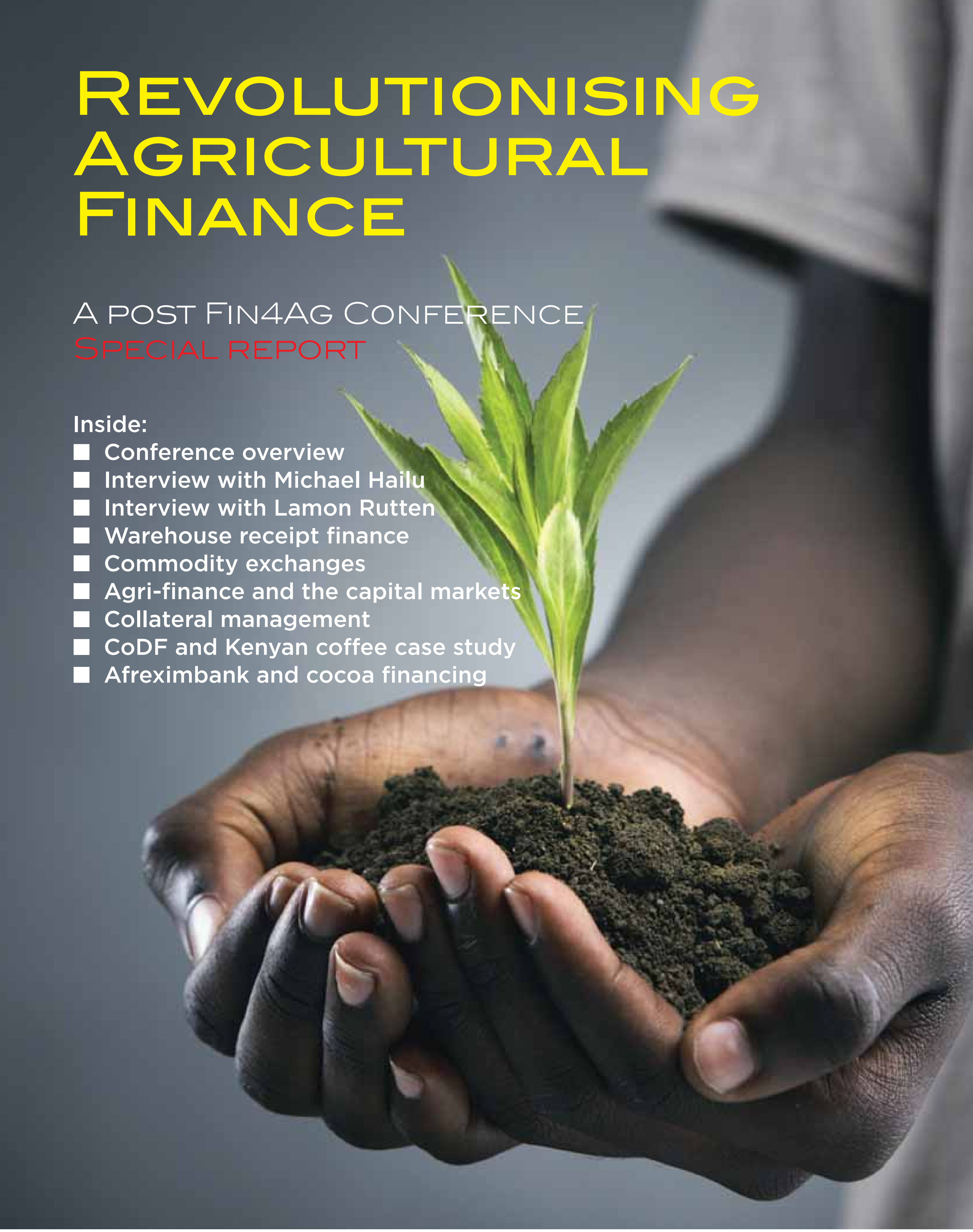
Revolutionising Agricultural Finance

A post Fin4Ag Conference Special report



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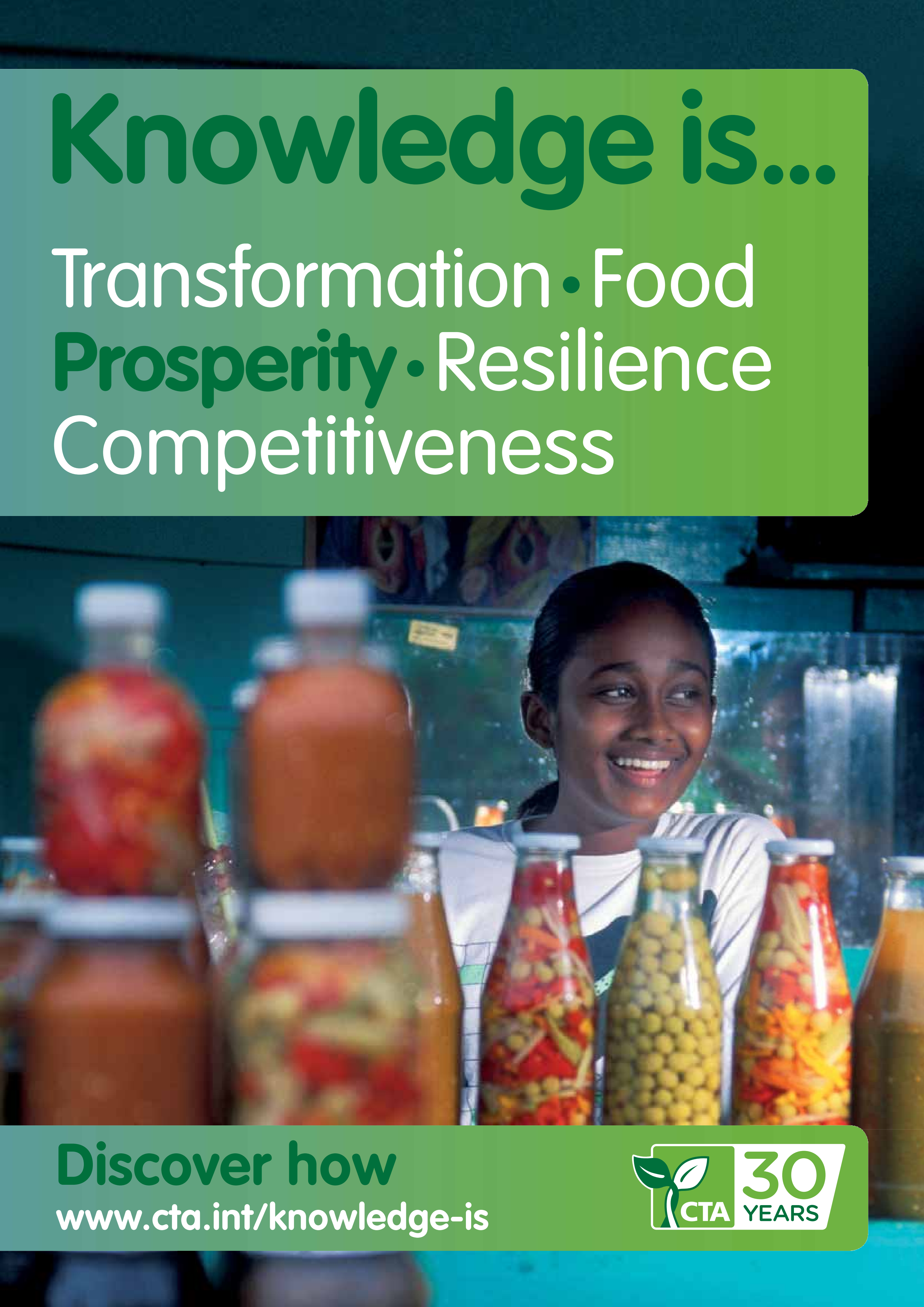

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Bringing agri-financing to centre stage

The Fin4Ag conference held in Nairobi, Kenya 14-18 July 2014 was the biggest and most extensive event ever to be held specifically on the financing of agriculture, not only for African, Caribbean and Pacific (ACP) countries, but for any region. The event was a triumph for the delegates, participants, and organisers alike, providing a wealth of questions, answers, ideas and plans to take agri-value chain finance forward.
By Jonathan Bell.

The Fin4Ag conference held in Nairobi this year was the largest and most expansive event ever staged focusing specifically on agri-financing. The unique event designed and organised by the Netherlands-headquartered Technical Centre for Agricultural and Rural Cooperation (CTA), and co-hosted with the African Rural and Agricultural Credit Association (AFRACA) was truly ambitious in its scope. The programme included a preliminary Continental Briefing day, a Plug and Play day, followed by three main conference days, and then a final day devoted to field trips to agricultural sites. The event, which was held at the Kenya School of Monetary Studies (KSMS), was attended by over 800 people from more than 80 countries.

The event brought a broad range of people together to share new thinking around three streams during the three main days of the conference: innovative tools for agri-value chain finance, a new legal and regulatory framework for agri-value chain finance, and cross-cutting issues in agri-value chain finance. In doing so, the conference succeeded magnificently, sowing seeds of thought to take many concepts and propositions forward to help further develop an understanding of what is required and needed from all sides to expand access to agri-finance.

Continental Briefing day opens the debate

In the preliminary Continental Briefing day – which was mainly focused on farmers – Lamon Rutten, manager of policies, markets & ICT at CTA, the main architect of the conference programme, stated: "African agriculture needs financing now! Banks in Africa have a lot of funds. But the problem is that African banks don't see agriculture as profitable. There are many subjective factors which come into play in relation to this – most notably the risks associated with agri-finance – and this is something that both banks and farmers need to work on."

He added: "This is where agri-value chain finance comes in – because it links

People talk about Africa feeding the world, but Africa needs to feed its own cities rather than importing produce like it is doing now.

farmers to valuable markets. It ensures a market for the produce. Value chains are the way forward. The scope for value chain finance is driven by the scope of the value chain.

"People talk about Africa feeding the world, but Africa needs to feed its own cities rather than importing produce like it is doing now. The market for export commodities, such as coffee, cocoa, cotton etc is around $12 billion annually, but the market for food is much, much larger.

"Consumers increasingly want traceability – and there are many issues attached to this, including those surrounding the use of child labour, the use of chemicals, quality concerns, safe storage etc. And commodities attached to value chains in an organised way will attract a premium.

"A value chain is not a supply chain. A value chain is a relationship between off-takers and farmers and vice versa. And in that relationship people need to be able to rely on each other. Famers need to understand the difference between supplying and being part of the value chain. To supply, a farmer can walk away from the deal at the end – it is called supply selling. But the consequence of that is that it doesn't allow for input financing.

"We will talk about many different value chain models during the course of this conference, and these can be modelled in various countries around the world. In Kenya, for example, you can now buy bags of seeds with a tag with a number which you can put into your mobile phone for crop insurance. If the seeds fail, you can go and get a new bag of seed. These models now exist. Bring such things to your country!

"Of course, there are many challenges. Every time I hear challenges, I also see opportunities. Don't be put off by challenges! You need to treat farming as a business. Yes, bankers should change, but you as farmers should too. Bankers often only look at agriculture as a potential crisis. We need to change that! So there is a lot to do from your side."

Plug and Play sets the day

Following the Continental Briefing day, and as a warm up to the main conference, the Plug and Play day attracted over 250 par-

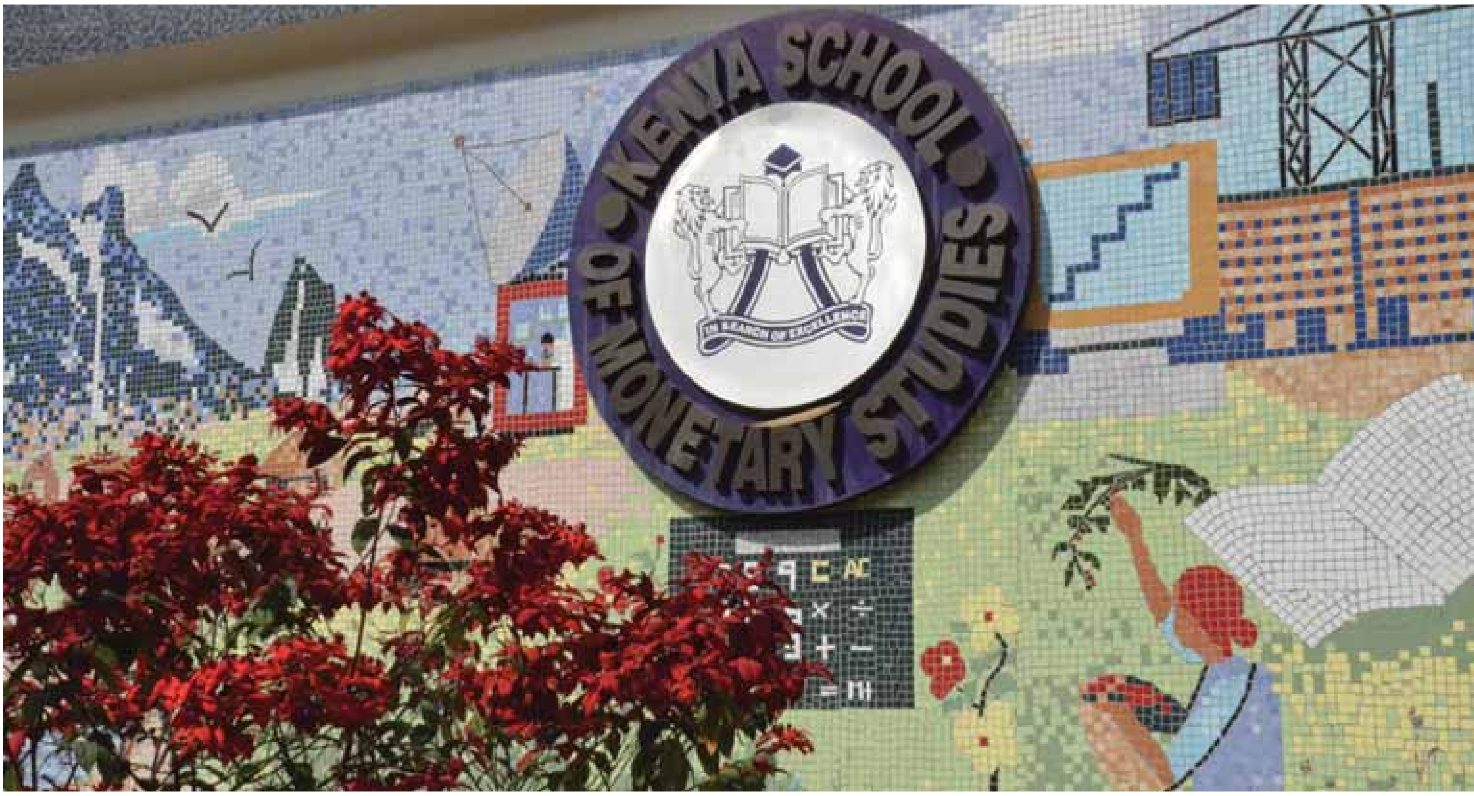
ticipants. It began with a brief introductory session, during which Saleh Gashua, the secretary general of AFRACA, Michael Hailu, the director of CTA, and Professor Kinandu Murangu, executive director of the KSMS, welcomed participants.

The purpose of the Plug and Play day was to showcase a range of information and communication technologies (ICTs) and mobile platforms which have been developed to support access to agricultural finance. The day's programme consisted of five parallel sessions, with 17 presentations each. In total, 18 digital platforms were showcased during Plug and Play day.

In one such example, the Zoona eVouchers platform is transforming the financing of smallholder agriculture. It currently operates in Zambia, Malawi, Mozambique and Zimbabwe, enabling government agencies and other organisations to make bulk payments for specific non-cash purposes. These include development grants, agricultural subsidies and various incentives, for example to improve farming practices.

One of Zoona's main aims is to help small businesses expand by enabling easy, quick and safe payments in emerging markets. Since 2009, Zoona has processed nearly one million vouchers for a wide range of clients, including the World Food Programme, the governments of Malawi and Zambia, and the Food and Agricultural Organisation. In one example, a pilot programme in Malawi is using eVouchers for a farm input subsidy programme. It reached 60,000 farmers, enabling them to buy hybrid seed from local dealers.

The Plug and Play day ended with three sessions of discussions and conclusions, organised by CTA. One of these looked at what lessons can be learnt from the use of ICTs by Kenyan banks. The country's success with digital payments is a source of national pride; but can this be replicated by other ACP countries? Another session posed the question: "ICTs – where do the biggest opportunities for finance lie?" The third session took as its theme: "How can one strategically inte-



grate new financing technologies into a bank's value propositions?"

Better access to credit is key

One of the key messages driven home during the conference was that better access to credit was fundamental to revolutionising the agri-sector.

Setting the scene for the main part of the conference, Rutten said that farmers are ready to see themselves as businessmen rather than just subsistence producers. "We hope that this conference will be a catalyst, that it will bring people together and make things really happen," he said, adding that although many African countries are growing fast, the agri-sector is lagging behind the rest of the economy – despite its importance.

The extended opening ceremony was attended by a distinguished array of government ministers, representatives of the European Union and the African Union Commission, the governors of Nairobi County and the Central Bank of Kenya, and leading figures from some of the key partners responsible for the conference.

In a keynote address by the Nigerian minister of agriculture and rural development, Akinwumi Ayodeli Adesina, he stated: "Unlocking finance for agriculture is one of my great passions," he said. He added that instead of being a net importer of food, Africa should be a net exporter, but limited irrigation, poor infrastructure, limited value-adding, high post-harvest losses and – most importantly – lack of access to credit meant that farmers are failing to fulfil their potential.

Minister Adesina pointed out that during the past few years, the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) had spent $350 million and leveraged $3.5 billion from banks to support agricultural value chains. And back in 2011, when he became minister of agriculture, the proportion of bank lending to agriculture amounted to just 0.7% of total lending. By the end of this year, that figure will have risen to 7.5%, he remarked.

In his welcoming speech, CTA director

Michael Hailu pointed out that the conference had attracted a wide range of different interests, both from the financial and agricultural worlds. Particularly notable was the number of representatives from central banks which are beginning to act as catalysts for agricultural lending in other parts of the world.

He said: "There have been plenty of other conferences and forums which have touched on the issue of providing credit to farmers. But I guarantee that this conference will be different from the others. Instead of dwelling on the problems – that's an easy thing to do – we will be focusing on what can be done about the problems, and showcasing specific case studies and success stories."

The conference was officially opened by His Excellency William Ruto, Deputy President of Kenya.

The main conference sessions and task of highlighting success stories began in the afternoon of the first main day, with a series of sessions devoted to the three main conference streams. Reports on some of these sessions through the course of the three principal days can be found on the TXF News Fin4Ag subsite, the main Fin4Ag website and also within this post conference report.

In the closing of the event, Millison Narh, chair of AFRACA, and deputy governor of the Bank of Ghana described some of the key points – or 'takeaways' – to emerge from the conference. He stressed the important role that central banks were now playing in terms of financing the agricultural sector. He also suggested that there was an urgent need to help farmers' organisations build their capacity and become more business-savvy.

He also argued that governments need to create an environment to encourage financial institutions to work more closely with the agricultural sector. He stated: "We need to learn from countries which have been successful in resolving the bottlenecks to releasing funds to agricultural value chains." He pointed out Tanzania's success with warehouse receipt systems and the Nigerian Incentive-based Risk Sharing System for Agricultural Lending, as examples of success.

CTA director Hailu suggested that one measure of the conference's success was the fact that the vast majority of participants had stayed to the very end. He also stated: "It's a pity we have to repeat that smallholder farming should be seen as businesses, but we need to keep repeating it."

And reiterating a major theme, that of establishing a better understanding between farmers and financiers, he said: "We need to build bridges between the two sectors, and I believe that this conference has shown how we can do that." He also noted that many of the sessions had taken the debate forward by going beyond the challenges faced and had come up with a positive range of new ideas which could now be pursued and examined further.

The conference was formally closed by His Excellency Felix Koskei, Kenya's minister of agriculture, livestock and fisheries, who stated: "Countries don't reduce their dependence on agriculture by getting out of it, but by getting better at it." And that, he said, would only happen if farmers had better access to affordable credit. The Fin4Ag conference, he said, had helped to identify many new paths to creating closer relationships between farmers and financiers. ■

A value chain is not a supply chain. A value chain is a relationship between offtakers and farmers and vice versa.

CTA demonstrates its unique role in style with Fin4Ag

TXF talks to Michael Hailu, director of the Technical Centre for Agricultural and Rural Cooperation (CTA), about the unique role of the organisation now in its 30th year of operations.

TXF: This is the 30th anniversary year of CTA. How do you view the development of the agency so far and what do you feel about the direction you are taking CTA in at the present time?

Michael Hailu (MH): Over the years, CTA has built a strong network in the agricultural sector across Africa, Caribbean and the Pacific (ACP) countries. This has placed us in a very good position to facilitate dialogue and experience sharing among farmers' groups, policy makers, researchers, extension agents, youth and women groups and the private sector. Such interactions help to break barriers and allow people to learn from each other. CTA has also been, and continues to be, a major provider of agricultural information to a large number of people in ACP countries.

Since 2011, CTA has undergone a major transformation as a result of our new strategic plan, which has re-focused our work on three priorities – supporting the development and implementation of policies conducive to agriculture; promoting value chain development, including value chain finance; and building capacity in ICTs (information and communication technologies) and knowledge management. We also give specific attention to supporting youth and women in agriculture. I think CTA's unique role is well recognised and appreciated by our partners and stakeholders, including the European Union and the ACP Group.

TXF: CTA is charged with attention to African, Caribbean Pacific (ACP) markets. How important is it to ensure you are working across the whole of the ACP spectrum?

MH: CTA is the only international institution deliberately working to connect Africa, Caribbean and the Pacific so that they can learn from each other in their efforts to transform the agricultural sector. Although these regions are far apart geographically, they face many similar challenges in their agriculture and fisheries sectors.

What has worked in one region can be replicated in another. For example, CTA is helping countries in the Pacific to develop their agro-tourism by taking successful lessons from the Caribbean, which has good experience in this area. Africa can offer good lessons in mobile payments and other ICT-based services that Caribbean and Pacific countries can learn from. CTA helps by making the connections across the three regions.

TXF: Fin4Ag 2014 in Nairobi built on the success of the previous year in Kigali, how pleased are you as director with the way this year's conference has panned out?

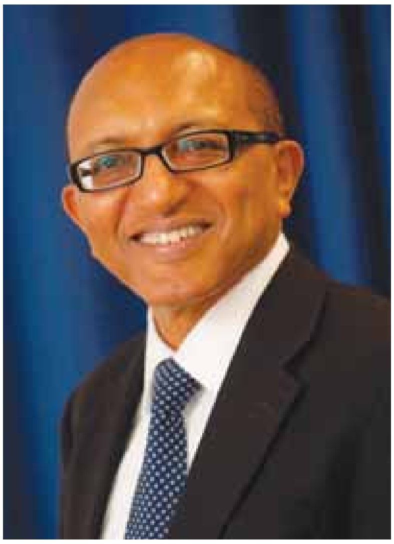
MH: I must say that Fin4Ag 2014 exceeded my expectations in several ways.

First, the event attracted high level participants from government and the private sector.

Second, it brought people together from the financial and agricultural sectors – a revolution by itself as the Nigerian Minister of Agriculture noted at his keynote address.

Third, the discussions throughout the week were focused on solutions and possibilities rather than on problems, as many conferences of this kind usually tend to do.

Finally, I was pleased that many people came up to me individually and told me how they benefitted from the conference. One participant said he signed four contracts during the week and another noted that what he learnt at the conference was worth a full year's course at university.



Michael Hailu, director of The Technical Centre for Agricultural and Rural Cooperation (CTA)

TXF: What major messages do you feel CTA is delivering through this major conference and how do you think those messages/initiatives are being received?

MH: For CTA, the major message is that transforming smallholder agriculture is key in achieving inclusive growth in ACP countries and it is critical that the financial sector is fully engaged if smallholder agriculture is to be transformed into a modern, profitable enterprise. We were pleased to see, for example, the seriousness with which the central bank governors who were present at the conference were considering supporting agriculture in their respective countries.

TXF: Going forward are there any new initiatives or changes in your operations that you plan to incorporate?

MH: There are a number of important messages that came out of the conference that we will move forward.

First, there were several financing models that work which were showcased at the conference. We will continue to provide a platform that will allow more people to know about these models so that they can be up-scaled.

Secondly, as I said earlier we have seen a great opportunity by bringing the financial sector together with the agricultural sector. We will do our best to support this interaction at different levels – at the level of policy and of working capital and investment finance.

Third, the area of capacity building – ie. building the know-how of farmers in financial management and financiers in agriculture was identified as a priority. We will support initiatives to fill the gaps in this area. ■

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Changing the landscape to secure agri-financing opportunities

TXF talks with Lamon Rutten, manager of policies, markets & ICT at the Technical Centre for Agricultural and Rural Cooperation (CTA) about his vision for a changed landscape in agri-financing throughout the African Caribbean Pacific (ACP) countries.

TXF: Given the massive funding gap for many producers in the African Caribbean Pacific (ACP), how important is it in bringing farmers/producers into contact with logistics, financial services and financial institutions? And, how big is the education challenge?

Lamon Rutten: There is an overriding societal need to reduce this funding gap, both to ensure that rapidly growing urban populations remain supplied with affordable food and to get rural populations out of poverty traps. The gap exists for a reason, largely the perception by finance providers that they cannot profitably and at an acceptable risk fund farmers/producers, directly or indirectly. Among other things, they are often unaware of the opportunities in short-distance (national or intra-regional) value chains – farmers supplying cities with food – which are much larger than those in the traditional export crops on which most bankers have been focusing.

Building links between farmers and financiers, in particular through the medium of well-organised value chains, tackles this issue in a comprehensive manner: it helps financiers better understand the opportunities and constraints in agriculture, permits them to finance along the whole chain from farm to fork, and reduces risks for both farmers and financiers.

Logistics providers of various kinds will be needed to properly structure these value chains, and much more attention should be given to strengthening such 'chain integrators'. The education challenge is large, but before this can be tackled we first need to deal with the perception challenge, that many financiers still think it isn't worthwhile to look into agricultural financing opportunities.

TXF: What have been the stand-out initiatives that you have seen in ACP agri-financing in the last couple of years?

LR: There are quite a few interesting initiatives under way, although we're still learning the lessons and trying to interpret them for purposes of scaling up.

Agri-loan guarantee schemes are being tested again, with a new way of looking whether they deliver value for money. Warehouse receipt finance, including collateral management, is under intense scrutiny. We're also trying to get to grips with weather insurance. Financiers are starting to use information and communication technologies (ICT) to develop new delivery models for agri-finance, not just to automate existing models (for example, to permit investors to provide invoice discounting to farmers supplying into national value chains). In addition, countries are starting to introduce central collateral registries. All-in-all, quite a few initiatives are under way to develop viable commodity exchange models, which all include warehouse receipt systems.

TXF: With particular reference to Africa, what are the major challenges/drawbacks to moving financing forward? And what would really make a difference to this?

LR: Financing or for that matter, agri-marketing opportunities are often constrained by a set of factors – poor infrastructure and logistics, disabling government policies and practices, along with poor contractual arrangements etc.

There are quite a few actions that will be profitable for specific groups, for example in setting up better collateral management services, replicating value chain financing models that have proven successful elsewhere, or making proper use of the large new opportunities ICT offers, and over time these benefits will add up. But to make rapid and comprehensive progress, concerted action along different fronts is necessary, which in turn requires a genuine willingness to work in public-private partnerships. This has proven difficult in practice, and when it comes to agricultural finance, the best approach may well be to focus efforts on specific high-potential trade corridors, for specific commodities.

Lamon Rutten, manager of policies, markets & ICT at The Technical Centre for Agricultural and Rural Cooperation (CTA)

TXF: You have spoken a lot about rural product notes – (CPRs as they are known in Brazil and across Latin America) – so do you see this financial instrument as something that could and should be incorporated within African agri financing?

LR: There are big deficiencies in bank financing for agriculture in Africa: there simply isn't enough of it, in particular for longer tenors, as banks have not invested much in understanding agriculture. Banks by and large have not developed appropriate instruments for agri-lending; and they add overly high risk premiums, which together with high loan delivery costs lead to very high interest rates.

Introducing competition from capital markets can help on all fronts. CPRs are one possible instrument. They require conditions that in the short to medium-term will be difficult to introduce at national levels, but which could be replicated through contractual relationships within more narrow environments, for example within the confines of a commodity exchange system or perhaps even an electronic collateral registry system.

TXF: The warehouse receipt system across sub-Saharan Africa is particularly patchy. Why is this, and what can be done to change this is particular countries?

LR: In past decades, there have been massive investments in warehousing infrastructure in many countries, but warehouses were seen as storage facilities rather than as logistics services providers, let alone post-harvest financing instruments.

Banks have been using warehouses to support loans, but this has been for, in principle, one-off deals, for a limited period and for one client. Such bespoke arrangements are expensive. We need to develop models that permit financiers to use warehouse receipt systems on a routine basis, at a much lower cost.

Donors and governments can

help reduce legal and regulatory costs (and risks); moving to electronic receipt systems will help; and new business models (like India's approach to collateral management) should reduce collateral management costs.

TXF: Good and secure collateral management is an essential element to upgrade the value chain within agri financing. What is your view with regard to the potential development of a pan-African collateral management company? Is it feasible and is it necessary?

LR: In the past, and in some regions such as Latin America and Turkey even now, it has been common for banks to set up collateral management subsidiaries to extend their vaulting system, permitting them to accept a wide array of commodities in many locations as collateral for loans. Why wouldn't this work in Africa, as a market penetration strategy for African banks?

A new approach towards collateral management is in any case necessary: there are less and less international collateral management companies active in Africa, and local companies are not strong enough to give much comfort to banks. The critical issue for a collateral management company is to reach critical mass rapidly, so that fixed costs are spread out over many transactions and even more importantly, risks are well-diversified. The easiest way to achieve this, in my opinion, is for a number of financiers interested in expanding their presence in the agricultural sector to jointly invest in a collateral management company, which would first operate on mandates from its investors, and then start serving other financiers.

Potential margins in agri-lending are very high, and given demographic trends opportunities will only improve. So there is good money in developing sound delivery mechanisms for agri-lending, and collateral management/credit support is, in my opinion, one of the low-hanging fruits.

TXF: Commodity exchanges appear to be making a real difference to providing agri producers with a fair and consistent price for their products. How important do you think the development and spread of commodity exchanges is in the African context?

LR: It is very important. In emerging markets (and that included the USA in the 19th century) commodity exchanges tend to take the lead not just in providing price transparency, but also in reducing the obstacles to longer-distance trading, improving the standards and practices in physical trade, and improving warehousing standards. Not to mention that exchanges can intermediate between investors and agricultural sector actors, for example through CPRs or through repo contracts.

In Africa, the obstacles to exchanges are now largely related to government policies and practices, not to technology constraints or lack of business opportunities. There are so many initiatives ongoing that these government obstacles are bound to be overcome in the coming years.

TXF: What is your vision for the future of agri-financing in Africa and the ACP region at large? Do you envisage Fin4Ag 2015 including new aspects and players?

More financiers at all levels (micro finance institutes, commercial banks, investors) will become aware of the opportunities, and will look for viable lending instruments and delivery models. Exchanges of experience, like those we organised at Fin4Ag 2014 in Nairobi, will permit a much steeper learning curve.

I hope governments and central banks have become more aware of their responsibilities in providing the proper environment for agricultural finance, and that we will see more debate on exactly how they can best do so. I also hope we will see a larger participation of value chain integrators – service and logistics providers that will help financiers to design and implement agri-financing schemes. ■

We need to develop models that permit financiers to use warehouse receipt systems on a routine basis, at a much lower cost.

Finding real scale with warehouse receipt finance

Developing an economy of scale with warehouse financing is a message which resounded at the Fin4Ag conference in Nairobi. By Helen Castell.

One of the biggest challenges with warehouse receipt finance is that it needs to reach a certain scale before the perceived benefits to farmers and traders justify the high costs associated with warehousing and collateral management.

To address these costs and reach critical mass, banks need to engage more with collateral managers, take a more proactive role in assessing on-the-ground risks, and invest more in risk management tools and solutions like mobile payments. Farmers need to organise themselves into groups to achieve economies of scale, and central banks need to control the high interest rates prevalent in Africa and to recognise warehouse receipts so that regulators can develop a legal framework that protects financiers, speakers and delegates told the Fin4Ag conference.

Using the services of a collateral manager can cost anything from $1,000 to $10,000 a month, notes Richard Wangwe, East Africa director at the Africa Enterprise Challenge Fund. This is often prohibitively high – especially for farmers who store grain for long periods with the aim of securing a higher price for it later – and is slowing the industry's growth.

"If he's keeping grain for three months but the cost of keeping it is higher than what he will get, he will not bring it next season," he says.

Warehouse receipt finance is also not always used most efficiently. Contrary to common belief, it is better suited to crops with a liquid market that can be sold quickly than to crops where a buyer is not

> The cost of a warehousing system can be covered more easily if produce is moving in and out of it regularly, rather than being hoarded for long periods in the hope of a price rise.

always immediate, Wangwe argues. The cost of a warehousing system can be covered more easily if produce is moving in and out of it regularly, rather than being hoarded for long periods in the hope of a price rise, he explains.

The costs of using a collateral manager can act as a "disincentive" for farmers, wiping out any gains they make from using the service, agrees Abdou Matieyedou Konlambique, programme officer, market access programme at AGRA.

"We need to innovate, and develop risk-management tools to make it work," he says.

CRDB Bank in Tanzania has managed to cut the interest rates for its warehouse receipt finance product to just 4%, according to Bohay Nicomed, senior manager, agribusiness and syndications.

It does this by wrapping it inside a wider value chain finance solution under which it uses letters of credit to finance the purchase of farmer inputs from suppliers in Europe. These suppliers offer six months of credit at very low rates, allowing CRDB to effectively 'import' Europe's low interest-rate environment into Africa, he says. Introducing electronic payment solutions for farmers has also helped to reduce the bank's costs.

Farmers too have a role to play. Warehousing relies on volumes to be economically viable, so farmer organisations need to strengthen their capacity for aggregation and collective marketing, says Gideon E Onumah, agricultural economist and rural finance specialist at the UK's Univer-

sity of Greenwich.

Governments and central banks have a responsibility to manage fiscal policy to lower the cost of funding for financial institutions, says Samuel Ndonga at Kenya's Chase Bank, which recently launched a warehouse receipt finance pilot. They also need to refrain from interventions – such as artificially setting the price of certain crops – that make warehouse receipt finance unworkable.

Chase Bank has so far lent around $1 million under its pilot, financing up to 65% of the value of produce being stored. So far, all loans disbursed have been repaid and it will evaluate the pilot in August to look at ways of expanding it.

A closer relationship between banks and collateral managers could also help reduce the risks – and therefore costs – of warehouse receipt finance, according to Onumah.

Despite its great potential, Africa's collateral management industry is shrinking rather than growing, he says. Inspection companies are going out of business or limiting their activities to basic stock counting and quality checks, rather than providing a 360-degree service that actively safeguards stored produce against the elements, theft and fraud, he says.

Part of the problem is that newcomers struggle to secure professional indemnity insurance or, if they can, the costs are prohibitively high.

A bigger problem though is that banks are not rigorous enough about checking collateral managers are doing their job. While most banks follow the 'know your customer' mantra, "we say 'don't just look at the borrower. After looking at your client, look at the custodian'," says Onumah.

Ultimately, regulatory systems need to be developed that provide proper oversight of collateral managers. Until that point though, banks need to take more responsibility for this themselves, he says. "The lack of specific warehouse legislation should not delay the development of this system." ■

Warehousing relies on volumes to be economically viable, so farmer organisations need to strengthen their capacity for aggregation and collective marketing.

Nine-country assessment of WRF provides way forward

A new report on the development of warehouse receipt financing (WRF) was launched at the Fin4Ag conference which examines the financing mechanism in nine African markets. By Helen Castell.

A new study into warehouse receipts and collateral management was unveiled at the Fin4Ag conference in Nairobi.

The 200-page report dissects the experiences of nine countries examining lessons learned and highlighting potential ways forward in one of the most exciting fields of agricultural finance.

The interim report, entitled: *'Study on appropriate warehousing and collateral management systems to promote access to finance through warehouse receipt finance (and other forms of asset-based finance) in favour of smallholder farmers in sub-Saharan Africa and Madagascar'*, was commissioned by the Netherlands-headquartered Technical Centre for Agricultural and Rural Cooperation (CTA) and the African Rural and Agricultural Credit Association (AFRACA), and is a collaboration involving law firm Sullivan & Worcester and J Coulter Consulting.

It focuses on Burkina Faso, Cameroon, Ghana, Niger, Senegal, Uganda, Mozambique, Cote d'Ivoire and Madagascar.

Madagascar's community warehouse system – under which farmers store produce under their own name in funder – or communally owned storage facilities – is one of the success stories highlighted in the report.

Two leading microfinance institutions (MFIs), refinanced by banks, have "built themselves around the product from the beginning", leading to "wholehearted" adoption, said Jonathan Coulter, director at J Coulter Consulting, at the media roundtable launch at Fin4Ag. The system has had a positive impact on farmers' livelihoods and also helped stabilise prices.

Madagascar also demonstrates how community warehousing can be a springboard for private warehousing, with MFIs already moving towards collective warehouses to bring down monitoring costs, he said.

Challenges, however, include instances of risky behaviour, such as the financing of crops with a 100% loan to value rate. The national regulator needs to focus on regulating not just MFIs but the product, and more technical assistance is required, Coulter said.

Within public warehousing overall, another challenge is that sites with capacity of less than 1,500 tonnes can be economically unviable.

The report also examines the legal

structures that support or inhibit warehouse financing in the nine countries, and proposes ways forward.

"The legal framework – or the lack of it – in any jurisdiction is going to have a massive impact on warehouse receipt finance," whether you are a smallholder, collateral manager, MFI or bank, noted Sam Fowler-Holmes, associate at Sullivan & Worcester.

Five of the countries in the report are part of the so-called OHADA group, which have a shared legal framework. "Trying to develop a warehouse law that could apply across all of them is incredibly difficult" and this means that there is "very limited regulation in place for some of the key participants in the warehousing chain," said Fowler-Holmes.

Of these, Cote d'Ivoire has perhaps made the most progress in creating a quasi-system supporting warehouse finance. There is, for example, a law in place that requires collateral managers to be licensed by the government and to hold insurance cover against theft, fire and damage. There are also special regulations for collateral managers dealing in coffee, cocoa, cotton and cashew nuts as well as commodity-specific standards that provide comfort to lenders, he said.

There is however a question mark over when proposed warehouse financing legislation – initially planned to be voted on by parliament in April 2014 – will be pushed through.

The report also makes recommendations that could support warehouse receipt finance in many of the countries covered.

These include the licensing of warehouses, warehouse operators and collateral managers to improve confidence in the system, according to Geoffrey Wynne, director at Sullivan & Worcester. Countries are also advised to create negotiable warehouse receipts – a move that would help with taking security of goods and transferring title.

Countries should abolish stamp duties and lower or remove registration fees to incentivise registration, he said. They should also introduce the legal right to enforce security by private sale and are advised to create electronic collateral registries that are accessible by the public, the report asserted. ■

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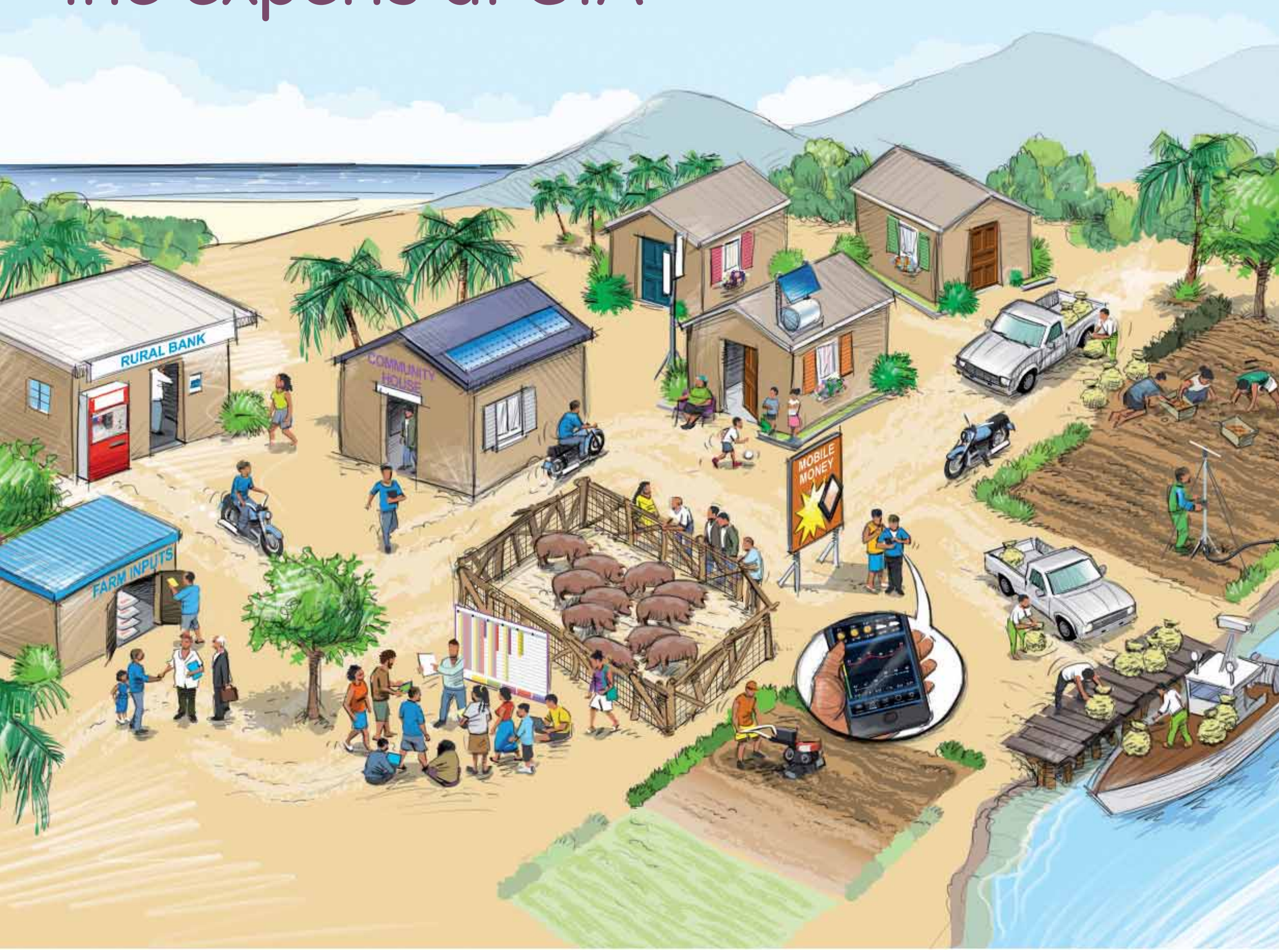

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Building commodity exchanges with integrity

In an engrossing and lively session, four highly experienced practitioners debated the progress of African commodity exchanges. By Jonathan Bell.

Panellists

Lamon Rutten, manager of policies, markets & ICT at the Technical Centre for Agricultural and Rural Cooperation (CTA), Netherlands

Adam Gross, investment and capital markets advisor, NEPAD Business Council, South Africa

Kristian Schach Møller, chief executive officer, Agricultural Commodity Exchange for Africa (ACE), Malawi

Rod Gravelet-Blondin, senior advisor, East Africa Exchange (EAX), Rwanda

The first 'modern' commodity exchanges in Africa were created in Zambia and Zimbabwe in 1994, and in South Africa in 1995. While the first two failed, the South African Futures Exchange (SAFEX), a response to the government's withdrawal from agricultural trade, went on to become Africa's largest.

A little over a decade later, 2008 saw the launch of the Ethiopian Commodity Exchange (ECX), which is now the second largest. Unlike the earlier initiatives, ECX was a government venture, buoyed by massive government and donor support: it showed that a commodity exchange can be successful even in a country with poor infrastructure and an underdeveloped commodity sector. Meanwhile, Malawi's Agricultural Commodity Exchange (ACE) has achieved sustained volumes despite lacking such massive support.

A count of African exchange initiatives shows that there are, or have been, exchange initiatives of some sort in 28 countries, including numerous national initiatives alongside a few ambitious and well-funded sub-regional and regional ones.

There is a widespread view that exchanges have the potential to change the landscape of commodity finance in Africa. But crucial to the development of exchanges is the introduction and widespread use of a viable warehouse receipts system.

And as Lamon Rutten, manager of policies, markets & ICT at the Technical Centre for Agricultural and Rural Cooperation (CTA), declared at the start of the session, the link between warehouse receipts and commodity exchanges is clear, as it is a process that enables farmers to get better rates in a more secure system.

Adam Gross, investment and capital markets advisor, NEPAD Business Foundation, South Africa, outlined the fundamentals of commodity exchanges. He stated: "A successful warehouse receipt system benefits from a commodity exchange.

"First, you need the exchange for valuation of the crops. A commodity exchange allows a bank to clearly see the

value of the collateral against which they finance warehouse receipts. In this way, they can be less risk averse in terms of the loan-to-value ratios they set.

"Second, should there be a default, a bank may need to seize and liquidate collateral. Having a liquid commodity exchange improves the efficiency of this process, and thus makes banks more likely to lend in the first place.

"Third, a commodity futures exchange enables mitigation of price risk through hedging the position. In South Africa, because many farmers lock in a forward price, the loan-to-value ratios can reach as high as 100%.

"Fourth, clearing and settlement is so important – and equally crucial to the whole process. A disciplined settlement cycle ensures timely execution of transactions without worries about quality and quantity disputes or payment delays.

"All of these elements are important for the banks, as it means that there is settlement of the physical side at the right time and in the right amount. This system works in Latin America, Asia, Eastern Europe and South Africa, but we still don't have this proper process in the rest of sub-Saharan Africa. This should be critical for Africa going forward."

Kristian Schach Møller, chief executive officer, Agricultural Commodity Exchange for Africa (ACE), Malawi, provided a presentation to delegates of how the ACE exchange has developed in Malawi.

"The ACE commodity exchange in Malawi is based on three pillars: market information, trade facilitation and the warehouse receipt system," stated Møller.

"We really want to reach the smallholders, we promote forward contract; we don't want them to lose out because of price speculation. We also want to ensure that farmers get their warehouse receipts earlier in the season, which would help them in their own cash-flow.

"We traded 60,000 tonnes last year, and we have available certified storage today of 155,000 tonnes. To date this year we have financed $12 million worth of crops."

And in Malawi, he noted: "A lot of the demand for warehouse receipts has been developed by the World Food Programme (WFP), because they are the buyer of a lot of the receipts."

Rod Gravelet-Blondin, senior advisor, East Africa Exchange (EAX), Rwanda, who was also highly instrumental in building the South African SAFEX agricultural commodity exchange, explained what he and others are now doing in relation to the EAX operations.

"We look to set up viable and sustainable commodity exchanges. And this is because we bring 100% guaranteed collateral management with that commodity exchange. We bring cutting-edge technology and we guarantee settlement for the users of the exchange," says Blondin.

"There is one single word that is essential for a successful commodity exchange – and that word is integrity. If you don't have that then the exchange delivers nothing.

"And collateral management is an essential element. If you link a secure and recognised collateral management service and system to an exchange, the seller knows what he is getting sold. An exchange is effectively no more than secure payment for secure product. And I believe that commodity exchanges can bring so much to this continent of ours.

"We start with spot trading, but we do need to deal with price risk. Derivatives bring a huge ability to manage those price risks. So, we need to develop exchanges with integrity."

Blondin added: "Warehouse receipts in the past were just delivery mechanisms – nowadays warehouse receipts backed by solid collateral management allows you to access finance. Warehouse receipt paper is valuable, and needs to be kept in a vault – the warehouse holds a copy and the depositor has a copy and the original is traded. But we need to move away from this – which is why we have developed the electronic receipt process.

"Anyone setting up an exchange today, should immediately opt for an electronic receipt system. They give you a full audit trail, and as such it really minimises fraud. With SAFEX for example, this system is housed with PricewaterhouseCoopers (PwC) – so you have that added security too."

The concept of multiple exchanges

Taking the discussion back to the delegates, session moderator Rutten, noted: "The tag line of this session was 'trade with trust'. You can build integrity, so that people can trade commodities with trust. We

In Africa, it is ridiculous that a government should want to manage an exchange. It needs to be competitive. This is good for everybody.

want to see the development of islands of excellence."

In a question from the floor, Elenwor Ihua, executive director, Nerfund in Abuja, Nigeria, asked: "Can you have multiple exchanges in any one country?"

Møller of ACE responded: "I think if you have the right regulation then it is healthy to have multiple exchanges. It should be free for all. The dynamics of how each exchange works should be the same. ACE is a donor funded programme. So, this gives us an advantage to implement these services to rural areas – not all exchanges will be able to have such a scope. But in Malawi, where I work, we have a group of farmers with one to two acres who made $30,000 profit combined using warehouse receipts."

Blondin also provided significant insight from his many years of experience: "Yes – multiple exchanges in any one country, of course. You can break them up into geographic areas or product areas as they do in China for example. The crucial factor for survival is: does the exchange add value? Does it have integrity?

"The only real downside to watch out for is that the spread of multiple exchanges in any one country does not impact on liquidity. In the model we have developed, the exchanges will lease the warehouses. In Nigeria, there are loads of warehouses available. But what is really needed is management of the exchanges.

"In South Africa, SAFEX has probably failed in reaching smallholder farmers. So how could you remedy that? This would be possible by working with cooperatives and aggregators.

"We (EAX) are now working with a collateral manager – Collateral Management International (CMI) from South Africa – for the start of any exchange.

"When we are using spot contracts, you can use any commodity. But when you go into derivatives it is much more limited. But the more confidence there is in the collateral management company, then the better it is.

"Is there a risk for the bank? If prices fall, then we allow the bank to liquidate the product. Going forward, we would like the African Development Bank to be part of a guarantee fund that could be put in place to allow a commercial bank to lend a higher amount to the producer in a more secure manner."

Rutten, who has many years experience in establishing a commodity exchange in India, remarked: "In India, we set up an exchange which has facilitated more than $8.6 billion over the past few years. And in that set up, the collateral manager works for the bank. In Africa, it is ridiculous that a government should want to manage an exchange. It needs to be competitive. This is good for everybody.

"In the US, for example, when commodity exchanges were first being established, they spread to have more than 40 of them. Now there are four. There is natural consolidation."

Gross also sees the benefits in having a multiple exchange system and even broadening this to a regional exchange. He stated: "Yes, it can be encouraged as it leads to beneficial experimentation – giving the market meaningful choices about what works best. Competition also tends to make exchanges more responsive to their users. We should also think about national versus regional exchanges. Ultimately, if you have entrepreneurs that want to build a regional exchange, then yes I believe they should have the freedom to go for it, subject to compliance with relevant regulations."

Zambia in the spotlight

A question on the development of a commodity exchange in Zambia came from one of the delegates. The question is particularly relevant as some years ago an agricultural exchange was set up, only to flounder because the exchange did not work for all the parties involved.

Outlining some of the activity that ACE is involved in, Møller stated: "ACE has tried to put out feelers to do trades for Zambia, but there is an overall reluctance for Zambia to get involved. EAX is also looking there.

"ACE is trying to build some regional trade corridors, ie with Harare in Zimbabwe for soybean meal. There is a big liquidity problem in Zimbabwe right now. But by buying soya meal through a warehouse receipt system we can get round some of these liquidity problems. And a commodity exchange can be a driver of these regional trade corridors. It's all about facilitating it.

"We are looking to create some regional corridors. We are looking at Zambia, Mozambique and Tanzania for these corridors to grow naturally. Regional exchanges are the way to grow. And electronic ex-

There is one single word that is essential for a successful commodity exchange – and that word is integrity. If you don't have that then the exchange delivers nothing.

changes can really make this a lot easier. In addition, this will help with overall food security. Regional exchanges really make sense."

A delegate from the floor commented that she has the impression that the government in Zambia is not keen on commodity exchanges now because it thinks they benefit commercial farmers too much and neglect the interests of smallholders.

Responding to this, Gross from NEPAD, said: "In Zambia, in an early commodity exchange model, it appeared as though the exchange may have been driven by the traders. But a lot of value does come from commercial farmers and large traders – they are essential to liquidity, efficiency and commercial sustainability for the exchange. However, an exchange should seek to add value and ultimately provide benefit to all stakeholders – both sides of the transaction – and in Zambia that means the smallholder farmers. Exchanges also therefore have to strive to be inclusive and transparent."

Rutten of CTA added: "You can't have an exchange that only benefits the sellers. It needs to benefit buyers. Ethiopia, Malawi and EAX are all examples of where exchanges have succeeded."

And, in a final question on the use of insurance, Blondin reiterated the importance of using an experienced and knowledgeable collateral manager. He stated: "There will always be risks in agriculture. Insurance is just one option or tool that can be used. EAX uses a very well organised collateral manager for its activity."

In addition, Møller interestingly revealed that ACE is talking to ATI (African Trade Insurance) about the development of a warehouse bond for Malawi.

Final message

In concluding the session, moderator Rutten asked the three panellists to provide a brief final word on the future development

of commodity exchanges in Africa.

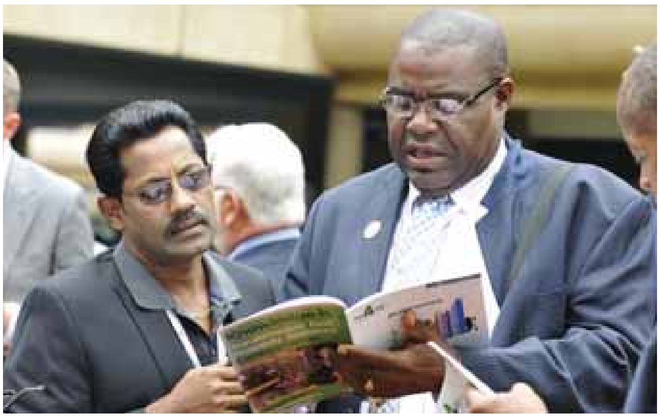
Møller at ACE, said: "I would like to have some fund managers to set up the concept of the Agriculture Storage Investment Fund (ASIF), so that we can facilitate a rural storage infrastructure for the private sector and thereby significantly scale the warehouse receipt system. I look forward to the day when ACE doesn't have to rely on funding from development partners."

And Gross stated: "I feel that governments should put in place the licensing and regulatory framework and should let any entrepreneur that meets the licensing criteria come and set up commodity exchanges freely, rather than there being some kind of approach to pre-select the winners. Let the market decide their preferences for a business model."

While Blondin from EAX, concluded: "I would second those sentiments. As Mandela said: 'Let my people go!'" ■

In the frame - Nairobi Fin4Ag

A selection of images from the Fin4Ag Nairobi conference. These and further images can also be found at: https://www.flickr.com/photos/126512539@N03/

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Evaluating a pan-African proposition

Collateral management is an essential element in the warehouse receipt finance process and the further extension of commodity exchanges. And closely associated with that, the concept of a pan-African collateral management company is something that many are pushing for.
By Jonathan Bell.

'The Ins and Outs of a Successful Warehouse Receipt Finance System' session at the Fin4Ag Nairobi conference at the close of day two of the main programme, took the form of a panel presentation and discussion where much of the attention focused on the important role that collateral managers play within the warehouse receipt process for agri-commodities and the development of collateral management companies throughout Africa.

For some time now there has been the idea of a potential pan-African collateral management company with multiple, diverse investors combining to form such a company that could have a presence and authority across much of the continent. And it is argued that such a set-up could provide collateral management services to a much broader range of agri producers than those able to utilise such services today.

Speaking on the potential of a pan-African company, Alex Kwayu, director, CGS Collateral Control Company, based in Dar es Salaam, Tanzania said that investors for such a company could be drawn from a range of institutions such as: commercial banks – as natural users of the service, development organisations, investment banks, microfinance banks, social security organisations, and even traders and ven-

Collateral management in a nutshell

As banks mostly lend against the collateral of fixed assets, the majority of commodity value chain actors, like most of the small and medium enterprise sector, are short of working capital. Collateral management can unlock floating assets, in particular commodity stocks, as valid collateral for financiers, thus greatly enhancing access to working capital finance. Here, the financier engages a third party, called a collateral manager, to take physical control over the inventory at a borrower's premises. The collateral manager effectively removes control over the stock from the borrower. He provides assurance over the continued presence of the commodities, and is liable to the bank if, in the case of a loan default, the bank finds that the commodities are no longer present. Collateral management has proven an effective tool in lending worldwide. ■

Alex Kwayu, director with CGS Collateral Control Company

ture capitalists.

Kwayu stated that in order to establish such a venture it needed the establishment of a steering committee to drive the plan through. The committee would, he suggested: design the organisation structure, negotiate with prospective investors, register the company, recommend members of the board, recommend a top management team to the board, and oversee the execution of the first transactions to ensure a smooth handover to the management team.

And in elaborating further on the subject of investors, Kwayu noted that: "It's not a new concept to have banks investing in a collateral management company. In Tanzania, I know of one bank that invests in collateral management."

In finalising his presentation on the prospects for a pan-African collateral management company, Kwayu declared: "Collateral management acts as a reliable delivery platform for a commodity exchange. Today the largest collateral managers in Latin America and Turkey are owned by banks. Let us do it now!"

In the discussion which followed, Abdou Konlambigue, programme officer market access, Alliance for a Green Revolution in Africa (AGRA), based in Accra, Ghana, stated that in most countries there is no regulation for collateral managers, and whatever is set up it would need a regulatory body to oversee operations. He also commented that only by setting up a system for properly regulated collateral managers would the quality of produce be improved in an efficient and consistent manner.

In a response to this from the floor, one delegate commented that a pan-African collateral management association would be a more appropriate institution than a company.

In further responses from the floor, Jonathan Coulter of J Coulter Consulting stated: "As regards to setting up a pan-African firm, there is already massive competition from firms in South Africa." He went on to also note: "Generally, collateral managers do not guarantee quality, they tend to focus on quantity. And in public warehouse systems, there is already significant expertise."

The session moderator, Rod Gravelet-Blondin, senior advisor, East Africa Exchange (EAX), pointed out that he knew

Rod Gravelet-Blondin, senior advisor, East Africa Exchange

of at least one African collateral management company that would guarantee 100% quality – ie ensure that the same quality of produce is handed over following warehouse storage. What of course, is not possible he noted, is the improvement of warehoused product quality.

Also on the panel, Nicholas Budd, former partner with White & Case in Paris, and now a part-time consultant with the International Finance Corporation (IFC), pointed out the example of China. In that country he said: "The Chinese government is creating a collateral management company to deal with steel." He also noted that this is something that the IFC is helping to sponsor.

Further to this, he also stated that there had been two examples where banks had tried to establish collateral management companies themselves. In the first instance, he noted that ABSA had sought to set up a field warehouse system for southern African countries, although they subsequently withdrew because of various problems. In addition, he said, Citi had also set up a collateral trust company. But this, although well defined, also failed in practice. Budd stated: "The reality was that none of the other banks would do business with this company because of bank confidentiality."

Budd also noted the need for government regulation, pointing out that if leverage exceeded a certain point, in relation to collateral management set up and activity, it could contravene competition law.

Konlambigue stated that there is a major issue related to confidence in any system that is set up. Speaking on ware-

There are a lot of trade opportunities between African countries, so we should support a proper pan-African collateral management initiative.

Jonathan Coulter, consultant, J Coulter Consulting (left)

house receipt systems, he stated: "You need to know the trader will accept the (warehouse) receipt. You need to trust in the system."

With proper collateral management, most observers of African agri-trading agree that the overall level of trades would significantly increase. Richard Wangwe, East Africa director, Africa Enterprise Challenge Fund (AECF), based in Nairobi, commented: "The concept of the warehouse receipt system best works in a healthy trading environment. So we need to encourage the participants to trade. The more trades you make the more viable the system becomes. In Uganda, for example, co-operatives that stored their crops and waited for the price to go up simply went out of business. The system works when there is regular trading. But standards need to be adhered to."

And directly referring to the concept of a pan-African company, he remarked: "This is an opportunity. There are a lot of trade opportunities between African countries, so we should support a proper pan-African collateral management initiative."

In wrapping up the session, Gravelet-Blondin, concluded: "This is a fascinating area of discussion, and collateral management overall is an issue that is of prime importance. We have only just scratched the surface here today.

"CTA needs to have a conference on just warehouse finance and collateral management. But, the underlying factor should be transparency." ■

As regards to setting up a pan-African firm, there is already massive competition from firms in South Africa.

Exploring new frontiers in agri-finance

Agriculture is tapping into alternative sources of finance, from crowdfunding to factoring. By Helen Castell.

Agriculture is thinking beyond the challenges it often faces with bank finance by stepping boldly into new frontiers. While farmers tap next-generation financing sources like crowdfunding, specialist funds are lining up to invest in the sector and tools like factoring are being adapted to fit agribusiness needs.

Crowdfunding improves farmers' bankability

A recent expansion in crowdfunding is not only allowing farmers to invest in vital machinery or inputs, but can help them prove their creditworthiness and eventually graduate on to bank finance, speakers told a session on day three of the Fin4Ag conference in Nairobi.

CTA launched this February a crowdfunding pilot that has so far financed 60 farmers through a tie-up with market leader Kiva.

"Finance is one of the key elements farmers need to transit from subsistence to commercial," CTA's ICT4D programme coordinator Ken Lohento told delegates.

The programme tackles repayment risk by channelling money through community groups. Local guarantors vouch for farmers that receive loans while other neighbour farmers support them with technical assistance to help ensure that the project they are borrowing for succeeds.

Kiva's crowdfunding platform has already facilitated the disbursement of 700,000 loans with a combined value of $590 million in more than 77 countries, its regional representative for Anglophone Africa, David Kitusa, told the same session.

By helping individuals and organisations extend interest-free loans to farmers, crowdfunding "empowers the bottom of the pyramid," Kitusa says.

Caribbean farmers prepare ground for factoring

The Caribbean is at the forefront of a move to boost farmers' cash flow by ap-

By forcing investors to look further afield for returns, the global financial crisis was partly responsible for the birth of new agricultural investment funds.

plying traditional trade finance products like factoring to agriculture.

With factoring, producers of goods or services sell their 'receivables' (invoices) to factoring companies for instant cash, albeit slightly less than their face value. The benefit to farmers is that they can plough money straight back into inputs for new crops without having to wait for payment. They also safeguard themselves from the risk that a buyer will be unwilling or unable to pay.

Without factoring, it can take six to eight weeks for farmers to get paid for their produce, Jethro Greene, chief coordinator of the Caribbean Farmers Network (CaFAN), told a session at Fin4Ag.

CaFAN is pushing for greater integration of the scattered Caribbean islands' financial systems to help support wider adoption of factoring. And with Caribbean farmers generating $100 million per year from selling their produce to organised buyers, they already have the scale necessary to enable factoring, Greene says.

Factoring company FactorPlus also sees the environment in the Caribbean becoming more conducive to factoring now that more farmers are familiar with the product.

Challenges remain, but FactorPlus is ambitious, according to general manager Niko Kluyver.

"We need a pan-Caribbean factoring product rolled out across islands to realise volumes and buyer diversification," he says.

Financial crisis spawns new breed of agricultural investment funds

Africa has been the biggest beneficiary of a baby boom in new agricultural investment funds (AIFs) over the past decade, delegates heard on another session at Fin4Ag.

Forty percent of new AIFs formed over the period focus on Africa, according to Calvin Miller, senior officer and leader – agribusiness and finance group at the Food and Agriculture Organisation of the UN (FAO).

The growth demonstrates how strong returns on investment, greater risk-sharing mechanisms and the support of governments and development agencies are helping over-ride the perception that African agriculture is high risk.

By forcing investors to look further afield for returns, the global financial crisis was partly responsible for the birth of new AIFs.

At the same time, specialist funds like Incofin Investment Management and Root Capital have sharpened their focus on 'impact investing' – aiming to promote financial inclusion and support farmers with technical assistance and training in business skills. ■

Afreximbank's crucial role in value-added agri projects

**Afreximbank president, Jean-Louis Ekra, spells out the need for further agricultural product processing within Africa.
By Jonathan Bell.**

"Africa requires $21 billion over the next 10 years to fill the finance gap in agricultural financing," remarked Jean-Louis Ekra, president of African Export-Import Bank (Afreximbank) during the 'Best practices in agri-value chain finance' session on day one of the Fin4Ag conference in Nairobi.

Speaking in the session to an audience of close to 400 delegates, the Afreximbank president referred to the need for increased financing for infrastructure, irrigation systems and other facilities. At the same time, he stressed the importance of greater agricultural product processing within Africa for the benefit of economic development across sub-Saharan Africa.

He stated: "Twenty-one years ago we started with warehouse financing of soft commodities – primarily cocoa, coffee and cotton. However, we saw that countries weren't generating enough added-value. As such, we launched the Africa Cocoa Initiative (AFRICOIN)* to help producing countries further process the product."

He added: "Cote d'Ivoire, Ghana, Nigeria and Cameroon account for almost 80% of global cocoa production. The idea is that by 2020 we want to transform the cocoa production and processing capabilities of those countries.

"To this end, we have started financing indigenous producers and exporters to add value to cocoa – by producing cocoa butter and cocoa cake. So far we have been able to finance producers in Cote d'Ivoire, Nigeria and Ghana."

The Afreximbank president also noted that Germany's KfW has pledged $100 million to help develop AFRICOIN, through a multi-faceted financing component.

In addition, Ekra asserted: "Our objective is not to simply stop at cocoa, but to build and duplicate this objective to other projects – particularly with rubber and palm oil. We have started with Olam in Gabon where we have put more than $100 million into a palm oil project, which will take the production cycle all the way through to palm oil, butter and other products."

With regard to AFRICOIN, during 2013, the bank provided a $17.5 million dual tranche receivable-backed financing facility in favour of FTN Cocoa Processing, Nigeria (FTNCP). The proceeds of tranche one is being used to refinance existing debt obligations of FTNCP due to United Bank of Africa ($6.875 million) and Union Bank of Nigeria ($1.2 million). The $9.425 million proceeds from the second facility will be used to finance the purchase of cocoa beans and other inputs for the processing of cocoa beans into cocoa butter and cake for export.

Jean-Louis Ekra, president of African Export-Import Bank

Though FTNCP initially applied for working capital financing as specified in tranche two, the bank, after assessing the company's needs, realised that the company needed more than working capital to enable it to fully utilise its current installed capacity. The bank thus offered the term facility to underscore its determination to support entities in the agriculture value chain that promote export diversification.

The support provided by the bank enabled the company to fully utilise its installed plant capacity, raise productivity and quantity of its finished products, and secure more profitable partnerships with major offtakers of processed cocoa products. Further, the bank's support enabled the company to create about 380 (130 direct and 250 indirect) jobs.

The company's contribution to Nigeria's foreign exchange earnings capacity was also raised to about $40 million per annum. This is alongside other contributions in the form of socio-economic development under the company's corporate social responsibility to its local community, and training programme for local cocoa farmers, among others.

In addition to this, in 2013 the bank supported other companies in the cocoa value chain in Cote d'Ivoire under the AFRICOIN. The support included a $45.5 million pre-export receivables-backed finance facility to Société Amer et Freres Cacao; a $13 million export receivables-backed financing term loan in favour of Société D'usinage et Conditionement du Sud-Ouest; and a $13 million pre-export receivables-backed facility in favour of Choco Ivoire.

The various assistance programmes extended by the bank to the export processing companies is expected to create more jobs, both direct and indirect, and contribute to improving the foreign exchange earnings of Cote d'Ivoire.

**Afreximbank launched AFRICOIN in 2012, and the bank expanded the activity considerably in 2013. AFRICOIN is intended to: (i) facilitate productivity growth in African cocoa farms, (ii) promote and finance increased processing of cocoa beans into industrial raw materials (cocoa liquor, cocoa powder and cocoa butter) to feed manufacturing plants in Africa, Europe, North America and Asia, and (iii) promote consumption of cocoa in origin countries.* ■

Applying capital market tools for agri-financing

TXF explores what Africa's agricultural sector can learn from Brazil's engagement of capital markets. By Hesham Zakai.

With an immense amount of financing required in African agriculture, bank financing alone – at least in the current climate – is insufficient. The same was true of Brazil and the agricultural sector in the early nineties, paving the way for the introduction of the capital markets into the commodities sphere there.

The sector engaged the capital markets through its use of Rural Product Notes (Cedula de Produto Rural or CPRs), essentially bonds that can only be issued by farmers and cooperatives and rural associations whereby they pledge a certain amount of crops or cattle in return for financing. The CPRs are collateralised either by future crop produce or farmers' livestock.

There are two types of CPR:

1) Physical CPRs, where a farmer commits to giving a certain amount of their produce at an agreed place, at an agreed time, in exchange for financing. The financing is typically used to purchase equipment or recruit extra labour to maximise crop yields.

2) Financial CPRs that can be issued by banks to other credit providers that have already agreed to finance the farmer – for example an input supplier willing to sell on credit.

Electronic CPRs have also developed over the past several years, streamlining the process.

The CPRs opened up the possibility of credit to hitherto financially excluded farmers, as they were able to obtain credit against them. The CPRs are not designed for smaller, subsistence farmers.

"They are issued by mid-sized farmers, those with more than 100 cattle or 50 tonnes of crops. These instruments are for emerging markets," commented Lamon Rutten, manager – policies, markets and information and communication technologies (ICTs) at the Technical Centre for

The success of the programme in Brazil and its boost for Brazilian agribusiness, including core commodities like coffee, cotton and cocoa, has prompted the IFC to look to implement a similar scheme in other countries in which it operates.

Agricultural and Rural Cooperation (CTA) at the Fin4Ag conference in Nairobi.

The avenue is not completely shut for small producers, however. They can still make use of capital markets to finance transactions by aggregating their products through cooperatives.

Farmers who want to utilise the benefits of a CPR should be encouraged to reach the requisite size, according to Rutten, rather than hope for the solution to be tailored to their band in the future.

"You need to be of a certain size and farmers need to get up there to access CPRs. You shouldn't try to engineer this programme downwards, as it would be too expensive for subsistence farmers and would not work in the same way," added Rutten.

He also noted that a group of farms can create a special purpose vehicle (SPV) – and by so doing bundle-up the process to sell receipts in the capital markets. Receipts are of course also tradable on commodity exchanges.

CPRs have proven to be a huge success in Brazil, with more than 600,000 CPRs registered last year. That success has been built on certain key foundations.

Firstly, they have a strong legal status, whereby the terms of the CPR are enforceable through out-of-court arbitration. This is critical for financier confidence as judicial courts, particularly in certain emerging economy countries, are not particularly efficient and sometimes subject to external influence.

Under the terms of Brazil's CPRs, a seller cannot use force majeure as an excuse to default on payments. Moreover, in the event of a default, the buyer has priority rights over other claimants.

CPRs also require a close integration of farmers into an agriculture value chain, which entails an effort on behalf of all stakeholders. This effort also needs to be extended into the development of electronic registries to hold the CPRs and the engagement of agencies to help oversee the system.

The bonds in Brazil have now become more advanced and incorporate new possibilities for farmers and financiers alike, such as the more sophisticated CDCA, which is a guarantee of payment in cash backed by certain receivables.

As in Brazil, investment funds, pension funds, insurance companies and other capital markets players can certainly perform an important role in agricultural markets in Africa. For this to happen, the above-mentioned foundations on which the success of CPRs in Brazil are built would certainly need to be replicated: a strong legal framework, market-oriented farmers and a centralised registry.

The success of the programme in Brazil and its boost for Brazilian agribusiness, including core commodities like coffee, cotton and cocoa, has prompted the IFC to look to implement a similar scheme in other countries in which it operates.

When Africa does pursue that path, it will surely have a strong blueprint already in place over many years to follow. ■

Lamon Rutten, manager – policies, markets and information and communication technologies (ICTs) at the Technical Centre for Agricultural and Rural Cooperation (CTA)

Farmers seek better relationships with banks

Farmer organisations commit to strengthening governance and building better business skills. By Helen Castell.

One of the liveliest debates at the Fin4Ag conference in Nairobi centred on the responsibilities that farmers have in facilitating agrifinance. Although heated criticisms of banks' lack of understanding of agriculture came thick and fast, farmer groups also pledged to help bridge the gap by improving their record keeping and business skills.

One thing that both financiers and farmers agreed on is that farmers are easier to finance if they are organised in big collectives and associations.

Smallholders need to pool their resources so they are "big enough to be bankable," Theo de Jager, president of the Southern African Confederation of Agricultural Unions (SACAU), told the 2nd African Continental Briefing, just before Fin4Ag kicked off.

By working collectively, smallholders can negotiate a better deal with private buyers and financiers, agreed David Ruchiu, Africa director for Farm Concern International.

A strong relationship with the private sector is crucial to the future of farmers, who need to wean themselves off government handouts and subsidised loans, according to Lamon Rutten, manager – policies, markets and information and communication technologies (ICTs) at the Technical Centre for Agricultural and Rural Cooperation (CTA).

To get the most from commercial banks, farmers need to think like a business and observe how other sectors tap finance, Esther Muiruri, general manager of agribusiness at Kenya's Equity Bank, told delegates on day two of Fin4Ag.

While banks have a responsibility to understand the needs of farmers, farmers also need to prepare business plans and take steps to identify and mitigate risks before they approach banks for finance.

While banks have a responsibility to understand the needs of farmers – Equity Bank, for example employs staff who are trained in agronomy – farmers also need to prepare business plans and take steps to identify and mitigate risks before they approach banks for finance, Muiruri argues.

To do so, farmers first need to improve their record keeping. Keeping detailed records of financial incomings and outgoings as well as the use of inputs and yield produced can create a picture of a farmer's credit risk that banks are happier to lend against, Fred Kiteng'e, director of lending, East and Southern Africa at Root Capital, told one of the final sessions on day three. The practice also helps farmers take control of their business and improve profits.

Farmers also pledged on day three to improve the governance of farmer organisations – still a major obstacle for some when trying to obtaining finance. One delegate from Uganda's Centenery Bank called for legal crackdowns on leaders of farmer organisations that are suspected of corruption or mismanagement. His comments met with widespread approval from farmers and financiers alike.

Noting that the comments had touched a "nerve centre," de Jager acknowledged the problem but said that farmer organisations need access to better training and that this is something development agencies could invest in.

Indeed, providing more technical assistance, not only in terms of governance and business skills but in technology and agronomic practices, is something that most banks, governments officials and development agencies acknowledged at Fin4Ag as a responsibility – their part of the bargain.

As de Jager summed up, loosely quoting Confucius: "Don't give them fish – teach them how to fish." ■

Kenyan coffee farmers look to broader horizons

Kyanzavi: a model of how organisation and scale help coffee producers attract – and repay – finance.
By Helen Castell.

Kenya's Kyanzavi Farmers Cooperative is one example of how clubbing together into a single commercial estate can help individual farmers improve their yield, attract finance and pay it back.

It is also emblematic of the challenges and opportunities African agriculture faces. An electric pump, for example, would allow the Kyanzavi estate to install a new irrigation system that could double its production – but it needs additional investment to afford one – according to chairman James Muema.

A model in organisation

Already Kenya's biggest coffee estate in terms of yield, Kyanzavi was formed from the union of around 1,800 individual farmers. It expects to produce 350 to 400 tonnes of coffee next year from 450,000 Arabica trees that stand in neat rows across 800 acres of land.

It is also one of the country's best organised estates. During a field trip to Kyanzavi as part of the Fin4Ag conference, TXF was guided around its production facilities as Sasini general manager (coffee), James Muriithi Kieu, talked us through the stages of coffee processing.

After picking, the coffee beans enter pulping machines. These squeeze the ripened beans from their skin, which is then recycled as fertiliser. The beans then sit in fermentation tanks for six to 12 hours to break down their sugar content, before being cleansed in washing channels. An

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overnight soaking removes impurities. The beans are then spread on drying tables to cut moisture from 60-65% to around 10% and slash toxin levels. They are later milled and prepared for auction at the Nairobi Coffee Exchange or – preferably – for direct sale at a premium to private offtakers.

The estate is managed by a board of directors and pays its workers more than Kenya's government-set minimum wage.

High-quality borrower

Kyanzavi also demonstrates how agriculture can be a relatively low-risk investment for banks, as long as it is organised and on a big enough scale.

Kenya's Coffee Development Fund (CoDF) started financing Kyanzavi in 2011 with a Ksh20 million ($228,000) loan, according to resource mobilisation officer John Amimo. That loan, and all subsequent finance, has been repaid in full.

CoDF's loans to Kyanzavi are disbursed in tranches, in line with the coffee calendar. To minimise risk the money is, where possible, disbursed directly to the estate's suppliers. A first tranche is typically released in October or November to cover the cost of land preparation, initial inputs and casual workers' wages. A second tranche pays for pesticides. A third tranche is paid at harvest time, at which point the loan is repaid by a government-licensed marketing agent that buys the coffee from Kyanzavi and sells it on for local auction or export.

Financing Kyanzavi is made easier by the fact that all 19 of the plots into which it is divided come with the title deeds to the land. The fund typically takes two or three of those deeds as security. It would be much more difficult to finance a coffee co-operative where the smallholders involved did not hold title to the land they farmed, acknowledges Amimo.

Government funding crowds out commercial lenders

State-sponsored CoDF was set up in 2006 with a mandate to help coffee producers access affordable, sustainable credit to improve the quality and quantity of their coffee and stabilise farmers' incomes.

It was initially granted seed money from the government to enable it to lend at subsidised interest rates of around 5% to 10%. Although the intention was "honourable" and the fund has supported a large number of borrowers, this also means that CoDF has crowded out private lenders, who are unable to compete on rates, says Amimo.

The government is now preparing to withdraw its financial support for CoDF, which could help level the playing field for commercial banks interested in agriculture. However, the fact that CoDF has gathered an unrivalled database of information on coffee growers' risk profiles and repayment histories means it should be able to keep its rates low for quality borrowers.

The government is now preparing to withdraw its financial support for CoDF, which could help level the playing field for commercial banks interested in agriculture.

Non-performing debt shrinks

The fund has not always had an easy time, with around 20% of its total portfolio currently non-performing. Much of this bad debt however was created in the fund's first two years of existence, says Amimo. As its experience in the sector and ability to risk-assess potential borrowers has grown, default rates for new loans have shrunk dramatically, he says.

The fund also expects to be able to collect around 15% to 20% of its total bad debt over the next two years as the withdrawal of Cooperative Bank of Kenya from the sector means borrowers will have to come back to CoDF and repay non-performing loans before they can receive more credit. ■

M-Kahawa mobile service enhances coffee production

The increase in mobile phone use and growing trust in mobile money platforms has opened an array of opportunities for business. To further capitalise on opportunities offered by mobile money, the Coffee Development Fund (CoDF) in partnership with telecoms company Safaricom has launched a mobile money service dubbed M-Kahawa ('M' for mobile and 'Kahawa' a Swahili term for coffee) targeting the coffee industry.

The service, which aims to significantly improve the speed of credit delivery, has been piloted in several coffee societies and the initial results are very encouraging.

A cherry advance payment to an individual farmer, for instance, can be made within 48 hours of application.

The service is especially useful to smallholders who have cash flow challenges after harvesting their crop, with a quick alternative being to sell coffee to middlemen at throw-away prices, a practice commonly known as cherry hawking.

"This has made these farmers lose out in big way, as the beneficiaries of their efforts are these middle men," says Richard Belio Kipsang, managing trustee and CEO at CoDF. "This is why the fund has come up with an ICT based leverage in the form of M-Kahawa service."

"M-Kahawa is a huge relief to our farmers. The payments are prompt, our farmers now feel in control of their finances and production," says Joseph Koskei, chairman of the Kamiwa society, one of the societies involved in piloting M-Kahawa service.

M-Kahawa is designed to work seamlessly with the M-Pesa platform, meaning farmers do not need to use different pin numbers to access their funds. Key among other benefits is the affordability of the service.

Coffee farmers can now lodge their loan application at their respective societies and access funds from their phones. This considerably lowering travel costs to previous pay points.

"Despite the rapid uptake of mobile money use in various business sectors the agricultural sector is yet to maximise the full potential of mobile money. I believe M-Kahawa will add new knowledge to the way agri-finance is conducted," says Mburu Gatukui, the M-Pesa business development manager at Safaricom.

During the piloting of the service, some 1,000 subscribers registered and a cumulative Ksh4 million was disbursed in the form of micro-credit.

"Our intention is to make M-Kahawa a fully fledged mobile information and banking service for coffee farmers. Mobile money can be a huge incentive to coffee production due to improved cash flows to coffee farmers," says John Amimo, resource mobilisation officer at CoDF.

CoDF serves 400 coffee cooperatives and over 700 coffee estates. The fund says the lives of over 67,000 coffee farmers have been transformed since it started its operations in 2006.

Helping apitrade development in Ethiopia

Bert-Jan Ottens, managing consultant at ProFound in the Netherlands, provides an insight into the financing of beekeeping in Ethiopia.

In 2012, ProFound together with the Ethiopian Apiculture Board, SNV Ethiopia and Enclude (formerly Triodos-Facet) initiated the Apiculture Scaling-up Programme ASPIRE.

ASPIRE aims to enhance rural incomes in Ethiopia through beekeeping activities and increase the export volumes of bee products, including honey and other value-added apiculture products such as beeswax, propolis, pollen, royal jelly and bee venom.

Beekeeping is a traditional off-farm activity for an estimated 1.4 million rural households in Ethiopia, earning them a third of their total household income. The country is the world's 10th biggest honey producer and the 4th largest beeswax producer.

The beekeeping sector in Ethiopia

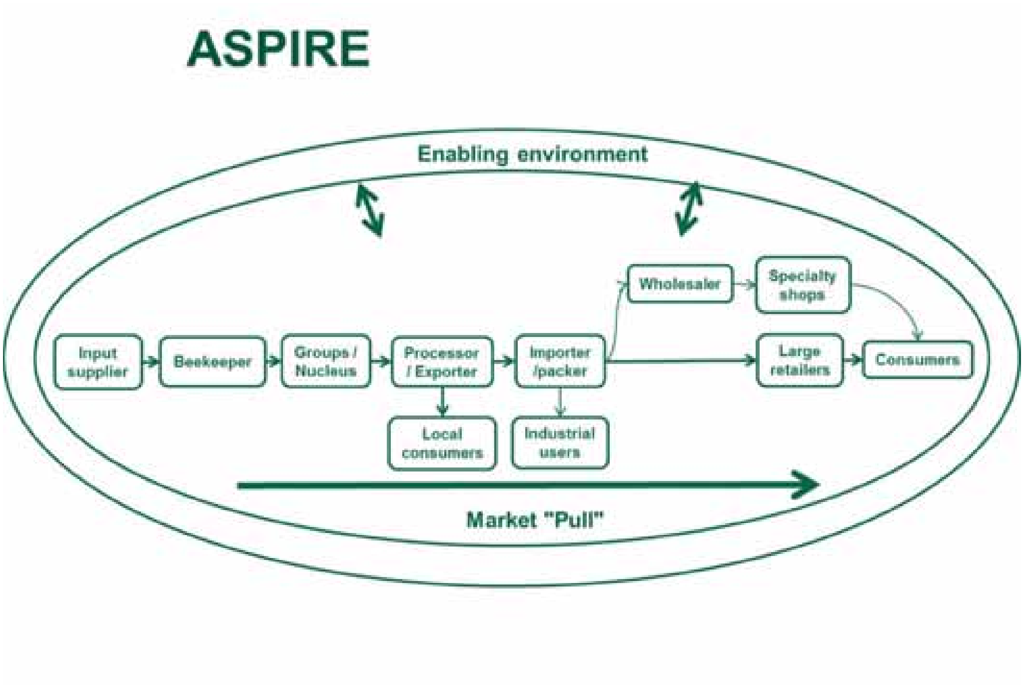
At present, the EU imports only 0.1% of its honey from Ethiopia. However, the demand for Ethiopian honey is growing continuously, due to the increased interest in alternative sources of good quality honey. In 2012, main EU importers of Ethiopian honey were Norway, the UK and Germany. The Middle East and the domestic market in particular are interesting markets for Ethiopian honey.

However, despite its long history, beekeeping in Ethiopia has not yet reached its full potential. The knowledge and skills of Ethiopian farmers in honey production and beeswax extraction have remained relatively traditional and inefficient. The country produces 40,000 tons of honey and 400 tons of beeswax annually, but it could produce up to 500,000 tons of honey and 50,000 tons of beeswax per year. However, in order to realise such production quantities, further upgrading and up-scaling of the existing value chains is required.

ASPIRE is using the value chain approach in order to achieve such objectives. The value chain approach looks at the entire chain of actors who add value to a product, from the raw material supplier to the final end-user. It recognises the interdependence between the different value chain actors. The main goal of the value chain model is to deliver maximum value for the least possible total cost. Figure 1 on the next page provides information on the ASPIRE value chain approach to:

- Better organise beekeepers
- Facilitate access to business development services
- Ensure access to capital
- Ensure access to markets
- Build capacities of sector organisations
- Build knowledge in the honey value chain.

Figure 1: ASPIRE's value chain approach



ProFound's focus of activities and interventions is on processors, as they have the most power to influence other actors in the Ethiopian part of the value chain. As can be seen from the figure above, the processors are placed in the centre of the value chain as they are key to beekeepers, input suppliers, and consumers in the local market or abroad.

ProFound's approach in facilitating market access for these processors/exporters encompasses four steps, which are explained below.

Step 1: Market analysis and company audits

Market analysis

According to our value chain approach, market needs and requirements must be identified through market research in order to determine which interventions are needed in the value chain. Initially, ProFound made an analysis of the European honey market which was distributed to all relevant stakeholders in the programme, including companies, sector organisations and programme partners. The market analysis confirmed the European market potential for Ethiopian honey, but also showed that compliance with European market requirements needs considerable upgrading of human, technological and financial business capacities.

Additionally, ProFound conducted a market analysis of the Ethiopian market for bee products. This research showed that the local market also offers plenty of opportunities, and that market requirements are less demanding than in Europe, making the Ethiopian market accessible to processors with moderate business capacities.

Company audits

In order to determine the capacities of Ethiopian processors, these companies need to be audited. The audits cover their supply chains, performance, product characteristics, sales promotion and finance structure and requirements. Since the start of ASPIRE, some 17 processors have been audited.

Figure 2: ProFound's 4-step approach to market access facilitation

Step 2: Gap analysis

ProFound analysed the information derived from the company audits, in order to determine GAPs between actual capacities of the respective companies and their required capacities to successfully enter identified target markets. Although this information is confidential, common gaps relate to the following aspects:

- Internal:
  - Market knowledge
  - Company mission/strategy
  - Quality control
  - Export packaging
  - Incomplete promotion materials/documentation
  - Written communication
  - Working capital

- External:
  - Adulteration
  - High raw honey prices.

Step 3: Marketing strategies

Marketing strategies enable processors to more efficiently and effectively access target markets which they have identified for their products. Moreover, processors need to make an action plan to overcome their capacity gaps, in order to be able to implement their marketing strategy. ProFound supports companies in formulating their marketing strategy. When the marketing strategy is finalised, companies can proceed to step 4: trade fair participation and matchmaking.

Step 4: Matchmaking and promotion

The goal of matchmaking is twofold:

- Familiarise participants with buyers of bee products and their business ethics
- Explore matchmaking opportunities.

In February 2014, the first trade fair activity was organised: a four-day matchmaking tour in Germany. ProFound had made appointments with nine potential buyers and a list of potential buyers to visit. As a result of the matchmaking tour, two out of the four companies signed agreements with buyers to supply their products to them. The other two got the opportunity to develop their business and address their capacity gaps based on that experience.

One of the major capacity gaps of Ethiopian processors concerns their prices. Prices of Ethiopian honey are high compared to global market prices, partly due to high prices in the domestic market. Ethiopian processors have an urgent need to increase the availability of quality bee products at lower prices. This requires training of beekeepers, but also improved access of beekeepers to affordable input materials. As this largely depends on access to finance to purchase such materials, ASPIRE also has a strong value chain finance component.

The Ethiopian economy is significantly credit constrained. Processors, value chain intermediaries (traders, collectors, etc.) and in particular smallholder farmers/beekeepers, have only limited access to financial services, including credit. Banks favour investments in other industries, that are considered to be less risky, and MFIs do not finance apiculture groups, which are considered too risky. ASPIRE therefore provides financing throughout the value chain, ranging from small credits for beekeepers to a guarantee system to leverage financing from banks.

There are several financing models to channel credit to beekeepers: through honey processors, via cooperatives or cooperative unions and through MFIs. Financing of the beekeeper starting package can amount to ETB5,000 ($253) and includes beehives, protective clothes and tools.

ASPIRE decided to mainly finance beekeepers through processors. The model involves processors taking loans from banks, to purchase the input material for the beekeepers. Honey processors establish beekeeping out-grower groups, or similar long-term supply arrangements, and provide beekeepers with support including training. The processors supply their out-growers with starter packages, the cost of which is repaid through future honey deliveries. After the loan is repaid, beekeepers and processors continue trading.

However, processors are limited in terms of access to finance as banks consider the procedure risky. That is why ASPIRE created the ASPIRE Guarantee Fund to leverage such financing. The fund has a size of €800,000 ($1.07 million) and provides 50% coverage. This means that, in case the processors are unable to pay back, the guarantee fund will pay 50% of the lost value to the bank. However, it is anticipated that over time, and as the apiculture sector matures, the need for such assistance will be reduced.

ASPIRE believes that financing beekeepers through processors can lead to a sustainable and strong value chain. Beekeepers lack in many cases the knowledge and the links to the market. Matching processors with beekeepers solves both these issues, as the processors provide training and create a direct link with markets for the beekeepers. Moreover, processors have good knowledge of their out-growers' skills and will therefore supply appropriate technology.

However, it is noted that giving processors a role in credit provision to beekeepers obviously exposes them to the risk of non-performance by the beekeepers, for example due to technical failure or side-selling. That is why only beekeepers with interesting products and high incentives are linked with processors. There needs to be a significant level of social capital in the business, such as trust between the beekeepers and the processors, for this model to work efficiently.

Lack of working capital was another significant gap which ProFound identified among the processors. Processors need working capital to bridge the time between the payment for raw materials to beekeepers and the payment by their respective buyer. This can cost up to around €40,000 ($53,800) for a few months, for an exported container. Qualifying companies applying for a working capital loan have to submit a good quality business plan, including a marketing strategy. This helps banks in assessing the risks of lending money to the company and provides an incentive for companies to prepare a good marketing strategy.

As the sector becomes better organised and more profitable, financing opportunities will increase. Awareness of banks and MFIs of such innovative agri-finance can be actively pursued by involving financial institutions in this development model. ■

ICT entrepreneurs in Africa drive agri innovation

Entrepreneurs across the continent are plugging into new technologies to help drive change across Africa's agri-value chains. Hesham Zakai assesses some of the initiatives.

When considering the potential for ICTs (information and communication technologies) to enable change, the agricultural sector – with its timeless landscapes, rusty machinery and manual labour – may not be the first place that comes to mind. Yet all across the African, Caribbean and Pacific group of states (ACP), ICT innovations are helping to drive change across agricultural value chains, from mobile payment systems to centralised information registries.

"The ICT revolution in agriculture is well underway – we just need to keep progressing at this speed," says Ben Addom, ICT4D programme coordinator at the Technical Centre for Agricultural and Rural Cooperation (CTA).

The chief protagonists in this revolution have showcased their developments at successive CTA conferences, including this year's Fin4Ag conference in Nairobi and last year's ICT4Ag edition in Kigali.

"The so-called 'Plug & Play' days demonstrate in an easy and practical manner a lot of innovations for agriculture and give people the chance to interact in a hands-on manner with new ideas," says Addom.

By bringing together different stakeholders, from policymakers and entrepreneurs to farmers and financiers, the conferences act as a digital springboard for inclusive agriculture, with the ultimate aim of working towards a financing and ICT architecture that involves people from all levels.

"There are always a number of great applications at the Plug & Play days that strike me. One of them this year is about bringing 'investable' farmers to investors. Another one profiles farmers, enabling them to get access to finance. We tried to match these two complementary initia-

Ben Addom at CTA: "The so-called 'Plug & Play' days demonstrate in an easy and practical manner a lot of innovations for agriculture and give people the chance to interact in a hands-on manner with new ideas."

tives. Overall, there are entrepreneurs doing exciting things across the ACP," adds Addom.

A number of platforms seeking to find practical solutions to existing challenges were on display at Fin4Ag 2014.

These challenges include bridging the gap between risk perception in Africa and actual risk in the continent, as well as combating the idea that smallholder farmers are not bankable.

One of the ways in which this is done is through the provision of more comprehensive information to banks, microfinance and other financial institutions to improve the prospects of credit being granted. Some platforms allow potential investors to track in real-time the operations of farmers through the use of GPS data.

Other platforms seek to better connect different stakeholders across the value chain, from farmers to traders to bankers. The range of solutions offered reflect the challenging conditions in which many producers operate, despite the growth in recent years of Africa's agricultural sector.

Linking farmers with financiers

Tangaza Pesa aims to accelerate the process of money transfers across Kenya, improving the cash flow of farmers who often struggle for liquidity. The first step to achieving this goal, however, is not in the transfer technology but in creating confidence for financiers when it comes to providing loans to farmers who need them in the first place.

It does this through a platform that allows farmers seeking finance to register onto their database and make loan applications to Tangaza's pool of potential investors. One of the lures for the investors is in the KYC compliance measures Tangaza undertakes, procuring farmers' photograph and biometric details, as well as checking their ID against the government's registry.

ICT4Ag policy recommendations

1. **Developing partnerships to ensure positive impacts of ICT4Ag initiatives.**
2. **Supporting ICTs for extension and advisory services.**
3. **Supporting open and big data for smallholder farmers.**
4. **Ensuring the reliability and availability of high-quality information.**
5. **Ensuring grass-roots access to ICT solutions.**
6. **Strengthening the involvement of young people and women in ICT4Ag initiatives.**
7. **Supporting ICT4Ag entrepreneurship and promising business models.**
8. **Supporting sound strategies and high-level political buy-ins for ICT4Ag.**
9. **Promoting adequate infrastructure and energy for ICTs in rural areas.**
10. **Promoting sound knowledge management activities.**

"Not even banks have biometrics in Kenya, so we offer financiers the highest level of security," says Gichane Muraguri, director at Tangaza Pesa.

Alongside this confidence, financiers are also offered convenience, with the ability to automate loan application, approval and disbursement processes according to predetermined criteria. Financiers are able to see farmers' sales and the value of their inputs, allowing them to track the loan from issue to repayment.

More sophisticated information on the farmers can also be provided by local, on-the-ground agents. "Agents can go to a location where the farmer operates and provide not only GPS data but an in-depth profile of farmer to financiers, such as the number and range of animals they have

on their farms or income details," comments Muraguri.

All of the information helps to build a better credit profile for farmers who are often otherwise financially excluded, thereby improving their credit prospects. Just as critically, there is a low barrier for entry, with applications and repayments made from any smartphone or tablet device – across all networks.

Tangaza operates under the directives of the Central Bank of Kenya and currently has around 2,000 farmers enrolled onto its programme. It hopes to rapidly accelerate that number through engaging with farmers and financiers, including providing demonstrations of its platform.

"To witness the operation live gives it a reality, as potential investors see real numbers, real transactions. It provides an actual demonstration and proves to people that it really works. The more we can demonstrate this, the more we can grow," says Muraguri.

Despite the excitement surrounding these various innovations and initiatives, Addom warns that it is important to ensure that strong and sustainable business models underpin new platforms.

"Last year we saw that almost all the platforms had challenges with business models because they tell you it's free, so we naturally ask: how do they sustain it? This year we saw different business models and we hope that things will continue to change in this way," says Addom.

There are also a number of policy recommendations that have been brought forward with the aim of ensuring other sustainable changes and the full harnessing of the potential of ICT4Ag.

As the digital landscape globally continues to evolve, so too does the agricultural landscape in places such as the ACP, simultaneously challenging misconceptions and driving innovations. ■

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Mobile finance shifting to rural areas

Service providers are looking to replicate the success of mobile finance in urban areas.
By Max Carter.

Mobile finance has undergone strong growth in recent years, with more than 220 operational platforms worldwide. While the majority of these have so far been confined to urban areas, providers are fast realising the need to break into rural regions to expand market share and achieve nationwide presence.

The agricultural sector is an ideal entry-point into these communities, given the keenness of commodity buyers to move away from inefficient and more expensive cash payments to producers. With cash transactions comes the increased risk of theft and violence, high transportation costs and greater possibility for corruption.

Dr Lee Babcock, an independent consultant working with The Technical Centre for Agricultural and Rural Cooperation (CTA), has set up the Mobile Strategy Unit for ACDI/VOCA (mobile money and mobile data) and believes that CTA is at the forefront of leveraging digital technologies for the benefit of farmers.

"We want to embed mobile into the agricultural supply chain," says Babcock. "The key to this is leveraging the corporate procurement policies of large buyers."

Integrating mobile into agri supply chains

Companies across Africa are looking at diverse ways of integrating mobile finance solutions into the agricultural supply chains. Uganda's SmartMoney works with large cotton and coffee buyers to transition their cash payments to mobile payments

The largest cotton buyer in Zambia, NWK, has offered incentives to farmers in its pursuit of moving to e-payments.

Zoona, currently in use by partners in Zambia, Zimbabwe, Malawi, and Mozambique, provides organisations and government agencies with a method to send bulk payments for specific purposes, including fertiliser and seed subsidies, short-term savings for farmers to manage seasonal income, and in-kind donations such as food or other agricultural inputs.

This drive is not restricted to smaller or specialist local companies. In Ghana, the

Dr Lee Babcock at CTA: "We want to embed mobile into the agricultural supply chain. The key to this is leveraging the corporate procurement policies of large buyers."

American multinational financial services corporation VISA has funded a RiMFin pilot which transitions cash payments of the largest rice buyer in the country, Gadco, to TigoCash payments.

There are of course numerous challenges to overcome, with illiteracy amongst the target rural user-base a key barrier. In light of this, Zoona, which offers an e-voucher service, opted to deliver their service to end-users through both mobile wallets and via paper scratch-cards.

Chrissy Martin, global partnership manager at E-Vouchers, has found that the paper-based distribution method works better in rural communities where many people trust and understand scratch-cards, which are extensively used for mobile airtime top-up.

Wisdom Alorwuse, project coordinator at Millicom Ghana, which is implementing RiMFin in Ghana, comments that in a survey they conducted of rice farmers in the country, 68% were unable to send an SMS. This led RiMFin to embark on an education exercise with farmers that has, to date, educated more than 800 farmers in the use of their platform.

Despite the evident challenges, the potential on the continent is significant. "Some 80% of Africans have mobile phones and 70% live in rural areas," explains Michael Spencer, founder and CEO of SmartMoney, "whilst rural institutions can lose up to 15% of their entire annual operating budget in cash-related payment costs."

Cash is the only available form of payment in many of these rural areas, adds Spencer. "There are no credit cards and a lack of trust in banks."

SmartMoney's solution allows rural users to store and exchange money using basic GSM mobile phones, with no need for smart phones or internet access. Their revenues are earned from fees charged to larger agricultural companies, which means SmartMoney can offer a free service to rural users. This could give them a competitive edge as rural users are often excluded from existing mobile money providers by prohibitive transaction fees.

It is not just technology firms pushing this revolution. Cotton purchaser NWK is also taking an innovative approach by offering life and weather insurance products to Zambian farmers in return for them moving from cash payments to e-vouchers, and most recently pre-paid bank cards.

"The benefits far outweigh the cost of the premiums," says Agrotosh Mookerjee of MicroEnsure, a partner in the scheme. The scheme has seen approximately $380,000 insured with strong scale-up demand and interest from insurers and reinsurers.

With more and more entrants into the mobile finance market, the choice for rural customers looks set to grow. More importantly, perhaps, so will the education process needed to ensure that those who most need such schemes are able to benefit from them. ■