

Financing Agriculture in Africa – KfW Experience –

Africa Fairtrade Convention 2011

Session 4: Financing Africa's agriculture – Understanding the continent's realities

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Die Zukunftsförderer



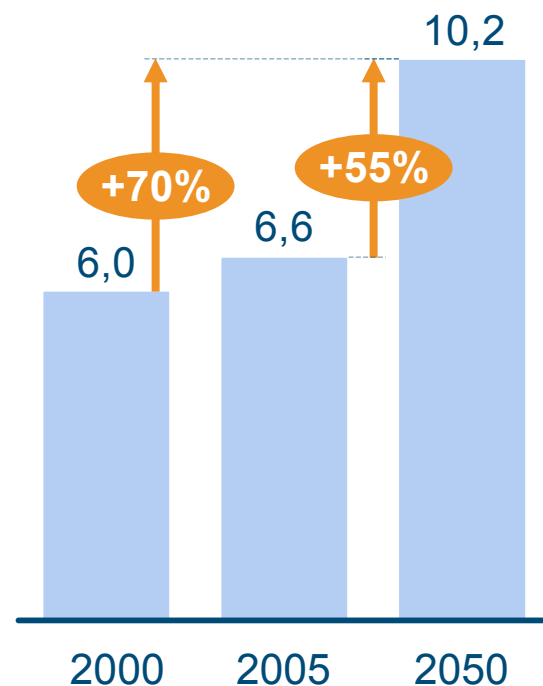
The agriculture opportunity is large: Global demand for food is rapidly increasing

Drivers

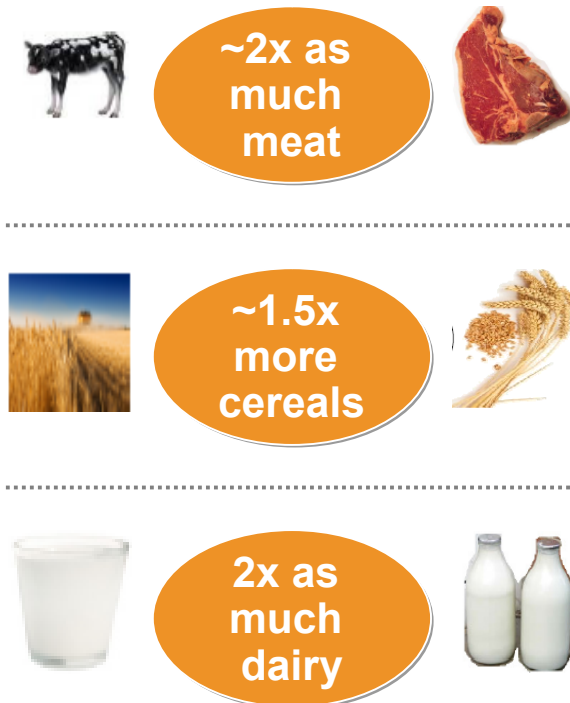
- Global population 2050: 9.2 bln
- Rapid growth of the urbanized middle class, consuming *more* and *different* food
- Dietary shifts: more wealth = more protein

Global annual food consumption¹

Kcal consumption, quadrillions



Examples of global growth²



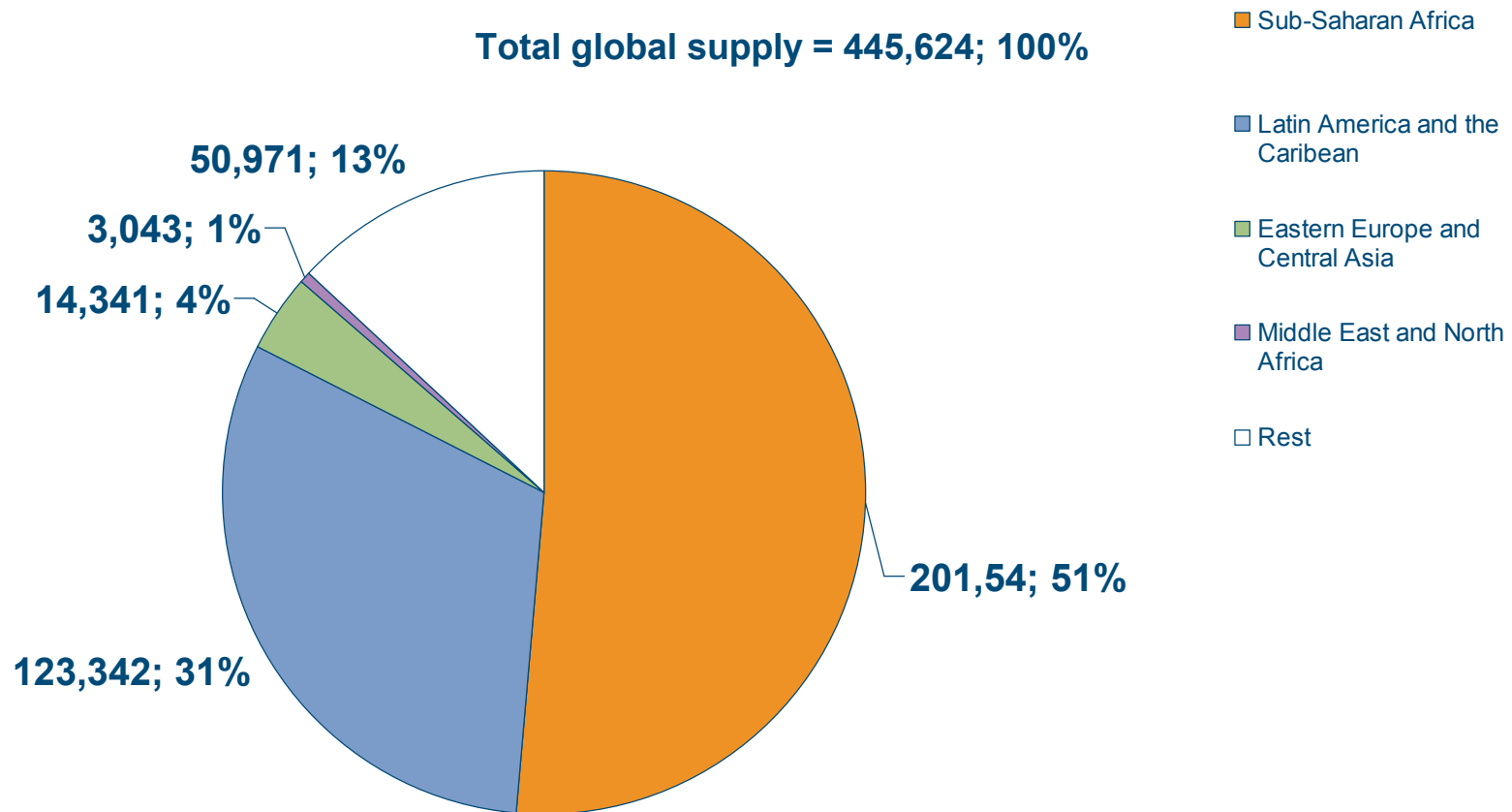
¹ On a per-day basis, global food consumption is ~17 trillion Kcal in 2000, ~18 trillion Kcal in 2005, and ~28 trillion Kcal in 2050

² From ~475 to ~892 million tons of dairy, ~1 to ~1.44 billion tons of cereals, ~227 to ~464 million tons of meat, over the period of 2000 to 2050

SOURCE: McKinsey based on FAO World Food and Agriculture to 2030/2050; FAO Expert Meeting on How to Feed the World in 2050

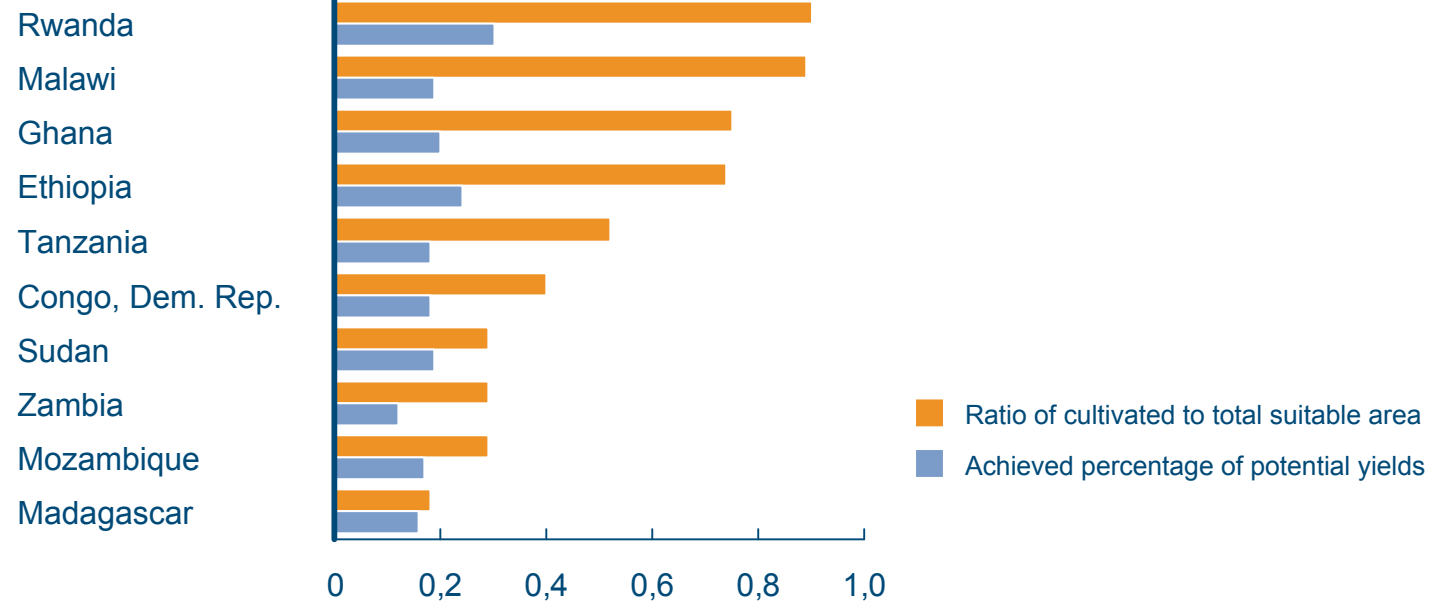
Africa is ideally positioned to capture additional demand due to possession of over 50% of global uncultivated suitable land ...

Potential supply of land for rain-fed cultivation (currently not under cultivation) highest in Sub-Saharan Africa *in thousands of ha; %*



... and high potential to increase yields in Africa

Most African countries under-utilize potential agricultural land and are facing a severe yield gap based on global benchmarks



SOURCE: Fischer and Shah 2010

Several challenges have to be overcome to unlock potential of Africa's agriculture

Quality of agricultural produce



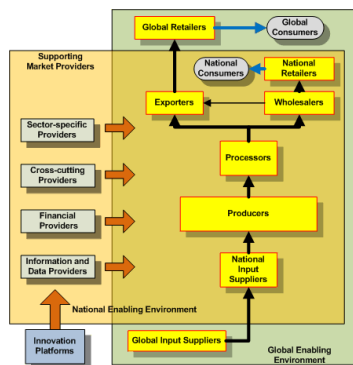
- Frequently poor quality of value added products,
- Low quality of local suppliers due to lack of management capacities

Mismatch of supply and demand



- Production of varieties and type of produce not matching demand of importing countries
- Lack of access to different seed varieties

Broken value chains



- Often no link to public markets
- Lack of on-time delivery based on market demand
- Complexity and product-specific Variety of trade patterns

Poor business environment



- Poor infrastructure (Roads, transport, IT, packing etc.)
- Poor farming practices and technical knowledge
- **Poor access to finance**

Focus of this presentation

Challenges for financing agriculture in Africa remain high



Challenges for financing agriculture in Africa

High risks ...

- **Sector specific risks:**
 - High costs to reach into rural areas (distances and infrastructure)
 - Complex and vastly differing market structures across Africa necessitate tailor-made financial products
 - Exposure to weather hazards and crop diseases
 - High price volatility
- **Prevalent client specific risks**
 - Lack of collaterals
 - Currency risks
 - Poor quality of management practices

... leading to costly financial products:

- **High cost to build agribusiness knowledge** to identify viable market opportunities in Africa
- **High costs to design tailor-made financing solutions;** standardization of financial products only possible in microfinance

Financing players for agriculture include MFIs, traditional banks and value-chain players



Microfinance Institutions

Mechanisms

- Direct contact to clients
- Use technical assistance on an individual basis to support clients in investment decisions
- Standardized products

Traditional financing

- Regular loans and / or equity
- Requiring substantial in-house know how on agribusiness in Africa per crop and per country
- Mix of standardized products and tailor-made solutions

Value-Chain financing

- Design financial products taking into account entire value chain
- Integration of value chain stakeholders to provide specific crop and country know-how to compensate for lack of collaterals
- Tailor-made financing products for each investment

A fund concept for financing agriculture in Africa



Market orientation

- Select **investees and potential off-takers with a capacity to manage entire supply chain** to
 - Mitigate risks by providing crop and country specific experience
 - Include these business partners in risk sharing agreements to compensate for lack of collateral
 - Ensure knowledge transfer of innovative farming practices and technology
- Build on experience of business partners providing **management and marketing capacity** as well as international market reputation
- **Ensure flexibility and structuring expertise for adequate financing products at market rates**

Development objectives and safeguards

- **Requiring developmental impact** through: Additional employment, deepening of the value chain, increased production, increased productivity and innovation; support contract farming arrangements to include smallholder producers
- **Strong social, environmental and financial safeguards** to protect investments and reputation
- **Strong governance structures** to ensure pursuance of development and commercial goals

Fund design

- **Risk subordination of public over private capital** to facilitate private capital for difficult African investment environment