Working Paper

Future Agricultures

Private Equity Investments and Agricultural Development in Africa: Opportunities and Challenges

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Contents

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List of Acronyms

AUM	Assets under management
BVCA	British Private Equity and Venture Capital Association
DFI	Development financial institutions
EIU	Economist Intelligence Unit
EMPEA	Emerging Markets Private Equity Association
ESG	Environmental, social and governance
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GP	General partners
IFC	International Finance Corporation
IIED	International Institute for Environment and Development
ILC	International Land Coalition
IPO	Initial Public Offer
LP	Limited partner
MENA	Middle East and North Africa
OECD	Organisation for Economic Co-operation and Development
PE	Private equity
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation
UNPRI	United Nations Principles for Responsible Investment

Executive summary

Introduction and objective

Private equity (PE) and venture capital are forms of investment that bring together specialised fund managers and investors to provide equity investments into private (i.e. non-publicly listed) companies. Compared to other emerging markets, the PE industry in Africa is still at an early stage of development but several circumstances suggest that its growth is proceeding at a sustained pace.

The agribusiness sector in Africa has become an increasingly important destination for investments, and investment in this sector is projected to grow further in future. PE may represent an additional, important source of capital for agriculture. However, due to lack of publicly available data, very little is known about PE deals concluded in Africa, where they stand within the panorama of agribusiness investments and the impact they have on local economies.

This study seeks to shed some light on the volume and the characteristics of PE investments in agribusiness in Africa, with the objective of assessing whether, and how, these could contribute to developing the sector.

Characteristics of PE funds investing in agribusiness in Africa

By cross-checking multiple sources, including, among others, the Food and Agriculture Organization of the United Nations (FAO), the Organisation for Economic Co-operation and Development (OECD), the International Land Coalition (ILC) Land Matrix as well as the latest information available on PE firms' websites, the analysis has identified 53 PE funds that have raised, or are raising, capital to invest in the agricultural sector in Africa since 2005. Nearly half of the funds (25) are managed by PE firms based in the continent. There are 14 funds run by PE firms based in London and eight in the MENA region, representing respectively 26 percent and 15 percent of the sample. The remaining six funds are managed by PE firms based elsewhere in Europe and the US.

Twenty-seven funds are dedicated exclusively to agribusiness whereas 26 are funds investing in a range of sectors including agribusiness. Almost all the agribusiness-dedicated funds invest in companies operating along the entire value chain, including primary production, whereas only 12 of the 22 non-dedicated funds for which information is available have stakes in farm holdings or agricultural production companies. The capital base of the agriculture-dedicated funds (including capital raised by closed funds and the fundraising target of open funds) is estimated to amount to about US$ 5.88 billion. This represents about 18 percent of the capital base of all PE funds that have invested in Africa throughout different sectors over the last decade.

PE investments and agricultural development: opportunities and challenges

As with other investing vehicles, private equity could help fill the financing gap that precludes the agricultural sector in Africa from expanding and becoming more profitable. Compared to other types of investments, however, PE presents some specific opportunities that make it particularly suitable as a tool to foster agricultural development.

Opportunities

Access to credit and capital leverage: PE investments in developing countries provide a source of financing and, above all, capital leverage that is especially important for agricultural companies constrained by limited access to credit.

Improved local management skills and employment generation: One of the main differences between PE and other investment vehicles is that PE fund managers are actively involved in managing the companies in their portfolio in order to generate operational improvements during the holding period. Such an approach is especially important in emerging economies such as in Africa, as it provides an opportunity for local entrepreneurs to improve their own skills and improve efficiency. On the other hand, mergers and acquisitions conducted by large (usually) foreign companies more often imply that the local management is removed or subordinate to the investing company's priorities.

In addition, corporate investments do not necessarily aim to enhance the performance of investee companies, as their integration responds to the wider strategy of the investing firms. The ultimate objective of PE investments instead is to maximise the standalone performance of the investee company, thereby supporting the growth of a locally-based business as well as of the surrounding economy.

Strengthening linkages along local agribusiness value chains: By focusing on locally based, high-growth potential businesses, PE can also help to develop the agricultural sector in Africa by strengthening the linkages between primary production and agro-industry along local value chains. This is a critical step to foster the development of the agricultural sector and, more broadly, of the entire economy.

Focus on environmental, social and governance (ESG) issues: Investments in agriculture are especially sensitive to ESG issues, particularly in the African context. Due to their investors' mandate, almost all PE funds in Africa demonstrate some degree of concern about ESG issues. IFC estimates that almost 50 percent of the fund managers investing in Africa have, or have had, development financial institutions (DFIs) among their investors, which usually insist that investee companies have to comply with local ESG standards and often adopt international best practices. Among the 54 funds identified in this work, 27 are backed by DFIs and/or international development organisations and 39 have some degree of focus on ESG issues. Beyond DFIs, there is also a growing number of responsible investors and so-called "impact investors" that require fund managers to report on ESG issues and, in some cases, deliver positive social impacts along with good financial returns.

Challenges

Funding of the missing middle: While there is no overriding consensus about the suitability of conventional PE funds to target Small and Medium Enterprises (SMEs) some fund managers in Africa have demonstrated that investing in very small companies can be profitable. However, innovative financing and management tools are needed to address some specific challenges, the most compelling being the lack of usual exit opportunities, such as an Initial Public Offer (IPO) on a public stock exchange, a buyout by another PE fund or a trade sale to another company.

Lack of transparency and disclosure: Excessive confidentiality of information is the major argument against the promotion of PE in developing countries. The risks stemming from lack of disclosure include tax avoidance and biases in the reporting of returns. Lack of transparency may be particularly problematic for agricultural investments, for instance, when they imply the acquisition of land titles or when they are especially detrimental to the environment.

Long-term sustainability of the investments: A further criticism of PE investors is that they pursue short-term profit at the expense of business stability. This may happen at times, as PE funds seek high returns over a relatively short time horizon. However, this may be mitigated, at least partially, by the fact that they need the investment to be financially viable and economically sustainable in order to secure an exit.

Conclusions

The analysis suggests that PE is an increasingly important source for financing agri-business in Africa. All those interviewed agreed that the trends indicate long-term, sustained interest by PE in African agriculture and investment in the sector will continue to grow steadily without the risk of a bubble.

Drivers of success: However, in order to consolidate the role of PE as a long-term financing source of agribusiness in Africa, fund managers need to address a number of context-specific challenges. Highly specialised experience in the sector, acquaintance with the region and good local connections are critical drivers of success. A further important driver is the capacity to employ innovative financing and management solutions in order to adjust to the characteristics of the local economy, mostly comprising SMEs operating in fragmented markets, and to compensate for the lack of exit opportunities.

Maximising the development impact of PE: A number of features make PE investments potentially suitable to support the development of the agricultural sector in Africa. The involvement of impact investment funds and DFIs further helps to leverage "good" investments, i.e. financially viable projects that are also socially and environmentally sustainable. In order to fully harness this potential, however, PE should be coupled with patient capital invested by public institutions and public-private partnerships to develop infrastructure and other essential public and semi-public goods.

As the first work focusing exclusively on agricultural PE investment in Africa, this research aims to provide a solid baseline for future research in the field. Once a larger number of PE investments have been sold, one may expect that more information will be available on PE-backed companies, and especially on those that are listed on public stock exchanges. If this is the case, it would be worth taking the analysis further in order to assess what impacts PE investments have had on investee companies and local entrepreneurship, whether PE-backed companies have contributed to developing the local economy and if ESG issues have been adequately addressed. Further issues that may be worth exploring in future are whether the innovative PE tools used by some of the funds identified in the analysis will turn into best practices, whether PE funds are changing their strategies as a result of the lessons learned in Africa and how this will affect investors' preferences and future investment patterns – in Africa and elsewhere.

1. Introduction

In recent years, Africa has become an increasingly important destination for investment. Within Africa as a whole, Sub-Saharan Africa (SSA) has been a particular focus for investment, with a significant increase in the number of national and foreign investors operating in the region, and a corresponding rise in the volume of investment. Although traditionally important sectors such as the extractive industry continue to attract the bulk of resources, new funds have been committed to a large variety of assets and economic activities.

Within this, investments in farmland and agribusiness have increased too, driven by several factors including rising food prices. Many agricultural investments have been financed through vehicles relatively new to the region, such as sovereign wealth funds, hedge funds and private equity (PE) funds, which are sometimes criticised for the high speculative nature of their financial operations. At the same time, the role of private capital to make investment in agriculture happen is an important component of the New Alliance for Food Security and Nutrition.[1]

Agricultural investments are often land based, as many land transactions envisage crop production, and most agricultural production and processing activities include the acquisition of rights for land use. However, while the nature of land deals and their consequences have raised many concerns, less attention has been paid to the nature of agribusiness investments and the impact of different financing vehicles on the business models and ownership arrangements of these deals.

A recent report by FAO on the impact of agricultural investments on development concludes that, while in most investments that involve land deals the social and environmental risks outweigh the economic benefits (including for the investors themselves) resources committed to agricultural production and processing have several benefits both at local and national level (Liu et al. 2012: 323-325). While reaching interesting conclusions, the study calls for further research on these issues, as information on agricultural investments is still limited and often unreliable in most African countries (Liu et al. 2012: 338). Agricultural investments by PE funds in Africa, for instance, have not been extensively covered by the media nor specifically addressed by academic research. This is partly due to the fact that they are relatively new to the region (and still small compared to PE investments in other sectors) and partly because of the scarce information available on these deals.

1.1. Objective and rationale

The present work seeks to depict the characteristics of agribusiness deals concluded by PE funds in Africa and to highlight the opportunities and the challenges for PE to contribute to the development of the African agricultural sector.

PE and venture capital are forms of investment that bring together retail and institutional investors and specialised fund managers to provide equity investments into companies. As such, they may represent an agile answer to the growing demand for capital needed to develop commercial agriculture in Africa. However, due to lack of publicly available data, very little is known about the size and the characteristics of PE deals, where they stand within the panorama of agribusiness investments in Africa and the impact they have on local economies. This work aims to shed more light on PE investments in agribusiness and so assess their potential impact on African agriculture.

Another reason why the report focuses on this specific asset class is that the growing attention towards the funds being invested in land and agriculture has not been accompanied by an adequate differentiation among investors' targets, nor among types of investors and investment vehicles. However, if interest in agriculture is growing, together with investments in the sector, it is important to start to draw such distinctions. According to Lorenzo Cotula, Senior Researcher at the International Institute for Environment and Development (IIED), differentiating among investors and financing vehicles would not just allow the public to be more informed but would also help clarify the motivations behind different types of investments. Only on this basis, in fact, it is possible to assess the scope for, and relevance of, dialogue about the risks and the opportunities involved in different types of investments.[2]

1. 2. Approach and methodology

The research draws on the review of secondary sources and on primary information collected through semi-structured interviews with key informants.

The literature available on the extent and impacts of PE investment in Africa is still very limited. On one hand, this is because PE is a relatively new type of investment in the region. This is especially true for the agricultural sector, which has only recently started to attract larger shares of investment flows. On the other hand, access to information on PE investments is restricted due to the high confidentiality that fund managers and investors keep on their operations. Most of the information publicly available comes from media sources such as online journal articles and dedicated websites and internet fora. These sources are not always exhaustive and sometimes are contradictory and need to be verified – a difficult and time-consuming task. Deals that have been exited – i.e. investee companies that have been sold or listed on a public exchange at the end of the holding period – can make information about the investment more available but these are currently too few to allow solid conclusions about their impact on the local economy.

Two recent research studies – one published by FAO (Miller 2010) and one by OECD (HighQuest Partners 2010) – have sought to capture a picture of the investment funds (including PE funds) targeting agriculture in developing countries.[3] Both studies identify the lack of publicly available data and the lack of willingness of counterparts to disclose information as significant limitations to the analysis. In addition, both studies highlight that most funds have been set up only recently (while some were in the process of being set up while the studies were carried out) and that there is the need to monitor the evolution of these investments over time.

While neither the FAO nor the OECD studies offers a comprehensive picture of the PE funds investing in agriculture in Africa,[4] they have provided a useful starting point for this research. Drawing on these and other publicly accessible sources, such as the Land Matrix, a database has been created with the objective of including as many PE funds targeting agribusiness in Africa as possible. Annex 3 lists all the funds that have been identified along with core information on their size, the countries they invest in, the sector/crop they target and their focus on environmental, social and governance (ESG) issues. Whenever possible, the data collected have been verified and updated by crosschecking multiple sources, including the latest information available on the PE firms' websites.[5] Unfortunately, part of the information is still missing. For instance, some funds do not share any data on the actual amount of assets under management (AUM) and it has not been possible to get detailed information on nearly all of the investee companies and their operations. In addition, while the most relevant sources have been reviewed, there may be funds that invest all or part of their capital in agribusiness but whose interest in the sector has not been disclosed nor reported. As a result, the database is not exhaustive.

Notwithstanding these limitations, the effort has yielded some interesting outcomes, being the first attempt made of focusing exclusively on PE as an asset class in the agricultural sector in Africa. The database has been used to estimate the volume of investments committed to the agricultural sector as well as to identify and discuss some basic features with regard to the sectors and the value chain segments targeted by PE investors.

Beyond the review and the analysis of secondary sources, the research draws also on the information collected through semi-structured interviews held with a sample of London-based PE fund managers who invest in agriculture in Africa and other relevant stakeholders. These include, among others, the British Private Equity and Venture Capital Association (BVCA), CDC Group and the Global Impact Investing Network. Table 1 summarises the number and type of interviews held; a comprehensive list of interviewees is presented in Annex 1.

Mainly due to concerns about confidentiality, nearly half of the fund managers that were contacted under the survey declined to be interviewed and among the interviewees, many did not want to disclose figures on their investment operations. This has significantly constrained the discussion of quantitative aspects. On the other hand, considering the scarce literature available, the anecdotal information and the insights provided by the interviewees have been very useful to better understand and analyse the drivers of PE investments in agriculture in Africa, the way they may contribute to foster the economy as well as the trends that they are likely to follow.

Table 1 Interviews with relevant stakeholders

Type of firm/organisation	
PE Fund Manager	6
Trade Association	1
Development Finance Institution	1
Civil Society Organisation/Nonprofit	2
Research Institution	1
Total	11

The paper is structured as follows: the next section presents a general introduction to different types of financing sources, explaining how PE funds work and how they differ from other investment vehicles, particularly in the context of emerging and developing economies. Chapter Two provides an overview of the trends and the characteristics of PE investments in agriculture and agribusiness in Africa. On this basis, Chapter Three discusses the potential role that PE investments may play in the development of the agricultural sector in Africa. Chapter Four provides initial conclusions about the circumstances under which PE investments could more effectively contribute to agricultural development in Africa while outlining the strengths and the limits of the analysis.

1.3. Private equity at a glance

Companies can get access to capital either through debt or equity (Annex 2 summarises the basic characteristics of different sources of financing).

In most developed economies, receiving loans from a commercial bank or another financial institution is usually the easiest and the cheapest way to finance a business on a medium to long-term time horizon.[6] Larger companies can also secure credit by issuing corporate bonds to satisfy short and medium-term financing needs. In both cases, debt is repaid alongside interest within a pre-established period of time. However, securing capital through debt is usually more difficult in Africa, where credit is expensive and hard to access, and corporate bond markets are uncommon.

The second main source of capital for companies that seek to grow is equity. Publicly listed companies issue public equity shares. Shareholders get an annual dividend and may have share price gains. Private companies (i.e. not publicly listed) can also get access to capital by selling equity stakes to a private equity fund or a venture capital fund.

Private equity (PE) is short to medium-term finance provided in return for an equity stake in potentially high growth investments. This asset class is in common use by both institutional investors (banks, mutual funds, pension funds, hedge funds and private equity funds) and retail investors (high net worth individuals, family offices and private companies). These investors, known also as limited partners (LPs), invest into funds run by professional managers, also called general partners (GPs).[7]

PE firms raise equity (the fund) among the investors and the GPs themselves to finance the investment opportunities that are carefully sourced and screened through a due diligence process. The fund structure allows for a more efficient management of investment risk, as the GP can participate in a wider range of businesses while still investing enough capital to have a meaningful effect on their growth. In addition, PE firms often conduct what are known as leveraged buyouts, where large amounts of debt are issued (along with the capital raised) to fund a large purchase.

At the end of the holding period (usually five years), returns are realised for investors through exiting the deal. This can be done by floating the company on a public stock exchange through an initial public offering (IPO), a subsequent buyout (whereby the portfolio company is sold to another private equity firm) or a trade sale (i.e. the sale of company shares to industrial investors).

The fee structure for private equity firms varies, but it typically consists of a management fee and a performance fee (in some cases, a yearly management fee of 2 percent of assets managed and 20 percent of gross profits upon sale of the company).

Venture capital is a subset of private equity that targets early-stage, high potential start-up companies, thereby assuming a higher investment risk compared to PE, which prefers to invest in relatively more established businesses. However, as PE investors also seek high investment returns, both venture capital funds and PE funds are usually keener to invest in emerging, fast-growing economies compared to other investors. PE and venture capital thus provide a source of financing that is particularly important for companies that seek to thrive in markets where access to credit and to public stock exchanges is limited. In fact, in developing countries PE investments tend to operate mostly as growth capital or venture capital with little or no corporate restructuring – which is instead very common in PE-backed companies in Western economies (IFC 2011: 52).

One of the main differences between PE and other investment vehicles is that PE fund managers are actively involved in managing the companies they invest in (rather than simply monitoring their performance at regular intervals) in order to generate operational improvements during the holding period. In many PE investments, the managers of the portfolio (i.e. investee) companies are offered an equity stake in the company too, in order to align the interests of both parties. This is one of the main reasons why private equity ownership is thought to be an effective model with regards to corporate governance.

Again, this characteristic of PE investments is especially important in emerging economies such as in Africa, where the active management approach provides an opportunity for local entrepreneurs to improve their own management skills and foster efficiency. By contrast, mergers and acquisitions conducted by large (usually) foreign companies more often imply the local management is removed or subordinate to the investing company's priorities.

In addition, investment by private corporations does not necessarily aim to enhance the performance of investee companies, as their integration responds to the wider strategy of existing corporations. The ultimate objective of PE investments instead is to maximise the standalone performance of the investee company, thereby supporting the growth of a locally-based business as well as of the surrounding economy.

While there is general agreement on the positive role of PE investments as a source of capital for high-growth, well established businesses – there is less consensus on the suitability of PE operating in developing countries to target small and medium enterprises (SMEs) and fill the so-called 'missing middle' in financing. Conventional PE tools are not particularly well suited to the structure of small businesses. However, a number of fund managers in Africa have demonstrated that investments in very small companies can also be profitable if innovative financing and managing formula can address some specific challenges – the most compelling being the lack of exit opportunities usually available to larger investee companies, such as IPOs and trade sales. These fund managers typically have a double bottom line, i.e. they seek to realise social returns along with financial returns, and are often backed by development finance institutions (DFIs).

Indeed, the extensive presence of DFIs is a distinctive feature of the African PE market. IFC estimates that almost 50 percent of PE funds investing in Africa have, or have had, DFIs among their investors (IFC 2011:15). Andrykowsky and Barbary (2012: 15) report Preqin[8] listing 51 DFIs that invest in Africa-focused funds, representing 9 percent of LPs and about 60 percent of the value of all LP investment in the region. The outcomes of our search are consistent with these findings: 27 out of 54 PE funds listed in Annex 3 are backed by one or more DFIs and international development organisations (such as UNIDO and the World Bank). An important implication of DFIs investing in Africa is that fund managers have to monitor and report on how investee companies deal with environmental and social issues.

2. PE investments in agriculture and agri-business in Africa: an overview

2.1. Africa and agriculture as increasingly important destinations for investment

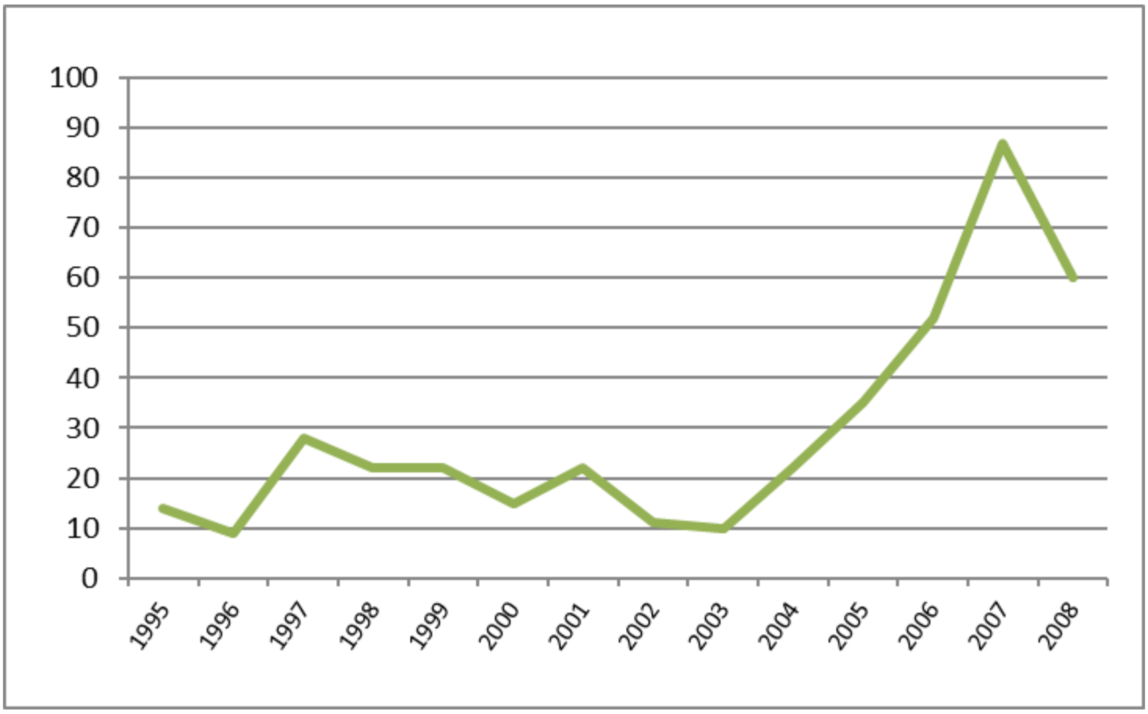
The sustained GDP growth rates experienced by many African countries have been significantly fuelled by the private investments made in multiple sectors, especially from foreign investors. Annual capital inflows (including FDI, equity, debt and other private capital flows) have risen sharply since 2003 (from US$15 billion in 2000 to a peak of US$87 billion in 2007). FDI, in particular, increased from US$9 billion in 2000 to US$62 billion in 2008 and since 2006, returns to FDI in Africa have surpassed those in any other region of the world (Roxburgh et al. 2010:16-17). Whereas the 2008 financial crisis caused a 29 percent decline in FDI flows to developed countries, developing and transition economies increased their share of global FDI flows by 43 percent from 2007 to 2008. In Africa, in particular, inflows rose to a record level, with a 63 percent increase in West Africa (UNCTAD 2009: xvii).

Since 2009, however, due to the global economic crisis, investment flows to developing and transition economies have also slowed down. Africa as a whole suffered from a further decline caused by the political instability in Egypt and Libya, historically two major recipients of FDI. Nonetheless, inflows to Sub-Saharan Africa (SSA) recovered from US$29 billion in 2010 to US$37 billion in 2011, a level comparable with the peak in 2007 (UNCTAD 2012: 11). An important characteristic of this new wave of investments is their growing diversification across sectors and among countries. According to a study published in 2010 by the McKinsey Global Institute, the accelerated economic growth that attracts large shares of FDI to Africa is, at the same time, a consequence and a driver of economic diversification.

The agricultural and agribusiness sectors have a critical role in this process. Indeed, 'among the sectors, the agriculture and extractive industries have weathered the crisis relatively well, compared with business-cycle-sensitive industries such as metal manufacturing' (UNCTAD 2009: xvii). Land, agricultural production and agribusiness, in particular, have provided 'alternative investment opportunities that are decoupled from international financial markets and that contribute to a diversification away from investments in traditional asset classes' (FAO 2010: 52). Between 2002 and 2007, the agriculture sector accounted for 12 percent of African GDP growth, compared to a 9 percent contribution by the manufacturing sector (Roxburgh et al. 2010: 11). Assuming that political and macroeconomic stability will be maintained over the next years, at the current compound annual growth rate of 5 percent, agricultural revenues may reach US$500 billion in 2020 (Roxburgh et al. 2010: 41).

The potential of the agricultural sector is supported by several factors. On the demand side, there is a growing

Figure 1 Private capital flows to Africa, US$ billion, 1995-2008



demand for food and other agricultural products both at global level (driven by higher incomes in transition and emerging economies and demand for bio-fuels) and within the continent. Socio-economic trends including a growing and better-educated labour force, urbanisation and the consequent rise of a middle-class, make Africa one of the world's most dynamic consumer markets. The food and beverages sector, which in 2008 already represented 43 percent of spending, is projected to increase in absolute terms more than any other category in the next decade. On the supply side, a huge potential lies in the availability of uncultivated land as well as in the possibility to raise crop yields, currently well below potential (Roxburgh et al. 2010: 22-23).

2.2. The rise of the PE industry in Africa

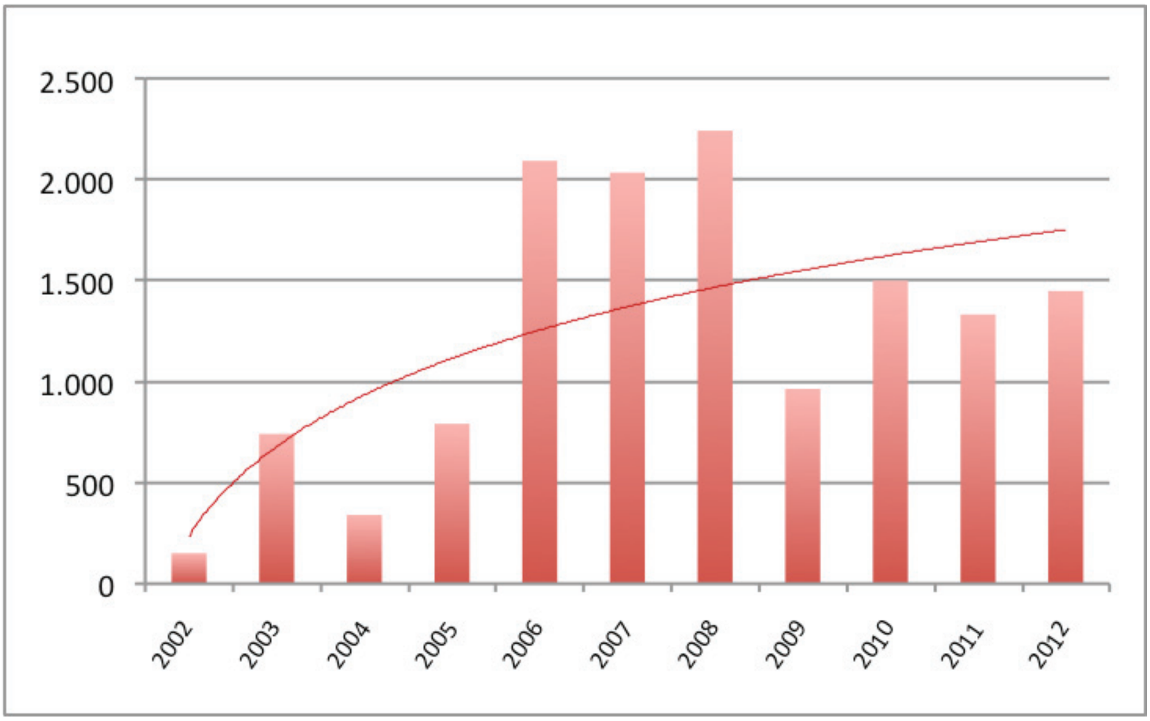
The PE industry in Africa is still at an early stage of development. According to the Emerging Markets Private Equity Association (EMPEA), between 2008 and 2012, the Sub-Saharan region has attracted only between 3 percent and 6 percent of the funds raised in emerging markets.[9] Nonetheless, it has grown rapidly since 2005 and returns to investments have been consistent and above the average. A 2011 study by RisCura and the South African Venture Capital Association showed South African private equity funds delivering pooled net internal rates of return of more than 20 percent over a ten-year period. IFC and the CDC Group, two of the most active investors in the region, reported that their African portfolios have outperformed relative to their emerging markets portfolios (Choi 2011: 5).

In addition, several circumstances suggest that Africa's private equity industry is growing steadily. For example, in 2012, private equity funds based in SSA alone raised nearly US$1.45 billion. Although well below the record US$2.2 billion raised in 2008, the figure equates to a 50 percent increase compared to 2009,[10] indicating that Africa rebounded faster than the emerging markets after the global financial crisis.

Of the money raised, the value of PE funds actually committed for investment in 2012 in SSA was worth US$1.16 billion.[11] Such investments are becoming more geographically dispersed within the Sub-Saharan region (Choi 2011: 3) and more diversified across the economic sectors. While banking, infrastructure and extractive industries continue to attract the bulk of capital, most of the transactions are in other sectors. The majority of the deals closed in 2011 were in the consumer goods sector (19 percent), followed by food and agriculture (16 percent) and industrial goods (16 percent) (Private Equity Africa 2011b). The following year, in 2012, the number of deals closed in the food and agriculture sector represented 24 percent of the total.[12] Although the average size of such deals is much smaller than the size of deals in infrastructure or extractive industries, their proliferation may provide a further boost to the diversification of the economy and support both directly and indirectly the development of local SMEs.

The increasing interest in PE of large African institutional investors, such as pension funds, is another indication of the increasing importance of this type of investment in the region (IFC 2011: 16). For example, in Kenya, the Capital Markets Authority is working with the Retirement Benefits Authority to review the relevant

Figure 2 Private equity fundraising in SSA, US$ million, 2002-2012



Source: EMPEA data published on 4th February 2013 regulations in order to enable pension funds and collective investment schemes to invest more than their current 5 percent cap in private equity funds (Manson 2011). The greater involvement of local pension funds as LPs would have several benefits for the development of a local PE industry: any profits for the local LPs stay in Africa, rather being exported by foreign investors; it educates local pension fund trustees in business and private equity; and it allows the local pension funds to exert an influence over, monitor and educate the GPs (usually foreigners or at least foreign-educated locals) about local issues and concerns.[13]

A further important driver is the extensive presence of DFIs. Beyond investing their own resources, DFIs also act as catalysts by mobilising additional sources of capital in PE funds, particularly from foreign investors. 'CDC has calculated, for example, that for every pound sterling invested in equity, the same amount is invested by other DFIs, while a further GBP 2.70 is contributed by private investors, increasing the initial investment to a total of GBP 4.70 per pound' (Hénin and Touchard 2011: 7). Similarly, the African Development Bank reports that for every US dollar it invests into funds, an additional US$5 are raised from other investors.

Several recent studies confirm that foreign investors' perception of Africa as destination of their investment is also improving and that PE will become an increasingly important financing vehicle.[14] A survey conducted at the end of 2011 by the Economist Intelligence Unit (EIU) among 158 institutional investors has indicated Africa as holding the greatest overall investment potential of all frontier markets globally (EIU 2012: 9-10). Asked which asset class offers the best opportunities for investment in Africa in a three-year perspective, the largest proportion of respondents - 47 percent - indicated private equity followed by infrastructure (38 percent) and commodities (33 percent) (EIU 2012: 16).

2.3. PE investments in agriculture and agribusiness in Africa

Within this trend, an increasing number of investors are targeting the food and the agriculture sectors. In 2010, the Wall Street Journal reported that 45 private equity firms had plans to invest US$2 billion in African agriculture in the following three to five years (Henshaw 2010).

According to Preqin, in 2010 there were over 190 private equity firms globally investing in agriculture and 63 firms were raising dedicated funds for an aggregate target of US$ 13.3 billion.[15] Calculating the share of such investments that go, or are meant to go, to Africa is difficult. PE as an asset class is not included in the statistics on FDI in agriculture and the scarce information disclosed by fund managers makes hard to give a solid estimate.

Drawing on different sources, including some interviews held with London-based PE fund managers, the research has tried to identify as many PE funds as possible investing in agribusiness in Africa. Annex 3 illustrates all the funds that have been tracked down along with the relevant information. On the whole, 53 PE funds have been identified that since 2005 have raised or are raising capital to invest in agriculture and agribusiness in Africa. Twenty seven are agribusiness-dedicated funds whereas 26 are funds investing in different sectors including agribusiness.

Africa-based PE firms manage nearly half (25) of the funds. PE firms based in London run 14 funds (although some of them also have dedicated teams *in loco*), whereas there are eight fund managers based in the MENA region, three in Europe and one in the USA. Some of these fund managers are long established and well experienced companies, such as Emerging Capital Partners (ECP) and Actis, which have successfully exited dozens of deals in Africa over the last decade. However, the majority are first-time fund managers that run recently established funds. Finally, two PE funds are managed by large investment managers, Carlyle Group and Standard Chartered Bank, operating globally but new to the agricultural sector in Africa.[16]

The list in Annex 3 also includes two funds of funds:[17] AGVANCE Africa and CDC Group. The former, managed by the Credit Suisse Customised Fund Investment Group, has a target capital base of US$500 million to be allocated exclusively to agribusiness. The CDC Group is the UK's development finance institution (DFI) and has a strong focus on Africa. It currently operates as a fund of funds but it plans to increase the share of direct equity from the current 2 percent to 27 percent of its portfolio within the next five years. According to Jeremy Cleaver, CDC Group Africa Portfolio Director, as a direct investor CDC seeks to exert a stronger control over the environmental and social risks associated with agribusiness investments, which have so far discouraged a larger commitment of resources in the sector.[18] In addition, it could provide more patient capital, i.e. long-term investments, especially for the infrastructure sector, which could support development in the agriculture sector.[19]

Size of the funds

Data on the funds' capital base (i.e. the capital raised by closed funds plus the fundraising target of open funds) were available for 21 out of 27 funds dedicated

Table 2 Target capital base of agriculture-dedicated PE funds investing in Africa

	Number of funds	Capital base (US$ million)
Dedicated funds founded 2005-2007	4	375.0
Dedicated funds founded 2008-2012	17	5,507.4
Dedicated funds (total)	**21**	**5,882.4**

to agriculture. The capital base of the funds that have raised capital to invest exclusively in agribusiness between 2005 and 2012 amounts to about US$ 5.88 billion[20] (table 2).

Assad et al. (2012) estimates that PE funds active in Africa have raised, or have been raising, US$32 billion in capital between 2002 and 2011. Our estimate of the fundraising activity by agriculture-dedicated funds would thus represent at least 18 percent of the capital base (either raised or targeted) of the PE funds that have invested in all sectors in Africa over the last decade.

However, the figures above have to be considered with some caution. First, they show the capital that has been or is being fundraised (according to the fund's target) but only a part of it (and it is extremely difficult to estimate how much) has been invested. Second, as previously mentioned, some data are missing either because the information reviewed was incomplete or because there may be funds investing in agribusiness that have not been considered. Nonetheless, it still represents a good estimate and, above all, provides a useful indication of the scope of investors' and fund managers' interest in the sector.

Value chain targets

With regard to the investment strategy, some general information is available for 49 out of the 53 funds reviewed. Almost all the funds dedicated to agriculture invest, among other activities, in primary agricultural production, whereas only 12 of the 22 non-dedicated funds for which information is available have stakes in farm holdings or agricultural production companies (Table 3).

The 14 funds that target value chain segments other than primary production invest mostly in agricultural and food processing and retail companies. Other activities they invest in include agricultural production services, storage infrastructure, input production and distribution and trading (Table 3). It is worth noting that a relatively large number of funds among those that focus on input production and agro-processing tend to explicitly target SMEs compared to funds that invest in agricultural production.

Investments in agricultural production target a large variety of commercial food and biofuel crops for the regional and the international markets. However, as detailed information on the investee companies is usually not disclosed to the public, it has not been possible to get more precise data on the types of crops and respective acreages funds invest in. Nonetheless, it is worth mentioning that, contrary to common belief, only a few PE funds have invested directly in farmland, the most common strategy being to invest in stakes of production companies or farming holdings that already lease the land. Greenfield projects are judged to be too risky and do not guarantee strong returns within the relatively short time horizon of PE funds. The African Agricultural Land Fund and Chayton Capital, for instance, invested in large farming holdings with the objective of further expanding the cultivated area. Subsequently, they realised that operating within a PE fund's typical lifetime was too challenging and, after experiencing difficulties in fund-raising, decided to turn their respective funds into new holding companies. [21]

Challenges facing PE funds investing in African agribusiness

PE funds prefer to target mature businesses with experienced management in order to mitigate the wide range of exogenous risks that characterise the sector and that can compromise investors' returns. Compared to other emerging markets, greenfield agricultural investments in Africa are also less competitive because of lack of infrastructure and weak logistics.[22] In addition, getting the rights to use the land may be a long and complex process due to complicated bureaucracy, widespread corruption and lack of reliable data on the physical and chemical characteristics of the soils. The acquisition of rights to use the land can also lead to disputes, especially with local communities, and several subsequent problems and delays that do not fit the usual lifetime of PE investments (see following section on ESG issues).

On the other hand, investments in agro-processing and other value-addition activities that are not integrated along the value chain may present other types of challenges. One of the most compelling, especially for small and medium investee companies, is the reliability of the raw material supply chain. Fund managers have tried to overcome the problem by sourcing the inputs on the international market.[23] Others foresee an opportunity in linking with local producers through

Table 3 Target sectors of PE funds investing in agribusiness in Africa

	Dedicated funds	Non-dedicated funds
Entire agribusiness value chain (including primary production)	18	7
Focus on crop production	5	5
One or more segments of the agribusiness value chain (excluding primary production)	2	9
Input production and distribution	1	1
NA	1	4
Total	27	26

outgrowing schemes although this does not completely mitigate the risk.[24]

A further challenge concerning PE investments in African agriculture is the lack of typical exit options due to fragmented and undynamic markets, inadequate access to financial services and the absence of stock exchange markets (for larger companies). In order to deal with the problem, some fund managers have simply extended the fund lifetime, whereas other PE firms have tested new tools and unusual approaches. For instance, funds that invest in companies with strong cash flows, like TLG Capital, use a structure involving an annual coupon over a payback period corresponding to the lifetime of the funds. This allows the investment and returns to be recouped in the lifetime of the fund without the pressure of looking for an exit (White Lake Strategic Advisory Group 2012: 6). Another interesting example is Equity for Africa (EFA), which provides physical rather than financial capital by leasing equipment to SMEs (see later, Box 3).[25]

Poor managerial and professional skills within the investee companies represent another deterrent for PE investments in Africa. Many PE firms reviewed in Annex 3 overcome the problem by playing an active management role alongside the investee companies' managers. Some funds, especially those backed by DFIs, also provide some form of technical assistance.[26]

2.4. Environmental, social and governance (ESG) issues in PE investments in agriculture

Investments in Africa are sensitive to a number of environmental, social and governance (ESG) issues. Governance-related challenges stem from the inadequate business skills and widespread problems of corruption both in the private and in the public sector. However, investments in agriculture are primarily associated with environmental and social risks.

With regard to the environment, the impact of agricultural production activities on soil quality, biodiversity loss and water availability can affect the sustainability of an investment compromising not just its profitability but also, and more importantly, the livelihoods of the people including employees, contracting farmers and the surrounding communities that depend on local economic and natural resources. In addition, erratic climatic conditions and extreme weather events, exacerbated by the impact of climate change, are especially detrimental in Africa, where effective mitigation measures and adaptive strategies are rarely in place.

Social issues include: workers' health and safety, often disregarded by weak regulatory systems; relations with local suppliers; and issues associated with large-scale land acquisition, such as land tenure rights, access to natural resources and the displacement of indigenous populations. In fact, 'property rights in many emerging markets are dysfunctional to the point that ownership of land can be granted to an investor without the tens of thousands of people living on, or dependent on, that land knowing about it' (The Munden Project 2012: 2). As a result, investment projects often face different forms of local opposition. This can stem from the belief that the compensation is insufficient to support the losses for the local populations, from the violation of customary or legal rights or (most seriously) from any circumstance where the investment project curtails communities' access to food, water and other vital resources (The Munden Project 2012: 6-8).

Inadequate consideration of land-related issues is likely to have adverse impacts for the local communities but can also impact 'the stability of productivity which in turn may impact profitability and the reputation of investors' (Currell et al. 2012: 6). '[…] Disregarding customary property rights systems, overlooking the need for consultation, denying adequate compensation, or ignoring dispute resolution may save time and money in the short-term, but it can lead to sizeable expenses down the line', including the disruption of the project as the case of Daewoo in Madagascar exemplifies (The Munden Project 2012: 8).

All investors may be equally concerned about ESG issues. However, IFC notes that PE investments, in spite of being relatively newer and definitely smaller compared to other asset classes, have more experience in handling ESG issues. One reason is 'the heavy DFIs footprint both as LPs and direct investors' (Andrykowsky and Barbary 2012: 15), which implies that fund managers have to monitor and report on how investee companies deal with ESG issues. Among many DFIs investing in the region, UK CDC Group,[27] Norwegian Norfund, French Proparco and the African Development Bank have a special focus on SSA and they all require investee companies to adhere to strict ESG standards (IFC 2011: 50).[28] According to our search, 39 out of 54 funds listed in Annex 3 have some degree of formal focus on ESG issues.

On the other hand, more institutional investors have drafted responsible investment policies according to which they select 'suitable' investments. Relevant cases include, among others, the Government Employees Pension Fund (GEPF) — Africa's largest institutional investor and the world's sixth-largest pension fund (IFC 2011: 16) — and the Swedish AP2, which ask farmland investment managers to have a defined structural approach to sustainability issues (Currell et al. 2012: 14). A useful indicator of the increasing attention by institutional investors, and consequently by the PE industry, to ESG issues is the adherence to the UN-backed Principles for Responsible Investment (PRI).[29] Kropp (2010) reports that in only two years, from 2008 to 2010, the PRI signatories that have an exclusive or significant focus on private equity have increased from three to 65 and the vast majority have already developed their own responsible investment policy (UNPRI 2011a).

As a result, in 2010 ESG-branded PE investment in SSA amounted to 5 percent of the total asset under management (AUM) and sustainability-related PE investment represented about 44 percent of the total AUM. These figures are amongst the highest globally and much higher compared to other emerging markets (IFC 2011: 15-16).

A further driver of ESG-sensitive PE investment is the growing number of so-called impact investors.[30] More GPs and fund managers are looking at impact investments to diversify their portfolios. One reason is that in a time of recession, such investments can be safer as the sectors they usually focus on are relatively uncorrelated to world stock markets. Furthermore, most of these investments are in emerging economies that continue to experience sustained growth rates (This is Africa Magazine 2010: 3).

The large number of members of the Global Impact Investing Network (GIIN) provide good evidence of the increasing appeal exerted by 'impact investing'. Backed by the Rockefeller Foundation, GIIN Investors' Council is open to large-scale asset owners and asset managers and provides a forum for experienced impact investors to strengthen the practice of impact investing and accelerate learning about new areas in the field.[31] It is significant that the first working group created on request of several GIIN members – Terragua – focuses on investments in agriculture in SSA, including the use of PE to ultimately benefit the lives of smallholder farmers.[32]

PE funds' sensitivity to ESG issues in Africa is thus due mainly to their investors' mandate – DFIs and an increasing number of responsible institutional investors – but also to a growing market for impact investment. However, the case for sustainability is not just a matter of philanthropy. Especially in the African context, ignoring ESG issues can be detrimental not only for the society and the environment but for the business itself.

3. PE investment and agricultural development in Africa

3.1. The need for agricultural investment

Lack of capital to enhance productivity is one of the main reasons of the low competitiveness that characterizes the agricultural sector in Africa, where agriculture accounts for 65 percent of employment and 75 percent of domestic trade (Yumkella at al. 2011). Limited agricultural growth, in turn, is among the causes - and in some cases the most important one - of slow economic growth and high poverty levels, as effectively demonstrated by a recent work by IFPRI (Diao et al. 2012: 401-402).

Schmidhuber et al. (2009) have estimated that at least an additional US$83 billion should be invested globally in agriculture every year to contribute effectively to poverty and hunger reduction, but that doing so in a sustainable manner in order to preserve the natural resources base will require even more funds. Increased investment by the public sector in developing countries will be necessary in order to create the enabling conditions for farmers to thrive (starting from an adequate provision of public goods) and also to provide the right incentives for the private investors to target socially beneficial outcomes. On the other hand, public sector investments alone will not be sufficient and a larger commitment by the private sector, and particularly by farmers, is also needed (Liu et al. 2012: 8). To this end, the New Alliance for Food Security and Nutrition aims to promote the agricultural sector in Africa by catalysing private sector investments in priority areas, identified by national and regional agricultural policies in each country or region.[33]

However, the public and private sector in many developing countries have limited financial capacity to fill this investment gap. In Africa for instance, although banks have often experienced excess liquidity, commercial lending to agriculture and agribusiness has remained extremely low, especially if compared to their relative importance for national economies. In most countries, including where agriculture accounts for 25 percent or more of GDP, such as Mozambique, Uganda or Ghana, commercial banks lend between 5 percent and 10 percent of their loan portfolios to the sector (Yumkella at al. 2011: 212). The largest financing gap, usually referred to as the 'missing middle', affects the small- and medium-sized enterprises that are too large to qualify for microfinance and too small to provide the guarantees and collateral commonly requested to obtain finance (see Box 1 on the next page).

On the other hand, the recent increase in FDI flows is mainly directed towards high-value export crops and non-traditional products (such as cut flowers) usually produced by large-scale firms and with weaker linkages to the local economy (Mhlanga N 2010: vii).

According to the UNIDO publication 'Agribusiness for Africa Prosperity', there has been relatively little exploration of PE and venture finance as an option for financing agribusinesses in the continent. Nonetheless, as mentioned earlier, the landscape is changing and the number of private funds active in Africa, including many exclusively targeting agro-related sectors, has increased (Yumkella at al. 2011: 210). These funds may thus provide an additional source of capital for the African agricultural sector, thereby offering an additional opportunity to promote economic growth and poverty reduction.

Agricultural investment and inclusiveness

Investments in agriculture, including PE investments, can have different developmental impacts depending

Box 1: 'What is the "missing middle"'?

The definition of the 'missing middle' may vary greatly among different actors and institutions. Oxfam, for instance, includes the transactions in the size range £5,000 to £500,000, thus considering the financing needs of very small enterprises and semi-commercial producers (Doran et al. 2009). The International Finance Corporation (IFC) refers to the financing gap affecting commercial family-based small enterprises up to medium commercial producers with 500ha farms. However, most investors and funds would consider the missing middle only as the capital needs of medium- and large-scale producers.

The financing of SMEs enterprises, also called "mesofinance", "encompasses access to loans, leasing, trade credit and other forms of finance, which support the growth of businesses, particularly for capital outlays and set-up or expansion costs" (Yumkella at al. 2011: 202). In other words, without mesofinance, small and medium agribusinesses can not embark in sustainable, productive investments which would allow them to access new technologies and market opportunities as well as run the risk of innovating without being exposed to shocks and vulnerability. Mesofinance and long-term capital investment is in this sense "the priority if [African] agribusiness is to grow and become competitive" (Yumkella at al. 2011: 203).

on the type of businesses and the firm size they target, and the business models used. For instance, the International Food Policy Research Institute (IFPRI) has found that while growth in export agriculture reduces rural poverty, food staples for local and regional markets are usually more effective at generating economy-wide growth and reducing poverty at the national level (Diao et al. 2012: 403).

With regard to the business models, two different analyses conducted by FAO and by SNV and the Royal Tropical Institute (KIT) have recently demonstrated that outgrowing schemes with different degree of farmers' inclusiveness yield more sustainable local socio-economic impacts compared to large estates that mostly employ seasonal workers (Liu et al. 2012:364, Hilhorst et al. 2011). The CDC Group also refers to smallholder integration as the most important factor for the long-term sustainability of agricultural investments.[34]

Agri-Vie investment in AfricaJUICE, a company that produces and processes fruit to export fair trade branded juice, is a good example of an inclusive business model. The investment management team has identified an opportunity to develop an outgrower scheme involving more than 1,000 farmers and has developed an 'Outgrower Incubator Project'. Under the project, smallholder farmers organised themselves in a co-operative and signed a contract to supply Fairtrade certified production (Thomas 2012: 18).

Cenafarms holdings in Zambia, backed by Altima Partners, have put in place a different model of farmers' inclusion, based on satellite commercial farms, or commercial hubs, outgrower schemes and vertical integration. The integrated farming model, called Agri-Enable, comprises a large commercial hub linked to neighbouring outgrowing smallholder hubs and is based around skills transfers and provision of inputs and services from the former to the latter. According to Altima Partners, the system helps to bridge the common areas of failure or blockage along the finance cycle, thereby providing the opportunity for smallholder farmers to access new market opportunities (Selby 2011).

3.2. PE: Opportunities and challenges

While the conditions discussed above are relevant to all types of investment vehicles and not just PE funds, PE presents some specific opportunities that make it particularly suitable as a tool to foster agricultural development in Africa. At the same time, PE investment also faces a number of potential challenges.

Opportunities

PE as an alternative source of financing

In Africa, the expansion potential of successful SMEs, but sometimes also of relatively larger enterprises, is significantly constrained by the high cost of repaying debt, when this is actually available.[35] Rural financial markets are largely under-developed and agriculture is one of the sectors most neglected by lending institutions. The possibility of accessing capital and leveraging additional equity is the greatest advantage for African PE-backed businesses compared to those that use other financing vehicles.[36] As a source of financing and, above all, of capital leverage, PE compensates for the scarce credit available to local enterprises and supports the growth of local businesses.

Strengthening linkages along local agribusiness value chains

PE can also help to develop the agricultural sector in Africa by strengthening the linkages between primary production and agro-industry along local value chains.

While it is widely acknowledged that investing in farming can have a dramatic impact on development in countries where agriculture employs the vast majority of the population, the financing of local agro-industry and related services is also critical. According to UNIDO, the reason why African economies have stagnated for so long is that the progressive decline of the agricultural sector's share of GDP was not accompanied by the emergence of the manufacturing sector (Yumkella at al. 2011: 27), which historically has marked the passage to a modern pattern of economic growth. According to the latest data available, in 2007, manufacturing as a percentage of total GDP ranged from highs of 16-18 percent (South Africa, Cote d'Ivoire, Cameroon) to lows of 3-5 percent (Botswana, Gabon, Ethiopia) well below the figures in other developing and transition economies in central America and Asia. [37]

As PE funds aim to maximise the standalone performance of the companies they invest in, they can significantly help strengthening the local linkages between primary production and related agro-industry. 'This offers a route to economic growth and poverty reduction, as well as the structural transformation of economies and the improvement of technical skills and capacity' (Yumkella at al. 2011: 27).

In addition, the development of the agro-processing and value adding industry encourages farmers to be more responsive to the market. Once they have marketing opportunities, farmers are often encouraged to invest in training and technological improvements to enhance their productivity.[38] Jacana Partners, for instance, notes that their agribusiness investments, although not focused on primary production, yield high social returns just because they link with local farmers.[39] Similarly, although employing a different model, Equity for Africa estimates that for every additional US$10 invested in the agricultural processing sector, the investee companies add one smallholder farmer to their supply chain.[40]

Fostering entrepreneurship and employment generation

Investing in agribusiness in frontier markets requires high-level strategy formulated by specialised managers. This often leads to innovative management and business solutions that have significant impacts on the investee companies' competitiveness and growth potential.[41] At local level, specialised management in PE investments look for (or seek to forge) reliable and capable managers and work with them to instil good management practices, good governance and a more effective organisation. As a consequence, PE investments provide an opportunity for local managers to enhance their business skills and to promote new entrepreneurship.

By targeting high-growth potential businesses, PE can also have a positive impact on employment generation. While there is no general agreement on the short-term impacts of PE investments on employment (BVCA 2012: 6-7), in the specific context of the agribusiness sector in Africa, PE investments have a large potential to contribute to job creation for several reasons:

First, in developing countries, PE investments tend to operate as growth capital or venture capital with little or no corporate restructuring (IFC 2011: 52). In addition, as mentioned earlier, many PE funds in Africa are backed by DFIs and employment creation is a major parameter to identify the suitability of investments. Data from the South African Venture Capital and Private Equity Association (SAVCA) and the Development Bank of Southern Africa (DBSA) (2009: 3) show that between 2005 and 2008, PE-backed companies in South Africa represented 5 percent of South African formal sector employees and achieved an average annual employment growth rate of 10 percent, compared with 1 percent across all businesses in South Africa.

PE investments in agriculture can also have a positive impact on employment generation because both agricultural production and agro-processing activities offer good potential for future job creation. CDC Group has calculated that each 'agribusiness & food' sector investment in its current portfolio provides on average 3,500 direct jobs, the highest sector ratio along with 'education'. In spite of agribusiness representing only 5 percent of CDC portfolio, the people employed in agribusiness companies represent about 16 percent of the total employees in CDC-backed companies. At the opposite end of the spectrum, workers in the infrastructure sector, which absorbs 19 percent of CDC portfolio, represent only 5 percent of the total (CDC Group 2011: 41).

Promoting international best practices on ESG issues

PE-backed companies are encouraged to adopt international best practices, including with regard to ESG issues. LPs and GPs who are sensitive to ESG issues can also support the companies in improving their ESG standards, either by asking them to monitor and report on relevant parameters or, in some cases, through direct technical assistance. Improving ESG standards of agriculture-related businesses has long-term impacts on the sustainability of the investments, and thus a more significant impact on the development of the sector and the economy as a whole.

Although many PE firms are particularly active on ESG issues in Africa, if PE is to make a greater contribution to developing the region, management teams need to be established and strengthened that can operate not only with the aim of improving and supporting the business but also to integrate wider development as a central objective for the company's investment (Sikand and Kunyiha 2011: 8). To this end, some funds employ incentive-based systems for fund managers, linked to investments' performance in ESG standards (GIIN 2011).[44] A further important step would be greater disclosure, at least on ESG-related outcomes.

Challenges

Agricultural investments in Africa are typically considered to be high risk. Among the challenges that PE share with other financing vehicles, some are of a technical nature – such as unreliable energy supply or

Box 2: Aquifer Ltd - Responsible investment in agriculture and the benefits for the local economy

Aquifer Limited is an investment company backed by the Gatsby Foundation. Through its subsidiary company, Mozfood, it has invested in equity stakes of three agricultural companies in Mozambique. The business operates throughout the entire food value-chain from farming to distribution and marketing including input production and distribution, service provision and agro-processing.

Aquifer does not have an explicit impact-investing mandate. Nonetheless, one of its objectives is to demonstrate that investing responsibly in agriculture can yield competitive market rates of returns. It admits that a longer timeframe may be necessary compared to the usual PE investment model, such that the timeframe for exiting the investments has not been established yet.

Aquifer has provided some direct support to the communities where the investee companies operate, including small infrastructure, social services and agricultural extension. However, the major benefits for the local population came from the capital injected into the companies and from the business model pursued by the management in strict collaboration with a dedicated team from the fund, which has both direct and indirect benefits. The investee companies:

- have substantially increased the number of direct employees in their operating areas by more than 25 percent compared to the pre-investment level;
- contract out-growers;
- locally source 100 percent of the agricultural inputs and 80 percent of the raw materials and commodities used in farming and food-processing operations; and
- have developed innovative businesses by targeting high-value products for export to the UK and the emerging East European markets.

A further advantage for the local communities is that the investee companies use and promote sustainable agriculture practices, such as conservation farming and the system of rice intensification.

low labour productivity – or linked to social and institutional factors – such as poor governance. As these challenges are very specific and the knowledge of the local context is so important, there is more scope for inexpert managers to make mistakes. Highly specialised experience in the sector, acquaintance with the region and good local connections are critical drivers of success.

PE investment also faces a number of challenges raised by its specific characteristics

Addressing the missing middle

African economies are characterised by the large presence of family-run SMEs, which operate in fragmented markets with poor access to functioning financial services. This makes conventional PE tools based on a western concept of financial structuring less adequate to the African market, and even less to the agricultural sector. On the other hand, the possibility of funding these firms would allow PE funds to include a larger number of deals in their portfolio and, most importantly, would help the local economy to fill the largest capital financing gap – the so-called missing middle.

While small companies and start-up businesses in primary agriculture are usually deemed too risky by most investors, including DFIs such as CDC Group, some fund managers in Africa are already investing in SMEs operating in agro-processing and other value-addition activities. Some examples include TLG Capital, Jacana and In Return. These fund managers have demonstrated that investing in very small companies can be profitable. However, innovative financing and managing are needed in order to better exploit opportunities in the SME space as well as to address some specific challenges – the most compelling one being the lack of exit opportunities typically available to larger firms.

In order to respond to these challenges, Equity for Africa, one of the fund managers interviewed, has adopted a 'micro-equity' approach by leasing equipment to the business owners rather than buying equity stakes in the companies (Box 3). Innovative hybrid finance and quasi-equity solutions have also proven particularly effective. Hybrid approaches suit moderately risky firms with no fast-growth trajectory, as they do not require a defined exit timetable. During the lifetime of the investment, investors get the repayment of debt instalments plus the interest yields. Applying this model to SMEs in developing countries has great potential given 'the shortage of collateral, and the numbers of natural, growth-oriented entrepreneurs with energy and ideas, but lacking the training and track records that conservative equity investors would require' (Doran et al. 2009: 32).[47]

Innovative PE tools, such as those described above, may actually provide additional financing opportunities for agricultural SMEs. However, regulatory reforms aimed at attracting new investors towards local business will also play a critical role. In Kenya, for instance, in January 2013 the Capital Markets Authority launched a trading board dedicated to SMEs on the Nairobi Securities Exchange (The East African, 2013). The trading exchange, called Growth Enterprise Market Segment (GEMS), will open new funding opportunities for the most dynamic SMEs. In addition, it will provide an exit opportunity for

Box 3: Equity for Africa – SME leasing

The PE fund, PEAK II, managed by Equity for Africa's (EFA) subsidiary, Equity for Tanzania, has chosen to operate as a leasing company that provides equipment to small businesses in Tanzania. The idea is to provide capital in the form of leased equipment, which at the same time constitutes the collateral. Investments are selected on the basis of the applicants' business plan and entrepreneurship skills. The capital invested so far according to this formula amounts to about US$500,000 and the loans have been paid back with an internal rate of return (IRR) of 11 percent in local currency terms.48 The average investment size has been US$6,600.

According to EFA co-founder and chairman, Michiel Timmerman, the investment team has opted for this approach because when most companies are very small, such as in Tanzania, there is no scope for equity stakes. In addition, exit options are very limited. Still, he believes that local small businesses in Africa have the greatest potential to foster sustainable economic growth, and this approach has allowed them to operate effectively in the missing middle space.

Agriculture and agro-processing have been selected among the target investment sectors because of their potential positive impact on development, especially in terms of employment and strengthening demand for the benefit of smallholder farmers in the supply chain. The resources allocated to these sectors have been about 48 percent of the total.

In June 2012, EFA closed its first private equity fund, raising US$4.6 million but they seek to raise additional funds up to US$10 million during 2013. The new fund will scale up the same investment model, increasing the average investment range to US$10,000-50,000, and will have a target of 24-28 percent IRR, gross of fees and expenses. The new fund is backed by several actors, including DFIs such as the Dutch FMO and Cordaid, as well as a grant for capacity building at Equity for Tanzania from the G20, via the IFC (who are not responsible for implementation or administration of the project). As a consequence, EFA will need to further strengthen its ESG policy across different issues including gender, environmental issues and workers' benefits.

PE investments in small companies, as it will be possible to list them on the new exchange.

Excessive confidentiality and lack of transparency

PE funds invest in private (i.e. not publicly listed) companies and they do not have extensive reporting obligations. Consequently, they usually disclose very little information on their portfolio companies and the respective activities. The excessive confidentiality and the poor transparency of investments is a major criticism of PE. Due to lack of publicly available information, pinpointing PE investments may be problematic for third parties and regulatory authorities (McNellis 2009). This may allow some funds to minimise the taxes paid to the host country, by combining the exemptions offered by offshore headquarters (Timmerman 2009) with aggressive tax optimisation schemes (d'Aubert 2011: 20), the latter often being available in African countries keen on attracting more foreign investors.

A further risk stemming from the absence of mandatory disclosure rules is that of biases in the reporting of returns (Kropp 2010). These risks concern PE investments in all the economic sectors. However, lack of transparency and accountability may be particularly problematic for agricultural investments, for instance when they imply the acquisition of land titles or when production activities are especially detrimental to the environment.

Focus on short-term profit

A further criticism of PE investors is that they pursue short-term profit at the expense of business stability. This may happen at times, as PE funds seek to raise profitability in order to generate high returns for GPs and LPs over a relatively short time horizon. However, at the same time, they need the investment to be financially viable and economically sustainable in order to secure an exit.

Indeed, interest in farmland and agribusiness was initially driven – among other factors – by high food prices and a sudden increase in the forecast demand for biofuels. As a consequence, many land deals and investments in commodities in the future market had a speculative nature until 2009. Subsequently, due to the global financial crisis and the continued economic recession, many investors chose to invest in agricultural land as an inflation-hedging asset and to trade in the market for agricultural commodities because of its low correlation to other financial markets (HighQuest Partners 2010).

However, in the last years, investments in emerging markets and in particular in the agricultural sector have become more strategically tied to long-term demand and supply-related factors.[49] According to a report recently released by Boston Consulting Group, shareholders' returns in publicly listed agribusiness companies were higher than those of any other industry from 2007 through 2011. While many agribusiness firms may have benefited from the rise in commodity prices, the latter do not explain the results for all the companies. The analysis shows that acquisitions, restructuring and investments in R&D also played a role and suggests that the sector will continue to attract strategic investments driven by the high returns and the strong underlying supply and demand fundamentals (Walker 2013).

4. Concluding remarks

PE is still a relatively less important asset class within total investment flows in Africa. Nonetheless, it has grown steadily and several indicators suggest that this trend will continue in future. Although precise data are not available, the share of PE investment in agribusiness (including agricultural production) in the Sub-Saharan region is also growing, driven by global demand and supply-related factors as well as regional socio-economic and demographic trends.

All those interviewed in the survey agree that the trends indicate a long-term, sustained interest by PE in African agriculture and investment in the sector will continue to grow steadily without the risk of a bubble. Some took a more conservative view specifying that it will take some time – between 10 and 20 years – for PE flows to become substantial and meet local demand for capital. In the meantime, just as in any other industry, there will be highs and lows with some investments that will fail and others that will succeed. The key is to seek the long-term sustainability of the investment through good practices and skilled management. And this is especially true in Africa, where the particular socio-economic context and the business environment are particularly challenging, even for those investors who are used to operating in emerging markets.

4.1. PE as a tool to foster agricultural development in Africa

Beyond the opportunities and the challenges that PE shares with other investing vehicles, PE agribusiness investments in Africa present some specific features that are especially relevant to the development of the sector.

PE investments provide local firms with an alternative to the scarce credit available and with the opportunity to leverage capital from other sources. Access to additional resources in turn allows the investee companies to grow, thereby generating employment and more generally contributing to the development of the local economy. In addition, the active management approach helps local management teams to enhance their entrepreneurship skills.

At the sector level, PE investments can help to strengthen the linkages between primary production and the agro-industry along local value chains. This is an important step towards structural economic transformations that can result in growth and poverty reduction. Because of their investors' mandate, most PE funds in Africa have some degree of focus on ESG issues. The commitment of the portfolio companies to ESG standards – which often includes international best practices – should contribute to the social and environmental sustainability of the investments but can also encourage more companies to adopt the same standards.

In order to fully exploit the opportunities discussed above and to consolidate the role of PE as a long-term financing source of agribusiness in Africa, fund managers need to address a number of context-specific challenges. Generally speaking, highly specialised experience in the sector, acquaintance with the region and good local connections are critical drivers of success. A further important driver is the capacity to employ innovative financing and management solutions in order to adjust to the characteristics of the local economy, mostly comprising SMEs operating in fragmented markets, and to compensate for the lack of exit opportunities.

The role of DFIs and patient capital

The involvement of impact investment funds and DFIs further helps to leverage 'good' investments, i.e. financially viable projects that are also socially and environmentally sustainable and that can thus make the largest difference in the long term. The commitment of impact investors and DFIs can also help improve funds' disclosure on the ESG impacts of their investments, thereby supporting sharing of experiences and encouraging other funds to embrace responsible investment approaches.

In order to fully harness this potential, however, PE should be also coupled with patient capital invested by public institutions and public-private partnerships.

> 'Patient capital is long-term, low-cost, subordinated capital provided by donors and invested in the early stages of private sector agricultural ventures. It would be used to finance start-up costs, to part-fund the cost of infrastructure (such as irrigation assets) and to part-fund working capital required by SMEs and smallholder farmer organisations, these being sponsors who would not otherwise be able to secure sufficient working capital from banks. The long tenor and low cost of patient capital reduce unit production and delivery costs in the early years. This increases the incremental return on private investment in the venture' (Palmer 2011: 90).

The Beira Agricultural Growth Corridor in Mozambique exemplifies the public-private partnerships described above. AgDevCo, a not-for-profit agricultural development company, has facilitated investments in "social venture capital" by both private and public investors (including the Government of Mozambique) to kick start the project. AgDevCo then launched the Beira Corridor Catalytic Fund to leverage private investment into socially responsible agriculture businesses, including irrigated food crop production. By investing in infrastructure and providing financial and technical assistance to smallholders, patient capital attracts private funding that otherwise will continue to concentrate where tangible and intangible assets already exist. Patient capital thus provides an additional opportunity for PE to contribute to the expansion and diversification of the African agricultural sector.

4.2. Outstanding questions

The effectiveness of PE as a tool to foster agricultural development may be at least partially offset by a number of challenges stemming from the lack of transparency on PE investments and from the risk that PE fund managers will focus more on short-term profit rather than on the business sustainability.

These challenges may become less problematic in future. With regard to the issue of transparency, more information may be disclosed, at least on ESG issues, as a result of the commitment of DFIs and impact investors. Moreover, the interest in the agricultural sector seems to be mostly driven by long-term growth prospects rather than the short-term profit expectation that happened in the past. However, due to the limited literature available, and the fact that PE is a relatively new phenomenon in the African context, there is not enough evidence to draw solid conclusions. The risk that these challenges limit the potential of PE investments, as discussed in the previous section, leaves some outstanding questions that need to be addressed by further research.

4.3. Strengths and limits of the analysis and the way forward

This work has sought to shed some light on the characteristics of PE agribusiness investments in Africa, with the objective of assessing whether and how these could contribute to fostering the development of the sector.

Among the factors that have constrained the analysis, the lack of publicly available figures and the fund managers' reluctance to disclose information represent major limits. Due to the qualitative nature of the scarce information available, the discussion could not rely on a quantitative impact analysis. On the other hand, considering the small number of deals that have been exited so far, a quantitative approach would be unlikely to yield significant results at this stage. A further limit is the lack of a standard methodology to monitor and evaluate the adherence of PE investments to ESG standards.[54]

In spite of these limitations, the research has made significant steps towards a greater understanding of PE investment in Africa agriculture. It has been the first work focusing exclusively on agricultural PE investment in Africa. The review of the limited literature available has been complemented with insights provided by several stakeholders, all of them with a valuable experience in the sector. Drawing on primary and secondary sources, the work has analysed virtually all the information available on PE funds that have been fundraising capital to invest in agribusiness in Africa since 2005. Such analysis, supported by a database, provides a useful baseline for future research. Finally, the research has designed an analytical framework to assess the potential role of PE in the development of the agricultural sector.

Future research in the field should continue to monitor these funds and their investments. The present work provides a good baseline in order to check the consistency of the investment strategies, especially of first-time fund managers, and to analyse in deeper detail the sectors and the value chain segments that PE targets. Once a larger number of PE investments are exited, more information may become available on PE-backed companies, particularly on those that are listed on public stock exchanges. If this is the case, the analytical framework used in this paper could be employed along with quantitative tools to assess what impacts PE investments have had on investee companies and local entrepreneurship, whether PE-backed companies have contributed to foster the local economy and if ESG issues have been adequately addressed.

It would be particularly interesting to monitor those funds that have tested innovative PE tools and entered novel partnerships in order to adjust to the African business context. This would allow future research to assess whether PE funds are changing their strategies as a result of the lessons learned in Africa and whether (and how) this could affect investors' preferences and investment patterns – in the region and elsewhere.

End Notes

* Future Agricultures Consortium, Early Career Fellowship recipient;

**Overseas Development Institute

[1] http://www.usaid.gov/unga/new-alliance

[2] Insights from interview with Lorenzo Cotula, IIED, on 13 December 2012

[3] The FAO publication draws on a research study conducted in 2009 by FAO and ConCAP. The study, which focused primarily on Sub-Saharan Africa and transition economies, selected 31 agricultural investment funds that primarily, or exclusively, focus on investing in agriculture and revealed a fast upward trend towards setting up new agricultural investment funds in the previous three years (Miller 2010: 21). The OECD study differs from the previous one for three main reasons: it has a global focus; it addresses only private commercial investments; and it does not consider only fund managing firms but also companies investing in agriculture. The study was undertaken by a private consulting firm (HighQuest Partners) that interviewed 25 funds and companies included in a proprietary database of funds active in cropland and agriculture infrastructure.

[4] Most funds analysed in the FAO study have explicit developmental goals and operate under public-private partnerships. Compared to FAO, the OECD study gives a better insight of privately owned investments. However, only six out of 25 funds interviewed operate in Africa.

[5] Further sources used to cross-check the information and build the database include review of online journals and other media

sources, ILC website and the Land Matrix database, civil society organisations websites such as the Oakland Institute, DFIs' websites and publications (including IFC, AfDB, CDC Group, FMO, Proparco and OPIC) as well as the interviews held with key informants.

[6] Micro-credit institutions provide credit at higher interest rates on a shorter time horizon.

[7] The sources used for this and the following paragraphs are: http://www.investopedia.com/terms/p/privateequity.asp#axzz1yVftAs1U; http://www.bvca.co.uk/PEVCExplained/features/WhatisPE; http://www.investopedia.com/articles/financial-careers/09/private-equity.asp#axzz1yVgls77Q; AFDB, 2012, What is Private Equity? (http://www.avcanet.com/index.php/files/1/5)

[8] Preqin is the alternative assets industry's leading source of data and intelligence. It provides data and information on the private equity, real estate, hedge funds and infrastructure asset classes (http://www.preqin.com/section/about-preqin/100)

[9] Data published on 4th February 2013. EMPEA is an independent, global membership association whose mission is to catalyse the development of private equity and venture capital industries in emerging markets. It seeks to provide its members with authoritative intelligence, best practices and networking opportunities (http://www.empea.org/about/). Data in EMPEA is not presented for Africa as a whole, as North Africa is included in data for the MENA region. As such, we have opted for presenting data on SSA alone here as an indication of trends for Africa.

[10] EMPEA data published on 4th February 2013

[11] EMPEA data published on 4th February 2013

[12] http://www.privateequityafrica.com/analysis/deals-touch-3-5bn-in-2012/

[13] Insights from Michiel Timmerman, EFA, personal communication dated 5th March 2013

[14] Relevant reports include, among others: Deloitte and Africa Assets 2012, East Africa Private Equity Confidence Survey. Promising 2012; Groh A, Liechtenstein H and Lieser K 2011, The Global Venture Capital and Private Equity Country Attractiveness Index 2011 Annual, Ernst&Young; Ernst & Young 2012, Building bridges. Ernst & Young's attractiveness survey 2012 Africa, Ernst & Young

[15] http://www.preqin.com/blog/101/2903/private-equity-agriculture-fun

[16] In 2011, the Carlyle Group and Standard Chartered Bank made their first ever investments in the African agribusiness sector, by allocating respectively US$210 million and US$94 million to agricultural production and trading companies.

[17] A fund of funds typically invests into many different private equity funds, allowing it to spread the risk of the investments made whilst maintaining healthy returns. Smaller investors without access to larger private equity funds due to capital constraints often invest into a fund of funds to increase their exposure to the asset class.

[18] Indeed, CDC Group's first deal as a direct investor in November 2012 has been in a East Africa-based agriculture company called Export Trading Group (ETG) (source: http://www.cdcgroup.com/uploads/etg26nov2012[0].pdf)

[19] Interview held on 6th December 2012

[20] About US$3 billion is the size of the non-dedicated funds included in the list but it has not been possible to retrieve enough information to estimate their agribusiness portfolio share.

[21] http://www.privateequityafrica.com/uncategorized/chayton-sells-fund-to-zeder-changes-to-holding-company/ and http://www.privateequityafrica.com/sectors-2 agriculture/emvest-gets-funds-from-truestone/

[22] Interview with Demmy Adesina, Aquifer Ltd., on 17 September 2012

[23] Interview with the Founder of Jacana Partners, Mr Stephen Dawson, on 6 November 2012

[24] Interview with Mr Doug Agble, 8 Miles, on 2 November 2012

[25] Interview with Mr Michiel Timmermann, EFA, on 12 December 2012

[26] An analysis from Proparco (the French DFI) concludes that combining funding with technical assistance is more effective than simply providing grants to for-profit businesses. Yet, European DFIs commit only a small share of their budget for technical support – in 2010 it amounted on average to less than 0.85 percent of their annual funding (Thomas 2012: 26).

[27] CDC Group African portfolio currently amounts to nearly US$ 900 million invested in about 500 companies through approximately 50 funds (Interview with Marie Kyle, 6 December 2012)

[28] With regard to the increasing number of DFIs investing in Africa, Michiel Timmerman, co-founder of Equity for Africa, has provided an interesting insight, i.e. DFIs may have increased their commitment in African business because, disenchanted by the conventional aid models, see commercial and semi-commercial approach as more effective to promote development.

[29] The UN-backed Principles for Responsible Investment (PRI) are a framework to help investors build ESG issues into their investment process, to improve long-term returns and create more sustainable markets. The six principles are very generic so while all PRI signatories (institutional investors and fund managers) commit to applying them across all asset classes, individual signatories decide how best to apply the Principles to their investment activity.

[30] Impact investment may be defined as those business models that are for-profit, but that will, if successful, create an impact beyond profits. A commonly accepted definition of the category does not exist, because each investment seeks to address different impacts and challenges. However, there is a key distinguishing characteristic – the fact that entrepreneurs and investors try to have an impact beyond a simple financial return and are willing to hold themselves accountable for it (Simon and Barmeier 2010: 4).

[31] http://www.thegiin.org/cgi-bin/iowa/council/index.html

[32] Interview with Sapna Shah, GIIN, on 24 October 2012

[33] http://transition.usaid.gov/press/factsheets/2012/fs120518.html

[34] Interview with Jeremy Cleaver, CDC Group, 6th December 2012.

[35] Interview with Doug Agble, 8 Miles, on 2 November 2012

[36] Five out of seven fund managers interviewed under the survey (CDC Group, African Agricultural Capital, Aquifer Limited, 8 Miles, Jacana Partners) mentioned this as the main important difference between PE and other financing sources.

[37] Sources: World Bank website (www.worldbank.org), World Development Indicators 2009

[38] Insight form interview with Douh Agble, 8 Miles, 2 December 2012

[39] Interview with Stephen Dawson, Jacana Partners, 6 November 2012

[40] Personal communication with Michiel Timmerman, 6 March 2013

[41] Interview with Mark Florman, BVCA, 14 September 2012 and Interview with Mr Stephen Dawson, Jacana Partners, 6 November 2012

[42] Agriculture has the potential to substantially reduce poverty, also through employment creation. According to the McKinsey

Global Institute, both agriculture and manufacturing offers a high potential for future job creation, each being able to contribute to between eight and 15 million stable jobs by 2020, depending on the degree of investment and technological improvements. Moreover, in the countries with a large agricultural sector, the potential for manufacturing development is especially high in the food and beverage sectors, the textiles and the wood products (Fine et al. 2012, pp. 4-5)

[43] Although the small number of data points for 'education' investments means that the average sector employment figures may be distorted by outliers.

[44] Although some criticizes this approach saying that a fund that seeks development targets will achieve them only when coherent personal beliefs and ethics are in place (Interview with Adesina, SSIR blog)

[45] Insights from interviews with Doug Agble, 8 Miles, and Stephen Dawson, Jacana Partners

[46] An exception is provided by Lion's Head Global Partners, an investment company that has invested in a start-up agricultural company in Tanzania, Mtanga Farms, and refers to primary agriculture SMEs and start-up businesses as the "platform for the most able entrepreneurs that develop new and attractive business models that best fit their local markets." (Hundal and Calice 2012).

[47] South African investment fund manager GroFin has successfully pursued this approach, backed by institutional investors as well as foundations and DFIs. It invests in some agro-processing SMEs whereas primary agriculture is considered too risky (Doran et al. 2009: 32-33).

[48] The IRR is not far off what would be required by a commercial bank or traditional lender. However, other lenders would ask for additional guarantees when entrepreneurs apply for credit whereas EFA selects the investments largely on the basis of the quality of the applicant's business plan and the collateral consists of the leased equipment only.

[49] This is a general finding of most documents and it was confirmed in explorative interviews such as with Mark Florman

[50] Insights from interviews with Demmy Adesina, Stephen Dawson and Doug Agble

[51] Social venture capital (concessional funding from donors used to co-invest alongside other sponsors of SMEs and smallholder farmers) and partial risk loan guarantees are additional development assistance instruments that can effectively complement public-private investment partnerships (Palmer K 2011: 90)

[52] More information on the projects at http://www.agdevco.com/portfolio.php?portfolioId=1 and http://www.beiracorridor.com/

[53] http://www.beiracorridor.com/?__target__=catalytic-fund-about

[54] However, the support by DFIs to PE funds in Africa and the increasing interest in impact investing may encourage fund managers to disclose more information, at least on ESG impacts. Indeed, several attempts are being currently undertaken to develop standardised systems for measuring impact as well as practices and code of conducts for GPs and LPs to adhere to. Some examples include: the Impact Reporting and Investment Standards (IRIS) and the Global Impact Investing Rating System (GIIRS) developed by the Global Impact Investing Network (GIIN); the BACO Ratio by the Acumen Fund; the SROI (which calculates social return on investments) created by the American philanthropic fund REDF; a social rating system for funds (to be used just as credit ratings) created by B Lab, a US non-profit (This is Africa Magazine 2010).

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Annex 1: List of interviewees

Name of firm/organisation	Type of firm/organisation	Interviewee	Position	Date
African Agricultural Capital (AAC)	PE Fund	Ian Anderson	Gatsby Foundation Africa Programme Manager	29/8/2012
British Private Equity and Venture Capital Association (BVCA)	Trade association	Mark Florman	Chief Executive	14/9/2012
Aquifer Ltd	Investment company	Demmy Adesina	Senior Executive for Business Development and Corporate Strategy	17/9/2012
Global Impact Investing Network	Field-building, nonprofit association	Sapna Shah	Manager	24/10/2012
8 Miles	PE Firm	Doug Agble	Co-founding Partner	2/11/2012
Jacana Partners	PE and VC Firm	Stephen Dawson	Founder and Partner	6/11/2012
Truestone Impact Investment	PE Firm	Kasim Zafar	Senior Investment Analyst	15/11/2012
CDC Group	DFI – Fund of funds	Jeremy Cleaver	Portfolio Director, Africa Funds Team	6/12/2012
CDC Group	DFI – Fund of funds	Marie Kyle	Investment Executive, Africa Funds Team	6/12/2012
Equity for Africa	PE Firm	Michiel Timmerman	Co-founder	12/12/2012
International Institute for Environment and Development (IIED)	Research Institute	Lorenzo Cotula	Senior Researcher, Natural Resources Group	13/12/2012
WWF	Civil Society Organisation	Joshua Levin	Senior Programme Officer in Finance & Commodities	20/12/2012

Annex 2: Different sources of capital for companies that seek growth

		Description	Investors/source of funds	Time horizon	Strategy/Returns	Type of company
	Merges and joint ventures	A company share is bought by another company. Depending on the share size, the buyer takes different degree of control on the investee and a part of its profits	Companies' shareholders	Long-term	Long-term growth strategy. The share-holders get a share of profit relative to their participation	Merges and joint venture are done in the same industry to expand and/or to vertically integrate the business
Debt	Debt – loans	A company receives loans from a commercial bank or other financial institutions	Banks PE funds MFI Development finance institutions (DFI)	Medium/long-term Short (micro credit)	The lenders get an interest rate	Financial institutions give loans to bank-able subjects
	Debt – bonds	Company issues corporate bonds	Any	Short/ medium-term	The lenders get an interest rate	
Equity	Private Equity	A company sells equity to a PE fund. The fund can be managed by a PE firm (GP) or a fund manager	PE fund retail LP (HNWI, family offices, companies) PE fund institutional LP (DFI, SWF, hedge funds, pension funds, other financial)	Short/ medium-term	The fund investors (LP but sometimes GP) may get an annual rate of return and/or returns that are realised at the end of the holding period	The fund targets already established, high-growth potential businesses in different sectors and industries (including turnaround PE)
	Venture Capital	A company sells equity to a venture capital fund. Venture capital is a subset of private equity.	Retail LP (HNWI, family offices, companies) Institutional LP (DFI, SWF, hedge funds, pension funds, other financial)	Medium/long-term	The fund investors (LP but sometimes GP) get the returns that are realised at the end of the holding period	The fund targets early-stage, high-poten-tial, high risk, growth start-up companies. They usually have a novel technology or business model in high technology industries
	Equity	A publicly listed company issues shares/rights	Shareholders	Long-term	Stakeholders get an annual dividend and may have share price gains	

Annex 3: List of PE funds that have targeted the agricultural sector in Africa since 2005

Fund	Fund Manager	Dedicated Agriculture Fund	Capital base (USD million)	Target Countries/ Regions	Target Sector/Crops	ESG Focus	Comment
8 Miles Fund	8 Miles	No	200 (target 450)	NA	Food processing, infrastructure and logistic	Yes, backed by DFIs	Expect to dedicate 20-30% of portfolio to agribusiness
Actis Africa Agribusiness Fund	Actis LLP	Yes	92.7	Kenya, Cote d'Ivoire, Zambia, Tanzania, South Sudan	Export commodities along the entire value chain including infrastructure	Backed by CDC, strong ESG focus	
African Agricultural Capital (AAC) and African Agricultural Capital Fund	Pearl Capital Partners	Yes	32	Kenya, Uganda, Tanzania	Portfolio of SMEs including input supply, production and processing in different sectors	Backed by foundations, strong ESG focus	
African Agricultural Land Fund	EmVest (Former Emergent Asset Management)	Yes	500	Southern Africa, RDC	Commercial crops along the entire value chain	No explicit ESG focus	Target was initially USD 3,7 billion but PE turned into a holding company so it is not clear whether it will continue to fundraise capital
African Agriculture Fund - AAF SME Fund	Databank Agrifund Manager Limited (in partnership with Phatisa)	Yes	30	West Africa	SMEs along the entire value chain in different sectors	Yes, backed by International Organisations (IOs)	Investments will be complemented by a Technical Assistance Facility funded by the EC, managed by IFAD and implemented by TechnoServe, with additional contributions from the Italian Development Co-operation, UNIDO and AGRA.
African Agriculture Fund AAF	Phatisa	Yes	135 (target 500)	Panafrica	Large and SMEs along the entire value chain in different sectors	Yes, backed by DFIs and IOs	
African Food Fund	Silk Invest Ltd	No	203	Nigeria, Ghana, Ethiopia Kenya and Egypt	Food processing, storage and distribution	No explicit ESG focus	
Africinvest II	Tuninvest - Africinvest Capital Partners	No	180	Panafrica	Food processing	Yes, backed by DFIs	
Agri-Vie Fund	SP-aktif and Sanlam Private Equity	Yes	100 - 300 (2nd fund target)	East Africa and SADC countries	Various investments along the entire agribusiness value chain	Yes, backed by DFIs and Foundations	A strategic company should provide training and technology transfer to farmers under out-grower schemes
AgriCapital	Gulf Finance House, Ithmaar Bank and Abu Dhabi Investment House	Yes	1000 (target)	Sudan and Mali	Food production, livestock, biomedicine, biofuels and agriculture technology	No explicit ESG focus	
AGVANCE Africa	Credit Suisse Customised Fund Investment Group (CFIG)	Yes	500 (target)	NA	NA	Yes (supported by WWF)	Fund of Funds

Annex 3: List of PE funds that have targeted the agricultural sector in Africa since 2005 (cont.)

Fund	Fund Manager	Dedicated Agriculture Fund	Capital base (USD million)	Target Countries/ Regions	Target Sector/Crops	ESG Focus	Comment
Altima One World Agriculture Development Fund	Altima Partners LLP	Yes	625	Southern Africa	Agricultural production, land and farm operators.	Yes, Backed by IFC	CENAFARMS in Zambia is an interesting business model based on satellite commercial farms (hubs), smallholder out-grower schemes, and vertical integration
Altvest Africa	Altvest	Yes		Malawi, Mozambique, Tanzania, Zambia, Zimbabwe	Agribusiness along the entire value chain, rice processing, horticultural export	Yes, backed by DFIs	
Aquifer	Aquifer LTD	Yes	N/A	Mozambique	Agribusiness along the entire value chain, commercial crops	YES	
Atlantic Coast Regional Fund (ACRF)	Advanced Finance and Investment Group	No	72	West and Central Africa	Input production and supply, technical assistance	Yes, Backed by CDC	Sector focus will be agribusiness, transportation and logistics, financial services, telecoms, mining and natural resources and manufacturing.
Aventura Rural Enterprise Fund	Aventura Investment Partners	Yes	40-60 (expected)	West Africa, possibly Angola, Mozambique and Zambia	Vertical integration along the food system value chain and rural services.	Yes, backed by DFIs and Foundations	
Beira Agricultural Growth Corridor Catalytic Fund	AgDevCo	Yes	NA	Mozambique	Entire value chain	Yes	It has US$23 million of AUM, it aims to coordinate private and public money nad it is funded also through PPP
Beltone Capital	Beltone Private Equity	No	200	Sudan, Egypt	Sugar and row crop operations	No explicit ESG focus	
Carlyle Africa-focused fund	Carlyle Group	No	750	Panafrica	Commercial crops along the entire value chain	No explicit ESG focus	US$ 210 million invested in Tanzania-based ETG along with Standard Chartered
Cauris Capital Partners - various funds	Cauris Capital Partners	No	NA	NA	Small diary business	Yes, Backed by CDC	
CDC Group	CDC Group	No	NA	Panafrica	Entire value chain	Strong ESG focus, impact investing DFI	CDC Group currently operates as a fund of funds but in the next future is going to start operating as a direct investor. Food and agribusiness are among its target sectors. CDC current food and agriculture portfolio amounts to US$ 97 million
Chayton Africa	Chayton capital	Yes	150-200	South Africa, Botswana, Zambia, Mozambique, Tanzania, Malawi	Commercial crops, Farming	No explicit ESG focus	Chayton Capital is taking an approach similar to Emergent African Agriland Fund. and has embarked on building what it hopes will become one of the largest agricultural companies in Africa. It founded Chayton Atlas Agricultural Company

Annex 3: List of PE funds that have targeted the agricultural sector in Africa since 2005 (cont.)

Fund	Fund Manager	Dedicated Agriculture Fund	Capital base (USD million)	Target Countries/ Regions	Target Sector/Crops	ESG Focus	Comment
Doreo Partners	Doreo Partners	Yes	40	Nigeria	NA	Impact Investing company	Information on operations and impact investment approach is not available
ECP Africa Fund III	Emerging Capital Partners	No	613	Panafrica	NA	Yes, backed by DFIs	The fund will focus on companies pursuing regional strategies and will invest across various sectors, including agriculture, natural resources, telecoms, financial services, transportation, and utilities.
PEAK II	Equity for Tanzania / Equity for Africa	No	4.6 (target 10)	Tanzania	Lease equipment to agribusiness SMEs	Yes, backed by DFIs	About 50% in agriculture and agribusiness
Fanisi Venture Capital Fund	Amani Capital	No	55 (target)	Kenya, Rwanda, Tanzania and Uganda	NA	Yes, backed by DFIs and Foundations	Will invest widely across a range of sectors, including agribusiness, ICT, retail, financial services, real estate, health and tourism.
GAIA World Agri Fund	GAIA Capital Advisors	No	NA	NA	Upstream farming operations	No explicit ESG focus	
Global Impact Fund	Truestone Impact Investment	No	8	Panafrica	Invested in EmVest and EFA	Yes, Impact Investing	
GreenWorld's African farmland fund	Greenworld	No	NA	West Africa	Farmland, rice production	No explicit ESG focus	
Grofin Portfolio	Grofin	No	NA	Panafrica	Agro-processing	Yes, backed by DFIs and Foundations	Target SMEs
Helios Investors II	Helios Investment Partners	No	900	NA	NA	Yes, Backed by CDC	Website says invest in agro-allied sectors but no further information
Horizon Equity	Horizon Equity	No	NA	NA	Small investments in food processing	Yes, Backed by CDC	
Horus Food &Agribusiness Fund	Primecorp in partnership with Rabobank and EFG-Hermes	Yes	50	Egypt	Food and agribusiness industries, export products	No explicit ESG focus	
I&P Management	I&P Management	No	NA	NA	Small investments in food processing	Yes, Backed by CDC	
Insight Global Farmland Trust	Insight Investment	Yes	300	NA (Africa?)	Large farmland holdings	No explicit ESG focus	

Annex 3: List of PE funds that have targeted the agricultural sector in Africa since 2005 (cont.)

Fund	Fund Manager	Dedicated Agriculture Fund	Capital base (USD million)	Target Countries/ Regions	Target Sector/Crops	ESG Focus	Comment
Jacana	Jacana	No	43 (two funds, 70-100 m target of new fund)	Ghana, East Africa	Agricultural and food processing	Yes, impact investing fund, backed by DFIs	In January 2013 Jacana Partners has merged with InReturn Capital, a Kenya-based private equity investor focused on small medium sized enterprises (SMEs).
Manocap Soros Fund	ManoCap	Yes	5	Sierra Leone	Small agriculture and agribusiness companies	Yes, Backed by DFIs	
Maris Capital	Maris Capital	No	NA	Tanzania	Tea and Avocado, production, processing and retail	Yes, backed by DFIs	
Old Mutual African Agricultural Fund	UFF Agri Asset Management/ Futuregrowth Asset Management	Yes	450	Panafrica	Commercial crops, production and infrastructure	Yes, explicit ESG focus	
Olea Capital Fund	Olea Capital	Yes	225	Morocco	Olive industry	YES	
Pharos Miro Agricultural Fund	Pharos Financial Advisors and Miro Asset Management	Yes	350	Tanzania	Rice	No explicit ESG focus	
Principal Capital Investment Fund	Principle Capital Holdings SA	No	90 (target)	Mozambique	Sugar Cane - Ethanol production	No explicit ESG focus	
Quifel Natural Resources	Quifel Natural Resources	No	67	Lusophone countries	Plantation for biofuels, including oilseeds	No explicit ESG focus	
Root capital	Root capital	Yes	30	East and West Africa	Small business along the entire value chain, commercial crops	YES, social investment fund	
Sabina Fund	Citadel Capital	Yes	40	Sudan and South Sudan	Weath	YES	
Sierra Investment Fund	ManoCap	No	25	Sierra Leone, Liberia, Ghana	Small agriculture and agribusiness companies	Yes, Backed by CDC	
Silverlands	SilverStreet Capital	Yes	300 (target)	Zambia, Tanzania, Malawi, Mozambique and Uganda	Locally run farms producing commercial crops	Yes, Backed by CDC	
TLG Capital	TLG Capital	No	NA	Uganda	Rice milling	Yes, Impact Investing	

Annex 3: List of PE funds that have targeted the agricultural sector in Africa since 2005 (cont.)

Fund	Fund Manager	Dedicated Agriculture Fund	Capital base (USD million)	Target Countries/ Regions	Target Sector/Crops	ESG Focus	Comment
UNIDO Food and Agribusiness Equity Fund	Delta Rasmala	Yes	500	Egypt	Equipment, processing and services within the post-harvesting supply chain cycle.	Yes, backed by IOs	
Futuregrowth Agri Fund	Future Growth Asset Management	Yes	45 (112.7 target)	South Africa	Commercial crops along the entire value chain	Yes, explicit ESG focus	
InReturn Capital's East African Fund	InReturn	No	12,5	NA	Agriculture and agro-processing	Yes, backed by DFIs and Foundations	Expect 29% of portfolio in agro and food processing and 3% in agriculture - equals 4 million
Injaro Agricultural Capital Holdings	Injaro Investments	Yes	16.5 (target 30)	Ghana, Nigeria, Niger, Mali, Burkina Faso	Agricultural processing and seed production companies	Yes, Impact Investing fund backed by foundations	
West African Venture Fund	Unique Venture Capital	No	40	Liberia and Sierra Leone	NA	Yes, backed by DFIs	
Standard Chartered Africa PE	Standard Chartered	No	NA	East Africa and South Africa	Commodities production and trading; fruit production and export	No explicit ESG focus	It has made two investments worth US$ 94 million so far
RussellStone Agri	RussellStone	Yes	NA	Southern Africa	Entire value chain	No explicit ESG focus	

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