



# A Path Towards a Sustainable African Cocoa Sector

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*The Trade Finance Bank for Africa*

## Introduction

- We are grateful to the International Cocoa Organization (ICCO), for inviting Afreximbank to the 91<sup>st</sup> Regular Session of the International Cocoa Council and for giving us the platform to speak on this important subject matter.
- Our profound thanks to the Council for accepting Afreximbank's membership of the Consultative Board on the World Cocoa Economy.

*In this presentation, I will:*

1. Briefly present Afreximbank;
2. Discuss Important Developments in Africa's Cocoa Sector from Afreximbank's Point of View;
3. Highlight Afreximbank's Efforts Towards Promoting a Sustainable African Cocoa Sector;
4. Discuss the Partnership we are Building with ICCO; and
5. Conclude with Way Forward.



# 1. About Afreximbank



*The Trade Finance Bank for Africa*

## Who we are and what we do

### ➤ *Who are we?*

The African Export-Import Bank (Afreximbank or “the Bank”) is a supranational Trade Finance institution created in 1993 as an international public-private partnership to promote and finance intra- and extra- African trade.

### ➤ *Broad Instruments of Intervention*

- ✓ Credit (Trade and Project Finance)
- ✓ Risk Bearing ( Guarantees and Credit Insurance)
- ✓ Trade Information and Advisory Services

## Our Presence:

➤ The Bank is headquartered in Cairo, Egypt and has regional branch offices in:

- ✓ Abuja, Nigeria; and
- ✓ Harare, Zimbabwe

*To Be Opened Soon:*

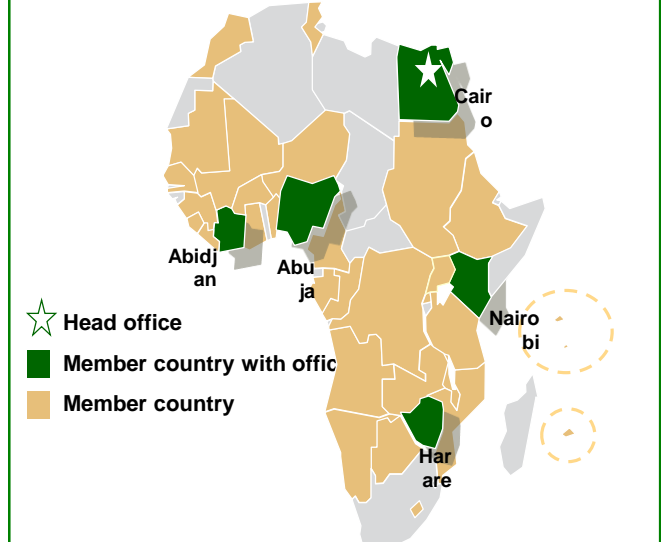
- ✓ Nairobi, Kenya; and
- ✓ Abidjan, Côte d'Ivoire.

➤ It has 38 participating States across Africa

➤ Its Authorized Capital is US\$5 billion

### A Pan-African Presence

*38 Participating States across Africa*



Angola	Ivory Coast	Republic of Congo
Benin	Kenya	Rwanda
Botswana	Lesotho	Senegal
Burkina Faso	Liberia	Seychelles
Cameroon	Malawi	Sierra Leone
Cape Verde	Mali	Sudan
DRC	Mauritania	Tanzania
Egypt	Mauritius	Tunisia
Ethiopia	Morocco	Uganda
Gabon	Mozambique	Zambia
Gambia	Namibia	Zimbabwe
Ghana	Niger	
Guinea	Nigeria	

# Shareholding

*Currently, the Bank has 4-classes of Shareholders:*

- Class “A”: made up of African governments and/or their central banks, African Development Bank (AfDB), African continental, regional and sub-regional financial institutions and economic organizations;
- Class “B”: consisting of African national financial institutions and the African private sector;
- Class “C”: comprising International financial institutions and economic organizations, non-African financial institutions and non-African private investors; and
- Class “D”: open to subscription by any investor, African or non-African. The Charter of the Bank permits the listing of this Class of Shares.

## Rating (Long Term)

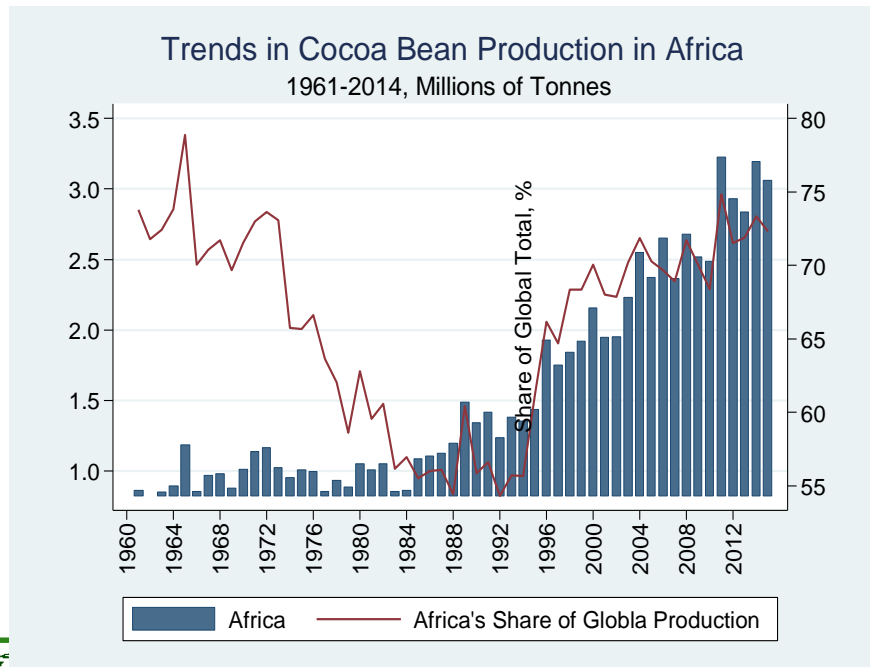
- Baa2 ———→ Moody's
- BBB- ———→ Fitch



## 2. Developments in Africa's Cocoa Sector

## 2.1 Cocoa Production in Africa

- Africa remains the world's largest source of cocoa accounting for over 70% of global cocoa beans production.
- Total production reached over 3.2 million tonnes in 2014, from 2.5 million tonnes in 2004, an increase of 28%.

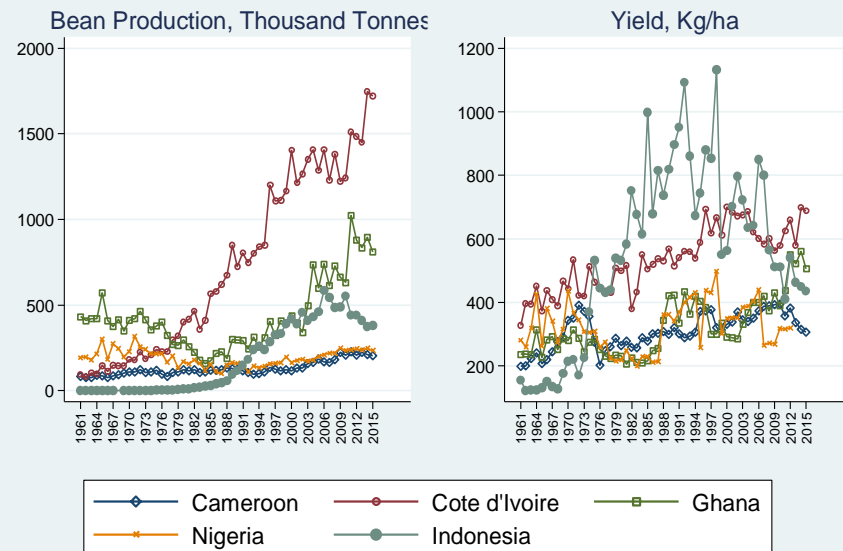


➤ Although production has been rising in the 4 major producing countries in Africa, productivity measured by Kg/Ha has been stagnant over the years. Average output/Ha in major African producing countries is about 350 Kg compared to 550 Kg in Asia.

➤ Low farm productivity in Africa has mainly been the result of:

- Aging trees and low investment in plantations;
- Low investment in research into high yielding species;
- Poor agronomic practices; and
- Impact of sector reforms introduced by the Bretton Woods Institutions which have reduced government support to cocoa farmers.

Cocoa Production Statistics of the Top 5 Countries, 1961-2012

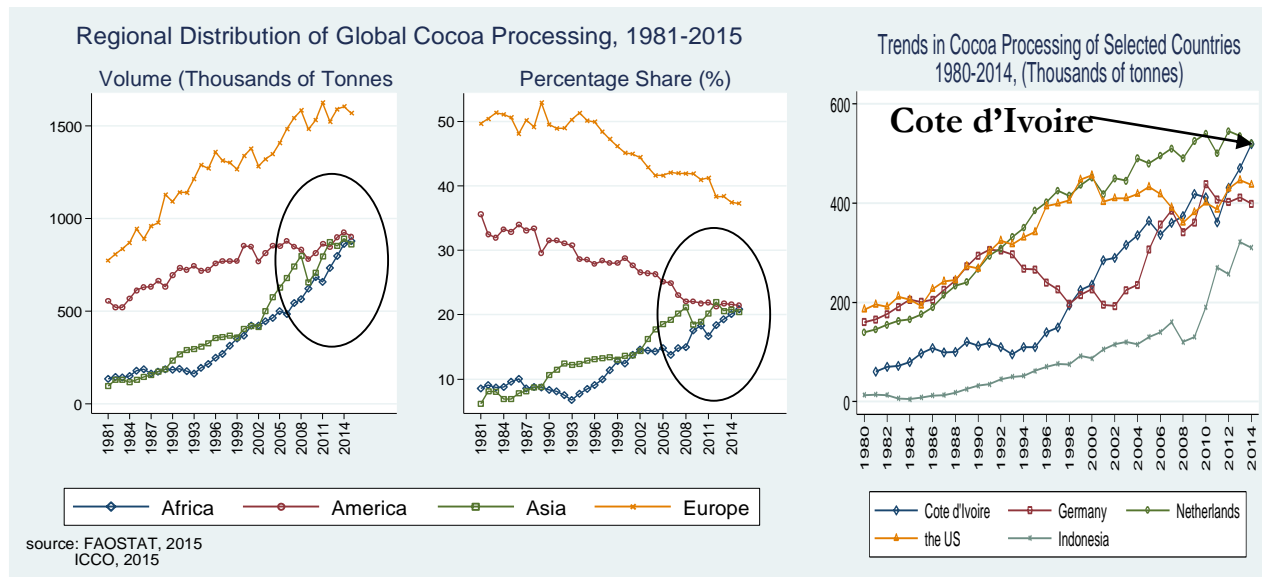


source: FAOSTAT, 2015

## 2.2 State of Cocoa Processing in Africa

- Cocoa processing in Africa is picking up steadily with the continent's total grinding stock (at 877, 000 tonnes in 2014/15) surpassing those of Asia and slightly lower than those of the Americas.
- The continent's share of grinding stock rose from 15% in 2005 to 21% in 2014/15, same as those of America and higher than Asia. The share of Europe has shown a declining trend.

- Côte d'Ivoire (540, 000 Tonnes), in 2014/15 surpassed the US, Germany, and the Netherlands, to become the largest processing hub for cocoa. We expect this to grow further in the coming years when planned capacities come on stream.

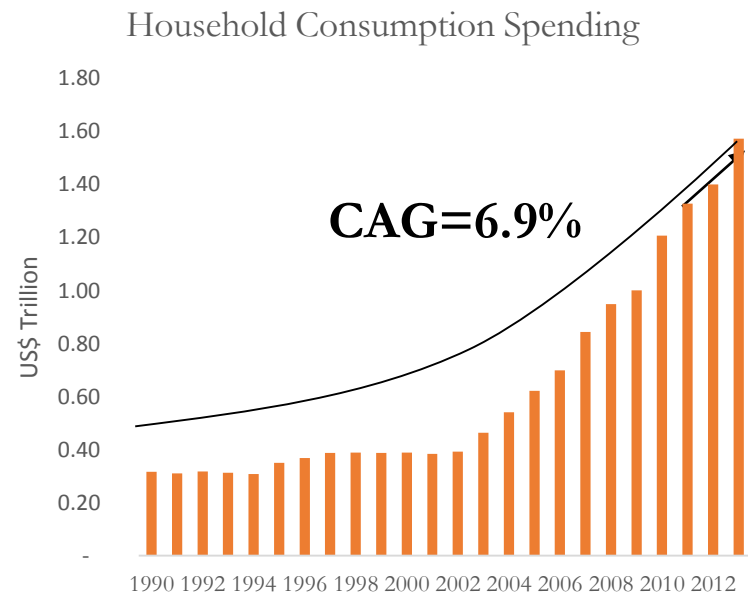
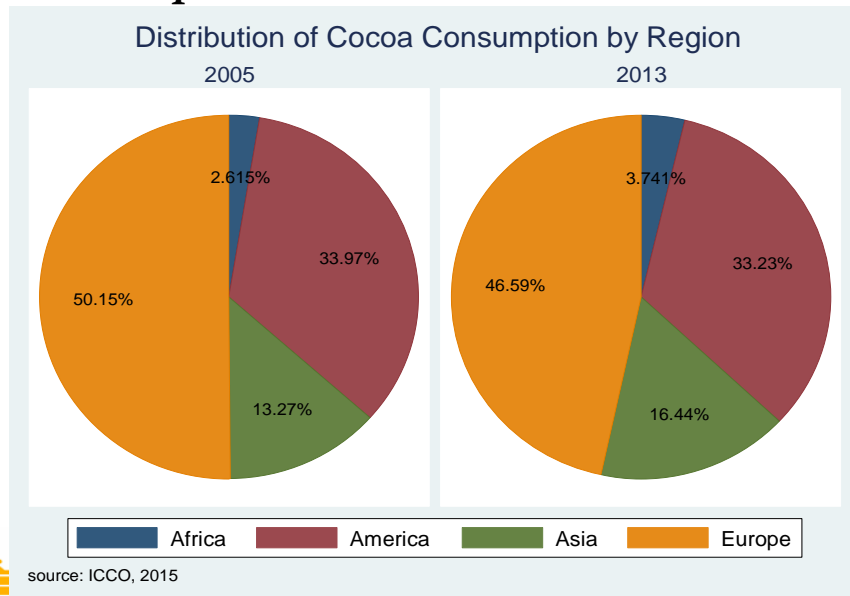


➤ **Despite these positive developments, challenges remain:**

- ✓ **The usual volatility in prices affect small companies who cannot afford long-term contracts or hedging solutions:**
- ✓ **Limited access to financing due to inability of processors to secure long-term contracts to support such financings.**
- ✓ **Inadequate infrastructure (Power, Water, Transport and Ports);**
- ✓ **Tariff and Non-tariff barriers (including strict SPS requirements)**
- ✓ **Low level of consumption in origin countries;**
- ✓ **Limited market access for processed exports;**
- ✓ **Limited technical and managerial skills.**

## 2.3 Cocoa Consumption

- Cocoa consumption in Africa also remains low (146, 000 tonnes in 2012/13), accounting for about 3% of global consumption
- But opportunities for growth exist. These opportunities are derived from rising middle-class and rising average household income which have boosted domestic consumption over the last decade.
- Consumption in Asia is also seen as below potential limiting market opportunities for Africa's processed cocoa



### **3. Afreximbank's Response to the Emerging Developments in Africa's Cocoa Sector**

### 3.1 Afreximbank Africa Cocoa Initiative (AFRICOIN)

- Afreximbank in 2012, launched the Africa Cocoa Initiative (AFRICOIN) to provide an End-to-End solution to the challenges of the African cocoa sector.
- AFRICOIN is aimed at providing solutions to the above challenges as follows:
  - ✓ To facilitate the growth in cocoa beans production by supporting productivity improvement initiatives, plantation expansion and technical assistance services to selected players in the African cocoa industry;
  - ✓ To support deeper integration of the African cocoa economy into the global value chain by expanding processing of raw cocoa into cocoa liquor, cocoa powder and cocoa butter to feed manufacturing plants in Europe, North America and Asia; and
  - ✓ To promote consumption of cocoa products in Africa, Asia and the Middle-East.





## 3.2 Instruments of Intervention

- *Arranging the Issuance of Cocoa Bonds by:*
  - ✓ Governments to finance upstream activities and Consumption Promotion;
- *Export Development Programme (EDP):*
  - ✓ Provision of term funding for creation of processing capacity (purchase of equipment, etc)
  - ✓ Provision of working capital financing for procurement of cocoa beans for processing;
  - ✓ Provision of guarantees necessary to facilitate financing of the sector (e.g. refinancing guarantees for entities financing construction of cocoa plants; contract availability guarantees; and investment and country risk guarantees);
  - ✓ Facilitating Market Access through twining initiatives;



➤ *Corporate Advisory Services:*

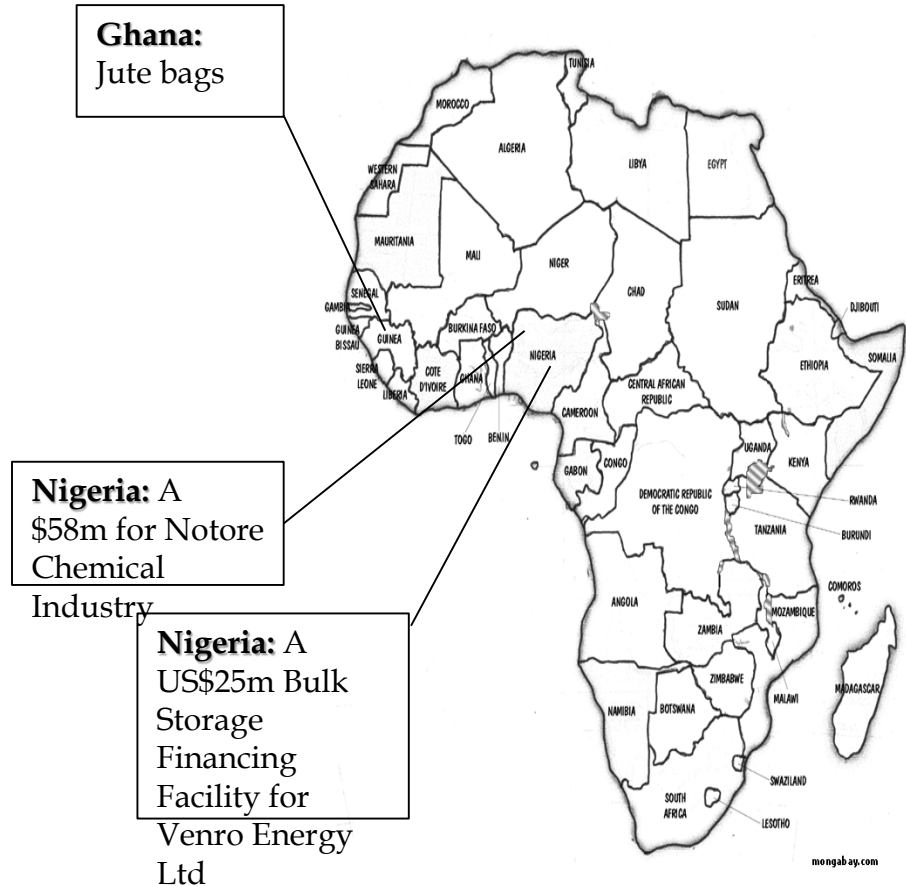
- ✓ To support the creation of linkages between upstream producers and domestic processors and manufacturers; and
- ✓ Facilitate the creation of JVs between local processors and major corporations in cocoa to guarantee off-takes and market access



### 3.3 What has Afreximbank done to Support Africa's Cocoa Sector?

➤ *Upstream* –Support for productivity improvement:

- ✓ Financing of production and import of farm inputs, including fertilizers, insecticides, herbicides, etc.; and
- ✓ Financing the establishment and or refurbishment of warehouses/ storage facilities in selected countries.



➤ *Midstream*

**A. Expansion of processing capacity**

- **The Bank has financed expansion of processing capacity through imports of new equipment and refurbishment of existing plants:**
  - For instance, in Côte d'Ivoire, processing capacity has been increased from 471,000 tonnes in 2012/13 to 540, 000 tonnes in 2014/15 by 69,000 tonnes with Afreximbank contributing about 100,000 tonnes, with total financing amounting to more than \$100 million.
  - In Nigeria, processing capacity has been increased by the Bank over the past few years, with total financing amounting to \$55.8 million.
  - In the case of Ghana, the Bank is currently processing transactions that will contribute to increase processing capacity from 240, 000 tonnes in 2014/15 to about 285, 000 tonnes by 2015/16, with a total financing of \$29 million.

## B. Facilitating market access to African processing companies:

- ✓ Working with international cocoa traders and manufacturers, the Bank is facilitating access of African cocoa processors to export markets by fostering creation of JVs between selected companies in Côte d'Ivoire, Ghana and Nigeria with international trading companies. These entities have been able to export processed cocoa into international markets profitably.

### ➤ *Downstream*

- ✓ The Bank is currently working with its partners to undertake consumption promotion in origin countries and Asia, starting with Nigeria and China

## 4. Collaboration with ICCO

## 4.1 A Memorandum of Understanding (MoU) between Afreximbank and ICCO

- *Afreximbank has entered into an MoU with ICCO to undertake the following activities, among others, in support of Africa's cocoa sector:*
  - Promote cocoa products consumption in Africa and Asia (China and India). This will involve the conduct of feasibility studies on the Nigerian, Indian and Chinese markets on cocoa consumption;
  - Facilitate the membership of China and India to the ICCO through the Bank's established contacts with the China and India Exim Banks;
  - Subject to further detailed review, the Bank will consider supporting the Cocoa Sustainability Fund;
  - Conduct research on cocoa processing, cocoa waste management and cocoa consumption in origin countries. Based on the findings of the research, to develop and implement specific financing arrangements in support of projects for processing cocoa beans and for waste management, etc.
  - Undertake capacity building programmes in cocoa projects and project finance.



## 5. Conclusions



## *Going Forward*

- i. The Bank will continue to leverage financing into the continent's cocoa sector through:
  - ✓ Provision of investment and country risk guarantees to international investors and financiers seeking investment opportunities in the industry;
  - ✓ Provision of off-take contract guarantees to international banks;
  - ✓ Facilitating the issuance of cocoa bonds to finance key upstream activities and to support cocoa consumption initiatives.
  
- ii. Expand its direct financing activities in support of cocoa processors in Africa

- iii. Continue to facilitate productivity improvements and market access by:
- ✓ Using our Intra African Trade Facilitation Programme (INTRAFAP) to support imports of farm inputs, particularly fertilizers, from North Africa, which is a net exporter of such inputs, into the rest of Africa;
  - ✓ Work with ICCO to intensify its capacity building programmes;
  - ✓ Work with ICCO to implement all aspects of agreed actions under our MoU.



**Thank You for Your Attention**

**[www.afreximbank.com](http://www.afreximbank.com)**



*The Trade Finance Bank for Africa*