

AFRICAN DEVELOPMENT BANK



AFRICA FERTILIZER FINANCING MECHANISM (AFFM) ANNUAL REPORT FOR 2018

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ACRONYMS AND ABBREVIATIONS

AfDB	: African Development Bank
AFFM	: Africa Fertilizer Financing Mechanism
AGRA	: Alliance for a Green Revolution in Africa
AGRF	: African Green Revolution Forum
AHAI	: Agriculture and Agro-industry Department
AFAP	: African Fertilizer and Agribusiness Partnership
AHVP	: Agriculture Human and Social Development
AHFR	: Agricultural Finance and Rural Development Department
AIF	: African Investment Forum
ARGUS	: Argus Media group
AU	: African Union
AUC	: African Union Commission
CRU	: CRU Africa
CSP	: Country Strategic Paper
EAFA	: East Africa Fertilizer's Association
EAC	: East African Community
ECA	: Economic Commission for Africa
ECCAS	: Economic Community of Central African States
ECOWAS	: Economic Community of West African States
GC	: Governing Council
ETG	: Export Trading Group
FIST	: Syndication, Co-financing and Client Solutions Department
IFA	: International Fertilizer Association
IFDC	: International Fertilizer Development Center
M&E	: Monitoring and Evaluation
NGOs	: Non-Government Organizations
NEPAD	: New Partnership for the African Development
NIRSAL	: Nigeria Incentive-Based Risk Sharing System Agricultural Lending
PPP	: Public Private Partnership
OCP	: Office Chérifien du Phosphate
PIFD	: Financial Sector Development Department
PITD	: Industrial and Trade Development Department
PCG	: Partial Credit Guarantee
PRG	: Partial Risk Guarantee
RECs	: Regional Economic Communities
RMCs	: Regional Member Countries
SADC	: South African Development Community
SDGs	: Sustainable Development Goals
TAAT	: Technologies for African Agriculture Transformation
UEMOA	: Union Economique et Monétaire Ouest Africaine
UNECA	: United Nation Economic Commission for Africa
USAID	: United State Agency for International Development
WAFA	: West African Fertilizers Association
WB	: World Bank

EXECUTIVE SUMMARY

The Africa Fertilizer Financing Mechanism (AFFM) is pleased to submit its very first Annual Report for 2018 which highlights AFFM's achievements, challenges, lessons learned during the year and way forward. The purpose of this report is to seek clearance by the AFFM Governing Council and approval by the AfDB Board of Directors on lapse-of-time basis, in accordance with the reporting obligations in section 9.3.5 of the Operational Procedures Manual of the AFFM. The key achievements accomplished in the year are the following:

Strategy Brief—upon the recommendation of the Governing Council, a task force comprising AGRA, IFDC, UNECA and the AFFM was constituted and developed a strategy brief aimed at re-orienting activities to the current development of the fertilizer sector in Africa.

Feasibility Study for Credit Guarantee—prior to deploying the Credit Guarantee, AFFM conducted a feasibility study on the use of credit guarantee to finance fertilizer in Africa. The study recommended two credit guarantee models for implementation by AFFM.

Call for Proposals—based on the validated outcome of the feasibility study, a call for proposals was launched targeting financial institutions and implementing partners to work with AFFM to deploy the credit guarantee scheme. After the call, a short list was compiled to select qualifying institutions and a request for full technical and financial proposals was issued to shortlisted institutions.

Studies—the study on the promotion of fertilizer production, cross-border trade and consumption in Africa was completed and led to some activities in the 2019 work program. Moreover, AFFM embarked on conducting the baseline study in 10 countries, which is to be finalized early 2019.

In addition, the Operational Procedure Manual was completed and approved by the AfDB's Board of Directors. Besides, key staff were also recruited by AFFM to help the Coordinator to deliver on its agenda.

In order to enhance its visibility, AFFM was represented and presented its strategies and plans at various conferences during the year, including ARGUS, CRU, IFA Africa Forum, and at AfDB's Africa Investment Forum (AIF). During the AIF, AFFM had a boardroom session on the use of credit guarantees to finance fertilizer. At the boardroom, OCP committed to contributing an unspecified amount of funds towards AFFM's credit guarantee fund to enable AFFM to intervene in more countries.

During the year, AFFM started building partnerships with different organizations to collaborate with for the implementation of activities and for achievement of the targets. These organizations include among others, AfDB, OCP, AFAP, Wafa, ETG, Africa Rice, KCB Bank of Tanzania, and Sterling Bank of Nigeria.

During the year, AFFM learned some valuable lessons that will aid its operations in 2019: the Call for proposals is not the most suitable mode of soliciting interested of financial institutions for deployment of the credit guarantee schemes. Moreover, it is important to make sure that the execution of the credit guarantee coincides with the planting seasons in Nigeria and Tanzania.

Recommendation

The approval of the Board of Directors of the African Development Bank is being sought for the AFFM Annual Report 2018 which has been endorsed by AFFM Governing Council during the meeting of 27th February 2019, in Marrakesh, Morocco.

A. INTRODUCTION

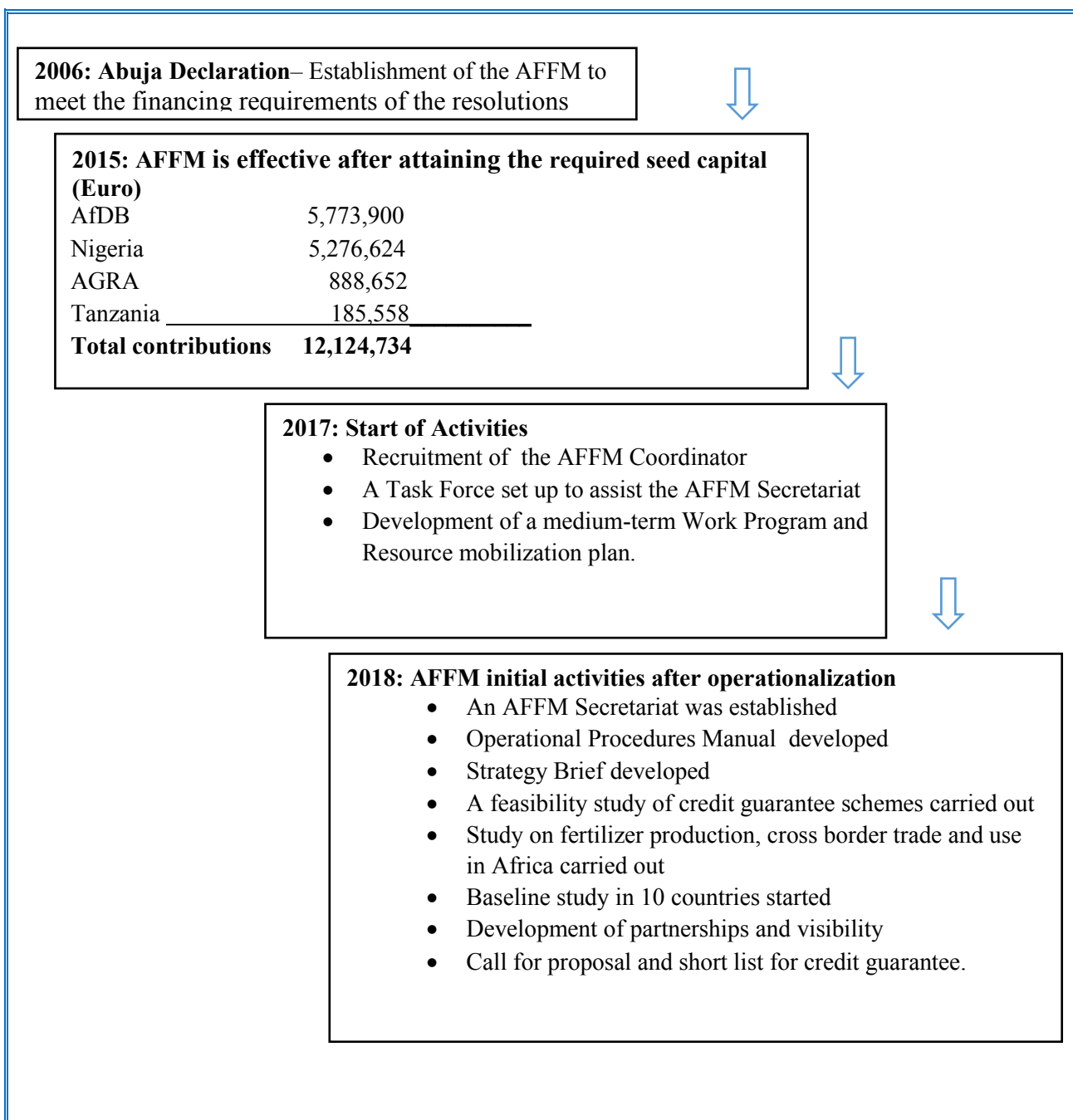
This Annual Report outlines the achievements of the Africa Fertilizer Financing Mechanism (AFFM) through the activities carried on by the AFFM Secretariat since November 2017 till December 2018. The report provide insights on AFFM organizational and support activities that preceded project development process for AFFM operational activities, as well as an overview of the financial situation of AFFM.

The Africa Fertilizer Financing Mechanism (AFFM) was conceived during the 2006 African Green Revolution Summit in Abuja. In what became known as the Abuja Declaration, African Union Member States committed to an initiative to improve agricultural productivity by providing financing required to debottleneck the use of fertilizers. The Summit charged the African Development Bank (AfDB) with the responsibility of establishing and managing the AFFM. African Union Member States were also engaged to financially contribute to make AFFM operational and were enjoined to work together in achieving the goal of boosting fertilizer use in Africa to achieve 50 kg/ha nutrients. This commitment is soundly based on the undeniable fact that Africa's poor agricultural output, threatens the continent's economic growth, food security and environmental health. The threat cannot be reversed unless efficient and sustainable fertilizer use is significantly elevated.

The overall objective of the AFFM is to assist African countries to increase agricultural productivity within the context of the Africa Food Security Vision and the Sustainable Development Goals (SDGs). One of AFFM's primary functions is the creation of an enabling environment for the mobilization of investments needed to achieve the target of 50 kilograms of nutrients of fertilizer per hectare land, as mandated by the Abuja Declaration.

Although the AFFM was conceived in 2006, it didn't become operational until 2018. AFFM's operationalization went through several stages (summarized in the timeline below) since the 2006 Abuja Declaration by the African Heads of States and governments. It took 11 years to mobilize the initial seed capital of 10 million Euro needed to start the operations of AFFM. After the reception of the first pledge, a Coordinator was recruited in 2017, along with other staff of the secretariat to start the operations. AFFM became operationally effective in 2018 with the support from the Task Force and the AHAI Department.

Timeline of AFFM's operationalization within AfDB



This report contains five main sections. The first section (A) introduces the document. The second section (B) details the achievements during the reporting period, while section three (C) presents the budgeting and financial management. The section four (D) presents mitigation of challenges and lessons learned. Section five (E) concludes and explains the next steps.

B. AFFM ACHIEVEMENTS DURING 2018

1 OPERATIONAL ACHIEVEMENT - PROJECTS DEVELOPMENT

1.1 FEASIBILITY STUDY ON THE USE OF CREDIT GUARANTEE FOR FERTILIZER FINANCING IN AFRICA

During the year under review, one of the main activities undertaken by AFFM was exploring the use of credit guarantee schemes to finance fertilizer in Africa, defined as the key intervention area in its Strategy Brief (see section 2.1). A consulting firm, Carnegie Consult KIT was retained to conduct a feasibility study on the use of credit guarantees to de-risk the financing of the fertilizer value chain in Africa. The final report for the feasibility study was submitted to AFFM in October 2018 and validated. The report identified and recommended two main types of credit guarantee structures: Portable Credit Guarantee and Portfolio Credit Guarantee¹.

According to the study, a roll out of the credit guarantee in all the nine (9) selected countries for AFFM first intervention would require an initial capital of about USD 56 million, against AFFM's initial capital of only USD 8 million. In addition, deploying the scheme in all the nine participating countries would also require significant operational cost, which will risk the financial viability of the scheme. The report therefore, recommends a two country roll out to test the underlying assumptions and to create a demonstrable effect. The two countries chosen for the initial roll out were Nigeria and Tanzania, which are currently the only RMC contributors to the AFFM. The analysis that led to the selection of these two countries roll out is provided below (all assumptions are under ceteris paribus conditions):

- 1) Base case scenario: rollout in nine countries with a capital base of USD 56 million.
- 2) Alternative 2: scenario: rollout in nine countries with a capital base of USD 8 million.
- 3) Alternative 3 scenario: rollout in two countries with a capital base of USD 8 million.

Table 1: Scenario of capital needed to have the most impact in credit guarantee in AFFM targeted countries

	Base Case	Alternative 2	Alternative 3
Countries	9	9	2
Required capital base at the end of Y3 (in USD x million)	56.2	8.1	8.3
Maximum penetration portable guarantee per country (% of market)	30%	4%	20%
Maximum penetration portfolio guarantee per country (% of market)	20%	3%	15%
Cumulative financial result after 5 years (in USD x million)	-/- 2.8	-/- 1.3	-/- 0.4
Cumulative return on capital base (Y5)	-/- 5%	-/- 16%	-/- 4%

¹Under *portable credit guarantee*, beneficiary applies for a guarantee at AFFM's local implementing partner and if approved, receives a commitment agreement. With the commitment agreement, the beneficiary is able to shop at various Financial Institutions for financing subject to the agreed conditions in the commitment agreement. Under *portfolio credit guarantee* however, participating financial institutions, have already been profiled, make loans to beneficiaries. AFFM will then guarantee these loans at 50% in a portfolio structure.

The above table shows that implementing the scheme in nine countries with only USD 8 million would result in a market penetration rate of only 3%, while USD 8 million in 2 countries would yield a more impactful market penetration rate of 15%.

The recommendations of the feasibility study are being implemented, and is available on the AfDB/AFFM webpage: (https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/AFFM_Consultancy_Services_for_Feasibility_Study_of_the_Credit_Guarantee_for_Fertilizer_Financing_in_Africa.pdf).

1.2 CALL FOR PROPOSALS

Following the completion and validation of the feasibility study, a call for proposals was launched on October 20th, 2018 for qualified financial institutions and implementing partners who are interested in teaming up with the AFFM to provide the portfolio credit guarantee to importers, wholesalers, distributors and agro-dealers in the fertilizer value chain in Tanzania and Nigeria. For the purposes of ensuring that fertilizer gets to the farm gates—especially to the smallholder farmers, AFFM will also require the services of implementing partners to assist in the logistics and operational management of the credit guarantee scheme on the ground in the two countries.

1.3 SHORT LIST FROM CALL FOR PROPOSALS

Four (4) concept notes were received from interested parties, in response to the call for proposals. One (1) financial institution and one (1) implementing partner were shortlisted and invited to submit their full technical and financial proposals by January 28th, 2019 (see table 2).

Table 2: List of institutions invited to submit full technical and financial proposals

Institution	Country	Amount (€)	Comment
Sterling Bank	Nigeria	2,000,000	With AFAP as implementing partner
AFAP	Tanzania	2,000,000	AFAP to identify beneficiaries and financial institutions to provide credit backed by the AFFM Guarantee

The limited number of responses received may be attributed to the fact that the call for proposals might not be the best medium for soliciting interested parties to work with in deploying credit guarantees. Financial institutions may be more interested in doing business through relationship building rather than through responding to call for proposals. Call for proposals are more suitable for grant making solicitations than for transactions such as credit guarantees.

The full appraisal of the financial institution and the implementing partners is expected to be completed by February 2019 and the guarantee agreements signed by April 2019.

2 STRATEGIC ACHIEVEMENTS

2.1 AFFM STRATEGY BRIEF

At its meeting held on December 11th, 2017 in Abuja Nigeria, the Governing Council recommended the formation of a Task Force comprising of AGRA, IFDC, UNECA and the AFFM Secretariat to develop a Strategy Brief for the AFFM. This was guided by the need to adjust AFFM’s orientation and activities to the current development in the fertilizer industry; Governments, development banks and the private sector have made efforts to invest in the fertilizer sector and have made some positive progress. It was therefore necessary to review AFFM initial

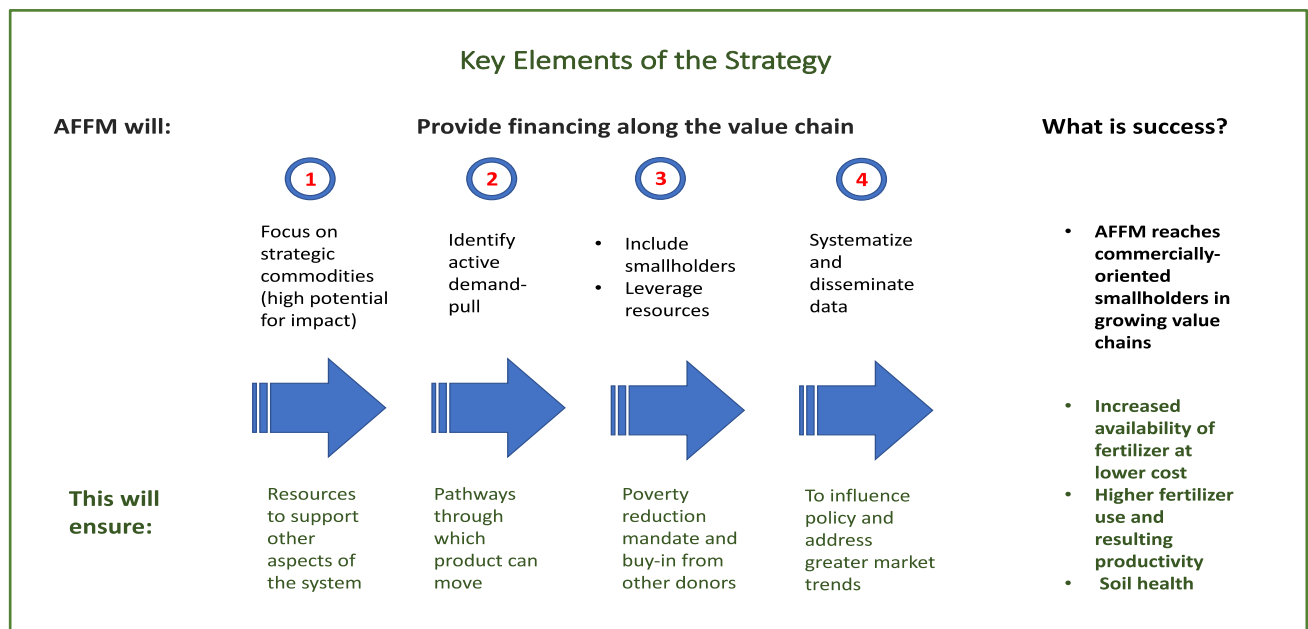
activities, and retain those that can impact the status of the fertilizer dynamics on the continent. The strategy brief was developed through a consultative meeting with representatives from the public sector, private sector, service providers, AfDB, AUC, as well as the task force members. The Strategy Brief was approved by the Governing Council, and is now published on the AfDB/AFFM website: (https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/AFFM_Strategy_Brief_-_2018.pdf).

The AFFM Strategy has the following salient points:

- Identified two key intervention areas: (i) support the provision of credit guarantees and other financial solutions along the fertilizer supply chain; (ii) support policy advocacy and targeted technical assistance to governments committed to addressing key obstacles to fertilizer supply chain growth and efficiency;
- Selected nine geographically balanced countries in Sub-Saharan Africa for first intervention: Nigeria, Tanzania, Cote d’Ivoire, Chad, Ghana, Kenya, Ethiopia, Mozambique, and Zambia.
- Selected thirteen strategic commodities experiencing high market demand with potential for increased fertilizer use to be considered in AFFM activities. These commodities are cassava, cocoa, coffee, cotton, cowpea, horticulture, maize, millet, palm oil, sorghum, soybean, rice, and wheat.

Details about the selection criteria of intervention area, countries for first intervention and strategic commodities are provided in the Strategy Brief. The figure below summarizes the key elements of the AFFM Strategy.

Figure 1: Summary of the AFFM Strategy



Source: AFFM Strategy Brief

The activities implemented in 2018, the Work Program for 2019 and future activities were and will be guided by the AFFM Strategy Brief.

2.2. STUDY ON PROMOTION OF FERTILIZER PRODUCTION, CROSS-BORDER TRADE AND CONSUMPTION IN AFRICA

AFFM and UNECA co-financed the finalization of a study entitled “Promotion of Fertilizer Production, Cross-border Trade and Consumption in Africa”. The study seeks to provide holistic and specific solutions towards establishing a financing mechanism that effectively responds to the emerging and specific fertilizer demand, applicable to each of the target country cluster and focused transport corridor. The study served as the basis for some activities in the 2019 work program and it is now published on AFDB/AFFM Website: (https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Study_sponsored_by_UNECA_AFFM_on_promotion_of_fertilizer_production_cross-border_trade_and_consumption_in_Africa.pdf)

2.3. BASELINE STUDY FOR THE AFFM

In order to facilitate the tracking of AFFM’s performances, and as recommended by the Strategy Brief, a baseline study that would provide an analysis describing the situation prior to AFFM implementation was deemed necessary. The baseline study is collecting information across the fertilizer value chain in Africa and provide a monitoring and evaluation (M&E) tool for measuring AFFM’s impact in the selected countries listed under section 2.2 including Cameroun. It is in this context that the Consulting firm AO-LIXCAP was recruited on November 19, 2018 to conduct a baseline study for AFFM. The inception report was received on December 10, 2018, and the preliminary report is expected to be submitted on 16th January 2019, and the final report by 28th January 2019. The report will be presented to the AFFM Governing Council at its next meeting of February 27th, 2019.

3 ADMINISTRATIVE ACHIEVEMENTS

3.1 AFFM OPERATIONAL PROCEDURES MANUAL

The AFFM Operational Procedures Manual provides rules that guide the work of AFFM. The manual provides comprehensive guidelines to facilitate project identification, preparation, appraisal, approval, implementation and monitoring and evaluation. It also provides the eligibility criteria for projects and beneficiaries. In addition, the manual outlines, AFFM’s funds management system, which is anchored on the underlying premise that the Bank is chosen to administer these resources based on the integrity and quality of its review, approval and implementation processes. The AFFM Operational Procedures Manual was approved by the Bank’s Board of Directors on lapse of time basis on 5th of September 2018. The Manual is in force, and can be located via the following link: (https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Africa_Fertilize_Financing_Mechanism-AFFM-Operational_Manual_Procedures.pdf).

3.2 AFFM STAFFING

All AFFM staff (regular and consultants) necessary for initiating activities have now been recruited. The implementation of activities in 2018 was done with the support of the AfDB staff, short term individual consultants, and short-term consulting firms who were recruited as the need arose (see annex I).

3.3 GOVERNING COUNCIL AND TASK FORCE MEETINGS

The Sixth Governing Council (GC) meeting of AFFM was held at the African Union Commission Headquarters, in Addis Ababa, on Wednesday 25th July 2018. The meeting was attended by 10 of the 13 members of the GC, including: African Union Commission (AUC)/Department for Rural Economy and Agriculture (DREA); Food and Agriculture Organization (FAO); International Fertilizer Development Center (IFDC); Alliance for a Green Revolution in Africa (AGRA); United Nation Economic Commission for Africa (UNECA); East African Farmers Federation (EAFF); representatives of Nigeria and Chad; African Development Bank (AfDB); AFFM Coordinator; and Ethiopia as host country. The International Fertilizer Association (IFA) representative had confirmed virtual participation, but due to technical difficulties, could not participate. Office Cherifien du Phosphate (OCP) was invited and attended as an observer.

The 6th GC resolved as follow:

- Approved the AFFM Strategy Brief;
- Approved the AFFM Work Program for 2019 subject to finalization by the Task Force;
- Validated the Study on promotion of fertilizer production, cross border trade and consumption in Africa;
- Discussed the preliminary report of Feasibility study of credit guarantee for fertilizer financing in Africa and guided its finalization;
- Requested the Task Force (AUC, IFDC, AGRA, and UNECA) to continue supporting the AFFM Secretariat during the second semester of 2018.



Participants of the 6th AFFM Governing Council

The Task Force was asked to support the AFFM Secretariat in finalizing AFFM's 2019 Work Program, the feasibility study of credit guarantee for fertilizer in Africa, and the baseline study. For this purpose, the Task Force met in Kigali, Rwanda during the AGRF on the 4th September 2018. Further electronic communication continued on the same. The task force achievements are reported in different sections of this report.

3.4 WORK PROGRAMING, BUDGETING AND REPORTING IN 2018

The Secretariat developed the Work Program and budget for 2018, which was approved by AFFM Governing Council and AfDB's Board of Directors in September 2018. A budget in the amount of € 5,280,000 was approved including € 4,466,000 to cover project support activities and € 814,000 for administrative costs.

The Work Program and budget for 2019 was finalized, validated by the Governing Council, and approved by AfDB's Board of Directors on 20th February 2019. An amount of € 5,420,000 is budgeted and of which € 4,570,000 is for project support activities and € 850,000 is for administrative costs.

As required by the AFFM Operational Procedures Manual, a first semi-annual report for 2018 was also approved by AfDB Vice President for Agriculture, Human and Social Development (AHFR), and was presented to the Governing Council for information during its 6th meeting.

4 ACHIEVEMENT IN COMMUNICATION: ENHANCING THE AFFM VISIBILITY

Communication activities during the year focused on enhancing AFFM’s visibility with regard to the fertilizer industry, donors, other potential stakeholders and partners by presenting AFFM’s strategy and plans at different conferences and fora, both within and outside the AfDB. Participation in conferences were also aimed at understanding current trends and developments in the fertilizer sector, and hence guide AFFM interventions.

4.1 AFRICA GREEN REVOLUTION FORUM

AFFM participated in the AGRF Forum 2018, from 5th to 8th September, in Kigali, Rwanda that had the theme “Lead. Measure. Grow: Enabling new pathways to turn smallholders into sustainable agribusinesses”. During the Fertilizer Stocktaking Session on 6th September 2018, AFFM’s progress was discussed. The session addressed the question: “What’s next after Abuja Declaration”. Out of the twelve resolutions of the Abuja Declaration, two resolutions remain unsatisfactory as per the survey done by FAO in 2018 and presented by IFDC. This survey also recognized that AFFM’s implementation has been satisfactory given the recent improvements that had occurred during 2018.

4.2 ARGUS MEDIA GROUP (ARGUS) CONFERENCE

AFFM attended the Argus 2018 Africa Workshop on the topic “Added Value Fertilizer”, in Cape Town, South Africa, from 18th to 20th September 2018, and made a presentation on, “Addressing the Affordability Challenge – What Financing Options are Available to Improve Access to Added Value Fertilizers”. The presentation included a brief on the AFFM strategy and upcoming activities. This was followed by a round-table discussion on “What Financing Options are Available to Improve Access to Added Value Fertilizers”, facilitated by the AFFM as well.

4.3 CRU AFRICA CONFERENCE

During the same period, from 24th to -26th September 2018, in Cape Town, AFFM attended the CRU Africa Fertilizer Agribusiness Conference as well, on “Boosting Global Fertilizer trade and agribusiness in Africa through partnership, investment and innovation”, and made a presentation on “Finding tools that enable affordable credit to facilitate trade and investment in the fertilizer industry”. The presentation focused on AFFM’s Credit Guarantee, AfDB’s Partial Risk Guarantee, and Trade Finance products that can be used in Fertilizer value chain financing. The presentation made attendees and partners aware of the available financing instruments within the Bank.



AFFM Coordinator presenting - CRU Conference

Implementation Status Abuja Declaration on Fertilizers

Indicator	Status
Establishment of policy and regulatory frameworks	Unsatisfactory
Capacity for quality control	Satisfactory
Elimination of taxes and tariffs	Unsatisfactory
Development of agrodealer networks	Satisfactory
Distance traveled to purchase fertilizers	Good
Increase in the proportion of farmers using chemical fertilizers	Good
Increasing market size	Partially satisfactory
Introducing targeted subsidies	Satisfactory
Introducing national financing facilities for importers and agrodealers	Good
Introducing regional procurement initiatives	Satisfactory
Improving access to complementary inputs	Satisfactory
Establishment of the AFFM	Satisfactory

Source: www.nepad.caatp.net, in Boosting Africa's Soils - <http://www.fao.org/3/a/5532e.pdf>

Presented by IFDC during the AGRF Stocktaking session

4.4 IFA AFRICA FORUM

The IFA –Africa Forum was organized as a side event to the CRU Conference. The Forum provided an opportunity to discuss AFFM’s progress, if more activation was needed, and the preparation for the Abuja II. AFFM made a brief presentation on the progress it has made, on its credit guarantee models and the upcoming call for proposals. Participants were pleased to see some concrete developments at AFFM since the beginning of 2018.

5 ACHIEVEMENTS IN PARTNERSHIPS DEVELOPMENT

In an effort to place AFFM on the pedestal as the custodian of all fertilizer-financing activities in Africa, it is important to develop strong partnership with other likeminded institutions and stakeholders. The potential partners approached include AfDB departments, Technologies for African Agriculture Transformation (TAAT), Office Cherifien du Phosphate (OCP), African Fertilizer and Agribusiness Partnership (AFAP), West Africa Fertilizer Association (WAFA), Government of Ghana, Nigeria Incentive-Based Risk Sharing System Agricultural Lending (NIRSAL), Africa Rice, Kenya Commercial Bank (KCB), Sterling Bank, and Michigan State University, among others.

5.1 COORDINATION WITH AfDB’S DEPARTMENTS

During 2018, AFFM initiated partnership building discussions with the following departments within the Bank:

- Financial Sector Development Department (PIFD)
- Trade Finance Division (PIFD3)
- Financial Institutions Division (PIFD1)
- Syndication, Co-Financing and Client Solutions (FIST)
- Industrial and Trade Department.

Consultative meetings were held during the third quarter of the year with the above departments on how to leverage AfDB to foster the financing of the fertilizer value chain. It was agreed that the Trade Finance and the Financial Institutions Divisions will work with AFFM through some of their clients to finance importers and distributor of fertilizer to ensure that the commodity becomes affordable and available to smallholder farmers. AFFM will follow up with these departments in 2019 to strengthen these partnerships for the benefits of smallholder farmers in Africa.

5.2 COLLABORATION WITH OFFICE CHERIFIEN DU PHOSPHATE (OCP AFRICA)

OCP is specialized in the extraction, transformation, and commercialization of phosphate and its products. OCP is one of the biggest fertilizer blenders in Africa, and operates in several AFFM focused counties. OCP has expressed interest in collaborating with AFFM. Against this background, several meetings were held with OCP and two main areas of collaboration in the 2019 work program are identified:

- The AFFM planned workshop in Abidjan for port authorities in West Africa to advocate for giving priority to fertilizer in ports and rails. This workshop is planned for the third quarter 2019. The related concept note is being developed and discussed.
- Depending on the success of the upcoming implementation in Nigeria and Tanzania, OCP has indicated its willingness to contribute to the AFFM credit guarantee fund to ensure that the

program is extended to Ethiopia and other African countries. Discussions with OCP are still ongoing for possible collaboration on credit guarantee.

5.3 COLLABORATION WITH AFRICAN FERTILIZER AND AGRIBUSINESS PARTNERSHIP (AFAP)

The African Fertilizer and Agribusiness Partnership (AFAP) implements credit guarantees in countries where it operates. AFAP has expressed interest in collaborating with AFFM in this area. The various discussions held with AFAP have enabled AFFM to have a better understanding of the AFAP credit guarantee models. AFAP was also informed about AFFM call for proposals for the credit guarantee and encouraged to apply for it.

5.4 COORDINATION WITH TECHNOLOGIES FOR AFRICAN AGRICULTURAL TRANSFORMATION (TAAT)

The AHAI Department hosting the AFFM has developed a Technologies for African Agricultural Transformation (TAAT) flagship, for AfDB's Feed Africa Strategy implementation. Both TAAT and AFFM share a common objective of increasing agricultural productivity in Africa. TAAT's approach is the identification and deployment of appropriate technologies, while AFFM seeks to increase the use of fertilizers. To facilitate these collective efforts, both TAAT and AFFM will operate in the same focus countries and around the same commodities. The credit guarantee will facilitate fertilizer access and build the financing landscape for fertilizer. In addition, the work on fertilizer policies harmonization, if achieved, will be a pathway for helping compacts activities on the ground, as it will build a sustainable bridge between participating countries.

5.5 COLLABORATION WITH WEST AFRICA FERTILIZER ASSOCIATION (WAFSA)

The AFFM initiated a partnership with WAFSA to jointly implement activities that have common interest to both organizations. Following two consultative meetings with WAFSA members, collaboration on the following activities in the AFFM work program of 2019 were agreed:

- Create awareness for the fertilizer value chain operators about the available financial instruments at the AfDB and across others financial institutions in West Africa and how to develop appropriate instruments and operations.
- Advocacy on policy harmonization; and
- Organize a workshop for port authorities in West Africa to advocate for giving priority to Fertilizer in ports and rails.

5.6 COLLABORATION WITH THE GOVERNMENT OF GHANA

The government of Ghana (GoG) in collaboration with OCP and IFDC, is embarking on an ambitious fertilizer expansion program, Ghana Fertilizer Expansion Program (GFEP) with the aim of increasing fertilizer consumption in Ghana from 15 kg per hectare of arable land to 30 kg in the next five years. The GFEP program seeks to develop the fertilizer industrial sector by establishing manufacturing and blending companies in Ghana, as well as to promote the development of the entire fertilizer value chain.

AFFM can play a significant role in the expansion program—including working with AfDB to secure funding for the program, pointing the GoG to other sources of grant funding for feasibility studies, as well as serving as an intermediary for technical advice.

AFFM, through a Senior Advisor at the Presidency, engaged with GoG and offered to sponsor the Senior Advisor's participation in the Africa Investment Forum (AIF) held in Johannesburg, South Africa from November 6th to 9th, 2018. The AIF was an opportunity for the Advisor to meet and

interact with investors from the continent and beyond who may be interested in funding the GFEP project. Unfortunately, due to circumstances beyond her control, the Senior Advisor could not make the trip. Going forward, AFFM will continue to engage with the GoG through the Senior Advisor and her staff to ensure that both GoG and AFFM work together with AfDB to secure funding for GFEP. This partnership with GoG will help further put AFFM on the map in terms of visibility and achievements.

5.7 COLLABORATION WITH NIRSAL

On TAAT initiative, AFFM met with NIRSAL in Abuja on 27th -28th June 2018 to discuss their initiatives and activities of interest such as NIRSAL’S fertilizer financing framework and AFFM’s credit guarantee program. NIRSAL is an ecosystem of manufacturers, suppliers, transporters, super-agro-dealers, sub-dealers, warehouses managers, goods in transit, insurance companies that channel inputs from manufacture down to the farmers. This model will be leveraged when AFFM implements its credit guarantees scheme in Nigeria and Tanzania. AFFM proposed to NIRSAL a study tour to their offices in 2019 as part of AFFM’s Work Program, to showcase NIRSAL’s guarantee model as a product that can help to de-risk and advance agricultural lending in Africa. However, after learning of the complexity of NIRSAL risk sharing model, it was decided to drop the study tour; a few days tour of NIRSAL will not do justice in understanding the mechanics of their model. AFFM will continue discussions with NIRSAL to reach an agreement on partnership activities of common interest in Nigeria.

5.8 COLLABORATION WITH AFRICA RICE

AFFM is seeking a partnership with Africa Rice to organize the workshop for port authorities in West Africa to advocate for giving priority to fertilizer at ports and railways planned for 2019. Africa Rice has been approached by AFFM to work together to reduce rice importation and increase fertilizer importation. This is expected to boost rice production on the continent. Africa Rice has agreed to prepare together with OCP a presentation that takes into account the problematic of fertilizer related to rice importation and to propose an advocacy instrument to AFFM.

5.9 COLLABORATION WITH KCB AND STERLING BANK

As part of the partnership and collaboration building efforts, AFFM, together with AfDB, commenced discussions with Sterling Bank of Nigeria and KCB Bank of Tanzania. Both banks are very active in lending to the agricultural sector, (including fertilizer sector).

For Sterling Bank, the agricultural sector makes up 10% of its balance sheet. The bank supports super agro-dealers along the fertilizer value chain. The bank has 180 branches across Nigeria. In 2018, AfDB approved a USD 50 million line of credit to Sterling Bank, part of which will go towards agricultural financing. Under Sterling’s guarantee model, the super agro-dealers contribute 20% equity and NIRSAL guarantees covers 75% of the loaned amount. AFFM however informed Sterling that any future risk-sharing collaboration will be of 50%-50% pari-pasu. AFFM also invited Sterling Bank to the boardroom session on “Fertilizer Financing” at the AIF in Johannesburg in November 2018. As a result of the relationship already established with the institution, Sterling Bank submitted a concept note to the call for proposals launched by AFFM for the provision of credit guarantee.

KCB has an agriculture portfolio of USD 400,000, and a USD15 million line of credit provided by USAID's Development Credit Authority (DCA) to be used as guarantee. According to KCB, only 40% of the USD15 million was used, leading to the expiration of the facility, which has since been renewed for two more years. KCB uses a portfolio credit guarantee structure, which covers 50% of the first loss for principal balance only and not the interest component of the loan. KCB has banking networks in Kenya, Uganda, Tanzania, Rwanda, Burundi, South Sudan and Ethiopia, where they have a field office. In view of the number of countries KCB is present in, the AFFM will continue working on cooperating in the area of credit guarantee.

5.10 MICHIGAN STATE UNIVERSITY

The Agriculture and Agro-Industry (AHAI) Department invited AFFM to participate in a meeting organized with Michigan State University's - Africa Secretariat Alliance for African Partnership (MSU- AAP), where both the MSU and AHAI/AFFM discussed initiatives of common interest and similar areas of intervention. The AFFM will continue discussions with the MSU/AAP for possible collaboration on policy formulation and advocacy. During the meeting, it was discovered that some works have already been done in the area of reporting on fertilizer markets by the researcher Maria Wanzala. There has also been a published report on fertilizer subsidies. Collaboration between the AFFM and AAP will focus on working together on the fertilizer financing consortium aimed at creating an alliance for fertilizer on the continent. Other areas include developing regulatory environments, developing fertilizer policies, and following up on the Abuja Summit on Fertilizer.

6 RESOURCE MOBILIZATION

The 6th Governing Council meeting held on July 25th, 2018 in Addis Ababa, Ethiopia recommended that before starting a resource mobilization campaign, AFFM Secretariat should first document key achievements in terms of availability of fertilizer at all levels, and per country, as well as the progress of countries in achieving the Abuja target. Moreover, AFFM should ensure that tangible results on the ground are documented to inform and guide the resource mobilization plan and activities. During 2018, efforts were made in following up on the pledged amount, in developing documentation for the AFFM, and in communicating the AFFM strategy and plans.

6.1 FOLLOW UP WITH PLEDGES BY THE AFFM SECRETARIAT

A letter was sent to the Minister of Production, Irrigation and Agricultural Equipment of Chad requesting the Government to fulfill their commitment of US\$ one million. During the 6th Governing Council, the Minister reaffirmed the Chad's Government willingness to honor their pledge and follow up e-mails were sent. The Minister later shared a copy of the instructions of the President of Chad to the Minister of Finance to pay the Government's arrears of their contribution to the operation of the AFFM. A follow up mission will be organized in 2019.

Regarding Tanzania and Nigeria, AFFM will first implement the credit guarantee in those two countries before approaching the authorities to request them to pay up the balance of their pledge.

6.2 FOLLOW UP ON PREVIOUSLY EXPRESSED INTERESTS

During the first semester, different organizations were approached to discuss their initially expressed interest to contribute to the AFFM. These include, IFAD, AFA, Bill and Melinda Gate Foundation, amongst other. All the organizations have expressed interest in first seeing AFFM

results on the ground that would guarantee the sustainability and impact of their investment in the AFFM.

6.3 FURTHER AND INITIAL ADVOCACY CONTACTS

AFFM used every occasions to meet and discuss the need for resources to be injected in the fertilizer value chain through AFFM. For this purpose, AFFM with the support of the AHAI Director contacted the China trust funds, the Islamic Development Bank, and OCP. It is expected that further advocacy in other countries will be started in 2019 after all documentations are developed and validated.

6.4 AFRICAN INVESTMENT FORUM (AIF)

In November 2018, the AfDB organized the Africa Investment Forum in Johannesburg, South Africa. The Forum took place between the 5th and the 9th of November. AFFM fully participated in this important gathering. AFFM used the Forum to drum up support for its resource mobilization efforts by organizing a boardroom session. The boardroom brought together nineteen prospective investors and contributors to AFFM’s credit guarantee fund. At the boardroom, a presentation was made to explain the mechanics of the credit guarantee scheme to the prospective investors.



Attendees in the boardroom included representative from: OCP, Sterling Bank, ETG, Omni Fert, NIRSAL, AfDB, Bank of Industry, PASS, AFAP, IITA, and CIAT

AFFM Boardroom at the AFDB-AIF

The ask for the presentation was to raise USD 112 million over the next 3-5 years into AFFM’s credit guarantee fund. During the boardroom discussion, OCP committed to contribute an unspecified amount into the guarantee fund to enable AFFM to expand its credit guarantee operations into more African countries, especially in Ethiopia. Also during the boardroom, Sterling Bank advised that AFFM should align the execution of the credit guarantee to coincide with the timing of the planting season in order to make the fertilizer readily available to the farmers, especially smallholder farmers.

Besides the boardroom AFFM also had the opportunity to have continue bilateral meetings ETG, NIRSAL, AFAP, and the China Africa Development Fund (CADFUND), to discuss potential collaboration.

6.5 CHINESE TRUST FUND

AFFM established contact with the South Africa office of the China-Africa Development Fund (CADFUND). The ultimate aim of this relationship is to seek additional funding resource into

AFFM's credit guarantee fund. In addition, the relationship is also meant to explore how AFFM can benefit from partnership and cooperation with other Chinese agencies such as the China Africa Financial Institutions Platform, as well as Chinese fertilizer manufacturers. Through this relationship, AFFM learned about the existence of an SME unit within the China Development Bank that AFFM can cooperate with to help finance the fertilizer value chain in Africa. At the AIF forum in South Africa, AFFM took the opportunity to meet with the representative for CADFUND for Southern Africa. The representative informed the AFFM that they have rice projects in Malawi and Mozambique involving over 700,000 smallholder farmers in four countries. The Representative said that CADFUND mostly does equity investments. However, on rare occasions, they can do debt financing.

CADFUND expressed interest in working with AFFM to make fertilizer available and affordable to smallholder farmers in Tanzania. This could be done by replicating AFFM's model to use their funding, create a farm pull, and provide all required facilities to attract smallholder farmers. The Secretariat has provided CADFUN with information literature, including the Operational Procedures Manual and the Framework for Establishing the AFFM. CADFUND has invited AFFM to visit their rice farm project in Mozambique to learn more about how their model works and to further discuss the possibility of collaboration.

7 OTHER ACHIEVEMENTS

7.1 FAO INTERNATIONAL CODE OF CONDUCT FOR THE USE AND MANAGEMENT OF FERTILIZERS

AFFM was invited by the Commissioner for the Department of Rural Economy and Agriculture of the African Union Commission (AUC –DREA) to take part in the Africa consultative meeting to review the international code of conduct proposed by FAO. The meeting took place on 12th November 2018 in Addis Ababa, Ethiopia. The content of the code has been challenged by some African countries and actors operating in Africa during the 26th Session of FAO's Committee on Agriculture. The approval of the resulting document was deferred to the next Africa consultative meeting, where suggestions for adjustments to relevant sections of the guidelines in the Fertilizer Code would have been discussed to ensure that the adjustments will reflect the realities of African agriculture.

AFFM comments were added to the ones collected from IFDC and IFA and were presented by the AFFM Coordinator during the consultative meeting, which reviewed the code and formulated recommendations for its improvement, considering Africa's unique circumstances concerning fertilizer use. The following next steps will be undertaken to ensure that the recommendations are taken into consideration:

1. AUC presented the recommendations from the Africa consultative meeting to the Africa Regional Group of Permanent Representatives in Rome from 21th- 23th November 2018 to ensure that they were well informed about the code and proposed modifications before the next consultative meeting by FAO takes place.
2. FAO has agreed to have 3 representatives for Africa for the next meeting. This number was judged inadequate and AUC committed to negotiate for a bigger number of representatives.
3. The AUC Commissioner will work on insuring that proposed revisions by Africa Consultative meeting are taken into consideration in the next version of the code.

7.2 AGRA BOOK ON FERTILIZER

AGRA is writing a Book focused on increasing appropriate fertilizer use in Africa for resilience and food security. The book documents AGRA and its partners' experiences and lessons and promotes shared learning and up-scaling initiatives. The book will help increase awareness on the appropriate use of fertilizer and its potential to increase productivity and lead to agricultural transformation. AFFM was requested to contribute to the chapter on Abuja Declaration on Fertilizer -Current Status, Next Steps; and AFFM provided inputs on Resolution 11: Establish an Africa Fertilizer Financing Mechanism (AFFM). AFFM was also requested to co-write the chapter on Financing Fertilizer from Factory to Farm. In this chapter, AFFM wrote on financing tools, including AFDB's lines of credits and guarantee instruments, AFFM financing mechanisms, and AGRA's innovative financial tools for smallholder farmers. The book is expected to be published in February 2019.

C. BUDGETING AND FINANCIAL MANAGEMENT

The expenses incurred during the reporting period are funded through the budget allocated from the AFFM Fund.

1. SUMMARY OF FINANCIAL SITUATION

As of December 31st, 2018, only 67% of pledged amounts were received. The Table 3 below summarizes the financial position of the AFFM in terms of pledges, funds received, commitments and funds available for commitments. Of the total contributions (received) amounted to €12,124,734, commitments (disbursed, bank charges, payable and ongoing) is amounted to €1,384,858. This leaves €10,739,876 for future commitments. The Fund balance was €11,479,651 as at 31st December 2018 (detailed financial statements are in the annex II).

Table 3: AFFM Financial Situation as at 31st December 2018 (Euro)

PARTNER	PLEGDED	RECEIVED	% OF PLEDGE RECEIVED
Contributions			
AFDB	5,773,900	5,773,900	100%
Nigeria	8,835,493	5,276,624	60%
Tanzania	1,767,099	185,558	11%
AGRA	888,652	888,652	100%
Chad	888,652	0	0%
Sub-total	18,153,796	12,124,734	67%
Less commitments (done and ongoing activities)		1,384,858	
Funds available for Commitments		10,739,876	

D. MITIGATING CHALLENGES AND LESSONS LEARNED

During the reporting period, AFFM faced some challenges and learned a number of lessons: First and foremost, the call for proposals for the credit guarantee scheme was launched; however, few applicants responded to it. In hindsight, a call for proposals is not the best medium for soliciting interest from prospective financial institutions and implementing partners. Call for proposals are suitable for grant making, but credit guarantees are more transactional in nature, and require direct solicitation and contacts through established relationships.

Another lesson learned from discussions with potential partners is to insure that the execution of the credit guarantee coincides with the planting seasons in Nigeria and Tanzania. This became difficult with the first call for proposal in regard to internal preparation and approval processes.

In addition, although the feasibility study on the credit guarantee recommended going through financial institutions, in discussions with number organizations, they all recommend using trade credit from fertilizer blender and dealers instead in the future. According to them, trade credit leads to higher leverage of about 20:1, which results in higher impact by reaching more farmers. Moreover, it reduces the costs to the farmers because they avoid paying the high interest rates charged by financial institutions. Therefore, AFFM is seriously considering combining financial institutions credit guarantees with suppliers' trade credit.

In planning the 2019 work program, AFFM should have been more assertive in its communications with NIRSAL. It should have been realized earlier that a study tour was unrealistic expectation.

The development of the procedures manual before approval of the strategy brief led to the fact that some sections are designed for grant funding, while AFFM opted for credit guarantees. The implication is that AFFM secretariat had to adjust or redesign some AfDB's templates in the manual to enable the call and the evaluation of proposals. AFFM will consider adjusting the manual in the near future.

With regards to Secretariat staffing, there were substantial delays in the recruiting process, including negotiating with the prospective finance and administration consultant.

In addition, the limited number of full-time project staff leads to uncertainty and difficulty in planning. Besides the Coordinator and the Team Assistant all of the remaining staff are consultants. This is due to insufficient resources. It is recommended that as soon as the Secretariat's financial position improves, full-time projected staff be hired.

The lack of SAP access for the Coordinator also led to delays in some operational and logistic processes, including approvals and supervision.

E. NEXT STEPS AND CONCLUSION

1. NEXT STEPS

At the end of the reporting period, AFFM had shortlisted two institutions to work with in providing credit guarantee to the fertilizer importers, distributors and agro dealers in Nigeria and Tanzania. The first quarter of 2019 will be dedicated to appraising the full proposals, signing the agreements, releasing and monitoring the credit guarantee in both countries.

In order to deliver its mandate, AFFM has also planned other following activities in 2019 and for other countries identified for first intervention:

- Awareness Creation for Available Financing Options within AFDB through workshops in Cote d'Ivoire and Tanzania;
- Organize a study to enhance extending credit to wholesalers who are established customers in Chad;
- Develop policy instruments/ Policy Advocacy: Make an inventory of existing multiple taxes, and assess the existence of fertilizer policy and laws at country level in the countries of AFFM first intervention;
- Organize a workshop with port and rail authorities to advocate for giving priority to fertilizers in ECOWAS.

For the AFFM sustainability, activities scheduled in 2019 are:

- Development of AFFM Communication strategy;
- Develop Resource mobilization documents and start the resource mobilization campaign within and outside the bank;
- Continue building strategic partnerships with different institutions playing key role in the fertilizer value chain for collaboration in the AFFM activities, insure that efforts aiming at developing the sector are well coordinated.

The AFFM secretariat will also continue the administrative work insuring timely support of the bank's overall management, and timely communication of progress to the Bank and AFFM Governing Council.

2. CONCLUSION

One of AFFM's key achievements in 2018 was the setting up of the Secretariat, which is now operational. This expedited the implementation of activities on the field. Required staff have been recruited for consultation; three studies have been completed, several partnerships have been established. With the efforts put into implementing the credit guarantee, it is expected that signature for four million Euro worth of credit guarantee agreements should be executed within the first quarter of 2019.

Pursuant to the feasibility study of credit guarantee, the call for proposals that yielded few Concept Notes, and discussions with different institutions involved in the provision of credit guarantee to fertilizer value chain, such as Sterling Bank, KC Bank, AFAP, Omni Fert, and NIRSAL, the AFFM has shortlisted only two organizations for the implementation of the portfolio credit guarantee, one financial institution and one implementing partner. Other approaches such as direct

sourcing and networking will have to be explored in order to broaden the scope and increase the number of interested parties.

Progress has been made in building partnerships, some commitments should materialize into collaboration agreements for the implementation of the 2019 work program, with AfDB, OCP, WAFA, and Africa Rice. Other discussions will continue for collaboration on the provision of credit guarantee for the fertilizer value chain. Progress is also noted on making the AFFM visible to the AfDB, donors and fertilizer industries.

Though the resource mobilization, activity was deferred in favor of the development of documentation and implementation of activities on the field, this remains a challenge in regard to the amount required to implement the credit guarantee in the nine countries for the first implementation.

In 2018, the AFFM learned some useful lessons that it will harness to improve its operations and ensure the successful implementation of future operations. These were taken into consideration while developing the work program and budget for 2019.

ANNEX 1: AFFM SECRETARIAT STAFFING

Names	Title	Status	Date assumed duty/ contract period
Marie Claire Kalihangabo	Coordinator	Project Staff	1 st November 2017
Zacharie Zida	Expert – Fertilizer Value chain	Long term Consultant	28 th May 2018
Benjamin Asare	Expert – Investments	Long term Consultant	1 st August 2018
Amel Jendoubi	Team Assistant	Project Staff	1 st September 2018
Yaovi Djissenou	Expert – Finance and Administration	Long term Consultant	1 st December 2018
Lara Goldmark	Prepare and facilitate the development of the AFFM Strategy Brief	Short term consultant	08 th May 2018 - 30 th July 2017
Carnegie-Kit	Feasibility study of the Credit Guarantee for fertilizer in Africa	Short term Consulting Firm	28 th June 2018 – 31 st August 2018
AO-lixcap	Baseline for the AFFM	Short Term Consulting firm	19 th November 2018 - 31 st January 2019
Tchawa Outtara	AfDB's regular staff - Team Assistant	AfDB's support	1 st November 2017 –31 st August 2018
Gracia Kahasha	AfDB's – AHAI consultant	AfDB's support	1 st November 2017 –30 th April 2018

ANNEX II: AFFM FINANCIAL STATEMENTS 2018

AFRICAN DEVELOPMENT BANK

AFRICA FERTILIZER FINANCING MECHANISM (AFFM) **FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

(Expressed in EUR)

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AFRICAN DEVELOPMENT BANK

AFRICA FERTILIZER FINANCING MECHANISM (AFFM)
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018
(Expressed in EUR)

CONTRIBUTIONS

Total contributions	12,124,735
Bank Charges	<u>(79,432)</u>
Total funds available	12,045,303

DISBURSEMENTS

Ongoing activities (Annex 1)	
Total Disbursements	<u>(565,652)</u>

Funds available **11,479,651**

Represented by:

Cash in bank	11,629,991
Less: Amount payable	<u>(150,340)</u>

Fund balance **11,479,651**

AFRICAN DEVELOPMENT BANK

AFRICA FERTILIZER FINANCING MECHANISM (AFFM)
STATEMENT OF COMMITMENT AS AT DECEMBER 31, 2018

(Expressed in EUR)

Total funds available	<u>12,045,303</u>
Less : Commitments	
Ongoing activities (Annex 1)	<u>(1,305,425)</u>
Grant Funds available for commitment	<u>10,739,878</u>