Advancing African Agribusiness: AFDB Private Sector Financing

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1. Context
GOAL:
Achieve Self-Sufficiency & Market Surplus

In **18** Priority Commodity Value Chains
In **5** Agro-Ecological Zones (AEZs)

The Bank’s objectives are

1. Improved food and nutrition security (youth and women)

2. New jobs in micro, small and medium enterprises (youth and women)

Demand Side

1. Increase agricultural production (per capita food production) and marketable surplus of the 18 priority commodity value chains in targeted AEZs;

2. Increase value-added in agro-processing and services along the 18 priority commodity value chains in targeted AEZs;
A FOCUSED APPROACH ON INTEGRATED COMMODITY VALUE CHAINS

- 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 the entire prioritized agricultural commodity value chains and within related agro- ecological zones.
II. Filling the Financing Gap
For Inclusive and Sustainable Rural Transformation:

**Corporate players**
- As anchors in key value chains
- Linkage with agriculture SMEs

**Smallholder and Agri-SMEs**
- Introduce new financial instruments to diversify financing options for small agri-borowers
TARGET SEGMENTS OF THE VALUE CHAINS

- Corporates working with outgrowers and smallholder farmers (ETG, Dangote, Olam)

- SME’s engaged in agriculture support services, such as:
  - Warehouse operators
  - Aggregators
  - Agro-dealers
  - Processors
  - Distributors

- Farmers, Cooperatives, Producer Groups along Value Chains
**CORE PRINCIPALS**

**Additionality:** AFDB does not lend or invest when commercial banks or private investors can do it alone.

**Co-convener:** AFDB invites other banks to participate in its operations (syndication, co-financing).

**Development focused:** AFDB leads the market with longer tenors.

**Leverage:** AFDB investment “mobilises” for 3 times the project.

**Blending with public and concessional funds:** AFDB carries out infrastructure investments, risk-sharing facilities and sovereign insurance to derisk investments.
AGRIBUSINESS: FINANCING THE ENTIRE FOOD CHAIN

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

- Systemic change in financing for agriculture
- Finance for Private Sector and Agribusiness
- RSF to leverage FI Funds
- Financing agriculture as a business

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

Term Financing

Appropriate Risk Sharing Instruments along the Agricultural Value Chain
- Blended Finance
- Risk Sharing Facilities
- Lines of Credit
- Technical Assistance

Commodity and Agricultural Financing Value Chains
- Improve the Agricultural Value Chain
- Products

Further details on the roles of different stakeholders in the agricultural value chain:
- Farmers
- Agro Dealers
- Seed companies
- Fertilizer companies
- Agro processors
- Industrial manufacturers
- Trade and exports
III. Financing Products
PRIVATE SECTOR FINANCING INSTRUMENTS

Senior Debt
- Adapted maturities (up to 15 years)
- Up to 5 years grace period
- Foreign or local currency loans
- Up to 1/3 of total project cost
- African Financing Partnership – DFI co-financing platform

Trade Finance
- Risk Participation Agreement (RPA)
- Lines of credit
- Soft Commodity Finance Facility (SCFF)

Guarantees
- Partial risk guarantee
- Partial credit guarantee

Subordinated Debt
- Local and foreign currency
- Ranging from sub-debt to quasi equity products
- Terms (tenor and grace period) similar to senior debt

Equity
- Indirect, through Private Equity funds
- Direct, maximum of 25%

Technical Assistance
- Grants for feasibility studies
- Capacity building support
- SME Linkages programs
- Advisory Services
Recognizing that agri-MSMEs are underserved, we blend our investment with concessional funds managed within AfDB to scale up outreach to and amplify development impact for small and medium sized agribusinesses.

**Fund for African Private Sector Assistance (FAPA)**
- Inclusive Industries Program (IIP): **US$ 1m grant** to increase the inclusiveness of Bank-financed agribusiness projects along two lines: (1) SME linkages and (2) community socio-economic development programs.
- AGRA Program for Africa’s Seed Systems (PASS): **US$ 1m technical assistance** to assist at least 54 seed companies across Africa increase their production of quality seeds for rural farmers.

**Agriculture Fast Track (AFT) Fund**
- **US$ 23.8m** for project preparation of agri-projects, with emphasis on food security and smallholders.
- Fruiteq Mango Processing Plant, Burkina Faso: **US$ 425,000**
- FENACOVICI, Côte d’Ivoire: **US$ 551,990** to support 11 agriculture and agro-industry cooperatives with 36,000 members.
- Tanga Fresh Milk Factory, Tanzania: **US$ 150,500** to expand production through smallholder dairy farmers.

**Soft Commodity Finance Facility (SCFF)**
- **US$ 100m** earmarked for trade finance product to provide **input and post-harvest financing** to farmers through commodity aggregators.
- AfDB assumes aggregator risk, so commodity aggregator can on-lend to farmers and/or buy their products.
- Enables farmers obtain guaranteed and better pricing and relieves them of the burden of warehousing and post-harvest storage.
We support private sector projects that **promote linkages between commercial players and smallholder farmers**

Through a combination of **INVESTMENT** and **TECHNICAL ASSISTANCE**, the AfDB’s Private Sector Strategy for Agriculture focuses on transactions which:

- Contribute to **food security**
- Improve **value addition and agro-processing**
- Promote **transfer of skills and technologies**
- Address the needs of **local and/or regional markets**
- Promote **outgrower schemes and SME business linkages**
- Comply with the **highest environmental and social practices**
Our focus is on delivering **strong development outcomes** through projects which are **commercial viable**, in line with **national and regional priorities**. We do this by playing a **catalytic role** and providing **additionality** - stepping in where others can’t or won’t.

### 1. Strategic alignment
- Country’s national economic and social priorities
- Bank’s strategy in the country/region

### 2. Commercial viability
- Sector’s perspectives
- Financial structure
- Sponsor’s track record, experience and financial strength
- Cash flows

### 3. Development outcomes
- Job creation, households benefits
- Fiscal revenues (taxes, royalties etc.)
- Environmental & social performance
- Private sector development

### 4. Additionality
- Structuring and Operations
- Political risk mitigation
- Catalytic role
AfDB can invest equity directly in companies and/or indirectly by making investments into investment funds.

- Due to the lack of allocation available in direct equity, need for an investment strategy that aligns with the Feed Africa objectives.
  - Direct equity: ticket size up to USD 15m.
  - Private equity fund ticket size: USD 7m – 15m
  - Impact fund ticket: USD 1.5m – 4m
Facility For Agriculture Finance in Africa (FAFINA)

Objective:
Support the growth of Ag SMEs of the sector

Delivery Model:
SME funds that provide agricultural SMEs with equity and working capital finance with:
• project preparatory support,
• concessional first loss guarantees
• technical assistance
# AGRICULTURAL RISKS SHARING & FINANCING MECHANISM

**OBJECTIVE:** The Agricultural Risks Sharing & Mechanism will achieve increased bank lending to SMEs through de-risking credit activities and attracting new capital to the sector.

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<thead>
<tr>
<th>Key components</th>
<th>Problems addressed</th>
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<td>1. Reduce risks for Commercial Banks</td>
<td>• Major commercial banks only loan 1-5% of their portfolio to agriculture</td>
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<td>2. Leverage excess liquidity into Agriculture.</td>
<td>• Prohibitively expensive interest rates (15-25%) for agriculture reflect high transaction costs, lack of sector expertise, risk exposure</td>
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<td>3. Build Agricultural Capacity of Banks</td>
<td>• The Bank will support countries with PPF or MIC grants to design and set up country instruments. Requests have so far been received or expected from Uganda, Rwanda, Liberia, Rwanda, Kenya.</td>
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<td>4. Increasing outreach of banks into rural areas</td>
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<td>5. And ensure a systematic change in agricultural lending</td>
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PARTNERSHIPS AND PLATFORMS

Development Finance Institutions
- FMO
- Proparco
- KfW
- CDC
- Norfund
- IFIC

AfDB Country offices & Local Banks*
- Ecobank
- The African Bank

Co development partners: Research institutions, consultants, Investor platforms, Policy.
- VC4A
- GROWAFRICA
- FAN-PAN-AFRICA
- CGIAR
- IDH
- AGRA
- NEPAD

Deal sources
Co development
- Blended finance & Technical assistance budget

Investment Funds & NBFI’s
- MARS
- OLAM
- Dangote
- Cargill
- Unilever

Small & large scale agribusinesses, farmer organisations & Food companies
- Zambeezi
- YARA
- ETG

Multilateral, Bilateral Donors, Foundations, and government organisations
- DFID
- The Rockefeller Foundation
- World Bank Group

* Local partner banks to be identified
THANK YOU