



Pearl Capital Partners



**YIELD
UGANDA**
INVESTMENT FUND



ANNUAL REPORT 2020

Yield Uganda Investment Fund



OPEN SOCIETY
FOUNDATIONS



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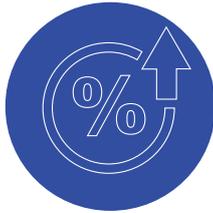
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A photograph showing a group of people, including men and women, working in a field of young trees. In the foreground, a woman wearing a black headwrap and a red and black plaid shirt is holding a large bundle of cuttings. She is looking towards the camera. In the background, several other people are visible, some holding bundles of cuttings. The field is filled with young trees supported by stakes. A semi-transparent blue circle is overlaid on the right side of the image, containing text.

The EU allocated EUR 15.5 million to establish a Small and Medium Agribusiness Development Fund (SMADF), known as the Yield Uganda Investment Fund.

Introduction

Agriculture is the backbone of Uganda's economy.



21%

of country's GDP



70%

of total workforce¹



80%

of total exports²

The sector has however seen underperformance over recent years in comparison to other sectors within the economy due to the low level of value addition through processing facilities and also a lack of commercial private enterprises, thereby resulting in weak employment creation.

The underinvestment in the sector has also impeded private sector growth, largely due to a very thin marketplace for alternative sources of finance. Both the European Union (EU) Uganda Country Strategy Paper and the Green Paper on EU Development Policy support inclusive growth and sustainable development, promotion of access to capital and affordable credit for small, medium and micro enterprises.

In recognition of this policy direction, the EU allocated EUR 15.5 million to establish a Small and Medium Agribusiness Development Fund (SMADF) that is now known as the Yield Uganda Investment Fund, to be primarily managed by IFAD under a Contribution Agreement. The Fund provides small and medium size enterprises (SMEs) operating in Uganda with:

- Long term capital through a Private Investment Fund model structure.
- Post investment Business Development Support (BDS) through a dedicated facility

In November 2015, IFAD/EU contracted Deloitte (Uganda) Limited to provide services for the establishment and management of the SMADF in Uganda. Simultaneously Pearl Capital Partners (PCP) were appointed to provide Fund Management Advisory services throughout the fundraise (set up) phase of the fund. At the initial first close timing of January 2017, the anchor investors were joined by the National Social Security Fund of Uganda (NSSF) as an additional Equity Investor in the fund to achieve an initial EUR 12 million close. Following the second close in June 2019, Soros Economic Development Fund of the Open Society Foundations (OSF) and FCA Investments Limited (FCAI) committed an additional EUR 8 million hence bringing the Yield Uganda Investment Fund total fund size amount to EUR 20 million excluding the PCP's ("the Manager") EUR 0.4 million contribution.

The fund was established as an impact fund to provide patient and risk capital to SME agribusinesses development in Uganda, the ticket size averaging EUR 250,000 to EUR 2,000,000. The investment instruments are tailored to the needs of individual investees, through a blend of equity, quasi-equity (structured as loans by incorporating equity upside through kickers, conversion rights, warrants, etc.) and debt instruments. The 5-year investment period started in February 2017 and is

¹ Gulu (2018). Farming Up: Uganda's Agriculture and Food System Can Create Jobs. www.worldbank.org/en/country/uganda/publication/ug-uganda-developing-the-agri-food-system-for-inclusive-economic-growth

² <https://tradingeconomics.com/uganda/exports>

now 3 years into the period. A separate Business Development Facility (BDS) funded by EU/IFAD amounting to EUR 3,000,000 has also been provided which gives Yield Fund investees access to specialized consultants to provide capacity development services in areas of governance, marketing, finance, out grower management, certifications, technology transfer and human resource management.

The Fund identified the following objectives in the fund set up process:

- Overall vision: to contribute to the development of Uganda's agricultural sector and to improve livelihoods, incomes and food security.
 - Specific objective: to set up a fund that is financially successful, proving that this kind of intervention is a viable option for Uganda, hence attracting new investment opportunities.
 - Expected results: to provide SMEs with long term capital and BDS through a dedicated matching grant facility that are tailored to individual SME needs.
 - Expected benefits: to strengthen the capacity of SMEs engaged in agribusiness, improve access to alternative funding options and to increase contribution to production and value addition.
- COVID-19 has further brought to the fore numerous investment opportunities throughout the agricultural value chains which include but not limited to:
- Urban farming - Due to the disruption in movement as result of the lockdown, urban farming has become popular. This requires investment towards greenhouses to fit in small garden spaces and technologies to help farmers optimize the available limited spaces.
 - Investment in cold chain solutions and generally post-harvest handling technologies to reduce food wastage. This is especially critical for fruits and vegetables which are perishable where losses can go up to 80 per cent.
 - The pandemic has also eroded traditional marketing systems calling for digitized market platforms. Investment towards enabling entrepreneurs and smallholder farmers to tap into these spaces in terms of changing the commercial strategy is crucial.
 - The above matter also points to additional investment towards more professional and organized distribution systems in addition to the informal *boda bodas*.

Yield Fund Overview

Governance

Yield Fund Board

Following the second close in June 2019, the board composition changed to include investor observer seats for the new investors (SEDF and FCAI). Below is the current composition of the board including observers.

The Board held three meetings throughout the course of the reporting year in October 2019, February 2020 and May 2020.

Yield Fund Investment Committee

The IC composition was also changed following the second close to include 3 members, 1 whom is a senior Fund Manager representative and 2 independent members nominated by the Manager and agreed by the Investors. IC too now includes a permanent all investor nominated observer who participates in all IC meetings and prepares a detailed observer report to all investors after each IC meeting/discussions. The principal role of the IC is to review, analyze and if appropriate, approve investment propositions put forward by PCP Uganda (Fund Manager).

Table 1 Yield Fund Board Members

	Simon Rutega Chairman and Non-Executive Director
	Gerald Paul Kasaato NSSF representative
	Lakshmi Moola IFAD representative
	Jocelyn Songco SEDF Observer
	Jukka-Pekka Kärkkäinen FCAI Observer

Table 2 Yield Fund Investment Committee Members

	Felix Okoboi Chairman (Independent member)
	Patricia Onyango Independent Member
	Edward Isingoma Fund Manager representative
	Jorma Ruotsi Permanent Investor Observer

Figure 1 Objectives of the Yield Uganda Investment Fund

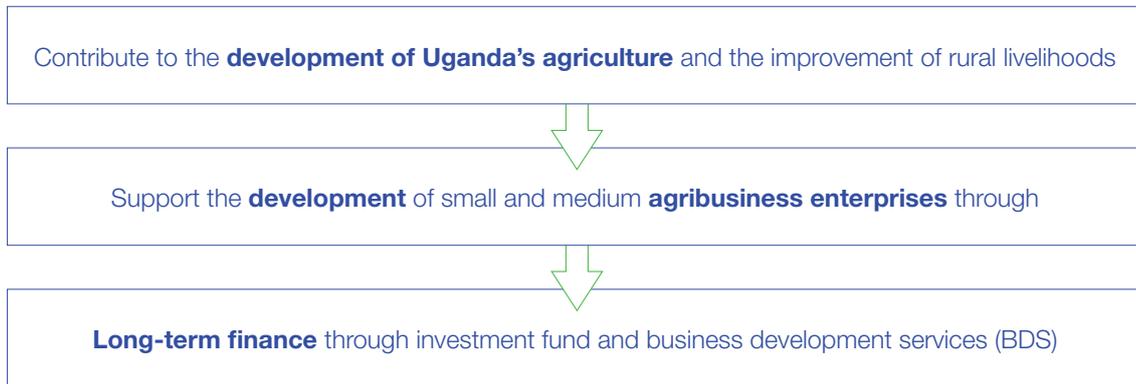
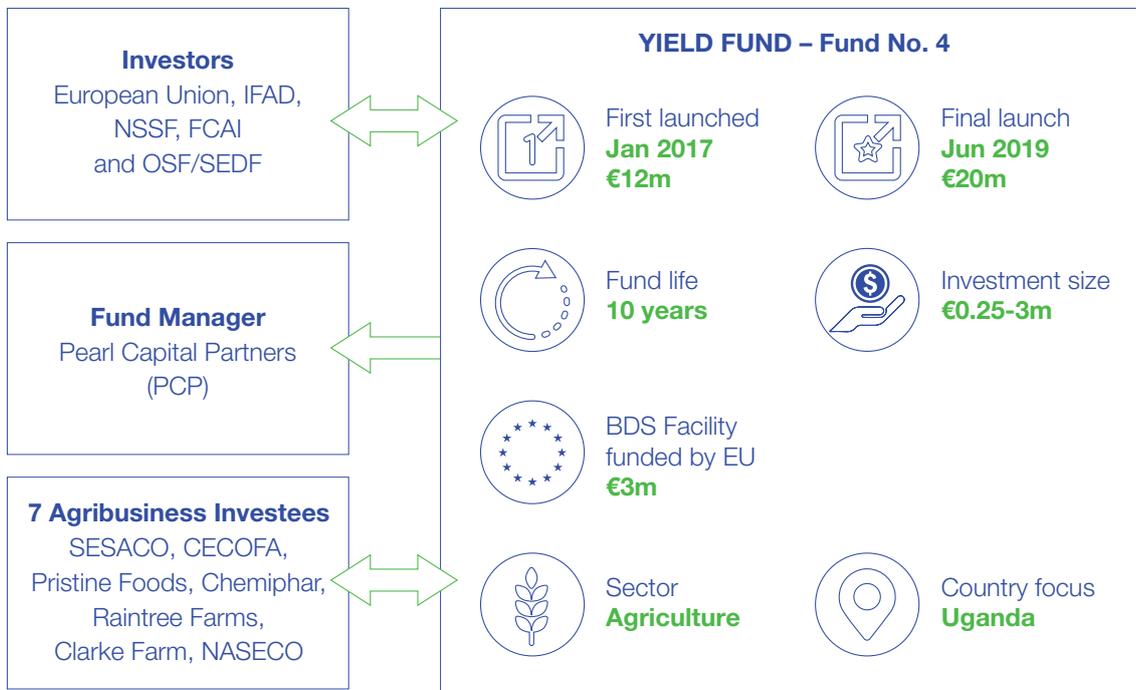


Figure 2 The Yield Uganda Impact Investment Fund Model



Yield Fund: The Prospective Investees

What we look for

Business environment criteria

- No state marketing interventions in the subsector.
- Absence of domestic price controls on agricultural products.
- No unduly restrictive regulatory burdens on the sub-sector.

Enterprise criteria

- Growth trend shown in historical and forecast demand volume.
- Competitive advantage: regionally competitive cost of production, product quality matching or exceeding regional industry standards.
- Stable prices: increasing or stable forecast product prices.

Performance criteria

- Track record: minimum one year audited financial records and positive reputation with banks, suppliers and customers.
- Excellent management team with good entrepreneurial quality.
- Well-researched and realistic marketing plan.

Social and developmental criteria

- Targeted Economic Internal Rate of Return of 30%.
- Social impact including overall job creation resulting from the growth plan.
- Equal opportunities by age, gender and health status.
- No adverse environmental impact.

Requirements continued

- A brief description of the business, including an organizational chart and CVs of key management.
- Details of products, markets and distribution channels, including profiles of key customers and supply chain.
- A business plan going forward that clearly sets out the company's growth/expansion plans, key assumptions, major risks and financial forecast for at least five years.
- Copies of audited financial statements for the preceding two years including a copy of the business's most recent management accounts and a description of the current financial position.
- Details of the social impact of the business.

Yield Fund Portfolio Summary Performance

The following synopsis gives a high level overview of Yield Fund's portfolio companies for the year to 30th June 2020.

Introduction

The Yield Fund Portfolio has grown to seven investee companies, namely: SESACO, Pristine Foods, CECOFA, Raintree Farms, Chemiphar, Clarke Farm and NASECO.

The effects of the pandemic crisis have now been around for the past few months and as a result the Fund Manager is able to some extent have an understanding of the immediate and short to medium-term risks for each of the investee companies. It is however worth noting that these are still unprecedented times and the long-term effects of this crisis will be felt for many months and perhaps years to come. Each of our investee companies will be uniquely affected on a micro and macro basis; locally, regionally and internationally.

The Manager is acutely aware of the need to consider and appraise each company on an individual basis, working with the Promoters and the management teams to address specific investee challenges faced and to find possible solutions or impact minimizing actions, initially for their individual survival and then sustainability post the pandemic crisis, mostly as regards both business performance and liquidity aspects. Managing teams and movement of products and

raw materials has proven to be another challenging area considering various movement restrictions and COVID-19 control measures.

Beyond the common challenges which face most of the investee companies, the Manager is aware of the need to support each company through its own unique commercial environment and specific growth trajectory while being mindful of the Fund's impact objectives. Some of the interventions already have included considering follow on investments, updating business plans, restructuring debt repayments, re-aligning Business Development Support (BDS) interventions, changing BDS support from 50 per cent to 85 per cent for all interventions, increasing remote engagements and communications and in some cases inviting co-investors to join Yield Fund.



SESACO Limited

SESACO is a family owned agro-processing company focused on the processing, production and sale of **soy-based products** and foodstuffs. The principal raw material inputs are soya beans, millet, maize, groundnuts, wheat and sesame which are manufactured into a variety of products ranging from beverages to flour.

The company's primary market to date is the local economy where it has achieved recognition and status; with good visibility in the marketplace and recognition from local business awards. Further markets have also been established with international relief organizations who are interested in the highly nutritious properties of their products; the long-term aim of the company being to penetrate further regional and international markets.



€359k

Investment approved
December 2017



€122k

Total purchase from
smallholder farmers



72

Out-growers supplying
grain to SESACO
of which 39% are women



44

Total current employees
of which 61% are women

The **impact thesis** for the company is derived from three main categories:

- **Smallholder farmers:** to engage and develop smallholder farmer groups, which will enable them to have guaranteed market access as well as ensuring the sale of their crops at an agreed price prior to harvesting. To empower farmers through trainings and extension services to ensure better farming practices, the quality of their crops and hence improved profit margins for the farmers.
- **Food insecurity and malnutrition:** soy food products offer the ability to introduce healthy and nutritional alternatives into the food supply chain, particularly to persons on medically prescribed diets e.g. HIV patients, malnourished children and displaced persons.
- **Creation of employment:** at investment, the company had 76 employees. Of these approximately 65 per cent were women which directly translates to an increase in household incomes.

The Yield Fund IC approved an investment of **EUR 359,487** in December 2017. The investment was aligned to provide funding for working capital (including revolving), re-financing poorly structured debt and bolt on capital expenditure. During the year 2019/20, the revolving working capital facility has been a great enabler for the company to purchase raw materials, mostly maize and soyabean, from smallholder farmers to service institutional contracts.

Post-investment, the company performed out-grower trainings and as a result of which, engaged 11 farmer groups in Eastern Uganda, and signed Memoranda of Understanding with each of the farmer groups. Despite logistical challenges presented, the company has built a model whereby it purchases and distributes to the farmer groups foundation soybean seeds that are planted for the oncoming seasons.

The expected benefits to the farmer groups are guaranteed market access, price stability and also the ability to increase yields through agronomic trainings and extension services which are offered through the continuous engagement with these groups. Through Yield Fund's investment and BDS support, this number is gradually increasing as the company formalizes trading relationships with the farmers and establishes farmer groups. Yield Fund Investment 'unlocked grant financing from SNV Uganda to support the smallholder farmers and facilitate purchase of raw materials from the farmers. The company purchased 500 tarpaulins for the smallholder farmers to aid in post-harvest handling in addition to training on best agronomic practices to improve the quality of their harvest.

In addition to supporting smallholder farmers, the company also achieved impact through employment with a bias to women. The company currently employs 44 permanent and casual employees, 61 per cent comprising of women. In the wake of COVID-19, there was a restructure in human resource within the production department to reduce the operating costs of the company and to stabilize its cash flow in the short term. Notwithstanding, the Promoter and the Procurement Manager further provided dry food to support the families of some of the constrained employees.

Mr. Charles Nsubuga, the Promoter, is occasionally hosted on local radio stations to educate the masses on the nutritional benefits and monetary value of soybean. Through these radio talks, soybean farmers are also trained on the best agronomic practices necessary to improve their yields by adopting more sustainable agriculture methods.

SESACO also attracted support from the BDS facility to the tune of USD 219,048. The facility has been instrumental in ensuring smallholder farmers are trained and relationship with the company formalized, improving the company's governance structure, capacity development and ensuring compliance with ESG objectives of the Fund.



Malnutrition threatens to destroy a generation of children in Uganda where more than one third of all young children – 2.4 million are stunted. Tackling this challenge is at the core of SESACO's mission. SESACO supports the health and nutrition of children, refugees, those with HIV/AIDS, schools and health centers by selling its products which include soy fortified maize and millet flour to a number of Non-Governmental Organizations (NGOs) like Living Goods - an international NGO specializing in providing health foods for people on medically subscribed diets.

In addition, in a bid to fight malnutrition in children and further create an opportunity to enhance value addition in soybean, SESACO provides free training on soy milk extraction to lactating mothers within its out-grower network.





Pristine Foods Limited (PFL)

Pristine Foods Limited is a start-up venture incorporated in July 2015 and is focusing on the manufacturing and sale of **extended shelf life egg products** including liquid, frozen and powdered egg products. It is considered to be a pioneer in the region, being the first to provide regionally produced pasteurized and homogenized liquid egg products.

The company is positioning itself to take advantage of the anticipated growth in the HORECA (Hotel, Restaurant and Café) sector within Uganda, whilst also having a keen eye on the regional export market which is experiencing high egg production costs in comparison to that of Uganda.



€552k

Investment approved
June 2018



17

Total current employees
of which 59% are women

The **impact thesis** is principally centered on the **smallholder farmer** and the development of a **farmer network** supplying locally bred organic eggs. By developing the extended shelf life egg market, the company will be able to offer both volume and price consistency to the farmer as the need for 'middle-men' will diminish. In addition to providing a stable market, the company will also offer the smallholder farmer access to extension services, an innovative payment program and veterinary services.

Yield Fund approved an investment of **EUR 552,759** in June 2018. The investment was aligned to provide funding for working capital and capital expenditure.

The development of an integrated out-grower network commenced in June 2020 to address the key supply chain risks associated with sourcing eggs from various poultry farmers across Uganda. The company has designed a *Feeds for Eggs* Program to speed up the establishment of a robust out-grower network. Under this program, the smallholder farmers are expected to purchase affordable nutritious feeds and consequently provide the company access to relatively cheaper raw eggs. A pilot study on the program has commenced with selected farmers from Mukono and Luwero.

PFL has entered into a partnership with ProTeen Limited – a company that converts ingested organic matter into harvestable protein which act

as an alternative source of affordable protein for the poultry farmers. Through the partnership, Pristine will get exclusive distribution rights of the Black Soldier Fly (BSF) protein composite to the farmer network to substitute the use of silverfish and other protein concentrates which are quite expensive for smallholder farmers.

The company was highly impacted by the COVID-19 pandemic due to the lockdown and negative impact on the Hotel, Restaurant and Café industry which caused closure of most businesses. The acute restriction and lockdown measures by the government to curb the spread of the virus had a significant impact on the local poultry industry which subsequently led to drop in egg prices. The pandemic however presented a unique opportunity for PFL to stock up supplies and thereby hedge poultry farmers against the risk of large losses due to market shocks.

Pristine Foods Limited also achieved impact through employment, majority being female. The company currently employs 17 permanent employees, 59 per cent comprising of women.

In addition to the Yield Fund investment, PFL also attracted support from the BDS facility to the tune of USD 249,096. The facility has been influential in supporting activities on the commercial and marketing strategy of the business, strengthening the corporate governance structure and attaining quality certifications key to enabling the unique product to penetrate the market.



The impact of the COVID-19 pandemic brought about disruptions to the agricultural community with transport and movement restrictions. For farmers in the poultry value chain, the market for perishable products such as eggs was heavily impacted with the major consumers (Hotels, Cafes, bakeries and restaurants) scaling down business significantly.

In this time of need, Pristine Foods Limited used its ability to increase the shelf-life of fresh eggs to shield the poultry farmers from making huge losses due to egg spoilage purchasing 30,000 trays from smallholder farmers as there were no other raw egg processors that could offer this support. The key role Pristine played in helping farmers cope with COVID-19 shock was recognized by the President of Uganda during a live Presidential Address on the pandemic.



Central Coffee Farmer's Association (CECOFA)

CECOFA is a farmer association company, limited by guarantee, registered in 2005 and is a primary processor of **Robusta coffee** which it collects from its network of over 3,600 smallholder farmers through its co-operative structure. By forming this alliance, the company is able to provide market access for farmer members by purchasing, aggregating and collectively sourcing the world market through international traders. The company also holds both Fairtrade and 4C accreditations which in turn provides tangible benefits for the organization and the smallholder farmers.



€1,180m

Investment approved
June 2018



1,224

Certified out-growers supplying
coffee to CECOFA
of which 42% are women



16

Total current employees
of which 31% are women

The **impact thesis** for the company is principally centered around bringing increased numbers from the smallholder network under the **certification** umbrella, namely Fairtrade and 4C. By doing so, this will enable the farmers to realize many benefits like having better access to market, being able to command a higher price for their product, obtaining higher yields and also benefiting from training and better agronomic practices.

Yield Fund IC approved an investment of **EUR 1,180,617** in June 2018. The investment was aligned to provide funding for working capital and capital expenditure.

The company successfully received a grant of EUR 250,000 from United States African Development Foundation (USADF) to finance staff capacity development and setting up of the coffee grading facility. Additionally, the USADF grant also enabled the company to procure a truck for coffee transportation, motorbikes to be used by the field officers and provided some operational capital for the business during the COVID-19 pandemic times.

CECOFA also received a grant of EUR 12,000 from FLOCERT as a COVID-19 relief fund for out-grower support.

During the year, the company maintained its smallholder farmer base of approximately 3,600 farmers out of whom 1224 are certified out-growers supplying coffee compared to 469 out-growers as at 30th June 2019. This 61.6 per cent year-on-year increase was attributed to the new management's strategy of sourcing coffee from more farmers in the Central region of Uganda rather than sourcing coffee from only a few parts of Mubende and Luweero districts.

CECOFA has also achieved impact through employment as the company presently employs 14 permanent employees and two casual laborers. The casual laborers are trained agronomists deployed with an objective to improve the agronomic practices of the smallholder farmers and to ultimately increase their current and future farm outputs. In addition, this is expected to consequently increase their yields as well as the quality of their produce.

The Fund Manager continues to support the business through the current crisis mainly through market development and grant connections/support for additional improvement areas so that it can be in position to make its payments on time.

Further support has also been provided through BDS implementation engagements which include support in additional farmer recruitments, trainings and certifications. The earmarked BDS contribution to CECOFA is USD 177,189.



Being key stakeholders in the growth of the company, CECOFA took the initiative to support the marginalized smallholder farmers in its robust out-grower network during the fight against COVID-19. The company utilized the COVID-19 relief grant worth EUR 12,000 from FLOCERT to purchase hand washing facilities, dry food, and Personal Protective Equipment (PPE) such as face masks and gumboots for the smallholder farmers. In addition, this also enabled CECOFA build stronger relationships with the smallholder coffee farmers.



Raintree Farms Limited

Raintree Farms Limited is an agri-ceutical company specializing in value adding growing and processing of **moringa**. It has achieved organic certification which uniquely places the company as the only Ugandan grower and exporter of high quality moringa powder and seed oil. The company commenced operations in 2012 and since then has grown steadily into the entity which attracted Yield Fund's investment in September 2018. Another unique standpoint from the impact perspective is the introduction and management of the Secured Income Program (SIP) which enables enrolled farmers to maintain a constant income in return for their crop of moringa.



€921k

Investment approved
September 2018



155

Out-growers supplying moringa
to Raintree Farms
of which 41% are women



29

Total current employees
of which 45% are women

The **impact thesis** for the company consists of three main categories:

- **Provision of market access to farmers:** The business sources its raw material from both SIP and non-SIP farmers. The innovative SIP program seeks to reward farmers with 2.5 acres of land available for planting, with a regular monthly income in return for growing moringa. The non-SIP program is aligned to farmers with less than 2.5 acres and who receive payment for the weight of their crop when harvested.
- **Employment creation:** The company hired a team to support operations in production and processing on the farm with priority given to women and youth.
- **Additional development impact:** The company also operates further initiatives such as the moringa academy, capacity building, reforestation and the provision of nutritional solutions in the local community.

Yield Fund approved an investment of **EUR 921,061** in September 2018. The investment was aligned to provide funding for working capital and capital expenditure. Between 2018-2020, the company procured moringa seeds and leaves from 155 out-growers.

During the period, the company had a total of 44 farmers (33 SIP farmers and 11 non-SIP farmers). The SIP program was however suspended effective 1st June 2020 and formally communicated through a letter addressed to the SIP farmers. This was due to the COVID-19 crisis and temporary suspension of operations at the factory which led to the reduced

need for supply of moringa leaves and seeds from the SIP farmers partnering with the company.

The company currently employs 14 permanent members of staff, of which majority, 79 per cent are youth. The company also employs 15 casual laborers with the majority, 53 per cent being female aged between 18-35 years old.

Prior to suspension of trading activity, the company was providing a nutritious moringa-based meal on a weekly basis to boost the body immunity of children at a local school.

In addition, support to Raintree Farms Limited to procure service providers using the BDS facility commenced following the signing of the matching grant agreement in December 2018. The original BDS support plan to cover various interventions necessary to overcome the key risks to the business had a grant contribution to the tune of USD 168,750. Following revision of the BDS facility to cover all interventions at 85 per cent, the BDS contribution was increased to USD 237,000.

Despite the suspension of company operations in the interim, the immediate pursuit is UNBS certification to activate the retail arm to generate revenue in line with the survival strategy. A contract with a service provider to enable the company obtain UNBS certification for three retail products is to be supported using the BDS grant facility. The products to be certified include the moringa powder as well as the beauty care products sold on the local and regional market.



Raintree Farms Limited supplies the moringa powder that goes into the Replenish+ immune booster produced by Doctor's Choice. Replenish+ is a local herbal flagship nutritional supplement distributed to persons with compromised immune systems. In the wake of the COVID-19 pandemic, Raintree Farms donated 1 Metric Tonne (MT) of moringa powder to the Ministry of Health Uganda to produce more capsules of the immune booster which can play a vital role in adjunctive therapeutic treatment of viruses.



Chemiphar (U) Limited

Chemiphar (U) Limited is an independent, privately owned and internationally **accredited analytical laboratory** and inspection body based in Kampala. The company was founded in 1988, and its core business is to provide testing, support, inspection and verification services to the food, beverage, environment, pharmaceutical, water, agricultural and consumer product industries. The company is well positioned to exploit the opportunities in the marketplace as this sector of commerce becomes ever more stringent.



€308k

Investment approved
October 2018



27

Total current employees
of which 56% are women

The **impact thesis** of the company is to act as an enabler to other business's by **certifying products** which can then be sold on local, regional and international markets. By doing so, product awareness, distribution and sales will increase, thereby benefiting those businesses which utilize Chemiphar's services.

Yield Fund approved an investment in October 2018 of c. **EUR 308,000** and the investment was aligned to provide funding for working capital and capital expenditure.

Chemiphar's impact case differs from that which is found in other investee companies. Chemiphar's work ensures the safety of their client's products and services, with its business model aligned to the Government's approach to supporting agricultural industrialization.

Whilst not being a typical agri-business engaged in direct farming activities, Chemiphar is considered to be a strong enabler to the sector to certify their processes and products. It also is a solution provider in enhancement and attainment of these standards.

With the laboratory capacity improvement, the European Union (EU) now recognizes Chemiphar as the only certified laboratory for all fresh fruits, vegetables, horticulture products and agrochemicals being exported from Uganda. In the wake of the COVID-19 pandemic, the company maintained a lean team at the laboratory to enable the fisheries and agricultural industry to continue exporting fish and other foods to the EU market.

In partnership with The Grain Council of Uganda and East Africa Grain Council, Chemiphar trained farmer groups on best post-harvest handling practices vital for improvement of the seed and grain quality on the market. This initiative is aimed at improving the quality of seeds and grains on the local and regional market.

In addition, the company has also achieved impact through employment. Chemiphar currently employs 27 permanent employees, majority being female.

With funding of USD 118,418 in grant contribution from the BDS facility, the company obtained accreditation of the additional parameters, and will continue to strengthen the financial management aspect of the business, to support management training and to implement of the commercial strategy.



In a bid to overcome the key food safety and quality concerns impacting export trade due to the adverse effects associated with unsafe level of exposure to pesticides, Chemiphar supported the Ministry of Agriculture, Animal and Fisheries (MAAIF) to develop a pesticide residue monitoring plan. Between 2015-2018, the European Union issued three warnings over severe chemical contamination of horticulture produce being exported by farmers in Uganda.³ Therefore, this plan is necessary to ensure that agricultural exports from Uganda do not exceed the Environmental Protection Agency (EPA) limits and tolerances.

³ The Independent. EU threatens to ban to slap fresh ban on Uganda's agro exports to Europe. August 23 2019. www.independent.co.uk/eu-threatens-to-slap-fresh-ban-on-ugandas-agro-exports-to-europe/



Clarke Farm Limited

Clarke Farm is an agri-business farm located close to Fort Portal in North West Uganda. The farm produces commercial **Robusta** on 120 hectares and seeks to combine quality planting material, good agronomic practice and commercial wet processing in order to produce single origin, fine specialty washed Robusta coffee for the international market. The farm was established in 2015 and has undergone a considered and phased planting program, which with the help of Yield Fund's investment will create around 250 hectares of coffee plantation.



€1,343m

Investment approved
June 2019



45

Total permanent employees
of which 11% are women



90

Total casual resident laborers
of which 9% are women

The **impact thesis** for the company is categorized into four main categories:

- Development of an **out-grower network** with trainings and the supply of quality planting material.
- Provision of access to a **demonstration farm**.
- Providing **market access** to the out-grower network, thereby the farmer receiving a fair price for their coffee.
- **Employment** opportunities on the farm.

Yield Fund approved an investment of **EUR 1,343,666** in June 2019. Operations at the farm are ongoing and remain consistent with Yield Fund's implementation plan. The farm has now completed the planting 80 hectares of Robusta coffee since the inception of Yields Fund's investment.

The investment also supports the development of an out-grower program in the surrounding area. Due to the unprecedented disruptions caused by the COVID-19 pandemic, the establishment of the company's out-grower program was delayed. However, the company resumed the groundwork of instituting a robust out-grower network in September 2020. The business anticipates identifying and rolling out c. 85 farmers under the out-grower scheme by 30th June 2021.

Clarke Farm's impact case is further strengthened by the employment opportunities created for the community. The company currently employs 45 permanent employees, out of whom 19 are

youth. The company also has 90 casual resident employees (82 male and 8 female) residing on the farm in dormitories /provided housing – of whom 80 are youth (73 male and 7 female). In addition, the company hired 300 casual laborers to support with seasonal work and task-based activities such as coffee planting, coffee picking and civil works at the wet processing facility site from January-June 2020, of whom 263 are youth (168 male and 95 female).

All resident employees living far away from the farm are provided with free housing in dormitories and single rooms for couples, bedding and food. This not only guarantees the farm adequate labor for seasonal work but also offers a wider employment catchment area for the neighboring community.

In addition to the Yield Fund investment, Clarke Farm Limited was allocated USD 151,750 under the BDS grant contribution to offer support in conducting the environmental impact assessment, obtaining UTZ certification and developing the out-grower scheme. This has since been increased to USD 176,800 after IFAD approval to cover costs for all activities at 85 per cent.

The initial procurement process for support of the out-grower scheme development and improvement of the farm/out-grower record keeping system for operations was initiated with support from KPMG, the Business Development Support Management Company (BDSMC).



Clarke Farm made a significant contribution to the surrounding community by grading an 8km road on the last branch off to the farm. The road grading activity cost the company approximately UGX 30 million. The graded road has rejuvenated the road surface, countered difficulties in transportation and reduced chances of potential road accidents. A key part of Clarke Farm's coffee operations both now and in the future, is the processing of both their own and the out-grower's coffee into fine specialty washed Robusta, through a wet processing mill. This graded road will play a vital role in easing the logistical challenges associated with poor road network in the surrounding area.



NASECO (1996) Limited

NASECO is a Ugandan **seed company** that has grown steadily within Uganda for more than 20 years. It has established strong foundations built on two key strengths: high quality proprietary seed products underpinned by an established production base and a growing marketing and sales network. The company has been able to demonstrate sustainable growth in complex and non-traditional seed markets.



€1,157m

Investment approved
February 2020



520

Out-growers supplying certified
seeds to NASECO
of which 45% are women



60

Total permanent employees
of which 27% are women



400

Total casual resident laborers
of which 40% are women

The **impact thesis** for the company is categorized into four categories:

- **Indirect employment** creation for the out-grower network multiplying the foundation seed and certified seed.
- **Food security** and increase in incomes for small scale farmers who buy NASECO improved seed through increase in yields and earnings.
- **Employment** creation for the permanent and casual laborers, distributors/agro dealers within different districts in Uganda.
- **Research** and development investment in the sector.
- **Sanitization** of the seed industry in Uganda.

Yield Fund approved an investment of **EUR 1,157,478** in February 2020. The investment was aligned to fund the company's working capital and capex needs. The seed sector is critical globally due to its strategic positioning in safeguarding food sovereignty of economies and as a bedrock for other agro-processing value chains (both human and animal feed).

Currently, NASECO has 60 permanent employees with the majority being youth.

In addition, the company employs 400 casual laborers at the factory and on the farm, of whom 190 are youth (120 male and 70 female).

NASECO currently engages 520 smallholder farmers supplying certified seeds to the company. The bimodal season lead to an overlap between harvesting and replanting. Therefore, the farmers were provided with a harvesting advance using funding from the Yield Fund to not only speed up the process but also guarantee timely planting for the second season. In addition, the company facilitated ploughing for 85 per cent of the maize

fields in a bid to mitigate the risk of Earrot (fungal infected maize cobs) which reduces seed quality and leads to major farm losses.

Under a special road maintenance program, a sizeable contribution (1000 liters of diesel) was provided to the district administration while grading some feeder roads. The roads worked on are axis roads purposely built to facilitate access to the key growing areas. NASECO usually supports repairs and routine maintenance of boreholes for the neighboring communities. Only routine maintenance of the boreholes was performed during the reported period.

Further support to support out-grower scheme expansion as well as to strengthen the corporate governance structure and the finance function of the business has also been extended through the BDS facility. The facility shall contribute USD 221,000 to support all these interventions key to improving business performance.

KPMG, in conjunction with the Fund Manager, supported the company in preparation of a BDS implementation plan which captured the areas which required further strengthening so as to help them achieve business growth.

The BDS interventions are heavily skewed towards the out-grower network including support of out-grower expansion and improvement of record keeping (traceability). Furthermore, provision of extension services, training and supporting the farmers in post-harvest handling methods and de-tassling will be some of the targeted areas. NASECO will be assured of a guaranteed supply of quality seed (especially maize) while farmers will be gaining additional skills and income.



NASECO provides training to smallholder farmers through the Product Placement Officers (PPOs) as well as fertilizers and crop protection on a full seasons interest free credit in order to boost their yields and increase their household income. Although group trainings were postponed due to the current restrictions on mass gatherings, the company continued to offer the smallholder farmers training on best agronomic practices individually and on increasing yields through planting of bazooka – the new doubled cobbled variety.

Yield Fund's Response to COVID-19

In line with the global economic recession and similar to what happened in many countries, the consequences of the crisis for businesses in Uganda were severe. These included a sudden reduction of demand for products, disruptions in the supply chains and challenges within the operations of the companies themselves. Due to the imposed restrictions on movement of people and non-essential goods, a substantial decline in the trade of primary commodities such as food has been experienced.

The closure of public places such as coffee shops and restaurants as a measure to mitigate the spread of COVID-19 greatly affected not only the hospitality industry but also the food export industry, particularly the coffee and horticulture sectors. In addition to that, as unemployment rates and existing inequalities increased all over the world, this took a toll on consumption of what have been termed as "luxury" goods. As a result, amidst the COVID-19 crisis, the turnover of most businesses, especially SMEs, has greatly declined and this continues to contribute to their under-performance.

The Fund Manager, in the onset of the COVID-19 crisis prepared a Business Continuity Plan (BCP) and shared this with the investee companies. The BCP focused on certain ESG aspects including worker safety and hygiene improvement which greatly influenced many business operations. Business turnover, especially within the SME sector of the corporate spectrum realized a significant decline. As a result, some of the companies had to make challenging decisions regarding (temporary) reduction of workforce to survive. Such aspects

affect the core proposition of impact investing, reaching beyond the realms of the ESG policy; and had to be regarded as a senior management level issue. Even with the cost cutting exercises which were undertaken by most companies, the trend of under-performance was largely consistent.

In terms of Yield Fund's support to the investee companies, the Fund Manager supported the portfolio to undertake immediate and long-term measures to manage the crisis and continue to position themselves for a turnaround post-COVID. The Fund Manager also supported the companies to update their business plans, supported investees' fundraising efforts, evaluated internal follow-on investments, and considered a restructuring of troubled investee companies. These strategies, including the businesses support offered in amending the portfolio's budgets and cashflows, was purposely aimed at enabling the companies to meet their immediate needs in order to preserve liquidity.

Most importantly, with the support from the Fund's anchor Investors - the EU and IFAD, amendments were made to the BDS support facility in order to accommodate some relief and flexibility from an investee liquidity and efficiency perspective. The BDS facility by way of a matching grant reimbursing a minimum of 50 per cent of business operation activities was increased to a minimum of 85 per cent across the entire BDS support plan for each company. The Fund Manager also guided the companies to develop agility mechanisms that aimed at identifying and capitalizing on opportunities that arose from the crisis and also facilitated a quicker turnaround when the economies reopened.

Figure 4 How is Yield Fund responding to the impact of COVID-19?



Yield Fund Business Development Support (BDS)

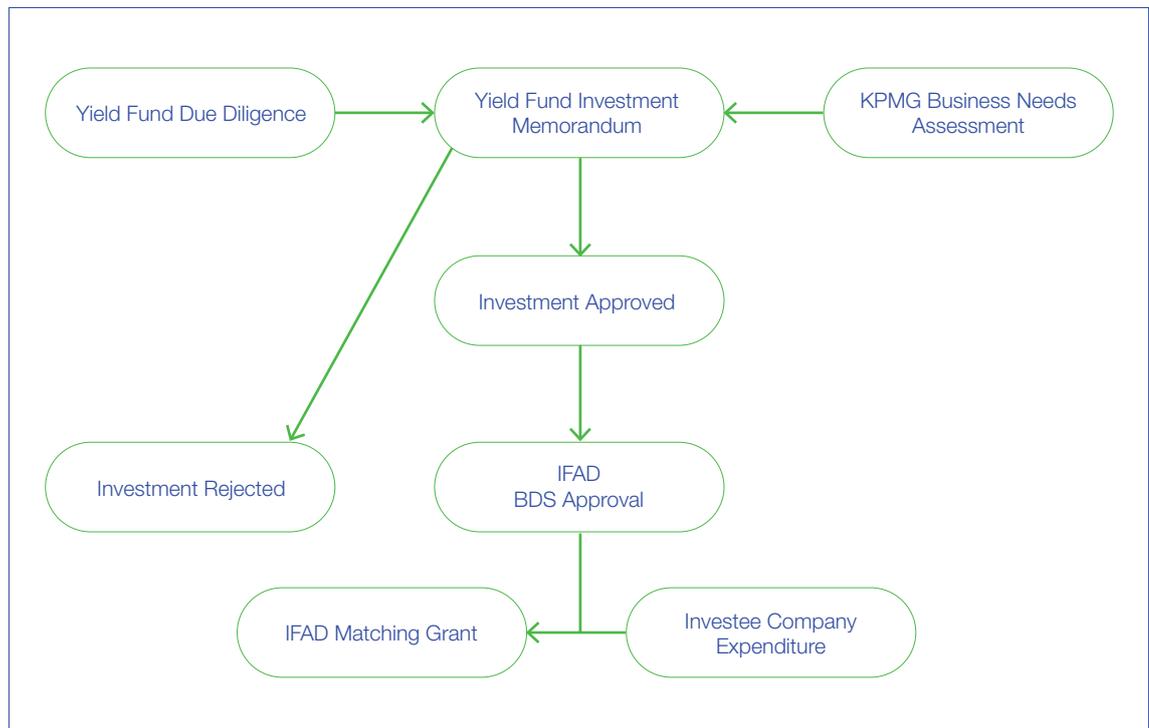
From the commencement of the Fund, KPMG was contracted as the Business Development Management Company (BDSMC) who, under the terms of the arrangement first identifies and then coordinates the provision of business development support aimed at supporting the investee company become more effective, growth orientated and profitable.

Initially, KPMG conducts a business development needs assessment which forms part of the Yield Fund's investment appraisal and subsequently

documented in the Final Investment Paper. In the event of a successful investment decision, a BDS support plan and proposal is submitted to IFAD, which if approved then enjoys a matching grant agreement between the investee company and IFAD.

The described flow process is set out in Figure 3.

Figure 3 BDS Process



BDS Areas

Through the BDS facility, investees have access to high quality support provided by specialized consultants, particularly areas such as:

- Corporate governance
- Financial management
- Administration and operations
- Human resource management
- Internal processes and controls
- Out-growers management
- Certifications and quality standards
- Research and development
- Sales and marketing
- Weather forecasting and insurance
- Trainings and capacity developments
- Specialized agricultural fields such as agronomy

Following the onset of the COVID-19 pandemic in early March 2020, IFAD made some changes to the BDS manual to cushion the investee companies from the expected shocks posed by the COVID-19 pandemic. These include:

- Revision of the re-imbursment subsidy from 50 per cent to 85 per cent – this will offer the much needed liquidity support to the companies who were already facing working capital constraints pre-COVID.
- BDS support was also extended to post investment phase to ensure investments made in the final months of the investment phase are also cushioned from the pandemic's aftershock.
- Pre-investment BDS allocation of 15 per cent of the total BDS plan was also introduced to reduce the lead time between Investment Committee approval and signing of the BDS reimbursement agreement.

Environment, Social and Governance (ESG)

Introduction

The Fund seeks to invest in Small and Medium Agribusinesses (SMAs) which uphold high standards of business integrity and honesty and operate in accordance with local and international industry practice, including those intended to prevent extortion, bribery and financial crime.

It is the Fund's intention to follow IFC's Good International Industry Practice ("GIIP").

The Manager conducts an ESG risk assessment for each company pre-investment and post-investment. Each assessed company is categorized using the ESG traffic light system below:

SESACO Limited

At the commencement of the investment in January 2018, the company was categorized by the Manager as '**Amber**' using the traffic light system as it was established that there were some minor ESG risks which had to be addressed. However, there has since not been a change in the traffic light.

With regard to occupational health and safety, the company engaged a consultant to conduct a feasibility analysis and to recommend the appropriate approach to optimize the production processes of the milling plant. This is expected to subsequently improve production efficiency, capacity utilization and the intervention will be supported by the BDS facility. In a bid to promote conservation of trees and to safeguard workers from respiratory health conditions, the company switched from using wood to briquettes which creates no smoke and soot in the factory.

Table 6 ESG traffic light system



Positive without conditions: a green traffic light means that there are minor or no attention points.



Positive with conditions: an amber traffic light means that there are attention points, but that these can probably be resolved together with the Fund, either prior to investment or by having conditions included in the investment contract. Depending on the nature of the attention point, capacity building may or may not be advised. During the Clearance in Principle specifically, an orange traffic light could also mean that not all information has been received.



Negative: a red traffic light means that there are attention points, which are unlikely to be resolved and that the ESG expert team would advise against investing in the potential investee.

Pristine Foods Limited (PFL)

At the commencement of the investment in July 2018, the company was categorized by the Manager as **'Amber'** using the traffic light system and there has since not been a change in the traffic light category. PFL secured the Q-mark certification for the Liquid Whole Egg in February 2020 and more recently, the Q-mark for the egg powder.

In regard to the implementation of the ISO certifications, the Fund Manager introduced the company to Partners in Food Solution (PFS) to improve and align their production manual with the best manufacturing practice.

Central Coffee Farmer's Association (CECOFA)

At the commencement of the investment in July 2018, the company was categorized by the Manager as **'Green'** using the traffic light system. However, due to some solvable action points raised in certification audits and health and safety concerns, the company changed traffic light to **'Amber'**. Nonetheless, this does not restrict the business from trading under both certifications.

Additionally, a production consultant has been identified to be supported by the BDS facility for a period of 18 months to support the management to streamline operations with farmers and boost quality and quantity of supply from all regions of registered CECOFA farmers.

The company provides the smallholder farmers with coffee husks from factory to be used as organic fertilizer in their plantations and this has consequently resulted in larger harvests of coffee per acre of land using the same or less inputs such as labor.

CECOFA also strengthened its governance structure by appointing a new Board of Directors during the Annual General Meeting (AGM) which was held in January 2020. The new board will be supported by the BDS grant facility.

Raintree Farms Limited

At the commencement of the investment in November 2018, Raintree Farms was categorized as **'Green'** by the Manager using the traffic light system given that the company was considered to have minor ESG risks.

The CERES Organic certification audit was undertaken in February 2020 (late audit) and an internal control system manual is in place as a requirement of the CERES certification. However, the company has not been operational for the better part of the year therefore ESG actions were also temporarily suspended. This resulted in the change of the company's traffic light rating to **'Amber'**.

Chemiphar (U) Limited

In December 2018 when Chemiphar gained Investment Committee (IC) approval for investment by Yield Fund, the company was categorized as **'Amber'** using the traffic light system, this was mainly due to the fact that an already established company did not have an environmental impact assessment. There has since been progress made on obtaining the necessary certifications which resulted in the change in traffic light rating to **'Green'**.

The development of a comprehensive Environmental Impact Assessment (EIA) report is ongoing. In line with the recommendations from UNBS, the company is awaiting release of the analysis results for the water samples delivered to the Ministry of Water and Environment laboratories. These results are vital for the completion of the report.

Clarke Farm Limited

The Fund Manager categorized the company as '**Amber**' on the ESG traffic light scale. This has not changed during the reporting period. The company identified and signed a contract with a consultant (Geotaxon) in July 2020 using the BDS facility to conduct the Environmental Impact Assessment (EIA) and to work with NEMA to obtain a certificate of compliance.

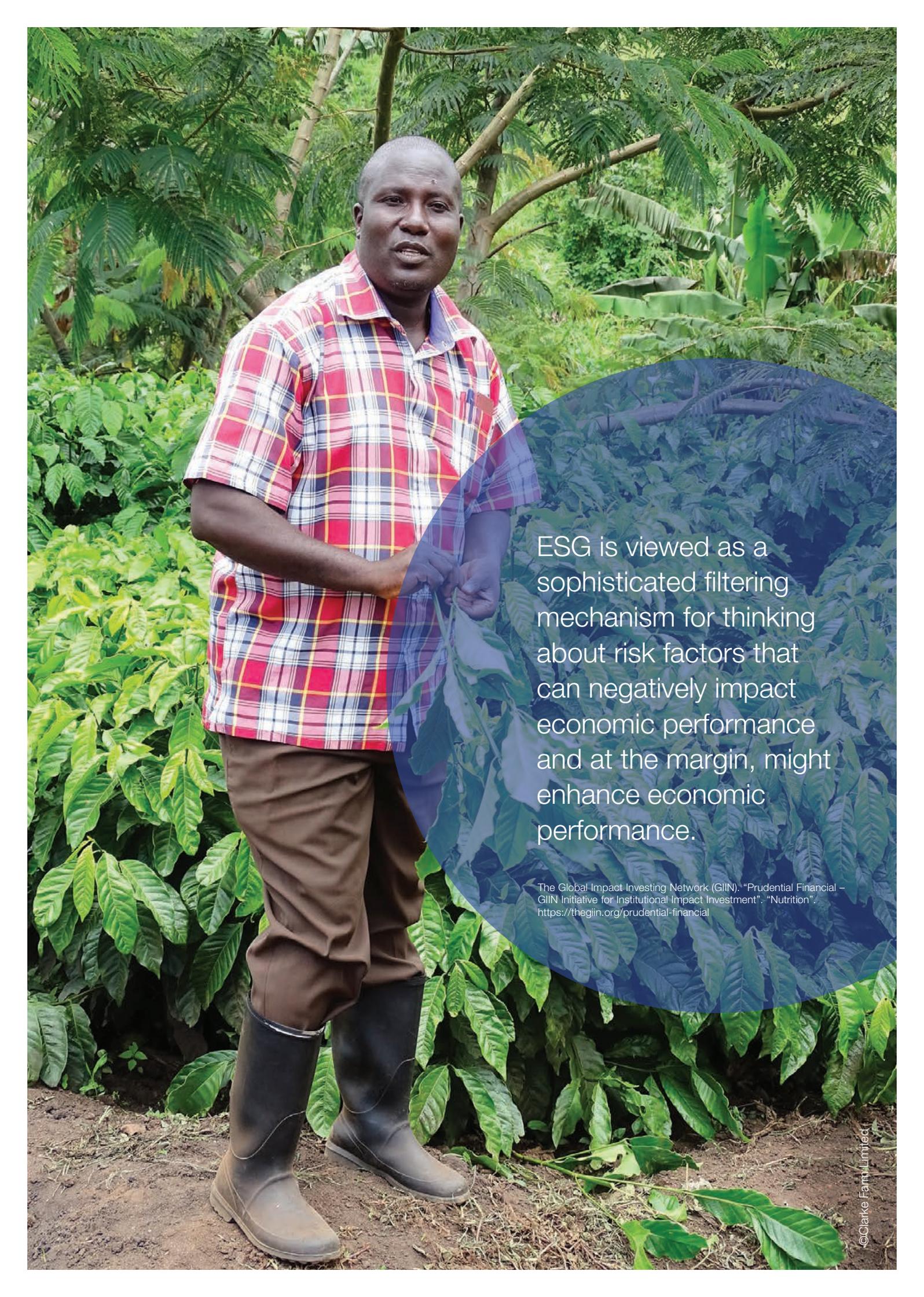
Similarly, in April 2020, a consultant was also appointed using the BDS facility to attain the UTZ/Rainforest Alliance certification. The initial stages of the appraisal were however delayed due to the COVID-19 restrictions on movement.

NASECO (1996) Limited

At commencement of the investment, the Fund Manager categorized NASECO as '**Amber**' on the ESG traffic light scale and an effective Action Plan to be used in rectification of the material ESG risks posed by the company.

The ESG interventions to be resolved with support from the BDS facility include:

- Establish standard operating and safety procedures and train personnel as a mechanism to achieve international standards.
- Conduct an environmental and social impact assessment.
- Training out grower specialists in agronomy and quality seed standards as per the seed laws and COMESA laws.

A man with short hair, wearing a red, white, and blue plaid short-sleeved shirt, brown trousers, and black rubber boots, stands in a lush green coffee plantation. He is looking towards the camera. The background is filled with dense green foliage, including coffee plants and trees. A large, semi-transparent blue circle is overlaid on the right side of the image, containing text.

ESG is viewed as a sophisticated filtering mechanism for thinking about risk factors that can negatively impact economic performance and at the margin, might enhance economic performance.

The Global Impact Investing Network (GIIN), "Prudential Financial – GIIN Initiative for Institutional Impact Investment". "Nutrition". <https://thegiin.org/prudential-financial>

Yield Fund Finance and Annual Audit

The Fund auditor, BDO East Africa who were appointed on 31st July 2018 prepared the financial statements for the period ended 30th June 2020. The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and stated in Euros (EUR) which is the Fund's functional currency.

Table 3 Statement of profit or loss

	2020 EUR	2019 EUR
Income		
Interest income	222.257	141.565
Other income	53.897	146.717
Fair value gains on investment at fair value through profit and loss	7.972	-
Total income	284.126	288.282
Expenses	(1.336.193)	(1.147.279)
Total comprehensive loss for the period	(1.052.067)	(858.997)

Table 4 Statement of financial position

	2020 EUR	2019 EUR
Non-current assets		
Loans and advances	2.232.941	1.232.836
Investments at fair value through profit or loss	187.891	145.483
	2.420.832	1.378.319
Current assets		
Loans and advances	791.167	683.156
Other receivables and prepayments	101.079	1.894.310
Cash and cash equivalents	1.452.964	1.336.960
	2.345.210	3.914.426
Total assets	4.766.042	5.292.745
Equity		
Ordinary share capital	5	5
Accumulated losses	(2.579.776)	(1.527.709)
Redeemable preference share capital	7.318.551	6.160.740
Total equity	4.738.780	4.633.036
Current liabilities		
Other payables	27.262	659.709
Total liabilities	27.262	659.709
Total equity and liabilities	4.766.042	5.292.745





Pearl Capital Partners

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