UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD Series on Innovative Financing in the Commodity Sector and Dynamic Industries

LEVERAGING OFFSHORE FINANCING TO EXPAND AFRICAN NON-TRADITIONAL EXPORTS: THE CASE OF THE HORTICULTURAL SECTOR

(new case studies)

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FOREWORD

Access to finance is considered to be a critical catalyst of trade expansion and economic development, particularly in developing countries. Many participants in the commodity sector and in such dynamic industries as fisheries, renewable energy and electronics depend on credit to upgrade their operations and achieve sustainable livelihoods. Where credit is constrained or very dear, producers and other actors in the value chain are unable to meet market demand and integrate effectively into local, regional and international supply chains. This means missed opportunities for growth and chronic incapacity to increase participation in global trade.

Where, however, sustainable sources of financing are made available at reasonable cost, participants can move up the value chain into higher value-added production processes. They can also diversify their activities and explore opportunities offered by new, high-growth dynamic industries. This virtuous circle of higher investment and higher return further stimulates economic development and poverty reduction.

Drawing on knowledge acquired from its technical assistance activities and research on cutting-edge pro-development financing techniques, UNCTAD is publishing a new research series, entitled **Innovative Financing in the Commodity Sector and Dynamic Industries**.

With contributions from international experts and practitioners, the series promotes best practices in this area of financing based on concrete case studies. Such practices include encouraging financiers such as local banks to adopt innovative approaches as they strive to expand their outreach to producers, providers of auxiliary services and exporters in developing countries. The series should thus prove useful to producers, enterprises and market support institutions engaged in the commodity and dynamic sectors.

Supachai Panitchpakdi
Secretary-General of UNCTAD

January 2007

INTRODUCTION

One of the consequences of globalization, and to some extent the civil strife and economic difficulties that Africa suffered especially in the 1980s to the 1990s was a large outflow of migrants from Africa to Europe, the Americas and, to a limited extent, some parts of Asia. Globalization had also meant freer flow of information and goods across borders than hitherto. As a result, there has been a steady increase in demand for ethnic foods as well as tropical fruits and vegetables globally. Available data show that on an annual basis, Africa's exports of fruits and vegetables declined by 12.5% in 1985, but in 1995 and 2004 the exported tonnage rose respectively by 16% and 26.6%. Africa's flower exports have also seen increases, with a more diversified range of flower types and varieties in the continent's export basket. More countries have become horticultural exporters. Whereas prior to the mid-1990s, horticultural exports were significant in only a handful of countries, such as South Africa, Zimbabwe and Kenya, today the list has expanded to include Ghana, Côte d'Ivoire, Uganda, Ethiopia, Egypt, Zambia and a few others.

Demand for African horticultural produce has also been driven by the low cost of production that has shifted the comparative cost of production for certain types of flowers and vegetables in favour of Africa as compared to traditional producers in Europe and elsewhere; improved air links between Africa and the key European markets; distance advantages enjoyed by Africa as compared to other competing producers of tropical fruits and vegetables; a deliberate policy of many African Governments to diversify their exports away from soft commodities, with their highly volatile prices, to value-added exports; rising entrepreneurship following the freeing of the export sector from State monopolies, etc. Recent applications of innovative financing structures in support of the trade have also contributed to the rising importance of horticultural exports in Africa. As horticultural exports are perishables that are traded on consignment and not in commodity exchanges where agricultural commodities are usually traded, structuring financing for such exports has not been easy. In such deals, banks usually find it difficult to mitigate the unfamiliar risks, ranging from performance, weather, quality, perishability/ rejection to pricing. Lessening these risks in a market with new and untested entrants is a daunting task. In recent years, however, skill and experience have been brought to bear on this constraint, and interesting deals are being made with low risk. Receivable financing whereby flower exporters are granted evergreen overdraft facilities tied to borrowing base certificates hinged on the value of receivables is growing in importance. Owing to the rise of supermarkets as direct markets of some exports, factoring and forfaiting have also become key financing instruments for horticultural exports. In an innovative deal, migrant remittances were used to mitigate risks in a pre-export financing deal in favour of an African agricultural bank that needed hard currency funding to pre-finance horticultural and other agricultural exporters. Experience shows that there is no limit to what imaginative bankers can do to profitably support the growth of the booming African horticultural export business.

This document was first published in 2000 and has now been revised to capture recent developments in this important sector. Chapter I of this report describes the risks and constraints in financing horticultural trade in Africa, while Chapter II explains the role of various parties, ranging from Governments, banks, producers, exporters, buyers, auction floors, and insurance companies in ensuring successful horticultural export financing structures.

In Chapter III, some of the successful deals in support of the sector are presented. Deal structures cover pre-shipment financing, receivables financing, forfaiting, post-shipment financing and infrastructure financing. The examples do not by any means exhaust the full range of possibilities; rather, they provide important success factors in horticultural export financing deal structuring that mitigate the performance, payment and country risks inherent in such deals.

The first two annexes touch on related important issues: the former examines the development impact of horticultural exports from the point of view of value creation in the supply chain, while the latter presents the specialized facilities of Afreximbank in support of Africa's horticultural exports. The third annex gives a brief description of how the main elements of a facility structure are outlined in a term sheet. The last annex explains in greater detail the marketing and risk analysis of the last successful case study on infrastructure finance in Zambia using short-term receivables.[1]