LAFCo | Lending for African Farming

Annual Impact Report

2020

About Lending for African Farming

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

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Letter from KfW Development Bank

KfW Development Bank has been at the forefront of assisting the German Federal Government in achieving its development policy and international development cooperation goals for more than 50 years. On behalf of the German Federal Government, we have financed and supported numerous and varied programmes and projects in developing and emerging economies in Africa, Asia, Latin America, and South-East Europe. Our goal is to help our partner countries fight poverty, maintain peace, protect both the environment and the climate, and foster globalisation in a collaborative manner, through understanding the needs of those to whom we provide funding.

Africa harbours great potential: abundant resources, cultural diversity, entrepreneurial spirit and capacity for innovation. The continent will have the largest labour supply in the world by 2035, which also means that the continent will have the largest requirement for jobs and opportunities for gainful employment. The global markets, employees, employers, and customers of the future are emerging here.

Realizing the potential of this rapidly growing population poses an enormous challenge. A lack of economic prospects, poor access to education, unemployment, and lack of essential services such as water and electricity are some of the many obstacles facing Africa. These challenges for an otherwise potentially prosperous continent necessitate an appropriate and rapid response.

KfW, through its association with LAFCo, believes that the provision of finance to agricultural SMEs ensures a significant, positive impact on Africa. The essential significance of the SME sector for growth, employment, productivity, and innovation in Africa is well-recognised. SMEs contribute to over 60% of newly created jobs in developing countries and emerging economies.

One of LAFCo's objectives is to directly impact increased employment. In the fragile economic environment, we are currently experiencing due to the COVID-19 pandemic and associated lockdowns, employment is crucial in maintaining incomes to support families and reduce dependence on humanitarian aid, thereby liberating countries from imposed financial burdens that end up negatively affecting all citizens in indebted nations. Employment simultaneously fosters entrepreneurship, reducing inequality and poverty.

Millions of jobs need to be created to provide employment and income for Africa's growing population. Sustainable growth of the agriculture sector is of fundamental importance for the creation of additional jobs across all sectors of the economy. Moreover, it is an integral part of ensuring that food security can facilitate broader developmental goals.

This 2020 Impact Report highlights the important role that LAFCo plays in meeting the working capital needs of Africa's agricultural enterprises, and the social and economic impacts it generates for SMEs and smallholder farmers.

"Who we are – KfW"

KfW, founded in 1948, supports economic and social development, as well as environmental protection worldwide. Internationally, it acts as the German Federal Government's Development Bank and provides commercial support on project and export finance. The shareholders of KfW are the German Federal Government and the federal states. KfW has been active in development finance for more than four decades and supports more than 1,800 development programmes and projects in more than 100 countries, promoting social and economic development worldwide. It can therefore offer its development partners not only financial assistance, but also the required technical expertise to successfully achieve developmental impacts.

Letter from AgDevCo Limited

Small and medium enterprises (SMEs) are the backbone of most African economies, in particular in the agriculture sector. They are on the front line of efforts to maintain jobs and food security in the face of the Covid-19 pandemic.

In the best of times, investing in agri-SMEs involves high risks and relatively modest financial returns which deters commercial lenders, resulting in a large financing gap.

LAFCo is a specialist working capital vehicle with a mandate to support high impact agri-SMEs which promote jobs and food security. By meeting the seasonal working capital needs of small and growing companies in the agriculture sector, LAFCo complements AgDevCo's direct investments which are primarily in the form of long-term debt and equity.

Despite the challenges of the Covid-19 pandemic, LAFCo made good strides in 2020. The working capital facility scaled up its operations and invested three times more compared to the prior year. This is a commendable achievement given the difficult investment climate. It is promising to see LAFCo's impact materialising through 2,500 full time jobs, 31% of which are filled by women.

We look forward to seeing LAFCo build on these achievements going forwards.

Chris Isaac
CIO
AgDevCo Limited

"Who we are – AgDevCo"

AgDevCo is a specialist investor in African agriculture. We invest to grow sustainable and impactful agribusiness but provide so much more than just capital; we are long-term partners for growth and impact. Our vision is a thriving commercial agriculture sector which benefits both people and planet. We contribute to this by investing in and supporting agribusinesses to grow, create jobs, produce and process food and link farmers to markets. We reinvest our capital to reach higher impact which ensures efficiency and change at scale. AgDevCo is part of the solution to climate change in Africa. We support our partners to work towards climate sustainability, and where possible, regenerative solutions. AgDevCo's current portfolio has $149m of committed funds into 46 companies. To date, AgDevCo's investments and technical assistance (current and exited investments) have engaged 750,000 (34% women) small-scale farmers and created or sustained 15,600 jobs (23% women).

Letter from the Investment Manager

In decades to come, the world will look back on the past year as one of the most pivotal periods in human history. The catastrophic disruption of life as we knew it will forever change the course of humankind at a time when perhaps it was most critical.

While the long-term effects could be positive – international collaboration, scientifically focused policy, relaxed and remote working conditions, environmental focus and global public health, amongst others - many organisations, including Barak Fund Management Limited ("Barak"), continue to face large hurdles with new COVID-19 waves and strains posing yet further challenges to the global socio-economic landscape.

Lockdowns are devastating economies around the world with disproportionate damage done to smaller entities and little certainty that these will be over in the near-term.

The macro-economic impact of COVID-19 and lockdowns has been particularly acute in Africa, where reliance on export markets of primary sector products results in dependency on the developed markets, whose own mitigation strategies have focussed inwards. With little regional alternatives to support the ongoing crisis, Africa remains at the ask of the rest of the world.

Borrowing restrictions have risen dramatically on the back of foreign capital outflows and risk mitigation has been noted in many sectors through lowering of lending limits from foreign entities at the outset of the pandemic and have not yet returned to previous levels.

Commodity prices fell precipitously during the worse of the pandemic lockdowns with supply chain backlogs thereafter making proper planning and forecasting a challenge, resulting in defaults and further frustrations with capital raising.

Commodity prices have since rebounded, giving rise to inflationary pressures in some economies. This is likely to result in price protection behaviour and quotas, making a compelling case for funding businesses which contribute to food security within their respective countries.

Maintaining and, where possible and prudent, enhancing capital flows to Africa is therefore crucial during the ongoing COVID-19 pandemic as well as after the worst of its effects are behind us. Specifically, the mobilisation of private capital into profitable investments that also achieve positive and sustainable results is critical for supporting economic activity on the African continent.

Our targeted financial relief support and guidance for sustainable SMEs provides a chance to further prevent the escalation of the crisis and contribute to keeping the African economic and financial climate intact. Impact-driven SMEs are key for maintaining economic activity, sustainability, long-term economic growth and bringing in much needed external sources of funds.

Barak has continued to seek out promising SMEs with robust fundamentals throughout this period with the understanding that cash flows and liquidity are under greater pressure than they have been for many decades. Barak is acutely aware of the liquidity constraints placed on SMEs throughout the continent as a result of the pandemic. This makes our continued support ever more crucial, and there is no better definition of positive impact on our borrowers than to ensure that they continue to operate during difficult times in order to continue sustainably into the future, while servicing the needs of their stakeholders.

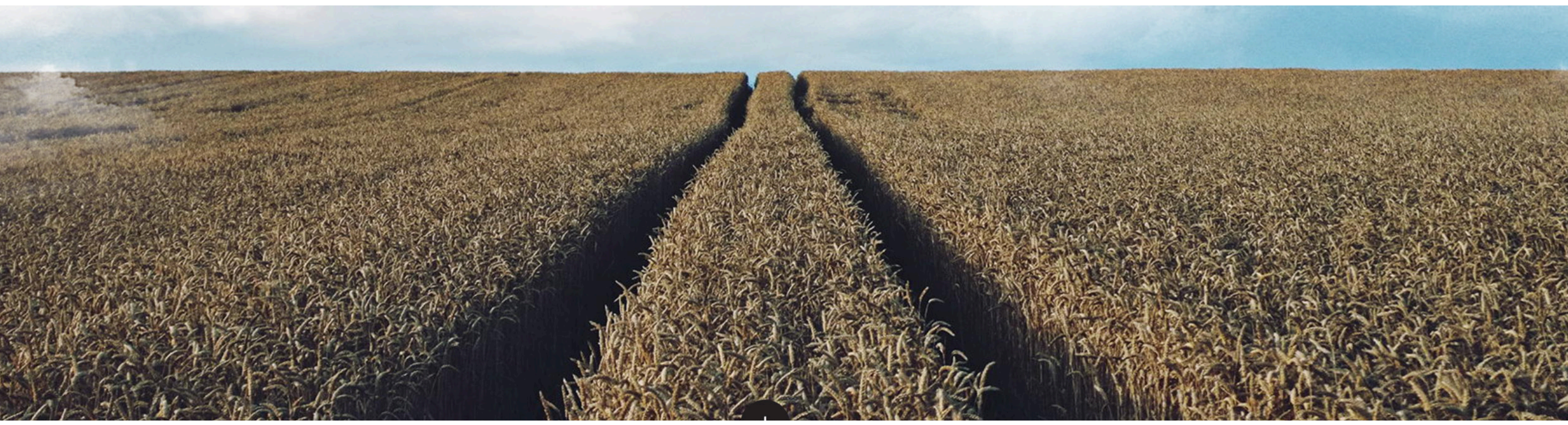
With that said, we are pleased to present LAFCo's 2020 Impact Report. We welcome you on our journey, as we continue to offer financial support to exciting and vibrant companies in Africa.

Prieur du Plessis
CIO
Barak Fund Management Limited

"Who we are – Barak"

Barak Fund Management Limited, launched in 2008, has built up a 13-year track record in African alternative credit financing to a variety of SME businesses in more than 30 countries across the continent. It provides a variety of funding structures including both Impact, Development and Shariah-compliant funding and has a total AUM in excess of USD1.3 billion.

Barak manages 8 credit funds (including LAFCo) focusing on SME commodity trade finance and infrastructure development. Barak provides fund management solutions to a range of global investors and funding to an extensive list of counterparties throughout Africa, working with direct producers and farmers, as well as traders and processors, offering a broad network across the continent.



1. Lending for African Farming Company (LAFCo)

The Lending for African Farming Company (LAFCo) is an initiative by KfW, the German Development Bank on behalf of the German Ministry of Economic Cooperation and Development (BMZ) and AgDevCo, an impact investor in African agribusinesses. In 2019, Barak Fund Management Limited won the sole mandate for LAFCo.

LAFCo provides financing facilities in the form of short term, trade loans, as well as strategic advice, to agricultural SMEs throughout sub-Saharan Africa. LAFCo aims to invest in agricultural businesses which support smallholders, creating positive social impacts while remaining commercially sustainable.

LAFCo seeks to create positive environmental, social, and economic impact for the agriculture sector in Africa, both directly and indirectly. The Company is expected to have a direct positive impact for its borrowers, which have constrained access to working capital. LAFCo will also benefit smallholder farmers by supporting access to more reliable markets and thereby reducing poverty and enhancing food security for the rural poor.

With Barak Fund Management Limited as the investment manager, LAFCo aims to be a leading 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. As the LAFCo portfolio grows, the company will continue to raise appropriate funds from public and private sources.

Since inception:

Number of transactions	91
Value of disbursements	USD 31.5 million
Average transaction value	USD 345 761
No. of SMEs financed	9
No. of countries invested in	7
No. of commodities	8

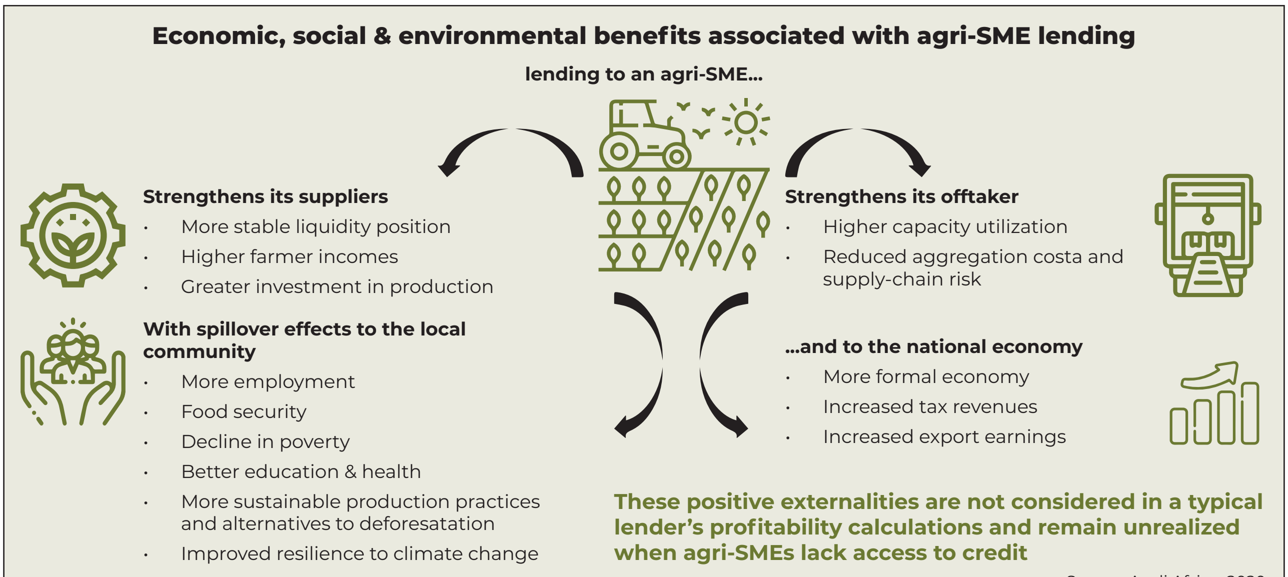
LAFCo | Lending for African Farming

2. LAFCo's Investment and Impact Strategy

2.1. Problem Statement

Urbanization has led to a rising class of African agricultural small and medium enterprises (agri-SMEs) that reside in cities, which source from and support smallholder farmers in rural areas. . Agri-SMEs contribute towards over 60% of all food production and trade in Africa and have the potential to uplift rural farmers and low-skilled workers, particularly women and youth. However, many agri-SMEs fall into the "missing middle" - too large for microfinance but unable to access loans or more sophisticated services from commercial banks. The shortfall in debt available to agri-SMEs with annual revenue less than USD15 million a year is estimated at USD80 billion across Sub-Saharan Africa. [1]

Perceptions of high risks and low returns have led to low investments in African agriculture. According to a recent report by Aceli Africa, risk in agricultural-SME lending in Africa is twice as high as other sectors while returns are 4-5% lower. To cover their costs and earn a margin, lenders would need to double their interest rates for smaller loans, reaching 20-40%. These rates are prohibitive with the meagre cash flows from agricultural and food production, and as a result, agri-SMEs are frequently forced to forgo financing and scale back growth plans. This would limit the quantities sourced from farmers, as well as lower the employment opportunities associated with trade and processing. [2] The financing gap present in this sector of the African economy is concerning and a critical barrier to agri-SME growth and resilience, with spill-over effects on worker and farmer livelihoods and food security, among others.



Source: Aceli Africa. 2020.

[1] Tam and Mitchell. How Farmer-Allied Intermediaries Can Transform Africa's Food Systems. Bain & Company: 2020.

[2] Aceli Africa. Bridging the Financing Gap: Unlocking the Impact Potential of Agricultural SMEs in Africa, Summary Report. September 2020.

2.2. LAFCo as a Solution to Create Impact

LAFCo recognises that agri-SMEs play a pivotal role along the entire agricultural value chain, channelling finance and technology to farmers, however, they are often unable to access suitable funding mechanisms to ensure they play an active role in the agricultural value chain. By supporting capital constrained SMEs and connecting smallholder farmers to formal markets, LAFCo aims to promote higher and more stable incomes, improved productivity and increased food security. As such, LAFCo serves the day to day working capital needs of African agricultural businesses and farmer cooperatives, particularly those advancing food security by operating staple food crop value chains.

Our Vision:

Achieving food security and creating income through African agriculture.

Our Mission:

To build profitable and sustainable agricultural businesses that strengthen local economies, improve livelihoods and enhance food security.

To achieve our vision and mission, LAFCo focuses on the following:

Providing Credit	Social and Economic Impact	Demonstrating Viability
LAFCo provides short term loans and flexible lines of credit to enable agricultural enterprises that work 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 will generate social and economic impact for the African agricultural sector, including direct impacts on increased employment and revenue for SMEs as well as indirect impact on smallholder farmers through higher, more stable incomes, improved productivity, reliable markets and increased food security.	LAFCo aims to demonstrate the viability of agricultural finance in Africa by generating positive returns for the company and its shareholders by servicing a blend of impact and commerical debt and attracting additional finance to the sector.

LAFCo currently targets their investments in **14 African countries,** with other prospective countries lined up in other regions of Sub-Saharan Africa.

- Benin
- Burkina Faso
- The Democratic Republic of Congo
- Côte d'Ivoire
- Ghana
- Kenya
- Liberia
- Mali
- Rwanda
- Senegal
- Tanzania
- Togo
- Uganda
- Zambia

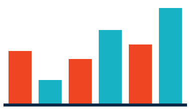
LAFCo focuses on lending to approved agricultural SMEs across the value chain that work directly with smallholder farmers which have constrained access to working capital. Borrowers include agro-dealers or input providers, processors, traders, distributors, exporters, logistics providers and other agricultural businesses.

A range of food crop value chains will be considered for financing, especially those involved in domestic and intra-Africa trade. Value chains considered by LAFCo include cereals, pulses, nuts and root crops, fruit and vegetable crops (fresh or for processing), oil seeds (for edible oil or animal feed), animal feed, dairy, poultry and other livestock.

LAFCo addresses the challenge of the "missing middle" by eliminating the need for stringent security requirements, cumbersome and lengthy loan approval documents and disbursement processes. Innovative loan structures and collateral requirements, flexible lines of credit, as well as the option of risk sharing with industry partners are forms of additionality deployed.

Targets

Number of SMEs supported



Value and volume of agricultural sales per SME

Value of loans committed to SMEs

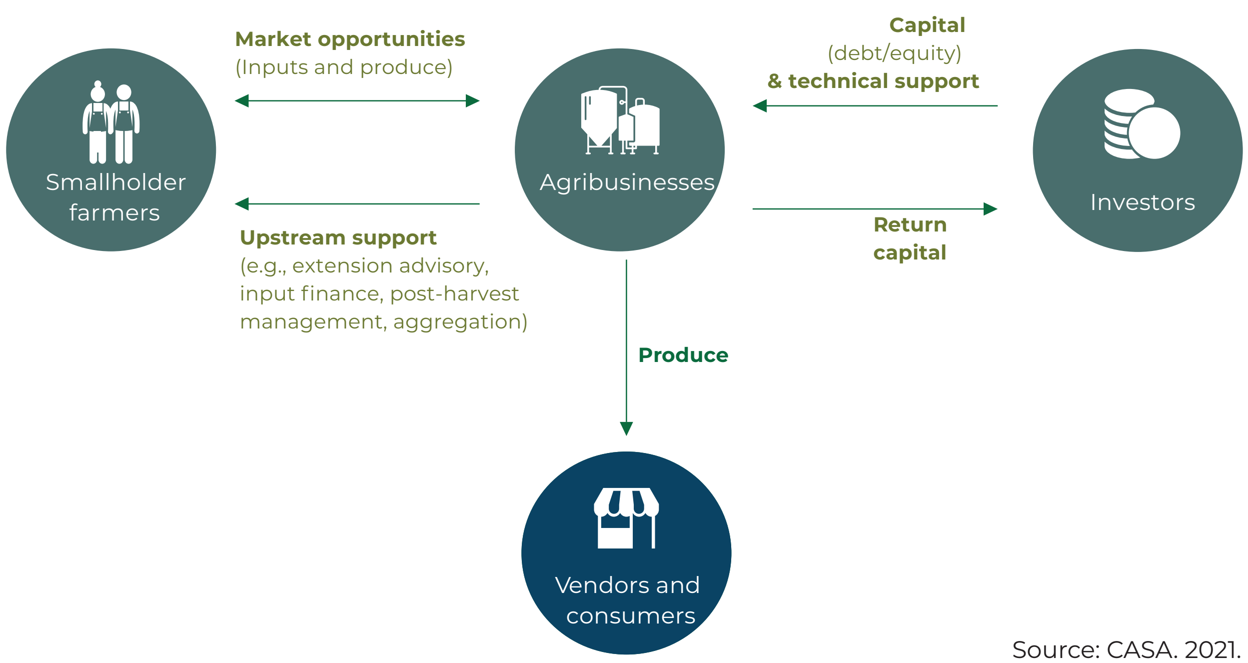
Problem	LAFCo's Solution
Agri-SME access to financing	LAFCo's targets agri-SMEs that are not able to access other financing so as not to crowd out other financiers currently in the market
Prohibitively high interest rates	LAFCo sets interest rates in line with the borrower's cash flow, gross profit margins as well as a risk analysis

LAFCo benefits smallholder farmers by connecting them to formal markets through borrowers in the portfolio and, in some cases, financing SMEs and cooperatives that effectively provide on-lending of capital to farmers for the provision of farm inputs. To combat the challenges faced by smallholder farmers, LAFCo believe that it is important to identify synergies between farmers and agribusinesses. There has to be a mutual commercial benefit, including an upside for both the buyer and supplier for a clear partnership to exist. For example, while agri-SMEs are able to provide consistent offtakes and facilitate pathways out of poverty for smallholder farmers, these farmers are a means of securing volume and mitigating other supply chain risks, including threats like disease, for agribusinesses.

Targets

- Total number of male and female smallholder farmers linked to SMEs
- Number of smallholder farmers using agricultural extension services and/or receiving improved inputs
- Value of payments to smallholder farmers

Investment in agribusinesses sourcing from smallholders



Source: CASA. 2021.

LAFCo invests in both staple crops, which can be directly linked to improved food security, as well as high-margin crops, which have a greater propensity for export and profitability. Higher-margin crops, including certain nuts, tree fruits, and cash crops can generate greater cash flow for farmers and SMEs to invest in agricultural extension services and improved agricultural inputs. These upstream investments are particularly important for the development of smallholder-sourcing agribusinesses.

2.3. Smallholder farmers as a developmental target group

LAFCo, has identified smallholder farmers as its developmental impact target group and thus focuses on SMEs that work directly with smallholder farmers. More than 60 percent of the population of sub-Saharan Africa live on small-scale farms, typically smaller than 2 hectares. Smallholder farmers produce the majority of food consumed in developing countries, but their yields are generally lagging, due to suboptimal use of inputs, insufficient adoption of most productive technologies, and limited access to affordable technology and mechanisation. Thus, unlocking their agricultural potential is key to making the agricultural sector more efficient. [3]

Smallholder agriculture

	Challenges	Causes	Solutions
Inputs and agricultural extension services	Inefficient and unsustainable farming practices	Farmers use low yielding seeds and suboptimal methods	Facilitate the provision of improved inputs and technical assistance
Markets	Limited access to markets	Farmers are located in distant rural areas	Increase SMEs demand for smallholder product

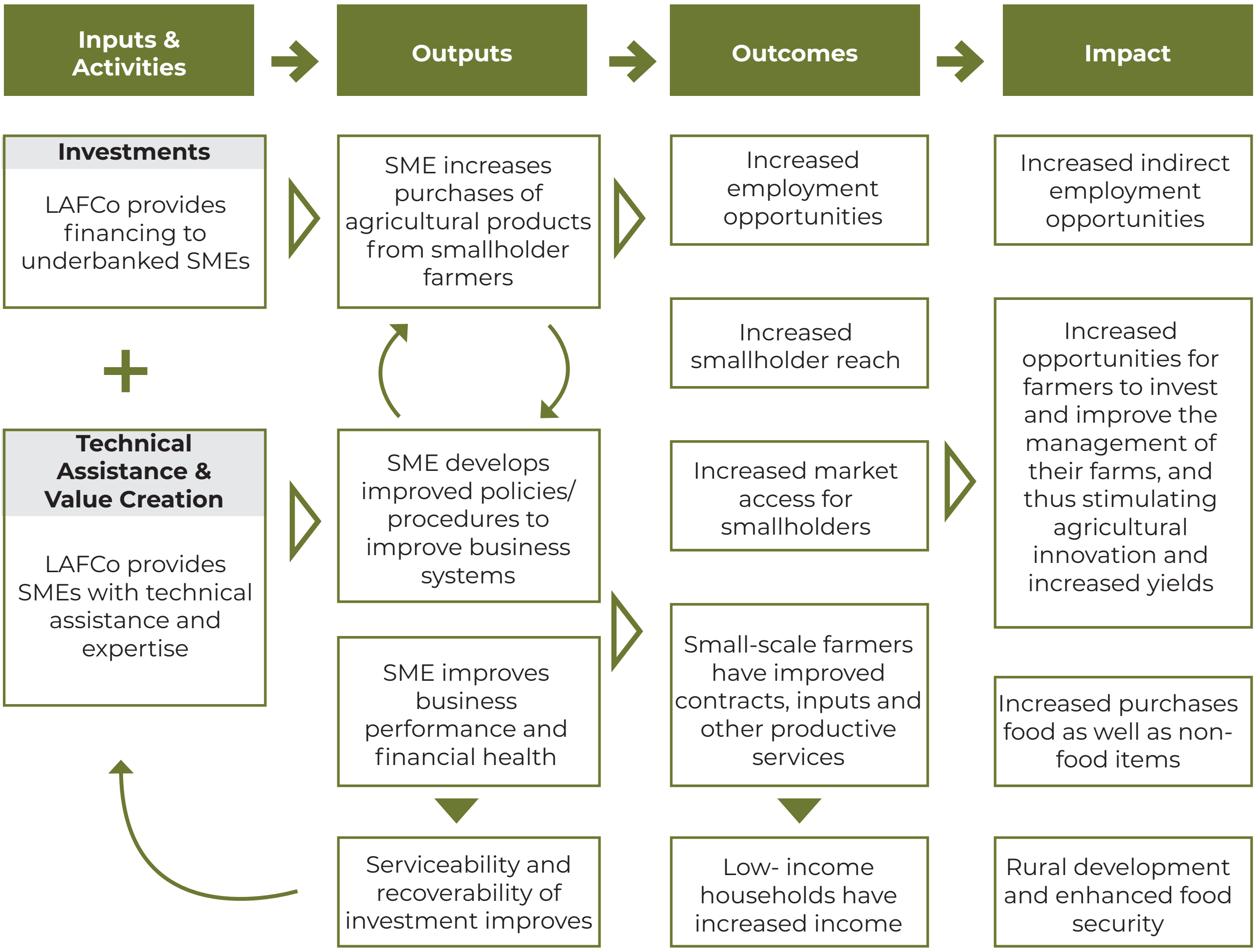
Evidence from developing countries demonstrates that smallholder agriculture is the most effective way to improve lives at the grassroots level, by generating jobs and sustainable incomes in rural areas, and uplifting communities as a whole.[4] LAFCo works to strengthen the inclusive business models of its portfolio companies so that these are able to ensure income and development gains for smallholders in line with SDG target 2, particularly relevant to 2.3 and 2.4, while remaining commercially viable.

[3] Food and Agriculture Organization of the United Nations (FAO). 2015. The economic lives of smallholder farmers: An analysis based on household data from nine countries.

[4] Weisenfeld, P. 2012. Investing in Africa's Smallholder Farmers. USAID Bureau for Food Security.

3. 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. A ToC is a tool to model how short-term changes lead to long-term impacts and provides a comprehensive picture of linkages, working backward from the desired impact and societal change to identify the necessary inputs and preconditions.



The ToC proposes, that when underserved, smallholder-sourcing SMEs purchase agricultural products from small-scale farmers, these farmers obtain access to markets they otherwise would not have been able to. In addition, when these farmers are provided with inputs, such as small loans, fertilizer, seeds, and/or technical assistance, this is likely to increase their yields, decrease post-harvest losses, and improve the incomes of farmers. The resulting impact is improved farmer livelihoods, rural community development and enhanced food security.

Inputs

The main inputs provided is technical assistance to inform strategy development, development of productive activities or interventions which contribute to a portfolio companies growth and development. For example: the investment, deployment of resources initiating the process, including time, money, physical resources, partners, knowhow, and business support provided by LAFCo and technical assistance partners capacitates the portfolio company to realise these returns.

LAFCo is able to design bespoke loans that adapt to the particular needs of the SMEs we finance and share strategic advice about ways to promote sustainable growth and build stronger networks. Technical assistance involves the provision of quality farm inputs; training on improved agricultural techniques; assistance in the pursuit of certifications such as UTZ and Fairtrade; and market facilitation.

Outputs

As a result of LAFCo's provision of capital, SMEs are able to procure additional volumes of agricultural products from smallholders. SME growth and LAFCo's strategic advice leads to the development of improved policies and procedures which culminate in improved business performance and financial health. Outputs are easily quantified; and are measured by indicators of business performance and strength of balance sheet, including EBITDA, processing capacity and sales revenue. By financing sustainable and economically sound investments, LAFCo allows for a revolving use of its loans.

Outcomes

Outcomes are the intended impacts experienced by the organisation. Increased volumes of agricultural purchases and improved business performance drives increased smallholder sourcing and support, as well as increased employment opportunities (full time and seasonal). As SMEs become more efficient, their margins increase, enabling them to increase upstream support, including input provision and training. Upstream support and more hands-on technical assistance results in higher yields and lower rejection rates for farmers, ultimately increasing their incomes.

Impacts

Impacts relate to the changes experienced at a community or societal level. Increased personal income for workers and farmers lead to the ultimate goal of sustainable rural economic growth, increased purchasing power, and enhanced food security. Higher incomes provide farm households with diversification and re-investment opportunities, and the ability to avoid the hunger season.

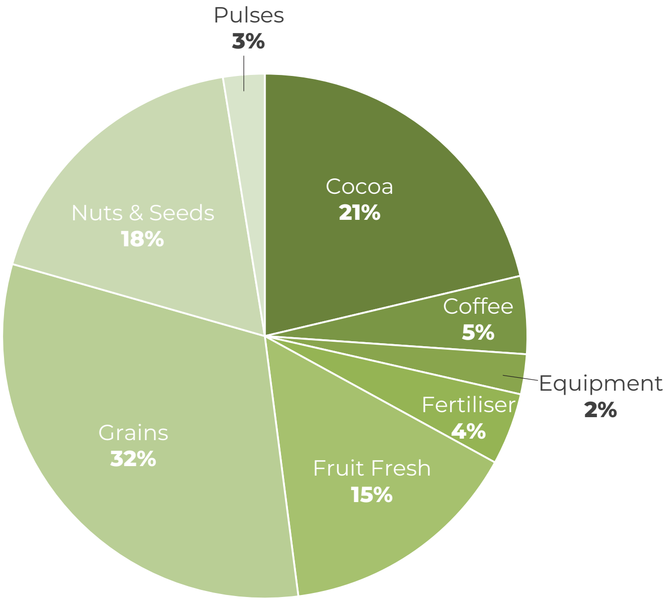
4. LAFCo Portfolio Companies

LAFCo is invested in nine portfolio companies across sub-Saharan Africa:

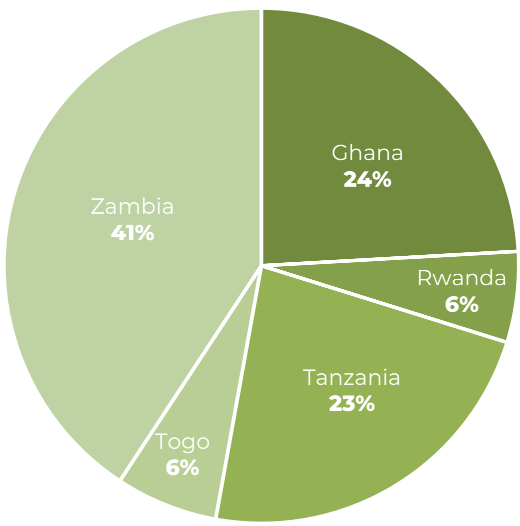
Commodity	Country	Facility size	Investment type
Fertilizer	Ghana	$3,000,000	Working capital
Cocoa	Ghana	$3,000,000	Revolving working capital
Cashew*	Nigeria	$3,000,000	Revolving working capital
Cashew*	Tanzania	$3,000,000	Export finance facility
Nuts & seeds	Tanzania	$2,000,000	Revolving working capital
Agricultural equipment	Tanzania	$2,000,000	Amortizing term note
Cashew*	Côte d'Ivoire	$3,000,000	Revolving working capital
Maize/flour	Rwanda	$2,000,000	Warehouse financing
Fresh fruit	Zambia	$3,000,000	Receivables discounting
Grains	Zambia	$4,000,000	Warehouse financing & receivables discounting
Coffee & cocoa	Togo	$3,000,000	Revolving working capital

* Portfolio company in the cashew sector operates in multiple jurisdictions (Nigeria, Tanzania, Côte d'Ivoire)

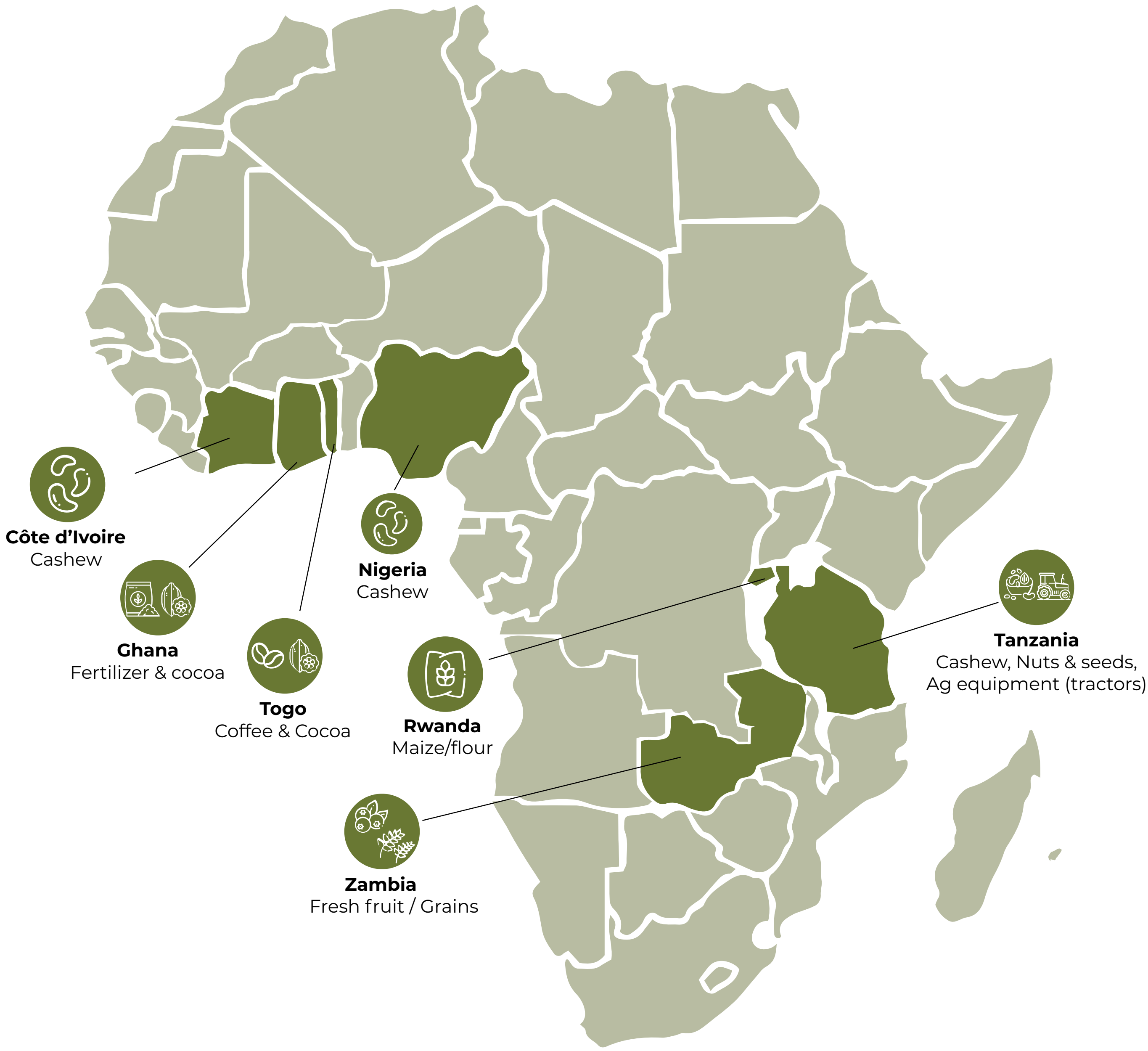
LAFCo: Sector allocation



LAFCo: Country allocation



LAFCo: Sector allocation



5. LAFCo Overview

Amount invested

2020	USD 23.1 million
2019	USD 8.4 million

Gross investment to date: USD 31.4 million

Number of transactions

2020	78
2019	13

SMEs supported

2020	9
2019	3

Total jobs supported

Number of full-time jobs created & sustained: 2,543

Male	1,746
Female	797

Number of seasonal jobs created & sustained: 8,309

Male	2,140
Female	6,169

Number of smallholder farmers reached:

64,798

Female smallholder farmers:

33%

6. LAFCo's Impact Defined

6.1. Fine Grain Producer

Rwanda

Investment type:	Warehouse financing
Initial investment year:	August 2019
Cumulative investment:	USD 884,451.08
No. of transactions:	4
Female Smallholders Supported	6 956
Smallholders Supported	22 438

Maize is a staple crop essential to food security in many sub-Saharan African countries, including Rwanda. Due to Crop Intensification Programmes (CIP) initiated in 2007 and more recently supported by the Government of Rwanda's Economic Development and Poverty Reduction Strategy (DPRS) and Vision 2020, it is estimated that more than 65% of Rwandan farmers grow maize for household consumption and commercial sale to traders and millers.[5] However, despite efforts to grow the maize industry and develop the value chain, smallholder maize farmers struggle to achieve consistent quality and quantity of maize. The need to support smallholder farmers has been taken on by the borrower who serves as a vital role-player in the value chain by aggregating supply from smallholder farmers, cooperatives and traders, ensuring the production of high-quality, fortified grain products (including maize flour, grits and bran) for consumers.

The loan provided by LAFCo is primarily utilised to increase the volume of maize purchased, effectively enhancing 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. By increasing the volumes of raw materials (grain), the borrower has a positive impact in terms of poverty reduction, improved food and nutrition security, reduced inequalities and improved standards of living.
In 2020 it was estimated that the borrower purchased maize from 22 438 smallholder farmers, of which 6 956 were women. Minimex pays 5-7% premium price compared to the market price to ensure supply. With increased income, smallholder farmers are able to afford better quality production inputs, improve their farming methods, or consider increasing their production area though the purchase of additional land or the use of more available land to produce crops.

[5] Batirbaev, P., et al. 2013. Maize in Rwanda: A Value Chain Analysis.

In addition to smallholder support and the production of affordable, nutritious food products, the borrower has been involved in a joint venture since that has developed one of the first large-scale modern maize farming enterprises in Rwanda. This farm has enabled the borrower to secure a significant quantity of consistent quality maize, which has previously been a key challenge for the operation. The farming enterprise has also had a positive impact on the area as it has increased maize productivity from 1.2 tons to 10 tons per hectare, created 120 new jobs, and supports the community through outgrower engagements, agricultural support and advice.

6.2. Agricultural Equipment Supplier

Tanzania

Investment type:	Amortizing term note
Initial investment year:	February 2020
Cumulative investment:	USD 630,084.07
No. of transactions:	12
Female Smallholders Supported	2
Smallholders Supported	24

Agriculture remains a cornerstone of the Tanzanian economy, providing 31% to GDP and contributing 24.9% of annual export earnings. The majority of Tanzania's work force engage in farming, both in rural and urban areas. Furthermore, small family farmers dominate the agricultural sector. Despite the government's efforts, ongoing agricultural growth in the country, and relative changes in factor prices, the majority of farmers face several key challenges such as the reliance on traditional farming methods, unskilled labour, and poor technology. However, the use of modern farming technology and increased rates of mechanisation have the potential to improve land productivity, increase access to raw materials to feed the industrial demand, and support the agenda to eliminate malnutrition and hunger in Africa by 2025.[6]

[6] Food and Agriculture Organization of the United Nations (FAO), 2018, Country factsheet on small family farms: Tanzania.

Although crop production has increased in the last 10 years, this has been due mostly to an increase in land under cultivation, rather than significant productivity increases. Farmers in Tanzania are still toiling in fields with the hand hoe and have little to show for months of back breaking work. Mechanization of the agricultural sector has been supported by the investee company, particularly through the provision of tractors which has the potential to increase productivity as well as the output of higher value products, which culminate to improved livelihoods for smallholder farmers.[7] Tractors ensure farmers can operate more efficiently, plant larger areas which increases revenues, and making use of modern farming techniques supported by tractors, farmers can also improve their yields in terms of quality and quantity. [8] As such, the ability of the portfolio company to supply and support mechanisation in Tanzania triggered LAFCo to invest in the company which sells tractors to farmers which is supporting increased agricultural productivity in Tanzania. The company aims to reduce the cost of agricultural development in Tanzania by providing quality tractors, backed by a skilled maintenance team with availability of spare parts.

Few smallholders in Tanzania are in a position to consider the outright purchase of tractors, thus LAFCo's portfolio company offers a tractor leasing solution to provide smallholders the opportunity to finance tractors as a more efficient, financially viable option. Tractor leasing provides a solution to a number of restraints on mechanisation in Tanzania, including: deployment of appropriate tractors, machines and implements; assistance with repair and maintenance; provision of spare parts and trained operators.

6.3. Cashew Trader

Nigeria, Tanzania, Côte d'Ivoire

Investment type:	Export finance facility
Initial investment year:	June 2019
Cumulative investment:	USD 8,018,617.22
No. of transactions:	17
Female Smallholders Supported	247
Smallholders Supported	994

8 DECENT WORK AND ECONOMIC GROWTH

Between 2000 and 2018, the global trade in raw cashew nuts more than doubled reaching 2.1 billion kilograms; of this growth two-thirds can be attributed to cashew nut producers in Africa. Côte d'Ivoire is the leading producer, followed by Tanzania, Nigeria, Benin, Guinea-Bissau, Mozambique, and Ghana. [9] Despite the significant contribution of African produced cashew nuts to the market, it is estimated that less than 15% of the nuts are deshelled in Africa, and the remaining nuts are exported predominantly to Asia, thus it is a challenge for smallholder farmers to secure market access without the involvement of traders. Between 2014 and 2018 it was estimated that India and Vietnam accounted for 98% of the world's raw cashew imports [10], with demand outstripping supply, an increased steady demand for raw cashew nuts (RCN) has been noted in Asia year on year. The borrower identified an opportunity to fulfil the needs of the market in Asia while providing market access for RCN farmers in Africa. The borrower is a cashew trader focused on sourcing RCN from various parts of Africa, to be exported via established networks in Vietnam for processing.

The borrower takes advantage of the variable seasonality of supply across the regions in Africa (Tanzania, Nigeria, Ivory Coast) to ensure consistent supply to processors in Asia. The consistent supply and management of the export network has created trust in local supply chains and ensured the negotiation of fair pricing contracts. As a result of receiving funding from Barak, the borrower exported over 25,000 tons of RCN from Africa in the previous trading season (2019). The borrower was able to open operations in three countries and has created more than 530 direct local jobs in each country through its day-to-day operations (hauling, offloading, loading etc.), as well as indirect jobs through the supply of RCN from smallholder farms to the port. [11]

The borrower's activities have assisted with decreasing poverty by creating employment opportunities and increasing the income levels of smallholder RCN producers through securing offtake agreements. The increased and consistent income assists with providing communities with improved resilience to economic shocks. Smallholder farmers are also likely to develop and/or improve their business skills and capacities through engagements with the borrower, allowing

[9] UNCTAD. Cashing in on cashew: Africa must add value to its nuts. April 2021.
[10] Nair, D. Africa's cashew producers miss out on opportunities due to lack of processing capacity, UNCTAD says. April 2021.
[11] Barak Fund Management Limited.2019. Barak Impact Finance Fund: Impact Report 2019.

them to actively participate in the RCN markets. Although food security is a key development issue, the trade of RCN does not have a direct impact on improving food security, however, through improved income levels and job creation, local communities are more likely to be able to grow and/or purchase more nutritious food, thus improving food security in the long-term, further stimulating economic activities in other agricultural sectors of the economy.

6.4. Agricultural Commodity Trader

Tanzania

Investment type:	Revolving working capital
Initial investment year:	November 2020
Cumulative investment:	USD 394,447.30
No. of transactions:	5
Female Smallholders Supported	5 470
Smallholders Supported	11 370

Tanzanian agriculture is dominated by smallholder farmers, many of which rely on supplying agricultural commodity traders with their produce for their livelihood. The borrower is an agricultural commodities trader that trades a variety of agricultural commodities. The company sources, processes, stores and distributes grains, oilseeds and a variety of nuts. The company sources local produce, and trades produce in local markets as well as in export markets across East Africa, the Middle East and Europe.

Several challenges face agricultural value chains in Tanzania, namely: access to markets for rural smallholders, lack of technical agricultural capacity, and losses throughout the value chain from processing to delivery to the customer. These challenges impact negatively on national food security as well as the growth of smallholders, both financially and in terms of technical improvements to agricultural practises.

The borrower's business model directly addresses these challenges by facilitating access to capital for smallholders primarily via their association with LAFCo, and also by improving the technical expertise of smallholders by facilitating interactions with the Rural Urban Development Initiative (RUDI). RUDI is a Tanzanian NGO that seeks to provide support to smallholders through technical training for crop production, facilitating linkages to microfinance and credit service providers for agricultural inputs, stakeholder engagement, environmental management and business development and governance. Data and information provided by the borrower indicates that larger payments to smallholders aided in the improvement of agronomic practises amongst smallholders supplying the borrower, thereby contributing to better land management (and linking to enhanced sustainability), as well as increased crop yields which benefit farmers financially. Higher incomes create a positive feedback loop for smallholders, wherein better land management enables the attainment of larger yields. Larger yields lead to larger payments for commodities and in turn, liberates larger financial inputs for crop production (and other aspects of smallholder livelihoods). These positive effects are limited by smallholder land parcel size but is nevertheless addressing the immediate challenges faced by smallholders in Tanzania, yielding a positive outcome in terms of improved incomes and improved sustainability, meaning that farmers are able to maintain livelihoods into the future.

In terms of development impact and business sustainability, the borrower is seeking to improve the volume of purchases made per smallholders while simultaneously improving its smallholder reach, and measures these impacts at regular intervals. Moreover, the staff complement of the company showed a gender split in favour of females, at 51% of employees. With respect to smallholders, 48% of these are female highlighting the positive role the company plays in the financial liberation of female smallholders in Tanzania.

7. Deep Dive Case Study: Atlas and 60DB

Ghana

Investment type:	Revolving working capital
Initial investment year:	October 2019
Cumulative investment:	USD 4,500,000.00
No. of transactions:	3
Female Smallholders Supported	1 917
Smallholders Supported	4 427

Background

Atlas is a licensed cocoa buying company (LBC) that sources cocoa from 36 cooperatives in Ghana. Their operations are located in Kumasi, from where the company oversees the procurement of cocoa directly from smallholder farmers across outlying cocoa growing regions. Industry is tightly regulated by the Ghana cocoa board (COCOBOD) which sets the total cocoa volume target, farm-gate price and selling price. As the cost and sale price of cocoa is fixed, LBCs compete to carve a greater share of the existing supply of cocoa by awarding incentives to farmers in exchange for their cocoa. Smallholder sourcing is at the heart of Atlas's operations and the company is committed to economically empowering its producers.

60 Decibels and Atlas Impact Overview

LAFCo has brought a value-adding player (60 Decibels) into the impact management process for Atlas. By engaging the workforce and considering Atlas' performance from a social perspective, we are able to identify where there is room for improvement in terms of workers' satisfaction and livelihood.

In Ghana, the agricultural sector (including cocoa farming) employs more than 50% of the workforce and supports various economic activities which contribute significantly to the smallholder farmers in the country. The farmers selling to Atlas also benefit from being paid premiums which further uplift their livelihoods, and also ensures the farmers network of labourers are supported.

In addition to improved livelihoods, Atlas supports the development of smallholder farmers through extension training, improving access to technical assistance facilities to support the restoration and/or rehabilitation of ageing trees for cooperatives supplying Atlas. Through Atlas, there are also potential opportunities for input supply and subsidisation through different role players (Cocobod and the Ministry of Food and Agriculture) in the region.

Measuring Atlas' Impact

Who are Atlas's suppliers?

The average Atlas farmer had 4420 cocoa trees on their land last year, of which 3610 (82%) bore fruit. They harvested approximately 0.5kgs of dry cocoa per tree.

Using the Poverty Probability Index (PPI) 60 Decibels was able to measure how the income profile of Atlas' farmers compares to Ghana's rural income distribution. 33% of Atlas' farmers live below the USD3.20 poverty line compared to the Ghanaian national average of 15%. Further, 75% of farmers' household income comes from cocoa. This suggests that Atlas is reaching some of the poorest Ghanaians and successfully improving livelihoods of their suppliers and supported network of labourers.

Farmer Voices

"I harvested a little more cocoa than previously due to good farm management practices Atlas provided. Additionally, the accurate weight I obtained from Atlas weighing scales has increased my earnings too."

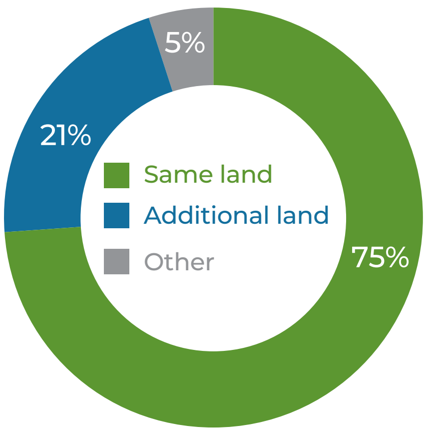
"Atlas provided some training on how to manage our cocoa farms to get more yield. I am following their suggested farm management practices and I am seeing my farm improving."

Change in Cocoa Production and Returns

60 Decibels asked farmers how Atlas was impacting their earnings from cocoa and what might be driving this change. 18% of farmers said their cocoa production had increased because of Atlas. Over three-quarters said that this additional produce came from the same land implying improved productivity.

Driver of Increase in Production

Q: Was this increase/decrease because you planted additional/lesser land or was it from the same amount of land? (% of respondents with an increase in production, n=44)



Atlas works with select co-operatives to ensure that the inputs supplied and subsidized from the Cocobod and the Ministry of Food and Agriculture are in fact reaching the farmers. This is important, as farmers effectively pay for cocoa inputs, however, the distribution system is highly politicized and erratic, meaning that many farmers do not receive them. [12]

"Through Atlas we have gotten fertilizers I couldn't afford previously but now I have enough fertilizers to spray my crop."

"They have advised me on chemicals to use and helped me clear my land and also taught me better farming techniques."

The investee company is reported to have enabled farmers to better predict the amount and timing of their income from cocoa and improve their yields through better farming practices and increased access to chemicals. However, the study identifies suggestions for improvement, including the provision of credit, faster payments and improved access to inputs. As a result of these findings LAFCo has been able to better engage with the investee company around implementation of recommended actions via third party technical assistance as well as directly from the fund (i.e., supporting more farmers to become Fairtrade certified).

[12] World Bank.2017. Ghana Agriculture Sector Policy Note: Transforming Agriculture for Economic Growth, Job Creation, and Food Security. World Bank, Washington, DC.

8. Definitions

Impact investor

Company that makes investments 'with the intention to generate positive, measurable social and environmental impact alongside financial return.' [13]

Impact Reporting and Investment Standards (IRIS)

A catalogue of performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry.

Small and Medium Enterprises (SMEs)

Privately-owned companies with two of the three following characteristics, (i) gross assets of less than USD 15 million, (ii) sales of less than USD 15 million, and (iii) fewer than 300 employees.

Smallholder farmer

Smallholder farmers are typically defined as farmers with less than 5 hectares of land. [14]

Sustainable Development Goals (SDGs)

A collection of 17 interrelated global goals set out by the United Nations to mobilize efforts to end all forms of poverty, fight inequities, and tackle climate change, while ensuring that no one is left behind.

Technical assistance (TA)

'Advisory services that enable a project or enterprise to function more effectively and efficiently, creating the potential for long-term commercial sustainability, systemic impact and ultimately improving investment viability.' [15]

[13] GIIN. What is impact investing?
[14] Technoserve. 2019. The Small Commercial Farmer model as a mechanism for rural development.
[15] Coussa, G., et. al. 2018. What Small And Growing Businesses Need to Scale Up: the Case for Effective Technical Assistance.

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