Prospective Investee FAQs

In General

Q: What does Kampani ultimately hope to achieve? What is your mission?

A: Kampani's goal is to increase the income of smallholder farmers, improve their position in agricultural value chains, contribute to the development of their communities, increase local and regional food security and contribute to the safeguarding of our planet.

Q: How does Kampani hope to contribute to this?

A: By removing a bottleneck for growth: access to capital. By providing patient growth capital, Kampani allows its targets to make long term investments in hardware such as land, buildings and equipment. These investments should allow the farmer income to grow and/or diversify.

Q: Kampani targets the 'missing middle'. What exactly is meant by that?

A: The missing middle is generally referred to as the gap between microfinance on the one hand and large investments on the other hand. This gap of investment capital is generally considered to be between 50,000 and 1 million euro (source: Oxfam International). Kampani makes investments from 100,000 euro to 500,000 euro.

Q: How is Kampani different from microfinancing?

A: Microfinance institutions provide small loans to individuals, not to companies or cooperatives. Awarding a loan to a company or cooperative requires a due diligence, i.e. a thorough analysis of the business plan, financial plan, the management capacity, etc.

Q: Why is it so hard to invest in companies or cooperatives with small investment amounts?

A: It is far easier to make money with large investments than with small investments. This is so because the transaction cost is roughly the same whether one investments 100.000 EUR or 10 million euro.

What is Kampani looking for in the investee?

Q: Does Kampani have a sector focus?

A: Yes. We invest <u>only</u> in the agro-food sector.

Q: Do you only invest in production?

A: No. We invest in all stages of the agro-food value chain. This means up- and downstream of the production and the production itself (e.g. businesses which produce, process, trade and/or market agro supply, farming products and its derivatives).

Q: Do you mean agriculture in the narrow sense of the word?

A: No, we include fishery, honey production, agroforestry, etc.

Q: What kind of businesses do you invest in?

A: We invest in cooperatives and small-medium enterprises (SMEs). Given our social mission, we prefer to invest in cooperatives or farmer-owned businesses. SMEs can also be eligible if their activities contribute durably and significantly to improving the lives of smallholder farmers.

Q: Where do you invest?

A: We are designed to primarily serve our shareholders and on-the-ground stakeholders. This means that we operate where our partners operate. In our priority countries, we will make available additional resources to market Kampani. You can see a complete list of our priority countries on our website, and a non-exhaustive list of eligible countries: https://www.kampani.org/investment-strategy/

Q: Do you have any limitations or preferences in terms of crop type?

A: We have no restrictions or preferences for particular crops.

We prioritize social impact for small-holder farmers engaging in all agricultural spaces. This includes, but is not limited to, cash crops such as coffee and cocoa, staple crops such as rice, corn, and wheat, as well as less traditionally considered agricultural operations such as fisheries and agroforestry. We have a particular interest in businesses that serve their domestic market.

Q: What does Kampani not invest in?

A: Kampani does not invest in:

- Trade-financing (i.e. the pre-financing of harvests)
- Short-term loans (our average loan time horizon is 7 years)
- Collateralised debt or senior debt
- Start-ups or early-stage ventures
- Turnaround files (i.e. Kampani does not invest in companies that are in financial difficulty)
- Any business that does not operate in the agro-food value chain

Q: Kampani's investment focus takes it to smaller, more informal, and/or less mature businesses. In other words, to what degree does Kampani accept weaknesses on the part of the investee?

A: Kampani understands that our target businesses operate in difficult markets and circumstances. We are willing to consider investments that struggle with some more traditional investment criteria or have a higher risk profile. For example, we are open to businesses:

- Operating in locations where country risk is higher
- Have governance challenges
- Do not yet have audited financial statements
- Operates entirely in local currency (Kampani is open to investing in local currency)
- With less than a 100k USD initial investment need, provided there will be a need for additional funding in the future, within the timeframe of the Kampani investment.

Q: What is essential for Kampani?

A: We do not compromise on a direct and measurable social impact for smallholder farmers. Furthermore, we do not deviate from our sector focus and we require the investee to be financially viable.

Q: What is Kampani's position on environmental impact?

A: Kampani will not invest in businesses that harm the environment. We do not require organic certifications but prioritize and promote organizations that use good agricultural practices (GAP) and engage in other environmentally friendly and sustainable activities. We actively support the transition to organic production when investees are capable of doing so, through our NGO partner's provision of technical assistance.

Q: Does Kampani have a gender lens investment approach?

A: Kampani recognizes the value of bringing women into leadership and management positions, as well as providing them with equal access to work and equal pay. This is not an eligibility requirement, however it is highly valued.

What can Kampani's money be used for?

Q: Kampani provides "growth capital". What exactly does that mean?

A: Growth capital is funding to support a successful business expand their operations. Kampani does not invest in start-ups or early-stage ventures. A minimum of two years of operations is required and the organization needs to offer some track record of profitability. Furthermore, turnover and margins need to be large enough to absorb our investment.

Q: What can Kampani financing be used for?

A: Kampani primarily finances capital expenditures. This means tangible assets that enhance operations – hardware such as tools, equipment, transport vehicles, land, buildings, etc. and their related working capital needs (e.g. fuel, electricity, and other inputs needed to run the new activity.)

Q: Can you be more concrete?

A: With few exceptions, our investments are usually of one of the following three types: 1) more of the same, 2) vertical integration, or 3) diversification.

1) More of the same: this is a simple enlargement. There is no real change in the business model. The cooperative or company has demonstrated its ability to master all aspects of its activity. Enlargement is often linked to an increase in hygiene standards. This is the easiest type to get approved, as there are few uncertainties.

2) A vertical integration: a value chain can have many links. In quite a few cases, we support the objective in integrating upward or downstream activity from its current activities. An example of the coffee value chain would be the acquisition of its own hulling factory (vertical downward integration). An example of the horticultural sector would be the construction of an organic fertilizer production unit (vertical upward integration). Depending on the technology needed, it can be a fairly risky investment. The company seeking investment would have to explain how it will acquire the technical know-how needed to operate the new unit.

3) Diversification: it is the integration of a completely new activity. For example, expansion to a new type of crop. This is the most difficult type of investment to make. The target does not usually have a history of production or sales of that new product. Existing lines of business would have to be quite robust and management would have to be resilient and resourced. On the other hand, the impact on producers can be quite high, as it makes them much less dependent on a single crop.

Q: Does Kampani provide operating expense (opex) financing?

A: Kampani does not provide working capital (opex financing) for trade financing, i.e. the pre-financing of harvests. We believe this segment of the market is adequately served by CSAF members such as Alterfin, Root Capital, Incofin and Shared Interest.

What financial instruments does Kampani use and why?

Q: What financial instruments do you use?

A: Kampani exclusively uses equity and quasi-equity. Quasi-equity investments take the form of long-term, uncollateralized subordinated debt. These loans can also have the option to convert to equity over time.

Q: You say you use uncollateralized subordinated debt, what exactly does that mean?

A: *Uncollateralised* means that Kampani does not require the investment target to offer any sort of collateral or guarantee. No mortgages, no personal guarantees, nothing of the sort.

This has an important consequence: the assets financed by Kampani can be used as collateral to attract senior debt. This multiplicator effect is a very important component of Kampani's model and a crucial difference with senior debt providers.

Q: But what about the word *subordinated*? What does that mean? And how is subordinated debt different from regular debt?

A: The crucial difference is that subordinated debt, or 'junior debt,' is debt that ranks *below all* other loans with regard to claims on a company's assets. In case of bankruptcy, senior debt will need to be repaid first. This may seem like a technicality, but it is of crucial importance. From the perspective of a bank or social lender (e.g. for the pre-financing of harvests), Kampani's investment strengthens the balance sheet. The strength of the balance sheet is one of the most important elements any lender will look at when deciding whether to lend or not. The stronger the balance sheet, the more likely you will be able to obtain a loan. So this element too is a crucial component of Kampani's approach.

Q: So Kampani uses subordinated debt to strengthen the balance sheet?

A: Yes, indeed. Strengthening the balance sheet makes a company more attractive for senior debt providers. Just as with equity, investment via subordinated debt can have a multiplicator effect in that the target may be able to borrow more or at better terms from banks.

What is specific about equity deals?

Q: Tell me more about equity deals.

A: Equity financing is the process of raising capital through the sale of shares in an enterprise. The investor will thereby become a co-owner. The cost of each share is determined by the value of the company. Note, Kampani will never assume a majority stake. Nonetheless, the original owners inevitably lose some of their independence.

Q: How do we establish the value of the company?

A: There are different ways a company can be valued. Since they would like to hold on to as many shares as possible, the current owners will wish to give the organization as high a value as possible. A high value reduces the number of share the investor will obtain for given amount invested. The "correct" value of the company is therefore subject to negotiation between the parties.

Q: Compared to subordinated debt, what are the advantages of using equity?

A: The advantage of equity investments for an organization is the long-term horizon of utilizing the cash injection without annual repayments prior to a mutually agreed upon exit.

Q: Are there also disadvantages?

A: Not all company owners are prepared to share the ownership of the company. Moreover, Kampani tends to invest when companies are still rather young and their equity value rather small. This means that a relatively large share of the company would be acquired by Kampani. But, as mentioned above, Kampani will never wish to obtain more than 20% of the shares. If needed, part of the investment will be organised via subordinated debt instead. Secondly, negotiating a shareholder agreement is very complex and quite time consuming. Finally, while there is no pressure on cash flow for the company, in the end equity tends to be the most expensive form of financing because the shareholder bears the highest risk.

Q: How does the exit work in the case of an equity deal?

A: At the appropriate time, as determined by Kampani in conjunction with the investee, a valuation is conducted to determine the value of Kampani's shares. A payment schedule is then developed, either for the investee to purchase back Kampani's shares or for sale to a new investor.

Q: When would Kampani use equity and when would it use subordinated debt?

A: Kampani works with the organization on a case-by-case basis to determine the appropriate funding mechanism. Equity deals are ideal for companies with a healthy balance sheet that supports a favourable valuation, and for those that do not have an urgent cash need as these negotiations tend to require more time. Kampani strives to protect existing shareholders and thus works with the potential investee in negotiations to ensure that Kampani does not overly dilute current owners. Kampani will never assume a majority stake. The advantage of equity investments is the long-term horizon of utilizing the cash injection without annual repayments prior to a mutually agreed upon exit.

Subordinated debt is preferable for organizations that need capital quickly or may still need time to strengthen their balance sheet to improve the overall valuation of the organization. It is also more appropriately suited for organizations who still need time to strengthen their financial management and operating structures.

How much money does Kampani invest?

Q: What is the size of a Kampani investment?

A: Kampani targets the so-called 'missing middle' in the agricultural value chain. Our investments range from 100,000 – 500,000 EUR.

Q: Is there any circumstance in which Kampani can invest less than 100,000 EUR?

A: We are prepared to invest as little as 50,000 EUR provided that add-on investments are expected in the near future.

Q: Is there any circumstance in which Kampani can invest more than 500,000 EUR?

A: Mainly via add-on investments, we can increase our exposure to a maximum of 1 million euro. Of course, we will only do so if both the social and financial targets have been met.

Q: Does the investee need to also need to make a simultaneous investment?

A: The investee is expected to make a contribution at the time of Kampani's investment. It does not have to be equal to the money injected by Kampani, nor does not need to be entirely in cash, it could be an in-kind contribution such as land. The purpose is to reinforce the organization's commitment to its growth and round out the total investment need.

Does Kampani provide grant money?

Q: Does Kampani provide grants?

A: Not really. Kampani is an investor not a grant maker. If an investment proposal is not profitable without grant money, Kampani will not invest. Nonetheless, Kampani has a modest grant facility to support technical assistance. However, the majority of on-the-ground support comes from our NGO shareholders and partners who are best positioned to provide the requisite skills and expertise.

Concretely, how does the investment process work?

Q: How does Kampani source its deals?

A: Kampani relies heavily on its NGO shareholders and a handful of close partners for its deal sourcing. These partners, with in-country presence and working directly with farmer organizations, are well placed to determine when and where a Kampani investment is needed. These partners both support the development of organizations to make them investment-ready and help them effectively grow with the support of Kampani's financing.

Q: Does this mean that a business should not be contacting Kampani directly?

A: Unfortunately, yes. At this stage, Kampani is not equipped to process investment requests directly from a company or cooperative. The applicant will be directed to try to connect with a Kampani shareholder or partner to facilitate the application process.

Q: How long does it take to secure a Kampani investment?

A: The duration depends primarily on the organization seeking an investment. I.e. on the speed with which the investee can provide the data required by Kampani. In practice, the time between deal identification to disbursement can be as little as 5 months. But this is rather rare.

Q: What does the approval process look like?

A: Kampani's approval process has three formal stages. At each stage, the Executive Director reports findings to Kampani's independent Investment Committee (IC), composed of subject-matter experts. If the IC approves, the process continues onto the next phase.

- Deal identification phase

- Kampani's NGO shareholders or partners collect essential information and formally introduce investees to Kampani
- Pre-selection phase
  - The organization and Kampani get to know each other to determine if we are a good fit. Basic business information is collected included finances, business plan, and social impact contributions. If eligible, Kampani takes the file to the IC.
- 1st decision gate
  - The Kampani IC decides whether to start the due diligence phase and offers guidance to Kampani as to what to concentrate on.
- Due-diligence phase (2nd decision gate)
  - This is the most involved stage. An investment manager located in the region of the organization will travel to visit the business and conduct a thorough and lengthy review of operations, financials, and key personnel. This report will again be presented to the IC committee for review and approval, i.e. the second decision gate.
- Contracting phase (3rd and final decision gate)
  - If a file makes it through the 2nd decision gate, there is a very high chance of final approval.
  - During this phase, a Kampani representative personally visits the organization to further develop and strengthen the relationship with leadership, work through the final components of the contract in person and start interviewing potential board representative candidates.
  - Findings are presented to the IC. If approval is given, each party signs the contracts, and the first disbursement can be made.

Q: What information is required for the pre-selection phase to consider an investee's eligibility?

A: Kampani will want information on the following items:

- The organization: your business case, management, ownership structure.

- Details on finance.

- Details of the investment proposal.

- The characteristics of the value chain and the position of the organization.

- The social performance of the organization.

- A SWOT analysis

Q: What factors will be assessed in the pre-selection phase? What makes an organization competitive for a Kampani investment?

A: Ultimately, we want to establish:

- **Stability and reliability**: evaluate whether the organization is reliable and stable enough to be an investment partner more able to take on this investment. Pay attention to your structure, leadership and the history of your relationship with the NGO.

- **Social impact:** what is the social impact that the investment should generate?
- The **financial health** of the organization.
- **Vision, skills and experience**: evaluate whether the management of the organization / the entrepreneur has the right vision and enough skills and experience to successfully expand your business in the desired direction. Consider the necessary administrative and business skills, as well as the technical skills specific to the project. It is very important to have a clear idea of the commitment and 'skin in the game' of the administration / entrepreneur, vision, experience and their capabilities. The general manager/entrepreneur is key in building the company, so it is crucial to start building and developing a relationship with him/her to get an idea of his/her motives and objectives and to understand his/her appetite towards the balance between social impact and financial profitability.
- **Commercial sense** of the investment proposal: perform a first SWOT analysis of the business proposal to assess whether it makes good business sense and is financially viable. How robust is the current business model? What strategic opportunities can be seized? What does the market look like?
- **No long-term funding**: provide any available evidence that the organization has no cash and cannot easily access funding from established institutions due to its weak capital position, cooperative structure, or inability to provide formal documentation.
- **Interest of the farmers' organization**: assess whether the organization needs the type of funding offered by Kampani, whether it is interested and prepared to involve Kampani in government, and whether it understands that Kampani expects significant financial returns. This information is ideally obtained through a conversation with the organization's Board of Directors.
- **Risks/ weaknesses:** what the main risks and weaknesses are, and how you intend to address them.

To the extent that the partner will be called upon to provide capacity building, if and where needed, it is crucial that in this phase the potential obstacles of the investment project for Kampani are described and linked to current and future work of the partner with the investee.

What does the typical Kampani subordinated loan agreement look like?

Q: What currency do you invest with?

A: Kampani is open to investing in local currency.

Q: What is the time horizon of a Kampani loan investment?

A: The average subordinated loan length is 7 years and tailored to the investee's needs.

Q: What is the interest rate of a Kampani loan?

A: Kampani's interest rate ranges from 9 to 12% per annum. We understand that for our investees, the rate needs to be a low as possible. Since Kampani provides a type of financing which is exceedingly rare, we find this to be a good value.

Q: Beyond the interest rate, what other factors make Kampani financing more competitive to alternatives?

A: When comparing our rate to that of other finance providers, we encourage our partner to take into account the following other components of our standard term sheet:

- Kampani requires no collateral of any nature
- No early repayment penalty after 100,000 in interest has been paid
- Active participation in the Board by a local expert to support the strengthening and growth of governance and management (*read more below; this is not a majority position and is only meant to support the organization's vision, not control it)*
- Long-term, patient capital (average of 7 years)
- Shareholder network of NGOs to support on the ground technical support and training
- Interest is only calculated annually
- 2 year grace period before principal repayment is quite standard
- Interest payments are annual and tend to commence only 12 months after disbursement

Q: What are Kampani's investment fees?

A: Kampani charges no commission or transaction fees. The only fees incurred are that of bank transfers, which are split between Kampani and the investee. Each party pays for the bank fees on their respective ends of the transaction.

Can you tell me more about how Kampani wants to be involved in the governance of the investee?

Q: Kampani requires a Board representative. What role does this person play in business decisions?

A: Indeed, this is a strict requirement. Kampani will not invest if this is not acceptable to the investee. It is important to establish whether we are fully aligned on the vision for the future of the company. Kampani wants to help *realise* a cooperative or company's vision, *not* change it.

We do not seek to take the driver's seat, but rather sit in the passenger's seat and read the road map to help navigate on our collective journey to the destination of business growth and success.

The representation on the board of the investee serves two purposes:

1) Be in a position to spot possible threats early on and help navigate the organisation through the rough times.
2) Be in a position to lend expertise and experience to help ensure the right decisions are taken and the decision making process itself is professional and transparent.

Q: Does the investee get to have say in the selection of the Kampani representative?

A: Yes. Kampani selects a local (living near or in the same city as the company) individual possessing a particular skillset and expertise that is of interest to the organization. The organization's leadership has the right to reject a proposed representative if they do not find them to be a good fit. In this case, Kampani will work with the organization to identify another suitable candidate. Furthermore, if any issues ever arise with the representative, leadership can speak directly with Kampani's Executive Director to remedy the situation, even if this means terminating the representative's contract and identifying their replacement.

Q: In our cooperative, one needs to be a member of the cooperative to be able to be elected to the Board. At the same time, we are very interested in bringing on board the expertise of the Kampani representative. How would we organize this?

A: In the event that cooperative bylaws prevent a non-member from becoming a member of the Board, the contract can be amended to consider Kampani's participation as observer status. In this scenario, the Kampani 'observer' will still have full participation rights, to contribute to the Board discussions and decision-making process.

Q: Kampani tends to negotiate veto rights. How does this work in practice?

A: The use of Kampani's veto right is extremely rare. Kampani will always seek to support leadership and act within the best interest of the organization.

Written into the contract covenants are certain decisions that require Kampani's approval, for which the veto could be deployed as a last resort if negotiations fail. These include

a) a change in the social mission of the company or cooperative
b) a substantive deviation from the business plan
c) taking on more debt than the organisation can bear.

The details of Kampani's role in governance can be further clarified in the contract. Again, Kampani's number one priority is supporting the organization and contributing to its success. We do not endeavour to act solely out of self-interest.

Q: If Kampani cannot formally be a member of our Board, how does Kampani exercise its veto rights?

A: Covenants can be adapted in the contract to provide Kampani co-decision rights akin to those stipulated in the Board/ shareholder charter. This will, of course, be an open conversation with the investee to find a suitable arrangement for all parties.

Q: Does Kampani ever take an operational role?

A: Kampani neither seeks nor accepts an operational role.

Q: What are Kampani's reporting requirements?

A: Kampani's reporting requirements are specific to each investment. Some standard requirements include:

- Quarterly: Board materials and meeting minutes
- Yearly: Audited financial statements, annual report including social impact reporting, and business plan
- Any major alterations to the business plan or intended shift in use of funds provided by Kampani prior to formalizing changes

Other questions?

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