

FINANCING PRIVATE SECTOR TO BOOST AGRICULTURE TRANSFORMATION IN AFRICA



The African Development Bank Group
Pre-TICAD7 Seminar – Investing in Africa

Tokyo, 29th of November, 2018





Africa is a continent of contrast, rich in natural resources yet its people are among the poorest in the world. The image of Africa that gets projected in the world is that of a continent with disease, hunger, corruption and the need for aid beyond a foreseeable future. But, there is another story that is less often told that acknowledges the challenges faced by the continent but also recognizes the progress made in terms of more children going to school, less war, the growing quest for better governance and an expanding middle class. The African Development Bank is proudly part of that story.



1.	African Development Bank (AfDB)
2.	Focus on African Agriculture
3.	AfDB Solutions and Modus Operandi
4.	Contact

Africa's Premier Development Financial Institution

The AfDB Group: three constituent institutions, separate legally and financially, with a common goal



African Development Bank (ADB)

- Established in 1964
- 80 member countries
- 54 African/26 non-African countries
- Authorized capital: USD 93 billion
- Resources raised primarily from capital markets



African Development Fund (ADF)

- Established in 1972
- Financed by 27 State participants and 4 regional donors
- Subscription: USD 41 billion
- Focus on low income countries
- Replenished every 3 years, Concessional financing.



Nigeria Trust Fund (NTF)

- Established in 1976 by Nigeria
- Targeted at the Bank's needier countries
- Maturing in 2023
- Total resources: USD 242 million

As at 31st December 2017

Board of Governors

- Highest decision making body
- Composed of Ministers of Finance and Ministers of Cooperation of the Bank's member countries

Board of Directors

- 20 Executive Directors elected by the Board of Governors
- Oversees the general operations of the Bank

Decisions by both Boards require two third majority or 70% should any member require so

...focused on combating poverty, and improving living conditions on the continent



Over 50 years of partnership for the development of Africa

Americas

U.S.A.	6.623%
Canada	3.876%
Brazil	0.332%
Argentina	0.090%

Africa

Nigeria	9.332%	South Sudan	0.412%
Egypt	5.622%	Guinea	0.403%
South Africa	5.055%	Burkina Faso	0.399%
Algeria	4.243%	Namibia	0.345%
Côte d'Ivoire	3.738%	Sudan	0.309%
Morocco	3.608%	Sierra Leone	0.289%
Libya	2.652%	Malawi	0.244%
Ghana	2.140%	Burundi	0.238%
Zimbabwe	1.965%	Niger	0.237%
Ethiopia	1.580%	Benin	0.193%
Kenya	1.440%	Liberia	0.192%
Tunisia	1.406%	Togo	0.157%
D.R.Congo	1.293%	Gambia, The	0.152%
Zambia	1.179%	Equ. Guinea	0.146%
Angola	1.168%	Rwanda	0.132%
Cameroon	1.082%	Swaziland	0.114%
Botswana	1.077%	Cape Verde	0.070%
Senegal	1.047%	Sao Tome & P.	0.068%
Gabon	0.997%	Chad	0.066%
Tanzania	0.762%	Lesotho	0.057%
Mauritius	0.653%	Mauritania	0.057%
Madagascar	0.649%	Cent. Afr. Rep	0.042%
Mozambique	0.622%	Eritrea	0.031%
Congo	0.454%	Somalia	0.030%
Uganda	0.450%	Seychelles	0.028%
Mali	0.433%	Guinea Bissau	0.021%

Europe

Germany	4.157%
France	3.773%
Italy	2.438%
U.K.	1.774%
Sweden	1.578%
Switzerland	1.473%
Denmark	1.182%
Norway	1.181%
Spain	1.070%
Netherlands	0.879%
Belgium	0.642%
Finland	0.491%
Austria	0.449%
Portugal	0.240%
Luxemboug	0.202%

Middle-East

Kuwait	0.451%
Turkey	0.359%
Saudi Arabia	0.194%

Asia

Japan	5.518%
China	1.183%
Korea	0.483%
India	0.258%

G-7 Shareholding: 28%

(As at 31st December 2017)



Summary Financial information

(in USD million)	2013	2014	2015	2016	2017
Assets	32,335	33,251	35,152	39,963	46,392
Loans	17,619	18,105	17,832	20,295	25,113
Investments	9,372	10,637	11,629	14,237	16,408
Borrowings	19,939	20,828	22,794	27,753	33,005
Equity	8,980	8,809	8,980	8,880	10,101
Paid-in Capital *	4,580	4,730	4,932	5,187	5,854
Reserves	4,400	4,079	4,048	3,693	4,247
Income before distributions	278	220	129	161	368
Subscribed Capital	100,424	94,366	90,741	88,035	93,278

*Net of Cumulative Exchange Adjustment on Subscriptions

Note: Data converted from UA (Special Drawing Rights of the IMF) to USD at period-end exchange rates

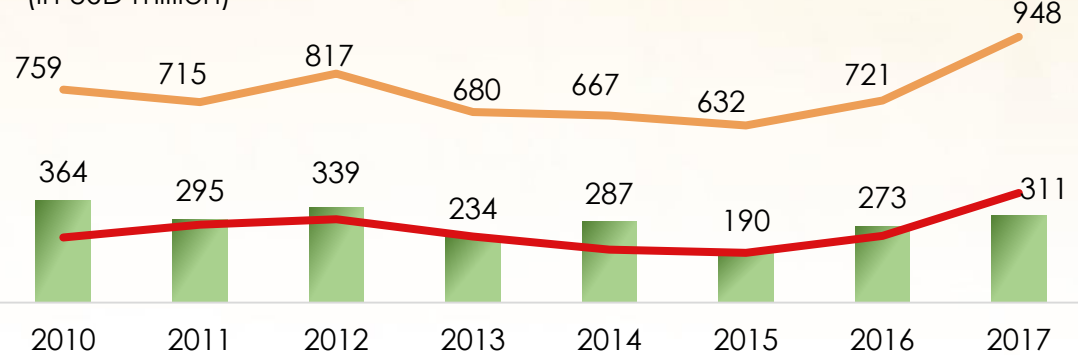
Source: AfDB Financial Statements



A profitable institution operating in a challenging environment

A solid Bank with a strong performance

(in USD million)



Allocable Income Income from loans and investments Borrowing expenses

USD 2.2 billion in income earned since 2010

Disbursements at historical levels in 2017

Higher volume of loans and investments

Highest transfer to reserves in 2017 to support business growth

Distributions	2010-2017	2017
To reserves	USD 1,050 million	USD 189 million (proposed)
To key development initiatives	USD 1,169 million	USD 121 million (proposed)

Reinvesting for greater development impact

African Development Fund to support the needs of low-income countries

Democratic Republic of Congo Debt Relief Mechanism – an arrears clearance plan to assist DRC in its reconstruction efforts

Special Relief Fund to provide humanitarian assistance to countries affected by unpredictable disasters

Middle Income Countries Technical Assistance Fund to make resources available for the preparation of projects and building the pipeline

The High 5s – accelerate Africa's transformation

Delivering on the Bank's Ten Year Strategy to achieve inclusive growth and help Africa gradually transition to green growth

Priority areas

High 5s
Investment
Needs
USD 170 bn



The High 5s will help Africa **achieve close to 90% of the United Nation's Sustainable Development Goals (SDGs)** and are intrinsically linked to the **African Union's Agenda 2063**



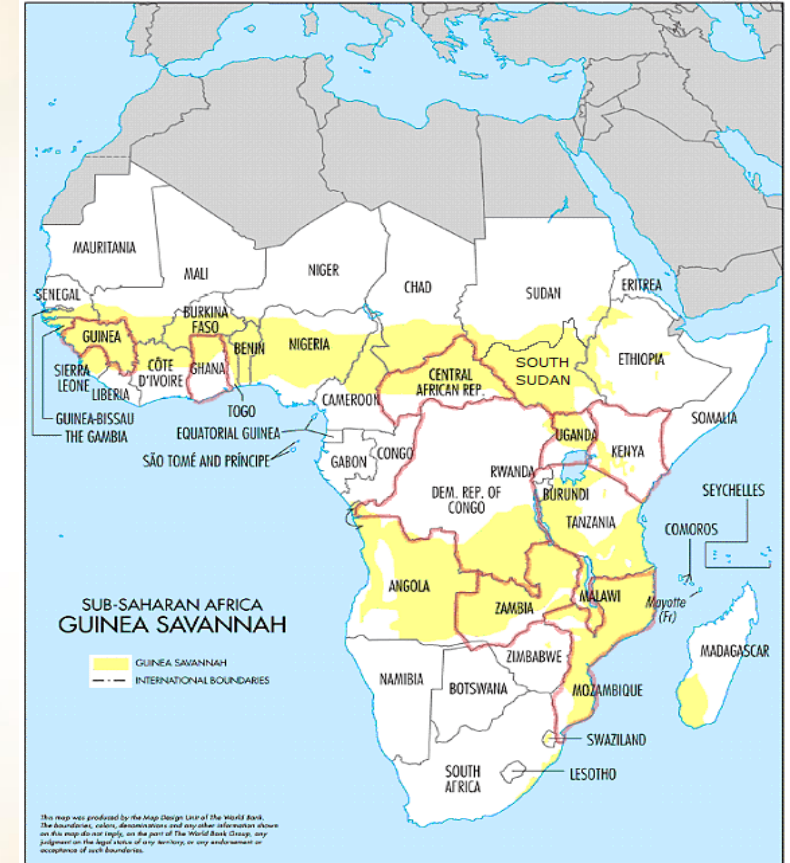
Public and Private Investments Covering Africa



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Focus on Agriculture: Address the Potential

- Despite its vast agricultural potential, Africa remains a net importer of agricultural products: **Africa's annual food import bill is \$35 billion, estimated to rise to \$110 billion by 2025.**
- **In 2017, over 60% of people in Africa live in rural areas and rely on agriculture for their livelihoods;** women in rural Africa made up at least half of the agricultural labor force.
- Development of agriculture as a business can create opportunities for those in rural areas, women and youth across the continent. **It can drive inclusive growth, helping to reduce poverty and build wealth.**



African Savannah spans 400 millions Ha across 25 African countries, but just 10% is utilized, and often sub-optimally

Agricultural Finance and Rural Development: A Major Strategic Priority for the AfDB

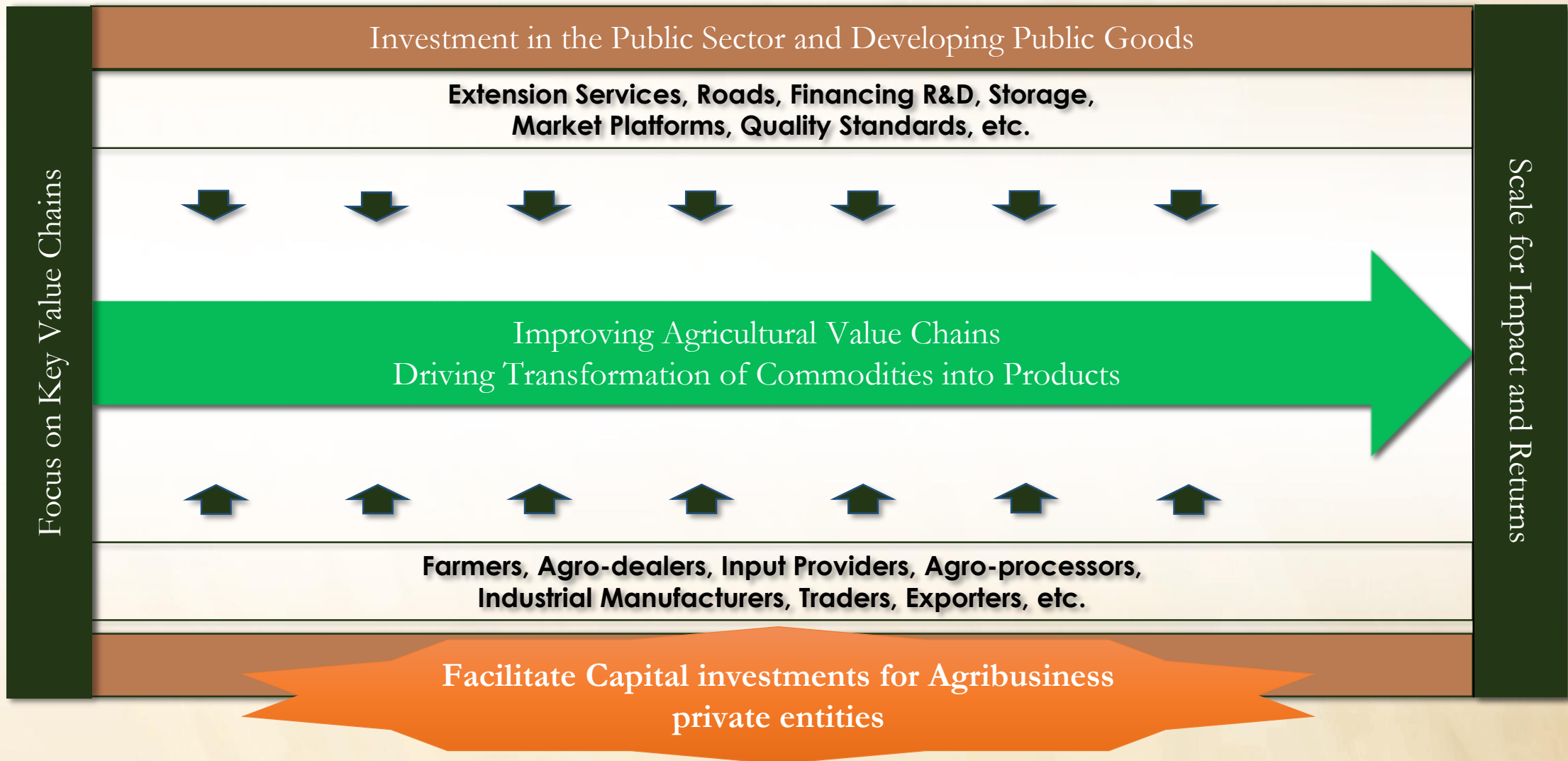
The Agricultural Finance and Rural Development Department has the mandate to achieve the Feed Africa Initiative's goals by working with and providing financing to the public and private sector to improve agricultural efficiency, output, and access to markets throughout value chains.

Feed Africa: a new way forward for food and agriculture

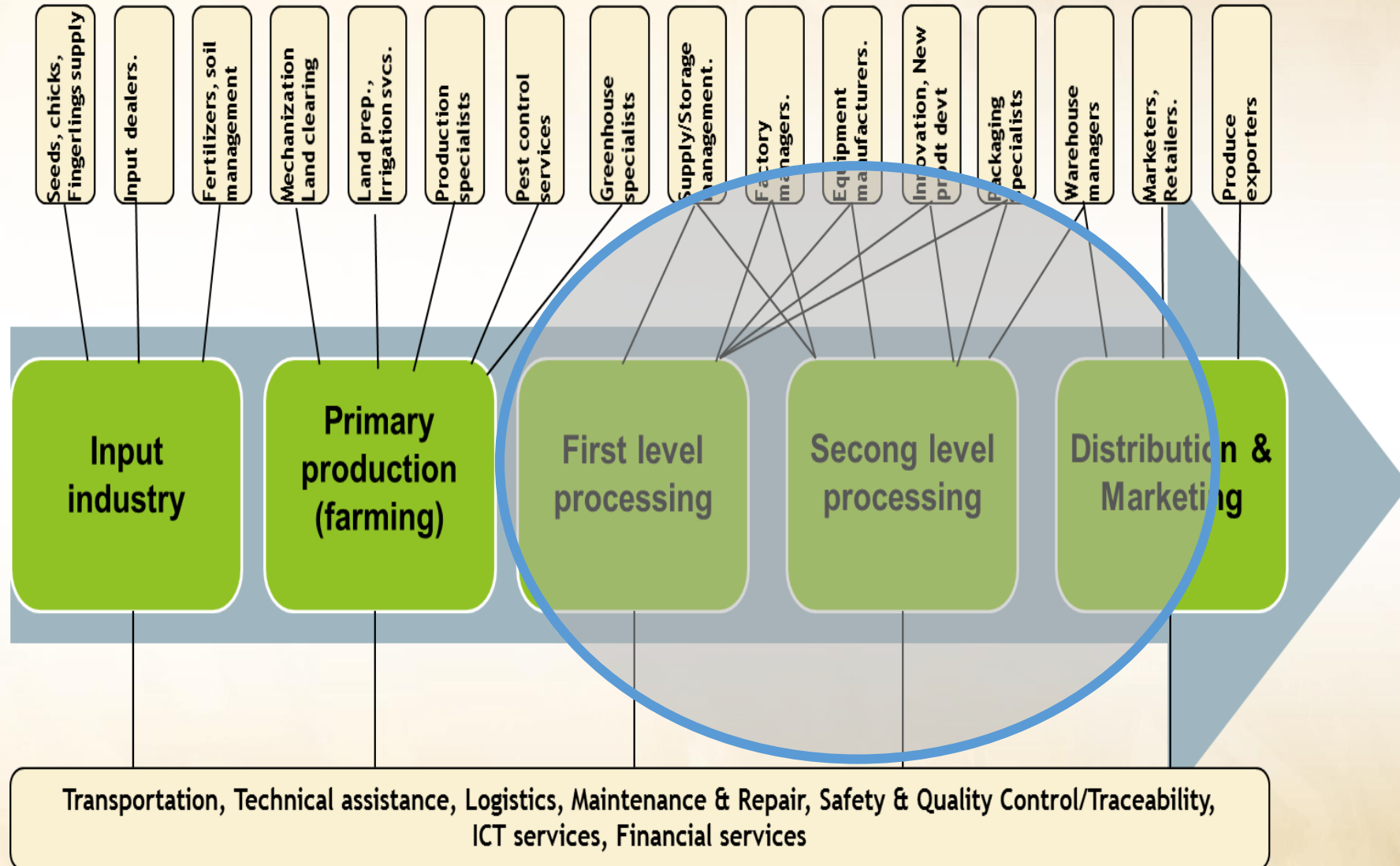


- Contribute to eliminating extreme poverty in Africa by 2025
- End hunger and malnutrition in Africa by 2025
- Make Africa a net food exporter
- Move Africa to the top of export-orientated global value chains where it has comparative advantage

The Private Sector as a Key Component of Commodity Value Chain Development



Focus Within Agricultural Value Chains



Potential Crops (1/2)

CASHEW

- Investments in integrated industrial processing, branding, and packaging for both local/regional consumption and export, in areas with high cashew production density, particularly if close to ports

COTTON

- Investments in regional cotton corridors and Agro-processing Zones (APZs), and particularly industrial production of yarns and fabrics to be used for domestic manufacturing of apparel and home textiles

HORTICULTURE

- Agribusinesses with large-scale partners (such as marketing outlets, processing units, sourcing agents, etc.)
- Investments to develop cold and fresh chains to reduce post-harvest loss

AQUACULTURE

- Capital investments to upgrade fish ponds to modern facilities
- Agribusiness development to support modern input/feed operations
- Capital investments to develop cold and fresh chains for regional trade and distribution

PALM OIL

- Investments in input suppliers to support the improvement of productivity
- Investments in SMEs to improving the efficiency of milling, packaging, and other palm oil activities
- Long-term financing for tree revitalization

Potential Crops (2/2)

RICE

- Investments in modern milling facilities to make high-quality rice for the fastest-growing market segment, which is also driving import growth
- Supplying mechanized tools for weeding and soil preparation, and sustainable irrigation for areas with more variable rainfall or flooding

WHEAT

- Commercialization at large-scale of drought-resistant, high-quality wheat varieties
- Supplying of mechanized equipment for field preparation and harvest
- Investment in integrated corridor-based production and milling (wheat-centric processing zones) to cover new milling capacity needs

CASSAVA

- Investments in post-harvest equipment for improving the storage of fresh cassava with off-farm technologies (such as refrigeration, deep freezing, waxing, chemical treatment, and other methods)
- Investments in large-scale, industrial processing corridors to increase capacity for creating cassava value-added products

COCOA

- Investments in input suppliers to support the improvement of productivity
- Investments in local SME and / or large-scale cocoa processing and transformation

COFFEE

- Investments in input suppliers to support the improvement of productivity
- Investments in local SME and / or large-scale coffee processing and packaging

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AfDB: Blending Clout with Unique Additionality

Sector Expertise

- We have extensive knowledge gained from long-term sector engagement
 - Our staff includes in-house agricultural experts and regulatory experts, all with years of experience in Africa, who provide technical advisory assistance and assess regulatory risk in order to structure deals accordingly
-

Country Risk Mitigation

- We have very strong government relations throughout Africa and beyond
 - We play an honest broker role
 - We actively pursue synergies with other divisions, departments, and regional offices of the African Development Bank Group so that we can address risks holistically
-

Unparalleled Networks

- With an unparalleled network of stakeholders throughout the region and across the globe, we can introduce companies to co-investors, potential clients, and other strategic partners
-

Access to Full Cycle Capital

- As the African Development Bank's private-sector agricultural finance division, we can leverage AfDB funds and seamlessly deliver financial products according to a company's maturity or a project's stage
-

Patient Capital

- Long-term investment horizons do not scare us
- We use capital to make both impact and returns

AfDB's Approaches and targeted entities



Large Menu of Financial Instruments



Working with AfDB – Bank's Investment Criteria (1/2)

Only those **non-sovereign operations** adequately satisfying the investment criteria outlined below may qualify for Bank investments:

- ✓ Strategic fit on development priorities
 - ❖ Aligned with strategic orientations and priorities of the Bank Group outlined in its Ten Year Strategy, 2013-2022 or successor corporate strategies
- ✓ Creditworthy
 - ❖ Capacity to meet their repayment obligations to the Bank and other financiers supporting their investments
 - ❖ Operate under competent management and good corporate governance
 - ❖ Track record or demonstrable capacity for environmental and social responsibility
 - ❖ Good standing, financially solvent, with realistic business strategies.
- ✓ Commercially viable
 - ❖ Solid prospects of being financially profitable, generating adequate cash flow to service debt repayment and interest charge obligations in the case of loans.
 - ❖ In the case of equity investments, operations should have good prospects to support dividend payments and/or retained earnings, yielding satisfactory expected internal rates of economic and financial return.

Working with AfDB – Bank's Investment Criteria (2/2)

Development Outcomes and the Bank's additionality

- ✓ The Bank will strive to bring a unique value added to its NSOs and ensure that they generate satisfactory development outcomes in the RMCs where they are implemented.
- ✓ Additionality and expected Development Outcomes address whether DFI's intervention will:
 - ❖ bring additional value to the transaction that the market alone cannot provide, and
 - ❖ articulate whether the project will provide satisfactory development outcomes:

Household benefits and job creation

Regional integration and economic resilience

Gender and social effects

Infrastructure

Environmental effects and contribution to green growth

Private sector development and demonstration effects.

Governance/fiscal effects

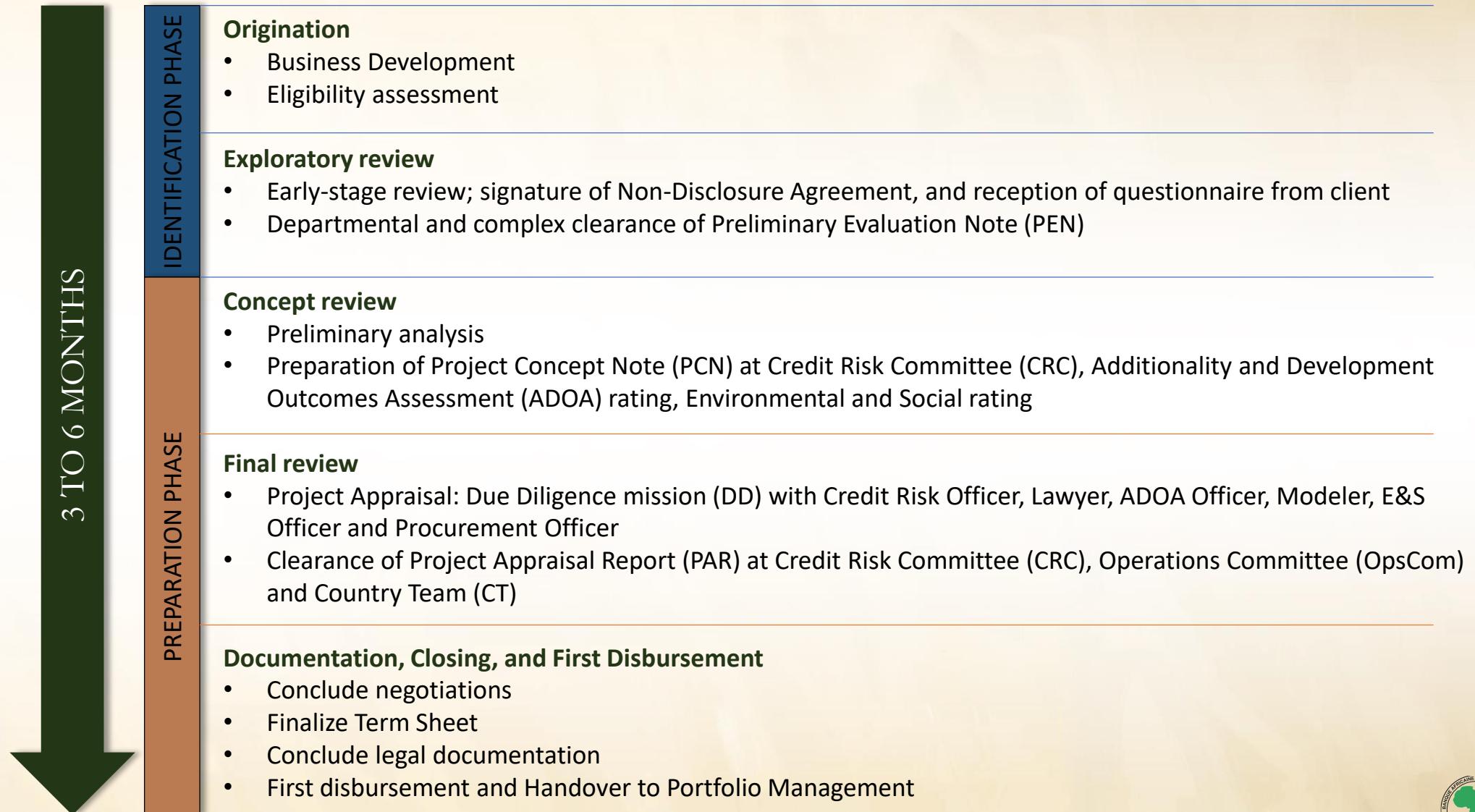
Working with AfDB – Bank's Eligibility Criteria

- ✓ Project/ Enterprise must be majority-owned (more than 50 per cent) by private-sector investors; or publicly owned (ADB / ADF – Enclave Policy) with strong financial standing and proven managerial autonomy;
- ✓ Projects for establishment, expansion, diversification and modernization of productive enterprises (i.e. CAPEX);
- ✓ Project/ Enterprise that have a Transformational impact on key commodity value chains to:
 - Contribute reducing food importation,
 - Present potential geographical or product diversification,
 - Capture more value domestically by processing on the African continent;
- ✓ Financing plan of at least 70:30 debt to equity Ratio, of which AfDB participation cannot exceed 33 per cent of total project cost. The balance of debt could be raised from local or international financial institutions, other DFIs;
- ✓ For corporate transactions, the Bank's financing component will not exceed 50% of the company's shareholding equity base;
- ✓ "Sweet spot" transactions of size is greater than USD 10 million.

Working with AfDB – Preliminary Information Request

- ✓ Feasibility study/ Market study;
- ✓ Business Plan / Information Memorandum; which contains:
 - Description of the project (sector, location, production volumes, etc.);
 - Project cost estimates, including FX requirements, AfDB participation
 - Financing Plan, with debt to equity ratio, equity commitment, debt financiers involved;
 - Key technical and environmental features;
 - Business climate, market prospect, including proposed marketing arrangements;
 - Implementation plan, including the status of required licenses, permits, certificates, etc;
 - Overview of development impact (jobs created, community SME business linkages, Gender equality, etc);
- ✓ Sponsors information, including Financial Statements of the last 3 years, and managerial background;
- ✓ Excel based project financial model - audited;
- ✓ Environmental and Social Impact Assessment (ESIA) in line with the AfDB's Integrated Safeguard Systems (ISS) or IFC Performance Standards;
- ✓ Timeline for financial close and project implementation.

Working with AfDB – Investment Cycle



Case Study: Export Trading Group



Direct loan to Export Trading Group (ETG)

2016

- US\$ 100 million senior loan to finance part of ETG's Agricultural Investment Program (AIP) in Africa to promote employment for youth and women, and to adopt an integrated value-chain approach that emphasizes access to regional and global markets
- AIP consist of investments in: (i) Fertilizer projects; (ii) Processing Plants; (iii) Multi-commodity warehouses; and (iv) Silos
- Enhancing the efficiency of agricultural value chains by increasing the infrastructure base and capacity for value addition
- Contributing to industrialization with new processing plants
- Contribution to smallholders access to inputs (seeds and fertilizers), mechanization and access to international markets thereby ensuring significant revenues to farmers

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