Financing Agricultural Projects In Africa: New Financing Approaches and Instruments

3rd German-African Agribusiness Forum
Frankfurt, 22nd May, 2017
Benedict Kanu
Partnerships Coordinator
African Development Bank
Outline

- What is the landscape like for Africa/Context?

- What are the current needs/financing sources and financing gap?

- What is the rationale for new ways of financing African agriculture?

- What should new ways of financing agriculture focus on?

- What is the response of AfDB?
What is the landscape like for Africa/Context?
Agriculture remains a major source of income for Africa; but untapped potential has resulted in persistent poverty/limited wealth creation and food insecurity.
Urbanization is driving increased demand for food products that are not mostly supplied by African producers.

**Increasing urbanization across Africa**

African urbanization rates; millions of people, 2000-2025

<table>
<thead>
<tr>
<th>Year</th>
<th>Urbanization Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>263</td>
</tr>
<tr>
<td>2005</td>
<td>311</td>
</tr>
<tr>
<td>2010</td>
<td>372</td>
</tr>
<tr>
<td>2015</td>
<td>446</td>
</tr>
<tr>
<td>2020</td>
<td>532</td>
</tr>
<tr>
<td>2025</td>
<td>635</td>
</tr>
</tbody>
</table>

% of pop.: 34% 35% 37% 39% 41% 44%

**Shifting consumption preferences to ‘premium’ rice**

Per capita rice consumption by grade – Nigeria Example

Kg per capita per year

<table>
<thead>
<tr>
<th>Grade</th>
<th>Consumption (Kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>21.4 (70%)</td>
</tr>
<tr>
<td>Rural</td>
<td>9.1 (30%)</td>
</tr>
<tr>
<td>Urban</td>
<td>24.1 (69%)</td>
</tr>
</tbody>
</table>

Source: IFPRI, Policy options for accelerated growth and competitiveness of the domestic rice economy in Nigeria; World Bank; CGIAR, Technologies for African Agricultural Transformation; Africa Rice Center, The New Rice for Africa – a Compendium; World Bank Data; Dalberg analysis
Agriculture in Africa

Yet...

- Employs 60% of its population
- Contributes 25-40% of GDP
- Less than 5% of Lending from Financial Institutions

While...

- Africa’s population is expected to reach 2.5 Billion by 2050

Significant Investment needed to FEED Africa!
Country-level Transformation is already underway

Becoming a major exporting player within 10 years

Kenya
*Exporting horticulture out of Africa*

- Total horticulture exports, billion KSH
  - 2000: 21
  - 2005: 21
  - 2010: 97
  - 2014: +11%

- Strong foreign investor and partner support developing and driving the industry.
- Contract farming model used to assure consistent supply.
- Political will to support smallholder farmer development.

Ethiopia
*Exporting floriculture out of Africa*

- Total floriculture exports, million USD
  - 2001: 0.66
  - 2005: 13
  - 2010: 178
  - 2013: 346
  - 2016: +41%

- Ethiopian Horticulture Producers and Exporters actively managing the sector.
- Strong Government support in i) infrastructure and logistics, ii) access to land, iii) provision of long-term credit, and iv) attracting domestic and foreign investors.

Improving yields through modernized input distribution

Nigeria
*Scale farmer registration and input distribution*

- Total farmers registered, million users
  - 2012: 4.2
  - 2013: 10.3
  - 2014: 10.3

- GESS was introduced to farmers in April 2012

- • Strong political will and government support to transform the input supply system.
- • Use of public funds to leverage private-sector investment (i.e. agro-dealers networks).
- • Leverage mobile technology to achieve scale and provide nationwide access.
What are the current needs/financing sources and financing gap?
Achieving Feed Africa’s Goals requires substantial investment and results in massive revenues

### Investment required to transform Africa agriculture; USD billion, 2016-2025

<table>
<thead>
<tr>
<th>Commodities / Agro-Ecological Zones</th>
<th>Value Chain Development</th>
<th>Enablers</th>
<th>Indicative Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production^4</td>
<td>Value Addition^5</td>
<td>Total</td>
</tr>
<tr>
<td>Rice</td>
<td>~18-22</td>
<td>~3-4</td>
<td>~21-26</td>
</tr>
<tr>
<td>Cassava</td>
<td>~2-2</td>
<td>~2-3</td>
<td>~4-5</td>
</tr>
<tr>
<td>Cotton</td>
<td>~0.4-0.5</td>
<td>~1-1.2</td>
<td>~1-2</td>
</tr>
<tr>
<td>Horticulture</td>
<td>~5-6</td>
<td>~4-5</td>
<td>~9-11</td>
</tr>
<tr>
<td>Aquaculture</td>
<td>~1-1</td>
<td>~19-23</td>
<td>~20-24</td>
</tr>
<tr>
<td>Tree crops¹</td>
<td>~14-17</td>
<td>~9-11</td>
<td>~23-28</td>
</tr>
<tr>
<td>Sahel Region²</td>
<td>~6-7</td>
<td>~9-11</td>
<td>~15-18</td>
</tr>
</tbody>
</table>

**USD 315-400 billion over the next decade, or an average of $32-40bn annually**

**Could unlock USD 85 billion in revenues annually from 2025**
Mobilizing Funding to Address the Financing Gap

**Current Funding for Agriculture Development in Africa vs. Requirements for Transformation, $bn / year**

- Total govt spending is ~$12bn, 70-80% is on recurrent expenditure, leaving only $2-3bn for investments.
- ~$25-33bn-$32-40bn

AfDB and public sector partners will crowd in private and institutional funding by:

- Establishing enabling environments for private investment.
- Employing innovative de-risking tools and blended financing.
- Proving the potential for risk-adjusted returns in agriculture projects and agribusinesses.

Currently, total investment finance is ~$7bn annually
Leaving a funding gap of ~$25-33bn
Role of the Private Sector

Leverage commercial banking and private sector investment in agriculture

- Commercial Bank lending to agriculture in Africa: ONLY USD 600 million out of USD 14 billion

Key Facts...

- Net Banking Assets: USD 800 Billion in SSA alone

- Including:
  - Sovereign Wealth Funds: USD 160 Billion
  - Pension Funds: USD 380 Billion
  - Private Equity Funds: USD 25-35 Billion, with 900 million per year to agriculture

New Sources of investment for New Markets
What is the rationale for new ways of financing African Agriculture?
Rationale for new ways of financing African Agriculture

- Demographics and shifting diet habits.
  - By 2030, urban food markets will be valued at USD 1 trillion. ↑ Private sector role.

- Low level of commercial bank lending to agriculture.
  - Financial institutions challenged when offering products to agriculture.

- Agriculture funding – informal, short-term, high interest rate.
When offering financial products to agriculture, financial institutions face:

1. High transaction costs in reaching remote rural populations.
2. Higher perceptions of non-repayment due to sector-specific risks (production, price and market risks).
3. Financial institutions' limited knowledge in managing transaction costs, agriculture-specific risks and marketing financial services to agricultural clients.
4. Government policies (concessional lending practices, interest rate caps, and loan forgiveness programs) often create impediments to extending private financial services to agriculture.
What should new ways of financing agriculture focus on?
What should New Ways of Financing Agriculture Focus on? (1/2)

Segment smallholder farmers and identify their diverse financial needs.

Identify appropriate institutions and delivery channels that would reduce the costs of serving agricultural clients.

Find ways to de-risk agricultural finance by addressing both individual risks and important systemic risks.

Address issues in the enabling environment and government policies that limit the flow of financial services to smallholders.

- MFIs and cooperatives can serve sub-segments of smallholders.
- Commercial banks can provide solutions for better organized groups of smallholders.
- New technologies and advancements in mobile banking solutions.
What should New Ways of Financing Agriculture Focus on? (2/2)

- **Longer-term agricultural financing** for better storage facilities, food/commodity processing facilities and equipment/mechanization.
- **Invest in irrigation, drought-resistant technologies**, controlling floods, and use **insurance** and other mechanisms to mitigate loss due to climate events.
- **Finance agriculture-related infrastructure**, such as rural roads, port facilities, loading terminals, etc., to reduce transportation costs.
- **Make agriculture more attractive to young people** and empower women so they can contribute more.
- **Channelling FDI into the private sector** investment is more growth oriented than into the public sector.
Some Indicative Products Needed

**DEMAND-SIDE**
- Smallholder farmers
- Emerging commercial farmers
- Producer groups
- Ag SMEs
- Produce Aggregators

**SUPPLY-SIDE**
- Commercial banks
- State-owned agriculture banks
- Private equity and SME funds
- Development Finance Inst.

**Solutions**
- Risk sharing facilities
- Loan portfolio guarantees
- Debt and equity products
- Catalytic SME funds
- Blended Financing

**TECHNOLOGY**

**INFRASTRUCTURE**
AfDB’s Response
A Focused Approach on Integrated Commodity Value Chains

Initial focus on 6 commodities: Rice, cassava, cotton, cocoa, dairy and horticulture.

- Food self-sufficiency: rice, wheat, fish, palm oil, horticulture, cassava
- Moving-up the global value chain in cocoa, coffee, cotton, cashew
- Creating a food-secure Sahel (sorghum, millet, livestock)
- Realizing the potential of the Guinea Savannah (maize, soybean, livestock)

In particular, Feed Africa will take a commodity-focused integrated approach – simultaneously addressing multiple bottlenecks across entire prioritized agricultural commodity value chains and within related agro-ecological zones.
ENABLERS

- Increased Productivity (TAAT, agro-dealers, innovative extension models, mechanization)
- Realized Value of Increased Production (PHL, APZs, ACEs)
- Increased Investment in Hard and Soft Infrastructure (market infrastructure, farmer e-registration)
- Expanded Agricultural Finance (AFAWA, RSFM)
- Improved Agribusiness Environment (Policy reforms – inputs (land, finance) integration and trade)
- Increased Inclusivity, Sustainability, and Nutrition (CSA, AFAWA, nutrition, blue economy, ENABLE Youth)
- Partnership for Agricultural Transformation in Africa (Coordination)

7 ENABLERS
The Bank intends to increase agricultural lending to $2.4bn annually (public and private)

AHAI already has a robust pipeline of requests for the upcoming years (US$8.0 Billion)

- Others: GEF, TSF, SRF, GAFSP
- Source: AHAI.
FLAGSHIPS TO SUPPORT STRATEGY

RISK SHARING FACILITY MECHANISMS

NUTRITION

COORDINATION

TAAT

MECHANIZATION

CLIMATE SMART AGRICULTURE

POST HARVEST LOSS

AGROPOLES

BLUE ECONOMY & LIVESTOCK
FEED AFRICA’S APPROACH TO CATALYZING PRIVATE SECTOR INVESTMENT

- **Financing agriculture supporting solutions**
  - Risk mitigation: RSFs; Insurance solutions; funded DFIs
  - Dedicated vehicle (PSCEF, CIF) with adapted processes and risk assessment
  - Support of RECs initiatives through TAs
  - Corporate transactions to large groups and commodity traders’ networks
  - Blended financing solutions (ADF, ADB, TA fund)
  - Crowding: Use of Private Equity funds as indirect vehicles

**FEED AFRICA’S APPROACH TO CATALYZING PRIVATE SECTOR INVESTMENT**
Other financing structures/flagships of Feed Africa to address the specific finance needs

**Infrastructure Finance**
- The **Agricultural Project Finance Facility** catalyzes financing for the build-out of agricultural infrastructure in support of the agricultural transformation agenda by providing co-funding and project development assistance to value chain projects.

**Trade Finance**
- The **African Agriculture Trade Finance Facility** facilitates trade and improves global competitiveness of African agricultural exporters by providing access to finance for banks and export aggregators.

**Agricultural SME Finance Capacity-Building**
- The Bank’s **Agricultural SME Finance Capacity-Building initiative** builds *long-term sector capacity* and supports the *development of innovative SME financing* vehicles by funding a variety of non-bank financial institutions and ecosystem actors.

**Affirmative Financing Action for Women in Africa (AFAWA)**
- Will raise women’s incomes by increasing their access to credit to grow agriculture and other businesses.

**Sovereign Insurance**
- Africa Risk Insurance will improve country resilience to agro-climactic shocks by building a continent-wide sovereign insurance solution.
Commodity and Agricultural Financing Value Chains: Risk sharing mechanism for increased agriculture finance

Public Goods support:
- Roads, Irrigation, R&D, Storage, Price Stabilization, etc.

Improve the Agricultural Value Chain

- Commodity
- Farmers
- Seed companies
- Fertilizer companies
- Agro processors
- Industrial manufacturers
- Trade and exports
- Products

Appropriate Risk Sharing Instruments along the Agricultural Value Chain

- Guarantees
- Interest rebates
- Insurance
- Technical Assistance

Seasonal Financing
- De-risk the financial value chain
- Unlock commercial financing for agriculture

Term Financing
- Finance for growth of agribusiness
- Financing agriculture as a business: ENABLE Youth

AfDB to support RMCs to setup RSF
- RSF to leverage up to 10x
- Systemic change in bank financing for agriculture
- Finance for growth of agribusiness
- Financing agriculture as a business: ENABLE Youth
Technical Assistance

- Risk Sharing Facilities
- Commodity Exchanges
- Women Entrepreneurs
- Blended Finance
The degree to which RS instruments are broadly known and utilized varies with most of Africa.

**Liberia:** Discussions underway between Government and AfDB

**Ghana:** Bank of Ghana provides some measure of support but has not committed to independent organizations and fund; Ministry of Agriculture lobbying to shift view

**Nigeria:** $500M guarantee facility set-up by Central Bank, with support from Ministry of Agriculture and commercial banks

**Cameroon:** $4.1M risk sharing facility between IFC and BICEC to support cooperatives active in production of cassava, maize and sorghum

**Uganda:** $50M equity co-investment facility set-up by Ministry of Finance for Government of Uganda; co-invests alongside commercial banks

**Kenya:** Currently conducting a strategy review sponsored by the Central Bank to design a “KIRSAL”

**Rwanda:** Discussions underway between Government and AfDB

**Tanzania:** Partnership with Standard Bank and AGRA to lend to farmers and agribusinesses

**Mozambique:** Partnership with Standard Bank and AGRA to lend to farmers and agribusinesses

Note: Additional RSFs exist outside of agriculture, including Celtel Uganda, Ghana School Financing Facility, Kenya School Risk Sharing Facility, and Kenya Student Loan Program; IFC = International Finance Corporation; BICEC = Banque Internationale du Cameroun pour l’Épargne et le Crédit; AGRA = Alliance for a Green Revolution in Africa

Source: Central Bank of Nigeria, AGRA, Government of Ghana, Government of Uganda, Standard Bank, lit. search; author’s analysis
AgSMEFF – Transforming Agri-SME Financing
Agricultural SMEs: Investment ≈ USD 1–10 M

FACILITY LAYOUT: USD 215 M (initial)

Eligible Projects
- Commodity Value Chains
- Processing Facilities with smallholder outreach
- Foreign or local currency loans

Offering
- Project Preparation Advisory
- Credit Assessment Toolkit
- Direct Investment – Up to 25% of Project Investment
- Mezzanine/ Senior Debt

Syndication
- Online Platform
- Built in Partial Guarantee Product for co-financing local banks

Risk Mitigation
- Blended Financing
- First Loss Tranche

Technical Assistance
- Grants for feasibility studies
- Capacity building support
- SME Linkages programs
- Advisory Services
Partnerships and Platforms
AFRICAN DEVELOPMENT BANK GROUP

CONTACT:
Benedict Kanu
Email: b.kanu@afdb.org

THANK YOU / MERCI