Financing Agriculture Forum 2012

Approaches in Targeting Different Client Segments:

New Models for Lending to Small and Medium Agricultural Enterprises

28th March 2012
Kampala
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- Absa and presence in Africa
- Typical financing needs of an agribusiness
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- Financing risk Increasing with rising input costs
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- Key challenges
The Barclays Group has a Presence in 12 African Countries …

**Absa/Barclays 13 operations in Africa**

- **Ghana (since 1917)**
  - # customers: 541k
  - # branches & ATMs: 91 / 137
  - # staff: 1,564

- **Zimbabwe (since 1912)**
  - # customers: 137k
  - # branches & ATMs: 52 / 100
  - # staff: 695

- **Zambia (since 1918)**
  - # customers: 209k
  - # branches & ATMs: 62 / 151
  - # staff: 1,119

- **Mozambique (since 2002)**
  - # customers: 297k
  - # branches & ATMs: 53 / 91
  - # staff: 923

- **Botswana (since 1950)**
  - # customers: 272k
  - # branches & ATMs: 52 / 100
  - # staff: 1,368

- **Egypt (since 1999)**
  - # customers: 304k
  - # branches & ATMs: 65 / 109
  - # staff: 2,113

- **Kenya (since 1925)**
  - # customers: 728k
  - # branches & ATMs: 117 / 231
  - # staff: 3,598

- **Tanzania (since 2000)**
  - # customers: 551k
  - # branches & ATMs: 85 / 290
  - # staff: 2,270

- **Uganda (since 1927)**
  - # customers: 280k
  - # branches & ATMs: 50 / 75
  - # staff: 955

- **Seychelles (since 1925)**
  - # customers: 36k
  - # branches & ATMs: 7 / 14
  - # staff: 245

- **South Africa (since 1991)**
  - # customers: 11.8m
  - # branches & ATMs: 898 / 8,783
  - # staff: 36,770

- **Mauritius (since 1919)**
  - # customers: 138k
  - # branches & ATMs: 27 / 41
  - # staff: 1,003

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*Note: Market position based on total revenue.*
Capital requirements for a farming venture

- Net loss
- Gross farm income
- Net margin
- Annual production cost
- Overheads and living costs
  Based on surplus security
  And surplus cash
- Capital payments
- Interest payments

Overheads and living costs
  Based on surplus security
  And surplus cash

Long-term loans based
  on security and surplus capital

Typical Financing Needs of an Agribusiness ...
Risk Identification and Mitigation ...

- **Market risk (Price, Storage, Third party risk)**

  ✓ Agribusiness is exposed to international markets - global players in a global market irrespective of size
  ✓ Agribusinesses have very little control over pricing levels and tend to be price takers
    - Prices range between import parity and export parity depending on supply and demand conditions on the local and international market.
  ✓ Other factors influencing price include international production trends, exchange rates, import and export tariffs.

- **Production risk**

  ✓ Production risk due to climatic conditions (drought, too much rain, late rains, hail, etc).
  ✓ Production volumes (Inability to service debt).
  ✓ Production volatility (Agronomic practices, technology, insurance products, etc.)

**As financiers, we have to be prepared for future eventuality to keep impairments low ...**
Financing Risk Increasing with rising input costs ...

Securing cash flow has become more important due to high input costs ...

Highlights

- Input costs on the increase
- Value of access to land improving
- Collateral increasingly playing a diminishing role in financing as input cost rise – Playing in the hands of most African land tenure systems
- Ability to recover after financial distress at an all time low – therefore risk management imperative (access to markets and price volatility management)
- Absa AgriBusiness has an impairment of 0.3%
- All income handled through the Financier

Solutions for Agricultural Finance …

- Solutions vary based on the uniqueness of the value chain.
- Key risks addressed: production, market risk (price volatility), third party risk, delivery.
## Array of Solution Sets to Meet Agribusiness Needs …

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<th>High Complexity</th>
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<td><strong>PRODUCT</strong></td>
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<td>Agri Services</td>
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<td>Structures: Call Option</td>
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<td>Accumulator with Double up and Knock out</td>
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Key Challenges …

- Integration of agricultural finance and the management of farmer organisation structure.
  - Value chain
  - farmer (heavily influenced by value chain performance)
  - Social dynamics
- Remain ahead of the cost curve (to secure future finance)
  - Re-engineer and lower costs on a regular basis
  - Value chain integration (commercial and small-scale farmers)
Thank you

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