



AgDevCo[®]

Developing Sustainable Agriculture in Africa

Business Plan

2010-14



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Executive Summary

AgDevCo is a new initiative designed to stimulate sustainable and socially responsible private sector investment in African agriculture and agribusiness. With farm productivity in Africa at just one quarter of the global average, there is huge need and potential to increase agricultural output, and thereby boost incomes for smallholder farmers and their communities. AgDevCo believes that profitable agriculture with strong links to markets is the best route out of poverty for the majority of Africa's rural poor.

But many potentially profitable farming and agri-processing opportunities in Africa are not being taken up because entrepreneurs face multiple constraints, most notably poor infrastructure and a lack of access to finance. With backing from governments and international donors, AgDevCo will take on the upfront costs and risks of developing new agriculture and agribusiness projects. In due course AgDevCo will sell projects as commercially viable businesses to (mainly African) investors, thereby catalysing private investment into the agriculture sector.

AgDevCo has three key objectives:

- to create sustainable agricultural and agribusiness enterprises and attract private sector capital to invest in them,
- to support smallholder farmer development with the aim of increasing productivity and raising incomes, and
- to increase understanding of the AgDevCo approach and encourage its adoption by third parties.

AgDevCo will achieve this by:

- using private sector expertise to develop commercially sustainable businesses and smallholder farmer support operations;
- investing “social venture” capital in greenfield and early-stage projects to make them attractive to third-party investors;
- developing essential agriculture-supporting infrastructure (e.g. irrigation) at affordable cost and leasing it to SME commercial farmers including smallholders;
- arranging financing for infrastructure utility companies including patient capital and credit enhancement to facilitate commitment of senior debt for early stage agricultural ventures
- exiting in due course leaving behind primarily African-owned and managed, profitable agricultural businesses and re-investing net proceeds in new development activities; and
- ensuring all activities include components bringing major direct and indirect benefits to smallholder farmers and the rural communities in which they live.

AgDevCo will focus on four programmes of activity in Mozambique (Beira Agricultural Growth Corridor), Tanzania (Southern Agricultural Growth Corridor in Tanzania), Zambia and Ghana. Project selection will be directed at maximising financial leverage and benefits for the rural communities in those areas.

The strategic focus will be on:



- exploiting the potential of commercial farm hubs and smallholder farmer linkages as a means of generating commercially-viable agribusinesses which also confer major benefits on smallholder farming communities;
- financing and building agriculture-supporting infrastructure (particularly irrigation) and making it available to farmers, including smallholders, at an affordable cost;
- focusing activities along the full value chain including agriprocessing; and
- focusing activities within agricultural growth corridors to maximise the benefits of scale and scope and forward and backward linkages.

AgDevCo works in partnership with many private sector and public sector organisations including the Alliance for a Green Revolution in Africa (AGRA), the Comprehensive Africa Agriculture Development Programme (CAADP) and innovative not-for-profit organisations working with smallholder farmers such as MicroEnsure. AgDevCo's activities strongly complement other donor programmes to improve agricultural productivity of smallholders (e.g. AGRA's seeds and soil health programmes).

AgDevCo has incorporated an operating company, Africa Agricultural Development Company (AADC). It is a non-profit-distributing company operating for public benefit. AADC will initially own some or all of the shares of locally incorporated project specific companies. AgDevCo intends to mobilise capital into these companies at financial close to fund the growth. AgDevCo will exit these opportunities when its involvement is no longer necessary. Net proceeds from sale of these businesses will be reinvested to develop new agricultural opportunities in Africa.

Since its launch 12 months ago AgDevCo has secured widespread support and endorsement. AgDevCo has been endorsed by senior management of the World Bank, AGRA and CAADP as an effective approach to developing sustainable agriculture projects that benefit smallholder farmers and local communities. In Ghana the World Bank's Managing Director Ngozi Okonjo-Iweala recommended the government should work with AgDevCo to identify and develop 3-4 commercially viable irrigation projects. Recognising the value of the AgDevCo approach, the US Treasury recently invited AgDevCo to participate in a high-level panel including the heads of World Bank, IFC, the Bill & Melinda Gates Foundation, African Development Bank and FAO to launch the Global Agricultural and Food Security Programme in Washington. AgDevCo continues to attract significant interest from African governments (including the Presidents of Tanzania and Mozambique), entrepreneurs and private sector companies who recognise the unique value of the AgDevCo project development approach.

Successful implementation of the AgDevCo business plan requires access to four types of funding:

- 1) Early-stage project development capital (referred to here as "social venture" capital) to bring opportunities to the point where third party debt and equity can be attracted to invest in them. The 2010 business plan sets out the case for social venture capital investment of \$47 million over the period 2010-2014.



- 2) “Patient capital” to part fund the cost of providing agriculture-supporting infrastructure and making it available to farmers, including smallholders, on an affordable basis
- 3) “Credit enhancement” capacity to facilitate mobilisation of senior debt to part fund infrastructure and working capital required to develop early stage agricultural ventures
- 4) Grant funds in the form of ‘smart’ subsidies to support the non-commercial components of smallholder support programmes and induce earlier adoption of improved farming technologies by small farmers.

Significant progress has been made since the AgDevCo launch (in April 2009) in mobilising some of the funding requirements. Based largely on analysis by the AgDevCo team, the World Bank is engaged in discussions with a number of African governments about loans to be provided to governments to be on-lent in the form of patient capital to part fund the cost of irrigation infrastructure. Indicative commitments from the World Bank are \$100 million for Ghana and Zambia. In Mozambique the World Bank is considering a new programme to provide patient capital for agriculture projects including in the Beira corridor. Similar discussions in Tanzania are expected to commence once the Investment Blueprint, now in preparation, is completed later this year. The African Development Bank is another possible source of patient capital and has been briefed about the ongoing discussions with the World Bank and the progress of AgDevCo bringing opportunities to financial close.

USAID DCA programme has indicated to AgDevCo that it has capacity and appetite to provide credit guarantees for early stage agricultural investments where they are viable and benefit smallholder farmers. AGRA has a programme of first loss guarantees with several commercial banks and AgDevCo will progress possible access to these facilities as part of its project development activities. Currently the constraint on use of these facilities is a dearth of bankable opportunities. AgDevCo will invest social venture capital to increase the number of viable opportunities which guarantee important benefits for smallholder farmers.

In addition to charitable contributions from AgDevCo’s founder, Keith Palmer, of \$500,000, AgDevCo has attracted financial support in the form of grants from the Rockefeller Foundation (\$250,000) and the Hewlett Foundation (\$400,000) to support its work in focus countries. In May 2010, the Norwegian Embassy in Maputo agreed to provide \$500,000 to allow AgDevCo to take forward a number of “fast track” project opportunities in the Beira Corridor of Mozambique, in the expectation that Norad would provide a further \$1.5m commitment later in 2010.

Discussions are ongoing with various parties regarding funding of the social venture capital requirement of \$47 million over five years. In Mozambique DFID has agreed in principle to provide up to GBP 6 million over three years in the form of grants to fund the early-stage development of fast track projects, channelled through AgDevCo. Due diligence is ongoing and latest indications are that funding will be approved and available for disbursement in July 2010. This funding is in addition to the expected \$1.5m from Norad referred to above.

The \$47 million of social venture capital will enable AgDevCo to bring 12 projects to completion within three to four years. These initial projects are expected to lead to



third-party commercial investment in agriculture of some \$235 million, i.e. an initial financial leverage ratio of x5. If funding received by AgDevCo to develop these projects is in the form of grants then proceeds from sale of these opportunities would enable AgDevCo to commence development of at least another 12 additional projects, leveraging a further \$235 million of private capital. In addition new commitments of patient capital and risk capacity (as loan guarantees) will mobilise additional investment in agriculture-supporting infrastructure of about \$500 million.

AgDevCo expects its initial portfolio of 24 successful projects to generate major direct and indirect benefits for smallholder farmers. Over ten years not less than one million smallholder farmers will benefit, over 70,000 permanent new jobs will be created on-farm and along the value chains and there will be a significant contribution to wider economic growth and social development.



1 – Introduction

The AgDevCo launch business plan, dated May 2009, set out a "prospectus" explaining the AgDevCo business model and highlighting a programme of work it proposed to implement subject to raising sufficient finance.¹ It sought early stage development capital of \$45 million over five years to bring to fruition 20 projects over ten years.

Over the past 12 months a great deal of progress has been made both on the ground, identifying and commencing development of a portfolio of projects; and in securing finance to enable the development of the portfolio to proceed.

This 2010 AgDevCo business plan sets out in more detail the programmes and projects which it is now proposed to implement over the period 2010 to 2014. It indicates which activities have already secured commitments to fund, which activities have strong indications of funding in the near future and which remain subject to funding over the next 12 months.

2 – What is AgDevCo?

AgDevCo is an agricultural development company operating in the African agriculture and agribusiness sectors. Working on the ground alongside local entrepreneurs and smallholder farmers, AgDevCo uses a private sector approach to develop profitable agricultural businesses that integrate commercial and smallholder farmers into modern value chains.

With funding from governments and international donors, AgDevCo takes on the high front-end costs and risks of early-stage project development, acting as principal (i.e. owner), with the aim of catalysing inflows of debt and equity capital from private investors into the agriculture and agribusiness sectors.

AgDevCo mobilises "patient capital" to fund part of the capital cost of improved, affordable infrastructure (e.g. irrigation, storage) to support commercial and smallholder farmers, thereby raising farm incomes and contributing to economic growth. It targets opportunities where smallholder farmers' incomes can be increased by at least 300% over five years. AgDevCo also mobilises grant funding specifically to support the non-commercial components of smallholder support programmes, e.g. programme specific extension and information services and to accelerate adoption of modern farming technologies by smallholder farmers.

¹ See AgDevCo business plan 2009 (on website).

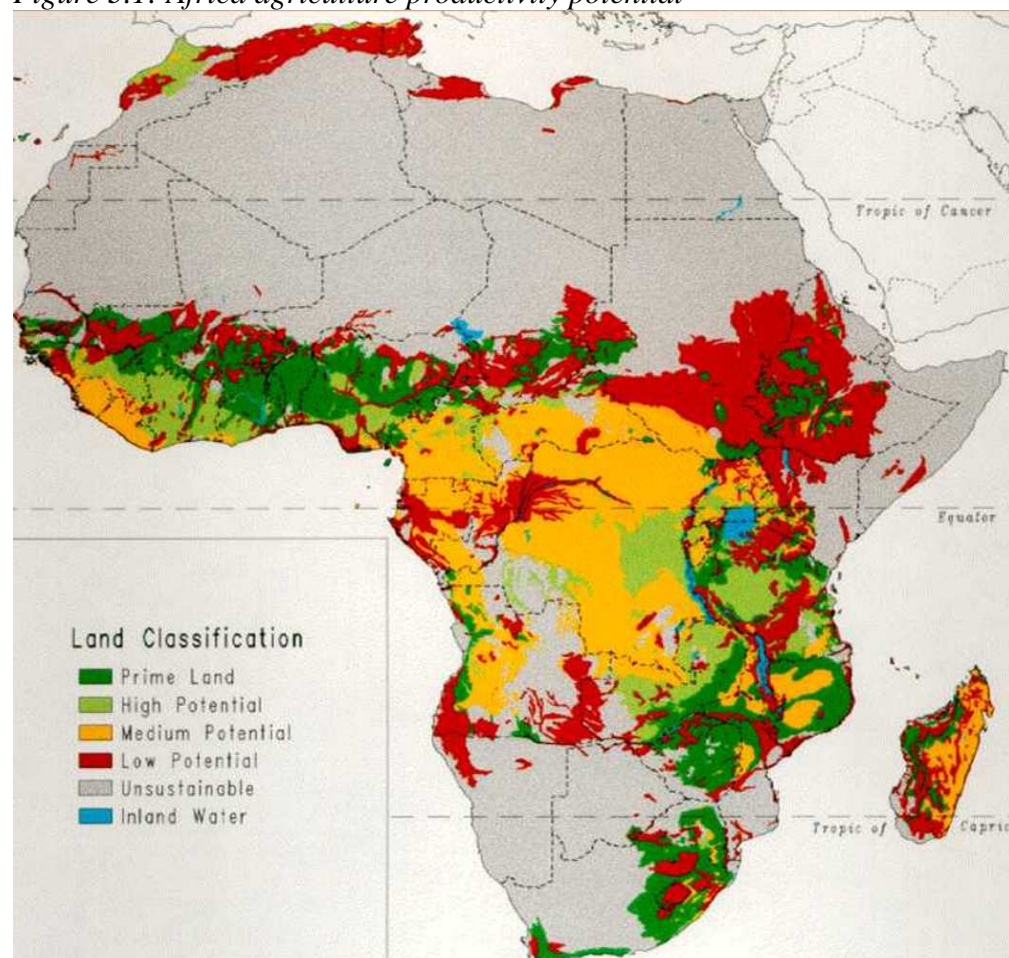


3 – Africa's agricultural potential

“Promoting agriculture is imperative for meeting the Millennium Development Goal of halving poverty and hunger by 2015 and continuing to reduce poverty and hunger for several decades thereafter” (World Development Report, World Bank, 2008)

Agriculture is one of Africa's best opportunities for boosting growth and reducing poverty. Large areas of the continent have suitable soils and climate (Figure 3.1). In many parts of the continent there is abundant land, much of it underutilised, and access to major water resources. But whereas potential productivity is high, actual productivity is low (Table 3.1).

Figure 3.1: Africa agriculture productivity potential



Source: Eswaran et al (1996), United States Department of Agriculture

Simple actions can yield dramatic improvements in farm incomes. More irrigation and greater use of improved seeds, fertiliser and other modern inputs can transform the agricultural productivity of smallholder farmers and more than triple farm-gate incomes. Off-farm investments in improved agriculture-supporting infrastructure can significantly reduce the delivered cost of agricultural inputs, reduce post-harvest losses and increase farm-gate prices. The AgDevCo business model ensures that smallholder farmers realise major benefits as well as farmers with larger farms.



The Chiansi irrigation project is a striking example of where investment in irrigation has resulted in dramatic benefits for smallholder farmers, taking them out of poverty "at a stroke".²

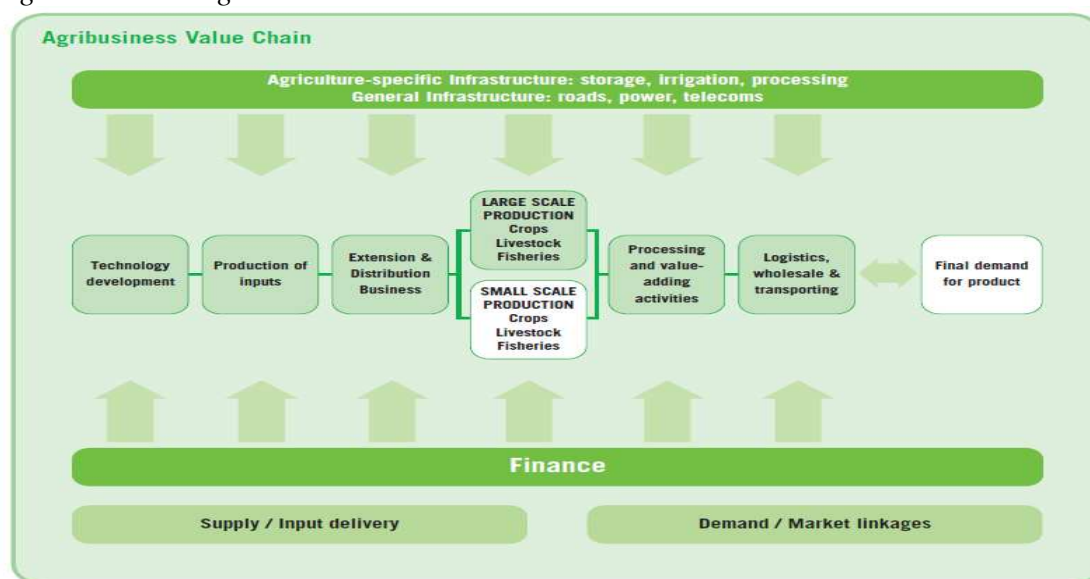
Despite this great potential, Africa in recent decades has become progressively more dependent on food imports. The potential has clearly not been realised. Yet Africa could easily feed its growing population, and become a significant food exporter, if the food production potential of the continent were realised (see Annex 1 of 2009 Business Plan).

Table 3.1: Agriculture – A priority and an opportunity for Africa

<ul style="list-style-type: none"> • Farm productivity in Africa is just 25% of the global average • 75% of people in developing countries live in rural areas with the majority dependent on agriculture for their livelihoods • Less than 3% of commercial credit in Africa goes to the agriculture sector • Only 4% of land in production is irrigated, compared to over 30% in South Asia • Only 30% of the rural population is within 2 km of an all-season road • Low fertiliser use results in 75% of African farmland suffering from severe mining of nutrients • In Africa demand for food is expected to reach \$100 billion by 2015, double its level in 2000 • Africa uses only 24% of improved seeds in cereal production compared with 77% in South Asia
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Success in developing Africa's agricultural potential is dependent on strengthening the entire agricultural value chain from farms to end-consumers (Figure 3.2). In addition to on-farm investments, this requires improvements in 'hard' on-farm and off-farm infrastructure (e.g. irrigation, electricity supply, feeder roads etc) and 'soft' infrastructure (e.g. extension services, storage, processing market development etc). It requires improved access to credit to finance seasonal working capital and fixed capital investments; and development of value-adding agribusinesses such as food-processing and local manufacture of agricultural inputs.

Figure 3.2: The agribusiness value chain



² See 'Chiansi irrigation: patient capital in action' Keith Palmer et al, InfraCo briefing paper, March 2010 (available on AgDevCo website).



4 – Overcoming the constraints on growth of sustainable agriculture

If the agricultural potential is so great, why has there been so little investment in agriculture by commercial investors even in countries where the policy environment is now supportive? The simple answer is that very often the unit costs of production and delivery to markets, in what are typically "greenfield" situations, are too high and therefore profitability too low, to warrant investment of commercial capital.

If the potential productivity of the land is so high, why are smallholders generally unable to produce higher yields and generate higher incomes? The simple answer is that smallholders' access to modern inputs is very constrained by lack of seasonal credit; yields are reduced because of low use of modern inputs; there is no access to irrigation and post-harvest facilities (e.g. storage); they receive low and unpredictable prices for their produce from traders; and they operate at a scale which precludes benefitting from economies of scale and scope.

4.1 Constraints on investment in commercial agriculture

What are the underlying causes that give rise to low investment in commercial agriculture and low net incomes for smallholders?³

High front-end costs and risks – “Greenfield” investments in agriculture involve high costs and risks in the early years. These are costs and risks that private investors have typically been unwilling to bear, except for a small number of the largest and most commercial opportunities involving export crops (e.g. sugar plantations). In the past, agriculture projects in Africa, especially those involving SMEs and smallholders, have had generally to rely on direct government and/or donor support. But all-too-often these projects have not been subject to sufficient commercial discipline and have proven to be unsustainable.

Coordination failures - The profitability of investment at one point in the value chain is dependent on other investments taking place at the right time elsewhere. For example, the returns on investment in on-farm production are often dependent on timely complementary investments in off-farm infrastructure e.g. irrigation, storage, all-weather roads etc. Investments in agri-processing are dependent for their success on timely reliable supply to the plant of farm production of appropriate quality. Co-ordination failures have repeatedly caused agri-processing investments to fail in Africa in recent decades. This has increased the cost of capital demanded by commercial investors to invest in new agri-processing ventures.

Economies of scale - Large parts of the agricultural value chain are subject to important economies of scale. For example, electricity distribution systems, bulk water supply systems for irrigation, ports and airports all exhibit declining average costs as demand grows. Agri-processing plants are also subject to significant economies of scale. As a result, in the early stages of agricultural development, when the scale of operations is small, unit costs of production and delivery to markets are often very high. Over time, as volumes increase, unit production and delivery costs decline, and margins and profitability improve. But high unit costs in the early years act as a barrier to entry by investors. The virtuous circle of increasing volumes,

³ This is an abbreviated version of the same section in AgDevCo business plan 2009.



declining unit costs, higher profitability and more investment resulting in further growth – never starts to turn.⁴ This is a classic market failure that needs to be addressed if the potential is ever to be realised.

Financing constraints – It is notoriously difficult to raise debt and equity capital from commercial investors for greenfield agricultural investments, particularly in Africa. When available at all, its cost is very high so few early-stage investments will be able to afford it. Limited availability of affordable working capital and term debt act as a major constraint on investment in agriculture in Africa. There are additional problems financing agriculture if the sponsors are SME commercial farmers and/or smallholder farmers because they typically lack the track record and balance sheet necessary to enable them to raise finance from commercial sources. This is a financial market failure which prevents potentially viable investments from taking place. Moreover it selectively precludes smallholder farmers from investing to improve their productivity and raise their incomes.

Insufficient entrepreneurs/managers/knowledge and information deficits – there is an insufficient number of experienced entrepreneurs and farm managers engaged in agriculture in Africa. In part this reflects the reality that in most African countries there has been very little commercial investment in the sector by Africans. This deficit in entrepreneurship, together with the withdrawal from primary production in Africa of the majority of international agri-businesses, means that many potentially profitable opportunities do not get implemented. Furthermore, most smallholder farmer organisations suffer from major knowledge and information deficits e.g. about good farming practices, the benefits of using improved seeds, market prices for their outputs etc. These knowledge and information deficits act as an important additional constraint on achieving improvements in smallholder farmer productivity and income growth.

Some or all of these constraints operate in most parts of Africa, most of the time. The barriers to entry to commercial agriculture result in low investment, high production and delivery costs, low margins and low profitability, and therefore continuing low investment. Smallholders remain stuck in a poverty ‘trap’ of low incomes, low productivity, low investment and therefore continued low productivity and low incomes.

4.2 Overcoming the constraints

AgDevCo is designed to address and overcome these constraints; to create profitable commercial agricultural investment opportunities; and to directly and indirectly generate major improvements in smallholder farmers’ productivity and incomes.

⁴ ‘Agricultural Growth and Poverty Reduction in Africa: The Case for Patient Capital’ Keith Palmer, AgDevCo briefing paper (2010) available at www.agdevco.com.



Figure 4.1: the project development process



Reducing front end costs and risks AgDevCo, acting as principal, takes on the front-end costs and risks involved in developing agricultural and agribusiness opportunities to the point that they are capable of attracting private sector investment. AgDevCo does this by, inter alia, undertaking necessary business planning (e.g. soil studies, market studies, capital and operating cost estimates etc); by leading detailed consultations with local communities and entering into agreements with them; by arranging for the provision of affordable on- and off-farm infrastructure services (e.g. irrigation); by securing rights to use of land and by arranging third-party debt and equity finance from the private sector and DFIs. Typical activities undertaken are shown in Figure 4.1.

Tackling coordination failures AgDevCo acts as the “coordinating agent” on the ground, taking responsibility for ensuring timely completion of complementary investments along the value chain. In particular, it ensures that required on-farm investments and complementary off-farm investments (e.g. bulk water, electricity, feeder roads) are financed and implemented when needed to realise the full value potential. The AgDevCo approach to developing agricultural growth corridors in Mozambique and Tanzania is an example of how it acts to overcome coordination failures.

Economies of scale AgDevCo arranges the design, funding, construction and operation of agriculture-supporting infrastructure and makes it available to commercial and smallholder farmers on affordable terms. Infrastructure services are leased to commercial farmers and smallholder farmer organisations; user charges for commercial farmers are based on the long run average cost of service provision and actual utilisation by farmers. User charges for smallholders are discounted at least in the early years to make them affordable. AgDevCo arranges funding for part of the cost of these assets in the form of ‘patient capital’ from international agencies, such as



the World Bank and the African Development Bank. Patient capital is long term capital, subordinated to senior debt with a moderate cost of capital (e.g. 6% pa in US dollars). The benefit of the long term tenor and low cost is passed-on to farmers in lower infrastructure user charges in the early years, thereby helping to overcome the barriers to entry referred to above. As a result many more agricultural opportunities will proceed and many more smallholder farmers will benefit from major improvements in yields and incomes.

Financing constraints AgDevCo addresses the financing constraints in several ways. First, the reduction of early-stage development costs and risks creates more ‘investment-ready’ opportunities and therefore will catalyse more investment into agriculture than would otherwise take place. Second, mobilising patient capital to finance part of the cost of the required infrastructure will reduce the financing that must be raised by commercial farmers, including smallholder farmers, thereby alleviating the financing constraints referred to above. Third, AgDevCo will mobilise additional debt from private sources by working closely with credit guarantee agencies (including USAID DCA and AGRA) to ‘credit enhance’ debt for early stage agricultural and agribusiness investments, so long as there are major benefits for smallholder farmers. This will increase the availability and reduce the cost of both term credit and working capital for SME commercial farmers and smallholders, thereby accelerating the adoption of modern farming practices. Fourth, it will also seek to structure credit support arrangements e.g. warehouse inventory and sales retention arrangements to increase the volume and reduce the cost of credit available to smallholder farmers.

Deficit of entrepreneurs/knowledge and information AgDevCo directly addresses the ‘entrepreneur’ deficit by performing the start-up role itself, by procuring and supporting local management and then transferring businesses, as going concerns, to local ownership with local management as soon as possible.

AgDevCo also addresses the knowledge and information deficits by arranging for grant-funded extension services, demonstration trials, information services, etc to support smallholders and SME commercial farmers. Support programmes of this type will be embedded in every project that AgDevCo seeks to develop.



5 – AgDevCo business model

5.1 Objectives

AgDevCo has three key objectives:

- to create sustainable commercial agricultural and agribusiness enterprises and attract private-sector capital to invest in them;
- to support smallholder development with the aim of increasing productivity and incomes; and
- to increase understanding of the AgDevCo approach and encourage its adoption by third parties.

5.2 Strategic themes

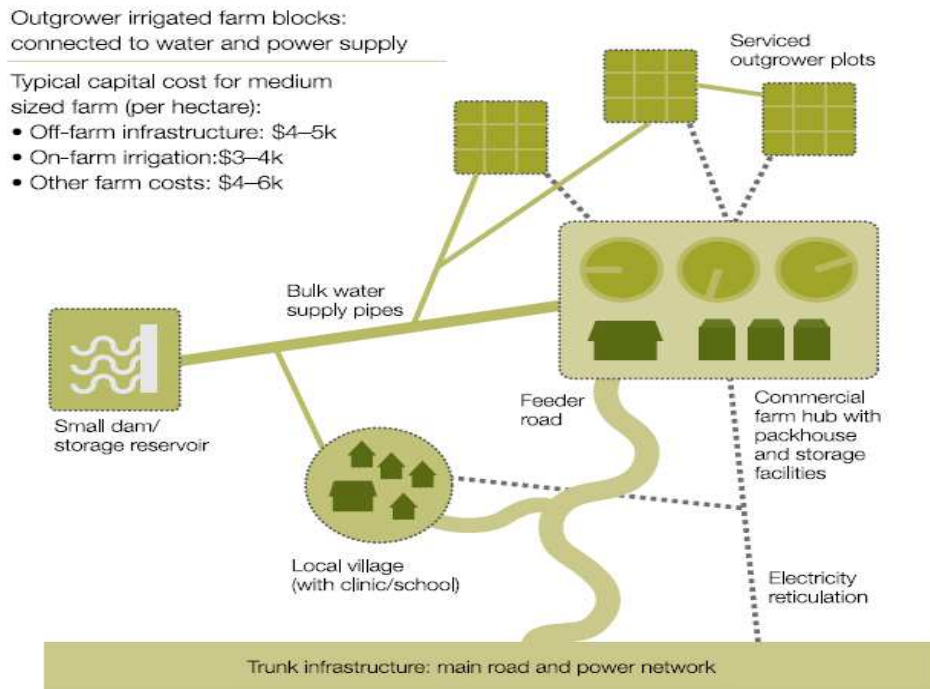
The AgDevCo approach is to prioritise opportunities where the essential ingredients - good soil, suitable climate, access to water and land - are readily available and where modern farming practices can generate major improvements in incomes for SME commercial farmers and smallholder farmers.

There are five strategic concepts:

1. **Commercial farm hubs/smallholder farmer linkages** AgDevCo will exploit the potential of commercial farm hubs to confer major benefits on smallholder farmers. Commercial farm hubs - typically in excess of 300 ha - provide the scale and critical mass needed to generate sufficient value uplift to pay for improved infrastructure (irrigation, grid electricity, storage facilities), on-site storage and processing facilities. They also permit purchases of agricultural inputs in bulk which reduces the cost of inputs; and arrangement of revolving credit facilities to fund working capital requirements of farmers. Once these enhancements have been provided for the commercial farm 'hub' the same benefits – better access to infrastructure, cheaper inputs, more and cheaper credit and higher farm gate prices and incomes can be shared with smallholder farmers at (low) marginal cost.



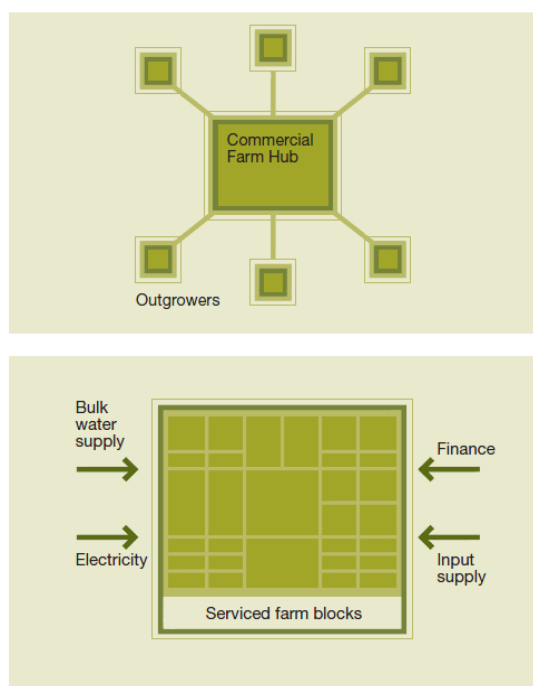
Figure 5.1: Nucleus farm hub and benefits for local communities



Source: AgDevCo, based on Chiansi irrigation project (see www.infraco.com)

2. **Structured smallholder farmer linkages** AgDevCo will develop structured smallholder farmer linkages linked with commercial farm hubs to ensure smallholder farmers achieve affordable access to irrigation, improved access to cheaper agricultural inputs, lower post-harvest losses and higher farm gate prices. Two alternative models for structuring these linkages are shown in Figure 5.2.

Figure 5.2: Smallholder commercialisation models

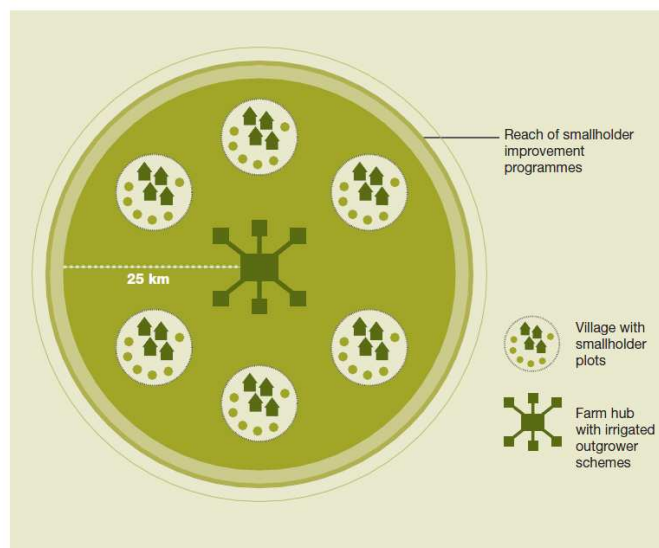




Both models enable smallholder farmers to access infrastructure services, cheaper inputs, more and cheaper credit and better access to product markets with very low entry costs and risks. The ‘serviced farm block’ model enables smallholder farmers to increase the area under production over time and therefore to sustain the early increase in their incomes.

Both models illustrated in Figure 5.2 involve providing irrigation for smallholder farmers. However, there are clear limits to the distance from a commercial farm hub that water for irrigation can be supplied cost-effectively to smallholders – defined by the number and density of smallholder farmers in the area. However the AgDevCo approach to smallholder farmer linkages involves providing access to cheaper agricultural inputs, storage services, better access to credit and product markets for smallholder farmers over a much greater area typically in an area of radius 25km² from the nucleus farm, an area of almost 2000 square km per project.

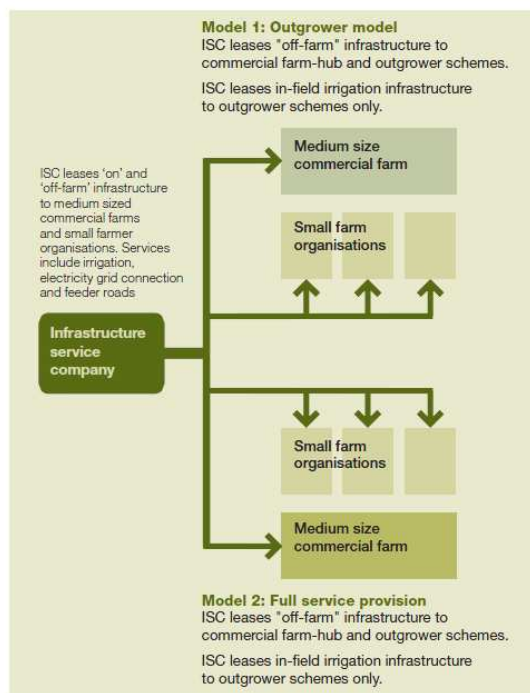
Figure 5.3: Smallholder service delivery programmes



3. **Irrigation service companies (ISCs)** In many cases provision of irrigation services to farmers is the single most transformational step to improve productivity, reduce vulnerability to drought and therefore improve food security. Where this is the case the AgDevCo approach is to develop irrigation utility companies which finance, build and operate irrigation systems "end to end" from bulk water supply to on-farm assets, and lease them to commercial farmers and smallholder farmers (Figure 5.4). Lease charges are deeply discounted for smallholder farmers.



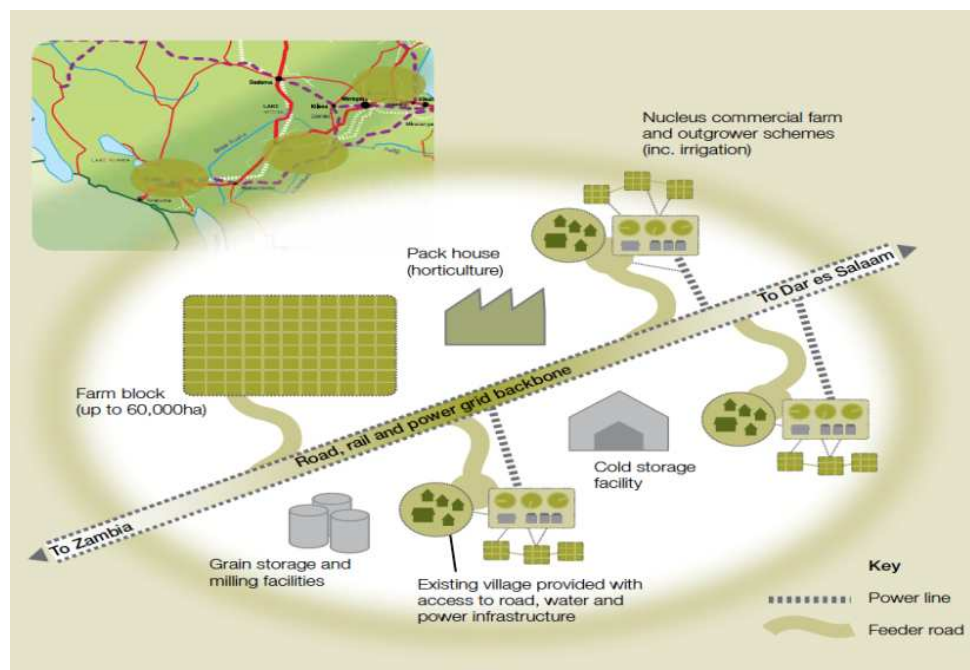
Figure 5.4: ISC service delivery model



4. **Development along the whole value chain** Increasing primary production is necessary but not sufficient. Investments are also needed to improve the supply, and reduce the cost, of better quality seeds, fertiliser and crop protection products; and in agricultural processing e.g. milling and canning initially, but progressively moving up the value chain. However, asymmetric bargaining power and monopolistic elements in value chains often result in a disproportionate share of the benefits accruing to off-farm players. The AgDevCo approach is to stimulate investments in value chain development in ways that ensure SME commercial farmers and smallholder farmers share appropriately in the benefits, e.g. through co-ownership in the businesses.
5. **Importance of corridors and clusters** There are important benefits from focusing complementary investments along agricultural value chains in a single region (corridors or clusters). First, geographic adjacency maximises the potential for forward and backward linkages; second, it maximises the use of existing trunk infrastructure; and third, there are important economies of scale and scope in major components of agricultural value chains which are best exploited by focusing activities in a single region. Therefore the AgDevCo approach is to focus on regions where the potential to capture these benefits is greatest, subject to the other conditions precedent being present.



Figure 5.5: Agricultural Growth Corridor clusters



AgDevCo's work on Agricultural Growth Corridors

The AgDevCo team led the work in developing the agricultural growth corridor initiatives in Mozambique (BAGC) and Tanzania (SAGCOT). The methodology set out in the Corridor reports has attracted support from the highest levels in both governments and has encouraged a number of donor agencies to reconsider how they should provide support to the agriculture sector to promote economic growth and poverty reduction. More information on AgDevCo's ongoing work in both corridors is available at www.africacorridors.com

5.3 Project selection criteria

Opportunities will be screened and ranked according to the following criteria:

- *Commerciality*: all opportunities must offer the clear prospect of financial sustainability, meaning that they can service their debt, generate commercial returns on equity and continue to grow over time without any additional AgDevCo support in the medium term.
- *Major smallholder farmer benefits*: all opportunities must generate major direct and indirect benefits for smallholder farmers. The target for direct benefits will be at least a 300% increase in smallholder farmer incomes when they are benefiting from irrigation, and at least a 200% increase when they are not. There must also be significant indirect benefits such as new employment opportunities (on-farm and off-farm e.g. processing and packing, wholesale and retail, warehousing and transport services etc.) and empowerment of local communities to control the future development of their areas. On average the number of beneficiaries among smallholder farmers will exceed 35,000 per project, of whom up to 500 would have access to year-round irrigation.



- *Crop selection:* crop selection and crop mix will be determined so as to maximise the value added and the increases in farmers' incomes. Although there will be a bias in favour of food crops for domestic and regional consumption, this will not be to the exclusion of export crops and industrial inputs, e.g. starch, oilseeds.
- *Farm size:* the importance of economies of scale is such that most AgDevCo opportunities will include a commercial farm hub of not less than 300 ha, and sometimes much larger. The approach will be to support smallholder farmers working existing very small plots (typically less than 1 ha) but also to create new opportunities for smallholder farmers to migrate to farming of medium-sized blocks (5 - 50 hectares) over time.
- *Availability of willing local partners:* in all cases the support of government and local smallholder farmers is necessary. Priority will be given to situations where there is unequivocal government support and reason to believe that the local smallholder farmers will be supportive once the opportunities are fully explained to them. Preference will also be given to situations where there are local commercial farmer sponsors with experience of agriculture in the area.
- *Speed of execution:* it is important to show some quick results. Therefore the portfolio of opportunities has been chosen to balance some "quick wins" with some projects which have large potential benefits but will take longer to bring to fruition (typically those requiring new infrastructure to fully realise the potential).
- *Funders' preferences:* different funders have different criteria and preferences regarding the crops and types of projects that they are willing to support. AgDevCo will develop its portfolio in a way that permits different funders to support discrete components of the portfolio, with transparency about which activities are being supported by funds from a particular funder.

5.4 Portfolio development

The initial project portfolio (described in Section 6 below) has been selected using the project selection criteria set out above. Each year the operating plan and budget is agreed based upon screening of a list of possible opportunities. However this is a dynamic process and each year a re-assessment will be made, in light of developments over the year, of the appropriateness of continuing with all the projects in the current portfolio and whether or not to add new projects.

5.5 Operational modus operandi

AgDevCo's operational modus operandi is as follows:

- Stage 1 is to enter into a non-binding Memorandum of Understanding (MoU) with local counterparties which may include government, local smallholder farmer organisations and/or local commercial farmers. This short stage, typically 3-4 months, involves early scoping to identify whether the conditions exist for an AgDevCo operation which passes the project selection criteria set out above.



- If work undertaken during the MoU stage identifies a suitable opportunity, Stage 2 is to enter into a Joint Development Agreement (JDA) setting out: the basis on which AgDevCo will undertake a full-scale project development exercise; the respective roles and responsibilities of the parties; the funding arrangements; and the completion fees payable by new investors at financial close to AgDevCo for bringing the opportunity to successful completion.
- At the time the JDA is executed, if the opportunity is a ‘greenfield’ investment, AgDevCo incorporates a local AgDevCo-owned subsidiary which becomes the project development vehicle which undertakes all of the activities necessary to bring the opportunity to successful completion. If the opportunity is a ‘brownfield’ investment, AgDevCo may invest as a partner in an existing local company on terms set out in the JDA.
- AgDevCo seeks to sell-down its interest in project companies at financial close and to exit as soon as practicable (typically three to five years following financial close but earlier if there is an experienced commercial farmer partner). On sell down, AgDevCo realises its investment plus a premium, settles any project specific liabilities (eg if funding has been injected as loans or refundable grants) and uses any surplus to invest in new project development opportunities.

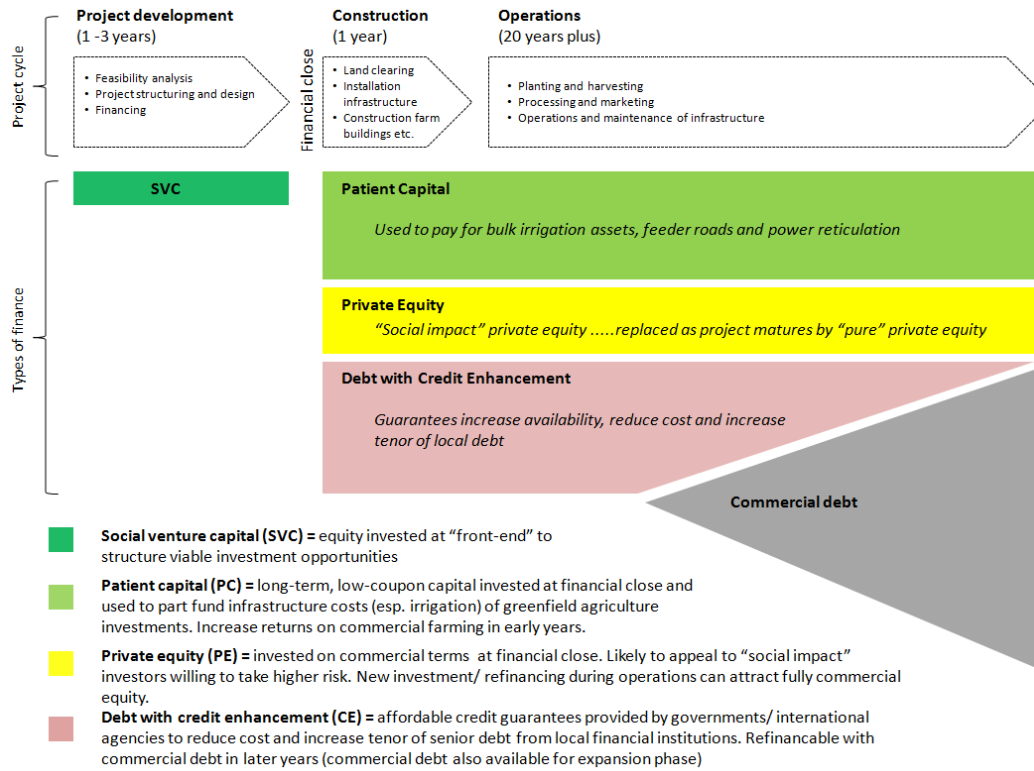
5.6 Financial strategy

AgDevCo will receive non-refundable or refundable grants and/or concessional loans from donors and invest the resources as social venture capital to bring investment opportunities to the point where they can attract private sector and DFI debt and equity capital. AgDevCo will receive shares in local subsidiaries in consideration for its contribution and, in some cases, a development fee payable at financial close by incoming investors.

Where there is a significant infrastructure component to the investment plan, AgDevCo will seek to arrange patient capital and loan guarantees for senior debt to facilitate financing of infrastructure utility companies. AgDevCo has already commenced discussions with World Bank and African Development Bank about loans to government to be on-lent as patient capital for irrigation infrastructure in Ghana, Zambia, Mozambique and Tanzania. It has also held discussions with USAID DCA programme and confirmed that they have capacity and appetite for more ‘Chiansi-type’ transactions where they are structured to be viable and confer major benefits on smallholder farmers. The current constraint on use of this capacity is lack of deals – which AgDevCo, working in partnership with InfraCo, will seek to address.



Figure 5.6: AgDevCo role and illustrative project financing structure





6 – AgDevCo Business Plan 2010-2014

The 2010 business plan is focused on development of four programmes in four countries. Each programme contains a number of discrete agribusiness investments, each of which has a commercial farm hub and smallholder farmer support component. The most advanced programme, Beira Agricultural Growth Corridor, has already identified a number of specific investment opportunities. The other programmes are at a less advanced stage and identification of priority opportunities is ongoing.

6.1 Programme 1 – Beira Agricultural Growth Corridor (BAGC)

The AgDevCo team has been centrally involved in the work that resulted in presentation of the BAGC Investment Blueprint in Maputo and at Davos in January 2010. Since then it has received the strong support of the government of Mozambique (at the level of President Guebuza and Minister of Agriculture). The investment blueprint identified a number of fast track opportunities that could be taken forward in 2010 and some medium term opportunities that require funding and installation of irrigation and related infrastructure before the full potential can be realised.

With the strong endorsement of the government AgDevCo has developed a plan to: bring to fruition several fast track opportunities in the near term; to begin the process of developing irrigation infrastructure, thereby stimulating private investment in irrigated farming, on a basis where smallholder farmers will share substantially in the benefits; and to develop a number of value adding opportunities in agri-processing and agricultural input supply.

(i) Fast Track Opportunities – characterised by not needing major infrastructure investments to proceed

Improved seed production and distribution

To establish a seed growing and distribution business in the Beira corridor which can supply improved and affordable seed varieties to large numbers of smallholder farmers adequate for at least 44,000 hectares of maize, 6,000 hectares of soy and 12,000 hectares of assorted beans. The seed will be produced, processed, treated and marketed locally. Production will involve a core commercial farm of up to 430 hectares plus at least 1,000 smallholder/ emergent farmer outgrowers within five years. Demonstration plots will be established to further test the seeds in the field and demonstrate to local farmers what can be achieved with better crop husbandry especially in regard to conservation farming methods. Distribution to smallholder farmers through local agro-dealers will be accompanied by an extension programme in partnership with NGOs. Partnership with a recently established maize buying cooperative and warehouse system which expects to reach as many as 50,000 small farmers is planned.

Smallholder commercialisation programme

Commercialisation services to support up to 29,000 farming families working on 83,000 ha for maize production with an estimated total current production of 94,000 tonnes. The project aims to set up a sustainable collection, storage, milling and marketing system through which small farmers in the central Mozambique provinces can sell their excess maize and participate in the full maize production value chain.



The project will address the estimated 20% - 30% of the maize crop produced by smallholder farmers which is wasted due to spoilage generally resulting from inadequate storage, lack of access to markets outside the harvest period, and lack of proper post harvest handling techniques. The project has been initiated by APAC, a locally-based NGO, and supported by the Dutch embassy with an initial \$1m grant. It replicates a similar project in the rice sector centred around Quelimane in Zambezi province.

Horticulture production and processing

In partnership with a local horticulture processor, the project aims to expand production, processing and sale of vegetables and fruit from Manica Province in Mozambique. Markets are available domestically and in the region (especially South Africa) as well as internationally (Europe, Middle East). There is great scope to develop commercial farm hubs/small farmer outgrower schemes in the area. Development of a single 600 hectare unit for tree crops (mainly citrus) supported with at least 4 commercial out growers each producing 50 hectares. The program can be further enlarged by adding small farmer out grower programmes. We already have interest from a large European buyer interested in up to 1,000mt citrus per week. The capital requirement in equity and loans is approximately \$5.7 million for plantation establishment, buildings and equipment plus a working capital requirement of a similar amount. Sainsbury Charitable trust has invested considerable social capital in this area. Over the past four years it has developed 500ha of irrigated farm production of vegetables (currently baby corn and peppers). Additional unused land is available. Production is washed and packaged and exported to UK end-markets. The operation employs 1,400 people principally in the packing plant. AgDevCo has executed an MOU whereby it will take the lead in stimulating new agricultural production (in a separate company established by AgDevCo) focusing initially on tree crops including citrus, and on developing markets for expanded output.

Bananas

To establish 40 hectares of commercial banana production and 10 hectares of banana production by small holder farmers, taking advantage of an immediate shortage in supply of bananas in the region. The project can be scaled-up to to 800 ha once channels to the South African market are re-established. An existing farm has been identified as having many of the attributes necessary for the commencement of a successful banana plantation. Most importantly this includes the onsite availability of an experienced commercial farmer. The site is 436 hectares in size and of these 250 hectares is currently working arable land with another 100 hectares available for clearing. A long time distributor of fruits and vegetables based in the region has expressed initial interest in providing technical support as well as a commitment to purchase the bananas (25,000 tonnes). The current project sponsor is actively involved in commercial farming in Mozambique and Zimbabwe but lacks the capacity to develop the project alone. AgDevCo would partner with the sponsor to take the project to financial close, including sourcing capital as necessary.

(ii) Develop a number of irrigated agriculture blocks

The target is to develop a total of 10,000 hectares of irrigated agriculture in five years, probably over three different 'blocks'/areas. Identification of suitable areas is ongoing. Currently two promising opportunities are being explored.



Chemez valley farm block

Provision of irrigated infrastructure to commercial and smallholder farmers in Manica region of Mozambique. The project pre-feasibility study is complete. The Chemez business plan envisages developing year-round crop production through construction of a gravity-fed pipeline from the Chemez River which would provide sufficient water to irrigate up to 1,200ha of land; development of smallholder irrigated farms on 600 ha of land owned by AusMoz, under a lease/tenancy arrangement; development of a further 320 ha of irrigated land on AusMoz; and development of 200 ha of irrigated land on each of the adjacent two commercial farms. Total cost in the region of \$40 million. The current project sponsor is actively involved in commercial farming in Mozambique and Zimbabwe but lacks the capacity to develop the project alone. AgDevCo would partner with AusMoz to take the project to financial close, including sourcing patient capital as necessary.

Benga farm block

To produce a consistent supply of good quality fresh produce and grains for the rapidly growing mining industry and the local milling companies within the Lower Zambezi Valley region. Riversdale Mining Ltd., an Australian company, has committed to spend \$200 million of its planned \$1 billion investment buying local goods and services. The project feasibility study is complete. There is agreement in principle from Riversdale to cooperate with agriculture project developers and provide land. There will be employment and food security benefits for local communities in the vicinity of the mines \$4-8m is required for irrigated production on 200+ ha of fertile floodplain land next to the Rovubue River, a perennial tributary of the Zambezi River. Another 200+ ha of land made up of smaller areas on the floodplain of the Zambezi, downstream of the Riversdale - Benga Coal mine site. Pack house and cold storage facilities are planned. Work with Riversdale and TMA to attract patient capital and commercial finance for a project structured to combine commercial and smallholder farmers producing fully commercial yields under irrigated production for sale in local and regional markets is underway.

(iii) Develop value chain business opportunities

In addition to the above projects, and in some case building on their successful implementation there are opportunities to establish large-scale processing, milling and other value adding facilities in partnership with international companies (e.g. Yara International, Nestle, Unilever) to provide smallholder farmers with opportunities to benefit from growth of value adding agribusiness services, in some cases by means of increased vertical integration.



6.2 Programme 2 – Southern Tanzania Growth Corridor

The AgDevCo team has been centrally involved in the work that resulted in presentation of the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Concept Note in Dar es Salaam in May 2010. The Concept Note received the strong support of the President of Tanzania who recently declared SAGCOT as his personal priority for developing the agriculture sector. Work is now underway to complete a SAGCOT Investment Blueprint before the end of 2010. It is expected to confirm the major agricultural potential of the corridor, highlight the potential for irrigated agriculture and identify a number of fast track opportunities that can be taken forward early in 2011 as well as some medium term opportunities that require funding and installation of irrigation and related infrastructure before the full potential can be realised.

The business plan budgets resources to take forward four fast track opportunities over 2011-2012 and two irrigated agriculture ventures over the period 2011-2014, reflecting the longer time required to bring them to fruition. In addition AgDevCo has already entered into a MoU with an existing commercial farming group in Southern Tanzania and expects to finalise a JDA within months.

The initial project is the first of several large-scale commercial agriculture projects that the sponsor intends to develop. It is an existing farm with secure title over 7,295ha . Planned crops include maize, sorghum, soya, sunflower and chick peas, partly under irrigation (min.400ha). Trial planting has commenced on 220ha with good yields. The business plan requires investment to scale-up the farm project, install irrigation, introduce processing and implement a smallholder farmer support programme. It is the intention to incorporate smallholder farmer production as contract farmers, by providing leased irrigation services and through vertical integration in value-adding processing. AgDevCo has entered into an MOU with the sponsor to structure the project to incorporate smallholder farmer support components and arrange financing for the project.

Other currently identified opportunities include:

Seed potatoes

A seed potato growing and distribution operation on a 200-hectare nucleus farm to provide improved seed to 60,000 smallholder farmers – there is potential to develop irrigated farming blocks for emergent farmers. Current yields by small farmers average between three and eight tonnes per hectare. Such yields are based on old variety seed stocks for which modern alternatives exist. Use of proper seed varieties can increase yields to as much as 30 tonnes per hectare with the required management and inputs. Moreover, a professionally managed seed operation can also serve as a training centre for extension officers in order to transfer proper potato farming techniques to smallholder farmers.

Rice estate

Development of a 7,000 rice estate incorporating smallholder growers in the Kilombero valley, Tanzania. AgDevCo is in discussions about a partnership agreement with a UK-based company which has rights over the land, to develop the project using the AgDevCo approach. There is a need for significant investment in supporting infrastructure (feeder roads, power, irrigation) to make the project viable.



Once the infrastructure is in place there are many opportunities to catalyse a major increase in rice production in the area as well as providing much needed utility services to local communities.

Farm block

A commercial farming block area in the Southern Highlands on 36,000 hectares under rain-fed production with basic infrastructure provided through a public-private partnership structure, leading to production of 115,000 tonnes of maize, wheat and soya for local and regional consumption. The farming block could be designed with a combination of large units of up to 2,000 hectares and smaller units up to 200 hectares. Achieving economies of scale would require a minimum 36,000 hectares, of which 60 per cent should be arable, ie 21,600 hectares under cultivation. The farming block would benefit from infrastructure provided through a public-private partnership structure to finance land clearance, feeder roads, and collection/ storage facilities. The suggested rotation includes maize, wheat and soya in both the emergent and large commercial farms. The proposed area could support an estimated annual production of 61,200 tonnes of maize, 42,000 tonnes of wheat and 12,300 tonnes of soya. At current prices such production would save Tanzania US\$30–35 million in foreign exchange annually.

6.3 Programme 3 – Zambia Irrigated Food Production

The AgDevCo team has advised the Government of Zambia and the World Bank on the design of public-private partnerships for irrigation projects at three specific sites. Each project will combine commercial and smallholder production, on the nucleus farm and outgrower model, with all farmers benefitting from affordable irrigation services. The World Bank has agreed in principle to provide up to \$100 million to the government for on-lending as patient capital to fund the bulk infrastructure components of these projects.

At the same time AgDevCo is aware of a number of other opportunities to develop irrigated farm blocks using a similar model, with potential access to patient capital from the Government of Zambia and its development partners. AgDevCo is currently working with the Zambia Development Agency to identify suitable government-owned land where PPP irrigation projects could be taken forward with AgDevCo as the lead project developer.

6.4 Programme 4 – Ghana Irrigated Food Production

Following a request to the World Bank from the Government of Ghana asking for assistance in developing commercial agriculture projects, AgDevCo was invited to join the World Bank agriculture mission team on a visit to the country in February 2010. The mission report, which was presented to the Minister of Agriculture by the a senior executive of the World Bank, recommended that the government partner with AgDevCo to identify 3-4 suitable sites for developing commercial irrigation projects with benefits for smallholder farmers and local communities. The World Bank has agreed in principle to make available a facility of \$100 million to the government to be on-lent as patient capital to these and other agricultural projects in Ghana.



AgDevCo has subsequently negotiated an MOU with the Government which is due for signature in June. Subject to raising additional funds, AgDevCo will then rapidly mobilise a team to begin a project scoping exercise with a view to entering into legally binding partnership agreements with the government and local stakeholders to develop specific projects.

6.5 Pipeline development

AgDevCo has an extensive pipeline of project opportunities across multiple countries in Africa. Each week AgDevCo is approached by two or three credible project sponsors who have promising agriculture investment proposals but lack the financial and technical resources to implement them. These opportunities are not of interest to development finance institutions, banks or agriculture investment funds because they are too early stage. AgDevCo is unable to take forward these unsolicited projects, regardless of their merits, due to a lack of core funding. It does mean however that once core funding is secured AgDevCo has a large number of additional project opportunities to select from. Examples of pipeline opportunities are:

Mozambique

- Collection and export of organic honey, which could eventually involve as many as 25,000 families.
- 5,000ha farm block development in partnership with the Government of Mauritius to develop food crops for local consumption and export.

Tanzania

- Mac Group Ltd - Tungi Estate & Amboni Estate. Fully titled parcels of land which can be developed into large commercial farms for the production of cereals, legumes tubers and pulses
- Rungwe Avocado. A 60-hectare nucleus avocado plantation supported by 140 hectares of smallholder production under irrigation and a further 400 hectares of smallholder outgrowers – benefits would include improved incomes and reduced risks (through crop diversification) for large numbers of smallholder farmers

Zambia

- Groundnut production and processing scheme. Lumwana Mining Company Limited. Diversification of the local economy and encouraging community entrepreneurship through outgrower schemes, contract farming and engaging local farmers in the production value chain.

Democratic Republic of Congo

- Develop food crops on a commercial basis with outgrower schemes. We have been approached by two farming organizations in the Democratic Republic of Congo looking to develop food crops on a commercial basis with outgrower schemes. Although we may arrange a field visit in May 2010, we are unable to pursue these opportunities within AgDevCo's existing resource envelope.



Senegal

- A groundnut production and processing scheme. This would be a partnership with Aventura, a social investment fund, expanding existing pilot project. This project is on hold pending AgDevCo's ability to raise additional third-party funding.

6.6 Programme Budgets and Timelines

The table below provides indicative project development budgets over the period 2010 – 2015. It shows a total funding requirement of \$47m over four years sufficient to implement at least 12 projects in AgDevCo's focus countries.

	2010	2011	2012	2013	2014
Programme 1 (Mozambique)					
Smallholder commercialisation	0.4	0.4	--	--	--
Seed production and distributions	0.2	0.4	0.8	--	--
Bananas	0.2	0.4	0.2	--	--
Citrus	0.2	0.4	0.6	1.6	--
Benga	0.2	0.6	0.8	1.2	--
Unallocated	--	1.0	2.0	2.0	--
Programme 2 (Tanzania)					
Sasumua	0.6	1.2	--	--	--
Seed potatoes	0.2	0.6	0.8	1.6	--
Rice	0.2	0.6	0.8	1.6	--
Unallocated	--	2.0	2.0	3.0	--
Programme 3 (Zambia)					
Project 1	--	0.6	0.8	1.6	--
Project 2	--	0.6	0.8	1.6	--
Unallocated		0.5	0.5	0.5	--
Programme 4 (Ghana)					
Project 1	0.3	0.5	0.8	1.6	--
Project 2	0.3	0.5	0.8	1.6	--
Unallocated	--	0.5	0.5	0.5	--
Project pipeline	--	1.0	1.0	1.0	--
Other costs					
Total	2.6	11.8	13.2	19.4	--

Reflows to AgDevCo would allow the development of at least a further 12 and up to a further 24 projects, depending on the level of premium available to AgDevCo at financial close.



6.7 Financial leverage

AgDevCo is a highly efficient and transparent use of donor resources. AgDevCo aims to raise at least five dollars of commercial debt and equity at financial close for each one dollar of social venture capital it has invested. This implies that AgDevCo's five-year business plan will initially leverage in more than \$235 million of commercial investment into sustainable and socially responsible agriculture projects in Africa, all of which would not have taken place without the AgDevCo investment. Furthermore, as sales proceeds are re-invested, AgDevCo will be able to catalyse at least another \$235 million of commercial investment in agriculture that otherwise would not take place.

In addition new commitments of patient capital and risk capacity (as loan guarantees) will mobilise additional investment in agriculture-supporting infrastructure of about \$500 million.



7 – AgDevCo development impacts

There is a range of direct and indirect benefits resulting from implementation of this initial business plan. The **direct** benefits of AgDevCo's operations *during its first five years* include:

- creation of a significant portfolio of sustainable SME agricultural and agri-business enterprises owned and managed by Africans within five to seven years;
- creation of at least 35,000 additional permanent jobs in commercial agriculture
- at least 500,000 smallholders are direct beneficiaries of AgDevCo smallholder farmer support programmes linked to development of commercial farm hubs.

Investment reflows on AgDevCo projects will allow the company to further expand the project portfolio. AgDevCo expects to deliver at least 24 successful projects over ten years, directly benefiting at least 1 million smallholder farmers and creating at least 70,000 permanent jobs.

The **indirect** benefits include:

- induced economic activity arising from increased incomes/demand of farmers for intermediate agricultural goods and services and final consumer goods and services;
- induced investment and further growth of commercial agriculture and agri-business incomes as average costs of infrastructure services decline over time and 'learning by doing' results in further productivity improvements;
- additional private investment in agriculture as marginal profitability improves, ensuring financial sustainability and therefore no further need for AgDevCo involvement
- smallholders continue to improve productivity and incomes as their knowledge and experience increases, and some farmers migrate to medium size commercial farm blocks; and
- strengthened rural organisations which direct the future development of the area (e.g. providing social infrastructure and services, as at Chiansi).

These indirect benefits are reasonably attributable to AgDevCo interventions because once the start-up costs have been absorbed, infrastructure is available and production grows over time as the average costs of production and delivery decline, yields improve and hence marginal profitability and incomes rise further, giving rise to a 'virtuous spiral' of higher investment and productivity and growth of incomes without any further commitment of donor funds.

7.5 Measuring results

AgDevCo will commit to explicit Key Performance Indicators (KPIs) and outcome targets and agree a monitoring and evaluation methodology that will enable funders to track progress against targets. As noted earlier the management team will be incentivised to deliver agreed targets.



The monitoring and evaluation system will measure and report results at the project and portfolio level, including the number of agricultural jobs created, the number of smallholder farmer beneficiaries, and the amounts of third-party finance raised.

8 – AgDevCo structure, governance and management

8.1 Structure, governance and management

Structure AgDevCo has incorporated a UK operating company limited by share capital called Africa Agricultural Development Company Ltd. (AADC). The shares are currently held by Keith Palmer. AADC is and will remain a not-for-profit-distribution company operating for public benefit.

Keith Palmer is in the process of establishing a charitable trust called Enterprise for Development. Once the charity is registered with the Charity Commission it is the intention that the shares of AADC be transferred for no consideration to Enterprise for Development. The purpose of establishing the trust is to place a legal ‘firewall’ between government donors and the company, to offer non-government donors a tax efficient means of supporting AgDevCo and to confirm and help communicate the public benefit nature of the enterprise.

Governance AADC has a Board of Directors currently made up of Keith Palmer and Valentine Chitalu. Later in 2010 it is the intention to expand the membership of the board with the addition of three new non-executive Directors and three executive Directors. The management will be accountable to the Board and the Board will be accountable to funders. The non-executive Directors will be primarily from the private sector, with relevant experience of project development, agricultural development and/or financing of investment in developing countries and a clear understanding of the development mission and public benefit purpose of the company.

The Board will approve the strategy, annual plans and budgets and monitor performance of the management team. It will ensure that operations are consistent with the stated aims and undertakings provided to funders.

Management

AgDevCo has a core team of three Directors (see next section for details) and one support staff working from offices in London, UK and Lusaka, Zambia. It is the intention to establish local presences and management in Mozambique, Tanzania and Ghana as well as Zambia; and recruit additional project developer resource including local staff.

8.2 Relationship with InfraCo

The AgDevCo concept is closely based on the experience of InfraCo in developing ‘hard’ infrastructure. The business model for AgDevCo draws on lessons learned over the first five successful years of InfraCo operations while taking account of some significant differences between agriculture and ‘hard’ infrastructure. However, AgDevCo is organisationally quite separate from InfraCo, has different funders and separate governance arrangements.



In some areas, notably its agriculture-supporting infrastructure projects, there is considerable overlap between InfraCo's and AgDevCo's proposed activities. For example, the Chiansi project referred to earlier would fit equally well into InfraCo or AgDevCo. The reasons that AgDevCo is needed as well as InfraCo are: InfraCo only has the human and financial resources to undertake a small number of agriculture-supporting infrastructure projects (and they are already developing as many as their resources currently permit); InfraCo's business plan involves developing a project portfolio which is diversified across all the infrastructure sub-sectors; agriculture requires additional, complementary expertise to that of hard infrastructure developers; and InfraCo has largely committed its available capital to specific infrastructure opportunities and cannot take on many new agriculture-supporting infrastructure projects.

Nevertheless InfraCo has developed highly relevant expertise in developing the infrastructure components of these types of projects (including the Chiansi project). Whenever appropriate, AgDevCo will seek to collaborate with InfraCo to develop the infrastructure components of its projects. By mutual agreement InfraCo may take on the lead developer role for major infrastructure components of agricultural projects.

8.3 Relationships with other partners

AgDevCo will work in partnership with national governments, bi-lateral and multi-lateral development institutions, private foundations, NGOs and private companies to meet its objectives.

- AGRA has identified the Beira Agricultural Growth Corridor as its “entry point” for its breadbasket strategy in Mozambique. AGRA has asked AgDevCo to advise how it should support the smallholder farmer linkages around the fast track projects identified in the investment blueprint.
- AgDevCo is partnering with the Africa Union's NEPAD Secretariat on the delivery of the private sector component (Pillar II) of the Comprehensive Africa Agriculture Development Plan (CAADP). Initially AgDevCo will work with CAADP on the development of the agricultural growth corridors in Tanzania and Mozambique.
- AgDevCo has strong relationships with a number of “social impact” investment funds that are in the process of being established including TransFarm Africa and the Africa Agriculture Fund. TransFarm and AAF are expected to have combined resources of some \$400 - \$500 million to invest in commercially viable agriculture projects in Africa. They are natural partners to invest at financial close in projects developed by AgDevCo.
- AgDevCo is working with a number of development finance institutions including Norfund, International Development Corporation (IDC) and Development Bank of Southern Africa (DBSA) all of whom are interested in investing in commercially viable agriculture projects including for horticulture corps, mixed farming opportunities (e.g. Sasumua) and grains (especially rice).



- AgDevCo has identified a number of innovative and highly effective NGOs working with smallholder farmers in Africa including MicroInsure and One Acre Fund to provide improved extension and financial services as well as affordable farming inputs and access to markets. AgDevCo will partner with these and similar organisations to ensure that its projects provide sustainable benefits to the largest possible number of smallholder farmers.

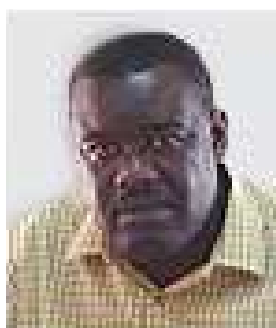


9 – Sponsors and team

9.1 Sponsors



Keith Palmer, Executive Chairman is the principal sponsor of AgDevCo. He is also the ‘intellectual architect’ and Chairman of InfraCo. He was formerly founder Chairman of Emerging Africa Infrastructure Fund and a board member of Guarantco. He is founder and Chairman of CEPA, a consulting company that is very active in agricultural development in Africa. He previously held the position of Vice Chairman of Rothschild, the investment bank. He has worked for the World Bank and IMF and in senior positions in the public sector in Tanzania and Papua New Guinea.



Valentine Chitalu, Non-Executive Director, is an entrepreneur in Southern Africa specialising in private equity and local private sector development. He is a board member of CDC and formerly worked for Actis specialising in deal origination throughout Southern Africa. Valentine holds several board positions and is Chairman of Zambian Breweries, MTN (Zambia) Limited and ALBIDON (Zambia) Limited.

9.2 Team

Han Derksen, Director, is a financial specialist having spent almost 30 years in the fields of corporate, project and development finance in developing countries. He was the lead developer in the early stages of the successful Chiansi irrigation project in Zambia. Earlier in his career Han was MD and head of European Project Finance & Infrastructure for CIT in London

Chris Isaac, Director of Business Development, is a project development specialist with experience working in the public and private sectors in emerging markets. He previously worked as a Senior Economist in the Namibian Ministry of Finance and as a Corporate Finance specialist for Arthur Andersen.

Peter MacSporran, Director, is an experienced farmer and qualified financial advisor in the Zambian agribusiness market, following a long career in Southern African agriculture. He manages the Chiansi project. Peter, who spent 28 years as a successful farmer was a major figure in the agricultural market liberalisation in Zimbabwe, having been President of the Commercial Farmers Union.



10 – Next steps

The purpose of this 2010 business plan is to solicit potential interest in funding AgDevCo's initial five year business plan. Current indications are that about \$10 million of new money will be committed for AgDevCo's activities in the Beira corridor by mid-2010. AgDevCo is seeking funding support from Bill and Melinda Gates Foundation and is in discussions with a number of other major funders. AgDevCo expects to secure sufficient resources to develop programmes 1 in Mozambique but does not currently have sufficient funding commitments to enable it to progress the scale of operations in Tanzania set out in the business plan, nor to develop the programmes in Ghana and Zambia.



AgDevCo[®]

For further information please contact Keith Palmer, AgDevCo sponsor.

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