

Eurobonds and potash will boost Ethiopia and Africa's food security

✘ Ethiopia issued a dollar based bond to fund its development goals focused on increasing agricultural production, power generation and transportation infrastructure including the 6,000 megawatt Millennium Dam hydroelectricity project on a Nile river tributary. Deutsche Bank and JP Morgan will be handling the sale of the ten year bond (yielding 6.75%). Ethiopia has been Africa's fastest growing economy for the past few years; it follows in the lead of other African countries that have issue similar bonds (Eurobonds) recently, including Kenya, Ivory Coast, Senegal and Ghana. Ethiopia's bond issue reflects both the scope of its development ambitions – needing to raise at least USD\$ 50 billion before the end of the decade to complete its development targets – and foreign investors' growing interest in the country and Africa in particular. The Millennium Dam is seen as crucial to boosting agriculture in Ethiopia as well as some of its neighbors such as South Sudan, Kenya and Uganda. Indeed, Ethiopia has taken full responsibility for funding the Millennium Dam in order to establish greater control over the flow of the Nile waters and its power will allow Ethiopia to become a regional hydro-electricity hub.

It was exactly 30 years ago when the world learned of a terrible famine in Ethiopia, which also included present day Eritrea at the time prompting worldwide relief campaigns punctuated by songs like 'Do they know it's Christmas' and 'We are the World'. Much has changed today: Ethiopia is home to the third largest agricultural industry on the African continent and it is on track to achieve food security. Despite the huge challenge of expanding agriculture in a country that was not long ago on the brink of famine to 'Africa's bread

basket' is a huge challenge but thanks to farming method innovations and research, the country will, in the very near future, achieve food security. But Ethiopia's ambitions reflect the wider agricultural growth phenomenon that has been occurring throughout Africa, which have been fueling the enthusiasm of local populations and private investors alike. With increasing urbanization and an exponential growth of the middle class, the African food market just waiting to grow and is expected to triple by 2030 according to a study by the World Bank in 2013. There is also a growing food deficit between demand and regional supply, which has contributed to interest in agriculture. Ethiopia and Africa will gains benefits in development and wealth creation along with agricultural best practices, better yield per hectare, and more intense trade links to developed countries. Recently a US private equity fund (KKR & Co) has made its first investment in Ethiopia.

The international investment and financing such as today's aforementioned bond issue will help to address the technical challenges to agriculture throughout Africa as multiple land expansion projects are being planned all over the continent.

Thus, the enthusiasm of the private equity companies for Sub-Saharan Africa is accelerating, agriculture appears as a natural investment sector. An international law firm, Freshfields, has pointed out that agriculture investments in Africa have increased by 137% in the first half 2014 compared to the same period in 2013, facilitated by improving political risk and easier transactions. It should be reminded that Africa is huge, covering the second largest area after Asia, holding the second largest population. Moreover, the UN has noted that Africa has 17% of the world's arable land and agriculture accounts for more than 20% of the Continent's GDP. Farming now occupies 60% of the workforce in Africa.

African agriculture has tremendous growth potential because the continent still has many reserves of uncultivated land,

counting 226 million arable land but being able to reach almost 500 million. Much of Africa is well irrigated and the climate is favorable to the production of maize, soya and sugar cane. The Chinese are well aware of this potential and have signed leases in the long term, using already 2-3% of the resources and Ethiopia is one of their leading targets. Africans will need more arable land and implement agriculture to increase food production yields. Production costs are low and the workforce is young and plentiful. If over the past 15 years, it has been Brazilian agriculture's turn to shine, now is the time of Africa and it is estimated that the continent will become a net exporter of corn and soybeans in the next ten years. Other cereals include barley, sorghum, cotton, sugar cane, groundnut, millet and cassava. However, investment in infrastructure is not enough. African agricultures needs the right soil and productivity to flourish.

Potash and other mineral fertilizers are one of the keys to the Continent's agricultural growth strategy. To this effect, Allana Potash (TSX: AAA | OTCQX: ALLRF) could become one of the largest potash producers in Africa thanks to a promising project in Ethiopia, addressing domestic, African and Asian potash demand. The Horn of Africa, from where Allana's potash will be shipped, is strategically located to serve India, China and more importantly, all of the markets where potash demand is rising fastest such as Indonesia, Malaysia and Laos – all countries featuring potash intensive palm oil production. But it is Africa, where potash consumption, now among the lowest in the world, is slated to increase the most. Ethiopia alone will guarantee significant sales for Allana. Indeed, Ethiopia, which is home to some 90 million inhabitants, has ambitious economic growth plans and agriculture is its highest priority given that some 85 percent of the people work in that sector.

There is room for growth because most agricultural production revolves around a vast number of small rural areas with

operations smaller than one hectare. Now, there are 12.5 million hectares of arable land in Ethiopia but the potential is 50 million hectares. The country has already sought international cooperation to help improve land productivity and make fallow land available for farmers. There is no more effective way to achieve this process than through a greater use of potash, which is essential to increasing yields and providing the kind of nutrients that African soils are known to lack. In the 1960's-70's, the use of mineral fertilizers grew considerably in Latin America while dropping in Africa. Not surprisingly, those decades (and until now) saw various famines in Africa, while food production increased in Latin America. Now, the International Fertilizer Industry Association suggests that African potash use could reach five million tons over the next few years. It is now not even close to a million tons. Allana is edging ever closer to production phase having been granted all relevant mining permits from the Ministry of Mines of Ethiopia; its strategy is to help develop and expand the mineral fertilizer market in Ethiopia and Africa in general – even if the initial focus will be East Africa. The African continent presents tremendous market potential for mineral fertilizers and potash in particular, given that it has the potential to attract 880 billion dollars of investment in agriculture by 2030, which will drive demand for products such as fertilizers, seeds, pesticides and machinery as Africa develops its own production of biofuel, grain refinement and food.