

Agricultural Value Chains – Spotlighting Opportunities and Managing Risks

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Introduction

- I would like to convey the most sincere regrets from Professor Benedict Oramah, President and Chairman of the Board of the Africa- Export Import Bank (Afreximbank), for his inability to be here today due to unavoidable scheduling conflicts.
- I want to convey his gratitude to the organisers for the kind invitation
- I will be making this Presentation on his behalf.

In this Presentation, I shall:

1. **Introduce Afreximbank & provide highlights on its strategic thrust**
2. **Review the nature of Agricultural Value Chains, highlighting the opportunities and risks, using practical examples (cotton and coffee)**
3. **Present some of the Bank's intervention in Agricultural value chains**
4. **Conclude and Suggest a Way Forward**

1. Introducing Afreximbank

Corporate Profile

Who we are

A pan-African multilateral trade finance institution created in 1993 under the auspices of the African Development Bank.

Vision

To be the trade finance bank for Africa.

Mission

To stimulate a consistent expansion and diversification of African trade, so as to rapidly increase Africa's share of global trade; and in doing so, to operate as a first-class, profit-oriented, socially responsible financial institution and a "Centre of Excellence in African Trade Matters."

Mandate

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

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

Shareholding structure

The Bank currently has four classes of shareholders:

- **Class “A”** Comprising of African governments, the African Development Bank (AfDB) as well as African continental, regional and sub-regional financial institutions and economic organisations.
- **Class “B”** Made up of African national financial institutions and African private investors.
- **Class “C”** Comprising of international financial institutions, economic organizations, non-African financial institutions and non-African private sector firms.
- **Class “D”** Open to subscription by any investor, African or non-African.

Top 20 Shareholders

#	Class	Shareholder
1	A	Central Bank of Egypt
2	A	Central Bank of Nigeria
3	A	Res. Bank of Zimbabwe
4	B	National Bank of Egypt
5	A	Fed. Republic of Nigeria
6	C	China Eximbank
7	A	African Development Bk
8	A	Gov't of Côte D'ivoire
9	B	Banque du Caire
10	B	Banque Misr
11	A	Gov't of Congo Bzv
12	A	Bqe Centrale De Tunisie
13	C	Standard Chartered Bk
14	A	Bank of Uganda
15	A	Republique du Cameroun
16	B	Nigerian Ex-Im Bk
17	B	SBM (NBFC) Hds Ltd
18	A	Government of Kenya
19	A	Bank of Ghana
20	A	Bc Nacional de Angola

Key facts and figures

Financial snapshot (in USD m)

Afreximbank Financial Snapshot

	FY 2016	FY 2017	FY 2018
Total Assets (US\$bn)	11.7	11.9	13.4
Total Loans (US\$bn)	10.1	8.5	11.1
Total Liabilities (US\$bn)	10.1	9.8	10.86
Shareholder Funds (US\$bn)	1.6	2.1	2.6
Capital Adequacy Ratio (%)	23	26	25
Non-Performing Loans (%)	2.4	2.5	2.95
Net Interest Margin (%)	2.7	2.6	3.5
Return on Average Assets (ROA) - %	1.8	1.9	2.2
Return on Average Equity (ROE) - %	11.4	11.8	11.8

Key strengths

Preferred creditor status

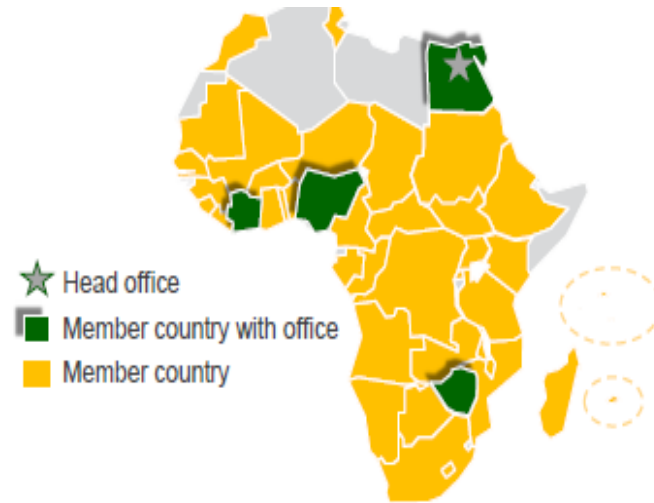
Investment grade by Moody's (**Baa1 / P-2**) / Fitch (**BBB- / F3**) / Global Credit Rating Co (GCR) (**BBB+ / A2**)

Consistent Profitability Return on Average Equity of 11.4%

Strong capital adequacy ratio of 23%, with callable, subscribed capital of USD 568 million

African Presence

- The Bank is headquartered in Cairo, Egypt and has three regional offices in Abuja, Nigeria; Harare, Zimbabwe and Abidjan, Côte d'Ivoire. A fourth regional office in East Africa is soon to open, with plans to follow this with a central African location.
- There are 51 participating member countries spread across the continent.



Angola	DRC	Kenya	Namibia	Sudan
Benin	Egypt	Kingdom of Eswatini	Niger	Tanzania
Botswana	Equatorial Guinea	Lesotho	Nigeria	Togo
Burkina Faso	Ethiopia	Liberia	Republic of Congo	Tunisia
Burundi	Eritrea	Madagascar	Rwanda	Uganda
Cameroon	Gabon	Malawi	Sao Tome & Principe	Zambia
Cape Verde	Gambia	Mali	Senegal	Zimbabwe
Central African Rep.	Ghana	Mauritania	Seychelles	
Chad	Guinea	Mauritius	Sierra Leone	
Comoros	Guinea-Bissau	Morocco	South Africa	
Djibouti	Ivory Coast	Mozambique	South Sudan	

Afreximbank aims to increase its Participating States to include all 55 sovereign African nations

Afreximbank's Medium Term Strategy: Impact 2021 Africa Transformed



Intra-African Trade

- **Create:** Facilitate capacity for expansion of production and processing capabilities
- **Connect:** Identify key institutions and agents to "connect the dots" in the intra-trade value chain.
- **Deliver:** Deliver efficient and cost effective distribution channels within the continent
- **Measure:** monitoring and measurement mechanisms

Industrialization & Export Development

- **Catalyse:** promote "soft" and "hard" infrastructure developments
- **Produce:** finance and support activities that improve efficiency and quality in production of goods and services
- **Trade:** facilitate trading through financing and supporting to institutions that provide market access

Trade Finance Leadership

- Strategic focus on financial and non-financial areas of intervention in the trade and trade finance market
- Expand existing trade finance products as well as introducing new innovative products and initiatives
- Fill the voids in trade services created by reduced activities of international banks in Africa resulting from high compliance costs and economic uncertainty



2. Understanding Agricultural Value Chains – Opportunities and Risks

What are Agricultural Value Chains?

- A 'value chain' in agriculture identifies the set of actors and activities that bring a basic agricultural product from production in the field to final consumption, where at each stage value is added to the product.
- A value chain can be a vertical linking or a network between various independent business organizations and can involve processing, packaging, storage, transport and distribution.
- The terms "value chain" and "supply chain" are often used interchangeably.
- Modern value chains are characterized by vertical coordination, consolidation of the supply base, agro-industrial processing and use of standards throughout the chain.
- Modern Agricultural Value Chains have become increasingly global in nature, with the food we eat and the clothing we wear increasingly being delivered by global production systems that cross many borders.

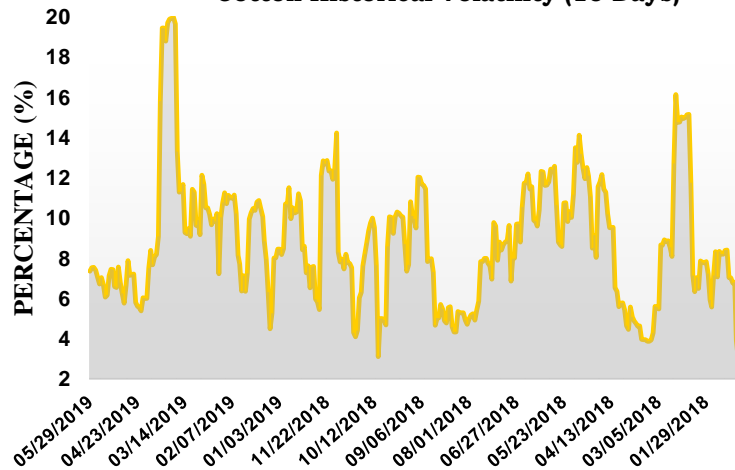
Agricultural Value Chains Contd.

- Wheat produced in Australia and the Ukraine, for example, is processed into flour in Indonesia and Turkey, and then exported to make noodles in China, and bread in Africa and the Middle East.
- Participation in value chains is heavily influenced by the nature of products produced
- Products such as fresh vegetables more likely to go relatively directly from producer to consumer through GVCs, compared to oilseeds, wheat and many fibres such as wool and cotton, which feed into food and clothing manufacturing processes and which can cross borders multiple times before reaching the end consumer.
- Let us examine the Cotton and Coffee Value Chains as demonstrative examples

Cotton Historical and Future Prices



Cotton Historical Volatility (10 Days)



Cotton is a strategic commodity whose prices are driven by: US production, China's import policies and dynamics in the global economy. Over the past decade cotton prices have fluctuated as follows:

2009-2011: Cotton prices leapt to \$2.15/lb in March 2011 due to surging demand for textiles following the global financial crisis. At the same time, India, the world's second-largest exporter, restricted shipments to help its domestic textiles industry.

2011-2012: As cotton prices rose, production increased and inventories grew contributing to a collapse in the market. Also, the drop in cotton prices was mainly driven by falling demand as price rationing in 2011 led some manufacturers to substitute cotton with synthetic materials.

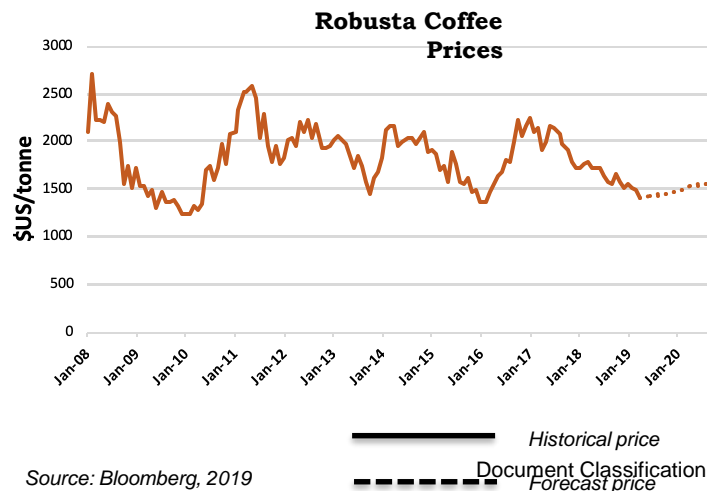
2012-2013: Saw a marginal increase in cotton prices on account of bullish demand in global markets.

2013-2015: China introduced an income support policy instead of a price support policy leading to a huge stock accumulation in Chinese State Reserves. This resulted in lower import quotas alongside a decline in demand which led to a drop in cotton prices.

2016- 2019: While cotton demand remains fairly stable, cotton production has been affected by suboptimal weather conditions in the US which have dried out some harvesting areas.



While Coffee prices have shown volatility owing to cyclical events of overproduction and poor harvests, the last five years have seen a general lowering of prices



Source: Bloomberg, 2019

Arabica coffee prices have been following a negative trend depreciating by 68.2% to hit its all time lowest value of \$95.2 cents/lb in January 2019 from \$299.35 cents/lb in April 2011. Similarly, Robusta coffee prices declined by 45.2% to reach \$1,489/tonne in January 2019 from \$2,718 per tonne in February 2008.

The key driving factors for this price volatility have been:

2008-2010 The crisis in the global financial markets affected coffee prices, despite the fact that the commodity's supply and demand fundamentals remain unchanged.

2010-2011 Poor harvests of high-grade coffee beans and a growing taste for gourmet coffee among burgeoning middle classes in China, Brazil, Indonesia and India led to the sharp rise in coffee prices.

2011-2014 2011 prices encouraged growers to invest in and expand production resulting in a surplus of production over consumption.

2014-2015 This rally has been driven by a serious drought in Brazil during the critical development months of January and February.

2015-2016 The growing crop base, weakening Brazilian Real and ongoing trade tensions between the U.S. and China contributed to the price decline. Also, the decline in prices was driven by Colombia's increase in exports in the face of low global prices, to protect local farmers' earnings.

2016- 2017 The rally has been driven by the global market's supply deficit, along with firming currencies in top growing nations and strong demand for coffee.

2017-2019 Prices are reflecting the surplus of coffee on the international market.

South America is the largest grower of coffee globally while Europe leads in coffee roasting and processing

COFFEE VALUE CHAIN

Growing

- ✓ Farming
- ✓ Handpicking or Mechanical Harvesting
- ✓ Sorting and Selection
- ✓ Pulping the cherries
- ✓ Fermenting



Processing

- ✓ Dry or Wet Processing
- ✓ Storing
- ✓ Dry Milling
- ✓ Grading and Cupping



Trade and Roasting

- ✓ Shipping
- ✓ Distribution
- ✓ Roasting
- ✓ Packaging



Retailing

- ✓ Grinding
- ✓ Brewing
- ✓ Selling
- ✓ Drinking



World's Top Coffee Growers:

Brazil
Vietnam
Columbia
Indonesia
Ethiopia

World's Top Coffee Roasters:

NKG (Neumann Kaffee Gruppe) (11*)
Ecom AgroIndustrial (10*)
Olam (7*)
Volcafe (6*)
LDC (Louis Dreyfus) (6*)

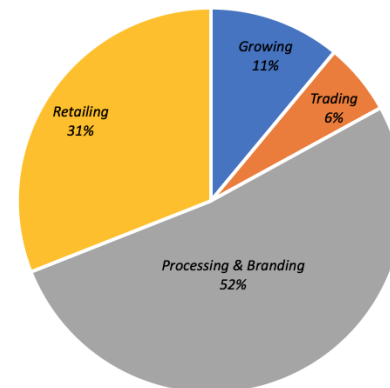
World's Top Coffee Trading Houses:

Nestlé
KraftHeinz
Mondelez International

World's Top Coffee Retailers:

Starbucks
Tim Hortons
Lavazza
Costa Coffee

Average Value Added in (%) through the Coffee Value Chain



Average Value Captured at Each Stage of the Coffee Value Chain for every \$100

Coffee Stages	Value Capture in Each Stage in \$/kg
Growing	11
Trading	6
Processing and Branding	52
Retailing	31
Total	100

Source: UNCTAD, 2018

* World Market Share in %

Source: The Coffee Exports Guide, 2010

2. Opportunities and Risks Facing Agricultural Value Chains

Opportunities and Risks Facing Agriculture Value Chains

- I will use 4 case studies to demonstrate the types of opportunities and risks facing agricultural value chains
- For demonstrating Opportunities I will use
 - The Brazilian Coffee Experience
 - The Case of Egyptian Cotton
- While to highlight some of the risks, I will use
 - The Nigerian Textile and Fashion Industry
 - The Burkina Faso Cotton story

Brazil has grown domestic consumption from broadened consumers’ base along with the adaption of technological advancements in the processing phase

Brazil's

Coffee

Promotion



FACTS

- Program to increase coffee consumption domestic market orchestrated by ABIC "Brazilian Coffee Industry Association";
- Since 2000, Brazil domestic coffee consumption grew by 66.6% to reach 22 million 60Kg bags in 2019;
- Over the same period, per capita consumption rose from 3.4kg to 6.1kg per person;
- Over half of young people in Brazil chose coffee as their favourite drink (56.8%).

Brazilian Coffee Industry Association Strategies and Initiatives

- Stimulate consumption by targeting the consumers that have not developed the daily habit (homes and institutions);
- Discount and offer coffee at low prices especially in supermarkets (being the primary suppliers to families);
- Promote a coffee routine in schools. "Coffee with School Meal, Health at School";
- Improve coffee experience behind the cup by linking coffee shops with technology (equipped with Internet);
- Increasing the number of specialised coffee shops;
- Constant Innovations in packing and presentations of capsules and pods;
- Communication of coffee benefits through public relations campaigns, Industry-sponsored events and trade fairs;
- Provide a wide variety of products in terms of taste and flavour.

EGYPTIAN COTTON



FACTS

- Egyptian Cotton™ is world's finest cotton brand.
- Accounts for 0.4% of the world's cotton output, which helps to retain its luxury status.
- In 2018, Egypt's rank in world export was the 16th; exporting 300 thousand 480-pound bales (0.8% of world's cotton exports).

Egyptian Cotton Unique Characteristics

- Made from a high-quality long staple fibre allowing for the manufacturing of the finest of yarns without sacrificing the strength of the yarn (fibre of around 33 mm and from 4.3 to 4.9 micronaire).
- Fabrics solid and resistant to stress due to fibre strength (44.30 grams/tex).
- Ability to absorb liquids results in a more deeper and brighter fabrics.
- Hand picked cotton (no stress on the fibres leaving them straight and intact) which guarantees the highest levels of purity and exquisite softness.
- Lightweight.



African Cotton Market- Nigeria Case Study

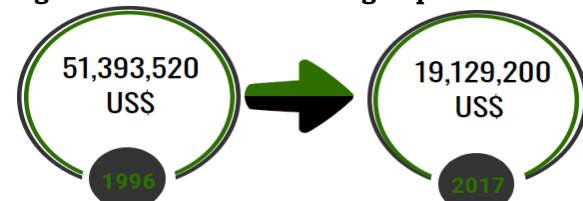
Nigerian textile and clothing Industry: A hidden goldmine overshadowed by the oil sector



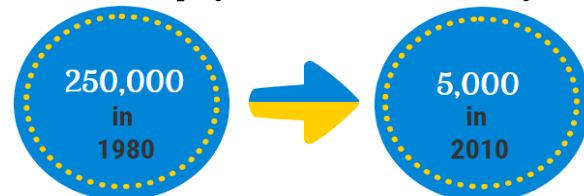
Since the 1970's, the oil sector dominated the Nigerian economy causing the textile and clothing industry to suffer dramatically on the run. In 2018, cotton export volumes increased by 100% and long import volumes dropped by 78% reflecting the decline in domestic mill use which decreased by 58.6% since 1995. During the same period, cheaper fabrics from China and India discouraged local cotton farmers leading to the shut down of 97% of Textile mills along with employment shrinking by 90%.

In fact, the lack of governmental incentives and technological support resulted in a significant drop in crop collection efficiency while area harvested expanded by 18.5%.

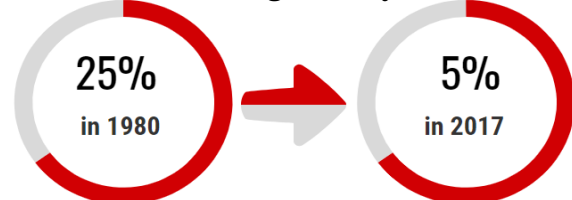
Nigerian Textile and Clothing Exports Values



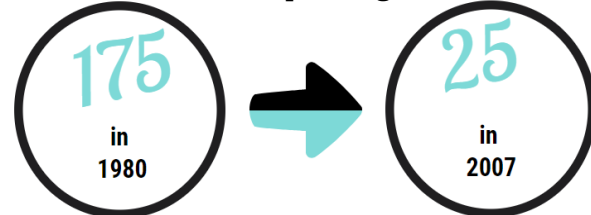
Local Employment in Textile Industry



Textile and Clothing Industry Share of GDP

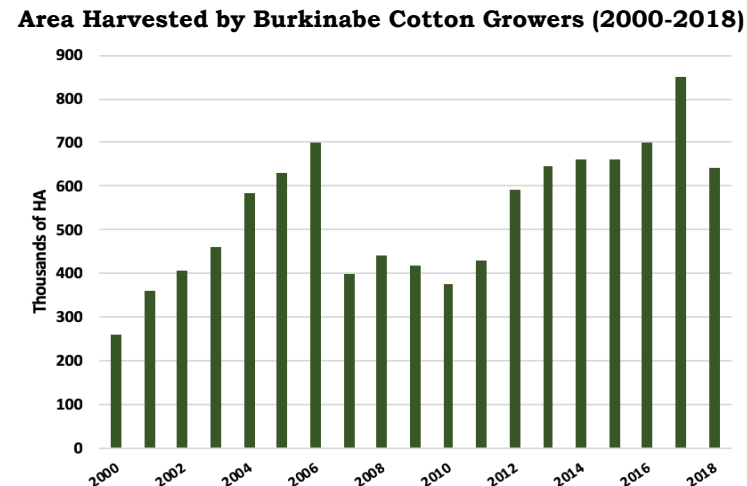
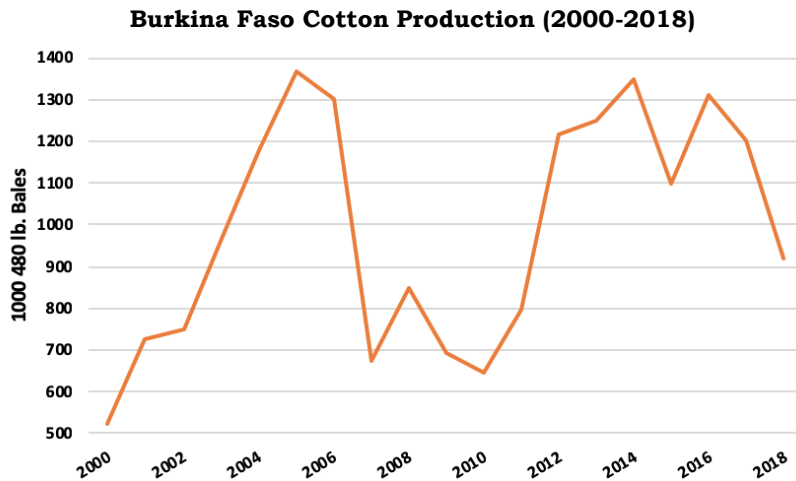


Number of Local Operating Textile Mills



African Cotton Market-Burkina Faso Case Study

A failed experience in genetically modified (GM) cotton in West Africa: The quality of the Burkina Faso cotton remains the country's primary competitive advantage on the global market



In 2000, top African cotton growers, Burkina Faso, fetched top prices because its high-quality fibre. In 2008, Burkina famers agreed to introduce Genetically Modified (GM) seeds, Monsanto Bollgard II, as pests and bollworms were threatening the crop.

Following the introduction of the GM in 2008, Burkina Faso cotton production dropped by 24% (645 thousand 480 lb. bales) while area harvested remained approximately the same; at around 410 thousand hectares. Since 2011, cotton production has recovered to reach 1310 thousand 480 lb. bales (slightly more than double the output in 2010). This increase is not associated with the use of the GM seeds but rather with a 47% expansion in harvested area.

In 2016, Burkina Faso abandoned Monsanto seeds, complaining that they resulted in a shorter cotton fibre which resulted in a loss in competitive advantage and a financial loss of \$85 mn for local cotton companies.

Opportunities and Risk

Opportunities

- Stimulating local demand for value added products can be transformative
- Consistent standards and quality in value added products can lead to growth locally and internationally
 - Responsibilities for both producers and governments
- The African Continental Free Trade Area can be a game changer

Threats/Risks

- An uncompetitive and poor business and investment climate
- Cost of doing business (Transport, Energy, regulatory barriers, multiple taxation, access to finance etc)
- Inconsistent policies can handicap businesses, regardless of the good intentions
- A global trading system that is becoming more complex and protectionist

Afreximbank Initiatives to support Agricultural Value Chains

In 2012, Afreximbank, launched the Africa Cocoa Initiative (AFRICOIN) to provide an End-to-End solution (upstream, midstream and downstream) to the African cocoa sector.

Upstream - Support for productivity improvement:

- USD 108 million financing of production and import of farms inputs, including fertilizers, insecticides, herbicides, etc.; and USD 25 million financing the establishment and or refurbishment of warehouses/ storage facilities.

Midstream - Expansion of processing capacity:

- The Bank has financed expansion of processing capacity through imports of new equipment and refurbishment of existing plants.
- Côte d'Ivoire's processing capacity has been increased by 120,000 tonnes with total financing to local grinders (e.g. CONDICAF, Choco Ivoire, and SUSCO) amounting to about US\$100 million. This amongst has catapulted Cote d'Ivoire to become the world's largest processor during the 2014/15 cocoa season, processing about 558,000 tonnes while the Netherland was in second place for the first time ever with processing of 503,000 tonnes.
- The Bank also provided access to trade finance to Ivorian cocoa exporters/grinders directly or through local banks with financing amounting to over US\$200 million.

Downstream - Financing Consumption Promotion:

- The Bank will work with its Partners to finance consumption promotion in origin countries and Asia.
- Facilitating market access to African processing companies by fostering creation of JVs between selected companies in Côte d'Ivoire, Ghana and Nigeria with international trading companies, these entities have been able to export processed cocoa into international markets.

Selected Strategic Initiatives

Supporting the Emergence of Export Trading Companies (1/4)

- There are several kinds of intermediary firms providing a range of export services including Commission Agents, Export Trading Companies, Export Agents, Commodity Boards, Merchants, or Re-Marketers etc.
- The Bank has made the deliberate choice to support the creation and expansion of ETCs in Africa to assist in overcoming constraints faced by small producers and SMEs, by integrating them into regional, continental and global value chains using Intermediaries/Aggregators.



- An Export Trading Company (ETC) acts as an independent company that provides support services for firms engaged in exports including supplying raw materials, warehousing, shipping, insuring and billing on behalf of the client.
- ETCs also help suppliers find overseas buyers and provide them with raw material to ensure seamless production as well as other pertinent market information.

Selected Strategic Initiatives

Supporting Industrial and Agro-processing Parks (2/4)

- In order to support and facilitate the industrialization of the continent, the Bank has designed and is implementing various interventions under its Industrial and Agro-Processing Parks Initiative, which is aimed at providing technical and financial solutions for the development of Industrial and Agro-Processing parks in member countries.
- Focus for this initiative is Agro-processing (cocoa, coffee, rubber, fruits and vegetables, etc.) and Light manufacturing (garments, apparels, leather, shoes, plastic products, wood processing and wood products, simple metal products, etc.).



The initiative will focus on agro-processing and light manufactures with the aim of assisting African countries to capture jobs that are de-localizing from economies currently undergoing a transition from labour-intensive to technologically driven industrialisation.

Selected Strategic Initiatives

Supporting Development of Inspection and Certification Centers (3/4)

- The Bank is supporting the establishment of cost effective and easily accessible internationally accredited Inspection and Certification Centres in member countries, in order to improve market access and increase exports of African agricultural and agro-processed products as well as light manufactures to other African and international markets, where there are stringent technical, sanitary and other requirements.
- This initiative will support efforts at improving Africa's conformity assessment infrastructure to support industrialization and export development strategies of the Bank's Member countries



- The Bank will bring together financial and non-financial stakeholders with the appropriate capacity and expertise to support the planning, development and management of the inspection and certification centers.

Conclusion

- In this presentation, I have used the cotton and coffee value chains to explain agricultural value chains, as well as demonstrate some of the opportunities and risks that they face.
- I have highlighted case studies as examples of interventions that have gone right, as well as situations that have proven more challenging, with regards to taking advantage of opportunities and mitigating risks associated with value chains
- I have also highlighted a number of Afreximbank initiatives that are directly designed to address some of the opportunities and risks facing agricultural value chains
- I will conclude with a number of recommendations and actions that can be taken in the Nigerian context

Conclusions

- Agrobusinesses and Governments must look to both stimulate local demand as well as take advantage of regional and global markets
- Nigeria should look to the Brazil example, and replace coffee with cocoa in the school feeding program
- There should be a more concerted effort towards developing and enforcing quality standards, as well as promoting Nigerian brands and packaging towards maximizing the value added segments of the market
- Efforts must continue to be made towards improving the investment and business climate
- Trade policy should be more targeted, and linked with export promotion; trade negotiations with partners should target tariff escalations, as well as Non Tariff Barriers encountered by Nigerian products
- Financial institutions should explore innovative financing tools to support the agriculture value chains, including factoring, supply chain financing etc

Thank You for Your Attention