



Dated: October 2022

Investment Policy and Procedures

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1. Introduction

1.1 About AgDevCo

AgDevCo is a specialist agribusiness impact investor and project developer. We operate exclusively in the agriculture sector in sub-Saharan Africa. We invest in socially-responsible agribusinesses that operate across the supply chain, and have the potential to make a major positive economic and social impact. In addition to direct investment, we provide on-the-ground technical support and specialist agricultural, ESG and business development advice to management teams.

We have a long-term outlook, recognising that early-stage agribusinesses can take ten years or more to reach maturity.

1.2 AgDevCo's Mission and Vision

AgDevCo's mission is to build successful and sustainable African agribusinesses through long-term investment and technical assistance to deliver positive impact at scale. Our vision is a thriving and productive commercial African agriculture sector that benefits people, economies and the environment.

AgDevCo's ultimate aim is to achieve high development impact, relieving poverty directly and indirectly by increasing agricultural productivity, directly raising incomes of poor smallholder farmers, creating employment and contributing to wider economic growth and development.

AgDevCo's objectives are to:

- ▶ create commercially sustainable agricultural and agribusiness enterprises that deliver a positive social impact directly through providing a variety of employment opportunities and attracting private-sector capital;
- ▶ create direct and indirect economic benefits through more efficient markets and increased economic and investment activity in the agriculture sector; and
- ▶ support emergent commercial farmers and smallholders with the aim of increasing productivity and incomes, diversifying livelihood opportunities and moderating risks.

1.3 Application of this Investment Policy

This Investment Policy relates to the activities of AgDevCo Limited and its investment holding subsidiaries (referred to herein collectively as "**AgDevCo**"). From the date of implementation of this revised Investment Policy¹ (as updated from time to time), all AgDevCo funds will be invested in accordance with the provisions of this Investment Policy and in accordance with the provisions of the Governance Procedures and the Responsible Investment Policy and Procedures.

British International Investment plc ("**BII**") and Norfund (together the "**Investors**") are investors in AgDevCo. AgDevCo Holdings Limited ("**AgDevCo Holdings**") is the majority shareholder of AgDevCo. Changes to this Investment Policy which, if implemented, would

¹ October 2022

materially affect the achievement of AgDevCo's mission (as outlined in paragraph 1.2 above) may only be made with the consent of AgDevCo Holdings. Any substantive changes to the Investment Policy will require the consent of the Investors.

2. Investment Criteria

2.1 Geographic focus

AgDevCo may make investments and undertake development activities in any country in sub-Saharan Africa apart from the following countries with upper-middle income levels: Botswana, Equatorial Guinea, Gabon, Mauritius, Namibia and South Africa.

In committing its capital to any investment, AgDevCo may invest through one or more investment vehicles if AgDevCo considers that it is appropriate to do so for fiscal, legal, regulatory, development or other bona fide reasons so long as it is consistent with AgDevCo's policy on investments in Alternative Jurisdictions set out in 2.8 below. Investment vehicles may be domiciled in a country which is not in sub-Saharan Africa, or may be domiciled in one of the upper-middle income countries listed above.

Any proposal to make an investment in a new jurisdiction for AgDevCo must be approved by AgDevCo's Board at Clearance in Principle stage.

2.2 Sector focus

AgDevCo may make investments and undertake development activities at any point of the agribusiness value chain. This comprises a wide range of agribusiness-related activities, including, but not limited to:

- ▶ agricultural primary production and processing (for example horticulture, aquaculture, arable, oil seed, poultry and livestock);
- ▶ on- and off-farm agricultural infrastructure (for example irrigation, storage, electricity generation and distribution to the farm-gate and feeder roads);
- ▶ agricultural inputs;
- ▶ agri-financial services;
- ▶ logistical facilities and services supporting agribusinesses;
- ▶ forestry;
- ▶ fast moving consumer goods (FMCG) food and beverages industry; and
- ▶ marketing and commercial support services for agribusinesses.

Any proposal to make an investment in a new sector for AgDevCo must be approved by AgDevCo's Board at Clearance in Principle stage.

2.3 Exclusion criteria

AgDevCo's exclusion criteria are aligned with the BII exclusion criteria and Harmonized EDFI Exclusion List², but reflect the focus of its investment strategy in agricultural value chains. The detailed list is set out in Annex C.1 to this policy. Such exclusions are in line with the requirements of the Investors and other funders.

In general, AgDevCo will not finance or otherwise support any activity, production, use, distribution, business or trade involving the following:

- ▶ forced or child labour³;
- ▶ activities deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans as defined in global conventions and agreements (see also AgDevCo's Crop Protection Policy), and wildlife of products regulated under the 1975 Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES);
- ▶ destruction of High Conservation Value areas;
- ▶ fossil fuel projects;
- ▶ businesses where tobacco and potable ethanol⁴ form a substantial part of a project or businesses primary financed activities⁵;
- ▶ the production of or trade in:
 - hazardous chemicals, pharmaceuticals, pesticides and wastes, as specified in the 2004 Stockholm Convention on Persistent Organic Pollutants; the 2004 Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade; the 1992 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal and WHO Recommended Classification of Pesticides by Hazard Class 1a (extremely hazardous); and
 - ozone depleting substances, as specified in the 1999 Montreal Protocol on Substances that Deplete the Ozone Layer.

Subject to any agreed phase out periods defined in an ESAP specific to the investment concerned, AgDevCo will not invest in the production of, or trade in:

- ▶ WHO Recommended Classification of Pesticides by Hazard Class 1b (highly hazardous).

[Specific additional exclusions apply to the use of DFC funds. When considering using capital drawn under the US\$20m DFC loan facility, at CIP stage AgDevCo will screen the investment for potential triggers of DFC Category A or Special Consideration and Prohibited Sectors List.]⁶

² https://www.edfi.eu/wp/wp-content/uploads/2021/02/EDFI-Exclusion-List_-September-2011.pdf

³ In some smallholder supply chains associated with AgDevCo investments family labour may occur and may be acceptable but should be explicitly considered in the pre-investment ESG review process

⁴ Excludes the provision of agricultural raw materials (e.g. maize grits) to customers using them to make beer and wine

⁵ 10% or more of consolidated balance sheet or earnings, not investment

⁶ to be revisited when the policy comes into force (and subject to status of DFC investment at that time).

2.4 Type of business

AgDevCo may make investments and undertake development activities in a wide range of projects including, but not limited to, existing small and medium-size enterprises, start-ups or greenfield developments, partly developed/abandoned projects and large-scale investments with commercial partners, privatised or to-be-privatised projects or companies, and partnerships with smallholder farmer organisations.

We select investments which are consistent with our mission, the Investment Performance Framework (Section 4.1 below) and Responsible Investment Policy and Procedures, with the requirement that partners are committed to operate in such a manner both during and following the life of AgDevCo's investment.

2.5 Available instruments

AgDevCo may make investments using a range of instruments, including:

- ▶ equity and quasi-equity instruments (including ordinary shares, preference shares and listed or unlisted securities). Investments in listed securities will require approval by the Board;
- ▶ debt instruments (including senior, subordinated, mezzanine, secured, unsecured and convertible debt);
- ▶ grants;
- ▶ technical assistance or advice to companies in line with the Technical Assistance Principles set out in AgDevCo's Technical Assistance OPPs; and
- ▶ such other instruments as to enable AgDevCo to achieve its objectives.

The preferred transaction structure and type of investment instrument should be appropriate to the circumstances and take account of, *inter alia*:

- ▶ the desire to achieve a return on capital and either take a yield on its capital invested or recover it so that it can be reinvested in new ventures;
- ▶ the confidence that AgDevCo has regarding the ability of the partner(s) in the venture to deliver the business plan without major ongoing inputs from AgDevCo staff;
- ▶ the extent and mechanisms by which AgDevCo wishes to exercise control;
- ▶ the trade-off between ensuring that a sponsor retains sufficient incentive to commit fully to the venture and capturing an element of upside for AgDevCo; and
- ▶ the necessity for blending of capital from AgDevCo and / or other more concessional sources.

2.6 Refinancing and impact

In order to ensure that all of its investments are consistent with its mission, AgDevCo will only make an investment when it believes that it will contribute meaningfully to **Development Impact ("DI")**, as further described in Section 4.2 below.

AgDevCo contributes to DI when the developmental impact of an investee is greater as a result of AgDevCo's investment than it would have been without the investment from AgDevCo.

The use of an investment can be described in the following broad categories:

- Primary capital – capital that increases a company's finances that can be used to invest in the expansion of business activities. For example, adding new capacity or expanding into new products or markets.
- Secondary capital:
 - Acquisition finance – capital that increases a company's finances, to enable it to make acquisitions. For example, new equity which is used to purchase a competitor.
 - Restructuring capital – capital that strengthens a company's finances but may not immediately increase them. For example, paying down debt through an equity injection or providing longer tenor debt to finance capex.
 - Replacement capital – capital that does not impact a company's finances directly. For example, buying existing shares from a shareholder, or refinancing a loan on similar terms.

With respect to secondary capital, what matters is the difference our investment will make to development outcomes (the "**Investment Development Impact**") and not the overall impact of the business (the "**Enterprise Development Impact**"). We would expect the resulting Investment Development Impact to be aligned to portfolio benchmarks. There may be positive Investment Development Impact if AgDevCo's investment structure, specialist expertise and/or networks enable an investee to achieve more impact than would otherwise have been the case without the investment.

An AgDevCo investment shall ideally be used as Primary capital. Exceptions will be permitted where the Board is satisfied that the investment will result in incremental development impact (i.e. additional capacity, jobs and output) and is needed to support the achievement of the financial performance targets referred to in Section 4.1 below.

If the secondary capital component of the investment is more than 50% of the overall proposed exposure to the relevant investee company (or group where AgDevCo is invested at the holding company/topco level), the development impact case should be very strong and the investment approved by the Board.⁷ AgDevCo will not restructure or replace equity with debt without Board approval.

2.7 Anti-Bribery and Corruption (ABC) and Anti-Money Laundering (AML)

AgDevCo has zero tolerance for bribery, corruption, tax evasion and fraud, in its operations and those of its portfolio companies. AgDevCo's Business Integrity Policy is available on its website.

⁷ More details about the considerations to be taken into account are set out in the IPP Detailed Guidance note.

AgDevCo requires all its investee businesses to have an appropriate business integrity policy in place, and includes contractual provisions in its investment documentation requiring all serious incidents in breach of such policy to be reported to AgDevCo immediately.

2.8 Harmful Tax Policies

AgDevCo will not use tax havens or make use of tax structures involving harmful preferential tax regimes for the purpose of avoiding the payment of tax, particularly in poor developing countries, diminishing tax transparency or committing tax fraud. AgDevCo will comply with all tax legislation in all of its jurisdictions of operation.

Where AgDevCo is proposing to invest in or through a holding structure in an Alternative Jurisdiction, the deal team must set out the justification for doing so in all relevant investment papers. Such justification must take the following points into consideration:

- ▶ there should be a bona fide commercial reason for the structure, which is unrelated to optimal tax treatment;
- ▶ AgDevCo should be satisfied with the transparency/ regulatory regime of the jurisdiction (it must, as a minimum, be a member of the Global Forum, have adopted the Global Forum standards and met international norms for tax transparency⁸); and
- ▶ the application of AgDevCo's funds should be clearly recorded to ensure that the funds are being utilised in the jurisdiction of the operating company (and there is no leakage to the Alternative Jurisdiction, for example to pay salaries of management in that Alternative Jurisdiction).

2.9 Exit of investments

When exiting or disposing of investments, AgDevCo will seek to ensure, wherever possible, that AgDevCo will not dispose its shares to a Restricted Party (as defined in Annex C.2) and that following AgDevCo exit the business continues to operate in a responsible manner, consistent with good industry practice⁹.

3. Responsible investment and the management of ESG performance

AgDevCo is committed to responsible investment in alignment with good international industry practice. The Responsible Investment Policy and Procedures sets out our approach to responsible investment and the management of ESG performance within the businesses in which we invest.

Key elements to our approach are as follows:

- ▶ AgDevCo ensures that its development activities and investments are undertaken in a manner that is socially responsible and reflective of sound environmental management practices. Negative impacts on project-affected ecosystems and communities, and workers

⁸ A jurisdiction assessed as “compliant” or “largely compliant” by a report publicly published by the Peer Review Process of the Global Forum will be deemed to have met international norms for tax transparency. An Alternative Jurisdiction assessed as “partially compliant” or “non-compliant” by such Peer Review Process will be deemed not to have met international norms for tax transparency.

⁹ As set out in Principle 7 of the IFC Operating Principles of Impact Management (‘OPIM’)

(permanent employees, temporary employees, suppliers and third parties) are avoided where possible. If these impacts are unavoidable, they are reduced, mitigated and/or compensated appropriately. AgDevCo seeks opportunities to achieve positive environmental, climate change and social impacts from its programme;

- ▶ AgDevCo's development activities and investments must be in compliance with local laws, adherence to appropriate statutory environmental, health and safety, labour, social and other relevant standards and recognise and address appropriately customary community rights;
- ▶ AgDevCo works towards alignment with the relevant aspects of the International Finance Corporation's Performance Standards on Social and Environmental Sustainability (2012) and the World Bank Group's General Environmental, Health and Safety Guidelines with appropriate targets and timetable for improvements via an ESG action plan; and
- ▶ AgDevCo engages constructively with affected communities through disclosure of information, consultation and informed participation in a manner commensurate with the risks to and impacts on the affected communities.

All of AgDevCo's investee businesses are subject to ESG due diligence and risk screening and all investees are required to adopt AgDevCo's Responsible Business Principles. An ESG action plan is put in place as a condition of each new transaction in order to support businesses in meeting AgDevCo's responsible investment requirements.

3.1 Working with Other Lenders and Investors

Where AgDevCo invests alongside DFIs (with similar processes and requirements) we will make every reasonable effort to align ourselves with these partners. Likewise, many private equity funds have DFI backing and therefore have, at least partially, aligned processes. In such cases AgDevCo will also seek to align its investment process subject to ensuring that our standards are maintained in all cases.

Where there is an incumbent investor with aligned systems and processes including for ESG, we will review and document responsible investment / ESG systems in place, but generally anticipate that they take the lead on ESG unless there is a material reason requiring more AgDevCo involvement. This approach will allow us to prioritise our ESG resources for investments where such oversight and support has not already been provided.

We generally seek to recover our ESG costs, where possible including annual site monitoring visits. However, where there is an aligned incumbent lender(s), we will typically fall in line with their existing approach on cost recovery of ESG time.

3.2 Carbon and climate change

AgDevCo is committed to evaluating and managing carbon and climate change issues both at an individual investment and portfolio level. In line with our Responsible Investment Policy and Procedures, on individual investments we will work towards alignment with the relevant aspects of the IFC Performance Standards and perform any required carbon and emissions monitoring and mitigation. However, our Climate Change Strategy commitments go beyond IFC requirements.

AgDevCo's investment activity plays an important role in helping the development of climate smart, efficient production systems and conserving higher value habitats. Through our monitoring and evaluation work we will endeavour to understand the holistic carbon and climate effects of our investments, and collect and report data on relevant key performance indicators. We will conduct annual carbon accounting for the active portfolio and work with companies to develop strategies to reduce emissions towards net zero.

Investments will be made and managed in line with the relevant aspects of AgDevCo's Climate Change Adaptation and Resilience Strategy. This outlines our approach to climate change overall, including carbon accounting and reporting and how we support adaptation and resilience e.g. via regenerative agriculture practices. Our strategy is broadly aligned with the Taskforce for Climate Related Financial Disclosures requirements and outlines our commitments with respect to moving towards net zero carbon at a corporate and portfolio level.

Our due diligence activities prior to investment will assess potential physical climate change risks and opportunities and feed any material findings into the wider IA process and ESAPs where relevant. We will also screen deals for likely emissions quantum and consider how this may affect our overall climate strategy commitments and progress towards net zero.

4. Investment Performance Framework

4.1 Financial Performance

AgDevCo's objective is to: (i) maximise its direct and indirect Development Impact through investments that protect and grow the real value of its endowment capital; and (ii) generate a financial return that is at least sufficient to meet the expectations of its external capital providers. Within this objective:

(A) AgDevCo aims to build a profitable investment portfolio generating a minimum gross financial return of 5% on Core Capital¹⁰, through a defined mix of Ventures and Growth investments as referred to in Section 5.1 below.

(B) Once profitable, AgDevCo may also develop sub-investment strategies that involve investing in sectors, countries and stages of business development that are higher risk or have a lower expected return than set out in (A) above. Such sub-strategies and investments will adhere to the following principles:

- i. will be structured so as to not negatively impact financial returns of Investors and protect Core Capital;
- ii. will not be more than 20% of core FUM;
- iii. may be managed by new or existing AgDevCo Ltd staff provided that it is on a full cost recovery basis; and
- iv. will be governed in a way that balances the need for consistency across AgDevCo decision making and independence.

¹⁰ Being AgDevCo's FCDO funded endowment equity capital and \$20m of third-party debt and \$70m of preference share equity capital that has been raised or agreed subject to contract for investment purposes as at 31st December 2021

4.2 Impact Performance

AgDevCo develops an impact business case for each proposed investment it makes. These impact business cases capture the firm level, market, and livelihood changes that are expected as a result of the investment. Our impact framework (as set out in Annex A) maps these different elements of the impact business case. Different investments achieve different types of Development Impact. Together the AgDevCo portfolio contributes to each dimension of AgDevCo's impact framework. More detail on our approach to Development Impact is provided in the detailed IPP guidance.

Because of this portfolio-wide approach, AgDevCo does not set impact thresholds for each individual investment, but as a minimum: (i) each investment must create or sustain positive change (on a net basis) for at least one of the beneficiary groups referred to in AgDevCo's impact framework (i.e. employees from low income households, smallholder farmers, entrepreneurs or customers); and (ii) AgDevCo's ESG, and safeguarding 'do no harm' criteria must be met for each investment.

In addition to assessing each investment in terms of its impact on climate change¹¹, we will also assess every investment in terms of its black African representation, and gender impact by assessing against the 2X Challenge eligibility criteria. AgDevCo aims to develop a portfolio that meets minimum targets in both areas as set out in Annex D.1 and will report quarterly to Board on performance. It is recognised that achieving these targets is dependent on some factors that are outside of AgDevCo's control.

Ultimately, we will measure our success through the long-term transformational impact our investments make, and will assess this through research on the indirect impacts of our investments. By driving the development of new agribusiness and industries and creating investable opportunities for the private sector, we will help accelerate the transformation of rural Africa to a thriving, commercial agriculture sector.

5. Portfolio Limits and Capital Allocation

5.1 Allocation Limits

In managing its portfolio of investments, the AgDevCo Board will from time to time agree exposure limits to ensure appropriate diversification. The diversification limits as at the time of the adoption of this Investment Policy are as set out in Annex D.2. Changes the diversification limits require the consent of the Investors (for as long as they remain invested in AgDevCo).

In applying these limits, it is recognised that AgDevCo has a dynamic portfolio and weightings will rise and fall from time to time as the portfolio develops and valuations change. Reporting to the Board, Management will:

- ▶ review the exposures against the guideline limits, including maintaining oversight of the investment pipeline;

¹¹ See Section 3.2

- ▶ assess how the delivery of the pipeline will affect the allocations;
- ▶ assess the risk of over-exposure in any area, and if deemed necessary by the Board, will make adjustments to the investment pipeline in order to bring the forecast exposure back below the limit.

5.2 The CIO may propose adjustments to the portfolio construction limits (whether in response to changes in sectoral conditions, the applicable macroeconomic environment, or political risk levels) for approval by the Board. The CIO will report to the Board on portfolio construction on a quarterly basis. Once profitable (and subject to agreement by the Board and the Investors), AgDevCo may seek opportunities to increase the number of high-impact, earlier-stage and pioneering investments provided that it is consistent with meeting the financial objective described in Section 4.1(A) above.

5.3 Financial Instrument

AgDevCo invests for the long-term sustainability of the business, balancing the need for regular cashflow and with potential for upside gain in its investments. The mix of debt, quasi and equity consistent with this objective will vary over time within the portfolio limits set out in Annex D. The investment instruments strategy is designed to ensure that that AgDevCo can cover its costs from the running yields on its assets; and increase the proportion of investments that have equity-like returns over time.

5.4 The Growth and Ventures Portfolios

AgDevCo characterises its investments into one of two broad portfolios.

- ▶ **The Growth Portfolio:** Investments which are (i) larger in size (typically \$3-10m); (ii) are in EBITDA¹² positive businesses and have gross assets greater than \$10m. They will generally have significant corporate capability with a proven business plan. They will typically be looking for capital to finance expansion of an existing business model, or expansion into a new geography or value chain segment. These investments are expected to be lower risk and have the potential to generate regular cashflows or provide promising equity returns.
- ▶ **The Ventures Portfolio:** These investments are smaller ticket sizes (typically \$2-5m) and into earlier stage (and therefore higher risk) businesses. Investments are classified as Ventures when they are EBITDA negative and/or have gross assets of less than \$10m. They are therefore expected to demonstrate lower risk-adjusted returns than Growth investments. AgDevCo invests a share of its capital in higher-risk Ventures investments where it is judged that the investments are highly additional, achieve high Development Impact and are expected to be financially viable in the short to medium term, have a fully funded business plan and also have the potential to grow over time without additional investment from AgDevCo.

The allocation of capital between Growth and Ventures investments is determined by the portfolio allocation limits (Annex D).

¹² Measured on average over preceding 3 years.

5.5 Conflicting interests of investee businesses

In the course of originating deals, AgDevCo may identify investment opportunities in businesses which may provide direct or indirect competition to AgDevCo's existing investee businesses operating in the same sector. In these cases, AgDevCo will consider the appropriateness of investing, and will structure investments, in a way to minimise any conflict of interest – e.g. using debt rather than equity. Investment into competing businesses will require approval by AgDevCo's board and full disclosure to relevant parties, in line with AgDevCo's Conflicts of Interest Policy.

6. Reporting

6.1 Annual reporting to AgDevCo Holdings Limited, BII and Norfund

AgDevCo's shareholders are (i) AgDevCo Holdings, a company limited by guarantee which exists to entrench the mission of AgDevCo (and whose members include FCDO and a majority of independent members) in respect of ordinary shares; and (ii) the Investors in respect of preference shares.

AgDevCo will report quarterly to the members of AgDevCo Holdings and Investors on compliance with this Investment Policy, and as a minimum on performance of the portfolio against the investment performance framework as outlined in Section 4 above.

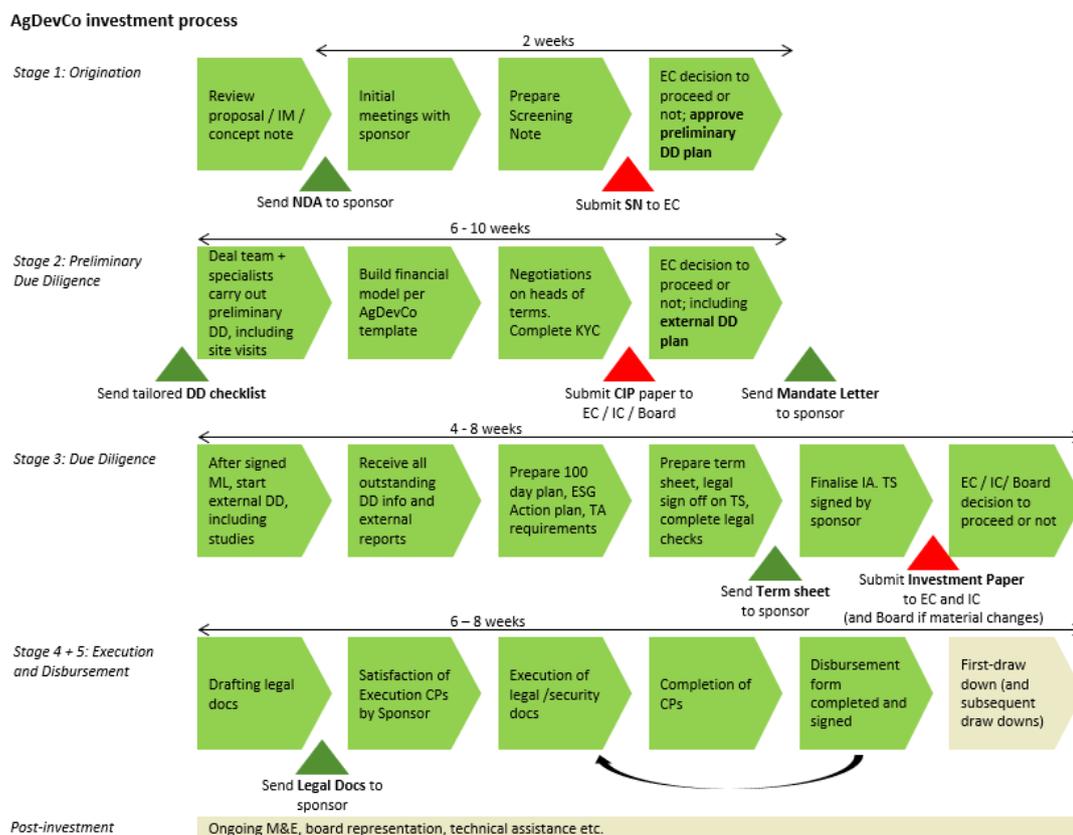
6.2 Transparency

AgDevCo is committed to accountability and transparency, and publishes data to the International Aid Transparency Initiative. AgDevCo also displays information on its website about its investments and operations to the extent relevant to interested third parties, respecting all aspects of applicable law and commercial confidentiality.

7. Investment procedures

Figure 1 below summarises the typical AgDevCo investment process comprising four main stages (before exit). Figure 1 is provided for illustrative purposes only. Key procedural and governance points to note for each stage are set out below. This section should be read together with AgDevCo's Governance Procedures and the Responsible Investment Policy and Procedures.

Figure 1: The AgDevCo Investment Process (pre-exit)



7.1 Stage 1: Origination (Screening Note)

Origination culminates in an investment team receiving approval from the EC to proceed to preliminary due diligence on a specific investment opportunity. The information required to be included as part of this process is prescribed in an AgDevCo Screening Note template document, but as a minimum includes: details of the investee business; the investment thesis and structure; the Development Impact that will be achieved; key risks; preliminary ESG risk categorisation; a preliminary due diligence plan and budget and details of the AgDevCo investment team.

Where an investment is materially unusual (e.g. as a result of a new sector, new jurisdiction or particular reputational risks) and will require Board approval at CIP stage as per the Governance Policy, management may choose to consult with IC and Board at this stage.

7.2 Stage 2: CIP

Following approval by the EC of the Screening Note, the preliminary due diligence will be carried out by the investment team (supported by the various specialist teams – who lead on technical issues as appropriate and agreed by EC).

Once the preliminary due diligence has been gathered, Clearance in Principle (CIP) will be sought from the IC. The CIP paper will analyse the business and investment theses in more

depth than in the initial screening note, and will summarise the results of the Ag and ESG DD, focussed legal DD performed to date, results of KYC checks, AML and business integrity risk assessments, and initial impact assessment. A financial model will be produced ahead of CIP stage and a plan for any further DD will be included in the CIP paper.

The information required to be included in the CIP paper is prescribed in an AgDevCo template document. Board approval will be required on policy issues if the investment threshold exceeds the IC delegated authorities under AgDevCo's Governance Procedures, or if the nature of the investment requires Board approval under the Governance Procedures.

7.3 Stage 3: Final Due Diligence and Approval

Following the final due diligence carried out by AgDevCo staff and external consultants as necessary, the investment team will submit the proposal for final investment approval. The information required to be included as part of this process is prescribed in an AgDevCo template document. This information will include the material elements to be drafted into an Environmental and Social Action Plan which will be a condition of the legal agreement executed.

All investment proposals are expected to be reviewed and agreed by the EC before being submitted to IC. All investment decisions taken either by the EC or the IC will be reported not less than quarterly to the IC and / or Board respectively. Board approval will only be required at this stage if there are material changes to the investment since CIP or new policy issues that require Board approval.

7.4 Stage 4: Execution and disbursement

During the execution phase legal documents will be drafted, agreed and executed. Disbursements will then be made in accordance with the investment agreements and with AgDevCo Financial Policies and Procedures. Material changes in the commercial deal, impact thesis, or ESG, Climate Change, or 2X performance, that arise during execution phase would be expected to be approved by EC / IC or Board – depending on the level of delegated authority.

7.5 Stage 5: Portfolio management

AgDevCo will actively monitor and evaluate the commercial, ESG and impact performance of the enterprises that it invests in during the life of its investments. The level of engagement will depend on the performance and corporate capability of the business, but will be sufficient as a minimum to meet the requirements of AgDevCo's quarterly Portfolio Review Committee and Risk Management processes. (See Governance Procedures and Risk Management Policy.)

AgDevCo will seek to add value through its involvement in strategic decision making in the businesses (through board membership and observer seats); provision of technical advice; and support in establishing suitable partnerships. Engagement by AgDevCo's specialist teams will be on a risk-based approach, including ESG risk, with priority given to Controlled Entities. When assessing the level of engagement, the specialist teams will also consider whether AgDevCo has a nominee director on the board of the investee.

7.6 Stage 6: Exit

Any intention to sell down or exit an investment (other than through scheduled capital repayments) requires agreement of the EC / IC or Board (subject to delegated authorities). The decision needs to consider responsible exit requirements in respect of ESG and Development Impact. AgDevCo will periodically assess the financial and impact performance of exited investments.

Annex A Impact Management System

A.1 Introduction

AgDevCo's vision is a thriving commercial agricultural sector which benefits both people and planet. Our ultimate goal is to incubate and grow agribusinesses which generate incomes, jobs, and food security in sub-Saharan Africa.

Our impact management system is centred around our theory of change, which explains how AgDevCo's investments and technical assistance generate impact.

On an annual basis, we use impact studies and monitoring data to assess ex-post the different elements of Development Impact that are articulated in the theory of change. We collect data against the theory of change every year to allow the preparation of the key AgDevCo impact indicators – which are reported to the AgDevCo Board and its investors.

The full details of AgDevCo's impact management system are in the impact companion to our detailed guidance on these IPPs.

A.2 Ex-Ante Impact Assessments

AgDevCo develops a gender sensitive impact business case for each proposed investment it presents to the Investment Committee. The impact case covers the logic and assumptions behind how our investment will create impact at a firm, market, and livelihood level; and is monitored through the investment.

It covers indicators that are estimated ex ante and then tracked ex post, during the lifetime of the investment:

- ▶ **Reach of impact:** both (i) number of men and women small-scale farmers, entrepreneurs, or customers (for consumption) that have benefited from engagement with our investees on an annual basis. 'Engagement' is defined as having either bought or sold goods and services to investees; and (ii) the number of FTE jobs created or saved for men and women by our investments.
- ▶ **Depth of impact:** the income up-lift each man and woman experiences on an annual basis. We calculate this income change using verified company records and independent impact assessments. We also measure depth by collecting data on the quality of jobs AgDevCo creates or saves.

The impact thesis also assesses the investment according to its particular contribution to our focus on early-stage agribusiness that can lead to major positive change. This is done using two ex-ante, qualitative indicators:

- ▶ **Transformational change:** how transformational our investments as measured by expected changes in new products/ markets; removing bottlenecks in value chains; community transformation; and demonstrating commercial feasibility. At the deal stage, all investments are scored ex-ante on a framework 1 (least transformational) to 4 (most transformational) using AgDevCo's scoring criteria¹³. Ex post, we assess the extent of

¹³ Full details on the scoring are in the AgDevCo Transformational Change Framework

transformational change using research studies, but this does not link directly back to these qualitative scores.

- ▶ **Additionality:** the extent to which AgDevCo is investing where existing commercial financial markets will not. At the deal stage, all investments are scored ex-ante on a framework 1 (least additional) to 4 (most additional) using AgDevCo's scoring criteria¹⁴.

Finally, the impact thesis includes an assessment of both climate resilience and diversity, which we track over time through monitoring of our investment:

- ▶ **Climate resilience:** the climate change vulnerability of all of our investments and activities and the resilience and adaptation measures that are put in place so as to minimise carbon emissions while preserving value and Development Impact.
- ▶ **Diversity and inclusion:** how inclusive our impact is as measured by indicators on both gender equality (to at least meet 2X Challenge criteria) and BAFrep). Targets for our portfolio are set out in Annex D. Our gender and safeguarding criteria are mandatory and are included at each stage in our investment process and an assessment of how the investment is expected to perform in terms of additionality and transformational change. Each deal is assessed for BAFrep and 2X Challenge eligibility.

AgDevCo calculates benchmark impact expectations for different industries and uses these when assessing the Development Impact of potential deals.

A.3 Ex-Post Impact Assessments

Once an investment is made, we monitor performance of the investment against predicted impact. This allows us to assess whether the investment is achieving impact in line with the predicted theory of change.

Details on the methods, calculations and definitions behind these results are documented in a paper used by investors and AgDevCo as an internal guide and reference document. The progress is summarised for the AgDevCo Board and investors.

In addition, AgDevCo carries out studies and evaluations of its investments for the purpose of learning lessons, improving our investments and presenting our impact.

The Technical Assistance Facility (“TAF”) reports regularly to the EC and to the Technical Assistance Committee. The TAF outcome indicators are reported once a year as part of the company wide annual impact reporting that is shared with the AgDevCo Board and investors. The specifics on the TAF impact reporting are detailed in an annex to the TAF OPPs.

A.4 Impact Feedback Loops into Decision-Making

The impact team prepares an annual Impact Performance Report for the Portfolio Review Committee. This compares the projected and actual impact results at an investment level in order to aid decisions and action plans for improvement. This will include an annual learning synthesis which includes the findings and lessons from all our impact data and studies and

¹⁴ Full details on the scoring are in the AgDevCo Additionality Framework

lessons from other parts of the company that have a bearing on impact (ESG, TAF, Agriculture). This learning synthesis is then used by AgDevCo in making decisions across all of its activities.

Annex B Definitions

“**AgDevCo Holdings**” means AgDevCo Holdings Limited.

“**Alternative Jurisdiction**” means a jurisdiction other than the jurisdiction of the ultimate operating company.

“**BAfRep**” means Black African representation.

“**CIP**” means clearance in principle.

“**Controlled Entities**” means those portfolio companies in relation to which AgDevCo holds a majority of the voting rights.

“**EC**” means AgDevCo Limited’s Executive Committee.

“**ESAP**” means environment and social action plan.

“**ESG**” means environmental, social and governance.

“**FCDO**” means the Foreign, Commonwealth and Development Office of the United Kingdom.

“**Global Forum**” means the Global Forum on Transparency and Exchange of Information for Tax Purposes of the OECD.

“**Harmonized EDFI Exclusion List**” means the European Development Finance Institutions’ (EDFI) harmonised exclusion list for co-financed projects, found at:
list found at <https://www.edfi.eu/wp/wp-content/uploads/2017/10/EDFI-Exclusion-List.pdf>.

“**High Conservation Value**” means natural habitats with biological, ecological, social or cultural values of outstanding significance or critical importance.

“**IFC Performance Standards**” means the 2012 International Finance Corporation’s Performance Standards on Social & Environmental Sustainability available at <http://www.ifc.org/> (as supplemented or amended from time to time).

“**IC**” means AgDevCo Limited’s investment committee.

“**Investors**” means BII and Norfund

“**Peer Review Process**” means the peer review process of the Global Forum evaluating jurisdictions’ compliance with the international standard of transparency and exchange of information on request.

“**Responsible Business Principles**” means AgDevCo’s Responsible Business Principles, available on its website:
https://www.agdevco.com/site/assets/files/1019/responsible_business_principles_december_2019_update.pdf

“**TAF**” means Technical Assistance Facility.

Annex C Exclusions List and Restricted Party Definition

C.1 Exclusions List

Links to the full exclusions list that are relevant to AgDevCo as a result of our funding agreements are as follows:

- ▶ [BII's Excluded Activities](#)
- ▶ [BII Excluded Fossil Fuel Activities](#)
- ▶ [Harmonised EDFI Exclusion List](#)
- ▶ [EDFI Fossil Fuel Exclusion List](#)
- ▶ [DFC Category A and Special Consideration and Prohibited Sectors List](#)



C.2 Restricted Party

1. "**Restricted Party**" means a person or entity that: (i) is listed on, or owned or controlled by a person listed on, or acting on behalf of a person listed on, any Sanctions List; (ii) is located in, incorporated under the laws of, or owned or (directly or indirectly) controlled by, or acting on behalf of, a person located in or organised under the laws of a country or territory that is the target of country-wide or territory-wide Sanctions; (iii) is otherwise a target of Sanctions ("**Target of Sanctions**" signifying a person with whom a US person or other national of a Sanctions Authority would be prohibited or restricted by law from engaging in trade, business or other activities) (iv) is not in compliance with the investment policies of Norfund and BII, as provided to AgDevCo in writing from time to time (provided that any updates to such investment policies will not have retrospective application);
2. "**Sanctions**" means the economic sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by: (i) the United States government; (ii) the United Nations; (iii) the European Union (iv) the United Kingdom; or (v) the respective governmental institutions and agencies of any of the foregoing, including, without limitation, the Office of Foreign Assets Control of the US Department of Treasury ("**OFAC**"), the United States Department of State, and Her Majesty's Treasury ("**NW**"); (together the "**Sanctions Authorities**"); and
3. "**Sanctions List**" means the "**Specially Designated Nationals and Blocked Persons**" list maintained by OFAC, the consolidated list of financial sanctions targets and the investment ban list maintained by HMT, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the Sanctions Authorities.

Annex D Portfolio Targets

D.1 Diversity and inclusion portfolio targets:

AgDevCo will aim to develop a diverse portfolio of investments in terms of Black African Representation and Gender.

We aim over time for 30% of AgDevCo's portfolio companies to meet one or more of BII's direct criteria on Black African Representation (30% owned by black Africans, founded by a black African, or 50% of the Board or the senior management (c-suite) are black Africans).

Across the portfolio we aim to more than meet the 2X Challenge eligibility criteria in at least 30% of AgDevCo's portfolio companies. <https://www.2xchallenge.org/criteria>

D.2 Portfolio Diversification Limits (by portfolio value¹⁵):

- ▶ At least 60% in Growth investment
- ▶ At least 25% in senior debt
- ▶ At least one third (c. 33.3%) in equity and mezzanine instruments, but no more than one third (c33.3%) ordinary equity.
- ▶ No more than 20% in working capital
- ▶ At least 20% in aggregation and processing
- ▶ At least 40% in primary production (with or without value addition)
- ▶ No more than 20% in a single country
- ▶ No more than 15% to a single obligor
- ▶ No more than 20% in a single product

¹⁵ Defined for these purposes as the fair value of the invested capital plus the gross value of committed amounts to investees but not yet disbursed.