AATIF INVESTOR REPORTING

Report for the quarter ending 31/12/2021

Activity Report Q4 2021

Quarterly Developments

For the agricultural sector 2021 ended with a soft recovery from the COVID induced reduction in local and international demand for African agricultural products as well as the production. Most economies have seen a rebound and restrictions on movements were lifted, which caused the local harvest to be supported with sufficient workforce. Generally, the outlook by market observers is positive along the expectation that real GDP growth rates will be in the range of 3-4% for SSA and around 2% of MENA. (1). Key risks are social tensions and security problems that impact policymaking across especially SSA. Another factor arising on the horizon is the potential for countries to protect their markets against agricultural products that have a negative environmental footprint. One example is soy being produced in Latin America, such as Brazil. Assuming the European Union were to ban imports due to the deforestation that is caused by the need to clear land for soy production, African soy producers might benefit. Soy has been an interesting crop also with demand and speculative activities by traders in India having created shockwaves that reached far into the African agricultural value chains. We have prepared a small special on the topic titled: "Soy: Almost gold – while it lasted" (page 4).

Other challenges that that resurfaces are food security, increasing costs for energy – mainly oil – which will increase costs for small and medium sized farmers (higher costs for fuel, costs for logistics and fertilizer, particularly nitrogenous fertilizer). Price for Urea, Potash and DAP has increase 2 to 4 times by end of 2021 compared to beginning of 2021.

The market volatility continued to be two sided for AATIF: on the one side the existing portfolio companies have shown a relatively stable performance. On the other side, Q4 continued to be dominated by caution by corporates and financial institutions alike – which continues to negatively weigh on the speed to deploy the available cash AATIF holds.

New Investment Activities & Disbursements

In Q4 2022, AATIF participated in a new loan facility with USD 26m to Export Trading Group (ETG). The facility has been extended to backstop ETG's efforts to connect seeds and nuts farmers and producers in Eastern Africa with international markets. In Q4, the investment advisor also finalized legal documentation with a financial institution in Western Africa for a EUR 25m facility – which is pending disbursement. The balance of transactions in the execution stage by end of Q4 2021 stood at USD 99.8m. Execution speed, however, remains slow given the volatile demand for capital.

Existing Investment Portfolio

The overall picture of the existing portfolio in Q4 portrays general challenges in the face of overarching macroeconomic events. Despite this, investees continued to show resilience, mitigating these challenges while staying optimistic for the coming months.

African Milling Limited reported a stabilizing economic environment in Zambia following the national government's change in regime in August 2021. The company was recently granted export permits allowing export of maize and wheat to neighboring countries, while also meeting local demand. From an operations perspective, AML had recently launched a bakery with the goal of vertically integrating their processing operation. After a relatively slow start in Q3, the bakery ramped up production, consistently producing 45 to 50 bags of bread daily - about 4,000 to 5,000 loaves per day. The company is currently awaiting the arrival of new machinery to allow the bakery to scale up operations.

Seba Foods reported strong performance this quarter, exhibiting some of their highest sales numbers to end the year. This was driven mostly by impressive sales of its High Energy Protein Supplement (HEPS) product. While soybean prices had been driven up considerably by increased demand in Asia (specifically in India), the company had contracted smallholder farmers earlier, thus securing prices for purchase in time. The company also launched an organic soy out-grower scheme in October, recruiting smallholder farmers, distributing inputs on credit, and offering extensive trainings on organic farming and soy production, while aiming to certify 100 farmers.

Camel Flour faced challenges in Q4 with the availability and price of wheat as a raw material impacted by escalating tensions between Russia and Ukraine. Given that the two conflicting countries account for 29% of global wheat exports, the ripple effects have impacted international wheat supply, pushing Camel Flour to increase prices of their flour. The company is seeking to lock prices with sellers for March to June to mitigate the increase in wheat prices. Despite this, the company remains optimistic for increased availability of wheat locally in the coming months, anticipating a good harvest following the February planting period.

CKL Africa registered an improved performance this quarter in comparison to Q3, but challenges in the overall macroeconomic environment remained pertinent. Chief among them was an unpredictable weather pattern affecting agricultural production and farmer cashflow in the country. In September for instance, President Kenyatta declared the drought in most parts of the country a national disaster. The supply chain was also impacted as China – a major supplier for the company – faced stricter COVID-19 restrictions, energy outages and climate sanctions.

Banque NSIA has entered into a portfolio guarantee with the IFC for XOF10bn, which shall support the bank to extend the range of clients NSIA is serving. The risk sharing with the IFC is additional to the engagement AATIF has with NSIA but can support NSIA extending its range to sectors that are underserved in a sustainable and prudent manner. As such the transaction is fully aligned with AATIF's target to support NSIA to increase its business in sectors that are underserved and be successful in these efforts. Another positive aspect on NSIA is it having entered into a tier 2 capital facility by the AfDB which shall increase the regulatory capital and support the growth of the bank.

Sterling Bank had organized the 3rd edition of the African Agricultural Summit aimed at identifying and delivering actionable steps to maximise the potential of the AfCFTA agreement to Africa's agribusinesses. On the financial side, the bank reported a small increase and, more importantly, an inflow of deposits by more than 20%. Given the positive development of the investment from an impact and a financial standpoint, AATIF approved a new loan to Sterling Bank at current market terms.

Tunisia saw a mild recovery that was expected to continue in 2021 on the back of the reopening of the economy and a rebound of tourism. Enda Tamweel, the local MFI that is AATIF's Partner Institution in Tunisia, continued to report growing its portfolio and being profitable. The European Investment Bank EIB in December closed a 2year facility of EUR 9m. Enda also benefitted from EBRDs EUR20 million risk-sharing facility with Attijari Bank Tunisia under which Attijari extended TND 40m (EUR 12m) to Enda equally in December 2021

Asset Liability Management & Return Prospects

The deployment of capital continued to be too little in comparison to the capital AATIF has available. While the number of approved transactions has grown to 11 representing USD 99.8m in volume, disbursement continue to see delays. Reasons range from protracted legal documentation, heavily impacted by the necessity to negotiate and exchange on contractual terms virtually, awaiting the fulfillment of conditions precedent and the time investment companies need to achieve the same and a generally very cautious approach by future investees in regards to the existing challenges.

Currently the net income of AATIF is not sufficient to cover target dividend payments. Unallocated dividends are being caught up in the coming years through the dividend deficiency ledgers that are designed to give existing shareholders the right to receive unallocated dividends as soon as the Fund resumes profitability again. AATIF forecasts that the net investment portfolio has to grow above USD140m in order to be able to fully resume Class A dividend accruals and above USD 160m to achieve the same for Class B.

Given the need to increase the interest income, AATIF continues to prioritise investments into financial institutions that are expected to use the available capital faster compared to corporates or trading companies that are more exposed to volatilities.

Social and Environmental Review

As the second year operating under the COVID-19 pandemic was nearing closure in Q4 2021, the AATIF Compliance Advisor visited GPA Transformation in Côte d'Ivoire. GPA is one of investees AATIF reaches through its partnership with Scipion Capital. The company welcomed the AATIF onsite and allowed obtaining a first-hand overview of its S&E practices. GPA also showed interest in the AATIF Technical Assistance Facility and how it could support the company to improve its S&E management processes. In addition to working with GPA onsite, the visit provided insights on how Scipion Capital's Social and Environmental Management System itself is generating S&E-related documentation on AATIF co-investments and informed the finalization of a TA measure aimed at improving Scipion Capital's S&E management capacities.

Highlights from other investees include Mount Meru obtaining ISO management system certifications on Occupational Health and Safety, Environment, Food Safety and Quality, as well as Seba Foods launching a project to promote organic farming of soybean through a smallholder scheme in Zambia.

Impact Measurement

The AATIF measures impact along seven dimensions, including environment. In Q4 2021, AATIF's Partner Institutions kicked off serval initiatives related improving environmental impact. As an example, Sterling Bank started the process of retrofitting its headquarters with solar panels with the goal to generate power through renewable energy sources. In Kenya, CKL is in a process of reducing its environmental footprint by using solar energy in its new plant in Tatu city. In addition, CKL launched an initiative on measuring greenhouse gas emissions, which includes setting up a system to support data collection of KPIs for which baseline data was being collected at the end of 2021.

Results of AATIF's impact measurement activities are compiled four new Impact Briefs which are now accessible on the AATIF website. The Impact Briefs summarise the main findings of the rapid appraisals conducted on Mount Meru Millers Zambia, Amsons Tanzania, African Milling Zambia as well as Orabank in Côte d'Ivoire. The study in Côte d'Ivoire was AATIF's first rapid appraisal of a short-term investment in a financial institution. It informed us of the imperative to allow time for indirect development impact to materialise. It also showed us that impact investors can, if intentionally engaged, support business growth of financial institutions and specific sectoral lending as well as improve sustainability management systems including client monitoring. AATIF's rapid appraisals are typically conducted by external consultants, using AATIF's impact dimensions as a framework for collecting and analysing data. Furthermore, a baseline rapid appraisal on Seba Foods Zambia was launched in Q4 2021 and the results are expected in Q2 2022.

Technical Assistance (TA) Update

During Q4 2021, the AATIF TA Facility Committee approved two new projects, both focused on improving the sustainability management of financial institutions in Kenya and Nigeria. One project with the AATIF investee Sterling Bank aims to develop an Environmental and Social Governance (ESG) monitoring and reporting platform to enable the bank to better assess and report its social and environmental (S&E) performance and that of its clients. The second project is supporting a potential AATIF investee, a commercial bank in Kenya, to develop and implement a fully-fledged Social and Environmental Management System (SEMS) as well as an accompanying S&E training strategy to enhance the bank's overall sustainability management.

Furthermore, Q4 2021 also saw the successful completion of four TA projects, one of which aimed at supporting the AATIF investee Mount Meru Millers in Zambia to improve its existing cotton outgrower scheme by proposing a sustainable and more efficient design of the scheme. The AATIF TA Facility Manager is now developing a potential follow-up TA project for the implementation of the proposed outgrower scheme that will ultimately benefit both the company, through increased supply of seed cotton, and the smallholder farmers from whom it sources, though support to maximise yields and improved access to extension services and training.

Another TA project to reach closure in Q4 2021 was the design of a sourcing strategy with the AATIF investee African Milling Ltd. in Zambia that procures maize from smallholder farmers. Based on the findings, the AATIF TA Facility Manager is developing two potential follow-up projects aimed at i) improving the company's sustainability management, and ii) the sustainable procurement of maize from smallholder farmers. Three Rapid Appraisal studies were also completed, including one baseline study with Mount Meru Millers in Zambia and two endline studies, one with African Milling Ltd. in Zambia and another with Oragroup in Cote d'Ivoire.

Soy: Almost gold – while it lasted

Soy is a key product in the Indian market. Soy is a key input into nutrition supply. While India itself only produces about 2.8% of the global soybean production, it remains a net importer of soy due to the high local demand from the nation's poultry & egg, dairy and pork sectors, as the most popular source of animal feed protein[(1)].

In 2021 soy supply became a major problem, starting in India and subsequently impacting African markets. Throughout the production season for the 2021 harvest, regions in which soy is outgrown in India experienced erratic and often heavy rainfall. Fear quickly ran through the market that the supply for the year is at risk with yields being down as well as fears that the full harvest is at stake. Market participants began to hoard the commodity. Futures and options are not available in India and the soy supply became an easy target for speculators that drove prices even higher. According to a USDA report[(2)], July of 2021 saw soybean prices in India rise to a record high of USD 1,350/MT, estimated to be an increase of around 200 percent compared to local prices in 2020 and more than 4 times higher than prices in international markets in 2020.[1] The price increase represented the expecationa that bean yields and meal availability in the upcoming 2021/22 market year will be way below demand and need.

Petitions from the poultry feed industry brought the Indian government to supplement local supply with external imports Up to that point in time India did not allow for the import of genetically modified (GMO) soybean, so turned to sources of non-GMO soybean producers first. This excluded the large global producers such as the US and Brazil who mainly export GMO soybean. Africa got into the spotlight. While Africa only produces 1% of the global soybean crop, the majority of that crop is non-GMO. Hence when India started to source its deficit of soybean for the season in Africa this shook up the local African soybean market. Local soybean prices increased significantly in Q3 2021 – in some regions by up to 168% compared to the same time last year. Driven by the increased export potential, Uganda, Malawi and Mozambique were among those that capitalized on their existing trade relationships with India, exporting most of their soybean crop at markedly higher prices [(3)]. What was good for African producers turned to be detrimental to local supplies, as the export market was prioritized by producers and traders and local off-takers were not prepared to pre-order soy long before harvest.

African production is way too little that it would have been able to cope with the gap market participants feared in India. Inflation could not be stopped in India with imports from Africa, though African markets were already heavily impacted. In August the Indian government decided to bow under the pressure and approved the import of GMO soybean and meal for the first time in the country's history. Only from that point onwards relief trickled into the Indian market. India was then able to secure its

Timeline of Events

aatif
Africa Agriculture and Trade Investment Fund

In India, soy prices rose to historic highs. The effect was an increase in prices in Africa for a short period of time, before the market leveled off.

Stable Soy Prices

Early 2021, global prices were normal, with projections for harvest and supply within usual territory.

Price Volatility

Unpredictable rains lead to price led to price speculation, raising local soy prices by ≈200% from 2020.

Export Campaign

India sources non-GMO soy from Africa. ESA capitalize on lucrative prices and prioritize export to India. In some places, local prices rise by ≈168%.

India Allows GMO

Government makes historic decision to import GMO soy, sourcing from larger exporters, e.g., USA, Bangladesh. Stops importing from Africa.

Impact in Africa

Export campaign ceases abruptly. Local soy supplies are depleted in most countries. Prices have since skyrocketed and now beginning to settle.

Conclusion

Soy market levels off eventually. Export potential for Africa in the global soy market may be low now, but could grow to capitalize on such instances in future.


[1] Prices of raw soy differ materially between international and local markets. For comparison: the average price of soy per mt was USD349 at the Chicago Mercantile Exchange in 2020 (Source: CME). Indian on-shore supply has been double than that in a normal period.

deficit by tapping into the large quantities of GMO soy produced globally and no longer focusing on the small African production (4).

The decision by the Indian government had a domino effect in Africa. Although the new export source was initially very beneficial as a source of additional revenue, it caused a subsequent shortage of soybean on the African continent and caused many prices to remain high well into Q4. Q4 saw Malawi, Uganda and Mozambique in particular experience significant shortfalls in local supply of soybean and soymeal after an aggressive export campaign. Many East African countries turned to importing from Zambia for local use given they have a large production of non-GMO soybean. However, others like Zimbabwe, Malawi and Mozambique also opened up imports for GMO produce from South Africa given they were running short on meeting local demand.

Various investees in the AATIF portfolio are linked to the soybean market and hence also felt the effects in the last two quarters. Some AATIF investees such as Mount Meru Millers which had stocked large amounts of soybean were able to benefit from the export opportunity to India at increased prices. Seba Foods leveraged existing contracts with local smallholders to mitigate the increased soybean prices, allowing the company to operate with relative security. Agrivison typically has a 20-30% of its production in soy securing supply in Zambia.

168%

Increase in soybean prices in some African countries.

≈200%

Estimated percentage change in India soy prices.

Meanwhile, CKL Africa in Kenya felt the impact given that most of their clients in Kenya are livestock farmers who are heavily dependent on soy cake as a source of feed for their cattle. Given the subsequent increase in feed prices, farmers lacked adequate cashflow to buy feed supplements from CKL as the inflation shock could not be passed on into the local markets. It resulted in decreased revenues for farmers – and in the end a shortage of supply into the dairy sector.

While India took some further consequences, which are – however – cosmetic at best for a scenario in which harvest would be materially at risk. In the end, soybean availability in India was ample by end of December 2021. The acceptance of GM soybean therefore was not extended. But legislation has been passed to issue stock limits on soybeans coupled with the hope that it might ensure availability of the commodity locally. Bearing in mind that weather patterns only began to change, the risk that what the market expected – a structural undersupply of the Indian food market – is rather growing, not shrinking.

As for the African nations affected, the harvest season brings with it a chance for price correction due to increased local supply, while the closure of the Indian market to international imports is likely to reduce the amount of African crop exported again (5).

The developments were unique. However, it is exemplary for how fragile some crop value chains are against external factors. Combined with global trade, we witnessed how local weather continues to have effects beyond the affected region. We see this as a continued trend to the glocalisation of food production, i.e., the need to spread and decentralize production globally.

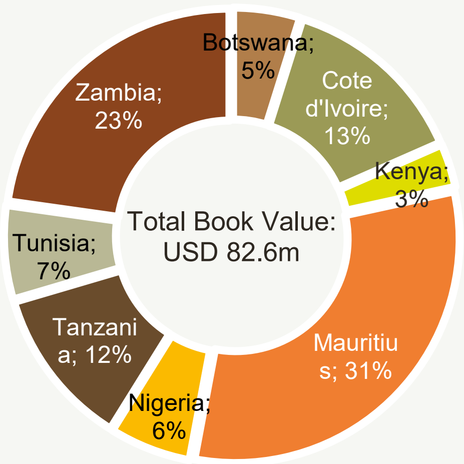
This situation could prove to be a call to action to African producers, traders, and policymakers. It stands to reason that some farmers in the continent would have stood to benefit from such global market trends if Africa had a higher share in global agriculture trade and would produce crops used in mass consumption more competitively. If food is outgrown in a more decentralized manner, it becomes an alternative to GMO produce, lending to food diversity as the best insurance against unforeseen externalities – and science foresees more of such unforeseen externalities.

We further believe that the lessons learned should include that global and local trade can support markets to level off such effects and support one market to cope. Instead of the protection of local markets, which excludes global market participants, connecting markets is a vital solution to improve the competitiveness of African farmers. Macroeconomic research has already proven multiple times that social welfare for everyone improves along markets being connected efficiently.

AATIF has its share in connecting farmers to regional and international trade flows and we believe that the recent example proves the necessity to expand this activity.

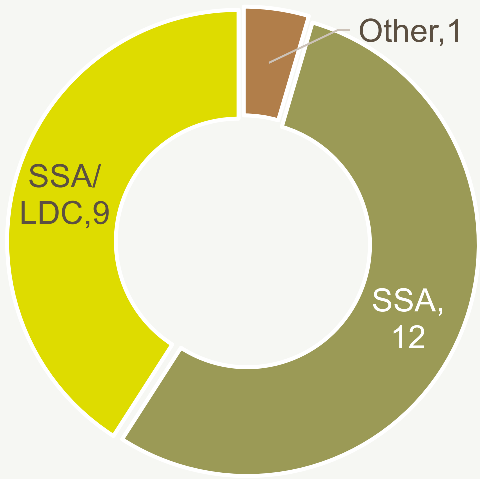
Portfolio Overview as at 31/12/2021

Book value – Country & Rating Category



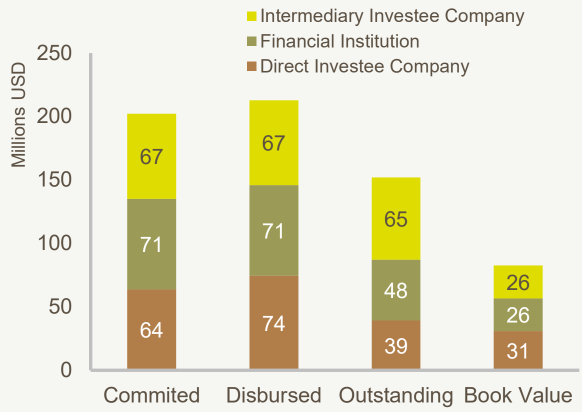
The country allocation of the investment is linked to the place where the legal residency of the investee/ the economic risk bearer is registered.

Transaction Geography (# of investees)

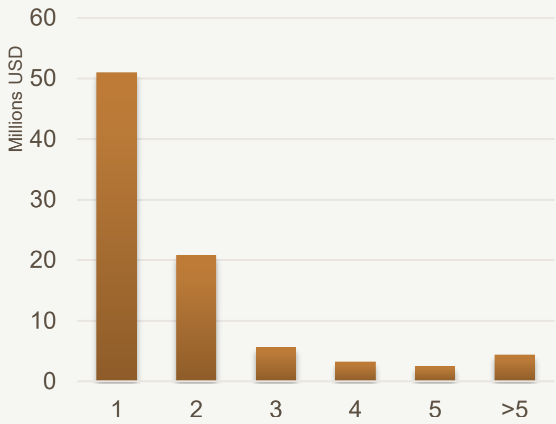


SSA: Sub-Sahara Africa
LDC: Least Developed Countries

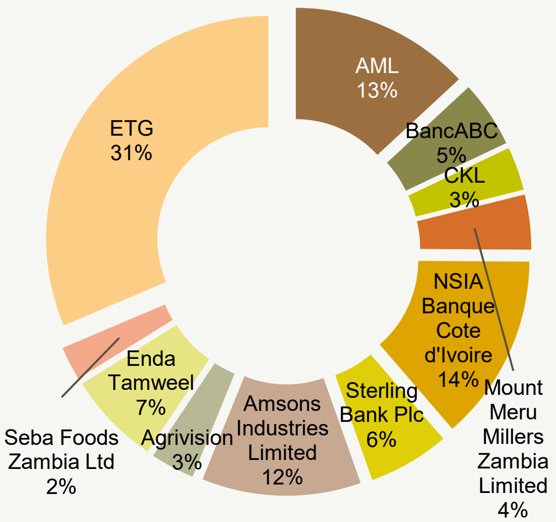
Type of Partner Institution



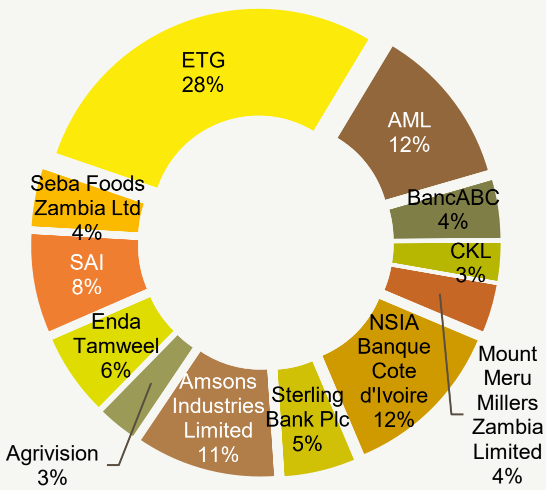
Maturities of the Portfolio (in years)



Partner Institution: Net Balance Exposure



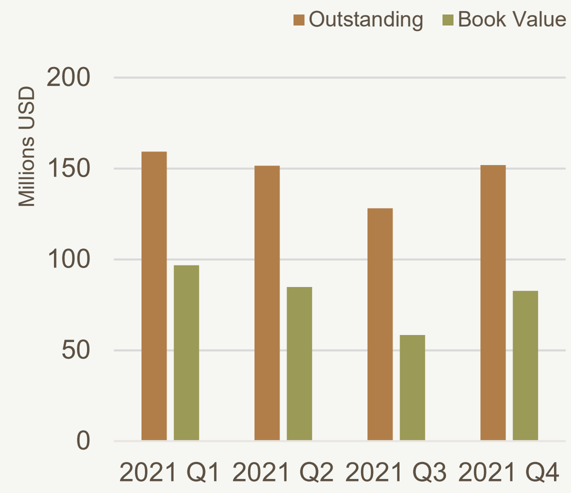
Partner Institution: Net Balance + Unused Commitment



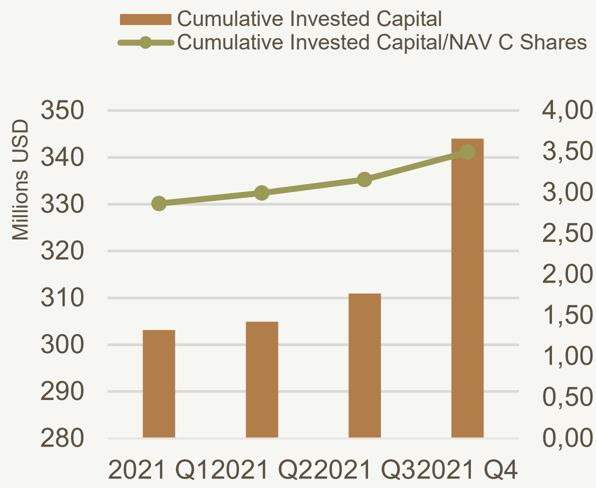
Provisioning Overview

Provisions on invested capital beginning Q4 2021	USD		69,651,037
Release of Provisions	USD	-	901,514
Increase of Provisions	USD	+	534,654
Write off	USD	-	0
Provisions on invested capital end of Q4 2021	USD	=	69,284,177
Net Movement during Q4 2021	USD	-	366,860

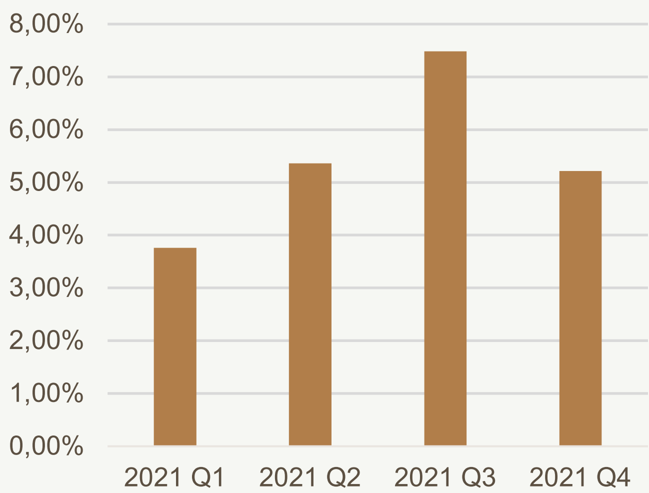
Investments Outstanding



Cumulative Invested Capital vs NAV C Shares

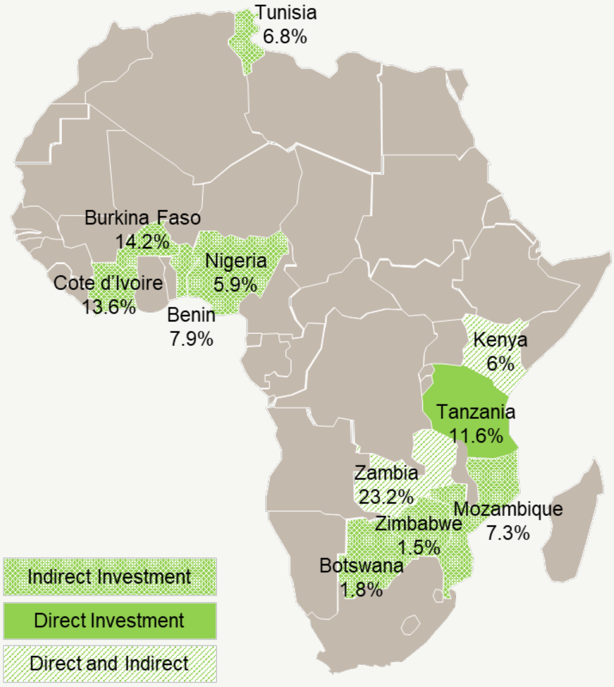


Gross Yield

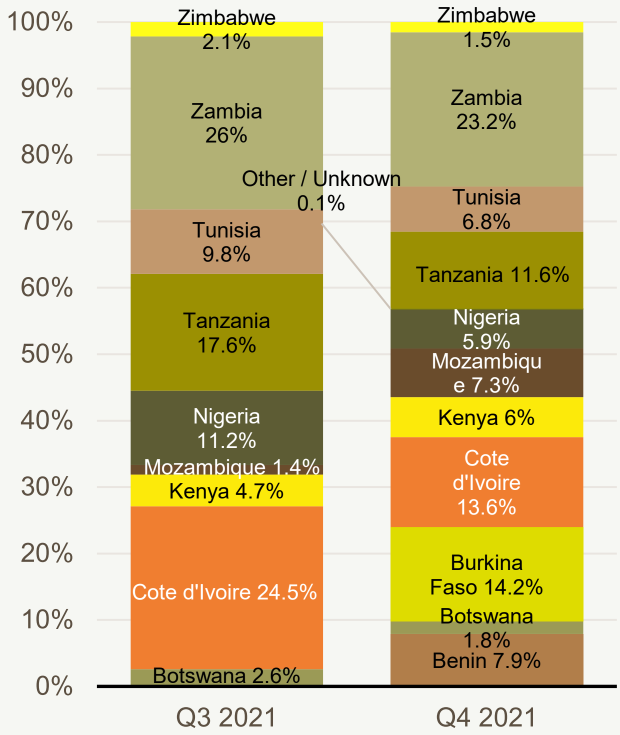


Regional Use of Funding (Data as of different dates)

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.



Data as of 31 December 2021

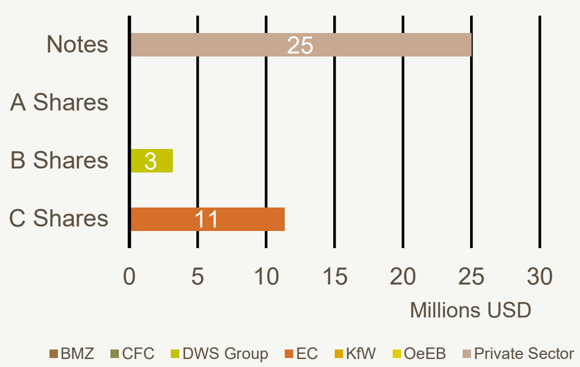


The "Use of Funding Allocation" applies the following methodology:

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.

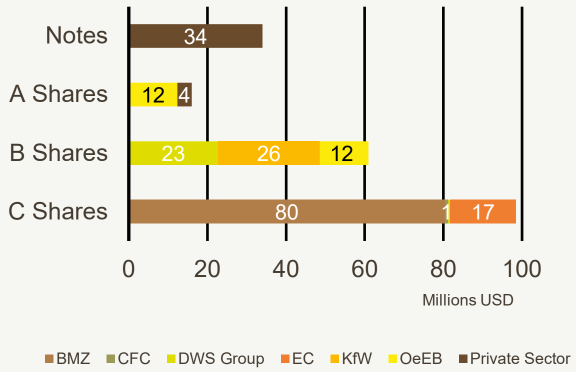
Investor Capital Structure as at 31/12/2021

Undrawn Commitments



Total amount of undrawn capital: USD 39m

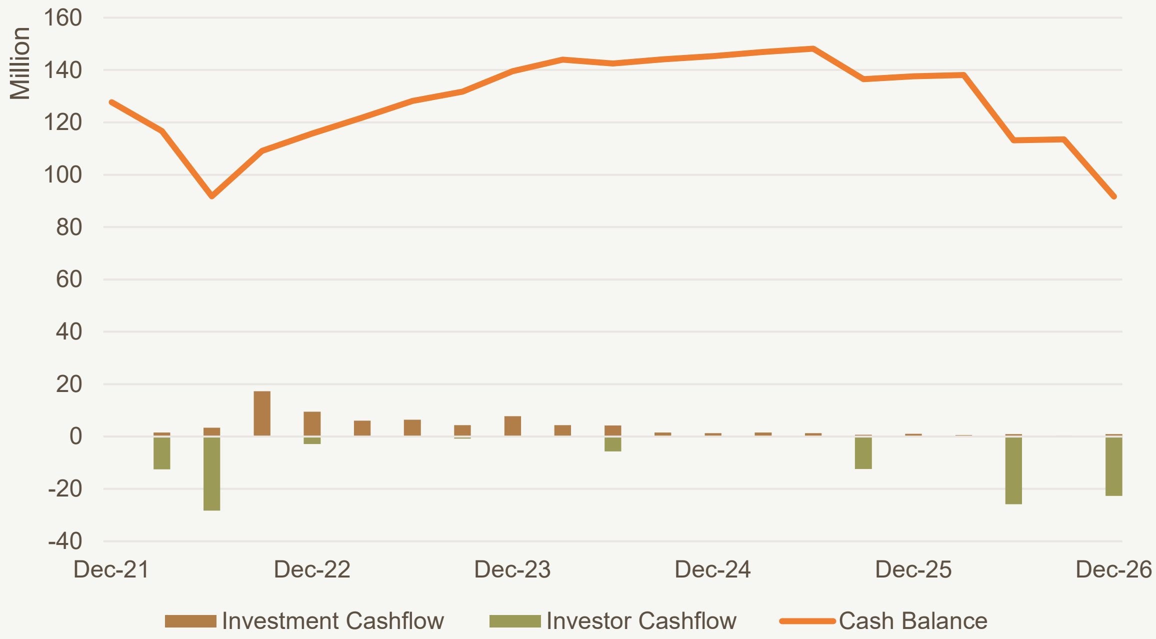
Net Asset Value (NAV) of Outstanding Shares



NAV of the Fund includes cash and other value elements

Asset-Liability Cash Flow Profile

Cash Flow Forecast as of 31/12/2021



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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, OeEB, European Commission, DWS, CFC common fund for commodities

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