Ministerial Roundtable III: Partnerships for Risk Sharing Mechanism

Workshop on Establishing an African Agriculture Risk Sharing and Financing Mechanism

July 12 – 13, 2016
Agenda

• Partnering for Risk Sharing Mechanisms: An Introduction

• About Bain & Company
Key Questions for Today

A  *Who are the right partners?*

- Who are the partners that should be involved in set-up and running of the RSF?
- How will this list vary at the national and continental level?

B  *What will these partners bring to the table?*

- What type of offerings (e.g. services, assets and capabilities) should partners bring to the table e.g. technical, financial, operational and advisory partners?
- Is there a mix of offerings that will work better than others?
- How should these partners be qualified, selected, managed and rewarded?

C  *How will AfDB win these partners?*

- In order to attract the best partners, what design elements should AfDB incorporate into its own build up?
- Why would a potential partner choose to join the AfDB’s proposed structure?
- What checks and balances do partners also need to see in order to proceed?
A good starting point for today’s discussion is to look at existing RSFs and ask what their partnership model is. Partners appear to be selected to solve for specific challenges or provide smart complementarities.

<table>
<thead>
<tr>
<th>RSF-Project</th>
<th>Financial</th>
<th>Technical</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia RSF for Agric SMEs (IFC)</td>
<td>IFC</td>
<td>IFC</td>
<td>IFC’s separate advisory program was leveraged for technical support</td>
</tr>
<tr>
<td>IFC Global Warehouse Finance Program</td>
<td>IFC</td>
<td>IFC</td>
<td>Sample partners, with more than 20 countries; participating partnerships based on country-specifics and needs</td>
</tr>
<tr>
<td>Uganda rural SEED (USAID)</td>
<td>USAID</td>
<td>AMFIU</td>
<td>USAID selected local partners for specifically focused implementation</td>
</tr>
<tr>
<td>AGRA</td>
<td>USAID</td>
<td>USAID</td>
<td>Partners varied by participating countries, with strong focus on both technical and financial support</td>
</tr>
<tr>
<td>NIRSAL Plc (Central Bank Nigeria)</td>
<td>USAID</td>
<td>DFID</td>
<td>Development partners provided selective co-guarantee and technical support; all registered Nigerian banks participated</td>
</tr>
</tbody>
</table>

This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain’s prior written consent.
Note that each RSF can be categorized into one of three partnership archetypes based on decision making models.

1. **CENTRALIZED**
   - Parent organization makes all decisions
   - Parent organization approves and clears loans, regardless of size

2. **HYBRID**
   - Parent organization works with approved financial partners
   - Dual approval structure with financial institution final approval conditional on issuance of guarantee

3. **DECENTRALIZED**
   - Parent organization selects financial partners
   - Financial partners approve all deals
   - Financial partners are reviewed regularly

---

**Uganda (USAID):** USAID provided guarantees to selected financial intermediaries based on existing agric pipeline, also provided technical support in risk assessment and monitoring.

**NIRSAL (CBN):** Partner institutions provided conditional approvals on loans, as well as consulted informally with Nirsal; Nirsal sole approver of credit guarantees.

**AGRA (Gates):** AGRA pre-selected specific financial partner (Standard Bank), and allowed Standard Bank to administer the facility in four countries.

**Cambodia (IFC):** All loans given through pre-approved partner financial institutions, loan portfolio reviewed after 18 months.

Note: CBN = Central Bank of Nigeria
For example, a hypothetical *future* partnership discussion on Rwanda could follow a path such as the below

<table>
<thead>
<tr>
<th><strong>ILLUSTRATIVE</strong></th>
<th><strong>Centralized</strong></th>
<th><strong>Hybrid</strong></th>
<th><strong>Decentralized</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>• RSF operates as a unit in AfDB HQ coordinating with partners in Rwanda</td>
<td>• RSF operates as separate entity but leverages AfDB for targeted support</td>
<td>• RSF incorporated as an entity in Rwanda with co-financing, strategy and support from AfDB HQ</td>
</tr>
<tr>
<td><strong>AfDB role</strong></td>
<td>• Approves all loans, grants and guarantees</td>
<td>• Approves fund disbursements, guarantees above defined threshold</td>
<td>• Defines guidelines for approving funds</td>
</tr>
<tr>
<td></td>
<td>• May provide direct technical assistance assessing loans</td>
<td></td>
<td>• Spot checks to ensure compliance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Provides RSF with access to umbrella “risk” pool</td>
</tr>
<tr>
<td><strong>GoR role</strong></td>
<td>• Co-fund the RSF</td>
<td>• Co-fund the RSF</td>
<td>• Co-fund the RSF</td>
</tr>
<tr>
<td></td>
<td>• Provide necessary regulatory approvals</td>
<td>• Provide necessary regulatory approvals</td>
<td>• Provide necessary regulatory approvals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Support RSF operations as independent entity</td>
<td>• Incubate RSF</td>
</tr>
<tr>
<td><strong>Partner Mix &amp; Role</strong></td>
<td>• Provides complementary support to project not related to loan approval (e.g. technical support to farmers)</td>
<td>• Contribute financing</td>
<td>• Contribute financing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Provide assistance in loan assessment and approval</td>
<td>• Owns loan assessment and approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Provide operational advice to value chain</td>
<td>• Operational and technical assistance</td>
</tr>
</tbody>
</table>
The archetype chosen should reflect the relative strengths of countries across value chains that are a priority

<table>
<thead>
<tr>
<th>Financial Institution/Technical Partner → Agriculture Client</th>
<th>Inputs/Enablers</th>
<th>Production</th>
<th>Handling/Processors</th>
<th>Logistics/Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt/Multilateral → Financial Institution</td>
<td>Lines of credit to MFIs</td>
<td>Lines of credit to banks</td>
<td>Credit guarantees</td>
<td></td>
</tr>
<tr>
<td>Non-Financial</td>
<td>Legal/regulatory environment for financial institutions</td>
<td>Technical support to financial institutions (e.g. agric risk assessment, product development, channel development)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Weather/Pest insurance</td>
<td>Warehouse receipt financing</td>
<td>Leasing agri equipment</td>
<td></td>
</tr>
<tr>
<td>Non-financial</td>
<td>Support set up of MFIs</td>
<td>Provide free inputs</td>
<td>Create ag cooperatives</td>
<td>Dev. of commodity exchanges</td>
</tr>
<tr>
<td>Fin. Institution/Technical Partner</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key**

- = common RSF components
- = potential additional RSF components
That relative strength and how to leverage partnerships to unlock it is also a function of the overall strategy pursued.

**Bain framework on Strategy**

A robust fact base that must have strategic insights, builds the case for change, and leads to choices and potential strategic options design for AfDB.

- What are the key risk sharing market trends in across Africa’s key agricultural economies?
- What are the relative sizes of the markets and relevant revenue pools and how they shift?
- What are AfDB’s current and target agribusiness customers and their risk sharing needs?
- What are the different participation models within the risk sharing market e.g. pure guarantees versus equity investment?
- Who are the key competitors and new entrants e.g. NIRSAL Plc, and USAID DCA?

A bold, inspiring, full potential ambition that drives to sustained profitable growth:

- What are AfDB’s strategic goals in each country e.g. revive agribusiness, support export expansion?
- What is the target leadership position?
- What are the financial components of those ambitions?

Clear choices on both where to play and how to build or reinforce a competitive advantage:

**Where to play?**
- which target customers in each country?
- which financial products, technical service and pricing models?
- which distribution and channel partnerships + approach?

**How to win?**
- what will be AfDB’s competitive advantages?
- what are the capabilities required versus current asset/capability gaps and how do we close these gaps (Build / Partner / Buy)?
- what are the regulatory requirements of our target model?
- what do you need to believe for success?

Flexible priorities that follow the money even in turbulence and go beyond “just initiatives”

Mobilization of the centre and countries to embed the required change and creation of feedback loops to monitor and adapt.

**Source:** Bain experience
In our formulation, partnership therefore cannot be separated from the “fit for purpose” “how to win” model

### Strategic foundations

- Agribusiness has been growing rapidly across Africa over the past decade, driven by rising incomes, shifting consumption habits, urbanization, and global commodity demand.
- In select markets, growth has been enabled by a mix of financial tools that are improving access to working capital from sources such as governments, central and commercial banks, and private equity.
- Uneven growth in agriculture markets across Africa has reinforced certain customer archetypes e.g. production for domestic market, regional production, international exports.

### Ambition

- In defining its aspiration, the AfDB would need to clarify its ambitions i.e. serving the current traditional market structure, helping select markets write a new chapter.
- The customer archetype is a useful way of framing aspiration and therefore choices.

### Where to play

- In structuring a risk sharing facility, it is critical that the value proposition must align to each customer archetype i.e. there is no “one size fits all” solution across Africa.
  - Risk financing needs will vary by market e.g. the more immature the credit markets, the higher the need for guarantees.
  - Additional instruments e.g. equity, convertible debt, advance purchase financing, etc. may be better suited for select countries, value chains, and end market providers.

### How to win

- AfDB will need to build partnerships in an open architecture with an ecosystem of providers, financial, technical and government with deep knowledge of local markets and overlapping goals.
- The choice of relevant partners has to be selectively assessed against AfDB’s overall ambition, existing market capabilities, and the distinctive assets required from the potential partners.
- The choice of credible pilots is key to generate future buy-in in the large scale deployment phase.

---

**Source:** Bain experience

---

This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain’s prior written consent.
No matter the partner model chosen, the ultimate goal is a dynamic ecosystem that drives high impact investments.

The “trick” is to take each partnering category and optimize it for country in question, controlling for its current and future context.
Agenda

- Partnering for Risk Sharing Mechanisms: An Introduction
- About Bain & Company
Bain is the consulting firm the world’s business leaders come to for results

• Bain is one of the world’s top management consulting firms. Founded in 1973, we currently have more than 6,000 employees in 54 offices worldwide

• We’ve worked with over 4,900 companies, including more than two-thirds of the Global 500

• Our clients come back for more. 85% of our business comes from companies with whom we’ve worked before

• We have deep industry expertise and broad practical experience

• We help leaders in every industry make their most critical decisions on strategy, operations, organization, M&A, PMI and IT
Our people, our approach and our track record set us apart

- Our 40-year track record of delivering outcomes, not programs. We deliver tailored, pragmatic, actionable solutions
- Our people, who focus on helping get things done rather than proving how smart they are
- Our willingness to put our money where our mouth is, with 60% of our revenue from clients where we have aligned our incentives with their results
- Our Results Delivery® process that makes change stick, building our clients’ capabilities
- Our True North values that mean we do the right thing for our clients, people and communities – always
We leverage our global network to deliver deep expertise and implementation support

6,000 EMPLOYEES ACROSS 53 OFFICES
In addition to our global expertise, Bain is deeply committed to the African continent and our African clients.

**WE BUILD ON OUR GLOBAL PLATFORM WITH AFRICA SPECIFIC KNOWLEDGE**

- We started to **operate in Africa in 1993**. Today, we are the **market leader in Strategic Consulting on the continent**, with more almost 200 consultants, 12 Partners and 2 offices (Johannesburg & Lagos).

- We **know Africa well** and have recently worked in most of the relevant markets on the continent on agriculture related topics.

- From day 1, we will **co-create the solutions to your questions with you**, with a clear set of joint objectives and working rules. We will also guarantee **“capacity transfer”** to your resources.

- We have a **passion for your organisation and success**, and will invest substantially to help you achieve it.

**WE HAVE WORKED IN MOST AFRICAN COUNTRIES**

- Bain Lagos office
- Bain Johannesburg office
Our extensive experience in agribusiness, innovative finance and a unique style of working set us apart

**GLOBAL EXPERTISE AND EXPERIENCE IN AGRI BUSINESS**

- **700+ projects** in agriculture, across different parts of value chain
  - **100+ projects** related to produce & agribusiness & **180+ projects** in Europe and Africa
  - Specific knowledge base of inclusive value chains and smallholder farmers
- Strong track record **in the finance/ agribusiness interface**
- Advised on agric-anchored national **economic growth strategies**

**STRONG UNDERSTANDING OF INNOVATIVE FINANCE MECHANISMS**

- Key expertise in **innovative financing mechanisms** for microfinance institutions, impact investors and social entrepreneurs (e.g. Acumen, Accion, Endeavor)
- Deep due diligence experience supporting agribusiness and food value chain investors

**DEEP EXPERIENCE IN WORKING IN AFRICA**

- Completed **~400 cases in Africa**
  - **Market leader** in strategic consulting in Africa
  - **12 partners and ~200 active consultants** on the ground, operating from offices (Johannesburg, Lagos)
  - Several Pan-Africa projects, including for banking, telco and development institutions in addition to multiple single country projects

**PRAGMATIC AND VALUE-FOCUSED INVESTOR APPROACH**

- Highly **motivated, experienced senior teams** in agribusiness, finance and private equity
- **80/20 working rule** – focus on the practical impact
- Strong expertise & global network of advisers
For more information, please contact:

Jude Uzonwanne
Principal
Bain & Company Africa
38A Glover Road, Ikoyi, Lagos, Nigeria
M: +234-703-372-0591
E: jude.uzonwanne@bain.com