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New opportunities for African Trade Finance.

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# New opportunities for African Trade Finance

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*ACP Secretariat, Brussels, Belgium*



*The Trade Finance Bank for Africa*



## Afreximbank's Headquarters Building in Cairo (side view)



## Outline of the Presentation

1. Introduction: The Bank
2. Recent Trends in African Trade & Trade Finance;
3. State of Agriculture Finance in Africa;
4. Challenges to Financing Agriculture Value Chain in Africa;
5. New Opportunities for Financing Agriculture in Africa; and
6. The Role of Afreximbank's in Financing Agriculture Value Chains; and
7. Conclusions



# *1. Introduction: The Bank*

## **1. The Bank**

### **1.1 Establishment**

**Afreximbank was established in October 1993 as a Pan-African Exim-Bank.**

**It is a global partnership with authorized share capital of USD 5 billion.**



*The Trade Finance Bank for Africa*

## 1.2 Mission

To stimulate a consistent expansion, diversification and development of African trade while operating as a first class, profit-oriented, socially responsible financial institution and a center of excellence in African trade matters.

## 1.3 Mandate

The Mandate of the Bank is to finance and promote Intra- and Extra-African Trade using three broad services

- Credit (Trade and Project Financing)
- Risk Bearing (Guarantees and Credit Insurance)
- Trade Information and Advisory Services.



## 1.4 Objectives

**Key objectives of the Bank include:**

- **To extend direct credit to eligible African exporters by providing pre- and post-shipment finance.**
- **To extend short-term credit and medium-term loans to African exporters and importers.**
- **To finance imports needed for export development such as imports of equipment, spare parts and raw materials.**
- **To promote and provide insurance and guarantee services covering commercial and non-commercial risks associated with African exports.**

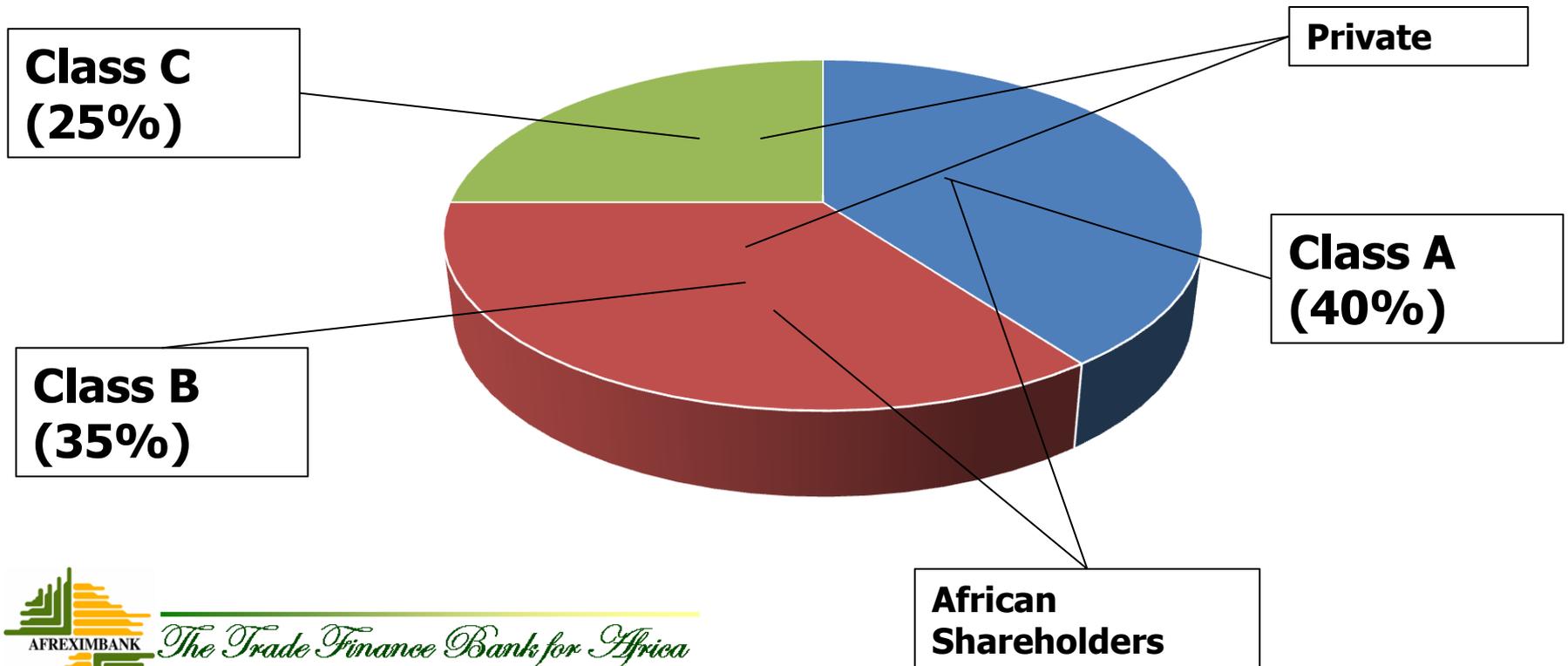
## 1.4 Objectives (Con't)

- To promote and finance South-South trade between Africa and other countries.
- To provide capital to African exporters and importers through equity investments;
- To assist African clearing houses and payment arrangements to promote intra-African trade.
- To undertake market research and advisory services aimed at expanding intra- and extra-African trade.

# 1.5 Shareholding Structure

Shareholding was structured to create an African (75% A & B Shareholding), Private Sector-led (60% B & C) Bank.

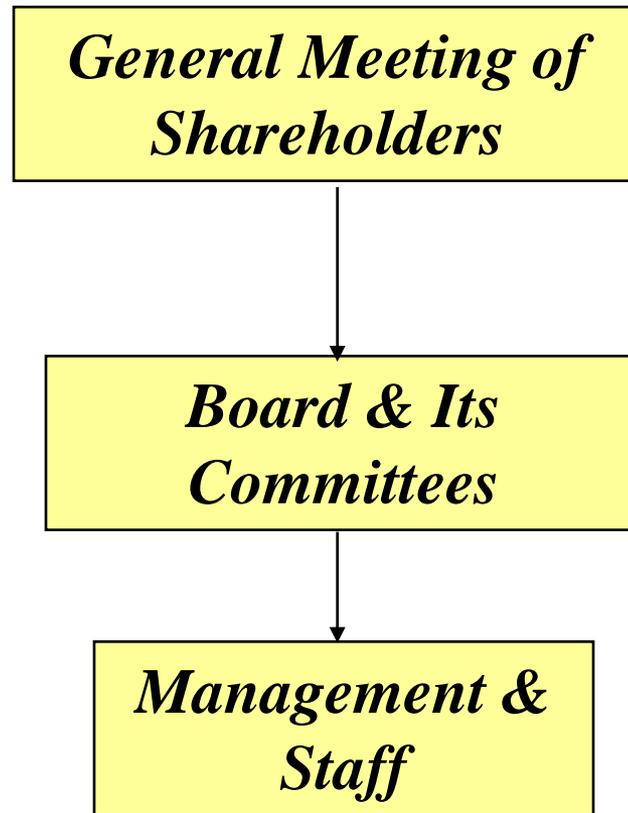
**Figure 1.1 Shareholder Distribution by Class**



## Table 1.1: Afreximbank Shareholding Distribution, %

Category	As proposed in the Feasibility Study	As adopted by Shareholders in 1993	As amended in May 2000	Actual as at December 2012
<b>Class A</b> <ul style="list-style-type: none"> <li>• African States or their Designated institutions</li> <li>• The African Development Bank</li> <li>• African continental, regional and sub-regional financial institutions and economic organizations</li> </ul>	65	-	75 max with Class "A" no less than 35	<b>64.1</b>
<b>Class B</b> <ul style="list-style-type: none"> <li>• African national financial institutions</li> <li>• African private investors</li> </ul>	10	35		40
<b>Class C</b> <ul style="list-style-type: none"> <li>• International financial institutions and economic organizations</li> <li>• Non-African financial institutions</li> <li>• Non-African private investors</li> </ul>	25	25	25	<b>10.1</b>

## 1.6 Governance Structure



## 1.7 Presence:



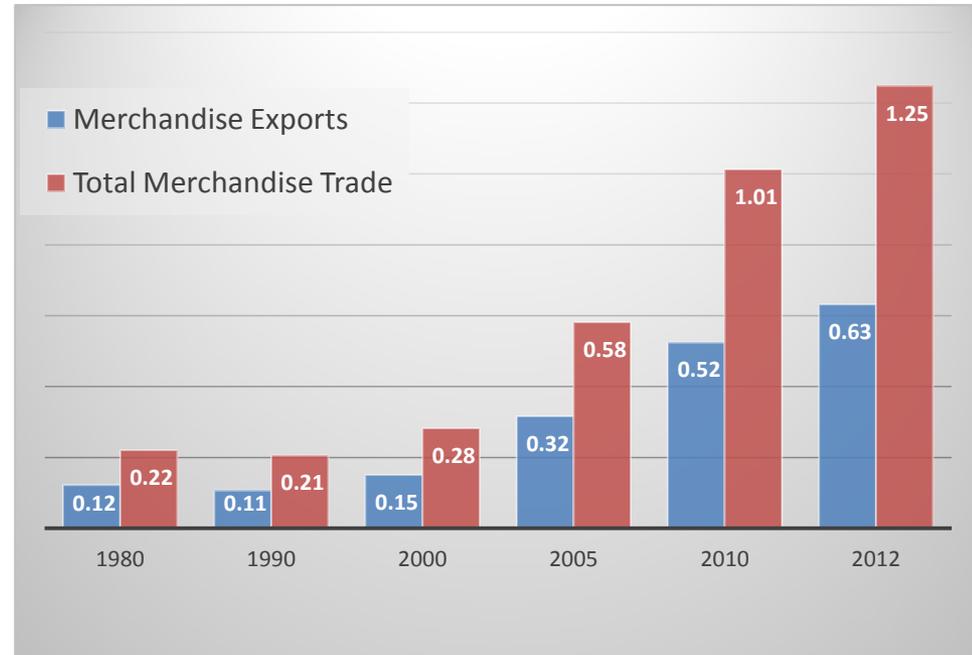
- The Bank has 34 participating member countries in Africa.

## 2. The State of African Trade

### 2.1 Merchandise Trade on Ascendancy

- African Trade has undergone considerable expansion especially during the last dozen years on the back of commodity boom during 2001-2008.
- Between 2000 and 2012, Africa's merchandise trade more than quadrupled, rising from just over US\$28 billion to US\$1.25 trillion.
- Merchandise exports also rose four fold from US\$15 billion in 2000 to US\$63 billion in 2012.

Trends in Africa's Merchandise Trade, 1980-2012  
(US\$ Trillions)



Source: World Bank WDI, 2013

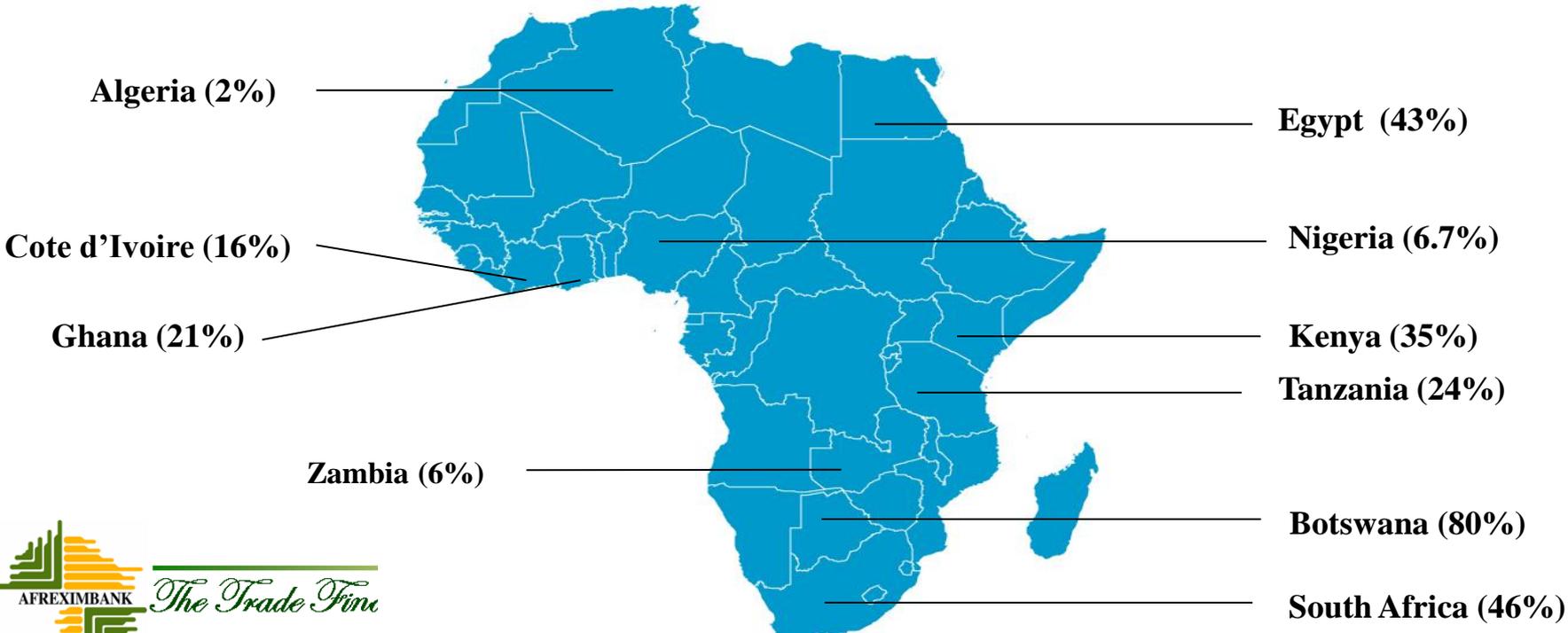


*The Trade Finance Bank for Africa*



➤ Nevertheless, there are marked differences in the agriculture exports across the continent, ranging between 2% in Algeria and 80% in Botswana

**Value Added Export of Selected African Countries  
(% of Total Merchandise Exports), 2011**



Source: World Bank WDI, 2012

## *2.3 Reasons for Relatively Low Agriculture Export Performance*

- Poor agriculture and trade infrastructure (including roads, irrigation and storage);
- Limited access to agriculture finance;
- Limited access to trade and trade-related project finance;
- Low public and private sector investments in agriculture;
- Domestic and foreign policy distortions;
- Lack of effective supporting institutions e.g. farm extension service unit, etc.; and
- Political instability.

2.4 On aggregate, Africa's lack of appropriate financing and agriculture-related infrastructure stand as the main causes of the continent's weak domestic supply, low productivity and global un-competitiveness, etc.

- It is for instance, estimated that limited and unrelenting infrastructure accounts for an average of:
  - 30% of fluctuations in agriculture commodity prices in many countries in the continent; and
  - 30-35% of post harvest losses.

### 3. *State of Agriculture Finance in Africa*

- It is estimated that at least US\$21.6 billion will be required annually over the next 10 years (2010-20) to develop Africa's irrigation and road infrastructure to the required standard needed for agriculture transformation; however, only US\$17.5 billion is available (World Bank, 2012 & AfDB (2012)).

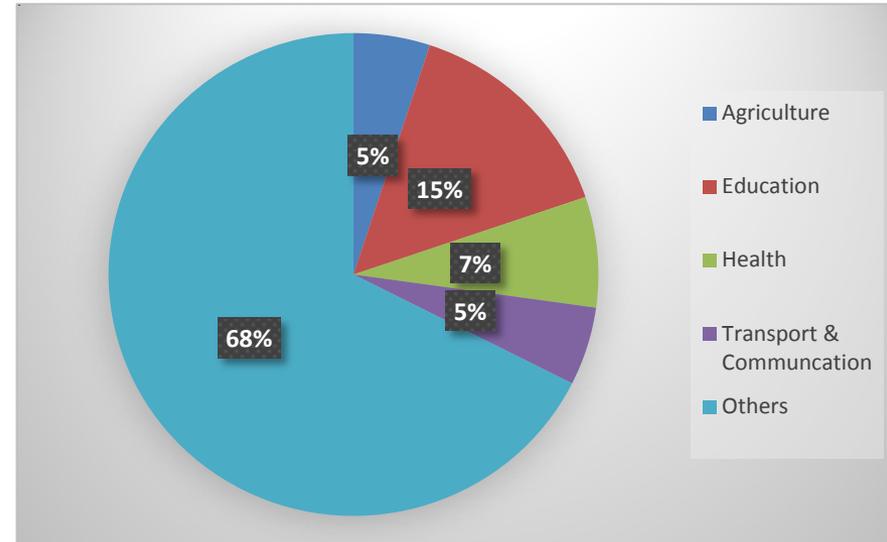
**Table 1: Africa: Infrastructure Financing Gap, 2010-2020**

Infrastructure	Funding Required (US\$ Bn p.a.)	Available Funding (US\$ Bn p.a.)	Funding Gap (US\$ Bn p.a.)
ICT	9.00	9.00	-
Irrigation	3.40	0.90	2.50
Power	40.80	11.60	29.20
Transport	18.20	16.20	2.00
Water	21.90	7.60	14.30
<b>Total</b>	<b>93.30</b>	<b>45.30</b>	<b>48.00</b>

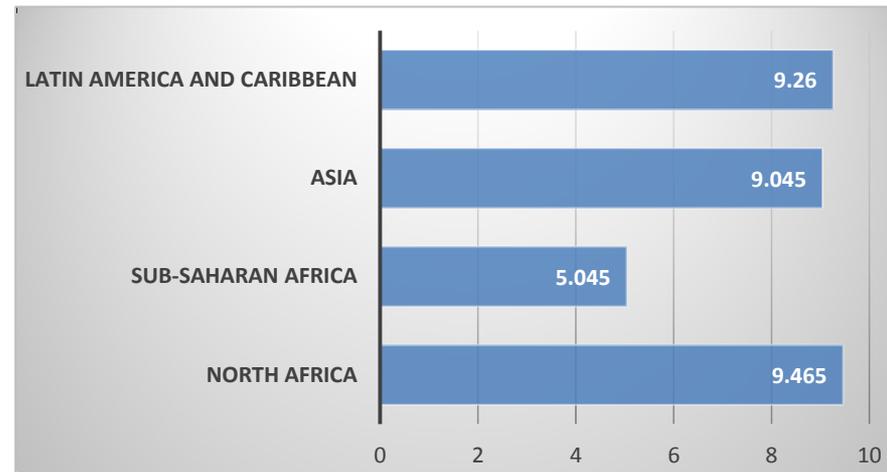


- Despite being considered the mainstay of many African countries:
- Public and private sector investments in agriculture sector is lowest compared to other sectors; and
- Compared to other developing regions, the share of agriculture in government expenditure averages about 5% during 2000-12 (down from about 10% in the 1980s)

**Sectoral Distribution of Government Expenditure 2000-12 (Constant 2000 US\$)**



**Government Agriculture Expenditure Share of GDP 2000-12 (Constant 2000 US\$)**



## 4. Challenges to Financing Agriculture Value Chain in Africa

➤ A number of factors have inhibited the flow of financial resources to support activities across the African agriculture value chain. A few of these factors include:

- Low Public Sector Investment in the Sector
- High Catastrophic Risks (climate, etc.)
- Poor State of Agriculture Related Infrastructure
- Absence of or inadequate Agricultural Insurance Market
- Poorly Regulated Agriculture Sector
- Dismantling of Commodity Boards in the 1980s and 1990s
- Limited Knowledge on Agriculture Production and Farm Maintenance Practices

## 5. New Opportunities for Financing Agriculture in Africa

- Despite the existence of several bottlenecks, new opportunities are emerging, which make financing for activities across the agriculture value chain attractive and less risky. A few of these factors include:
  - Widespread adoption of agriculture sector reforms/development initiatives across the continent (Ghana, Nigeria, Kenya, Cote d'Ivoire, etc).
    - ✓ *The Nigerian government has, for instance, launched an Export Development Programme (NEDP) and Nigeria Agribusiness and Agro-industries Development Initiative (NAADI) through which the government seeks to transform the agriculture and agro-processing sectors via financing and technical assistance programmes;*

- Growing demand across the continent occasioned by rising middle class and rising average household incomes.
  - ✓ *We are beginning to see growing exports of food and other agricultural items across the continent. Rwanda, for instance, is one of the largest importers of Grapes, Oranges, Pears, Lemon, Pomegranate and grapes from Egypt.*
- Increasing demand for mechanization of Africa's agriculture also provides opportunity for financing import of modern technologies into the continent.



- Liberalization of agriculture markets in Africa and growing popularity of PPP arrangements for the development of rural infrastructure also provide opportunity for investors to venture into agriculture finance in Africa. Financing is required for the construction of warehouses, irrigation infrastructure, feeder roads, local markets, storage facilities, among others.
- The recently agreed “Bali Package” on Agriculture (particularly Cotton) and Trade Facilitation provide further impetus for agriculture trade and trade finance.



## 6. The Role of Afreximbank's in Financing Agriculture Value Chains

- Afreximbank, a Pan African Trade Finance Bank, has since inception, in 1993, supported the development of African trade by providing financial and technical support to Africa's commodity sectors;
- The Bank's financing programmes supporting all activities across the agriculture value chain.
- We have supported development of:
  - ✓ storage/warehouse infrastructure;
  - ✓ inputs for production (such as fertilizer, chemicals, seeds etc.);
  - ✓ Agro processing plants; and
  - ✓ Export Agriculture projects.



## 4.2 Examples of Agriculture Related Financing Provided by the Bank

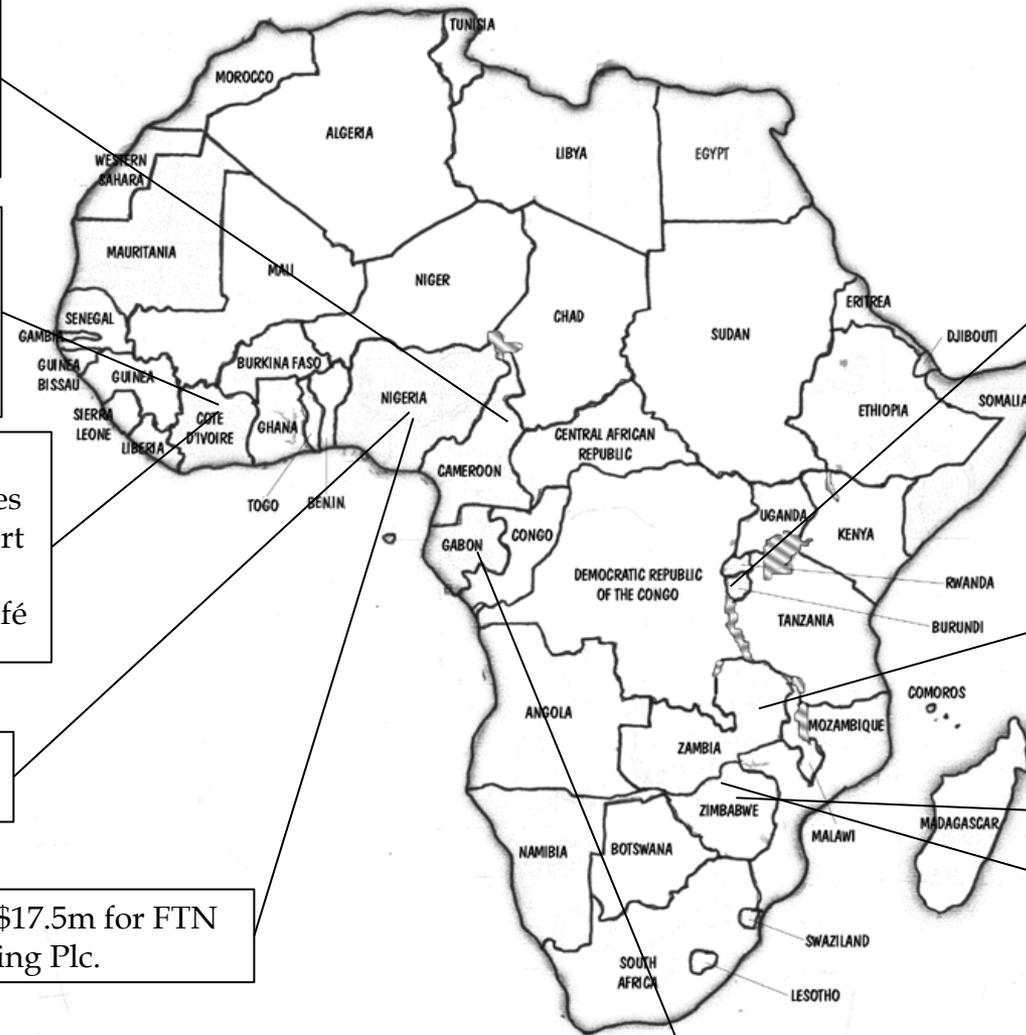
**Cameroon:** €19m Amortizing Export Finance Facility in favor of Societe Des Plantations De Mbanga S.A. (SPM) for bananas.

**Cote D'Ivoire:** €20m Cotton Pre-Export Finance Facility favor Companie Ivoirienne pour le developement des Textiles (CIDT).

**Cote D'Ivoire:** €20.9m Dual Tranche Cocoa Export Receivables Backed Term Loan and Pre-Export Financing Facility in Favour of Conditionnement de Cacao et Café (Condicaf).

**Nigeria:** A \$58m for Notore Chemical Industry

**Nigeria:** A US\$17.5m for FTN Cocoa Processing Plc.



**Rwanda:** \$15m LoC to Development Bank of Rwanda for On Lending to the agricultural Sector for Tea, Coffee and horticulture export.

**Zambia:** \$50m Dual Tranche Trade Finance Facility favour Greenbelt Fertilizers Ltd.

**Zimbabwe:** S\$9m Dual Tranche Facility to Seed Co Zimbabwe Limited.

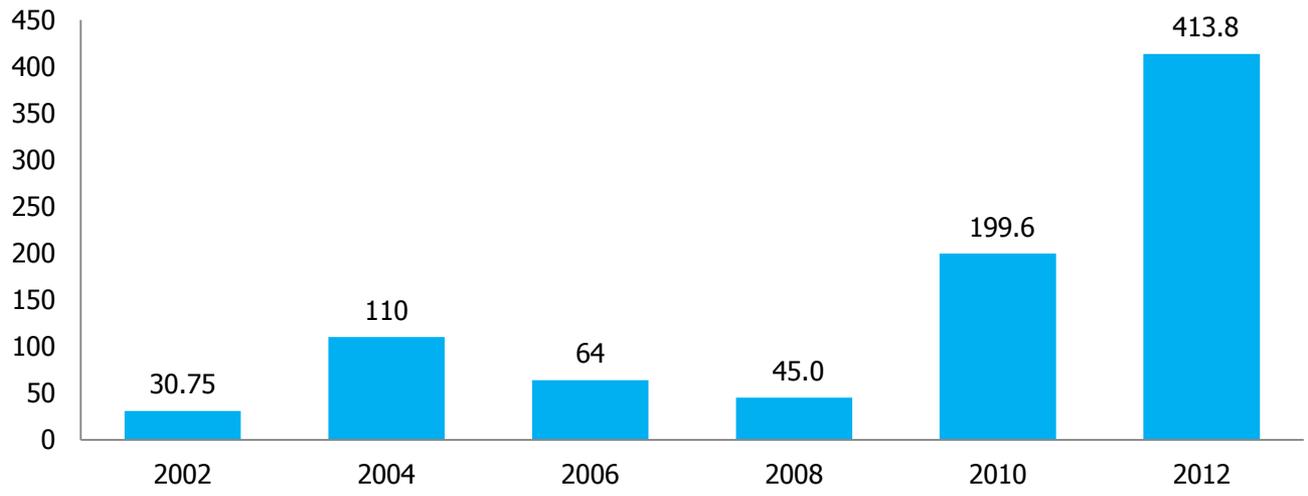
**Zimbabwe:** Syndicated Pre-Export Financing Facility of S\$25m to the Cotton Company of Zimbabwe Limited.

**Gabon:** A € 70m Agro industrial Palm Oil plantation and processing facility for OLAM Palm.



- The Bank’s support for the Agriculture Sector has been growing sturdily over the last decade growing at an average annual rate of about 23%.
- Cumulative loan Total loan approvals in favour of agriculture and allied activities during the last five years (2008-2012) amounted to US\$1.1 billion.

**Figure 3: Afreximbank’s Total Loan Approvals In Respect of Agriculture Related Activities, 2008-2012 (US\$ Million)**



source: Afreximbank *Annual Report*, various issues



## 4.3 Afreximbank's Innovative Financing Programmes for Africa's Agriculture Development

### 1. Export Development Programme (EDP)

Under this programme, the Bank *combines credit, risk bearing, twinning, market access as well as advisory services* geared towards creating non-commodity export products for sale to a broad range of export markets.

Programmes under the EDP include:

- *Afreximbank Africa Cocoa Initiative (Africoin)*
- *Contract Farming / Export Agriculture*
- *Domestic Letters of Credit*



## *1.a. The Afreximbank African Cocoa Initiative (AFRICOIN)*

Africa Cocoa Initiative (AFRICOIN) is aimed at providing “End-to-End” solutions to the African cocoa sector through financing and provision of technical/corporate finance and advisory services to entities in the African Cocoa Value Chain. Under this Initiative the Bank:

- Provides Term Funding for creation of processing capacity (Purchase of Equipment, etc.)
- Provides Working Capital Financing for procurement of cocoa beans for processing; and
- Facilitates Market Access through twining, that is, linking Africa processors with leading buyers and actors in the global cocoa economy to ensure market access, availability of technical and managerial know-how etc.

## *1.b. Contract Farming / Export Agriculture*

Export Agriculture Financing Facility: the facility is designed to:

- support the establishment of contract farms on terms consistent with the Bank's trade finance mandate;
- provide country risk and other guarantees to encourage global contracting entities to be able to consider Africa as a source of their supplies;
- support commercial farms in export agriculture, especially those implementing out-grower schemes;
- support contract cooperatives in export agriculture in support of export agriculture; and
- provide both short term and medium term financing.



## *1.c. Domestic Letters of Credit*

- This is used to support local contractors and local content initiatives;
- To promote value-chain financing with payment and performance risk mitigated.



## *2. Factoring*

Afreximbank in 2009 launched a Factoring Facility to support intra- and extra-African trade as well as domestic factoring targeted at export supply chains. The purpose of this facility is to provide liquidity and payment risk protection to African factors.



### ***3. Lines of Credit Programme***

- Through this programme, the Bank provides funded and non-funded credit lines to creditworthy African and non-African banks designated as the Bank's Trade Finance Intermediaries.
- The Bank uses this programme to reach the target beneficiaries of its resources, who due to their small size, would otherwise not be able to access the Bank's resources directly.

- *Facilities under this programme include:*
  - i. Pre- and Post Export Financing Facility;
  - ii. Letters of Credit Confirmation and Refinancing Facility;
  - iii. Reimbursement Guarantee Facility;
  - iv. Export Credit Guarantee; and
  - v. Correspondent Banking/ Africa Letter of Credit Facility.



## ***4. Guarantee Facilities***

- ***Country Risk Guarantee Facility***

This programme is used in making the sovereign risk of African countries more acceptable by transferring this risk to Afreximbank credit risk. Under this programme, Afreximbank guarantees international and African banks and investors with credit exposures to Africa against certain country risk events.

- ***Investment Guarantee Facility***

The Bank, using this programme, offers guarantees to cover foreign direct investment inflows into Africa. This guarantee is offered to country funds, FDI providers in trade-promoting ventures.

## *Conclusions*

- Development of Africa's agriculture is necessary for the sustenance of the current economic successes of the continent, eradication of poverty and realization of the MDGs;
- This requires significant capital injection from both private and public sectors and from the continent's development partners;
- Afreximbank will continue to forge partnerships and alliances to provide financing and other forms of support to raise productivity growth in Africa's agriculture sector, and the commodities sector in general;
- We therefore invite organizations/corporates to partner us in our efforts at supporting the transformation of Africa's commodity sectors.



***Thank You for Listening***

***visit us on: [www.afreximbank.com](http://www.afreximbank.com)***



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