



Annual Impact Report 2021



Meeting the working capital needs of Africa's agricultural enterprises



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About Lending for African Farming

LAFCo's primary focus is on enterprises that advance local and regional food security

Who we are



The vision of LAFCo is to stimulate inclusive economic growth in the African agriculture sector by connecting smallholder farmers to formal markets and thereby reducing poverty and enhancing food security in rural poor areas. Our investments range between USD 500,000 and USD 3 million targeting agro-dealers or input providers, processors, traders, and exporters.

With Barak as the investment manager, LAFCo aims to be a leading alternative provider of working capital for agricultural SMEs. The innovative blend of public and private capital will allow LAFCo to support the market sector not served by commercial banks or other financial institutions. Whereas banks focus entirely on (often lacking) security, LAFCo, with its blend of private and public capital, rather relies on cash flows and robust financing structures.

Letter from the Board

We are pleased to present LAFCo's 2021 Impact Report. Creating social and economic impact is at the heart of the LAFCo fund and as such measuring and reporting on impact is central to the governance of the fund. The Board is pleased to be able to share this in an open and transparent spirit with its shareholders.

Needless to say, 2021 was a difficult if not dramatic year for many, from businesses seeking to operate in the Covid-19 pandemic environment, to individuals affected by family, friends and relatives becoming ill or dying, and by pandemic-induced job losses and consequent loss of income. It reminds us of the crucial role played by impact-first finance from long-term investors such as KfW and AgDevCo, LAFCo's shareholders.

In 2021 LAFCo supported eleven companies in seven countries, disbursing USD 20 million and making three new investments. We reached approximately 73,000 smallholder farmers who either sold their produce to the agri-SMEs financed by LAFCo or purchased agri-inputs from them. Traditionally, agri trade finance in Africa is targeted at export crops such as cocoa, coffee and cashews. LAFCo participates in these sectors but has as much a focus on regional food security. Consequently, we were pleased to be able to finance a new borrower in Zambia enabling the client to launch a new animal feed supplement specifically for smallholder farmers. This is in addition to the existing financing of a Rwandan maize miller, producing flour, grits and related products for animal feed and human consumption.

LAFCo is fortunate to be able to finance both local and hard currency loan facilities. Local currency debt is hedged through an innovative financing mechanism, backed by KfW's technical assistance funding. We expect to re-deploy this facility in 2022, enabling us to create greater local and regional impact and more additionality, compared to many other lenders, who are restricted to hard currency facilities.

We welcome enquiries from prospective new investors with an interest in impact-first lending and a long-term commitment to making a difference in Africa.

An initiative by:



Investment Manager Address

Barak Fund Management Limited

It is a pleasure to present the LAFCo Annual Impact Report for 2021, which provides an overview of our strategy and impact achieved over the last year.

When Barak was assigned the mandate to manage LAFCo in 2019, we applied our experience and expertise as leading trade financiers in Africa in recognising and managing the risks associated with investments in agri-SMEs in Africa. Agri-SMEs are the main drivers of employment generation and output growth across the globe¹. Despite their critical role, agri-SMEs continue to face challenges with regards to access to finance, largely due to the perception from conventional banks that such enterprises are not creditworthy.

Beyond the provision of catalytic capital, LAFCo seeks to support smallholder farmers by providing reliable access to markets, fair prices, technical assistance, and agricultural input provision where possible. To do this, we invest in sustainable, responsible companies that are committed to building relationships with their supplier networks and uplifting rural communities.

As LAFCo is an impact investment fund, we are committed to ensuring our impact strategy and management systems align with international best practices. A noteworthy step in this regard took place in February 2021, when LAFCo became the 112th signatory to the Operating Principles for Impact Management. We completed our first disclosure statement at the beginning of 2022 and underwent independent verification in May 2022².

Industry Partners:



¹ILO. 2019. The Power of Small: Unlocking the Potential of SMEs.
²<https://www.lendingforafricanfarming.com/>



2021 Year in Review

The ongoing challenges and effects of Covid-19 serve as a reminder that global social and economic systems remain vulnerable, with devastating consequences for people, communities, and businesses. LAFCo's ability to provide flexible lines of credit to its borrowers enabled us to ride out the worst of the pandemic and take the necessary steps to create resilient and sustainable agribusinesses.

The Covid-19 pandemic slowed the impact created by LAFCo as our growth and expansion was slower than anticipated. The shift from on-the-ground site visits to desktop due-diligence slowed our pipeline implementation process. Despite the challenges faced, the average fund utilization over 2021 was higher than the previous year, meaning impact has started to increase.

In 2021, two new investments and one additional Barak co-funded deal were added to the LAFCo portfolio. LAFCo provided financing to a company in the animal feed industry that trades in 20 African countries, facilitating the production of affordable, safe, high-quality animal protein. The second new investment is an early-stage Macadamia nut exporter in Kenya that processes all its products locally and is focused on growing its smallholder farmer network.

By the close of the 2021 calendar year, we had **USD 19.5 million assets under management**, with active disbursements of **USD 12.9 million** into **10 agricultural businesses**.

Our regional investment distribution as of December 2021 is:



● Target countries
📍 Countries with active investments

LAFCo's Impact

Since its inception in 2015, LAFCo has focussed on providing access to finance and supporting agricultural businesses to grow, create jobs, produce food, and link farmers to markets.

Perceptions of high risks and low returns have led to a shortfall in debt available to agri-SMEs in Africa. These businesses play an important role in many African economies and often fall into the “missing middle” in terms of access to capital. Financial inclusion is a critical element to achieving the UN Sustainable Development Goals (SDGs), directly contributing to SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation, and Infrastructure). LAFCo addresses this challenge by targeting agri-SMEs that are not able to access other financing as well as eliminating the need for stringent security requirements, cumbersome and lengthy loan approval documents, and disbursement processes.

LAFCo's vision is to achieve food security and create income through African agriculture. Despite making significant progress, Africa is not on track to meet the SDG 2 (Zero Hunger) targets by 2030 to end hunger and ensure access by all people to safe, nutritious, and sufficient food all year round, and end all forms of malnutrition³. Covid-19 lockdowns prevented the harvesting of crops and reduced incomes, making food less available and affordable. Further, adverse weather conditions, combined with sub-optimal crop production, macroeconomic challenges, and external supply shocks, are anticipated to drive record-breaking levels of extreme food insecurity, with millions of households already facing persistent malnutrition⁴. LAFCo provides short term loans to agri-SMEs that work directly with smallholder farmers to grow and source higher volumes of product from farmers. This in turn creates income generation opportunities for smallholder farmers and actors across the value chain.

LAFCo targets positive social impact across two main impact themes:



³Africa UN Data for Development Platform. Africa Snapshot 2020.
⁴Min, Y. 2021. How COVID-19 has impacted the SDGs in Africa. Africa Renewal.

Theory of Change



LAFCo developed a Theory of Change (ToC) to model how our provision of funding and the implementation of our investment strategy aims to promote sustainable agri-SMEs, enhance smallholder incomes, and ultimately contribute towards a positive impact on African food security.

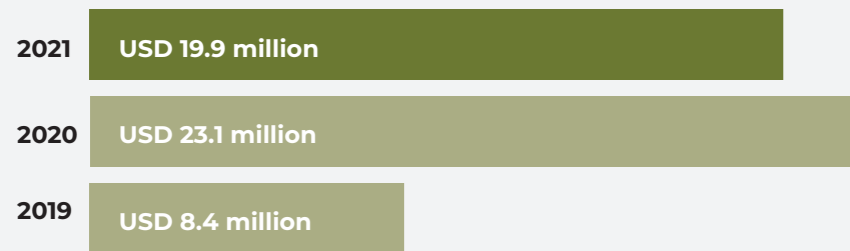


Portfolio Overview

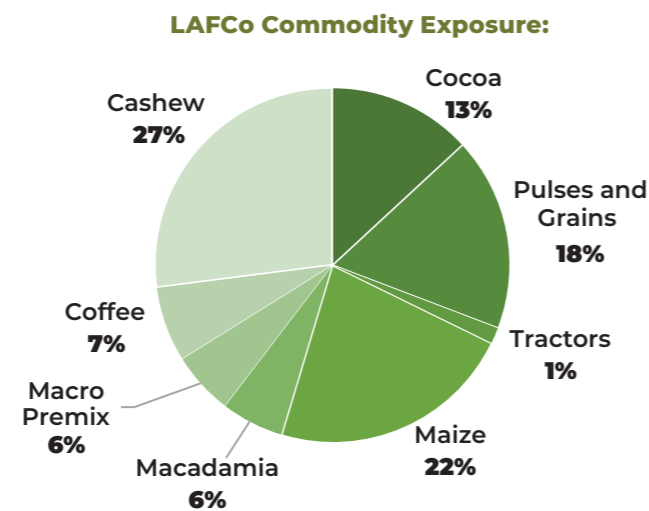
Country	Commodity	Facility Limit (USD)	Fund Balance (USD)
Ghana	Cocoa	3 000 000	1 690 336
Kenya	Macadamia	3 000 000	738 536
Nigeria	Cocoa	3 000 000	435 741
Rwanda	Maize	2 000 000	304 677
Tanzania	Pulses & Nuts	2 000 000	2 277 525
Tanzania	Tractors	2 000 000	187 069
Tanzania	Cashews	3 000 000	3 047 000
Togo	Coffee & Cocoa	1 000 000	883 881
Zambia	Grain	4 000 000	2 595 412
Zambia	Animal feed	1 000 000	740 020

*as at 31 December 2021

In 2021, LAFCo disbursed USD 19.9 million:



Gross investment to date:
USD 51.4 million



Direct food security investments that we saw in the 2021 portfolio include the following:

We made our first investment in the poultry and livestock production sector, supporting Urban Farmer company based throughout sub-Saharan Africa. By making the products and technologies of the world's leading nutrition and health companies accessible to small-scale subsistence farmers, Urban Farmer provides opportunities for surplus production and participation in the value chain. Through existing commercial customers, mills and farms, Urban Farmer reaches more than one million small-scale farmers and addresses the challenge of food "adequacy" across Africa by facilitating the production of high-quality animal protein.

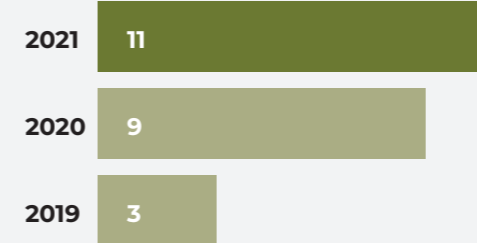
The LAFCo funding line enabled Urban Farmer to launch a new, smallholder-specific product, U-Mix, in Zambia in November 2021. The U-Mix solution is an animal feed supplement that gives smallholders access to the latest nutritional technologies and allows farmers to utilize their own maize to produce their own feed. In 2022, Urban Farmer intends to launch the small-scale farmer solution in Kenya and Uganda, using its subsidiaries as wholesalers in the markets and distributing the product through agro-vets.



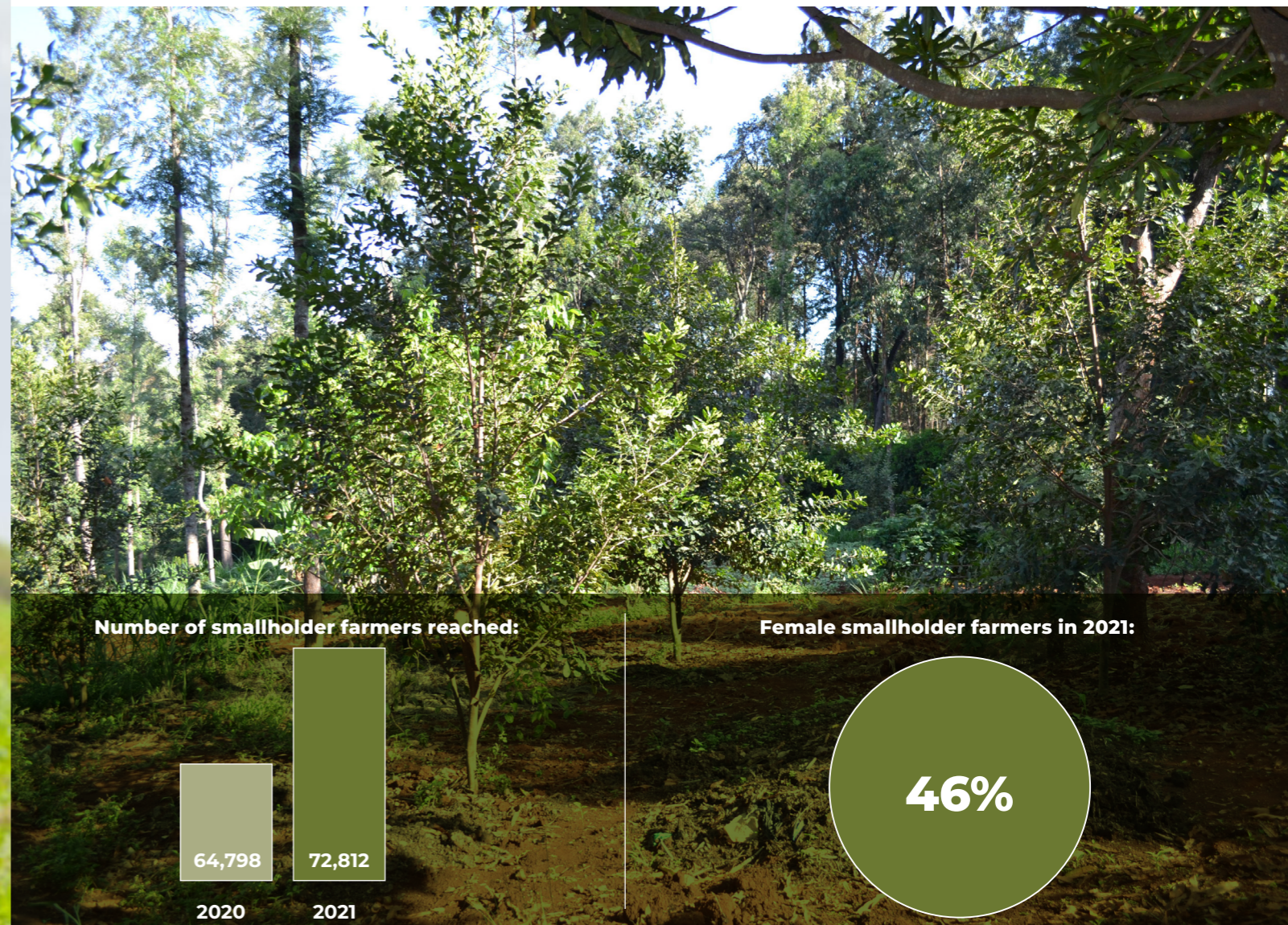
LAFCo funds the largest and most technologically advanced mill in Rwanda with a capacity of over 40,000 tonnes of maize per annum. It produces high-quality maize flour, grits and bran which are sold in the East Africa region. Established in 2006, Minimex has gained a central position in the food value chain in Rwanda as one of the larger buyers of local maize and as largest provider of quality maize flour in the country.

The loan is primarily utilised to increase the volume of maize purchased, effectively enhancing the processing capacity, production, and revenue of the Borrower. By increasing production capacity, more smallholder farmers are supported through input purchasing. Additional fortified maize products are produced for local consumption, which positively contributes to improved food security.

In 2021, LAFCo supported 11 SMEs:



Number of transactions:



Number of smallholder farmers reached:



Female smallholder farmers in 2021:

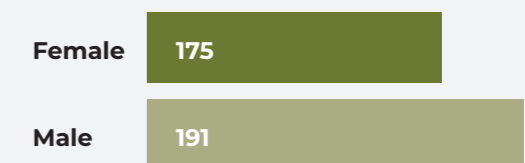


Total jobs supported in 2021

Number of full-time jobs: 273



Number of seasonal jobs: 366





The economic downturn associated with Covid-19 containment measures has led to lower incomes while food prices, as measured by the FAO Food Price Index, has been rising since June 2020. Falling incomes and rising prices may not necessarily lower the intake of overall calories, but they may force households to switch to lower cost, less nutritious food, thus lowering the quality of the diet. In addition, households reduce spending on health and education.

Examples of 2021 portfolio companies that increased incomes through market access include the following:

- In 2021, we made our first investment in the macadamia sector in Kenya, helping build an early-stage macadamia processor and exporter into a company (Macskén) that can compete globally with large established players such as Australia and South Africa. In 2021, Macskén bought approximately 1,950 metric tons of wet nut in shell macadamias from aggregators, compared to 1,106 metric tons the previous year. Due to the increase in volumes, Macskén has exceeded the capacity at the current processor and engaged an additional macadamia nut processor to dry a portion of their nuts, contributing to further employment in the region. Macskén's goal is to ultimately build its own processing facility.
- LAFCo has been funding Atlas, a licensed cocoa buying company (LBC) in Ghana since January 2020. The industry is tightly regulated by the Ghana Cocoa Board (COCCOBOD), and LBCs compete to carve a share of the existing supply of cocoa by awarding incentives to smallholder farmers in exchange for their cocoa. 75% of Atlas farmers' household income comes from cocoa, suggesting that Atlas' ability to consistently purchase cocoa is critical for farmer livelihoods.

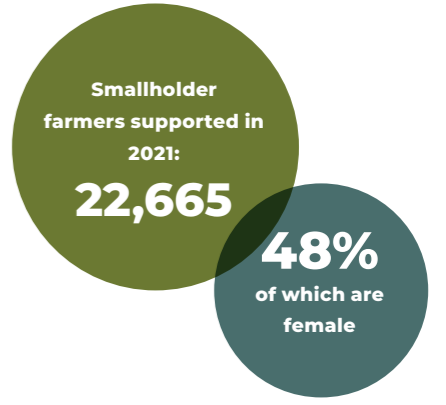


Deep Dive Case Study:

Elements and 60DB

Our portfolio company in Tanzania, Elements, sources, processes, trades, and distributes the most important agricultural commodities including grains, pulses, oilseeds, and nuts. In 2021, 60-Decibels conducted a deep-dive impact survey on Elements and their farmer suppliers. The study found that, Elements, through local buying agents, has improved farming practices among farmers, resulting in increased production which in turn contributed to increased sales.

Almost all farmers reported an increase in their production and about half of the farmers saw an increase in crop production planted on the same land, suggesting an increase in productivity.



Who are Elements' suppliers?	Average household size: 5 – 6 persons	Of land was cultivated with crops sold to the local buying agents: 89%
Average age (yrs.): 46	Average female farmers: 39%	Average acres of land cultivated in the last year: 7

The majority of the farmers produce maize and intercrop with cash crops for additional income. The 60 Decibels report corroborated this, showing that farmer revenues increased since supplying Elements. For 77% of Elements farmers, more than half of their household income is from selling their produce. The 60-Decibels results suggest that farmers' improved market access and ability to sell their harvest is translating to improved revenue for farmers. Further, farmers' overall quality of life improved, as farmers were able to better afford household expenses, buy/invest in assets and save. Importantly, this impact seems to deepen over time.

"The production has increased because we cultivate in a new modern way despite the challenges, but this would be worse if we did not have agencies to deal with."
– Female farmer, 37

"For now, I don't have to worry about home expenses as they are easily settled from selling my produce and I can now manage some savings for the future."
– Male farmer, 45

In Conclusion

Throughout the first half of 2022, we have seen the lifting of Covid-19 constraints, pent-up demand and supply shocks leading to a broad-based increase in commodity prices. High fuel prices continue to drive up transportation costs, contributing to rising inflation and a higher overall cost of living.

Food prices are linked to global markets, and the ongoing war in Ukraine is adding to pre-existing pressures, resulting in further price shocks, and raising food insecurity in Africa. Russia and Ukraine are the top world exporters of food staples, and with the main maize exporters of the East Africa region having lower surpluses, this will create knock-on effects in highly vulnerable areas.

Extensive and persistent droughts across East Africa have been devastating to herds, crops, and livelihoods. Elevated risks of a fifth below-average rainy season in October-November-December are anticipated to produce a consecutive poor harvest, rapidly intensifying the threat of starvation of millions of people in the region.

Access to finance for agri-SMEs is becoming increasingly important as farmers face global supply chain issues, regional climate change related events, and are under pressure to ensure that the growing population in Africa has access to nutritious and affordable food. We remain committed and in 2022 we continue to ensure that LAFCo's strategy of building resilience in agricultural markets by providing financial support for agribusinesses that source from smallholder farmers and promote sustainable supply chains is realized.



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