

# Agricultural Commodity Transformation fund (ACT)

## Putting SMEs at the heart of agricultural transformation

ACT is a US\$100m impact fund that will put SMEs in developing countries at the heart of a transformation in agriculture by financing value chains that create climate and income resilience at scale. ACT will:

- Provide **value chain finance to high-potential SMEs**, bridging the gap between smallholders and markets;
- Drive **US\$290m** in added income to over 1m beneficiaries through **equitable, low carbon value chains**;
- **Deliver impact while managing risk** through due diligence and third-party baseline and endline appraisals;
- Build on CFC's **three decades of experience, global track record** and **established deal flow**;
- Deliver **consistent returns to investors** through **US\$20m in first-loss capital** from CFC as sponsor.

### The opportunity

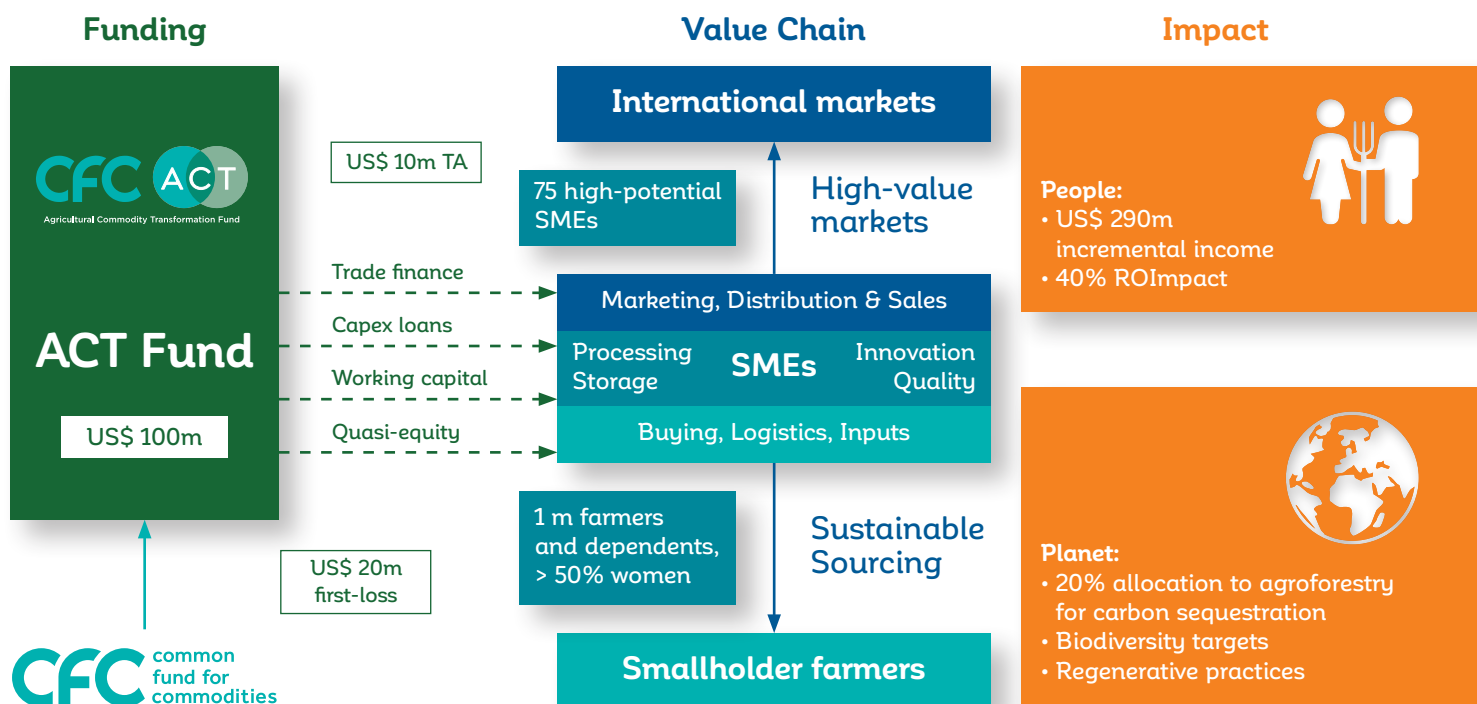
Small and Medium-sized Enterprises (SMEs) in developing countries play a critical role in linking small farmers to global markets. However, they face challenges accessing high-value markets due to rising costs and climate change. ACT aims to help SMEs in the agricultural sector by providing capital and technical assistance (TA) to create sustainable value chains that benefit small farmers and support low-carbon practices.

Many SMEs in the agricultural sector suffer from the 'missing middle' investment gap, struggling to access financing. This limits their ability to invest in expansion and productivity improvement, increasing incomes and creating jobs needed, *inter alia*, to overcome youth unemployment in rural areas. With 1.3 billion young people worldwide, including 10 to 12 million new job seekers per year in Africa, jobs created by

SMEs are essential to provide economic opportunities and alternatives to migration.

ACT will provide the necessary support for SMEs to create sustainable, low-carbon supply chains that promote income growth and climate resilience on a large scale.

ACT will build upon CFC's three decades of experience financing commodity value chains, backed by its contribution of US\$20m in first-loss capital, a world-class impact investment and Technical Assistance team, an innovative US\$10m TA facility and an established deal flow of over 400 applications a year. ACT will facilitate climate-smart agriculture and market access aiming to create US\$290 million in incremental income to over 1 million beneficiaries with carbon savings across SME value chains as the fund reaches full capacity at US\$100 million.



### Investment model

ACT will deliver an attractive balance of impact and returns to investors with a focus on capital preservation coupled with high levels of verifiable impact. ACT will invest in established SMEs with revenues of over US\$1m through a range of instruments that balance short and long-term growth. This will primarily be in the form of working capital, trade finance and capex loans, but ACT will also deploy smaller amounts of quasi-equity. This will be supported by **US\$20m of first-loss capital** from the CFC, de-risking investments in ACT and demonstrating CFC's commitment as sponsor and advisor to the fund.

### Track record & people

CFC combines a strong track record of directly financing SMEs with the stability of an intergovernmental institution and an excellent private sector reputation in fund management over three decades. CFC has been originating, executing and managing trade finance and capex loans since 2014. Prior to this, the CFC provided financing for over 500 commodity value chain development projects in developing countries since 1989.

### Impact Investment

Since pivoting to impact investing, CFC successfully executed 50 loans, with a total value of US\$52 million of which US\$36 million is currently committed to investees.

- **Trade finance** is crucial but is rarely available for agri-SMEs. It bridges the gap between paying farmers at harvest time and the moment payments from exports are made by international buyers. Typically an unsecured one-year loan backed by the strength of the commercial agreement and credit worthiness of the investee's customers, renewable up to five years.
- **Working capital loans** provide flexibility in the timing and use of funds, vital for boosting the often unpredictable cashflows of SMEs. Offered as a revolving credit facility with a one-year loan renewable up to five years.
- **Capex loans** to finance capital investments for expansion and enhanced value addition (e.g., for processing

equipment). These will be structured to cover the build-up phase with a reasonable repayment period. Typically a term loan with a tenor of up to five years including a grace period of one year.

- **Quasi-equity and convertible loans** will be deployed to mature SMEs with low-risk profiles, offering medium term investment capital with an upside to investors.
- **Technical Assistance** of initially US\$10m will be raised alongside ACT to maximise the return on impact through innovative, targeted TA that is beneficiary led and co-funded. This will include carbon mapping of our investees' primary process, leading to mitigation approaches and the establishment of regenerative agricultural practices for SME suppliers and smallholders.

These agri-SMEs operate in a wide variety of commodities, ranging from staple crops such as sorghum to commercial crops such as coffee and cocoa. With these loans CFC impacted the lives of 400,000 people in countries across Africa, Asia and Latin America. CFC's 'high-touch, hands-on' risk management approach results in minimising losses and provisions in a high-risk segment.

### Technical Assistance

CFC's in-house TA expert team currently manages TA facilities totalling US\$14 million for several leading agri-impact funds. The team has managed over 100 projects ranging from piloting climate-smart financing mechanisms for smallholders to the design and establishment of full scale outgrower schemes for large processing facilities.

### ACT's management team:

- **Michael van den Berg** – ACT Investment Director. Michael comes with two decades of experience in impact investing and financial management with a focus on mobilizing, managing and deploying funds in food and agriculture across Africa, Asia and Latin America. He was the CFO of an agricultural social enterprise in Myanmar and fund manager of the global sustainable agriculture fund at Triodos. He is a director on a number of impact fund boards and has qualifications from Harvard, SOAS and IIMA.
- **Fatima-Zohra Yaagoub** – ACT Impact Manager. Zohra is an expert in impact quantification, measurement and development finance with a background in strategy, agriculture and PPPs. She has over a decade of experience with GIZ, UNECE, the OECD, IFAD and Cambridge University CISL on global development issues and impact, a Masters in Public Policy from Sciences Po and Hertie School of Governance and post graduate qualifications from Cambridge University and INSEAD.

### Specialist knowledge in-house:

CFC will provide ACT with a wide network of specialists in cross-commodity issues including climate finance, carbon markets and supply chain management as well as broader management support:

- **Nicolaus Cromme** – COO of CFC. Nicolaus has 23 years of investment experience with KfW and CFC, holds an MSc in Tropical Agriculture from Hohenheim University and an MBA from Salford, UK.
- **Eva M. Johansson** – TA manager at CFC. She has wide experience of managing complex programmes for USAID and Sida and has an MSc in International Development from the University of Amsterdam.
- **Peter Nielsen** – Carbon specialist and impact investment manager at CFC. He has a strong track record in Agribusiness, a BSc in economics from SOAS and a Mphil from Cambridge University.
- **Tia Sudjarwo** – Treasury management at CFC. She has 25 years of treasury experience, is an ACAMS certified associate in KYC/CDD and holds an accountancy degree from Atmajaya University, Jakarta
- **Michele Schwarz** – Head of accounting & administration at CFC. She has an MBA from Heriot Watt, a BSc in Business Administration and is an anti-money laundering specialist.

### SDG-aligned impact is at the centre of ACT

ACT aims to meet criteria under article 9 of the Sustainable Finance Disclosure Regulation (SFDR), prioritizing impact while securing a financial return on investments. ACT targets investments that contribute to the United Nations' Sustainable Development Goal 1 'No poverty', SDG 5 'Gender equality', SDG 8 'Decent work and economic growth', SDG 12 'Responsible consumption and production', and SDG 13 'Climate action'.

### Sustainability risks management:

CFC's social and environmental risk management system (SEMS) was co-designed with the International Labour Organisation. ACT will take advantage of CFC's SEMS to identify social and environmental risks associated with an investment prior to a transaction and during an investment lifetime.

### Impact assessment

Impact measurement will be appraised by an expert third-party at the beginning and end of each investment with a bespoke approach for investee companies, financial institutions, traders and processors. In addition, investee companies will report on their impact on an annual basis to assess areas for impact growth during the investment period and mitigating risks throughout the investment.







## The fund in numbers

ACT will drive profitability, enhance incomes and strengthen resilience in times of global market volatility. It will also drive the transition to climate-resilient smallholder agriculture and focus on providing liquidity to high potential agricultural SMEs, the single biggest barrier to growth.

Act Fund Mission	Act Fund Indicators	Act Fund Targets*
Leveraging sustainable finance for impact	Funds Employed	US\$100m in SME value chain finance
	Return On Impact	US\$290m p.a. incr. beneficiary income (10-year ROI Impact of 40% p.a.)
	Net Carbon Footprint	20% of portfolio allocation to agroforestry for carbon sequestration by 2030
	Biodiversity	Will be incorporated in standardized risk approach as part of investment decisions; including concrete targets for positive impact
Reaching people and raising their income at scale	Total People Reached	> 1 million employees, suppliers & dependents > 50% women
	Incremental Net Income	US\$263 per direct beneficiary
Capital proposition for investors	Return On Capital	Capital preservation with dividend return for certain share classes
	First-loss Provision	US\$20m from CFC (sponsor/General Partner)
SME capacity building	Technical Assistance Employed	US\$10m of TA to ACT investees; TA fund to be raised with ACT Fund establishment

\*Impact targets are provisional and calculated at a fund level of US\$100 million

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