



AGRF 2016 – SHOWCASE SESSION REPORT

Day 4 - Thursday, September

11:00am- 12:30pm

Showcasing Models

Financing “Agri Growth”: Tweak the Structure, Transform the Sector

SESSION BRIEF

Context: Expanding and deepening access to agriculture finance has been a key focus of all stakeholders involved in the support of agricultural transformation of the continent, particularly over the past ten years.

De-risking the provision of agriculture finance - particularly to small holder farmers, and establishing innovative finance instruments and mechanisms has also been a growing focus among those countries that have successfully catalyzed growth in their agricultural sectors.

Understanding some of the tools that have been used, the policy frameworks that have been established and the types of institutions that have been established is valuable for those seeking to stimulate the transformational capacity of agriculture in their communities; Nigeria, Botswana and Kenya, are but some of the nations that have achieved relative success in these areas over the past decade.

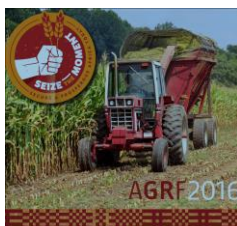
Key Issues/ Questions:

- How can you combine investment and impact at the smallholder level?
- How can policy play a role in driving financial inclusion in support of agricultural transformation?
- How do you successfully engage stakeholders to form and fund PPPs?
- What are selected financial instruments and asset classes that can accelerate agricultural financial inclusion?



Outcome Desired:

- To illustrate multiple initiatives through which strategic and financial investors from both public and private sectors at both the corporate and informal level have successfully created and adapted structures to address common issues investors face in agriculture.
- To illustrate the role that policy can play in accelerating and deepening inclusive finance in the agriculture sphere.

Organizers: AGRF Secretariat



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Name	Picture	Discussion
Mr. Emmanuel Ijewere, Executive Director, Nigeria Agribusiness Group Role: Moderator		<p>Mr. Ijewere began this session by providing the delegates with an overview of the Nigerian Agribusiness group (NABG) and he explained that the NABG was set up to address challenges in the agricultural sector from a holistic perspective and indicated it was established as an initiative of Nigeria’s previous agricultural minister, Dr. Akinwumi Adesina, the current President of the African Development Bank.</p> <p>He continued by sharing the fact that NABG aims to be an active stakeholder in influencing policy and seeks to work closely with Nigeria’s government in the effort of strengthening the agricultural sector.</p> <p>In his preamble, before introducing the panelists, he also spoke about the importance of accountability, regular engagement and the sharing of financial burdens of key aspects of NABG’s relationship with the Nigerian government that have helped forge a strong working relationship, particularly in regards to encouraging increased lending to the agricultural section.</p> <p>He then went on to introduce other members of the panel.</p>
Mr. Aliyu Hameed, CEO, Nigeria Incentive-Based Risk Sharing Agriculture Lending (NIRSAL) Role: Setting the Stage		<p>Mr. Hameed began his remarks by providing an introduction to NIRSAL. He explained that it was organization established by the Bank of Nigeria and the federal Ministry of Agriculture to de-risk lending to the agricultural sector in Nigeria and encourage and incentivize banks to increase the percentage of agricultural loans within their lending portfolios. NIRSAL uses credit guarantee and a scorecard that reward banks with cheaper loans from the Bank of Nigeria if they are lending more to agriculture. They have half a billion US dollars as their capital base.</p>




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		<p>He said they would still go on to raise more funds to supplement their capital base. The larger the capital base the greater the potential impact in terms of encouraging and supporting the national banking community to lend to the agriculture sector.</p> <p>In addition to the financial support, he stated that NIRSAL also works to provide assistance to stakeholders involved in value chain creation and development and in fact spends 80% of its time working with these stakeholders to make the agricultural sector more bankable.</p> <p>In this process of working with the various supported value chains he explained that they have also been able to learn a lot about their respective production cycles, respective value chain stakeholders, and the related potential risks in the value chain. NIRSAL has thus been able to pass on these learnings to banks and to the value chain stakeholders in an effort to shore up potential areas of weakness.</p> <p>Lastly, he concluded, through NIRSAL they support the undertaking of various checks before advocating that selected value chain actors receive funding. As they have gained the trust and confidence of the banks in so doing, they have witnessed a significant increase in bank lending to the agriculture sector.</p>
<p>Panelist</p>		
<p>Hon. Gabriel K. Essilfie, Member of Parliament Agriculture, Ghana</p>		<p>Hon MP Essilfie’s presentation began by responding to a question by the moderator which queried: How does the government engage with the private sector?</p> <p>He responded that Ghana recognizes the importance of agriculture and the role of the private sector in developing the sector. To illustrate this, he continued, they have created an efficient platform, the Private Enterprise Foundation, that affords government a regular opportunity to engage with the private sector and to address the issues that concern the private sector. Followed by relevant programs.</p> <p>From working with the relevant stakeholders, including the Ghana Investment Promotions Center, they are able to better</p>





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		<p>understand the challenges that the private sector faces. Some of the challenges included access to land, and land title related to land.</p> <p>From these gleanings, he noted, the government has created various support bodies, in collaboration with the local communities, to support those who need land.</p> <p>He also said that the Ministry of Agriculture has taken on the responsibility for addressing infrastructural issues relevant to agriculture.</p> <p>The government has made a commitment to work to create a very conducive enabling environment for agriculture sector investment, and he added that they too, have established a NIRSAL like risk sharing and lending mechanism for agribusinesses. However at this juncture it was only for agribusinesses that are involved with processing.</p>
<p>Eng. Abdullahi G. Abubakar, Deputy Director (Engineering and Mechanization), Federal Ministry of Agriculture and Rural Development., Nigeria</p>		<p>Eng. Abubakar opened his remarks by stating that at the Ministry of Agriculture in Nigeria they do not actually have enough finance to support all of the farmers in their network. He said they currently have 15 million farmers in their network, and supporting each one on their own is hard due to lack of finance.</p> <p>He stated that this was a key reason for the efforts undertaken to forge stronger partnerships with the private sector to help mobilize finance and technical assistance for small holder farmers.</p> <p>He also stressed that from their experience it was key to support stakeholders at all levels of the value chain, even those at the top because all actors have various challenges that can impede the efficiency of the value chain if not addressed properly.</p>




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<p>Mr. Ibrahim Abdullahi, MD, Maslaha Seeds Ltd, Nigeria</p>		<p>Before he began to make his contribution to the panel discussions, Mr. Abdullahi paused to congratulate the representatives of Ghana and Nigeria because he thought it was commendable that each had established a risk sharing facility and were working to promote increased lending to the agricultural sector.</p> <p>He said there is a need to have more innovative ways of financing African agriculture. He added that there are 83 million hectares of arable land in Nigeria which means there are huge demands for input dealers. However, because farmers find it difficult to access finance, it is hard for input dealers to supply seeds and fertilizer- and so they were underperforming.</p> <p>But he said since the introduction of NIRSAL’s risk sharing facility to agribusinesses, there have been 0 defaults, which is beginning to attract more commercial banks interest in lending to Nigeria’s agriculture sector borrowers.</p> <p>He mentioned that the new credit scheme for farmers has also helped create more jobs. But, he continued, the traditional financing model for agriculture needs to be changed. Normally, there is a long evaluation process, which takes time and the wait negatively affects farmers, thus from his vantage point the loan application processes need to be shortened.</p>
<p>Dr. Patrick Njoroge, Governor, Central Bank of Kenya</p>		<p>Dr. Njoroge began his comments by expressing his gratitude for being invited to speak at the AGRF.</p> <p>He noted that in Kenya agricultural growth had fallen from 9% to 5% from quarter to quarter 2016 and that there has been an average growth of 5% in agriculture when compared to statistics year on year.</p> <p>Speaking more broadly about finance availability on the continent more broadly, in his opinion agriculture in Africa could triple in value if increased financing was available.</p> <p>He went on to say that in Kenya, although there is financing available for the agriculture sector, there is a lack of</p>



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		<p>understanding about agricultural lending, related cycles and the distinct value chains, and so there needs to be more education and innovation in relation to agricultural finance.</p> <p>He mentioned in Kenya they have been able to create micro credit facilities for small holders within the agricultural value chains and this has been helpful.</p> <p>He said a key issue through was the distribution of risks, as currently farmers hold most of the risk. There should be models that cover the risk, similar to how car owners share risk with their insurance providers.</p> <p>He also mentioned the need for improvement in the logistics sector, for both the outputs (getting products to market) and inputs (getting inputs to farmers)</p> <p>He concluded by saying, there needs to be more dialogue with farmers, to understand their production cycles, their business processes, their risks and how and when they generate revenue – this information would allow lenders to develop more innovative models and financing facilities to meet their needs.</p>
<p>Mr. Kola Masha, MD, Doreo Partners</p>		<p>In his opening remarks, Mr. Masha acknowledged that in large part the success of his company can be attributed to NIRSAL and to AGRA. He went on to ask the audience ‘do you believe your future is secure’. He said in his organization the answer is no. He said that the reality is that there are huge barriers in Africa.</p> <p>He firmly believes that agriculture is the solution, and that farmers can indeed excel.</p> <p>He runs franchise farmer cooperative and his firm of impact investors are looking to scale up their maize output by 800,000 metric tons.</p> <p>With the network of farmers they have, they hope that by the end of 5 years they are able to get 500,000 farmers.</p> <p>They also run the largest warehouse receipts program in Nigeria.</p>



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		<p>He also said that farmers need credit, so that they can invest in technologies that can help their farms. They created a risk measurement tool which has helped them too assess who can attain credit.</p> <p>He said there are 3 key areas of defaults, these are:</p> <ul style="list-style-type: none"> • Willful default – intentional miss spending of funds; • Diversion of funds- unintentional miss pending of funds • Climate related dangers – impact of unexpected climate related losses or support requirements <p>He said the repayment rate from farmers in their program has been over 90%.</p>
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Question and Answer:

Q: What has government put in place to ensure that policies are actually enforced, particularly around the issue of importing agricultural technology duty free versus non-agriculture related equipment?

Res: Engr. Abubakar: They have worked to educate the custom officers so they can differentiate between agricultural equipment and non-agricultural equipment.

Q: What makes agricultural risk different from other risk that financiers are more familiar with and willing to incur in other industries?

Res: Dr. Njoroge: The issue is not so much about agriculture, it is about entrepreneurial capacity. And also the issue is about perception, as there are negative perceptions about agriculture and banks have had bad experiences in the agriculture sector. He also said the banks do not understand the techniques farmers may use to enhance their products. He also said the farmers do not have control over the entire value chain, and any one issue in the value chain can affect the whole produce.

He also mentioned that banks have complex terms agreements, and that banking terms needs to be less complicated so it can be understood more easily – particularly by SME borrowers, including farmers. More information also needs to be shared about how to avoid risks in order to change the perception of Agriculture.



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General Comment: A request was made to the Governor of Kenya’s Central Bank for him to serve as an “Ambassador” in this continental effort to promote greater lending to the farming sector, and to the delight of the audience he accepted.

Summary

Financial institutions face opportunities as well as challenges in providing financial services to the agricultural sector. The sector clearly lacks financing, with the overall share of commercial lending in agriculture in Africa standing at less than 1%, much more needs to be done. Farmers are a very heterogeneous group with varied plot sizes, production capacity, mechanization, resources, and expertise. There is a need to tailor products to these varying potential borrowers rather than treating all farmers the same and assessing that all are too risky to lend too.