

Annual Report 2019

The Agriculture Financing Initiative

EDFI AgriFI

www.agrif.eu

This document was produced with the financial assistance of the European Union.
The views expressed herein can in no way be taken to reflect the official opinion
of the European Union



AgriFI is an EU-funded blending facility aiming to unlock, accelerate and leverage investments in developing countries, focusing on smallholder’s inclusiveness and/or agri-business medium, small and micro enterprises. AgriFI is managed by the EDFI Management Company, a company established by the 15 European Development Finance Institutions (DFIs).

The EDFI Management Company (EDFI MC) was established in 2016 to serve as a common platform to develop innovative new models of partnerships between the European Institutions and European DFIs.

EDFI MC delivers development finance solutions that enable European DFIs and private sector investors to increase the scale and impact of their work by focusing on business models, technologies and geographies where they have not been able to operate at the desired scale given their resources and investment criteria. It puts special emphasis on sectors that are critical to sustainable development, such as clean energy and sustainable agriculture.

➔ www.edfimc.eu

Table of contents

p. 5 _____ The Agriculture Financing Initiative

p. 9 _____ Our achievements

p. 11 _____ Our portfolio

p. 13 _____ 2019 investments

p. 17 _____ An innovative and catalytic
blending instrument

p. 21 _____ How we invest

The Agriculture Financing Initiative

Unlock, accelerate and leverage sustainable agriculture finance

Reducing poverty (SDG1) and hunger (SDG2) while promoting inclusive growth (SDG8) requires substantial investment in agriculture, particularly in rural areas and in those countries with the greatest needs. As the most vulnerable populations live in rural areas, investing in small-scale farming brings direct benefits to the local socioeconomic situation and reduces its dependency on external assistance.

Greater efforts are needed to reduce the financing gap in lending to smallholder farmers and agricultural SMEs. An estimated 270 million households in Asia, sub-Saharan Africa and Latin America rely on smallholding farming for their subsistence. A lack of adequate land, infrastructure and skills means that more than EUR 200bn in agriculture and non-agriculture finance is required to meet the growing need. The latest data suggests that currently only 30% is financed.

The EU has played a major role in developing innovative instruments, approaches and structures for offsetting risks and creating fresh ways for further private capital to contribute to agricultural finance. Launched in 2018, EDFI AgriFI - the Agriculture Financing Initiative - is an EU-funded innovative, inclusive impact investment facility for supporting access to finance for agri-SMEs and smallholder farmers.

Empowering smallholder farmers in developing countries

AgriFI has a mandate to provide medium- to long-term financing for private sector enterprises active in the agri-food value chain. Working in close cooperation with European Development Finance Institutions (DFIs), we develop strategies to crowd-in private sector investment capital. This increases financial inclusion for smallholders and agricultural SMEs as a way of improving agricultural productivity and smallholders' income. We also help consolidate agriculture production to achieve economies of scale and stronger presence in markets, bringing increased food security.

By 2030, the facility is expected to:

- increase the value-added, production and income of at least 50,000 smallholder farmers in low- and lower-middle income countries
- provide commercial financing to 12-15 private sector enterprises involving smallholder farmers in low- and lower-middle income countries
- leverage additional financing of at least EUR 62m for such investments from co-investors, including DFIs and private investors

“The EU is firmly convinced that smallholder farmers can be credible players in commercial agriculture, but they need better access to capital to do so. By supporting the AgriFI facility we are making an innovative contribution to this effort. Looking forward, we aim to continue developing the success story and growth of AgriFI”.

LEONARD MIZZI,

Head of Unit DG International Cooperation and Development, European Commission



AgriFI vision



A world where smallholders are **included** in the value chain and make a **fair living** out of agriculture, while **preserving natural resources**.

AgriFI mission

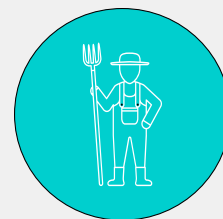


Build successful, sustainable and inclusive **agri-business & enable partnerships**, contributing to **professionalise smallholder farmers** and improve their **livelihood**.

Developing countries have the opportunity to leapfrog current industrial agriculture systems and move directly to a sustainable agricultural sector, in line with the Sustainable Development Goals. Given this perspective, financing instruments such as those offered by AgriFI, together with a favourable policy environment, are critical success factors.

For each project financed, AgriFI tracks a range of impact targets, with a specific focus on the number of beneficiaries and the total area sustainably cultivated.

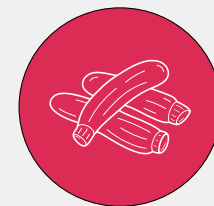
AgriFI key development impact targets (non exhaustive)



of smallholder farmers impacted (#/year)



Smallholder farmers revenue (€/year)



Agricultural production (tons/year)



Area under cultivation (Ha/yea)



Net direct jobs created (#/year)



Leverage (# total investments catalysed / AgriFI contribution)

Our achievements

Looking back, 2019 was a pivotal year for AgriFI. Following an initial year spent consolidating our governance framework, we saw our first results materialise and refined our approach to implement our mandate.

We established a portfolio amounting to more than 40% of the available capital and explored several Country Windows opportunities to respond to specific needs identified by national governments. Thanks to a team of three expert investment officers and a facility manager, AgriFI has enhanced its partnerships with entrepreneurs, investors and institutions globally. Notably, the team has worked closely with European Development Finance Institutions to complement their missions and catalyse additional private investments.

AgriFI's innovative financing solutions have helped improve the work and income opportunities for people in developing countries throughout Africa, Asia and Latin America. During this first year of operations, we developed a diversified portfolio through exploring different business models for addressing smallholders' finance gaps. Thus, our first three investments support an SME, a fund and a microfinance institution. Our portfolio is also well diversified in terms of instruments, providing an appropriate mix of equity and debt, well matched to our investees' needs.

In line with our high-impact mandate, we are continuing to strive for the greatest social impact. While performing careful due diligence and sound risk management practices, we have encouraged and supported our investees in their journey to meet their financial, environmental and social objectives. For example, we have joined the board of one of our portfolio companies, supporting its journey to sustainable growth and ensuring its commitment to contributing to the Sustainable Development Goals.

Looking forward, the team also worked on scaling up technical assistance and developing new partnerships to help expand its activities. Our pipeline is strong, with EUR 11.3m under approval and EUR 40m under screening.

Our ambitions are clear: by 2020, we aim to place our remaining global capital, begin deploying our technical assistance operations and seeking out new funding resources. Based on this year's experience, our strategy will retain its focus on high-potential companies that are currently ineligible for traditional financing.

“This first year of full activity has enabled us to contract our first investments, highlighting strong opportunities to finance family farming in the long term. The market is highly dynamic, rich in original initiatives and exceptional entrepreneurs. It is, however, structurally underfunded. Our ambition is to ramp up in 2020 to support more farmers.”

DIMITRY VAN RAEMDONCK,
AgriFI manager

Contributing to Sustainable Development Goals

2
ZERO
HUNGER



8
DECENT WORK AND
ECONOMIC GROWTH



13
CLIMATE
ACTION



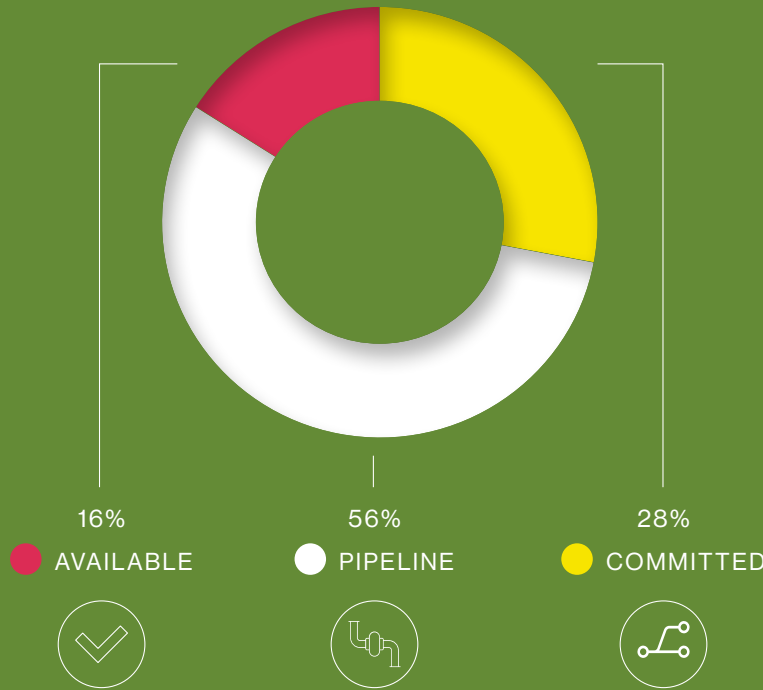
AgriFI aims to empower smallholders to end hunger, promote sustainable agriculture and improve resource efficiency, consumption and production while fighting climate change.



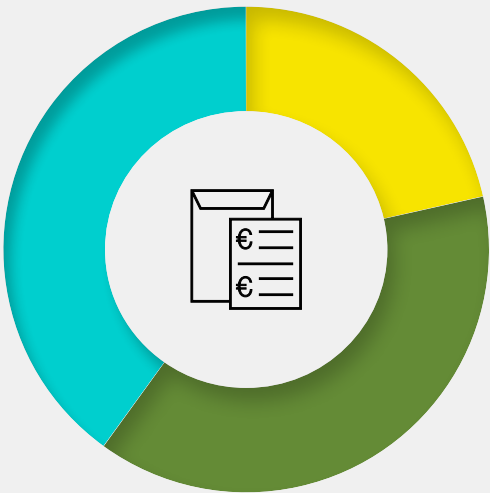
Our portfolio

Overview

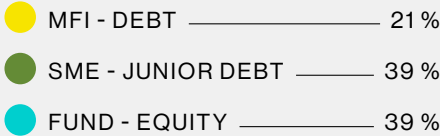
AgriFI is a EUR 30m impact facility, operating in agricultural and forestry sector throughout all OECD DAC countries. By the end of 2019, its portfolio amounted for EUR 12.7m, i.e. more than 40% of the available capital. Taking the current pipeline into account, 82% of AgriFI's available funding will have been earmarked.



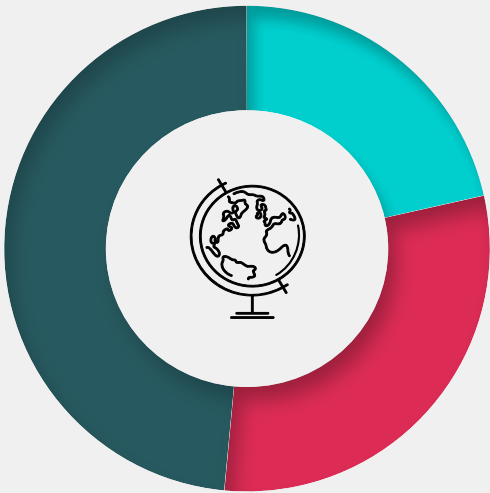
Portfolio breakdown



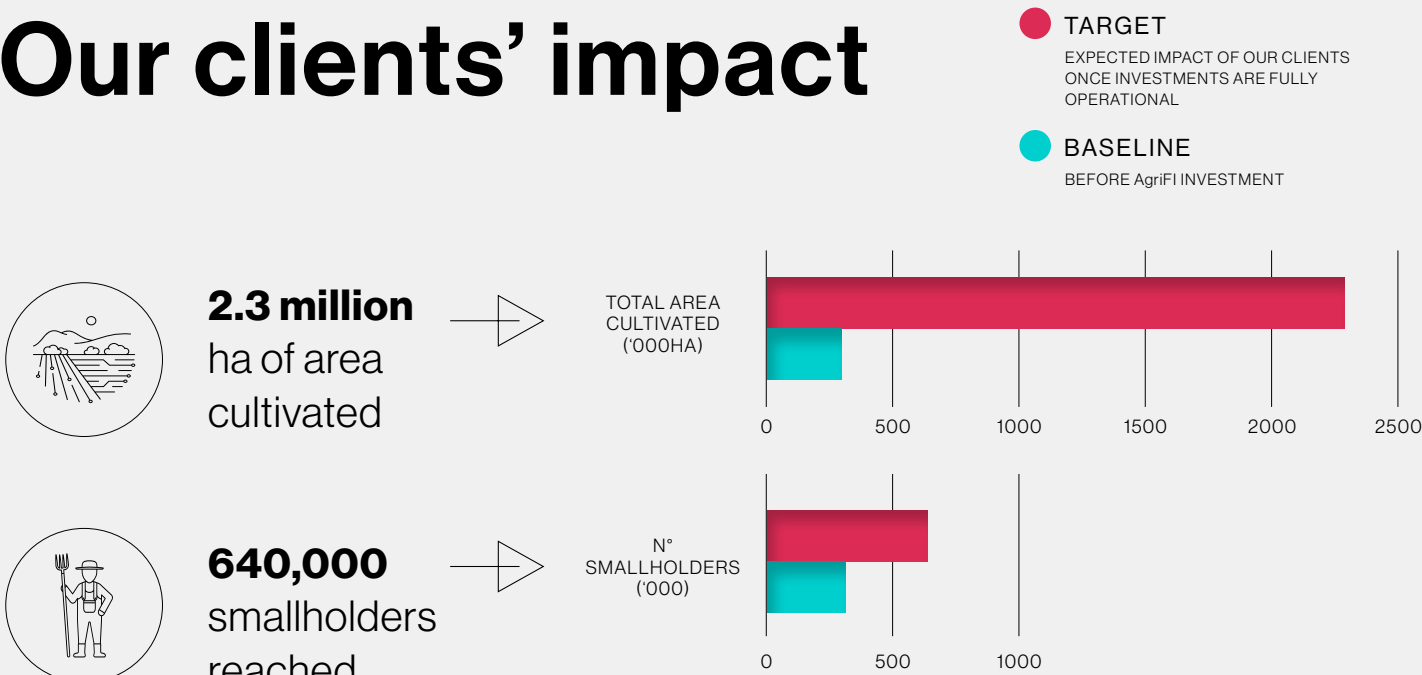
Instrument



Geography



Our clients' impact



The figures above aggregate the expected impact of AgriFI's clients, once they have deployed the proceeds of our investment. AgriFI is typically a minority investor in those companies, and it plays a key additional and catalytic role that accelerates the company's growth.

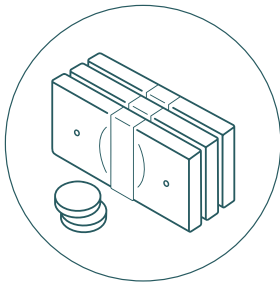
2019 at a glance



€4.2M



AVERAGE
TICKET
SIZE



EUR 12.7M



* Babban Gona is considered as a 2019 investment as the deal was closed in December. The contract was however officially signed early 2020.

2019 investments

Over the last 12 months, we have invested in empowering smallholder farmers in sub-Saharan Africa, Latin America and Southeast Asia.



A global impact fund supporting microfinance institutions, SMEs and cooperatives



Latin America, The Caribbean and Africa



European DFIs and development banks involved: FMO, KfW, BIO



Impact: Smallholders: 500,000 | Ha of sustainably cultivated area: 2,000,000
Jobs created: 10,000

AgriFI invested EUR 5m in the Incofin Fairtrade Access Fund (FAF) to support its growth strategy, notably in Africa. In expanding its scope to numerous countries, the FAF targets contracting some 500+ new loans to empower more than 500,000 smallholder farmers by 2022. The INCOFIN impact fund is currently active in some 20 countries with a fund size in excess of EUR 55m. The fund provides loans and technical assistance to cooperatives, processing enterprises and rural microfinance institutions, encouraging smallholders to grow Fairtrade or sustainably certified products.



An innovative and award-winning SME providing inputs and services to smallholder farmers



Nigeria



European DFIs and development banks involved: BIO, KfW



Impact: Smallholders:48,000 | Ha of sustainably cultivated area:38,400 | Tons of food production: 134,400

AgriFI invested EUR 5m in the Babban Gona franchise, an investment expected to attract senior debt and reach its ambition of supporting 1 million smallholder farmers in Nigeria. Babban Gona is an agricultural enterprise co-owned by the smallholder farmers it supports, with a holistic range of services on credit. Services include education and training in sustainable farming practices, providing high-quality, affordable agricultural inputs and storage facilities as well as marketing and distribution support.



A microfinance institution providing loans to rural farmers at land preparation



Myanmar



European DFIs and development banks involved: FMO

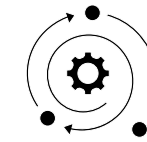


Impact: Smallholders: 90,000 | Ha of sustainably cultivated area: 200,000 | Tons of food production: 2m

AgriFI's unsecured loan of USD 3million equivalent in local currency will contribute to support Maha's growth strategy and scale up its microloans' portfolio in rural areas, expanding the number of farmers borrowing from the institution up to 90,000. Maha is a microfinance institution with a vision of becoming Myanmar's leading rural MFI. The company now operates in 32 branches across eight regions, providing financial services to over 50,000 rural clients, more than 90% of whom are farmers. The affordable loans enable farmers to invest in higher-quality inputs, improve agricultural yields, and - as a result - obtain higher incomes and improve their overall quality of life.

An innovative and catalytic blending instrument

Impact first



INVESTING IN SUSTAINABLE FARMING IN DEVELOPING COUNTRIES

AgriFI is expected to increase the production and incomes of at least 640,000 smallholder farmers (initial target: 50,000)

AgriFI invests in smallholder farmers' markets with the aim of supporting increased yields at affordable rates and helping increase farmers' incomes. By strengthening sustainable supply chains, AgriFI contributes to creating additional jobs, improving food security and enhancing environmental and social practices.

Each year, AgriFI monitors its clients in terms of social, environmental and financial performance.

Additional & collaborative



BUILDING AND ACCELERATING MARKETS THROUGH PARTNERSHIPS

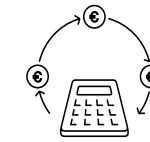
100% of the portfolio value is co-financed with European DFIs.

AgriFI works closely with the European Commission, EU delegations and governmental institutions to develop strategies for offsetting risks and maximising private sector leverage in agriculture financing.

Thanks to the nature of its funding, AgriFI allows an increase in the risk and credit ceilings that benefit private sector enterprises and smallholder farmers in rural communities.



Go-to-place for catalytic investments



INVESTING IN “MISSING MIDDLE” COMPANIES DENIED FROM OTHER SOURCES OF FINANCING

Over the coming years, AgriFI aims to catalyse additional commitments for EUR 71m (initial target: EUR 62m).

AgriFI investments rely on a strategic and entrepreneurial approach to attract additional financing for promising early-stage businesses, complying with EU development finance objectives by reducing their exposure to risk and allowing them to grow and access traditional finance.

All investments are assessed through strict additionality criteria and leverage ratios.

Blended finance helps promote the financing of categories of investment which, at present, cannot be supported by other investors.

Fit for purpose & scalable



OFFERING FLEXIBLE INSTRUMENTS BASED ON SMALLHOLDERS NEEDS

AgriFI invests from EUR 0.5 to 5m through various instruments such as equity, quasi-equity, junior and senior debt.

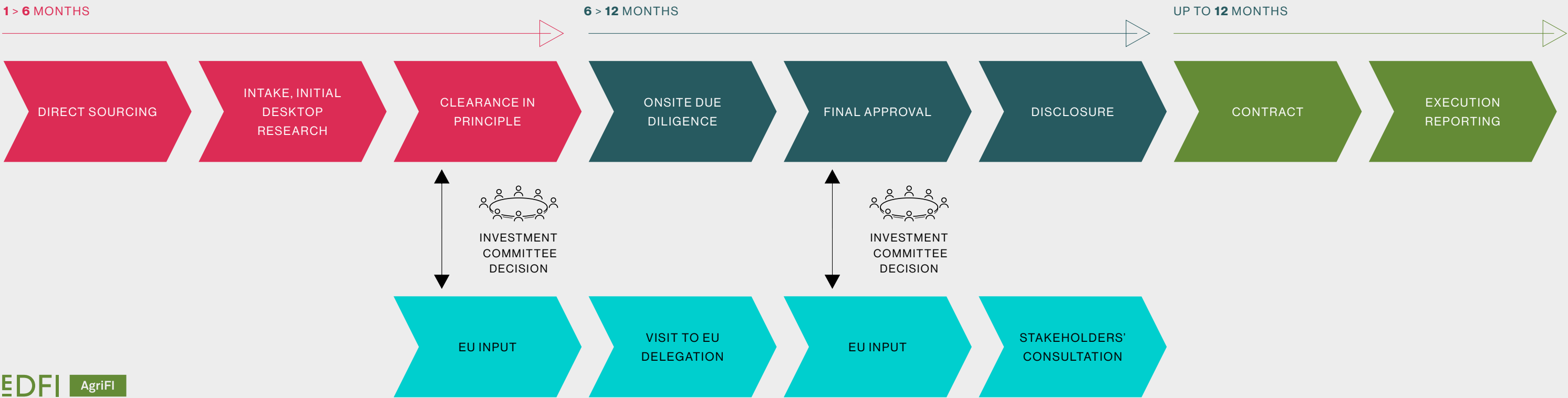
Working closely with its clients, AgriFI develops long-term financing solutions tailored to their specific project, the current economic and financial situation and the risk profile of the country. AgriFI finances capital expenditure, long-term working capital needs and operational expenses, depending on the business models and the company's stage of maturity. AgriFI also provides continuous support and guidance throughout the investment process.

How we invest

The AgriFI team screens prospective projects using a strict set of criteria. Projects must be able to:

- Show a **credible professional track record**, demonstrate strong **commitment** to date and a **capacity to deliver**
- Commit to **delivering a measurable impact** on smallholders;
- Be a **privately-owned** (more than 50%) company;
- Be active in the **agricultural/ forestry value chain** integrating smallholders;
- Involve **sponsors' commitment**;
- Commit to attaining **financial sustainability in the midterm**;
- Commit to developing appropriate **monitoring, evaluation** and results measurement;
- Commit to complying with **international norms and standards on sustainable development**.

The AgriFI investment process consists of a two-stage investment committee approval, including an in-depth legal, technical, financial and market due diligence, through both desktop research and field visits. The AgriFI Investment Committee includes members of the European DFIs and the European Commission.



EDFI

AgriFI

EDFI AgriFi
Rue du Trône 4, B-1000 Brussels, Belgium
agrifi@edfimc.eu



www.agrif.eu