WINNER

The Judges Award

Sahel Capital: Social Enterprise Fund for Agriculture in Africa (SEFAA)

About

The Social Enterprise Fund for Agriculture in Africa (SEFAA) is an impact fund that invests in social agricultural enterprises (SAEs) that contribute to enhancing the business ecosystem or income opportunities for smallholder farmers (SHFs) with the ultimate aim of contributing to the alleviation of poverty in sub-Saharan Africa (SSA).

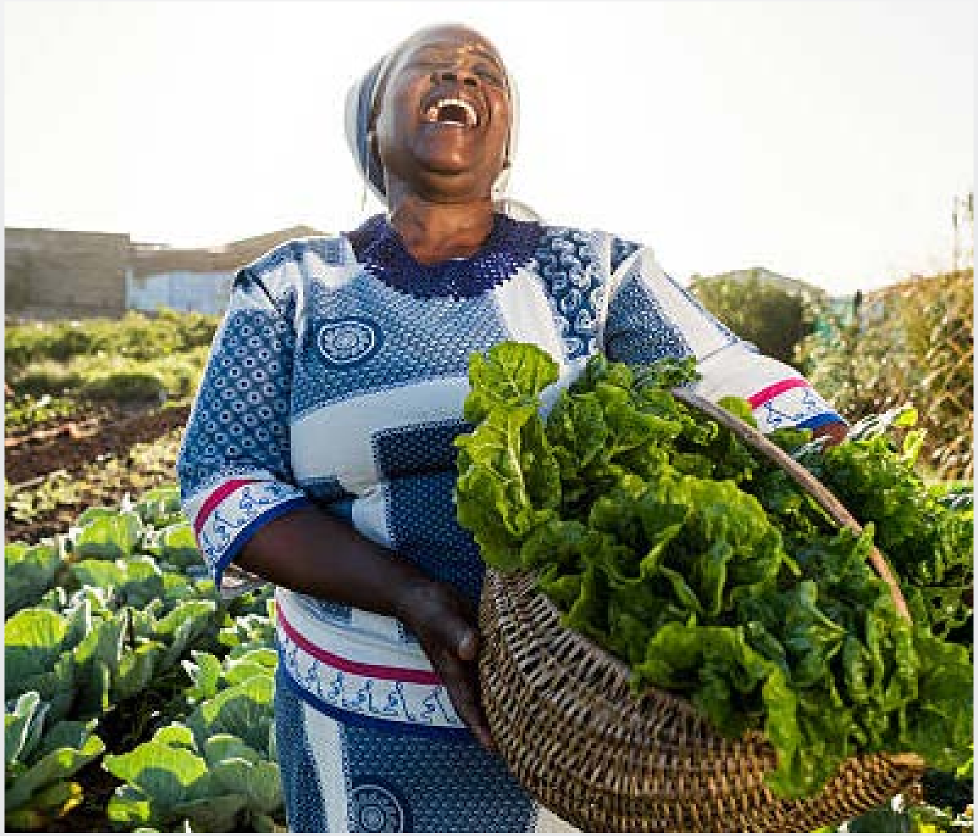
SEFAA's investment strategy is designed to deliver hands-on engagement, flexibility and local expertise in a cost-effective way to source and finance high-impact agrienterprises while achieving the 2% net nternal rate of return return set out in the fund thesis.

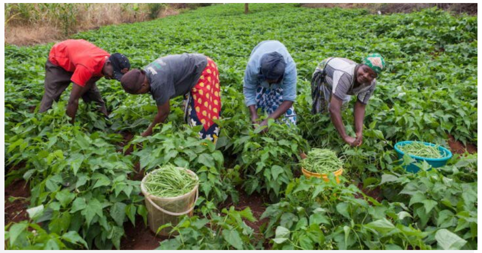
The fund navigates the challenges of African markets, operating in broadly underdeveloped ecosystems, to unlock the potential of the continent's agricultural sector.

Sahel Capital originally entered for the Fund of the Year Award category and following the initial judges' scoring, the committee had an extensive debate on who should be crowned winner in this category. While Sahel's Social Enterprise Fund for Agriculture in Africa (SEFAA) was ultimately placed as first runner up in the impact fund category, the committee proposed awarding a judges' award to the fund for its innovative approach to providing funding for smallholder farmers (SHFs).

Key considerations for granting this award included the following:

1. From a big-picture perspective, the fund shows promise in addressing issues related to the food systems transformation problem due to its focus on SHFs.
2. Sahel has a unique approach in the agriculture sector from an impact perspective.
3. Provides a strong demonstration case for innovative approaches to solving social and environmental problems.
4. Impact is embedded in its investment decision-making process.





The problem

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What makes SEFAA unique?

The SAEs that SEFAA targets struggle to raise capital from traditional financiers due to insufficient collateral, lack of credit history, and small capital requirements.

Sahel uses creative mechanisms to identify collateral, adopting non-traditional collateral such as receivables, inventory, personal and corporate guarantees. It also takes risks on first-time borrowers with no credit history by lending against strong cashflows and carrying out due diligence on the borrowers to confirm the borrowers' willingness to pay.

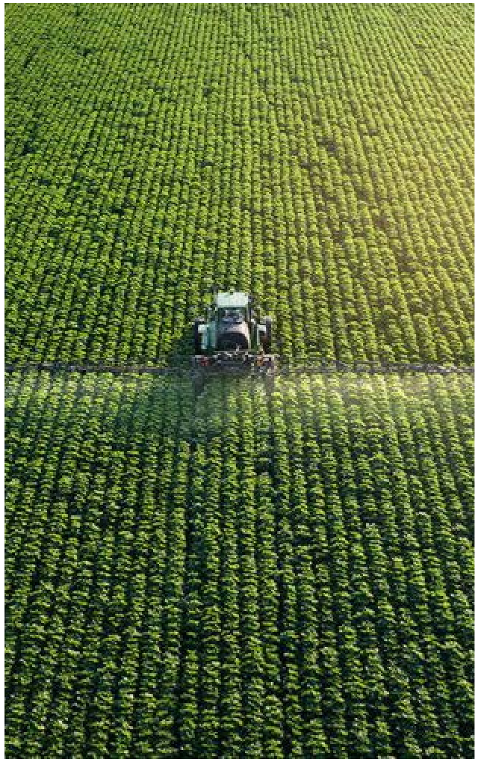
SEFAA is an Article 9 (in terms of the European Union's Sustainable Finance Disclosure Regulation) financial product and therefore invests mostly in sustainable ventures, with the rest of its portfolio required to avoid harming sustainable objectives. Further, all companies must follow good governance practices.

SEFAA targets SMEs that can scale their business model to have a positive impact on smallholder farmers at scale in target countries while also achieving financial sustainability in the medium to long term.

The fund invests catalytic equity, mezzanine and debt financing to portfolio companies with high potential to benefit the entire agricultural ecosystem, likely through intermediary roles.

The fund targets 2% capital return while generating revenue through loan interest, fees, and placed capital interest. Sahel's risk model aims for a 3-4% return to cover costs and offer a competitive market return.

Compensation for the fund manager is tied to impact objectives. While the first performance incentive for the fund manager is linked to the fund's financial performance, the second links to the fund's impact performance. The manager earns a proportion of the performing invested capital as a bonus if the impact targets are met or exceeded



Innovative funding approach	Case study
Deploy both debt and equity Debt can be short-term (six months – ione year working capital loans and trade finance) or long-term (3-7 years for Capex).	**Complete Farmer - SEFAA's role in helping the company complete a pre-series A raise** Through technology, Complete Farmer streamlines the aggregation of grains, vets international buyers, and carries out demand-supply matchmaking. SEFAA's debt investment helped galvanise equity investors to participate in the company's pre-Series A round. The investment helped the company kickstart a substantial grain aggregation process, which enabled it to show significant momentum that piqued the interest of equity investors. The Sahel team engaged the investor consortium throughout the fundraising process, playing a pivotal role in securing equity investment for the company.
Significant flexibility around collateral requirements Flexible collateral requirements have played a critical role in helping agribusiness SMEs access capital. SEFAA uses inventory, receivables, personal guarantees, and other non-traditional assets as collateral for its investments, understanding the lack of traditional assets such as land and buildings to the borrowers.	**Winich Farm – SEFAA's role in unlocking local currency finance for Agtech company while mitigating FX risk through an innovative structuring** Given Nigeria's exchange rate instability and illiquidity, deploying USD-denominated debt to domestic SMEs that do not have USD receivables is nearly impossible. SEFAA's investment, structured as a USD cash collateral, enabled the company to secure competitively priced local currency funding from a local bank – while also generating an attractive return for SEFAA.
Blended capital SEFAA plays a catalytic role in unlocking commercial financing for SMEs because of its blended capital structure. SEFAA has a technical assistance (TA) and a foreign exchange (FX) hedging facility which enables it to de-risk lending to these agribusinesses.	**Rogathe – SEFAA's role in providing CAPEX and strengthening supply chain using blended capital** SEFAA injected a strategic blend of capital into Rogathe – a dairy processor in Tanzania. SEFAA deployed short-term working capital to enable milk procurement from smallholder dairy farmers and long-term CAPEX for acquiring new milk transport trucks. SEFAA also provided technical assistance that will help digitise Rogathe's farmer engagement, strengthening its supply chain.

Impact

The primary objective of SEFAA is to support sustainable livelihoods by catalysing economic activities of SAEs, and increasing the productivity of SHFs.

Aligned to its commitment to achieve maximum impact, Sahel has identified clear, measurable impact metrics through which the success of the intervention can be measured.

To this end, Sahel's team engage regularly with investee companies to keep track of performance against set goals and offer technical assistance to companies as required to ensure they meet their impact potential.

In 2023, the fund outperformed on its impact targets, creating hundreds of jobs and supporting thousands of SHFs, positively impacting tens of thousands of community members.

Sahel Capital impact performance 2023

Metric	Actual (2023)	Target
Minimum number of additional Investee Companies	**7**	3
Number of additional direct and indirect jobs created	**855**	80
Minimum revenue CAGR in SAEs	**29.3%**	10%
Minimum number of SHFs reached	**8,699**	3,000
% of SHFs that are women	**49%**	20%
Minimum number of people enabled through engagement with SHFs	**40,173**	18,000
Input and output volume growth	**21%**	10%

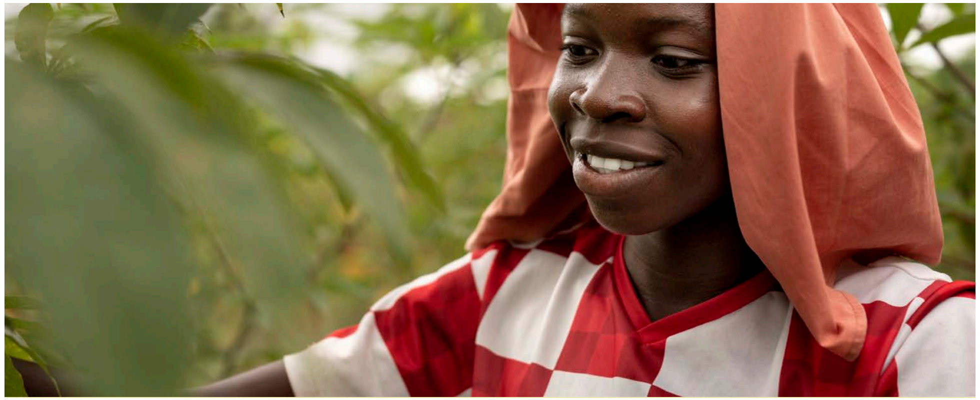


Figure 4: Impact risks and mitigants

Greenwashing

During its due diligence, Sahel assesses the impact thesis of the investee company by visiting the ultimate farmer-beneficiaries of the company's activities.
This helps Sahel to confirm the impact of the company on SHFs.

Misalignment with business model

Several firms try to adjust their business model to incorporate SHFs to access capital when it is a forced fit. Sahel ensures that it does not co-opt businesses to change their business model just to access capital. Rather, Sahel would support the business, if realistic, to incorporate SHF engagement into its already successful business model. Sahel advises the companies not to force-fit when it's not possible and would not proceed with such investments.

Exploiting of SHFs

Sahel will not support any business that exploits SHFs for its benefit. SHFs must be treated fairly and equitably.

Addressing Challenges

Investing in the agriculture sector means that almost every investment has high impact potential. Most companies in the sector that have good financial returns also positively affect their communities. Balancing financial returns with impact objectives for Sahel usually involves helping the companies articulate the impact that they already make and strengthen their ability to do more without affecting their financial performance.

However, a major challenge in supporting high-impact companies is the lack of collateral. This affects the fund's expected credit loss, creating an unrealised book loss. The fund must decide on how best to reduce credit loss while also investing in these high-impact companies.

In addition to balancing impact and financial return objectives, Sahel faces numerous financial risks, including:

a) **Credit risk** from the inability of the companies to fulfil their obligations to the fund. Sahel conducts thorough due diligence on the borrower's ability to pay, cash flow and willingness to pay to mitigate this risk.
b) **FX risk** when investing in local currency. The fund leverages its FX sidecar to mitigate FX risk by hedging local currency loans.
c) **Insufficient collateral** cover in case of default. Sahel aims for a decent collateral cover using other non-conventional collateral covers such as inventory (with a collateral manager on ground), charge on receivables, etc. This helps to mitigate the impact of a lack of sufficient collateral cover.

In addition, SEFAA has had to mitigate against risks associated with impact reporting, impact alignment and potential exploitation of SHFs. It does so through the development of rigorous due diligence processes and robust engagement with key stakeholders.