

Annual Update 2012



The Voxtra Foundation was established in January 2008 with the mission to empower disadvantaged people to lift themselves out of poverty. The Foundation is engaged in agriculture and job creation projects in India and Kenya.

In 2011, Voxtra established an impact investing vehicle, the Voxtra East Africa Agribusiness Fund, targeting small and growing agribusinesses that provide agricultural inputs and market access to smallholder farmers. The Fund made two investments in the course of 2012.

The name 'Voxtra' is derived from an Old Norse word meaning 'growth'.

A Year of Steady Progress

The year 2012 has seen steady progress for Voxtra's initiatives. The impact investing fund that we raised in 2011, the Voxtra East Africa Agribusiness Fund, which invests in small and growing enterprises that strengthen the livelihoods of smallholder farmers, has made its first two investments and is well on track. Our grant-funded projects have progressed considerably, and the work we have done over the last years to document the impact is bearing its first fruit.

Making the case for impact investing

Impact investing seeks to address some of the shortfalls of traditional grant-funding of social projects:

- Profit-making social enterprises are *self-sustainable* and have the *ability to grow* and reach large numbers of people, while grant-funded projects often remain small and shut down after the end of the project period.
- Companies are *accountable to their customers*: they need to offer a service or product that customers are willing to pay for, otherwise they disappear. Social projects can carry on even if they are ill-designed or counter-productive, as they are accountable not to their beneficiaries, but first and foremost to their donors.
- The need to earn a profit introduces a *financial discipline* and an *imperative to innovate* pragmatically that is often lacking in social projects where budgets, activities and outputs are too often rigidly pre-defined.
- On the investor level, successfully invested capital is recycled and can be used again to further social objectives.

In 2010, Voxtra started exploring the potential for pursuing our mission not only by making grants to non-profits, but also by investing in carefully selected enterprises that create impact alongside profits. In 2011, we created our impact investment fund, focusing on agribusinesses that provide agricultural inputs and market access to smallholder farmers in East Africa. Now, one year into the life of this fund, we are starting to get the answers we hoped for: impact investing holds the potential to help change the fortunes of large numbers of disadvantaged people, and Voxtra has a distinct role to play.

The Fund invested in two enterprises during 2012, Mtanga Farms in Tanzania and Western Seed Company in Kenya. You can read more about these companies and the impact they are creating later in this report.

Of the many things we have learnt about impact investing during this year, I would like to mention the following.

- In agribusiness there are large numbers of small enterprises that are capital-constrained. They operate in rural areas, are often headquartered in smaller cities outside of the national capitals, and are therefore difficult to identify and reach. They are also not used to working with

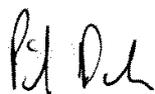
external financiers. This makes good companies hard to find and difficult to transact with, but not less rewarding when we prove able to surmount those barriers and put our resources to work.

- Our type of impact-oriented finance is addressing several needs that are largely unmet as of today and that ensure the ‘additionality’ of our investments: First, our investment size of \$0.5-2 million enables access to capital for smaller enterprises than those that are reached by the established private equity industry. Second, we have the mandate to take on somewhat higher risk on some of our investments if they have the potential to create extraordinary impact.

Proving the impact of our grant-funded projects

Our grant-funded projects are now reaching a level of maturity where development outcomes can be documented. As can be seen from the feature of our micro-irrigation project in India later in this report, we have significant evidence of the extraordinary effectiveness of this project, and the time has come to declare this project a success. More documentation on the outcomes of this and our other projects will become available in 2013 and 2014 as several evaluations are underway.

Oslo, 17 February 2013.



Pål Dale
Managing Director

The Voxtra East Africa Agribusiness Fund makes its first two investments

Voxtra manages the NOK 67 million (USD 12 million) Voxtra East Africa Agribusiness Fund. The fund was established in November 2011 with capital from Norfund and private investors in Norway and Sweden. The fund has the ambition of creating positive returns to its investors and to enable 200,000 farmers to increase their incomes substantially. The fund will invest in companies that sell enhanced inputs, such as seeds, to smallholder farmers, in companies that buy, process and distribute produce from smallholder farmers, or in other ways act so as to strengthen farmers' productivity and incomes. In 2012, the fund made its first two investments, in Mtanga Farms Limited in Tanzania and Western Seed Company in Kenya.

Mtanga Farms Limited

Mtanga Farms Limited is a farming operation in Tanzania with considerable growth potential. Mtanga Farms Limited is the only producer of clean (virus-free) seed potato in Tanzania. In addition, the company produces maize, soya and barley for local markets, while also pursuing an ambitious strategy in cattle and meat processing.

In Tanzania, 200,000 potato farmers are struggling to earn a decent living, getting yields as low as 5-7 tons per hectare, as per official statistics. Mtanga has introduced new potato varieties, and based on experiences from Kenya, these varieties will enable yields of 15-20 tons for smallholders. Mtanga, with its remote and high-altitude location, is positioned to deliver high-quality seed potatoes thereby boosting the productivity of roughly fifty thousand small potato farmers over the coming years.

Enabled by the Technical Assistance grant that the Voxtra Foundation has received from NORAD, we are supporting the company by co-financing an effort to expand the seed potato market through demonstration plots, farmer training activities and recruitment of small commercial farmers to act as wholesalers and storage hubs for seed. In this effort, actors from non-profit development organizations are also involved. We are firm in our belief that Mtanga can ignite a tremendous improvement for potato farmers in Tanzania and look forward to continuing to support the company in its development.



Potato field planted with seeds from Mtanga Farms (photo by Fintrac)



First generation potato seed growing in Mtanga's screen house (photo by Voxtra)

Western Seed Company



The Fund's second investment, in Western Seed Company produces hybrid maize seeds for smallholder farmers in Kenya. Our investment will support the company's efforts to double its seed production in five years. If successful, more than 100,000 additional hectares of farmland will be planted with improved seed and yield an additional production of more than 100,000 tons to smallholder farmers. In monetary terms, we expect our investment to generate cumulative additional income to smallholders equivalent to more than 20 times the amount invested.

Both the financial returns and the social impact are, however, exposed to significant risks. First up are the Kenyan general elections in March. In the violent aftermath of the 2007 general elections, Western Seed experienced significant disruptions to its operations. While we hope and expect that the conduct and outcome of the upcoming elections will be significantly more peaceful, some unrest will likely follow. Another source of concern is an outbreak of a maize disease that could have a negative impact on maize farming in Kenya over the next few years, until farmers learn to overcome and contain it.



CEO Saleem Esmail and Product Development Manager Cai Pei Zhong inspecting the crop at Western Seed's research farm (photo by Voxtra)



Western Seed sells its seed in small packages of 2kg to small farmers (photo by Pearl Capital Partners)

Voxtra's Philanthropy Portfolio – steady progress and new evidence of impact

Micro-irrigation boosts the income of poor farmers in India

The high impact of IDEI's work well documented

Since 2009, Voxtra has supported the leading Indian social enterprise, International Development Enterprises India (IDEI) in marketing manual irrigation pumps to small farmers in the state of Assam in Northeastern India.

Access to irrigation can have a transformative effect on a poor farming household, as it enables them to grow crops year round instead of only one crop during the monsoon. “The treadle pump has given me a new dimension to life”, says Chand Mohd, a farmer who purchased one of IDEI's pumps. “It has not only increased my farm production, but has also enabled me to become a successful entrepreneur”. From previously cultivating only rice during the monsoon, Mr. Chand now cultivates cabbage, egg-plant, pumpkins and a traditional crop called khol khol in the dry season. From the profits from his first irrigated harvest, he set up a small grocery shop. “I now look forward to sending all my children to school”, says Mr. Chand.



Chand Mohd, Farmer in Assam. Photo by IDEI.



Amitabha Sadangi, CEO of International Development Enterprises India. Photo by IDEI.

IDEI uses the market mechanism to create sustainable change: The pumps are manufactured, distributed and sold by commercial actors who expect to make a profit. IDEI's contribution is to develop the technology, encourage manufacturers, distributors and dealers to take it up, conduct quality assurance of the production and ensure that dealers stick to the retail price set by IDEI.

Another important part of IDEI's work is to conduct marketing activities to raise awareness of the pumps and their benefits. “In this way, we are stimulating the development of a market. One day, the pumps will be so well-known that we do not have to continue our marketing. Then, we can move on to other areas or launch other products that are beneficial to the poor”, says Amitabha Sadangi, IDEI's CEO and one of India's most celebrated social entrepreneurs. IDEI's market-based approach has the additional benefit that spare parts will be available to farmers long after IDEI has completed their market-building project.

Numerous studies show that the treadle pumps from IDEI are extremely effective in improving the livelihoods of poor farmers. In 2012, the Bill & Melinda Gates Foundation, which has supported IDEI's programs in other states of India, commissioned a study that compared 400 treadle pump users in the states of Bihar and Orissa with a group of 640 non-users. This study found that:

- The pump reaches very poor farmers: 96% of users had incomes of less than \$2 per day and 57% less than \$1 per day (before purchasing the pump)
- The users' financial status is improving: 86% say that their financial status has improved, compared to 8% among the non-users.
- Total income is much higher for users than non-users: Users report incomes of \$1025 on average, versus \$281 for non-users.

Voxtra has a long-standing partnership with KPMG in developing methodology and approaches for "social auditing", i.e. to verify that reporting on results and social impact of projects is correct. KPMG's contributions have been made on an entirely pro bono basis. In 2012, KPMG conducted an on-the-ground study of IDEI's activities in Assam. A random sample of 96 pump buyers was visited, and every single pump was found to be in use. KPMG in-depth interviews of 16 buyers found increases in incomes ranging from \$250 to \$1200.

The CEO of KPMG Norway, Mr. Stein-Ragnar Nordeng commented: "Commitment to society is one of KPMG's core values and a cornerstone of our culture. We believe we should use our skills and our resources to create social value and a sense of social commitment among our staff. Voxtra represents an alternative approach to development that we find value adding. Consequently our collaboration with Voxtra and our contribution to the IDEI project fulfills our vision in this area."

In 2013, yet another study, which will examine the broader social effects of the pumps, will be finalized in Assam.

7,700 pumps had been sold in Assam by December 2012. Based on all the evidence we now have about the integrity and effectiveness of this program, we can conclude that most of these farmers and their families – more than 30,000 people – have seen their incomes increase substantially and in many cases dramatically, as a consequence of IDEI's intervention in Assam.

If the buyers of the 7,700 pumps earn \$400 more per year on average for five years, then the resulting income to poor communities exceeds 15 times Voxtra's \$1 million grant to IDEI, and still, there are two years left of the program and many more pumps will be sold. Also, the findings of the Gates Foundation and of KPMG indicate that Voxtra's expectation of a \$400 income increase per family was a conservative assumption, and the expected lifetime of each pump is probably 8-12 years, not five. In other words, the wealth created could easily be more than 40 times Voxtra's grant.

Micro-irrigation makes an impact in Kenya

KickStart International makes good use of three-year grant from Voxtra

The Voxtra Foundation has for three years supported KickStart International's program to distribute manual irrigation pumps to smallholder farmers in Kenya since 2010, with a grant of \$1.3 million. Both the technology and the market-based approach of KickStart resemble the program with IDEI that was described in the previous section. The grant aimed to bridge KickStart across a period of organizational change and funding difficulties, and ensure that KickStart could continue its work on transforming smallholder farming in Kenya with full steam ahead.

The three-year period has seen KickStart's pump sales in Kenya increase by 67% compared to the previous three-year period, and the organization has successfully completed a major transition of its organizational structure, including several key personnel changes at the top of its African and Kenyan organizations. It has also built up a fundraising team that is now able to generate a more predictable and sustainable flow of income.

Since the start of Voxtra's involvement, KickStart has sold 23,000 pumps. Voxtra has financed 18% of KickStart Kenya's budget, and we therefore estimate that 4,200 pumps have been sold as a result of Voxtra's grant. This has enabled these farmers to work themselves out of poverty using KickStart's pumps as a tool, and realize a socio-economic return to poor farmers in the range of \$PPP 7,700 per pump sold over the pumps' lifetimes. We estimate that this constitutes a benefit-cost ratio of 25. We find this to be a strong outcome of Voxtra's investment in KickStart. However, we are still awaiting the outcome of an impact evaluation (due in the spring of 2013) before these conclusions can be verified.

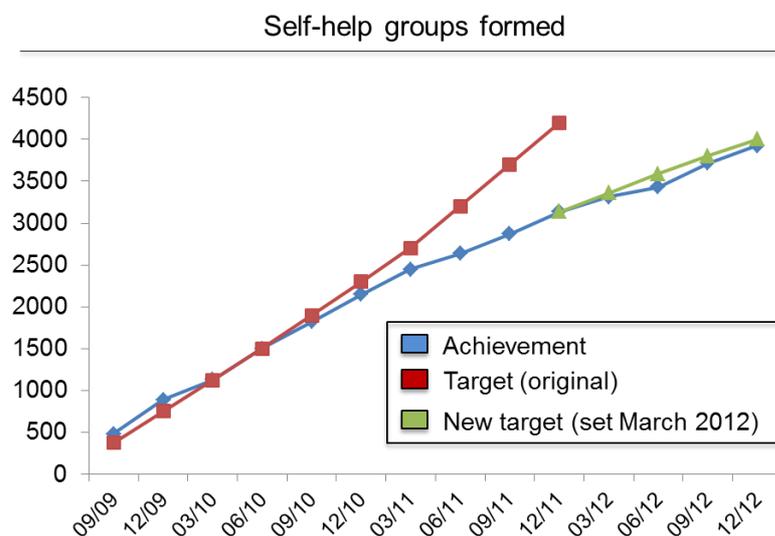


KickStart customers Sami and Jane demonstrating their pump in their plot near Eldoret. Photo by Voxtra.

Hand in Hand project continues to deliver steadily

More than 51,000 women organized in Hand in Hand's well-managed savings groups

Voxtra's project with Hand in Hand has now entered its final year. Over the past four years, Hand in Hand has built an organization of 18 bank branches, plus support functions and training teams. Following this, Hand in Hand has established self-help groups at a steady pace, as can be seen from the graph below.



Please note that during the course of 2012, both the budget and the targets for the project were revised downwards to reflect implementation delays. Despite the delays, the efficiency of the project, as measured by donor costs per self-help group established, is on par with expectations.

During the year 2012, 10,500 women have been organized into almost 800 self-help groups, while more than 5,000 women took loans to invest in family-based enterprises. The total number of women in our groups has now passed 51,000 and more than 24,000 family-based enterprises have been established or strengthened.

The economic effects of the project are worth highlighting. The women in the groups, most of whom have never before had savings in their name, have saved a total of \$2.0 million. The total value of loans disbursed to date is \$5.3 million. When invested, this capital is expected to generate returns to the women of several times this amount. Hand in Hand's loan repayment rate stands at an impressive 99%.

One of the reasons why Voxtra selected Hand in Hand as a partner is their strong organizational capabilities. We see the hallmarks of their rigor in this project, e.g. through high repayment rates, low rates of defunct self-help groups, and very positive feedback from our partner in measuring the impact of the project, the Institute of Finance and Management Research (IFMR) in Chennai. IFMR finds the quality of entrepreneurship training to be good, and state that "Hand in Hand's SHGs maintain an unusually accurate transaction record" (which they see as very far ahead when compared with research findings that "only 15% of SHGs in India can be considered to have 'good' records").

Measurement of impact

Voxtra has impact measurement mechanisms in place for all its projects. For the Hand in Hand project, a large Randomized Controlled Trial (RCT) is being undertaken by a leading Indian academic institution, the Institute of Financial and Management Research (IFMR). A baseline study of 6000 women has been completed, and the endline – where we will see the changes that have happened – will be taken in 2014. This study will shed light on income increases and improvements in living standards of the women, compared with women in similar villages that are not a part of the project.

The Team

Executive team

Pål Dale, Managing Director

Pål Dale initiated the Voxtra East Africa Agribusiness Fund from his role as Managing Director of the Voxtra Foundation. He co-founded the Voxtra Foundation in 2008 after five years as a management consultant in The Boston Consulting Group. He is also trained as an officer in the Norwegian Army, and has served in the NATO operation in Bosnia & Herzegovina. He holds an MSc in Economics from the Norwegian University of Science and Technology. He speaks Norwegian, English and Russian.

Gaute Ellingsen, Investment Manager

Gaute Ellingsen joined Voxtra in 2011. He has previously worked with Bain & Company, the United Nations Industrial Development Organization and Shell. He holds an MBA from Columbia Business School (Dean's list) and a Master of Economics from the University of Oslo and has also studied in Germany and Chile. He speaks Norwegian, English, Spanish and French.

Board of Directors

Kim Wahl, Chairman

Kim Wahl is co-founder of the European private equity firm IK Investment Partners (formerly Industri Kapital). The company was founded in London in 1989 and Mr. Wahl was the company's Partner and Deputy Chairman for 20 years. Prior to this he worked for Goldman Sachs in London and New York and for the Trade Commission of Norway in New York. Kim Wahl has served on the Board of Directors of European companies across a number of industries. He holds an MBA from Harvard Business School and a bachelor in Economics from University of San Diego.

Wollert Hvide jr., Board Member

Wollert Hvide jr. is co-founder and partner of Sector Asset Management. He has previously worked for McKinsey & Co and R.S. Platou. He holds an MSc in Technology from the Norwegian University of Science and Technology and an MBA from INSEAD.

Stig Grimsgaard Andersen, Board Member

Stig Grimsgaard Andersen is Executive Chair and Partner of Holmen Industri AS, and chairs the boards of several companies including, Grieg Investor ASA, Silver Pensjonsforsikring AS and Goodtech ASA. He has previously been CEO of Aon Norden. He holds an MBA from the University of San Francisco.

Cecilie Andersland, Board Member

Cecilie Andersland is the General Manager of Gamma Capital AS. She is a board member of several of the investment management companies within the Sector Asset Management Group. She has previously worked for Deloitte/Coopers & Lybrand, Sparebanken NOR, Europay Norge and Sector Asset Management. She is a graduate in Business Administration and Finance from University of Utah, USA.

Tom Bergesen, Board Member

Tom Bergesen is a private investor with engagements in shipping, trade, real estate and other

industries. He holds a number of board roles, including at the Norwegian Museum of Cultural History (Norsk Folkemuseum).

Investment Committee of the Voxtra East Africa Agribusiness Fund

Tellef Thorleifsson, Investment Committee Chair

Tellef Thorleifsson is co-founder and General Partner of Northzone Ventures, a leading Nordic technology-focused venture fund. Tellef has acted as Chairman of the Norwegian Venture Capital Association and board member of the European Venture Capital Association. He has previously worked within shipping, project development and politics. He holds an MSc from the Norwegian School of Economics and an MSc from London School of Economics.

Per Gerhard Jacobsen, Investment Committee Member

Per Gerhard Jacobsen is an Investment Director at Norfund, where he is involved in several of Norfund's agriculture investments. His past experience includes many years in the cement industry, with roles such as President for Africa and as CFO/EVP for Scancem International (now Heidelberg Cement), and a stint at management consulting with Hartmark Consulting. He holds a postgraduate degree in business from the Norwegian School of Economics (NHH).

Mutuma Marangu, Investment Committee Member

Mutuma Marangu is an investor and Director in several forestry, energy and real-estate companies in sub-Saharan Africa, most notably the forestry company Green Resources AS. Marangu holds a BA in Economics from Vassar College, an MPhil in Economics & Politics from Cambridge and an MBA from the Wharton School. Prior to investing in Green Resources in 2003, he spent 12 years as a commodity trader at Glencore, having first worked 2 years at Morgan Stanley after Vassar College and Phillip Brothers immediately after Wharton.

Svein Wilhelmsen, Investment Committee Member

Svein Wilhelmsen is the chairman and founder of Basecamp Explorer, which since its founding in 1998 has become one of the world's premier eco-tourism companies. Prior to this he co-founded and was a senior partner at the private equity company Industrifinans, for a period of 16 years. Svein Wilhelmsen also co-founded the Human Rights House in 1989 with the mission to protect, empower and support human rights organizations locally and unite them in an international network. He holds a post-graduate degrees in business from the Norwegian School of Economics (NHH) and from the Thunderbird School of Global Management.

Advisors

Gro Brækken is the CEO of the Norwegian Oil and Gas Association. Until 2009, she served as the CEO of Save the Children Norway for 10 years. Before that, she held top management positions in business, including as CEO of Ulstein International and as Regional Vice President of Den Norske Bank. From 1994 to 1999 she was in charge of industrial, environmental and international policy at the Confederation of Norwegian Enterprise (NHO). She has also served as member of several boards including Kongsberg Gruppen, Statkraft and Trade Commission of Norway. She holds an MSc in chemical engineering from the Norwegian Institute of Technology.

Thorleif Enger headed Yara (previously Norsk Hydro Agri), the world's largest fertilizer company, from 1999 to 2008. Yara has a global presence on all continents, and is strongly engaged in promoting a green revolution in Africa. He currently serves as President of the International Fertilizer Association, sits on the Board of Directors of several companies and on the Supervisory Board of E.On Ruhrgas. His previous engagements include Chairman of Telenor from 2003 to 2007. He holds a Ph.D. and an MSc in structural engineering from the University of Colorado, USA.

Jannik Lindbæk has served as Executive Vice President of the IFC (1994-99), CEO of Nordiska Investeringsbanken, CEO of Storebrand, Chairman of Statoil ASA and Chairman of Den norske bank ASA. He founded Transparency International Norway and became its first Chair. He currently holds a number of advisory and board roles, including at Plan Norway and the International Advisory Board of the East African Development Bank. He is a graduate of the Norwegian School of Business Administration and Economics.

Amb. Jon Westborg has served as Norway's ambassador to India, to Sri Lanka, and as Special Envoy to South Asia. As a consequence of his work in the area of development and humanitarian assistance Amb. Westborg has working experience from a number of countries in South Asia and Africa. He has held senior positions with Norad, worked as International Program Director at Save the Children Norway, and was the first Secretary-General of the Strømme Foundation - initiating their entrepreneur-development and microfinance programs in the late 1980s. He has also worked as General Manager of a large contracting firm in Zambia. He holds a postgraduate diploma from the Bergen School of Engineering and a Master of Philosophy from Cranfield School of Management, UK. He is a Knight Commander of the Royal Norwegian Order of Merit.

Hans Furuholmen, Investment Advisor

Hans Furuholmen joined Voxtra in 2010 on a part time basis. Hans is the investment director of Furuholmeninvest. He has experience from investment banking, Credit Suisse in London, and private equity, EQT Partners AB in Stockholm, as well as operational experience from Findus AB in London. He is trained as an officer in the Norwegian army. He holds a BSc in Business Administration from Boston University. He speaks Norwegian, English and has working knowledge of German.

Jesper Hörnberg, Investment Advisor

Jesper Hörnberg is an advisor to the African Enterprise Challenge Fund, providing strategic advice to small and growing companies within the agribusiness and renewable energy sectors. He is also the Chairman and co-founder of GIVEWATTS, a Partner at Greener Hill Africa, and has previously worked for the Swedish development agency, Sida. Jesper holds an undergraduate degree in Business Studies (honours) from the University of Westminster and received his MBA from IMD in Lausanne, Switzerland, with a Distinction in Leadership.