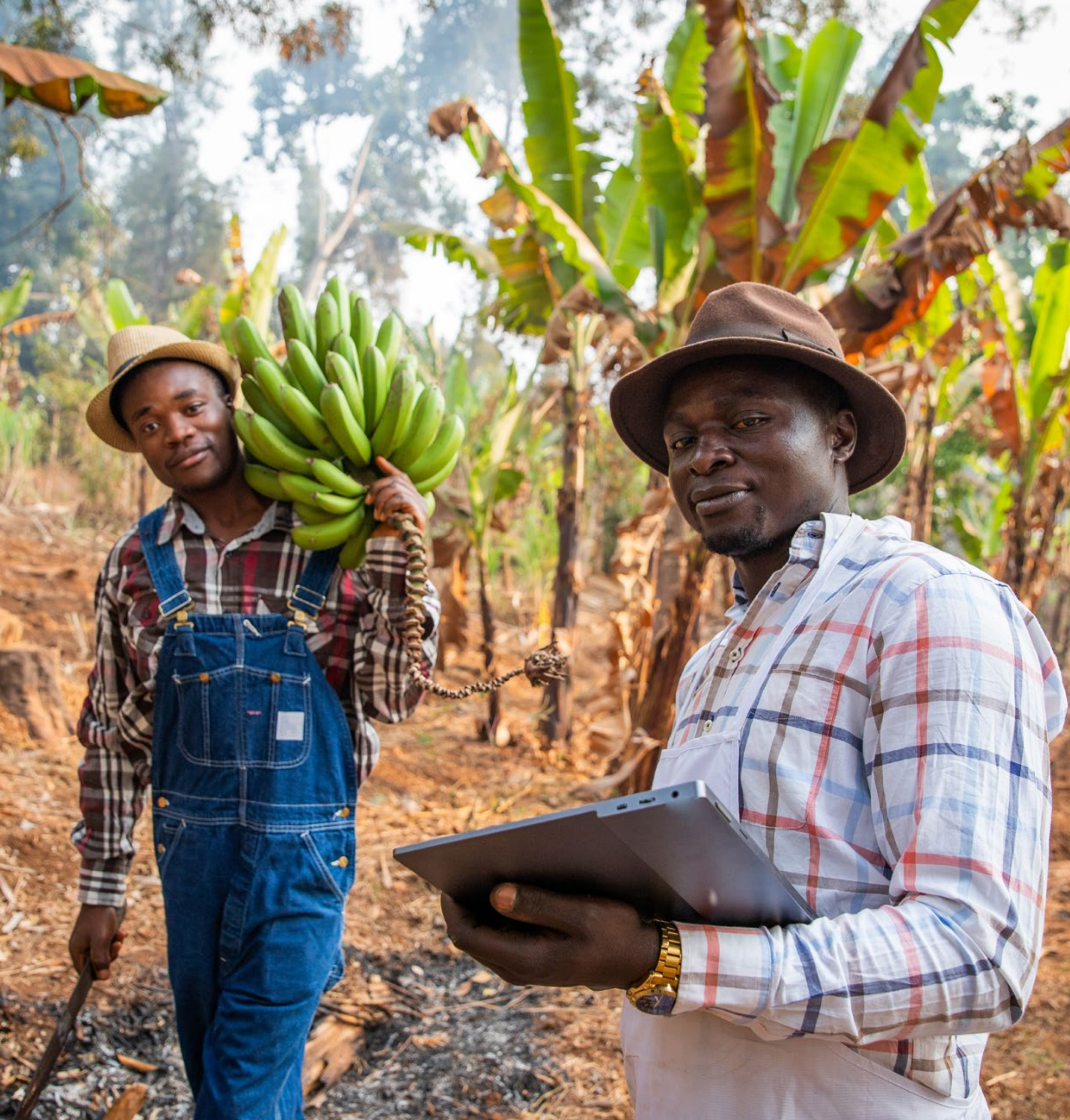
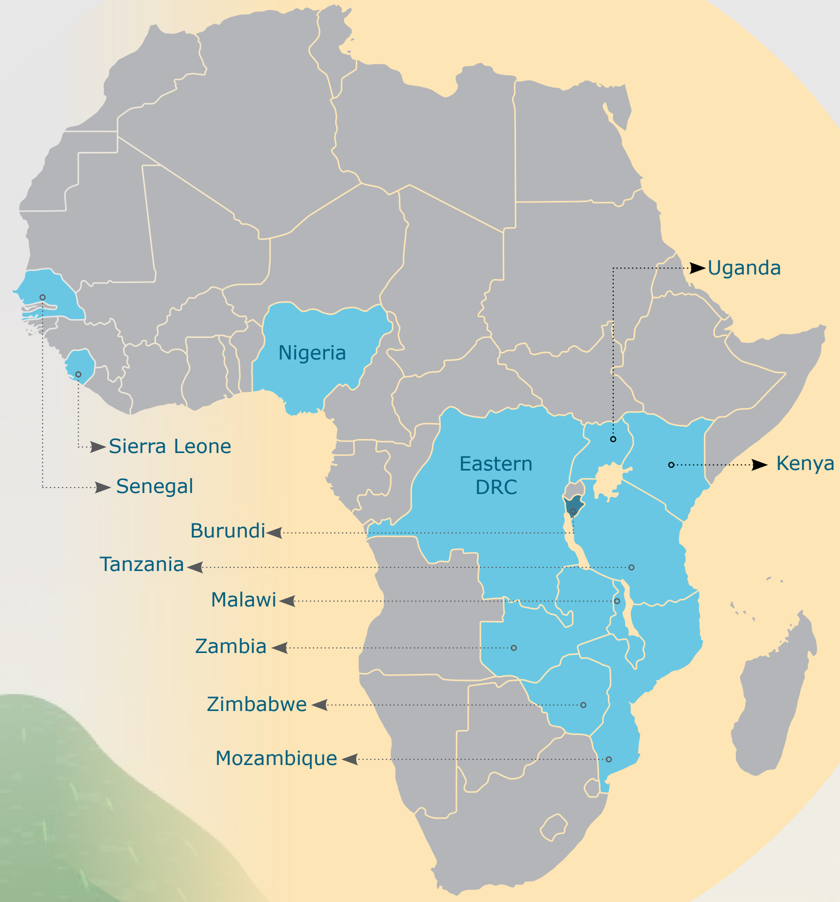


END OF PROGRAMME REPORT

Agribusiness in Africa Window - Round 2 (AAW-R2)



The Agribusiness in Africa Window (AAW) Round 2 programme is a

CAN $ 20 million

facility co-funded by Global Affairs Canada (GAC) and the Alliance for Green Revolution in Africa (AGRA)

The programme investees operate across a range of agricultural value chains and have achieved the following:

- 2, 911,690 lives impacted
- 582,338 households reached
- 233,951 women-led households reached
- US$ 141 Average annual net benefit per household
- 1,582 direct jobs created
- US$ 23,968,190 Matching funds leveraged

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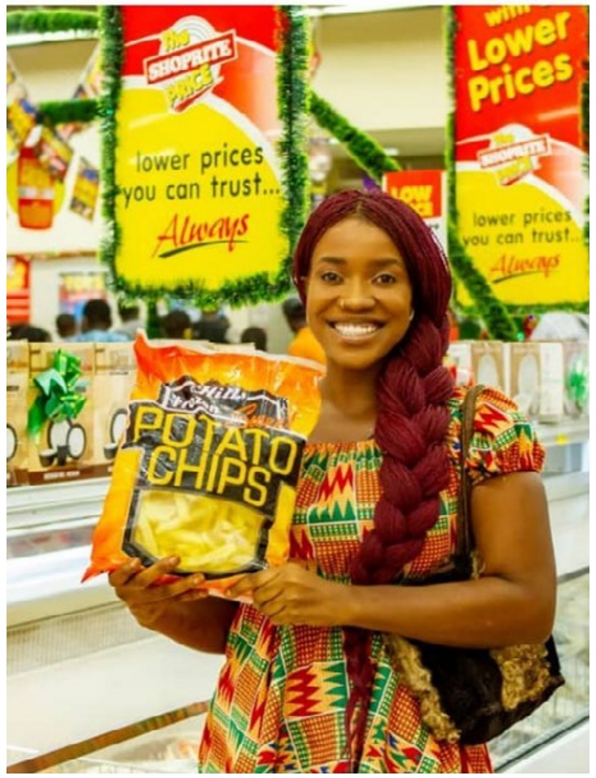


BACKGROUND

The Agribusiness in Africa Window Round 2 (AAW R2) was a continent-wide window launched in 2014 to support companies to invest in inclusive and innovative business ideas with the potential to increase productivity, employment, livelihood opportunities and incomes amongst the poor in sub-Saharan Africa.

A total of CAD 20 million in funding was committed to the programme, comprising of CAD 15 million from Global Affairs Canada (GAC) and CAD 5 million from the Alliance for a Green Revolution in Africa (AGRA). Grant funding was awarded to 19 projects across 11 countries (Kenya, Nigeria, Malawi, Mozambique, Sierra Leone, Senegal, Tanzania, Zambia, Zimbabwe, Uganda, and Burundi/DRC), with businesses working in a variety of agriculture value chains, including cashew, fruits, potatoes, moringa, livestock production and digital information services.

The AAW R2 was originally expected to end on December 31, 2020; it was extended by 18-months to complete activities delayed by the COVID-19 pandemic. The balance of drawdowns, together with uncommitted funds, was converted to a COVID-19 relief fund of US$1.3 million, which provided additional financing to 10 investees at the early stages of the pandemic, based on a competitive application and selection process.

HEADLINE FIGURES

NET DEVELOPMENT IMPACT

CAD 12.7 million
The total amount committed to 19 grantees

93.86%
Majority of funds that were provided as pure grants

Relief fund was
US$1.3 million

CAD 13.85 million
Total disbursements to the investees

582,338
households impacted ***(40% headed by women)***, with an average additional income of ***US$141*** per household per year.

USD 10,921,007
Cumulative wage bill sustained

1,582
Direct jobs created

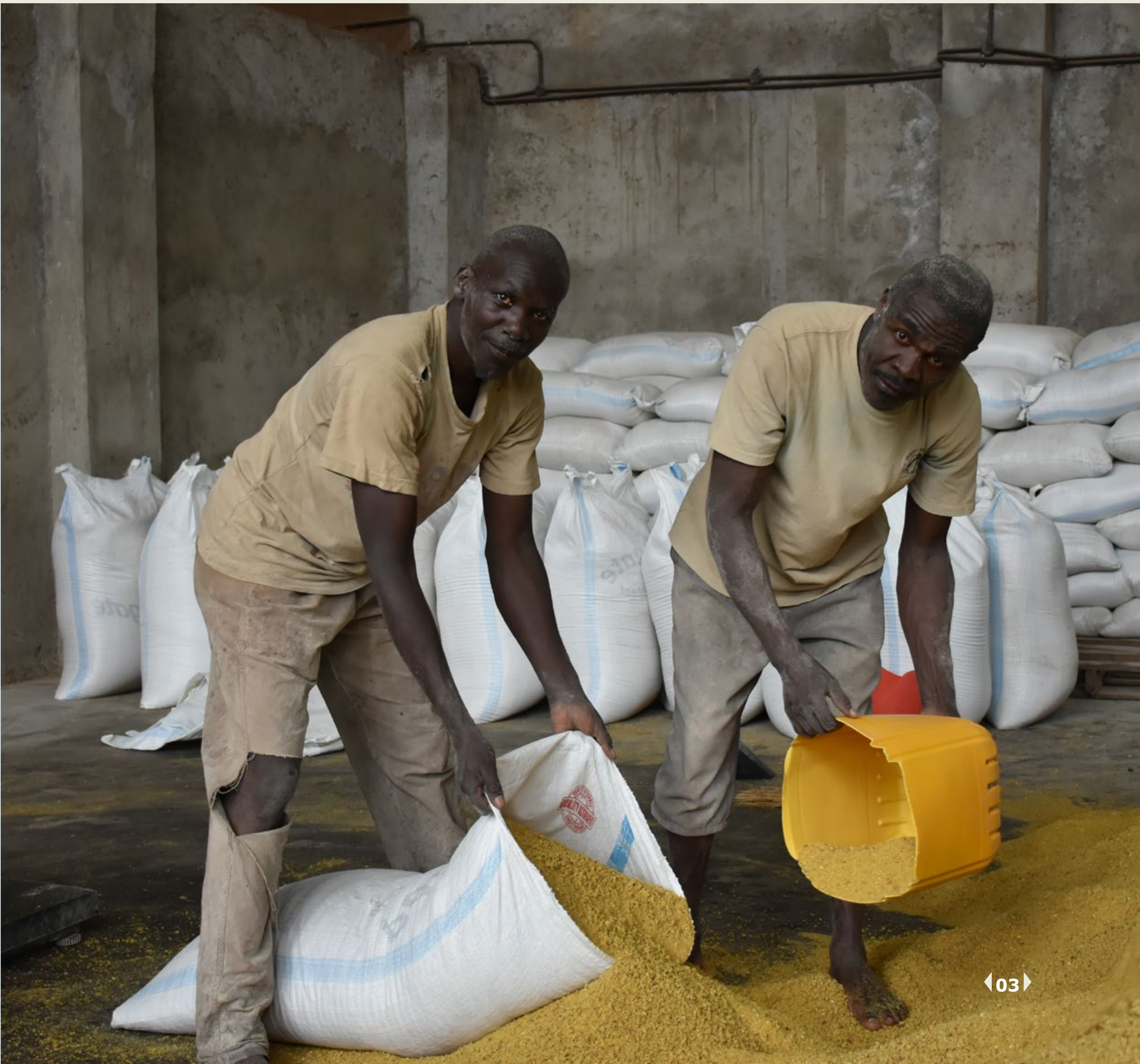
30,164
Increase in smallholder farmers access to new markets

US $ 175,719,908

The total cumulative net development impact at the end of the programme (2022)

The development rate of return (DRR), which calculates the ratio of development impact to funds disbursed, was 17.45. The programme was able to increase the capacity of a cumulative 30,164 smallholder farmers to access new markets, with 15 of the funded investees providing value-chain services to farmers.

INDICATORS	END OF PROJECT TARGET	ACTUAL 2021
i. Number of new jobs(FTEs) for men and women created	5,734 (50% women)	1,582 (53% women jobs)
ii. Number of AAW's projects contributing to systemic changes	10	1
iii. Number of rural households benefiting	500,000	582,338 (40% women HH)
iv. Average amount of financial benefit received per	US$160	US$141.00
v. Number of sub-projects profitable 36 months after receiving funding	10	2
vi. Number of partner forums organized	5	7
vii. Number of farmers accessing new markets	5,000	30,164
viii. Number of agribusiness SME providing value chain services to smallholder farmers	15	10



KEY LESSONS

» 01 COMPETITION MODEL

The ***competition model is an efficient mechanism*** to transparently surface and select investees, but only picks ideas at a specific point in time. Applicants who are not quite ready for investment, don't have a good command of English or don't have the capacity and channels to connect with donor programmes often miss out. This requires a longer-term intervention, regular competitions, and greater outreach. This limited accessibility to a diverse range of applicants is reflected in the type of companies that were provided with funding - 50% were foreign-owned enterprises

Finding investible businesses that can credibly absorb funding for social objectives without distorting markets is difficult. High-profile, well-connected companies and an emerging advisory culture have created a cohort of businesses that know what donors want and speak their language and are able to access funding from multiple donor sources. Often these businesses are not sufficiently profitable or integrated into local infrastructure to change market systems once concessional funding finishes.

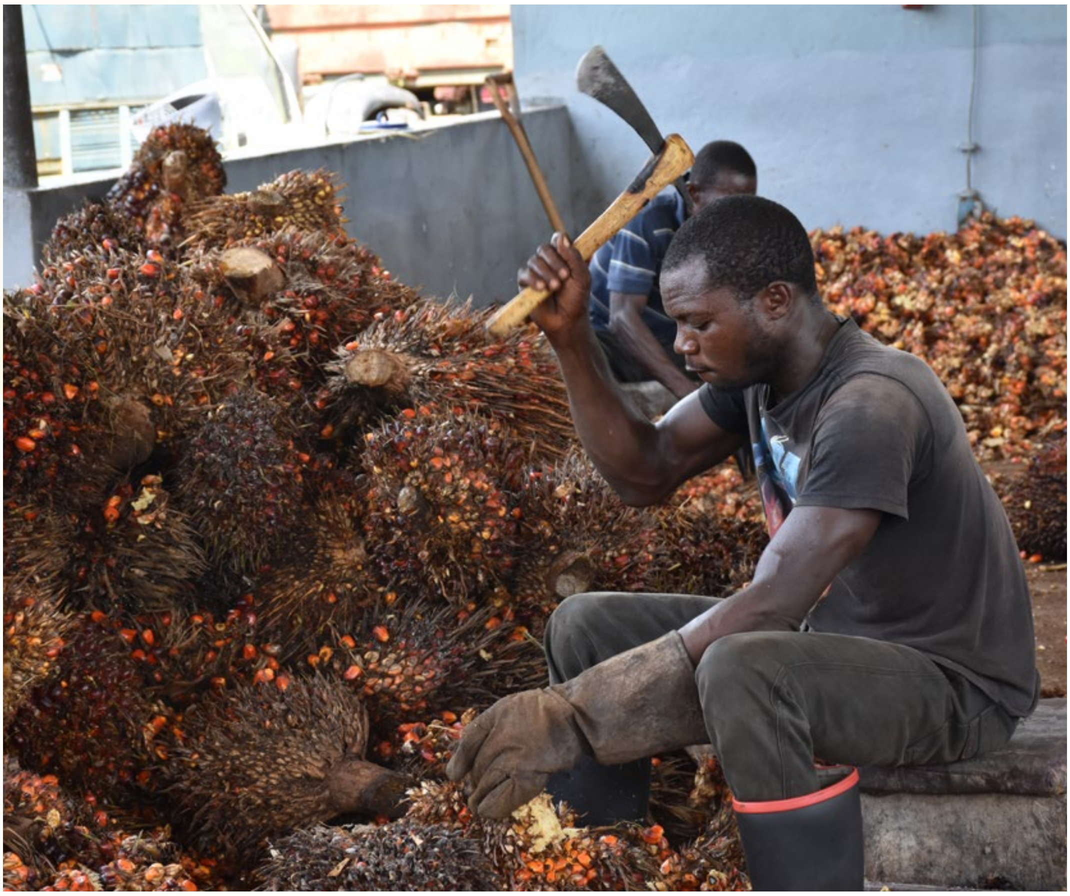
A ***continent-wide window funding competition allows for a wider pool of applicants,*** with the awarded investees generally having stronger applications, more auspicious business models and higher levels of innovation. At the same time, this type of competition requires more time and resources to advertise and attract high-quality applicants from multiple countries.

A multi-country portfolio also makes it more ***challenging to understand the business-enabling environment*** in each country and the specific challenges faced by investees. Investing in individual businesses allows a greater spread of resources and generates examples of how the private sector can drive economic development in many contexts. It also spreads climatic, political and market risks and tests innovations in a wide range of value chains. However, concentrating investments in specific geographies or value chains would strengthen the influence on market system change.

AECF combines investees from a number of windows to bring a wider group of businesses together in local regions for the important process of peer learning. For example, Out-Growers Tanzania was invited to participate in events with other investees under the Tanzania Agribusiness Window (TZAW).

» 02 PATIENT CAPITAL

It is important to ***strike a balance between allowing investees the time to test their ideas and closing failing projects early*** for non-performance. Each project should be approached on a case-by-case basis, given that there are many reasons why a project may be delayed or underperforming. A delay in drawing down funds is not necessarily reflective of a lack of effort or inactivity on the part of the company. Instead of closing a contract too soon, subsequent disbursements are withheld to allow the business more time to adjust and grow. Communication between AECF and the investee is key to maintaining clarity on how the company is progressing and whether additional support can be brought to bear.



All grant funds were expected to be disbursed within the first three years; however, less than half were able to fully draw down the funds within this timeline and one took almost six years. Four investees were unable to draw down all the funds allocated to them, including two which closed their operations and two whose funding was discontinued for non-compliance with funding and reporting requirements.

Project delays should be expected when investing in agriculture, especially where seasonality is at play. In some instances, delays in contracting led businesses to take their first disbursement later than expected, which then affected the timing of subsequent disbursements. Disbursements were linked to financial development impact KPIs and other special contractual conditions and some projects took longer to start or meet these KPIs than originally anticipated. Investees were expected to provide 50% matching funds and a number of companies had difficulty in proving this, which also caused disbursement delays.

» 03 ROLE OF GRANTS & CONCESSIONAL FINANCING

The majority of AAW R2 funds were provided to investees principally as non-repayable grants, due to the requirements of the main donor, GAC. The provision of this type of financing instrument allows AECF to target highly innovative business models that would not be in a position to use even repayable grants. Using this funding instrument for these wide-scale pan-African programmes where there are specific and targeted interventions reduces the potential to distort markets.

The grant catalyzes additional less concessional capital through the provision of ***50% matching funding,*** which included cash and directors' loans, reinvested profit, equity investment, grants from other funders, bank loans and overdrafts, supplier credit and in-kind contributions. Along with the provision of TA, this meant that the AECF funds were in effect a type of blended finance at the project level. There is an increasing emphasis from donors to blend highly concessional capital at the programme level. However, grant-only financing provides critical investment capacity in early-stage business ideas that are needed to fill the investment pipeline.

Concessional funding can be an effective way to ***catalyse additional finance***. While investees are initially unable to access more traditional avenues of financing, nine investees have subsequently been successful in raising an additional US$2.7m from other sources during their engagement with AECF. Despite these successes, leveraging follow-on capital needs to be ***more intentional from the onset,*** with clearer visions on how investees will graduate to less concessional capital through establishing partnerships with other investment institutions from the beginning. AECF now integrates investment advisory and facilitation for investees from the onset of programme design.

» 04 TECHNICAL ASSISTANCE

Finance has to be complemented by technical assistance (TA) and indeed in many early-stage investments, there needs to be a greater provision of advisory support than finance. TA should be specifically ***tailored to each business*** and linked to business development challenges. Increasingly, AECF links TA to funding disbursement milestones with advisory support helping companies to reach targets for additional funding. Whilst AAW R2 was not designed with a TA component, investees were able to access support from AECF's general consolidated TA fund.

Expecting the investee to ***co-fund part of the TA can help to improve business buy-in and performance***, while also avoiding market distortion. Companies are willing to pay for TA as long as it is specific to their needs and unlocks a challenge. However, the proliferation of development-financed programmes which offer free or significantly subsidized business development services and TA makes it more difficult to convince businesses to pay.

It can also be ***difficult to find companies well suited for technical assistance*** and to ensure that capacity development is targeted in the right place, given the frequent centralisation of responsibilities on owner/managers, lack of delegation of authority and limited middle management capacity. At the same time, when a company has very specific needs it can be ***challenging to find the right TA provider.*** This is even harder with a multi-country portfolio without established relationships with those local TA providers who can offer the appropriate social and cultural context advisory services.

One of the most common capacity-building needs of investees is on the ***development and strengthening of financial management systems***. Where investees struggle with financial reporting requirements, this can provide an entry-point for assessing investee needs and providing support on financial management. Advising businesses in this area can not only improve business performance but can also help them to meet the requirements for follow-on financing from other investors.

05 COVID-19 CHALLENGES & RESPONSE

COVID-19 impacted investees due to disruptions in supply chains, increased transportation costs, increased cost of raw materials, restricted access to local and international markets, and reduced business profits. The additional funds provided to investees for COVID-19 relief were mainly used to strengthen their supply chains, take advantage of opportunities that emerged from the pandemic and support business operations. Many investees reported that their business shrank considerably during the pandemic and that they would have had to scale down operations more significantly, lay off some of their employees, or in worst cases shut down operations completely without the additional targeted COVID-19 relief funds.

06 SUCCESS HIGHLIGHTS FROM THE COVID-19 RELIEF FUND

A) AFRIFRUTA

The investee invested in a boiler and electrical infrastructure enabling them to operate both cold rooms and all five dryers instead of 3, increasing overall efficiency and reducing per-unit production costs.

B) ECOFIX KENYA

Ecofix Kenya diversified its product offering by introducing Nea by Nature, a new product line appealing to an entirely new personal care market segment. It is anticipated that the strategy will cushion the firm from market risks inherent to reliance on one product segment but increase overall sales.

C) HILLS GLOBAL

Hills Global's strategy to focus on sweet potato chips to replace imported Irish potatoes resulted in them increasing their sales and rate of stock turnover. They managed to get into Shoprite, one of Nigeria's major supermarket chains - an indication of market acceptance, appropriate customer targeting and price points.

07 INVESTEE REPORTING REQUIREMENTS

The ***six-year investee monitoring period*** reflects a balance between the amount of time an investee needs support and the cost of management. More established investees need less time and lighter management oversight, whereas early-stage businesses need much longer and slower-paced development support.

Semi-annual reporting from investees allows AECF to assess their performance and collect impact data. Disbursements were subject to the businesses reporting satisfactorily, which encouraged timely and good-quality engagement. However, once businesses were fully drawn down, reporting sometimes became more delayed and/or less detailed. To try and overcome this challenge and enable a clear, attributable benefit to be appropriately accorded to the portfolio, a ***lighter touch reporting process*** could be taken with these investees.

08 GENDER-LENS INVESTING

Although the AAW R2 did not have a specific emphasis on gender equality when it was designed, the launch of the GAC's Feminist International Assistance Policy in 2017 led to an increasing focus on the effective inclusion of women into AECF programme outcomes. As a result, gender-targeted reporting and particularly the inclusion of women and girls was introduced midway into the AAW R2 programme in 2018. Subsequent investee reports clearly showed the impact of grant financing in the way the investees operations involved women and girls in various categories as employees, suppliers of raw materials or in other value chain activities.

Given that women are disadvantaged as discriminatory gender norms mean that they don't have capital and productive assets, they are restricted in travel or work outside of the home and there is a greater burden of household care for women, there is a further ***need for funds which can specifically target women.*** Investment in structures that can help improve women's access to productive assets and capacity building specifically for women and more widely on gender-inclusive issues are also crucial for building equality.

09 RURAL AGRI-PROCESSING HUBS

Close-to-production downstream processing facilities can ***successfully create markets and reduce costs*** for rural, smallholder producers while increasing incomes and providing opportunities for additional value. This type of processing close to where the crops are being produced can also act as a catalyst to crowd in other players who can provide transportation services, agri-inputs, and aggregation. In addition, processor demand can drive ***improvements in quality and increases in production volumes,*** while also providing employment in rural areas.

In Kenya, Best Tropical Fruits received funding from AECF to set up a fruit processing plant (pulp, oil and dried fruits) and collection centres for purchasing from smallholder producers, who would otherwise lose between 10-30% of their crops due to lack of local market, poor post-harvest handling and costs of transport. According to Patrick McMullin, CEO of Best Tropical Fruits, "When we started setting up the factory, there was limited infrastructure development in the area. No electricity access, roads were unpaved, and the nearest police post was quite far. Farmers no longer worry about transporting the fruits using trucks or brokers who promise to buy harvested fruits only to disappear once the fruits have been harvested. They now transport the fruits straight to the factory and are assured of payment".

Outgrowers Tanzania Ltd (OGTL) is working with smallholder cashew producers who are provided with the equipment and training to do semi-processing of their nuts. This value-addition increases the price farmers are paid and also provides more stability with the market and pricing. While 90% of cashews from Tanzania are exported raw-in-shell, OGTL is working to make a more inclusive value chain for cashew farmers and improve traceability within the cashew sector.

In many countries, the focus in the agriculture sector has been primary production, not markets and value addition. While institutions such as the AECF can provide funding to support innovative business ideas which add value and provide new markets, ***government support is needed to build critical infrastructure*** which will allow for agricultural crops to reach urban markets and for inputs to be distributed to rural producers. Investment in downstream agri-processing in rural areas can also catalyse infrastructure investment, for example, Best Tropical Fruits saw the extension of the electricity grid because of the construction of their processing facility.

» 10 VERSATILITY

Businesses need to be versatile to ***adapt to changing markets and challenging business environments.*** At the same time, funders need to have the flexibility to enable businesses to change what they are doing. Notably, Ecofix (Kenya) expanded their product line to include cosmetics products as part of their product line, and Best Tropical Fruits (Kenya) expanded to processing additional fruits, including avocados to take advantage of the seasonal availability of different crops. Hills Global (Nigeria) diversified from grass cutters (Thryonomys swinderianus) to sweet and Irish potatoes to fill the supply gap during the COVID-19 period, and has been able to access Shoprite (a multinational retail company) and other small supermarkets as outlets.

In some cases, businesses are not quick or agile enough to adapt to changing markets. Agrics Company Ltd for instance was slow to react to a changing government policy on inputs in Tanzania that set a ceiling price for fertilizer. The company was operating a business model that had a mismatch between repayments of inputs supplied to farmers versus the upfront payment to purchase.

» 11 BUSINESS FAILURE

Two of the businesses supported under the AAW R2 – Agrics Company Ltd (Kenya) and Better Agriculture (Zimbabwe) – both closed their operations during the course of the programme. Notably, this 10.5% failure rate is within the limits of the programme risk analysis matrix which expected up to 20% of businesses to fail. Agrics was slow to make changes to their business model in a sector that has low margins and high upfront capital demand to purchase fertilizer and seeds. Their inability to align their process to ensure farmers paid their debt within or before the harvest to allow the purchase of inputs in the subsequent season. Better Agriculture exposed market vulnerability when it lost its sole off-taker of its peppers and could not find alternative crops to produce in time to retain its out growers.

» 12 PORTFOLIO MIX

Experience has shown that projects that result in the highest reach are those that are structured around the input supply model. However, these models do not contribute substantially to new job creation and result in low additional income per household. Investments that lead to high farmer income change, such as through out-growers, tend to have a more limited scale due to the need to invest significantly in each farmer. Higher risk, but more innovative, investments can be balanced against those that are less exciting but more certain to deliver impact. Therefore, a more mixed portfolio which includes investees across various categories of input supply, primary production, agro-processing, marketing and distribution and service provision can provide a more balanced impact, which results in both a large number of household beneficiaries, but also a substantial impact on additional income.

» 13 CHANGING FARMER BEHAVIOUR

Investing in the private sector can be a successful way to influence ***farmer behaviour and drive the adoption of best practices***. Smallholder farmers are often slow to adopt new farming practices, therefore it is critical to be consistent and develop long-term and continuous relationships with farmers. Supporting a business to produce and sell improved varieties of seed that meet the conditions for smallholders can help improve productivity and profitability for smallholders. Zvikomborero has seen farmers change their behaviour and embrace new goat breeds which are more hardy, mature faster and fetch a higher price resulting in increased income for farmers. Hills Global has contributed to the change of grasscutter farmers from bush hunting to domesticating and rearing grasscutters in well-designed cages to allow for proper feeding, reduce in-breeding and protection from predators and thieves.

» 14 BUNDLING OF SERVICES

It is difficult to convince farmers to take on new products, especially where they cannot see an immediate benefit - such as insurance. Providing a bundle of complementary services and products enables new beneficial products to be introduced to farming systems, improves resilience and market efficiencies and builds loyalty, which in turn reduces side selling. Best Tropical Fruits has been bundling its extension services to farmers with off-take agreements as part of improving the quality of fruits delivered to its processing plant. Josiche provides extension services to farmers on Good agricultural practices to improve their productivity and yields. As part of organising its producer farmers, Afrifruta encouraged the formation of a farmers' cooperative for ease of providing extension and bulking of produce for sale using a single invoice. Hills Global has been providing extension support to grass-cutter and sweet potato farmers. During the pandemic, the company provided a toll-free line to farmers to keep extension service alive with the pandemic-induced lockdown which allowed the farmers to keep abreast of their market (Hills Global).

» 15 CURRENCY SHOCKS & HYPERINFLATION

Currency flows and the behavior of local currencies against the dollar has significant implications on the performance of Africa's agribusiness sector, especially in those value chains that rely on export markets or on the regular purchase of imported equipment and services. National currencies in many of the AAW R2 project countries experienced significant fluctuation and depreciation against the US dollar.

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