land with the intention of improving traceability of cocoa and allowing farmers to apply land as collateral (more than 8,200 members are mapped). The utilization of land as collateral, however, is still in its early stages, as there has reportedly been little support by local financial institutions so far.
- Development and implementation of a shade tree seedling programme for the majority of its members.
- Enrolment of well-performing farmers in the National Health Insurance Scheme.
- Voluntary Group pension scheme.

Maize Scheme

The maize farming scheme Masara N'Arziki is situated in Northern Ghana. Similar to CAA, Wienco Ghana supplies a package of inputs combined with regular training measures to Masara's members (8,500 in 2012, 9,300 farmers in 2013), cultivating on average 2 ha of maize. Out-growers are contracted to supply all their produce to Masara to repay the loans. However, the farmers typically keep a subsistence percentage. Wienco then purchases any available surpluses. To support its maize farmers, Wienco also intends to invest in a maize mill with Masara to become a shareholder in order to increase the farmers' revenue.



Cotton Scheme

In 2010, the state owned Ghana Cotton Company terminated its involvement in the production of cotton and allocated responsibility for the three main cotton growing regions to the three major companies involved in the sector, including Wienco. Wienco administered 14,000 cotton farmers in 2013. So far, the Cotton Out-grower scheme has been run within Wienco Cotton Ghana Ltd. For the new cropping season, all cotton farmers are to join Masara. This is to help stabilize the farmers' revenues by producing different crops and reducing the diversion of inputs as each farmer will have the possibility to get inputs for maize, cotton, soya and sorghum. Farmer produce is purchased by Wienco for sale to overseas buyers on forward contracts after the transformation of cotton seed to cotton lint by Wienco. Through the out-grower scheme, cotton farmers receive regular agronomic training as well as quality agric inputs. In addition, with the support of GIZ, most of the farmers received training on how to conduct farming as a business (called "Farmers Business School") which is to support Wienco's objective of receiving a certification by Cotton made in Africa (CmiA) by the end of 2014.

Organization of Schemes

Of crucial importance in running the associations as well as the Wienco cotton department are the field supervisors and promoters, with each promoter covering up to 50 farmer groups (5 to 12 members per group). At the beginning of each farming season, farmers who sign up for the programme are provided with an input package of seeds, fertilizer and crop protection as well as training on application of inputs often exemplified on demo plots. Training and support is continuously provided throughout the growth and harvesting phase by the promoters.



Wienco Social and Environmental Review

At the time AATIF funding was released to Wienco, the company did not have experience in conducting social and environmental risk assessments of the three smallholder schemes in Ghana. Nor did Wienco have a social and environmental management system, defined and documented roles, responsibilities and authorities in place for social and environmental risk assessment and management. Hence, the company faced a position of not being able to systematically identify or mitigate social and environmental risks resulting from its operations. However, management and staff are generally aware of the multiple dimensions of social and environmental impact that the company and associated smallholder schemes (could) have.

The efforts of Cocoa Abrabopa and Wienco Cotton in certifying associated smallholder farmers are laudable and provide the company with good guidance for improving its social and environmental impact. Wienco Cotton in particular has made tremendous progress not only in updating farmer train-

ing but also reviewing employment conditions of third party contractors and engaging with the Competitive African Cotton Initiative (COMPACI) in an effort to better understand the impact of participation of cotton farmers in the smallholder scheme. Extension staff is involved in the regular collection of smallholder farmer data which, in turn, also increases their understanding of social and environmental issues that farmers face.

Still a rather new AATIF investment, Wienco will address a number of issues in 2014–2015 concerning the establishment of a full social and environmental management system, including the need to establish a full social and environmental management system, including for example policies regarding biodiversity, waste disposal, and occupational safety and health and effectively implementing the same. In a first step, Wienco submitted to AATIF a draft social and environmental action plan for review. The plan is being further elaborated and staff resources attached for its implementation.



Area of improvement as per loan agreement covenant	Status
<p>Wienco has to consolidate the existing Action Plans into one plan, add items reasonably requested by the Lender, update the status quo and propose a new timeline towards achieving milestones.</p>	<p>First draft submitted</p>
<p>Wienco has to ensure that any contract with staff contracted by the Cotton Out-Grower Scheme Wienco Cotton from third parties or employed directly by the Cotton Out-Grower Scheme Wienco Cotton complies with Ghanaian laws and provide evidence that such staff is employed lawfully.</p>	<p>✓ (Dec 2013)</p>
<p>Wienco shall, no later than 18 months after signing the agreement, develop and implement a social and environmental management system (including sufficient staffing and staff training) that allows the company to access and manage the social and environmental risks related to its operations.</p> <p>Among others, action items (for WIENCO and/or affiliates) shall address transformation of the staff handbook into a human resources policy, ensuring anonymity of grievance mechanism, “no child labour” commitment and measures, occupational safety and health policy, waste handling policy, biodiversity policy. In addition, Wienco shall set up company-wide guidelines on elements that farmer contracts need to cover and ensure that these guidelines are implemented and support affiliates to engage in innovative risk sharing arrangements that go beyond group liability. All affiliates shall require farmers to provide information about their date of birth/age in the group contracts and provide proof thereof by copy of ID card etc.</p>	<p>Outstanding</p>

<p>Outreach to smallholder farmers</p>	<p>At baseline (in the 2012/2013 season), Wienco reached a total of 42,500 smallholder farmers through its three affiliates Cocoa Abrabopa, Masara N'Arziki and Wienco Cotton.</p>
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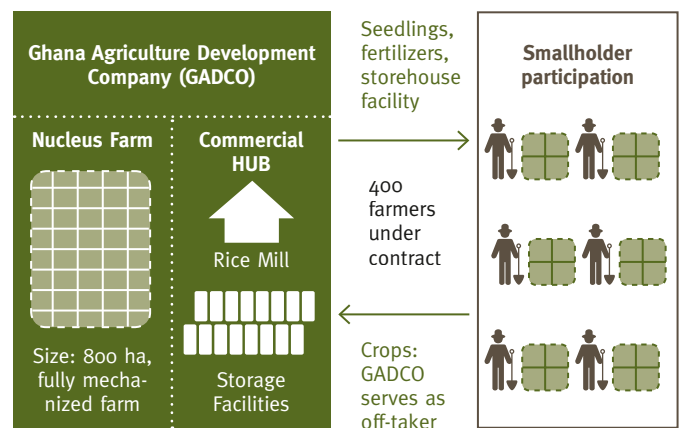
GADCO

GADCO is an agri-food company, focused on crop production, processing and marketing of fragrant rice. The company is privately owned and funded by financial and impact investors.

The company's objective is to establish and operate 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. Alongside the nucleus farm roll-out, 400 smallholder farmers are participating in the GADCO nucleus model as of 31 March 2014.

A loan of USD 5m was extended to GADCO in June 2012. The AATIF loan has been applied i. a. towards becoming independent from third parties by building a rice mill for de-husking, sorting and bagging of rice which started operations in December 2013.

Since November 2013, GADCO has been supported by experienced rice agronomists funded through the AATIF Technical Assistance Facility. The experts started assisting the GADCO management in adjusting the farming operations of their nucleus farm and the participating out-grower farmers.



GADCO Social and Environmental Review

GADCO has entered into a Joint Venture Agreement (JVA) with the Fievie Tribe on the use of 2,440 hectares of communal land, of which 850 hectares have been cultivated so far. 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.

When AATIF started supporting GADCO, the company did not have a social and environmental management system in place. In 2013/14, the company continued to make progress towards developing the system and implementing require-

ments formulated by the Environmental Protection Agency and other regulatory authorities in Ghana. As a part of these requirements, the company submitted its Annual Environmental Report and proposed an Environmental Management Plan to the Environmental Protection Agency. GADCO applied for and received relevant permits, such as those for water use or aerial spraying. The company's new Environmental Management Plan sets out an environmental policy to guide GADCO's operations and proposes a plan for action until 2016. The plan covers activities to improve environmental and occupational safety and health impacts and establishes responsibilities for implementation as well as a budget to fund activities. The Copa-Connect smallholder scheme that started off with a 5-month trial phase in Nov 2012 has grown



to include 400 farmers as of 31 March 2014. One fourth of these are rain-fed while the remaining 300 smallholder farmers are irrigated rice farmers, all of whom have received inputs on credit as well as training to allow them to apply good agriculture practices, increase their yields and access markets through GADCO. Irrigated farmers were able to increase their yields and income yet another year vis-à-vis the pilot in 2013 (average income per farmer: increase from GHS 3,685 to 3,810). Rain-fed farmers also increased their income (average income per farmer: increase from GHS 575 to 750), though they remain at risk. In collaboration with World Bank, GADCO has started implementing a baseline survey as a first step towards measuring the impact of the smallholder scheme on a number of livelihood indicators

including farmer profit and household welfare as well as household health, education and women empowerment.

As part of the Copa-Connect Programme and the company's corporate social responsibility efforts, GADCO has established the Fievie Connect Programme. From July to December 2013, 45 farmers of the Fievie community received extensive agronomic training on the nucleus farm. In January 2014, the farmers were handed over 41 ha of land which the group has been maintaining since. The number of participating farmers is expected to steadily increase by 50% in each development phase.



Sierra Leone

Sierra Leone macro overview and agricultural sector development⁸

One of the fastest-growing and poorest countries in the world, Sierra Leone's economy is benefiting from a surge in iron ore production, GDP growth is forecasted at 14% in 2014 and 8% on average over the next 5 years. The country (USD 5bn GDP and 6m population) is continuing to make remarkable progress after the brutal civil war (1991–2002), with the peaceful election of 2012 cementing a great reduction in political risk.

Mostly rain-fed, Sierra Leone's agriculture still accounts for over 50% of GDP, though this share is shrinking due to the growth of the extractive industries. Already exporting coffee, cocoa, nuts and palm oil, Sierra Leone has the potential to significantly increase its export shares, particularly of cocoa and coffee where average yields are very low, even by African standards.

⁸ Dr Claire Schaffnit-Chatterjee, Senior Analyst, DB Research



Balmed

Balmed Holdings Limited is an agricultural and trade enterprise that is committed to the development of the cocoa, coffee and cashew sector in Sierra Leone. Balmed started out as a trader of cocoa and coffee in 2005. In 2010, the company began to establish cocoa block farming plantations to secure future supply in a fast declining market caused by aging tree crops resulting in unproductive farms. Ultimately Balmed aims to build a block farming model of 13,000 ha focusing on cocoa, coffee and cashews.

The block farming is supported financially and technically by GIZ as well as numerous NGOs and foundations, including the World Food Programme. Balmed's trading business, however, has lacked necessary funding. AATIF stepped in to help Balmed secure cocoa farmer's market access and establish a financially sustainable block farming model.

The first tranche of USD 250,000 was disbursed with signing of the agreement on 24 December 2013. The AATIF transaction is closing the loop between a grant funded project on one hand and a privately funded business on the other hand. If successful, AATIF will have built the bridge to market access and subsequent sustainable business growth with resources from the private sector.

To improve Balmed's capacity to manage a trading business, the TA facility contracted a regional cocoa and coffee trading specialist, who has been assisting Balmed with practical advice on efficient cocoa and coffee sourcing and onward trading operations and providing training measures for Balmed staff in commodity trading and financial management issues.

Recent developments through the outbreak of Ebola in the region ended the existing cocoa and coffee season prematurely and hindered evacuation of additional cocoa or coffee. As a result of Ebola, Balmed's business has come to a halt. AATIF will continue its collaboration with Balmed once the situation on the ground allows for resuming business activities.

Balmed's block farming model

Balmed has developed a plantation management system to establish new farms in cooperation with youth groups and landowners to increase productivity and farmer income after an 11 year civil war which caused the collapse of the cocoa sector.

Land Ownership: As the first step, the company is leasing underused land from land owners for a term of 25 years on which youth groups shall be trained to cultivate cocoa. If not laid fallow, prior land use of the leased sites has also been cocoa production. Interested youths are forming groups. An average youth group consists of about 25 members, with each member working on 3–4 ha. All cocoa produced on these areas is to be sold to Balmed. To guarantee professional management and knowledge transfer, Balmed will initially hold the general management, providing training, knowledge transfer and record keeping.

Revenue Sharing: The model is set up like a shareholder model, in which the youth farmers, the land owners and Balmed Holdings each receive 1/3 of the harvest at 60% of the FOB price (the 1/3 taken by Balmed being applied towards procuring necessary inputs). If successful, the community will take over the management of the plantation after eight years and will be given Balmed's 1/3 share. A management committee shall be fully trained and

functional by then. Farmers will be given incentives to sell to the company and the cooperatives through a premium paid for higher grades of produce. All plantations are reported to be placed under an international certification scheme, allowing close quality management and traceability, as well as premium payments.

Outreach and growth plans of the model: The model was first implemented in 2010/2011 in the Eastern and Southern region (Kailahun and Pujehun districts) with trials in Northern Sierra Leone (Bombali district). The model so far has been tested with about 1,000 farmers (90% youth under 35; 30% women). Balmed is ultimately targeting 8,000 farmers under the block farming scheme (12,800 ha), with yields of 0.5 t/ha up from 0.1t–0.2 t/ha.

Benefits of the model: Developing a business model for Sierra Leone: the model presented provides a business model for youths that have been left with few prospects so far. Youth participating in the block farming are projected to earn, from the second year onwards, USD 100/acre from intercropping, and from the 4th year onwards ~ USD 190/acre from cocoa (subject to world market prices), after having deducted farm maintenance costs and management costs according to Balmed.

Balmed Social and Environmental Review

Balmed did not have a social and environmental management system in place when AATIF started its engagement with the company. Balmed, however, had proven to be conscious of and willing to address social and environmental risk through putting UTZ and fair trade certification into place for farmers from whom it sources cocoa and coffee under the current trade finance agreement. Despite these measures, Balmed is not yet in a position to systematically assess and manage social and environmental risks originating from its operations which go beyond the certification scheme.

To improve Balmed's social and environmental management ability, the company needs to establish an action plan. In 2013, Balmed submitted a social and environmental self-assessment report for review to AATIF. The report informed the actual assessment which was carried out by a third party in the first half of 2014. The assessment will lay the basis for developing the company's social and environmental action plan which will determine improvement activities and set a timeline for implementation.

Area of improvement as per loan agreement covenant	Status
Balmed shall, within eight weeks, provide a social and environmental assessment report (SEA).	First draft submitted (Dec 2013) Completion in progress
Balmed shall ensure that each of its affiliates will comply with any reasonable measures requested by the social and environmental measures stipulated in the social and environmental assessment report.	Outstanding

Zambia

Zambia macro overview and agricultural sector development⁹

Zambia (USD 25bn GDP, 15m population) is on a robust growth path (around 7% in the next years), with copper production expected to double by 2020. Largely dependent on copper (30% of GDP, 70% of exports), the country is vulnerable to shocks; maintaining investors' confidence will be crucial. With a fiscal deficit overrun (8.5% of GDP in 2013 vs a planned 4.5%), the government still has ambitious infrastructure plans to support growth. The Kwacha deteriorated 13% against the USD in the first quarter of 2014. The current account remains in surplus.

Agriculture contributes around 20% to Zambia's GDP, employs roughly 70% 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. Despite bumper maize harvests, problems with the distribution system and poor infrastructure contribute to occasional, localised shortage. The cultivation of maize currently dominates agriculture in Zambia, largely by smallholders, although a small group of commercial farmers also contributes significantly. 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. Production is dominated by commercial farmers and there is considerable scope for production growth – including the potential to improve the lives of many smallholders.

⁹ Dr Claire Schaffnit-Chatterjee, Senior Analyst, DB Research



Chobe Agrivision Update

Investment Update

Chobe Agrivision Company (Chobe), which was established in 2008, is focussing on assembling and cultivating agricultural farm production hubs by growing food crops at selected locations across Zambia. In Q2 2014, Chobe achieved a further milestone in its path of creating an integrated agricultural business across the Zambian cereal value chain. Chobe acquired the milling operation Mpongwe-Milling, to mill its maize and wheat produced in both farming hubs – the Mkushi farm and Somawhe farm. For maize and wheat there are three types of produce each, i.e. (1) wheat bread flour, (2) wheat cake flour and (3) wheat bran and (1) maize breakfast meal, (2) maize roller meal and (3) maize bran. With 1/3 of the milled produce targeted for the Democratic Republic of Congo, Chobe is also at the forefront of tackling food security in a country where about 70 percent of the population lacks access to adequate food, while half of the children under five years are chronically malnourished.¹⁰

The AATIF investment of USD 10m allowed Chobe to increase the area under irrigation in the Mkushi region. While the projected soy crop yields were achieved in 2012, the wheat harvest of Q3/Q4 2013 has now also reached targeted yield levels. This success deserves special mention as the operation was put under stress by restricted irrigation due to severe power cuts.

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).

In support of social goals and objectives of AATIF's investment in the Chobe farm, the TA Facility, together with NORFUND, is co-financing the rehabilitation of a nearby village school and the procurement of two school busses. This measure aims at providing access to adequate educational facilities for school age children on the farm premises and the neighbouring village. While the rehabilitation of the school was successfully completed by 2013, the procurement of the two school busses is currently being pursued.

Chobe Social and Environmental Review

Chobe submitted its Annual Social and Environmental Report for 2013 to the Fund. The report summarised all activities undertaken to fulfill requirements of the Zambia Environmental Management Agency¹¹ (ZEMA) and other Zambian regulatory bodies as well as to answer to social and environmental conditions requested by partners such as AATIF, MIGA, or Norfund. As part of these requirements, Chobe submitted an annual report to the Zambia Development Agency and applied for all relevant permits.

In August 2013, the Investment Manager, together with the Compliance Advisor, conducted an onsite visit to the Chobe farm, meeting the management team and worker representatives to learn about the implementation of the company's social and environmental action plan. The visit included seeing the farms, worker accommodation, community centre, farm clinic, selected dams and storage facilities. Overall, the changes implemented since the first visit were remarkable. New accommodation (brick houses) for all permanent staff has been made available. The farm clinic continues to be run by a qualified health worker who is onsite daily to implement programmes on malaria prevention, HIV awareness, general health and nutrition, and baby weighing and infant development. Despite joint efforts, cases of malaria increased during the reporting period. Management and health worker responded by revision of prevention measures, e.g. with adjustments to the indoor spraying programme. In an effort to institutionalize a platform for community – management dialogue, a village committee (consisting of 5 members) was formally established in 2013. Chobe also kept up its occupational safety and health training, and continues to record accidents. In addition, the new central chemical storage for all three farms is professionally managed and furnished with safety equipment. Chemical storage and usage permits were obtained by ZEMA.

¹¹ 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. To this end, it advises government and develops standards and guidelines related to the protection of air, water, land and other natural resources, 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).

¹⁰ World Food Programme (WFP) Website, 2014, <http://wfp.org/countries/congo-democratic-republic>

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 are stored in a closed storage, indicating that their 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 Chobe Agrivision have access to at least primary school.	✓ (2013) Ongoing activity

Employment Impact	Chobe's permanent labour force steadily grew from 76 (2010) to 336 (January 2013). With the shift from farm development to permanent farm operations, permanent staff decreased to 152 by end of 2013.
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Regarding the schooling situation of farm children, Chobe also made progress over the last year. The rehabilitation and extension of Katuba School and teachers' accommodation was well under way at the time of AATIF's visit, as depicted below. The headmaster and a teacher confirmed the school attendance of Chobe farm children and conveyed high appreciation of Chobe's support to enable schooling of additional children. During the construction phase, regular classes were held in the community centre at the farm. Teachers were employed by Chobe and received additional training (certificate). With finalization of the school extension, they will be transferred to teach at Katuba school. While the purchase of school busses for commuting to/from the school/farm was still outstanding, Chobe enabled children to attend school by preliminarily using other means of transport.

During the development phase of the Chobe farms, employment increased steadily to an overall high of 336 fixed-term employees in January 2013. With the completion of the development phase, full-time fixed-term employment dropped, reaching 160 at the end of 2013. This change reflects the company's shift from more labour intensive farm development to permanent farm operations with less labour intensive work force requirements. However, casual employment still remains high during peak season and reached almost 700 in May 2013. At year end, Chobe didn't employ any casual worker while a year before this number stood at 204 at year end and in 2011 at 173.





Botswana

Macro view¹²

Botswana's small economy (USD 15bn GDP, 2m population) is heavily dependent on the diamond industry. The world's largest producer of diamonds, Botswana hopes to become a global diamond trading hub and diversify its economy by developing the services sector. Growth is forecasted at around 4% in the next years. The country has returned to a small fiscal surplus (2% of GDP), has a low debt burden and is a net external creditor.

BancABC in the context of East Africa's agricultural sector development¹³

Botswana: The agricultural sector in Botswana is relatively small (4% of GDP, 30% of employment) and not sufficient to meet domestic demand. Much of Botswana is part of the Kalahari desert, most suitable for extensive cattle-raising. The primary crops are maize and wheat.

Mozambique: Mozambique's agricultural sector, accounting for 80% of employment and 30% of GDP, remains mostly subsistence-based. Commercial cash crops (tobacco, sugar) are expected to benefit from new investments, but growth in the smallholder sector is limited by farmers' lacking access to financing, technology, inputs and markets. Mozambique has a clear vision for the long-term growth of its agricultural sector, unlocking its vast potential to contribute towards the food security and income of agricultural producers in a competitive and sustainable way, guaranteeing social and gender equality. The country's Strategic Plan for Agricultural Sector Development (PEDSA) identifies locations (Beira, Nacala,

Zambezi) with huge production potential and favourable integration with regional, domestic and international markets to develop as agricultural growth corridors, attracting increased public and private sector investment. Rice is the main agricultural import (22%), followed by wheat (14%).

Tanzania: Making up 25% of GDP and employing around 70% of the workforce, agriculture, mostly rain-fed, is a key pillar of Tanzania's economy, which is thus vulnerable to poor weather. With abundant land and water resources, a favourable climate and access to international markets through a major port, the country could rapidly increase its agricultural productivity with increased irrigation and improved seeds and farming techniques. The government is committed to strengthening the sector by opening up the sector to private investment.

Zimbabwe: Once Southern Africa's bread basket, Zimbabwe is now one of the main net food importers in Sub-Saharan Africa. Since 2000, farmers have struggled with lack of agricultural inputs and irrigation, but there is a move towards market-related solutions in agriculture. The agricultural sector contributes around 15% of GDP, but still employs over 60% of the population.

Zambia: (see Chobe).

¹² Dr Claire Schaffnit-Chatterjee, Senior Analyst, DB Research

¹³ Dr Claire Schaffnit-Chatterjee, Senior Analyst, DB Research

BancABC

ABC Holdings Limited is the parent company of a number of banks operating under the BancABC brand in Southern Africa, with operations in Botswana, Mozambique, Tanzania, Zambia and Zimbabwe. A representative office and group management support services company are located in Johannesburg, South Africa. ABC Holdings Limited is registered in Botswana and has a primary listing on the Botswana Stock Exchange and a secondary listing on the Zimbabwe Stock Exchange. Its vision is to be Africa's preferred banking partner by offering world class financial solutions. This will be realised by building profitable, lifelong customer relationships through the provision of a wide range of innovative financial products and services to benefit all its stakeholders. The Group offers a diverse range of products in corporate banking, treasury services, Retail & SME Banking, asset management and stockbroking.

On 17 December 2013, AATIF signed a USD 25m risk sharing agreement with BancABC. The AATIF risk sharing will allow BancABC to increasingly step into transactions along the entire agricultural value chain, ideally with longer term funding. AATIF offered to accept 45% of the losses from incremental agricultural lending. In return, BancABC pays AATIF a higher return for assuming this risk than under a conventional loan. This structure is based on the hope for an expansion of business through more local agricultural lending by BancABC.

Agriculture sector funding is still a young and emerging business line for BancABC and currently represents a share of 5% of the total group portfolio. The BancABC agricultural portfolio is dominated by financings of processing equipment. Typical transactions include the funding of fertilizer companies, milling operations, cotton processing, sugarcane schemes as well as dairy and tobacco small-holder models. There are generally two product types of agriculture funding offered:

- Preferably, BancABC lends to the operators of processing facilities which apply such funding towards the provision of inputs to their supplying farmers.
- A second avenue pursued on a case by case basis is funding of farmers in a ring-fenced scheme (e.g. sugarcane). BancABC directly funds farmers through the processing company/the aggregator, with repayment being directly deducted from the purchase price of the product. However, in case of a loan falling into arrears, BancABC has no recourse to the company, but has to pursue the case directly with the farmers.

BancABC Social and Environmental Review

For partners that extend financial services themselves, AATIF's Social and Environmental Review focusses on ensuring that adequate social and environmental systems are in place which enable the partner institutions to identify, avoid, mitigate, and manage social and environmental risk.

Approximately four years ago, BancABC started re-thinking its business operations in the light of how the bank should manage social and environmental risks due to an investment of IFC into the bank. Since then, the bank has developed a set of generic tools to help its staff to assess and manage social and environmental risks. In addition, most of BancABC staff in the country operations attended an online training to improve their capacity to identify and manage environmental and social risk.

BancABC is in full swing to develop an environmental and social management system by adding an environmental and social policy to guide its operations and update and integrate existing assessment tools and staff training. These will be action points for this very new AATIF investment in 2014.

Area of improvement as per loan agreement covenant	Status
BancABC to commit to sustainable development of its activities on a higher organizational level, i.e. in its vision or mission statement, and clearly outline its commitment in strategic planning documents.	Outstanding
BancABC should develop an action plan that clearly outlines the milestones and timeline for the implementation of a group-wide SEMs.	Outstanding
BancABC to develop a group-wide Environmental and Social Policy. Such Policy needs to: <ul style="list-style-type: none"> • contain objectives of why the bank is engaging in environmental and social management, • outline the standards with which projects have to comply, • clarify responsibilities for policy implementation, and • propose an environmental and social training strategy for staff. 	Outstanding
BancABC to elaborate the project classification that it uses to: <ul style="list-style-type: none"> • cover social long environmental impacts, • review the eligibility criteria and SEMs requirements in its project classification, and • adjust the tool based on staff feedback in order to make it respond to staff needs. 	Outstanding
BancABC to develop an S&E capacity building strategy and train all relevant staff by Dec 2014.	Outstanding
BancABC to closely communicate with the AATIF Compliance Advisor in overseeing the first three investments involving AATIF funds.	Outstanding
BancABC not to extend AATIF funds to projects that are not assessed through BancABC's SEMs (=SMEs). Before on-lending AATIF funds to SMEs or within the microfinance sector, BancABC shall consult with the AATIF Compliance Advisor to extend the bank's SEMs to cover these business segments.	Outstanding

PTA

PTA within the context of COMESA's agricultural sector development¹⁴

The Eastern and Southern African Trade and Development Bank, known as the Preferential Trade Area Bank, is a multi-lateral 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 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. 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 coordination and recognizes the need for a holistic approach encompassing the key elements of agricultural developments: markets, inputs, institutions and infrastructure. COMESA's agricultural programmes are designed to attain two key objectives: sustainable regional food security and enhanced regional integration based on freer flow of agricultural trade, ensuring that commodities can move as needed from surplus to deficit areas in the region.

PTA Investment update

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 focussed and innovative financing instruments backed by competitively priced funds. PTA operates out of four hubs: Headquarters, Bujumbura, Burundi; Regional and Corporate Support Centre, Nairobi, Kenya; Regional Offices, Harare, Zimbabwe and Mauritius.

Agriculture sector funding remains a young 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 and animal husbandry.

AATIF extended a loan of USD 30m to PTA on 28 September 2012 for on-lending to the agricultural sector. Its objective is to support and promote increased agricultural production and enhance local value addition in the COMESA region, thereby contributing to poverty alleviation, through employment

¹⁴ COMESA Website, 2013, <http://programmes.comesa.int/>

generation and increased productivity. As of 31 March 2014, PTA has on-lent USD 24m of the AATIF facility. Lending facilities have been primarily directed towards the sugar and tea sectors. To successfully continue and advance PTA's agricultural lending activities, the AATIF Technical Assistance Facility is co-financing the salary of an on-staff agricultural expert who is now tasked with developing an agricultural sector strategy for PTA and establish the agro-finance unit. The expert took up his position on 3 November 2013.

PTA Social and Environmental Review

PTA is an experienced financial institution that has been implementing a social and environmental management system since 2005 as part of improving its risk management capacity. The system was well developed and staffed when AATIF started its partnership with PTA in 2012 with one trained social and environmental senior manager, one coordinator and two champions.

In August 2013, the Compliance Advisor, together with UNEP Nairobi, conducted a monitoring visit to PTA to oversee actions taken to sustain and enhance the bank's capacity to identify and manage social and environmental risk with a particular focus on AATIF sub-loans. The basis for discussions was comprised by environmental and social screening memoranda and environmental and social management plan summaries which the bank readily made available. One of the projects funded was nominated for the AfriCAN Climate Good Practice Award for its initiatives in adapting to and mitigating climate change using measures such as sub surface drip irrigation and tree planting.



Last year, PTA submitted its first annual social and environmental performance report to AATIF. Some highlights: the company's Corporate Plan 2013-17 now recognises the importance of environmental and social risk management in the bank. This is demonstrated by the ongoing improvement of its credit risk assessment system, which is to fully integrate environmental and social risk components. The credit risk assessment system will be in full use in 2014 and enhance the environmental and social assessments at all levels from project appraisal through monitoring. Additional activities in 2013 included further staff training in social and environmental risk assessment. Looking forward, PTA will evaluate the existing environmental and social risk policy and recruit a full time environmental and social specialist in the course of 2014.

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 2013–2017.	✓ Partially (2012)
PTA shall further develop and implement a social and environmental management system (i) in accordance with chapter 1 of the AATIF S&E 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 (i) introduce social and environmental procedures in all its relevant departments, and (ii) train all relevant staff on social and environmental risk assessments, no later than June 30 2013.	✓ 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.	✓ Ongoing activity



Kenya

Kenya macro overview and agricultural sector development¹⁵

With a GDP of USD 52bn (population 45m), Kenya's diversified economy is expected to grow at above 6% in the next five years. Fiscal deficit (5.8% of GDP in 2013) and current account deficit (8% in 2013) are high but expected to decrease, due to increasing revenues (tax reforms) for the former and growing export volumes and remittances for the latter. Driven by oil and gas discoveries, FDI inflows are increasing. Foreign investment in Kenyan stocks and bonds has been resilient, contributing to a fairly stable currency. Political stability has improved and Kenya's transition to a full democracy is continuing.

Agriculture, largely rain-fed, accounts for around 30% of GDP, 60% of employment and 65% of exports – mostly tea and horticultural products together making up close to 40% of total exports. About 75% of the population live in rural areas and most derive their livelihood from agriculture. Yields of crops and livestock are far below their optimum and those of maize, sugarcane and dairy are estimated at one-tenth of the global average. Increasing yields of major crops and livestock should be easily achievable through the adoption of appropriate technology and integrated soil fertility management. Improving access to agricultural inputs and extension services as well as value addition can also help boost Kenyan productivity.

¹⁵ Dr Claire Schaffnit-Chatterjee, Senior Analyst, DB Research

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 throughout the country with more than 20 branches. Its activities and efforts have been repeatedly rewarded with the Annual Banking Award.

Chase Bank's agricultural activities represent a small but growing share of the overall loan portfolio. The sector continues to be earmarked to become a growth area, with a focus on targeting input providers, farmers, processing companies and off-takers alike. With its well established and dedicated agric desk and featuring a branch network concentrating on regional agricultural hubs, Chase Bank is well positioned to pursue its objectives.

AATIF committed a loan of USD 10m to Chase Bank (Kenya), of which the first USD 5m tranche was disbursed in October 2012, the second in September 2013. As of 31 March 2014, Chase Bank has, through repeated seasonal financing, on-lent more than USD 9m to the food processing, tea, dairy, sugar and maize sectors with an additional focus on horticulture. The expansion in this sector has been supported by the AATIF Technical Assistance Facility. To enhance the roll-out of agric lending, AATIF TA Facility has financed experts to undertake value chain analyses for the high potential dairy and vegetable sector. These documents are now being used by Chase Bank credit officers as part of their standard credit analysis.

Chase Bank Social and Environmental Review

2013 was an exciting year for Chase Bank as the institution embarked on setting up the relevant environmental and social components of the management system from scratch: the Board approved an environmental and social policy to guide the bank's activities, the environmental and social coordinator with the support of Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a subsidiary of KfW, and AATIF drafted the environmental and social risk procedure with supporting materials including those for agricultural risk assessment and kick-started staff training on the procedure. Staff training was extended to 2014. The procedure will be pilot tested in 2014 to determine its efficacy and, if need be, undergo relevant adjustments before starting full roll-out throughout the whole branch network.

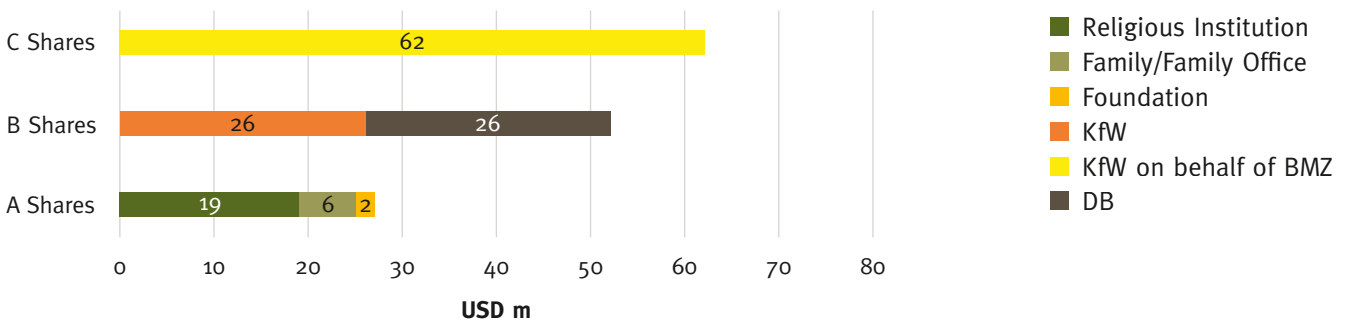
In August 2013, the Compliance Advisor visited Chase Bank to discuss advancements in the bank's social and environmental management system implementation. Given that most AATIF sub-loans are of a value of less than USD 100,000, the Compliance Advisor and the Chase Bank environmental and social coordinator agreed on establishing a threshold of USD 100,000, applicable to all sectoral lending activity. While all loans below this threshold are categorised as low social and environmental risk, agricultural loans below the threshold will follow a facilitated social and environmental appraisal which is a novelty in Kenyan SME lending. Loans above the threshold will undergo a more elaborated risk assessment. In collaboration with Chase Bank, AATIF and DEG, the facilitated appraisal for loans below USD 100,000 was elaborated. It will be validated as part of the overall pilot of the environmental and social procedure in Q3 2014 for full roll-out of the bank's social and environmental management system in Q4 2014.

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

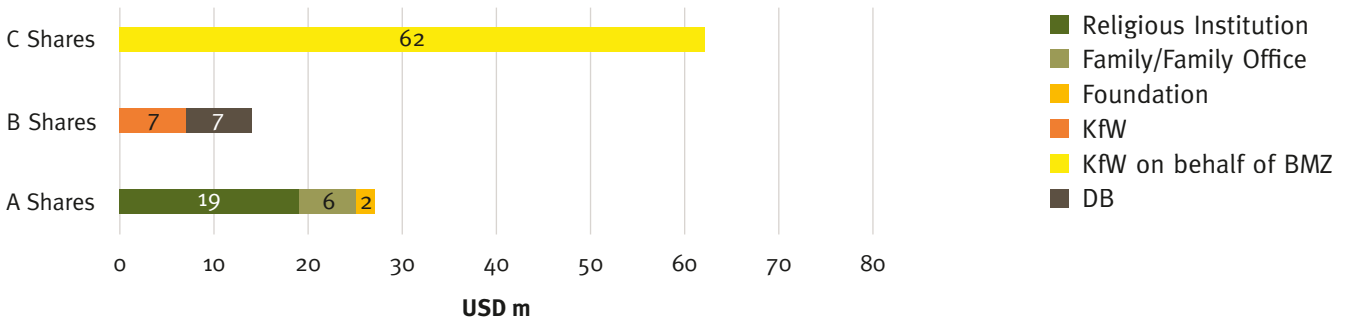
Funding

Funding overview: As of 31 March 2014, commitments totalled USD 141m, of which 104m USD have been subscribed.

Commitments



Subscriptions





Fund amendments



Change of Fund accounting year from 31 Dec 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 28 March 2013 with effect as of 31 March 2013.

Other information

The Financial Year 2013/2014 has been a difficult one for some of AATIF's investments. As a consequence, AATIF had to book a loan loss allowance of USD 250,000 for the 2013/2014 reporting period. Following the end of the 2013/2014 reporting period, AATIF will book an additional loan loss provision of USD 4.5m as of June 2014.

Financial Statements

Statement of financial position

USD	31-Mar-14	31-Mar-13
ASSETS		
Gross loans to Partner Institutions	101,362,285	50,000,000
Loan loss allowance	(250,000)	–
Loans to Partner Institutions	101,112,285	50,000,000
Interest accruals on loans	192,588	199,341
Other receivables and prepayments	90,909	351,559
Cash at bank	4,790,619	21,491,213
Total assets	106,186,401	72,042,113
LIABILITIES		
Financial liabilities at fair value through profit or loss	352,935	1,210,330
Accrued expenses	1,328,264	566,124
Other payable	1,156,109	102,033
Distribution to holders of redeemable ordinary shares payable	760,287	76,809
Total liabilities excluding net assets attributable to shareholders	3,597,595	1,955,296
Class A Shares – Tranche 1	23,973,476	9,347,836
Class A Shares – Tranche 2	4,000,000	–
Class B Shares – Tranche 1	13,051,716	51,716
Net assets attributable to holders of redeemable shareholders	41,025,192	9,399,552
Total liabilities	44,622,787	11,354,848
EQUITY		
Class C Shares—Tranche 1		
Share capital	62,485,450	62,485,450
Operating gain/(loss)	876,349	(25,264)
Retained earnings	(1,798,185)	(1,772,921)
Total equity	61,563,614	60,687,265
Total liabilities and equity	106,186,401	72,042,113

Statement of comprehensive income

USD	For the year ending 31-Mar-14	For the period from 1-Jan-13 to 31-Mar-13
INCOME		
Interest income on loans	3,896,709	608,147
Interest income on deposits	11,838	917
Upfront management fees on loans	637,242	–
Unrealized gain on financial liabilities at fair value through profit or loss	857,395	–
Realized gain on exchanges	392,304	–
Unrealized gain on exchanges	138,102	281,270
Other income	707,343	121,264
Total income	6,640,933	1,011,598
EXPENSE		
Direct operating expenses	(1,159,363)	(339,706)
Investment management fees	(926,013)	(156,250)
Performance fees	(698,011)	–
Technical assistance facility	(105,997)	–
Unrealized loss on financial liabilities at fair value through profit or loss	–	(287,144)
Realized loss on exchanges	(28,390)	–
Unrealized loss on exchanges	(1,193,376)	(19,167)
Loan loss allowance	(250,000)	–
Other expenses	(643,147)	(157,786)
Distribution to holders of redeemable ordinary shares	(760,287)	(76,809)
Total expense	(5,764,584)	(1,036,862)
Operating gain/(loss)	876,349	(25,264)
Gain/(loss) for the period/year	876,349	(25,264)
Other comprehensive income	–	–
Total comprehensive income for the period/year	876,349	(25,264)

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

USD	Net assets attributable to shareholders
As at 31 December 2011	56,876,936
Issue of redeemable shares (Class A)	9,347,836
Redemption of redeemable shares (Class A)	–
Issue of redeemable shares (Class B)	–
Redemption of redeemable shares (Class B)	–
Issue of non redeemable ordinary shares (Class C)	4,304,950
Redemption of non redeemable ordinary shares (Class C)	–
Increase in net assets attributable to shareholders from transactions in shares	13,652,786
Exchange differences resulting from the change of functional currency	(230,022)
Decrease in net assets attributable to shareholders from operations	(187,619)
As at 31 December 2012	70,112,081
Issue of redeemable shares (Class A)	–
Redemption of redeemable shares (Class A)	–
Issue of redeemable shares (Class B)	–
Redemption of redeemable shares (Class B)	–
Issue of non redeemable ordinary shares (Class C)	–
Redemption of non redeemable ordinary shares (Class C)	–
Increase in net assets attributable to shareholders from transactions in shares	–
Decrease in net assets attributable to shareholders from operations	(25,264)
As at 31 March 2013	70,086,817
Issue of redeemable shares (Class A)	18,625,640
Redemption of redeemable shares (Class A)	–
Issue of redeemable shares (Class B)	13,000,000
Redemption of redeemable shares (Class B)	–
Issue of non redeemable ordinary shares (Class C)	–
Redemption of non redeemable ordinary shares (Class C)	–
Increase in net assets attributable to shareholders from transactions in shares	31,625,640
Increase in net assets attributable to shareholders from operations	876,349
As at 31 March 2014	102,588,806

Supplementary information	As at 31 Mar 2014		As at 31 Mar 2013	
	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	599.3369	40,000.00	233.6959
Class A Shares – Tranche 2 (redeemable shares)	40,000.00	100.0000	–	–
Class B Shares – Tranche 1 (redeemable shares)	20,000.00	652.5858	20,000.00	2.5858
Class C Shares – Tranche 1 (non-redeemable shares)	9,831.19	6,262.0738	9,691.24	6,262.0738

Statement of cash flows

USD	For the year ending 31-Mar-14	For the period from 1-Jan-13 to 31-Mar-13
Operating profit/(loss) before tax	876,349	(25,264)
Net changes in operating assets and liabilities		
Net (increase)/decrease in interest accruals on loans	6,753	119,556
Net (increase)/decrease in other receivables and prepayments	260,650	(139,707)
Net decrease in accrued expenses and accounts payable	1,816,216	(260,734)
Net increase/(decrease) in financial liabilities at fair value through profit or loss	(857,395)	287,144
Net increase in distribution to holders of redeemable ordinary shares payable	683,478	76,809
Net cash flow used in operating activities	2,786,051	57,804
Cash flow from investing activities		
Net (increase)/decrease in loans to Partner Institutions	(51,112,285)	–
Net cash flow from investing activities	(51,112,285)	–
Cash flow from financing activities		
Proceeds from issue of Class A Shares	18,625,640	–
Proceeds from issue of Class B Shares	13,000,000	–
Proceeds from issue of Class C Shares	–	–
Net cash flow provided by financing activities	31,625,640	–
Net increase/(decrease) in cash and cash equivalents	(16,700,594)	57,804
Cash and cash equivalents at beginning of the period/year	21,491,213	21,433,409
Cash and cash equivalents at end of period/year	4,790,619	21,491,213

Contact information

www.aatif.lu
info@aatif.lu

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Publisher:
Africa Agriculture and Trade Investment Fund
31 Z.A. Bourmicht
L-8070 Bertrange
Grand Duchy of Luxembourg

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