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Development equity: the perfect public-private partnership

by **Louisa Burwood-Taylor** on 16 MAY 2014 in **Commentary**, **Guest commentary**

A development equity opportunity such as Goldtree, a palm oil business in Sierra Leone, is the perfect place for development finance institutions and private equity investors to invest together in a way that generates returns but also sustainably uplifts communities, writes Duncan Owen, senior managing partner of Phatisa, an African private equity firm.

Development equity takes traditional private equity, which is strongly focused on investor returns, and combines this with development finance from governments and institutions. The outcome is multifaceted and positively impacts on all stakeholders. It takes conventional private equity to a new and more meaningful level.

Goldtree is an ideal example of the sustainable and far-reaching impact of development equity. The African Development Bank and Development Bank of Southern Africa, the government agencies of Spain, the US and France, a fund of funds, a large South African commercial bank and private investors from America and Europe are among the fund's stakeholders.

Phatisa's $246 million African Agriculture Fund (AAF) first invested in Goldtree in 2011. It was a unique start-up operation without a meaningful performance history or asset base and arguably did not meet the ideal criteria of an AAF investment, but it had exciting growth prospects.

At the time of AAF's initial investment in Goldtree, the mill and surrounding plantations had been destroyed during the 1991-2002 civil war. Palm oil processing was basic and involved cooking the fruits, trampling them, adding water so the palm oil product would float, and then flushing the pollutant waste into rivers. This was a dangerous, environmentally destructive and low-yielding method.

With a capital injection from global investors, a long-abandoned palm oil plantation and mill in Daru, Sierra Leone, is expected to produce over 5,000 tonnes of palm oil in 2014, and permanently employ more than 400 people. Complementing its own plantation output, the Goldtree palm oil business supports an extensive agricultural community, buying in fruit from over 5,000 outgrowers and renting land from local landholders. It is working on significantly improving the fruit yields and technical skills of these smallholder farmers while mitigating against environmental risk and dangerous agricultural practices — land must be used sustainably and primary forest never destroyed.

Goldtree is expected to return 20 percent per annum in the medium term and the expected investment horizon for AAF's investment in Goldtree is until 2020 when, at time of exit, the business should be solid, sustainable and pleasingly profitable. Over that period, annual crude palm oil output should rise to 18,000 tonnes, supplying domestic and regional markets.

As well as creating a meaningful rural economy in a war-torn region — it generates income for close to 20,000 people on a seasonal basis — Goldtree will return handsome profits to its investors, all within much-coveted environment, social and governance (ESG) principles.

Development equity is exceptionally hard work. Businesses are based in remote geographies and very young markets where skills and infrastructure are lacking. The challenges can be huge. But you commit to a long-term vision and stick to that goal. The rewards for everyone are worth it.

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