

# **AFRICA FERTILIZER FINANCING MECHANISM (AFFM)**

## **1. Background**

- The African Summit of 2006 recommended that a special fund be established to promote fertilizer production, procurement, distribution and use. The Summit mandated the ADB to establish and operate this new fund.
- The ADB established a Special Fund called African Fertilizer Financing Mechanism (AFFM)

## 1.1 GOAL

- The overall goal of the AFFM is to assist Regional Member Countries (RMCs) in increasing agriculture productivity in Africa through the use of higher quantities of different types of fertilizer (Organic and Inorganic).
- Accordingly , the Mechanism is to assist RMCs to meet the targets recommended by Abuja Declaration: boosting inorganic fertilizer use by a factor of nearly seven within the next seven years; that is to increase the level of use of fertilizer from the current average of 8 kilograms per hectare (in Sub-Sahara Africa) to an average of at least 50 kilograms per hectare by 2015.

## I.2 AREAS OF INTERVENTION

- 1) Facilitation activities including policy formulation, technical assistance, information dissemination, law reform, and project preparation;
- 2) Improvement of Africa's fertilizer manufacturing capacity;
- 3) Provision of credit guarantees for fertilizer importers and distributors;
- 4) Support establishment of regional fertilizer procurement and distribution facilities; and
- 5) Developing financing mechanisms in support of fertilizer production, distribution, and agriculture generally.

## **2. Africa Regional Fertilizer Procurement Facility (ARFPF)**

- Proposed Facility to Enhance Fertilizer Procurement and Distribution

### **2.1 ARFPF - Objectives**

- 1) ARFPF is to procure fertilizer at the lowest price possible, secure timely purchase and efficient distribution to farm-gates for participating countries.
- 2) To improve inter-trade transactions between African countries with particular emphasis on fertilizer trade promotion.

## 2.2 ARFPF Description

- A Non Profit Enterprise ( in the form of a company or Special Organization) to Facilitate Procurement and Distribution of Fertilizer.
- Cooperation among participating governments and private sector in the participating countries.
- Participating Governments will own 51% of the shares, the remaining 49% of the shares will be public or private ownership

### Description Continued

## ACTIVITIES OF ARFPF

*There are three major Activities as follows:*

- \* PLANNING
- \* NEGOTIATION
- \* PROCUREMENT & Distribution

*Detailed Description of Activities*

### 2.2.1 Planning Processes:

- 1) Survey the participating countries needs and types of fertilizer required (Organic & Inorganic) on a yearly basis.
- 2) Estimate the Resources Needed to acquire the planned amount and each country share including the private sector.

## ARFPF – Planning Cont.

- 3) Develop a Time-Table for dates and Locations of Delivery of imported fertilizer to each participating country with the additional cost incurred.
- 4) Map-out Means of Transportation & Distribution required for the procurement process.
- 5) Set a Plan for applying for Letters of Credit
- From Different Financial Institutions (National or International)
- 6) Develop an Action Plan specifying roles and Responsibility of Staff in Executing the Activities of the Organization or the Enterprise.

### 2.2.2 ARFPF - Negotiations

- 1) Negotiation with Producers Directly.
- 2) Negotiation with Suppliers in the Fertilizer International Market.
- 3) Negotiation with Shipping Companies.
- 4) Negotiation with logistic providers.
- 5) Negotiation with Distributors.
- 6) Negotiation with Farmers Associations and other Farmers' organizations.
- 6) Negotiation with Insurance Companies.

## 2.2.3 ARFPF – Procurement

- 1) Procurement of Inorganic Fertilizer using the Procurement mode set forth by the Board of Directors.
- 2) Procurement of Organic and Microorganism – Fertilizer using the Procurement Mode set Forth by the Board of Directors.
- 3) Procurement of Shipping & logistics Facilities.
- 4) Procurement of the Necessary Insurance.
- 5) Inform the Board of Directors, the Participating Countries and Donors, If any, with the Terms of the Procurements and expected Arrival time of the Procured Fertilizer and any arrangement made for Distribution.

## 2.3 INSTITUTIONAL ARRANGEMENTS

### Organizational Structure

- Board of Directors
  - General Manager
  - Commercial Manager
- Financial /Administrative Manager
  - Administrative Assistant
- 2 Secretaries, 2 Drivers, and a Messenger

## Board of Directors Composition and Functions

- **Composition:**
- 1) Each Participating Country will nominate a Senior Official to be a Member in the Board with Voting Capacity.
- 2) Private Sector Representative with Voting Capacity.
- 3) Advisors (Consultants) with No-Voting Capacity.

## Board of Directors Main Functions

- **Functions:**
- 1) Formulate the Policy of the Enterprise or the Company (or Organization as per the agreement of the participating entities).
- 2) Set the Procurement Procedures to Be Adopted.
- 3) Draw-up the Organization Internal Regulations.
- 4) Appoint the General Manager.

## **The General Manager (GM)**

- GM is the principal Officer in the Organization.
- The GM is appointed and Discharged by the Board of Directors. He is the Person who assumes the Responsibility to carry out the Organization (Facility) Policy.
- The GM Terms of Office is Three years and May be Reappointed.
- The GM can be Assisted by Several Managers and Employees as May be Required.

## **2.2.4 Financing Arrangements**

### **2.2.4.1 Financing Fertilizer Procurement**

- 1) Participating Countries Contribution Based on the Amount Required by Each and Average Prices of Different Fertilizer Types In the International Market.
- 2) Private Sector Advance Payments for Needed Fertilizer Quantities.
- 3) Donors Support To Certain Countries or the Facility in General.
- Loans and Grants down from International Financial Institutions by Each Participating Country and Paid Directly to the Facility for Procurement of Fertilizer .



## 2.2.4.2 Financing Recurrent Costs

### 2.2.4.2.1 Annual Recurrent Cost Estimates

▪	<u>Annual Salaries In EURO:</u>	
▪	General Manager	144,000.00
▪	Commercial Manager	120,000.00
▪	Financial/ Administrative Manager	120,000.00
▪	Two Secretaries	48,000.00
▪	Two Drivers	48,000.00
▪	Messenger	12,000.00
▪	Travel	240,000.00
▪	<u>Communication</u>	12,000.00
▪	<u>Cars, Operation and Maintenance</u>	100,000.00
▪	<u>Office Rent</u>	24,000.00
▪		-----
▪	TOTAL	868,000.00

### 2.2.4.2.2 Financing Recurrent Costs

- 1) Commission Levied on Procured Fertilizer to Member Countries.
- Donors Grants.
- AFFM Grant for Initial Operation.

## Step by Step Implementation Procedure and Arrangements

### ▪ Step 1 : Selection of Facility Location

- Criteria for Selection:
- \* Government Readiness and Commitment
- \* Available Port Facilities for large Vessels
- \* Good Rail-Roads Network
- \* Good Communication Network
- \* Reasonable Banking Facilities

### ▪ Step 2 : Duration of the Facility

- The duration of the facility shall be indefinite and it shall begin activities as of the date on which the Statutes are registered in the host country.

## Steps of Implementation Procedure Continued

### ▪ Step 3: Legal Nature of the Facility

- The Legal Nature of the Facility is a Non-Profit Enterprise and it shall operate as a limited liability Company. In its constitution and operations it shall be governed by its statutes and by the laws of the host country and of those countries in which it pursues its activities.

## Steps of Implementation Procedure Continued

- **Step 4: Submit the proposal to Countries and Interested Parties**
- The first step or move is to submit or circulate the proposal to form a ***Multinational Non-Profit Enterprise*** to all countries.
- **Step 5: Call for a Meeting to Interested Countries and Parties**
- A meeting will be called and Organized by AFFM attended by the Interested Parties.
- The Meeting will discuss, amend and approve ***the draft statutes*** which will form part of, or an annex to, ***the Agreement*** that would be signed by the ***prospective member countries***. A time schedule should also be included in the agreement.

## Steps of Implementation Procedure Continued

- **Step 6: Execution of the Agreement**
- Each Party shall appoint a representative to take the necessary steps for the incorporation of the enterprise within the time schedule, and to sign the memorandum and article of association as required by the law of the host country.

## Steps of Implementation Procedure Continued

- Step 7: Arrangement by the host country  
Following the establishment of such facility or enterprise, the Government of the host country shall enact and promulgate any law, regulation or decree, granting privileges as required by the enterprise.

## Steps of Implementation Procedure Continued

- Step 8 : Support to the new facility  
AFFM Staff and ADB Field Office in the host country will provide support to the new facility or enterprise in the form of Technical Assistance and Installation Grant.

## Way Forward

- Write this presentation into Multinational Project Format
- Arrange for Co-financing of the Project with other Financing Institutions
- Circulate the Project In Regional Member Countries and Donors.
- Mont Missions to the Responded Regional Member, RECs, Countries and Donors.
- Incorporate Data Received from the Missions in the Report.
- Review the Report and present it to the Board of Directors for approval of the Grant.