CASE STUDY EVALUATION OF FIVE BIO INVESTMENTS IN AGRICULTURE

Summarized findings & strategic recommendations | by Enclude

This summary introduces the summarized results from the case study evaluation of five investments in agriculture by the Belgian Investment Company for Developing Countries (BIO). BIO has signed a management contract with the Belgian State that foresees that BIO must conduct external case study evaluations of at least five of its investments every year. For the 2016 evaluation, BIO has selected investment cases related to Agriculture in Africa, which reflect a combination of approaches as well as financial instruments and agricultural sub-sectors.

- **Case 1**: **Niche Cocoa Industry** (Niche) is a Ghana based cocoa processing company which produces high quality semi-finished cocoa products for (mostly) international markets. BIO has provided two loans and a TA grant.
- **Case 2: Agrisatch** in Benin produces and sells eggs for the local market via six production units of 200k chickens in total. BIO has provided a loan and a TA grant.
- **Case 3: Socolait** is a leading dairy product manufacturer in Madagascar, which has set up a system of milk collection points and a country-wide distribution system. BIO has indirectly invested equity via the ACIII fund.
- **Case 4**: BIO has provided a loan to the **Rural Impulse Fund II (RIF II),** which in turn has provided a loan to Sinapi Aba, an MFI in Ghana providing financial services to urban and rural areas.
- **Case 5**: The **Maghreb Private Equity Fund II (MPEF II)** was created in 2006 and is managed by Afriqinvest. MPEFII invested in Vitalait (dairy-processing, Tunisia), Cotugrain (horticulture, Tunisia) and SICOPA (processed olives & peppers, Morocco).

The twofold objective of this evaluation is to:

(i) To **prove**: Show and account for the results of the five BIO cases, and evaluate the effect of how these investments exactly contributed to sustainable development of the local agricultural sector leading to enhancing food security and rural development (case-specific).

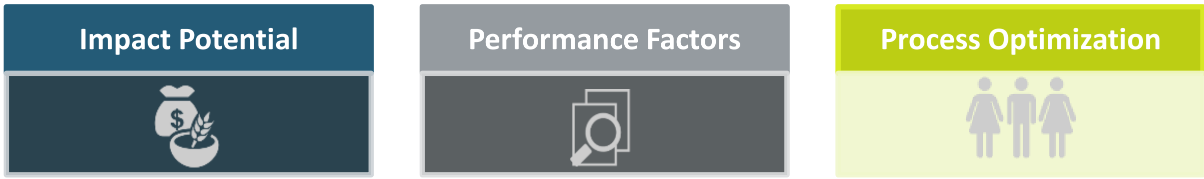
(ii) To **improve**: Provide insight in the lessons learned and provide recommendations for further improvement of the investment process in order to maximize impact of BIO's investments.

Methodology

The main data collection tools for this evaluations have been interviews with key stakeholders (including BIO staff & senior management at the investee-level), company-visits, Focus Group Discussions with final beneficiaries on farmer-level and extensive document reviews. In order to effectively assess the impact of BIO's investments – and compare this to targets set-, Enclude has used a reconstructed Theory of Change (ToC) for the five investment cases to structure the data collection process. Each case-specific ToC details the primary development goals of the investment as well as the indicators used to operationalize and measure the performance on these goals.

Lessons learned

Each of the investment cases has been scored on its performance in terms of investment process and development impact. From the five accountability assessments on case-level, a set of lessons learned has been distilled. Although many lessons learned are case specific, some of the observations result from BIO's way of working rather than the specific context of the investment. The lessons learned have been organized in three themes:



The lessons learned on case-level as well as general BIO-level are summarized below.

Impact Potential

- **Assessment and due diligence processes**: The due diligence of BIO and the funds is perceived to be intense and rigorous, and indirectly building the capacity of the investees. However at the time of the investments, BIO did not perform in-depth assessments of the development potential at farm level – this could be helpful in screening and decision making.
- **Indirect versus direct investments**. 80% of the BIO agriculture portfolio consists of indirect investments through funds. BIO has been very successful in selecting high quality funds and fund managers for the five cases. Indirect investments seem to be more cost-effective; however direct investments can reach a different segment of firms; BIO should however clarify the impact they aim for in direct investments in agriculture, and decide if they could be more selective.

Performance factors

- **Matching TA with investments** Fund managers and investees all indicated to consider it of very high value that BIO can offer TA in combination with funding. It allows BIO to better monitor and steer on development impact. In 2 out of the 5 cases, concerns about the content of the TA were flagged. BIO's strategic goals on agriculture development should not only be integrated in the financial instruments (loans & equity) and their targets, but also in the TA grants, in order to optimize the investments' performance on the preferred development goals.
- **Think global, act local?** Direct funding of BIO without local presence makes this relationship more complicated compared to fund managers with local presence. The absence of local presence therefore limits the universe of local SME's suitable for direct investments; the quality of the management team of the investee is a crucial factor.

Process Optimization

- **Early stage involvement:** For the direct investments in this evaluation, BIO plays a significant role in the first steps of the investment process, such as investment plan development. For indirect investments, BIO puts its resources and trust in the fund managers; it is therefore important that these fund managers have matching development goals.
- **Communication and feedback**: The evaluators observed no structured approach in terms of communication and feedback on development performance; this interaction on progress (especially so for development impact) seems to be highly depending on the individual BIO portfolio manager.
- **Measuring development impact.** The evaluation of the five cases has demonstrated important development effects in the agriculture sector. Although the attribution of BIO is not always significant, we believe that in all cases the investments created critical factors leading to the observed changes. In the absence of a monitoring and reporting system requirements for development results, important results achieved are currently not being celebrated and communicated, and also do not serve as learning case to improve future investments.

Reflections and recommendations

Enclude has formulated a set of strategic recommendations on how to incorporate the lessons learned from the five investment cases into BIO's strategic outlook as well as their daily operations.

Define risk-return targets

Investments in agriculture may face particular risks and challenges, but at the same time the potential to achieve development returns is considered to be high. BIO aims for commercial returns on the one hand and developmental returns on the other. This is a difficult situation as in practice it is difficult to equally satisfy development goals and financial goals in the same investment. BIO and the Belgian government have to jointly agree on the 'risk appetite' that is acceptable, or even desirable, for the BIO investments. A higher risk appetite might also lead to a situation whereby low leverage becomes a trademark.

Clear goal setting for BIO investments

BIO investments in general

The management contract of Belgian Development Cooperation with BIO stipulates that BIO should stimulate sustainable development uniting its three dimensions - economic, social and environmental - for a number of priority sectors including agriculture. These objectives have been translated by BIO in the 8 development goals. As BIO is in the process of moving towards a better measurement of developments, the development of the Development Assessment Tool in 2015 has been an important step, and will definitively improve the monitoring of new investments. It is however recommended to BIO to narrow down its goals in order to define a shorter set of meaningful SMART performance indicators for outcome and impact. The definition of a unified impact pathway for all direct and indirect investments with an accompanying set of indicators will allow BIO to better track its performance by adding up and comparing cases.

Value add in agriculture

BIO should clearly define what their exact value add is when it comes to investments in agriculture. It is recommended to BIO that if they want to target a specific sector, they should join forces with well managed sector focused funds, like it does with its investment in the agRIF fund managed by Incofin. Also, in view of its more explicit focus on the development dimensions of its investments, BIO could eventually negotiate with fund managers that its contribution gets *earmarked* for investments which focus on these dimensions.

Further improve monitoring and evaluation

For all five investment cases the evaluators experienced a lack of clarity on the SMART development targets that the project should meet. The total list of optional indicators in BIO's Assessment Tool is quite long, and as a result each investment will have a different set of optional development indicators, adding up the figures for its complete portfolio will not show a clear focus, and impact will be diffused. It is required that BIO simplifies its current set of *key performance indicators (KPI's)* on the impact that BIO selects as main goal. A baseline data collection is recommended at the beginning of the investment, with specific focus on aspects that can reflect improvements at farmers' level. This will enable more concrete development impact measurements at a certain point in time. Maximizing the development impact on a farmers' level could be a focus point for BIO.

Optimizing Technical Assistance

One of the key value adding characteristics of BIO in the agriculture sector has been their ability to grant technical assistance is addition to funding. The content of the TA in the three cases reviewed was not always considered to be relevant, and it should be assured that BIO incorporates both their own development goals as well as the ambitions and desires of the investee. Also, BIO should pay more attention to the operational set-up of the TA and assure that this is optimal for the investee and other partners involved. Finally, it was recommended for BIO to explore the possibility to provide conditional financial support upon development performance of the investee.