Africa Agriculture and Trade Investment Fund

# Development Impact Statement

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**Content**



## A. Background

When the AATIF was established in 2011, its development impact formulation was very much driven by its majority shareholder, the German government. Since, the Fund has truly evolved by broadening its shareholder basis to include numerous public as well as private investors and by learning from its impact endeavors comprising financing projects along the agricultural value chain across the African continent. At the same time, several external developments emerged including the launch of the United Nations Agenda 2030, the African Union's Agenda 2063, or the IFC's Impact Management Principles and the Global Impact Investing Network's catalogue of impact metrics. All of these internal and external developments guide the impact thesis of the Fund and the way in which it measures impact. They have necessitated updating the Development Impact Statement based on which the AATIF was founded to ensure continuous relevance and increased delivery of impact where it is most needed in African agriculture value chains.

Over 50 per cent of Africa's economically active population works in and lives from agriculture, while over 15 % of its GDP comes from the agricultural sector (OECD, FAO, 2016). Increasing food demand and changing consumption habits driven by economic and demographic factors such as population growth and urbanization are leading to rapidly rising net food imports, which are expected to grow from US$35bn in 2015 to over US$110bn by 2025 (ILO, 2013). Diets are shifting towards horticultural and livestock products and processed and pre-cooked foods (many of which are imported), which will result in the doubling of the demand for food in Africa by 2050. The rising demand has the potential to challenge food security and putting already vulnerable people at risk of malnourishment.

At the same time, Africa faces challenges towards meeting the employment demands of its peoples. Underemployment and unemployment have far reaching impacts on household income levels, internal and global security, migration and political stabilization processes. For example, working poverty rates among in Sub-Saharan Africa stood at 61 % in 2019, meaning that 239.7 million workers live in moderate or extreme poverty (less than $3.20 per day) (ILO, 2020). Sub-Saharan Africa's labour force is also expanding at a rate of 3 per cent per year and an additional 375 million young people are expected to reach working age by 2035 (ILO, 2017).

These two trends are further aggravated by environmental factors. Particularly soil erosion, desertification, climate change and environmental degradation impact agricultural productivity potential as well employment potential.

To address these challenges, more investment is required all along the entire agriculture value chain. Estimates of the UN suggest an annual investment gap of USD 260 billion in agriculture and rural development (UNCTAD, 2020). Whereas public resources are indispensable to tackle these issues, there is also a need to crowd-in more resources from the private sector and ensure that these resources are invested sustainably, while maximizing their overall contribution to society's goals. Such contribution includes, among others, creating and maintaining decent jobs (including those of smallholder farmers), increasing productivity, value added and access to markets, and improving environmental and social practices of private actors working in this sector. Despite an increase of the urgently needed investments, FDI into the food and agricultural sector in developing countries have declined by 28 percent between 2010 and 2018. It is in this particular development context, that AATIF seeks to address challenges related to food security, employment, economic development and environmental conservation through sustainable investments across the entire agriculture value chain.

### B. Purpose of the Development Impact Statement

1. The Development Impact Statement lays out the Fund's development objectives for realizing the potential of African agriculture through investments across the entire value chain. It describes the Fund's development thesis and theory of change and sets out the Fund's impact measurement framework including the key performance indicators and measurement methods to be employed in order to establish developmental impact.

2. The Development Impact Statement also outlines the responsibilities of each of the Fund's governing bodies to ensure an aligned and all-embracing review of the Fund's Investments with regards to development impact before entering into any agreement and during the term of its activities.

3. The Fund strives to continuously improve its policies in order to ensure that its activities create positive development impact. Therefore, this document is reviewed on an annual basis and, if need be, updated accordingly.

4. This document is consistent with the Investment Guidelines of the Fund outlined in the Issue Document.

### C. Definitions

5. As used herein, the following term shall have the meaning:

**Partner Institution (PI):** An institution or a company to which the Fund is providing financing, including:

- **Financial Institutions (FIs)**, embracing local commercial banks, and other financial institutions that operate in any of the Target Countries and either finance or are committed to financing investments of the Final Beneficiaries;
- **Intermediary Investee Companies (IICs)**, which operate in any of the Target Countries and as the case may be, act as intermediary in their value chain, including but not limited to producing and processing agribusiness companies, agricultural off-takers and traders; and
- **Direct Investee Companies (DICs)** in the Target Countries, being natural or legal persons and notably comprising entrepreneurs, agribusiness companies, producer organisations including cooperatives, small, medium and large sized farmers and export-oriented producers in the agricultural sector and related manufacturing and services sectors.

**Final Beneficiaries:** are natural or legal persons in the agricultural sector and related manufacturing and services sectors. They notably comprise of entrepreneurs, agribusiness companies, producer organisations including cooperatives, local processing companies, small, medium and large sized farmers, export-oriented companies including traders plus their respective employees.

Capitalized terms not otherwise defined herein shall have the same meaning ascribed in the Issue Document of the Fund.

### D. AATIF's Sustainable Investment Objective

6. The Fund's Sustainable Investment Objective is to realize the potential of Africa's agricultural production and related manufacturing, service provision and trade through sustainable investments across the entire value chain, to inter alia:

   (i) promoting inclusive growth,
   (ii) increasing decent employment and income to farmers, and
   (iii) entrepreneurs in the agricultural sector in Africa.

7. By providing financing where it is most needed, the Fund aims to contribute to inclusive growth and environmental sustainability increasing productivity, primary agricultural production, local processing, trade, employment, local value addition, knowledge transfer, and resilience, for the benefit of farmers, entrepreneurs and workers, men and women alike.

8. The Fund was founded within the framework of the Millennium Development Goals and its objectives remain highly relevant under the global development agenda as expressed in the Sustainable Development Goals (SDGs), which underscore the importance of sustainably investing public and private resources as a means to end poverty, achieve food security and promote decent work.

9. By supporting business growth of agricultural enterprises, connecting farmers to inputs and markets, contributing to local value creation and ultimately reducing poverty, the Fund's sustainable investment objective is directly linked towards achieving SDG 1 on no poverty, SDG 2 on zero hunger and SDG 8 on Decent Work and economic growth. By targeting agricultural companies in least developed countries, the Fund responds to SDG 10 on reduced

inequalities. Finally, the Fund's sustainable investing approach addresses topics covered by other SDGs, including on sustainable management of water, sustainable production patterns, sustainable use of terrestrial ecosystems, and partnerships.

## E. Development objectives and approach

10. The Fund provides needed capital, primarily through debt instruments, following sustainable finance principles outlined in its Social and Environmental Policy (S&E Policy), to Partner Institutions active in the African agricultural sector and related manufacturing and services sectors. In turn, these PIs contribute to value chain enhancement, benefitting directly or indirectly farmers, including smallholders, as well as entrepreneurs and workers, while preserving the environment.

11. The Fund channels private and public capital into African agriculture seeking to correct market distortion and failure or to generate additionality of its financing, i. e. financing that increases access to finance for the agricultural sector in Africa where otherwise it would not have been available (financial additionality) and leverages development impact that otherwise would not have occurred (development additionality) (OECD definition). Financial flows channeled by the Fund support private sector development, thereby improving local capacity and skills development at the local and national levels, increasing tax revenues and foreign currency inflows. By improving their S&E practices, PIs will be better positioned to generate positive impacts and manage risks, which will further allow them to access other sources of capital and maximize their positive impacts.

12. Understanding that establishing proper social and environmental management systems requires resources and skills not always presents in potential PIs, the Fund also makes use of a Technical Assistance Facility, which seeks to build the capacity required to enable PIs to contribute to the Fund's development objectives.

13. The Fund applies a sustainable finance approach, as outlined in its S&E Policy, taking into account the developmental, social and environmental impact of Partner Institutions alongside financial aspects, to foster opportunities for improved social and environmental performance as well as to avoid, minimize or mitigate adverse impacts on workers, communities and the environment.

14. Investments chosen by the Fund will directly and indirectly support households in the agricultural sector, through improved access to inputs, finance, technology, markets and skills development, as well as innovation and transformation in production practices, to contribute to the reduction of poverty and vulnerability, increased food security, incomes and resilience, and decent employment. The Theory of Change presented in Table 1, describes the Fund's approach for contributing to sustainable development and the SGDs.

### Table 1. AATIF Theory of Change

<table>
<tr><th>Imputs</th><th>Private and public investments into AATIF</th><th>Private and public grants into AATIF TA Facility</th></tr>
<tr><td>Activities</td><td>Debt, and in special circumstances equity, provided to Direct and Indirect Investee Companies along the agricultural value chain as well as Financial Institutions</td><td>(Matched) grant funding from AATIF TA Facility for core business development and inclusive business development services</td></tr>
<tr><td>Outputs</td><td>PIs use AATIF Facility for:<br>• Acquisition/building of processing, warehousing and storage facilities<br>• Direct purchase and marketing of key crops from farmers, including smallholders<br>• Supply of inputs, capital, training and essential services to farmers (inputs, farm equipment, farming technologies, sustainable practices)</td><td>PIs use AATIF Technical Assistance for:<br>• Core business development support<br>• nclusive business development support</td></tr>
<tr><td rowspan="2">Outcomes and Impact Dimensions</td><td colspan="2">All AATIF activities are contributing to a selection of the following seven impact dimensions</td></tr>
<tr><td>Primary agricultural production (SDG 2)<br>• Productivity (yield)<br>• Production<br>• Good Agricultural Practices<br>• Certification<br><br>Local Processing (SDG 8)<br>• Processing<br>• Productivity<br>• Significance of Value Addition<br>• Certification<br><br>Outreach to producers (SDG 1, 2)<br>• Outreach to smallholders<br>• Impacted individuals/female individual impacted<br>• Products/services provided<br>• Certification</td><td>Employment (SDG 8)<br>• FTE and growth<br>• Gender<br>• Terms of employment<br>• Working conditions<br><br>Trade (SDG 8, 17)<br>• Imports and exports<br>• Certification<br><br>Environment (SDG 12, 13, 14, 15)<br>• Energy, water, solid waste<br>• GHG and air emissions<br><br>Social and Environmental Management System<br>• Systematic S&E management<br>• S&E regulations<br>• Stakeholder engagement<br>• Supply chain</td></tr>
</table>

15. The Fund invests in all African countries, prioritizing, when feasible, Least Developed Countries (as defined by the United Nations). The Fund commits to not do business with parties or in business areas subject to an embargo by the United Nations or the European Union at the time of investment.

### F. Impact measurement framework

16. The Fund has developed a framework for impact measurement and monitoring, including methodology and key performance indicators (KPIs). In addition, independent qualified professionals or organizations shall conduct periodical development impact assessments of the Fund's investments. The impact studies will be made available to the public through the Fund's website.

17. Progress is measured through a three-level framework, which covers the analysis of self-reported data of PIs to rapid appraisals conducted by independent qualified consultants to long-term in-depth impact evaluations with (quasi-) experimental design.

### G. Current key reporting requirements

18. The current key reporting requirements for development impact of the Fund are harmonized with the requirements of shareholders and are collected on the level of the Fund and the level of Investments (direct and indirect through FI/IIC) (see Table 3).

**Table 2. Impact measurement framework**

| Method | Description | Scope |
|---|---|---|
| Monitoring/ reporting of investments | Standardized set of indicators (self-reported) that can be aggregated on the Fund level | All investments<br>Annual submission |
| Rapid appraisal | Quick data collection method, including both quantitative and qualitative data.<br><br>When smallholder farmers involved, a light version of control group assessment is applied. | All investments<br><br>For DIC/IICs: baseline and ex-post appraisals.<br><br>For FI investments: only ex-post analysis<br><br>For short-term (under 8 months) investments: one rapid appraisal (ex-post analysis)<br><br>For renewed short-term investments: previous ex-post analysis becomes the baseline for the renewed transaction. Final ex-post appraisal to be conducted at the final end of investment period |
| Extensive Impact Evaluation | Experimental or Quasi-Experimental Approach including control group assessment | Selected few investments |

**Table 3. Current key reporting requirements**

| Level | Reporting requirements |
|---|---|
| Fund | • Access to finance: Number/amount of loans and investments and new investment per year<br>• Leverage effect: Mobilization of A, B and C-share capital, diversification, leverage of private capital through public resources<br>• Profitability<br>• Investments in LDCs |
| DIC/IIC | • Production, area under cultivation and productivity<br>• Import and export volumes (within Africa/Rest of the World disaggregated)<br>• Quality employment created/maintained (gender disaggregated)<br>• Outreach to producers (gender disaggregated)<br>• Outreach to Final Beneficiaries<br>• Additional value created<br>• Added value for farmers<br>• Farm and household income increases for Final Beneficiaries<br>• Living and working conditions<br>• Increase in climate-smart and resource efficient practices and products<br>• Compliance with S&E Policy |
| FI | • Access to finance: Number/amount of loans and investments and new investments per year<br>• Repayment rate<br>• Production, area under cultivation and productivity (for large investments)<br>• Outreach to Final Beneficiaries<br>• Quality employment created/maintained (agricultural desk) (gender disaggregated)<br>• Increase in agricultural and related green finance products and services<br>• Compliance with S&E Policy |

## H. Governance structure and procedure

19. In order to ensure effective implementation of the Development Impact Statement, specific responsibilities are shared across all functions in the management of the Fund. These are described in Table 4.

20. As part of the investment screening process, the IA and SA will identify and assess investments' actual and potential development impact. If an investment appears viable and in line with the Fund's Development Impact Statement, with the approval of the IC, the IA and SA will conduct a due diligence.

### Table 4. Main responsibilities of AATIF Stakeholders

| AATIF Stakeholders | Responsibilities |
|---|---|
| Shareholders | • The founding C-Shareholder KfW shaped the Fund's original development impact thesis. By nominating Directors with sufficient development impact capacity to the level of the Fund's Board of Directors, shareholders ensure continuous supervision of the fund's development impact. |
| Board of Directors | • Consults stakeholders regarding status and improvement of the Fund's development Impact<br>• Develop, review and approve the Fund's Development Impact Statement and Impact Measurement Framework<br>• Oversee the contribution of the Fund's portfolio to the Development Impact Statement<br>• Approve extensive impact evaluations on selected investments |
| Investment Committee | • Ensure high quality of investments from a developmental perspective in accordance with the Issue Document and Development Impact Statement<br>• Monitor investment performance with regards to contributing to the Fund's development objectives |
| Investment Advisor | • Support the development and revision of the Fund's Development Impact Statement<br>• Identify, structure and assess development impact potential of investments to ensure alignment with the Development Impact Statement<br>• Support the development of TA measures that aim at increasing the development impact of investments<br>• Monitor and report on investments' performance with regards to development objectives |
| Sustainability Advisor | • Support the development and revision of the Fund's Development Impact Statement and Impact Measurement Framework<br>• Provide an opinion to the IA and the IC whether a proposed investment is aligned with the Fund's Development Impact Statement<br>• Support the development of TA measures that aim at increasing the development impact of investments<br>• Technically lead implementation of Impact Measurement Framework<br>• Monitor and report on investments' impact with regards to development objectives and regularly compare against development impact potential<br>• Identify investments that could be eligible for extensive impact evaluations |
| Technical Assistance Facility Manager | • Support investments to realize their development potential (core TAF mandate)<br>• Develop, monitor and report on TA measures to support the implementation of Development Impact Statement<br>• Under the technical responsibility of the SA, prepare and administer TA measures to support the implementation of the Impact Measurement Framework |
| Technical Assistance Facility Committee | • Monitor the work and performance of the TA Facility Manager with regards to contributing to the Fund's development objectives |

21. The SA shall provide an opinion to the IA and the IC on the potential developmental contribution of a proposed investment, including requirements and recommendations to ensure positive development impact. The IC will consider the alignment of an investment to the Development Impact Statement as part of its decision-making process.

22. If approved by the IC, the IA team will require the potential PI to address any gaps and risks as well as to report on impact, in line with the Fund's Development Impact Statement including the Impact Measurement Framework, in the Facility Agreement.

23. The TA Facility Manager will coordinate with the IA, the SA and the PI in order to implement the Fund's Development Impact Statement and to identify aspects where technical assistance is needed to ensure or facilitate positive development impact.

24. The IA, TA Facility Manager and SA will report to the BOD on the process and outcomes with regards to the implementation of the Development Impact Statement.