

Background

In 2019, AATIF granted a one-year loan of EUR 20 million to Orabank Côte d'Ivoire to support the bank's agri-export trade finance, with a focus on sub-borrowers in Côte d'Ivoire. Orabank's focus is on providing inventory and pre-export financing for crops such as cocoa, cashew, cotton, sesame, shea nut and sugar. Orabank's main clients are mid-size exporting corporates and large co-operatives which in turn buy from many smaller co-operatives, due to the size and risk profile of these clients. Oragroup also provides non-commodity finance loans to the agricultural sector which includes capex financing. The requirements of the AATIF facility agreement included the following:

- The funding was to be used to offer sub-loan financing to sub-borrowers for the purpose of funding agricultural projects.
- In parallel, AATIF required Orabank to improve its Social & Environmental management capabilities.



Cacao Cutting

In 2020, AATIF commissioned an ex-post Rapid Appraisal of Orabank, the findings of which are summarised in this brief.

Key Findings

Financial Institution-Level

1. Agricultural Portfolio

By the time AATIF's credit line was provided to Orabank, the Bank had already established key capacities in its commodities portfolio – Orabank had a good understanding of the local environment and the potential market, had appointed dedicated resources to manage the portfolio and had already been offering products which largely met the needs of the target market. In 2020, the Bank's agricultural portfolio in Côte d'Ivoire comprised of 11 sub-borrowers, with a total portfolio size of EUR 61 million. When AATIF's funding became available, this prompted Orabank to consider how best to grow its exposure in the commodities sector and achieve more impact - the Bank is now considering explicitly expanding its strategic focus towards being more inclusive e.g. targeting more women-owned clients and embedding this inclusivity lens across future business development activities. As a result, AATIF's funding has had some influence on Orabank's growth as a business and its agricultural lending strategy.

2. Development of innovative financial and nonfinancial products or services

Orabank entered the commodities market in Côte d'Ivoire at a time when banks were forced to impose stricter lending conditions due to the cocoa crisis in 2016 (when the international cocoa price fell sharply, mainly due to abundant supply and weak demand) and sub-borrowers required additional financial support to weather the crisis and subsequent stricter lending conditions. As a result, Orabank helped to fill a need in the market. In particular, the Bank's 'advance on proceeds' offering has been found to be the most effective at supporting the sub-borrowers since Orabank provides the sub-borrowers with funding up to 90% of the offtaker's contract value (other banks provide funding to the value of 60% - 80% of the contract value). In addition, Orabank's repayment terms are considered to be more suitable than other banks (other banks require the sub-borrowers to repay the credit line within 45-60 days while Orabank's repayment period is 90 days). This enables the sub-borrowers to settle the producers' invoices, refinance their stock and cover the relevant export taxes.

3. Social and Environmental Management System

AATIF supported Orabank in further developing its SEMS by providing guidance on relevant S&E issues the Bank should be monitoring at the sub-borrower level i.e. specific data which should be collected to inform decision-making, as well as supported Orabank to mainstream the Bank's analysis of all transactions in the sub-portfolio by revising the Bank's categorisation for commodity traders to ensure it is relevant to the types of sub-borrowers the Bank finances. Beyond these achievements, AATIF was not able to drive further SEMS-related improvements due to (i) challenges related to the Bank's internal structures (group-level VS subsidiary-level and the extent to which S&E is strategically prioritised), (ii) gaps in communication, (iii) lack of data availability and (iv) the short time frame of the engagement. Despite these limitations, Orabank remains committed to building the Bank's S&E capacity e.g. providing training and better integrating S&E into its business decision-making process in future.

4. Employment

AATIF's contribution to Orabank's employee level has been limited which was expected since this was not a key focus of the loan agreement and given the short duration of the loan. Orabank Côte d'Ivoire currently employs 158 employees, comprising of a combination of permanent employees (140) and fixed term contract employees (18), and has an equal male/female representation. Orabank has also been improving on its working conditions, going over and above the legal requirements in the country.

Sub-borrower-Level

1. Employment

The sub-borrowers generally employ a combination of permanent workers and fixed-term contract employees – the latter being required to account for the seasonal nature of their business. On average, the sub-borrowers employ 37 employees, with women comprising 21% of this average (8 women employees). The sub-borrowers reported that there was no change in employment numbers during the AATIF funding term. The sub-borrowers noted that employees are registered with the Social Security Authority (CNPS) which the company pays the premiums for, and in some cases, health insurance is provided and covered up to 80% by the company. Some sub-borrowers mentioned that they have developed performance feedback mechanisms to support career progression within the company. In future, some sub-borrowers noted that they are planning to provide access to additional pension fund investments, designing profit share schemes, increasing health insurance contributions to 100% and providing access to transportation. These changes have mainly been driven internally by the sub-borrowers, as opposed to being driven by Orabank's funding agreements.

2. Local processing

The sub-borrowers were focussed on trading activities and did not process the products purchased (except by packaging, sorting according to quality, cleaning etc.). However, they have expressed an interest in growing their business further to include a focus on processing locally and view Orabank as a key player in supporting these growth aspirations. In order to do so, the sub-borrowers have highlighted a need for banks to offer more innovative products and channels such as leveraging technology to support payment processes, being more flexible in terms of the required documentation and processes around applying for a facility, shortening the amount of time it takes to set up a credit line and to settle payments etc. In addition, the sub-borrowers have noted that interest rates in the sector are generally high, although this is expected given the vulnerability of the sector, which is further exacerbated by the ongoing COVID-19 pandemic.

3. Trade

Sub-borrowers have been able to increase the quantity of output which they export over the period 2018 - 2020 - in 2018/2019, total exports was 7,520 MT which comprised 18% of total sales, while in 2019/2020, total exports grew to 8,520 MT which comprised 22% of total sales (the remaining cocoa is mainly sold to local processors). This increase in exports may be driven by the sub-borrowers increased ability to better manage international off-takers due to Orabank's superior services as compared to other banks. Sub-borrowers mainly export cocoa to Switzerland, Holland, Italy, Germany and Brazil.



4. Outreach to agricultural producers

It is challenging to determine the impact on farmers since sub-borrowers do not gather data at the farmer-level. The sub-borrowers noted that they generally do not directly engage with the farmers but instead purchase cocoa from smaller co-operatives, which makes it difficult to gather ongoing data from the farmers. Despite this challenge, data gathered during the appraisal indicates that the impact on farmers has improved, although the extent to which this can be attributed to Orabank and AATIF's funding is unclear. The farmers have benefitted from sub-borrowers providing them with access to inputs as well as training (sub-borrowers are incentivised to do so in order to ensure compliance with the certification requirements). In particular, farmers have benefitted from an increased exposure to training provided by the sub-borrowers over the last few years while the value of inputs provided has decreased (it is unclear why the value of inputs has decreased, i.e. unit costs or quantities reduction). Female farmers have had greater access to the training as opposed to the inputs provided by the sub-borrowers, and it is unclear why this is the case. In terms of income to farmers, the sub-borrowers currently pay smallholder farmers in line with commercial farmers. The prices paid to farmers are above the current guaranteed price imposed by the government of EUR 1,136/MT – a smallholder farmer is on average paid 24% more than the guaranteed price imposed. In addition, a female smallholder farmer is paid 20% more than the guaranteed price imposed.

5. Environment

In terms of the sub-borrowers' environmental impact, the sub-borrowers have not been tracking water and energy consumption closely, neither have they been actively managing their waste removal processes and carbon emissions (although sub-borrowers which are currently not processing the produce have mentioned that their resource consumption, waste generation and carbon emissions are likely to be minimal). In addition, sub-borrowers have for the most part not been measuring these impacts at the farmer-level, unless specifically required by their stakeholders and clients (mainly focused on supporting good agricultural practices to minimise harm to the environment and ensuring that the farmers are not farming in protected areas).

6. Social and Environmental Management System

The sub-borrowers highlighted that their main focus on incorporating SEMS into their businesses has been on working towards being UTZ and/or Fairtrade certified (these certifications require the sub-borrowers to implement specific sustainability-related activities). As part of the certification process, the sub-borrowers are required to raise the farmers' awareness of good farming practices, supervise the farming process, ensure that farming activities do not cause harm to the ecosystem and environment, child labour isn't being used, the cocoa is dried naturally by the sun, the farmers' living environment improves etc. In most cases, sub-borrowers manage these requirements through the organisations they purchase the product from, and not directly with the farmers (sub-borrowers mainly purchase the product from co-operatives and manage the process by undertaking a comprehensive site visit for first time producers, thereafter undertaking regular site inspections). Beyond the certification requirements, other sustainability practices are adopted as required by the sub-borrowers' stakeholders and clients which is mainly focused on managing social and environmental risks and ensuring that the end product is of a high quality. This includes a key requirement imposed by clients to ensure that the product is traceable - the sub-borrowers are required to ensure that the product can be traced through all stages in the value chain.

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