AATIF INVESTOR REPORTING

Report for the quarter ending 31/12/2020

Africa Agriculture and Trade Investment Fund

Activity Report Q4 2020

Quarterly Developments

As the year ended, the performance of existing investments, pipeline development and also fund raising by AATIF were heavily impacted by the global pandemic.

Almost all markets are either confronted with a recession or a significant slowdown in growth due to the impact of the pandemic. Unlike in other parts of the world where governments could pledge trillions as economic stimuli, African sovereigns overall have to manoeuvre on significantly thinner margins.

Out of 73 countries that are eligible for a temporary suspension of debt service payments according to the debt service suspension initiative (DSSI) of led by the World Bank and the IMF, 50% (37) are African and 81% of these (30) participate in the DSSI[1], covering USD14bn in debt repayments, which excludes debt owed to Chinese borrowers. The IMF estimated, though, a financing need of USD1.2trillion in Africa through to 2023 and a likely funding gap of USD345billion.[2]

Zambia ceased its debt service on its Eurobonds in Q4 2020, causing a technical default. Fear is in the market that more countries are to follow very soon.

Given the fiscal constraints and uncertainties, any economic recovery will be driven by the private sector. Governments will need to balance consolidating fiscal spending and improving conditions for private investors simultaneously. As the erosion of employment opportunities and household incomes as a result of Covid-19 is unlikely to be fully reversed in 2021, the increase in social tensions will continue.

On the positive side, the expected contraction of GDP for SSA (3.7% estimated by the World Bank[3]), there are good chances for a swift turnaround. As the contraction was partly linked to large reductions in Nigeria, Angola and South Africa suffering from commodity price falls and a decline in trade with China, indicators suggest a positive turn. Trade volumes with China contracts in 1H 2020 by around 19.1% to USD 82.4bn[4]. Exports in H2 2020 are up 8.6%. US-Africa trade might increase given the expected extension of the African Grown and Opportunity Act beyond 2025.[5] Last, but not least, the launch of AfCFTA in January 2021 [6] has the potential to increase intra-African trade and increase local spending, partially replacing the need to import goods from outside the continent.

Currency

While during 1H 2020 most African currencies appreciated against the USD, the return of trade activity and investor confidence caused a mild re-bound in 2H. While other emerging markets currencies could benefit from a return of investor confidence, the average increase in local currency vs. USD for a basket of 30 currency pairs (excl. FCA and CFA) stood 10.3% higher end of 2020 compared to 2019.

Access to Finance

On the commodity market, we observed banks closing down their trade finance divisions in response to a series of frauds in the commodities sector.[7] While liquidity came back due to support programmes from and for central banks, the confidence from financiers has yet to return. Although base interest rates are low, the access to finance is very limited as banks continue to await on which corporates are not going to survive the crisis. In West Africa, the commitment to introduce a new regional currency is confronted with the inability of some prospective members to meet the necessary fiscal criteria.

New Investment Activities & Disbursements

During the course of Q4 2020 AATIF, jointly with the IFC, signed a EUR 6 m CAPEX co-financing for the construction of an onion dehydration plant in Senegal, the first in sub Saharan Africa. AATIF further concluded a USD/EUR 1.5m trade finance facility for the export of organically grown soybeans. Since 2014 the investee has built a sourcing network with over 40,000 soybean and sunflower farmers in Benin, Nigeria and Tanzania in partnership with two local NGOs.

The Investment Committee considered six concept notes and approved the co-financing in the Cocoa value chain for execution. The Investment Advisor began 2021 with four transactions scheduled for detailed due diligence in Q1 2021 and two transactions in final stages to be reviewed by the Investment Committee. While the balance of transactions in the execution stage by end of Q3 2020 stood at USD5m, the investments in due diligence stage end of 2020 summed up to UDS100m.

Existing Investment Portfolio

Atlas Mara, the holding of AATIF's investee BancABC, announced it having agreed a standstill with the majority of its creditors and having entered into new secured funding facility. [(8)] The company cites a compounding number of challenges in its fund raising efforts. Amongst them is the continued tightening of liquidity in global markets along with a devaluation of its banking subsidiaries due to adverse currency movements. The company notes that around USD150m in value has been lost respectively, weighing on the debt capacity of Atlas Mara. Atlas Mara cites that the new funding shall give the company the time to pursue its options. AATIF agreed to a standstill under the existing facility subject to conditions to be met by the company.

On the existing non-performing loans, the outstanding balance against GADCO was fully recovered in Q4 2020 and the investment is closed. The loan had been extended to finance the construction of a rice mill, which, as of today, processes rice from local farmers for nationwide distribution in Ghana.

The lending activities of the Tunesian MFI Enda Tamweel picked up again in Q3. Until end of Q3 2020, Enda disbursed more than 60k loans towards the agricultural sector, with the majority of loans benefitting livestock and dairy farmers (94.6%) and the remainder being granted to olive tree (4.4%) and wheat/maize farmers. Enda also announced on Nov 9 that it was able to raise TND 30m (approx. USD 11m) in the bond market.

Capital Raising Activities

During the course of Q4, AATIF issued additional C-Shares in an amount of USD72.6m which were funded by the German Ministry for Economic Cooperation and Development (BMZ). and the European Commission. The increase in capital provided by the European Commission followed the satisfactory review of the conditions for AATIF to draw the 2nd tranche under the existing commitment of EUR30m.

The BMZ, on the other side, provided an additional 61m USD to be employed towards strengthening AATIF's existing and pipeline investees to cope with the changes induced by Covid-19 as well as taking a dedicated investment focus on Compact with Africa countries.

Fund Performance & Liquidity

As and while the investment activity was low during 2020, the Fund maintained a level of liquidity to meet its ongoing and future obligations to investors. As and while the new investment activity was low, the fund is very likely to have insufficient income in order to meet the target dividend payments on the B-Shares issued. As and while the investment activity has picked up, we expect the income situation to normalise throughout 2021.

Social & Environmental Review

In Q4 2020, AATIF investee companies continued to implement safety measures for their staff, and also realised important achievements and initiatives towards improving their social and environmental performance.

An inspiring example is ETG that recently launched two mobile apps, "Ulima" and "ETG-one stop solution", to reach out to farmers. The apps, which partly started as a response to COVID-19 restrictions, provide information on weather forecasts, dates and locations of farmers' seminars. In the future, ETG plans to provide trainings for the correct use of products (e.g. agrochemicals) and environmental health and safety issues related to agriculture, as well as for disease information.

Picture 1: Health Protection Measures

In Zambia, Agrivision started the planting of 15,000 trees, not only on land in its Somawhe Estates, but also around schools and other public institutions identified by the Mpongwe Forestry Department.

Impact Measurement

AATIF progressed in delivering on its commitment to investigate the impact created through its investments.

First, a summary of a cross case analysis on employment effects of two of its investments (in Zimbabwe and Tanzania) was published, showing that the investments triggered not only an increase in employment numbers, but also improved skills of the labour force, management systems of the investee companies, and labour practices. The report is available on the website of the ILO.

Second, the Fund published five new Impact Briefs, for the following investee companies: Wienco, ETG, CKL, Gadco and TD Bank.

Lastly, AATIF developed new tools for monitoring impact data of investments in financial institutions, looking at their product offering, agricultural operations, employment and environmental performance, in addition to specific indicators for how proceeds from AATIF are on-lent to FIs' clients.

Technical Assistance (TA) Update

Several successful TA projects came to an end. The AATIF TA Facility concluded on a design and implementation plan for a smallholder wheat outgrower scheme together with the investee with Amsons / Camel Flour in northern Tanzania. The design is based on findings of a TA-financed expert and proposes to assist Amsons to establish and manage

Picture 2: Mt. Meru Millers Ltd.

the scheme over a period of four years.

Another project was the market analysis and re-branding strategy for milled maize product differentiation with the Zambian miller AML. This project will enable AML to make full use of its new maize mill all year round as well as increase its product range.

Picture 3: Finished Product of AML

The AATIF TA Facility begun preparations for an assessment of existing raw material supply structures of the AATIF investees Mt Meru Millers and AML in Zambia. Mt Meru seeks to procure more and better-quality cotton from smallholders for its ginnery, while AML is interested in developing a sourcing strategy with its thousands of smallholders who supply their mills with maize.

An exciting new TA activity currently under development is a feasibility study for a nation-wide agricultural radio channel in collaboration with Sterling Bank in Nigeria. The aim of this study is to design a plan for the establishment of a dedicated agricultural channel that will enable smallholder farmers to access key agricultural-related information and increase financial inclusion.

End of December 2020, a study on the effects of COVID-19 on smallholder farmers supplying AATIF investees with raw materials was finalised. A team of consultants were tasked to conduct field work in Zambia, Kenya and Cote d'Ivoire. We expect the results of the study can be used to identify appropriate responses and interventions to mitigate the adverse effects of the pandemic.

New Investment Introduction: Société Africaine d'Ingredients (SAF-Ingrédients)

AATIF, along the IFC, closed a EUR 13 m CAPEX financing for an onion processing project in northern Senegal. The EUR 13m investment is composed of AATIF's EUR 6m senior loan, IFC's "A" loan of up to EUR 3.5m from IFC's own account, and a concessional loan from the IDA Private Sector Window Blended Finance Facility of up to EUR 3.5m. The IDA Private Sector Window was launched to catalyse private sector investment in places where it is needed most.

The unique project involves decommissioning an existing onion dehydration plant (built in 2003 and closed in 2014) near Dijon, France, and relocating it to St. Louis in northern Senegal. Support from AATIF and IFC will help SAF Ingrédients develop a 760-hectare onion farm and establish an out-grower network of onion farmers. The plant is expected to produce almost 5,000 tons of dehydrated onions annually, representing two percent of the global supply, with some production being exported to Europe. Dry onion powder is an important and popular flavouring in soups, stews, and many other dishes.

Picture 4: Onion Field Senegal

This project will be operated by a French Senegalese Joint-venture "Société Africaine d'Ingédients" created in 2019 between Dijon Céréales (a French cooperative in Dijon) and the "Club des Investisseurs Sénégalais" ("CIS"). Dijon Céréales is a large French agricultural cooperative from Franche-Comté created in July 1990 out of the fusion of 13 cooperatives, owned by 3,800 farmers and employing 515 professionals. Dijon Céréales is one of the large agri-business groups in Bourgogne-Franche-Comté region in France. CIS is a Club of 75 Senegalese entrepreneurs to promote a strong national private sector in Senegal by pooling their investment capacities and encouraging co-investments with other domestic and foreign investors.

New Investment Introduction: Vantage

AATIF concluded a USD/EUR 1.5m trade finance facility with Vantage. The parent company of Vantage started off as a pure trader of organic soybeans out of India, but over the years developed into an integrated agri-business with eight crushing machines of 20 tons per day each and its own out-grower scheme of over 30,000 organically certified smallholder farmers suppling soybean to the factory in India. Having seen continuous demand for its products, reflected in the company having achieved a doubling of revenues between 2011 and 2015 and then again between 2015 and 2018, the company saw a need to increase and diversify its sourcing base. It also established a subsidiary in the Netherlands to facilitate reaching out especially to European customers. The company heavily invested in Africa in 2014 by developing a sourcing base over the years consisting of over 40,000 farmers in Benin, Nigeria and Tanzania in partnership with two

Picture 6: Soy Farmer; Source: Vantage

Picture 5: Soybean Regional Market, Source: Vantage

local NGOs. By now all farmers have been organically certified and are in principal ready to provide organic soybean from Benin and Nigeria and organic sunflower seeds from Tanzania. Vantage with the leverage of the AATIF facility is to connect these smallholders to international markets, primarily Europe and the US, initially only as raw produce, but in the future also in the form of processed goods from Africa and Europe. Vantage despite the lockdowns was able to continue its business. However, Covid-19 restrictions is taking its toll due to the increasingly felt limited availability of containers which are the basis for any its trades whereby the current expectation is that the situation eases end of Q1 2021 .[1]

Thematic Background: The odds of the pandemic – where are the containers?

Freight shipping is in the midst of a unique and unusual predicament. As the pandemic spread out from its Asian epicentre, countries implemented lockdowns, halting economic movements and production. Many factories closed temporarily, causing large numbers of containers to be stopped at ports. To stabilize costs and the erosion of ocean rates, carriers reduced the number of vessels out at sea. Not only did this put the brakes on import and export, it also meant empty containers were not picked up. This has been especially significant for Asian traders, who couldn't retrieve empty containers from North America. Then, a unique scenario developed. Asia, being the first hit by the pandemic, was also the first to recover. A consequence of this is that almost all of the remaining containers in Asia headed out to Europe and North America, but those containers were not coming back quickly enough. North America faced a 40% imbalance; which meant 60 out of every 100 containers continued to accumulate.

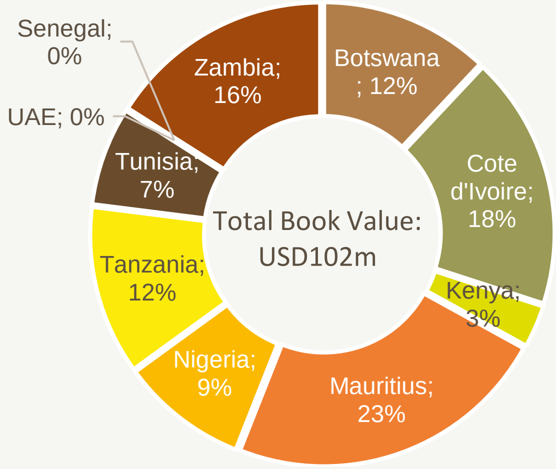
The consequences are felt globally. Goods to be shipped to and from Africa are held up by the lack of capacity. On the one side important imports to the continent like machinery and spare parts are not forthcoming causing production outages and losses on the continent. On the other side, raw and processed commodities are awaiting be loaded. Prices for cargo is up. The resulting push in inflation will affect end-buyers and consumers alike.

Shipping liners have tried to realign their containers with the demand on transpacific routes – taking away capacity from routes from and to Africa. Chinese New Year (Feb. 11-17) is hoped to become the turning point of equipment shortage. It will take more time until the historical bandwidth of logistics that connected Africa with the rest of the world will resume.

[1] Bloomberg, Hillebrand

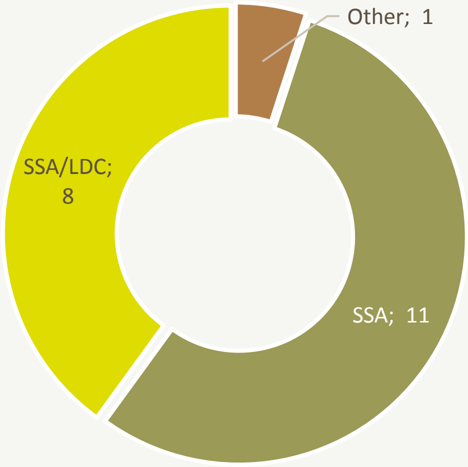
Portfolio Overview as at 31/12/2020

Book value – Country & Rating Category



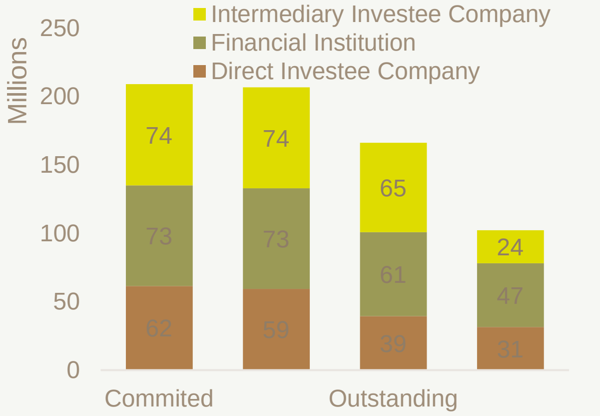
The country allocation of the investment is linked to the place where the legal residency of the investee/ the economic risk bearer is registered.

Transaction Geography (# of investees)

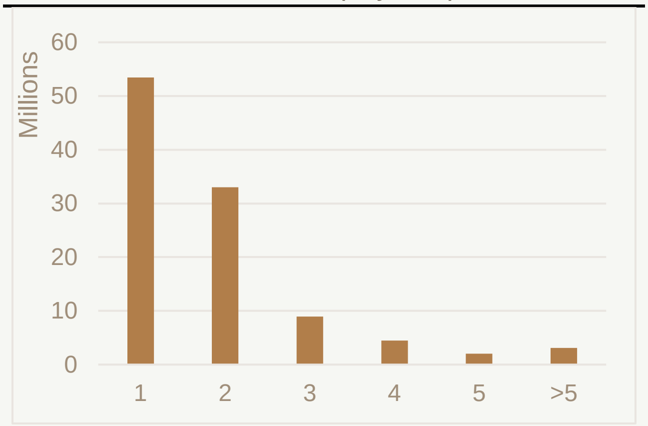


SSA: Sub-Sahara Africa
LDC: Least Developed Countries

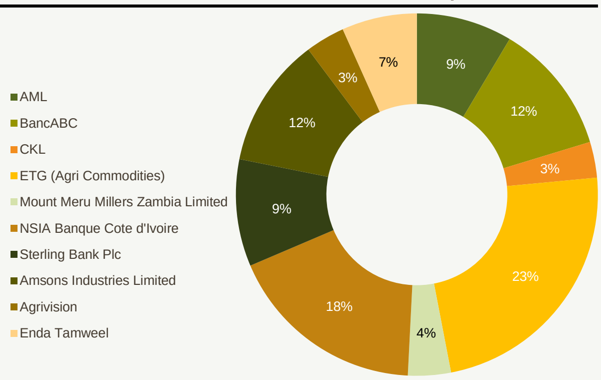
Type of Partner Institution



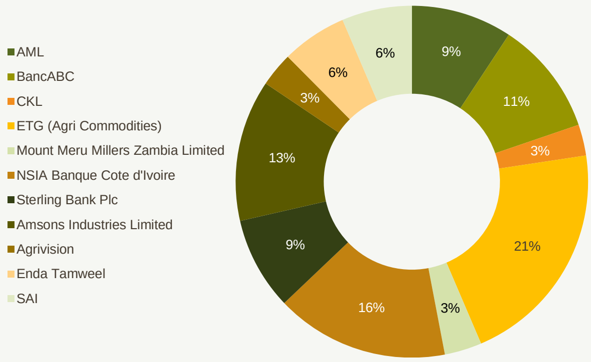
Maturities of the Portfolio (in years)



Partner Institution: Net Balance Exposure



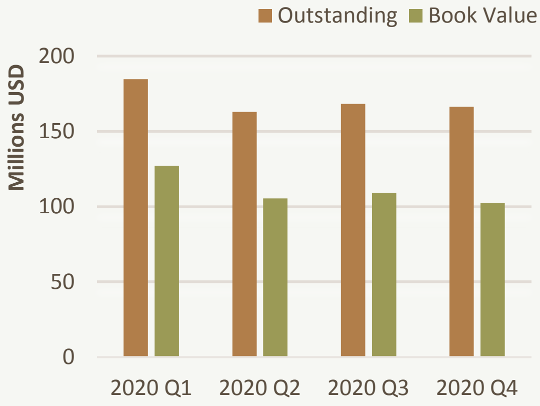
Partner Institution: Net Balance + Unused Commitment



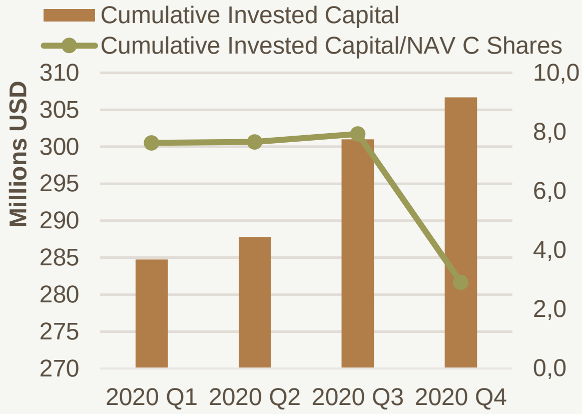
Provisioning Overview

Provisions on invested capital beginning Q4 2020	USD		59,183,048
Release of Provisions	USD	-	316,331
Increase of Provisions	USD	+	5,167,334
Write off	USD	-	0
Provisions on invested capital end of Q4 2020	USD	=	64,034,051
Net Movement during Q4 2020	USD		4,851,003

Investments Outstanding

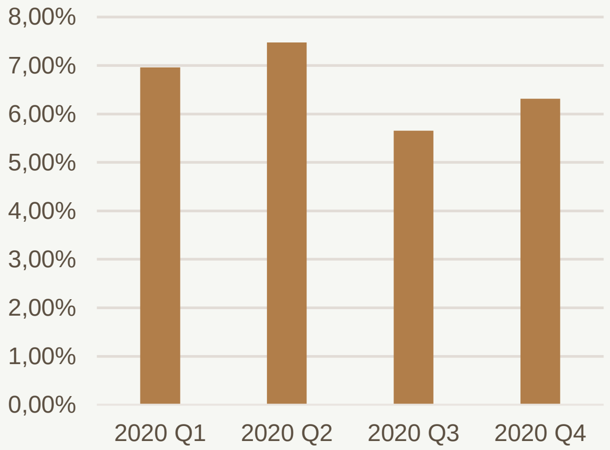


Cumulative Invested Capital vs NAV C Shares



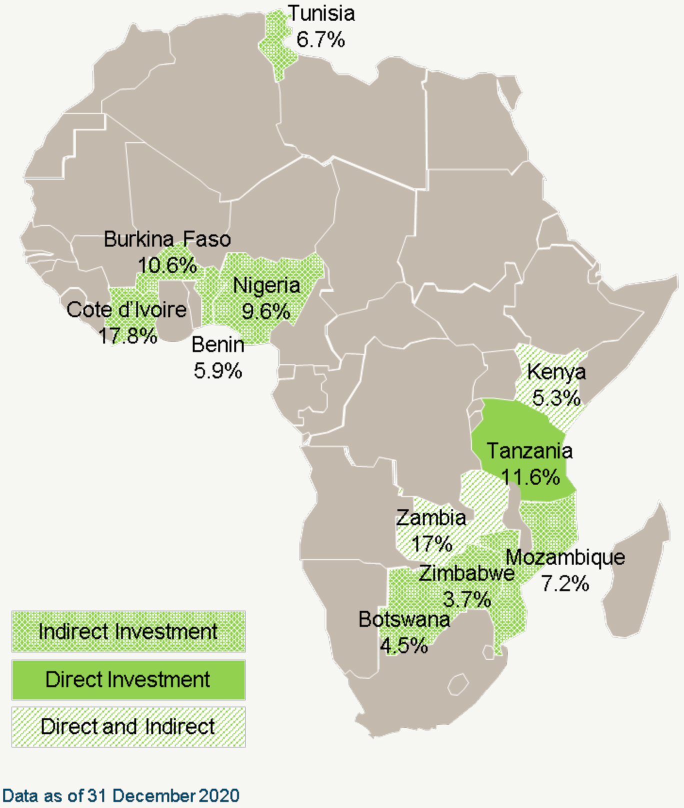
The ratio of cumulative invested Capital/NAV C-Shares decreased from 8x to 3x as AATIF raised additional C-Shares Q4 2020 for further growth of the Fund.

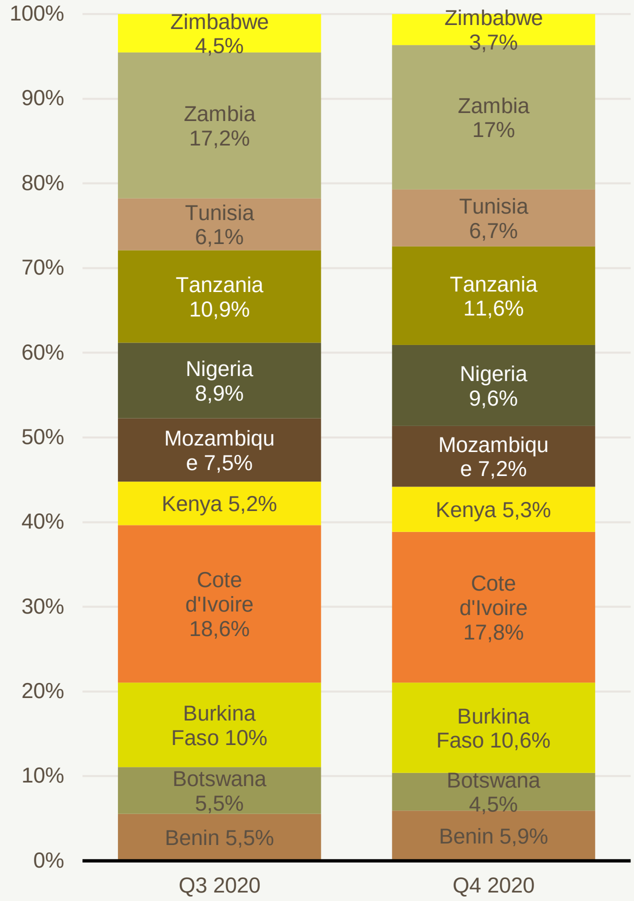
Gross Yield



Regional Use of Funding (Data as of different dates)

Funding from AATIF is generally used by investees across the region of their activities. Trading companies, for example, report the use of funding from AATIF in accordance with their revenues generated from their trading activities in respective countries. Due to the seasonality of the agribusiness, revenues linked to a specific country change throughout the year. While loan documentation limits the regional use of funds to the African continent, the single country allocation changes respectively. The methodology used by the IM to allocate the funding into the respective countries is explained below.



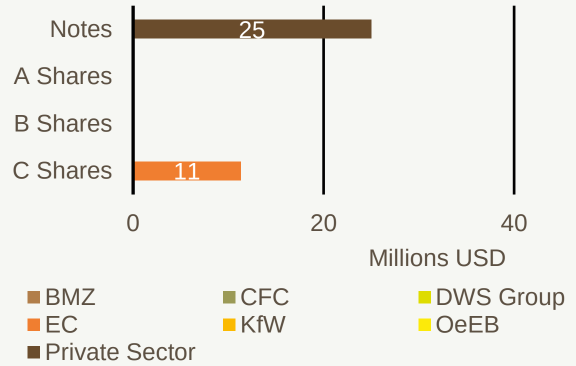


The “Use of Funding Allocation” applies the following methodology:

1. The net loan balance (after redemptions, provisions or write downs) is being used;
2. For direct investment companies (DICs), the country allocation is determined by the purpose of the loan;
3. For intermediary investment companies (IICs) and financial institutions (FIs), the country allocation is determined applying the distribution of the reported reference portfolio of loans to borrowers that are part of an agricultural value chain to the net value of AATIF‘s investment.

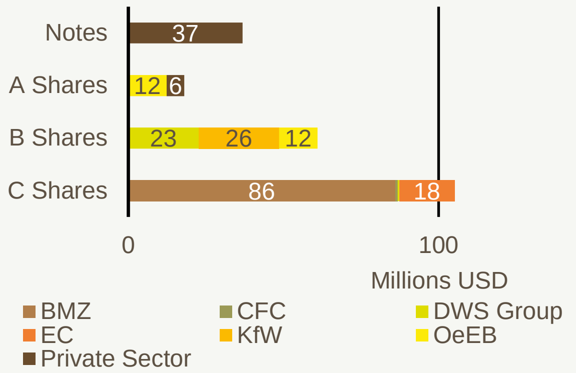
Investor Capital Structure as at 31/12/2020

Undrawn Commitments



Total amount of undrawn capital: USD 36m

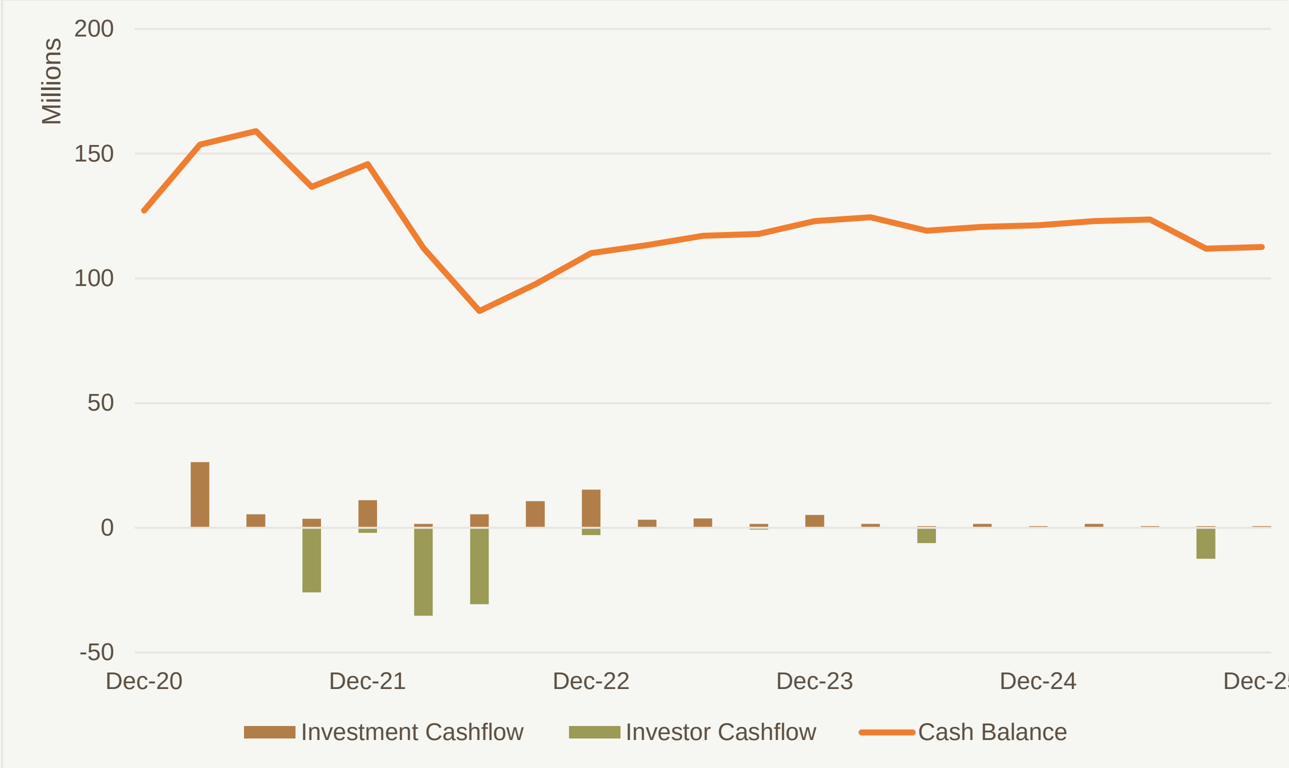
Net Asset Value (NAV) of Outstanding Shares



NAV of the Fund includes cash and other value elements

Asset-Liability Cash Flow Profile

Cash Flow Forecast as of 31/12/2020



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Collaboration Partners and Selected Investors

Initiator:

Federal Ministry for Economic Cooperation and Development

Collaboration Partners:

KFW DWS ILO UN environment CFC common fund for commodities

Investors:

KFW CeEB European Commission DWS CFC common fund for commodities

Disclaimer

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Imprint

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