

# Nib International Bank

## COMPANY BACKGROUND

Founded in 1999, Nib International Bank S.C. (NIB) is one of Ethiopia's fastest-growing private banks, with total assets having grown 64% between 2008 and 2010 to reach \$400 million. It is headquartered in Addis Ababa and operates a network of 48 branches, providing extensive coverage throughout the country. NIB employs a workforce of about 1,700 people and serves more than 181,000 customers.

In 2010, NIB had the largest market share of loans to the Ethiopian agriculture sector, providing nearly 29% of all lending by private

banks. Also, with 6% of its lending allocated to agriculture, NIB had the highest share of total loan portfolio dedicated to the sector.

NIB is owned by 3,316 shareholders, of which Nib Insurance Company S.C. (6%), Moplaco Trading Co. Ltd. (4.6%), and Mr. Seid Hussein Ali (2.1%) are the three largest. The Bank's Board of Directors is comprised of 12 Ethiopian nationals who are responsible for formulating strategy and approving major policies and risk limits.

## NIB'S INCLUSIVE BUSINESS MODEL

The Ethiopian economy is based on agriculture. In 2010, the sector accounted for 43% of GDP and employed 85% of the population. Coffee is a particularly important crop—it represents 35% of all export revenues and employs more than a million smallholder farmers. Ethiopia is currently the largest producer of coffee in Africa and the fifth largest in the world. In 2010, the country's coffee exports were valued at over \$500 million.

NIB is the market leader of the private banking sector in lending to agriculture. To maintain and grow this position, the Bank aims to expand its reach into rural areas and to continue to strengthen its risk management practices. In support of these goals, NIB is providing access to finance for cooperatives of smallholder coffee farmers as part of the Coffee Initiative in East Africa. The Coffee Initiative is a \$47 million program funded by the Bill and Melinda Gates Foundation and managed by the US-based non-governmental organization TechnoServe. Its goal is to increase the incomes of coffee farmers in Ethiopia, Kenya, Rwanda, and Tanzania by increasing the quality and quantity of coffee they produce.

In Ethiopia, participating cooperatives range from 300 to 500 smallholder farmers who average approximately three-quarters of a hectare of land each. Nearly 40% of NIB's bank branches are outside of Addis Ababa, providing a foundation on which to reach these farmers. Beyond physical access, the Bank's inclusive business model hinges upon partnerships for financial risk-sharing and farmer capacity-building.

For financial risk-sharing, NIB entered into an agreement with IFC establishing a three-year, up to \$10 million facility to provide working capital loans to cooperatives working with TechnoServe. The facility offers up to \$250,000 per cooperative, disbursed against cash flow requirements and collateralized by coffee stocks. The program is designed such that cooperatives should be able to repay their working capital loans within one year entirely through the sales of their coffee. However, IFC will cover up to 75% of any credit losses NIB incurs.

In order to qualify for the working capital loans, cooperatives must have the capacity to produce high-quality washed coffee that earns a premium in the market—the product of using the wet milling process to remove the skin and pulp from coffee cherries, and then wash and dry the coffee beans. During the coffee harvest, the cooperatives use the

working capital from NIB to purchase farmers' fresh coffee cherries and process them through the wet mills. Farmers benefit by receiving a competitive price from the cooperative at the time of sale and then a second payment, or dividend, out of the cooperative's net profit (calculated after all exports and debt payments are complete). Combining the first and second payments, farmers typically receive a share of two-thirds of their cooperative's gross revenues. Gross revenues for the 2010 harvest averaged \$100,000 but in some cases exceeded \$300,000 per cooperative.

TechnoServe's role is to help the cooperatives make effective use of the wet milling process to produce higher value-added coffee. TechnoServe provides technical assistance in operating and managing the wet mills, as well as close collaboration in the business development and governance of the cooperatives. For instance, it helps them organize and register formally, provides their leaders and farmers with training and technical support, and creates linkages with other players along the coffee value chain. One TechnoServe business advisor works closely with two to three cooperatives at a time, and coordinates local specialists that can provide additional training and agronomy services. In addition, TechnoServe helps the cooperatives negotiate and export their coffee directly to buyers instead of working through intermediaries.

TechnoServe's support for the cooperatives not only helps build their capacity, but in doing so, helps mitigate NIB's risk in lending to the coffee sector. TechnoServe also helps mitigate NIB's risk by getting involved at the due diligence stage, using its on-the-ground knowledge and experience to help the bank identify the best cooperatives to invest in. The due diligence process first considers technical aspects, such as the amount of coffee available, levels of competition around the cooperative, suitability of the wet mill site, and availability of labor. TechnoServe then helps the cooperative to develop a leadership team and assesses the leaders' skills and commitment to ensure strong governance. The final stage of due diligence involves supporting the cooperative to prepare a business plan and have it approved by member farmers. At any stage, a cooperative can be ruled out of consideration for NIB's working capital loans, which gives them strong motivation to fulfill its due diligence requirements. TechnoServe also plays an important role in ensuring that the cooperatives comply with environmental and social best practices.

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## DRIVERS FOR NIB'S INCLUSIVE BUSINESS MODEL

- Underserved but significant business opportunity in lending to the Ethiopian coffee sector
- NIB's commitment to support small farmers and promote sustainable growth in the coffee sector
- Need to mitigate risk in lending to the agriculture sector in Ethiopia

Despite the size and importance of the agriculture sector, and of coffee in particular, Ethiopian banks are often reluctant to lend due to the inherent risks of weather-dependent agriculture and the challenges of lending to smallholder farmers with no formal collateral or credit history. In fact, the general trend over the last year has been for private banks in Ethiopia to allocate smaller portions of their total loan portfolios to agriculture.

Nevertheless, agriculture remains one of Ethiopia's most promising sectors, and NIB's inclusive business model is designed to capture the business opportunity associated with its growth potential while at the same time mitigating the attendant risks.

TechnoServe's analysis suggests that in recent years, high-quality washed coffee has received, on average, a 50% premium

to low-quality, unwashed coffee in export markets. Furthermore, global demand for high quality or specialty coffee is increasing, making it the fastest-growing segment of the coffee export market. This represents an untapped opportunity in Ethiopia, where only 20% of coffee today is produced and sold as high-quality in export markets.

Over the life of the risk-sharing facility, the volume of coffee processed by borrowing cooperatives is projected to increase to 4,000 metric tons with an increasing share sold as high-quality—a strong indication that they will be able to repay the loans they take out. Furthermore, TechnoServe's capacity-building is designed to help build cooperatives that are sustainable after the organization phases out its assistance, representing potential repeat business for NIB.

## RESULTS OF NIB'S INCLUSIVE BUSINESS MODEL

- Working capital loans to 62 cooperatives made up of 45,000 farmers
- Cooperatives have exported two million pounds of green coffee, receiving an average premium of 40% (\$0.75 per pound) above the price of low-quality, unwashed coffee
- Increase in cooperative revenues of approximately \$1.5 million
- 8% growth in NIB's agriculture lending portfolio in 2010

In 2010, NIB made working capital loans to 62 cooperatives made up of 45,000 smallholder coffee farmers. With TechnoServe's support for the wet mill model, the cooperatives produced and sold high-quality, washed coffee directly to 12 international buyers in Europe and the United States. They received on average 40% (\$0.75 per pound) more than they previously received for low-quality, unwashed coffee, translating into a total of \$1.5 million in added revenues. Over 1,500 full- and part-time wet mill jobs were created.

TechnoServe also supported the cooperatives to implement a broad set of sustainable business practices by providing trainings in environmental

stewardship, transparent economic practices, social responsibility, and operational health and safety. The recommended practices and associated training content were developed through close collaboration between TechnoServe and IFC. Each cooperative received 12 unique trainings before the start of the coffee harvest, for a total of 744 trainings delivered to cooperative leaders, employees, and farmers in 2010.

For NIB, the working capital loans have allowed it to remain a leading lender to the agriculture sector and to expand its portfolio even further, increasing its lending by 8% in 2010 over the previous year.



## IFC'S ROLE AND VALUE-ADD

IFC's risk-sharing agreement of up to \$10 million with NIB facilitates access to finance for cooperatives of smallholder coffee farmers in Ethiopia. Given the risks associated with lending to the weather-dependent agriculture sector and a difficult regulatory environment, access to finance is one of the key challenges to scaling up and improving the quality of coffee production in the country. IFC's agreement with NIB not only reduces NIB's financial risk but also demonstrates confidence in the producer side of the country's coffee sector.

IFC's value-add also lies in its experience working on environmental and social best practices in sectors characterized by large numbers of smallholder farmers. In particular, IFC has been able to contribute its experience with sustainability standards and, in collaboration with TechnoServe, help improve wastewater and coffee pulp disposal practices.



**IFC's Investment:**  
\$10 million risk-sharing facility