Africa Fertilizer Financing Mechanism

Boosting access to fertilizers through innovative financing solutions
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### Facts and figures on the fertilizer sector in Africa

| 24 kg | The average fertilizer use per hectare in Africa is 24 kg which is still below the 50 kg of the 2006 Abuja Declaration.  
Source: IFA 2019. |
| 3% | Africa’s percentage of fertilizer use, compared to other regions of the world.  
Source: Joint AFFM-AUC-UNECA, 2018 |
| 1 | ECOWAS is the only regional economic community in Africa with a harmonized regulatory framework.  
Source: Joint AFFM-AUC-UNECA, 2018 |
| 1/3 | Only one-third of African countries have formal fertilizer policy and regulatory frameworks to guide the fertilizer sector.  
Source: IFDC 2015. |
| 65% | The estimated amount of African farmland affected by soil degradation.  
FAO 2018,  
| 56% | Africa’s yields are only 56% of the international average.  
Source: AfDB, ‘Africa’s agricultural productivity is the lowest in the world.’ |
| 30 to 60% | Transport costs represents 30 to 60% of the farm-gate price of fertilizers.  
| 10-15% | The additional risk premium on agricultural project due to perceived risk in Africa, compared to other regions of the world.  
The Africa Fertilizer Financing Mechanism (AFFM) is a special fund housed at the African Development Bank. The Mechanism was established during the conference for the African Green Revolution Forum in June 2006 in Abuja, Nigeria. During the Conference, African Union Ministers of Agriculture charged the African Development Bank with the responsibility of establishing and managing the Mechanism. Aware of the urgent need to end hunger, the African Union Member States committed to increasing the agricultural use of fertilizer to an average of at least 50 kilograms per hectare.

“Achieve the target of 50 kilograms of nutrients per hectare.”
The Africa Fertilizer Financing Mechanism is at the heart of African efforts for a thriving agriculture sector.

The AFFM supports regional efforts aimed at increasing agricultural productivity and production in Africa. African leaders set up the initiative to address the limited access to fertilizer in the implementation process of the Comprehensive African Agriculture Development Programme (CAADP). Moreover, the African Development Bank identified fertilizer as a strategic input to advance Africa’s agriculture development agenda.

The Bank’s Feed Africa strategy found that access to more fertilizers is a transformation requirement/enabler to end hunger in Africa by 2025. By achieving its mandate, AFFM will largely contribute to the achievement of goal five of the African Union’s Agenda 2063:

"Modern agriculture for increased productivity and production"
Potential beneficiaries of the Africa Fertilizer Financing Mechanism support

Entities working towards supporting fertilizer manufacturing, procurement, distribution and use are eligible to receive AFFM funding, including:

- Any African Development Bank Group Regional Member Country, or any geographical or administrative subdivision or agency thereof;
- Any institution or undertaking in the territory of any Regional Member Country;
- Any international, regional or sub-regional agency or institution concerned with development in Africa.

The AFFM prioritises eligible countries, based on the following criteria:

- A country’s political commitment to progress towards the 10% allocation of national budget to the agriculture sector as mandated by the 2002 Maputo Declaration;
- A country’s potential for effective and sustainable implementation of programs and projects;
- A country’s budgetary contribution to the AFFM.
The Africa Fertilizer Financing Mechanism priority areas

Based on its Strategy Brief developed in May 2018, AFFM now focuses on the following priority areas:

- **Provision of credit guarantees and other financial solutions** along the value chain to promote smallholder access to fertilizers.

- **Policy advocacy**: AFFM supports government efforts to harmonize policies and improve regulatory capacities by financing studies and initiatives to support policy reforms in the fertilizer sector.

Other potential activities that AFFM may implement in support of Africa fertilizer sector will include:

- Developing Africa’s fertilizer manufacturing capacity;
- Institutional, research and capacity-building activities.
- Establishing regional fertilizer procurement and distribution facilities.
Expected results of the African Fertilizer Financing Mechanism strategy

- Soil health for higher productivity
- Increased availability of fertilizer at lower cost
- High fertilizer use and resulting productivity
- Commercially oriented smallholders in growing value chains are reached
The Governance structure of the AFFM consists of its Governing Council, African Development Bank Board of Directors and the AFFM Secretariat.

AFFM Governing Council

The Governing Council is responsible for determining the general directions and visions of the Africa Fertilizer Financing Mechanism. It also sets priorities, objectives and milestones for AFFM. It comprises representatives from regional and international development institutions, research and extension organizations, donors, African farmer’s organizations and fertilizer development institutions. The current chairperson of the Council is the African Union Commissioner for Rural Economy and Agriculture, H.E. Ambassador Josefa Leonel Correia Sacko.

AFFM Secretariat

AFFM Secretariat performs the day-to-day management of the Mechanism under the supervision of the Director of Agriculture and Agro-industry Department at the African Development Bank. Some of the main duties of the AFFM Secretariat include:

- Preparing work plans and budgets and monitoring execution;
- Developing monitoring and evaluation procedures;
- Preparing the Annual Reports of the Mechanism for the Governing Council.

African Development Bank Board of Directors:

The Board of Directors of the Bank is primarily responsible for the general operations of the Mechanism, in accordance with the Bank’s rules, regulations and procedures. In this regard, the Board serves as the decision-making organ for operational matters without limitations, including:

- Approval of the annual work plan and budget of the Mechanism
- Approval of the Operational procedures of the Mechanism
- Approval of financing and other assistance to be provided from the resources of the Mechanism
- Approval of the Annual Report
- Interpretation of the provisions of the AFFM Instruments.
Credit guarantees to make fertilizer financing available

The role of AFFM is to strategize on innovative financial solutions to foster access to quality and affordable fertilizers in Africa. The Mechanism has identified three credit guarantee models for the financing of the fertilizer value chain in Africa.

Rationale of the credit guarantees:

- **Do more with less:** In comparison to loans, guarantees tie up resources for a shorter period of time and improve commitment capacity.

- **Crowding in:** It can be used to attract private investment into the fertilizer value chain in Africa as it enables AFFM to share risks/financing with the private financial sector.

- **Risk sharing:** Because of perceived risks in Africa, usually there is additional 10-15% risk premium on projects compared to other regions of the world. Guarantees would therefore enable risk sharing.
AFFM’s credit guarantee models

### Portfolio Credit Guarantees:

This scheme is ideal for mitigating risk associated with working capital. It gives a participating financial institution permission to attach a partial credit guarantee to any beneficiary meeting the eligibility criteria and for which the partnering financial institution decides to provide a working capital loan or credit facility.

Here, AFFM guarantee covers 50% of the unpaid part of the loan principal, plus interest payable at the moment the guarantee is called by the financial institution.

### Portable Credit Guarantees:

This credit guarantee model targets private actors in need of investment capital. Under this scheme, AFFM, through its local implementing partner, decides whether to provide a commitment agreement for a guarantee to the target beneficiary. The commitment agreement offers an AFFM confirmation that a portion of a potential loan can be guaranteed. The beneficiary can therefore use it to shop for a competitive interest rate from various financial institutions willing to finance fertilizer for them. Once the financing is secured, AFFM will provide a partial guarantee to cover up to 50% of the unpaid part of the loan principal - plus interest - payable at the moment the guarantee is called by the financial institution.

### Trade Credit Guarantee:

This trade credit guarantee model operates at two levels. The first level links upstream suppliers to hub agro-dealers, while the second level matches hub agro-dealers with retail agro-dealers. In both cases, the hub agro-dealers are pivotal as the channel for the upstream players as well as the source of product and credit for the downstream players. Under the trade credit model, a fertilizer importer, manufacturer, blender or supplier will avail fertilizer to hub agro-dealers on credit. AFFM will share the credit risk involved in the transaction with the supplier at an agreed pari-passu. The hub agro-dealer will then give the product on credit to distributors and the chain will continue until the fertilizer reaches the smallholder farmers. The model can also be applied to farmers’ cooperatives.
The credit guarantee schemes developed aim to support activities of the following actors in targeted countries:

- Private importers
- Wholesalers/distributors
- Agro-dealers

**Criteria used for phase one countries and crops selection**

- **Impact on farmers:** impacts on food productivity per crop conducted by the Technologies for African Agricultural Transformation (TAAT) program, the African Development Bank’s knowledge and innovation-based response to the recognized need to scaling up proven technologies across Africa.

- **Strategic commodities:** these commodities are prioritized based on African Union priorities and the African Development Bank’s Feed Africa Strategy.

- **Demand:** focus is on the global demand for crops and local demand for fertilizers.

- **Opportunities for financing:** financing decisions also depend on political commitment, incentives for leveraging financing, existing activities, etc.
First phase countries

- Chad
- Ethiopia
- Côte d’Ivoire
- Nigeria
- Ghana
- Tanzania
- Kenya
- Mozambique
- Zambia
Priority crops targeted

- Rice
- Millet
- Cocoa
- Coffee
- Maize
- Cotton
- Sorghum
- Soybean
- Horticulture
- Palm oil
- Wheat
- Cassava
Africa Fertilizer Financing Mechanism targets in Nigeria and Tanzania for 2019

Nigeria and Tanzania, countries that have contributed to the AFFM, will be its initial beneficiaries.

Total investment in credit guarantees: $5.4 million
For the implementation of trade credit guarantees in Nigeria and Tanzania, AFFM will work with the African Fertilizer and Agribusiness Partnership (AFAP), an independent non-profit organization founded in 2012 by a partnership of African development organizations. It was built on the work of the Comprehensive African Agriculture Development Program (CAADP). AFAP is committed to furthering social inclusion and gender equality throughout all its interventions with strategic partners across Africa. Since 2012, AFAP has invested $571 million for the distribution of fertilizer through a network of 5,000 hub-agro-dealers in a number of African countries.
The Africa Fertilizer Financing Mechanism (AFFM) and the fertilizer company OCP Africa are joining hands to implement a $4 million trade credit guarantee project through the OCP Agribooster initiative. The objective is to improve the agricultural productivity and smallholders’ farmers’ incomes by providing them timely access to high quality inputs.

**Côte d’Ivoire**

- **30%** in yield increase in Côte d’Ivoire
- 180,000 smallholders farmers targeted
- 54,000 women smallholder farmers
- 20% of upfront deposit by smallholder farmers instead of 40%
- 2 aggregators supported under the guarantee facility.

**Ghana**

- **35%** in yield increase in Côte d’Ivoire
- 250,000 smallholders farmers targeted
- 50,000 women smallholder farmers
- 20% of upfront deposit by smallholder farmers instead of 40%
- 50 aggregators supported under the guarantee facility.
In order to reach fertilizer value chain actors, the Africa Fertilizer Financing Mechanism works closely with actors with local knowledge and outreach, and who can easily connect the Mechanism with the target beneficiaries. These actors are mainly:

Financial institutions: AFFM partners with credible financial institutions that have a demonstrated ambition to play a vital role in the financing of the fertilizer value chain. They will provide financing to beneficiaries that meet pre-determined eligibility criteria and/or have a significant current loan book of fertilizer-clients.

Implementing partners: with deep knowledge of the local fertilizer market and familiarity with financial institutions. Implementing partners initiate contact, conduct negotiations and conduct monitoring & evaluation activities. Implementing partners can also play a key role in providing the technical assistance necessary to educate financial institutions, as well as in acting as match-maker to establish working relationships in the fertilizer value chain. Additionally, implementing partners can coordinate and/or provide extension services throughout the fertilizer value chain.