PROCEEDINGS

FINANCING AGRICULTURE FORUM 2012

March 28-29, 2012
Kampala, Uganda

THE WORLD BANK

AGRIFIN
Agriculture Finance Support Facility

Centenary Bank

I. Introduction

On March 28-29, 2012, the Agriculture Finance Support Facility (AgriFin) held its first annual meeting in Uganda, Kampala to promote knowledge exchange and to foster partnerships in agriculture finance. The Financing Agriculture Forum, which was co-sponsored by Centenary Rural Development Bank, brought together over 100 participants from 30 countries. Through plenary sessions and technical presentations, 32 financial institution professionals shared their specific business models and approaches to segmenting markets and developing products on financing agriculture.

II. New World of Agriculture

The opening panel reflected on the economic importance of agriculture to developing countries. Tackling poverty globally therefore requires increased investment in agriculture, which relies on improved access to finance. The underlying challenge in agriculture finance is finding the appropriate mechanisms for expanding agricultural lending sustainably. Louis Kasekende, Deputy Governor of Bank of Uganda, stressed the importance of South-South knowledge sharing on agriculture finance, and the significant opportunities for increased agricultural lending by financial institutions that may arise from such learning.

During her keynote address, Nancy Barry, President of Enterprise Solutions to Poverty, pointed out emerging opportunities for small farmers in the current landscape. A number of developing countries see a new generation of progressive farmers shifting from subsistence farming to producing for markets.

From left to right - Carlos Cuevas, Bill & Melinda Gates Foundation; Mark Cackler, World Bank; Louis Kasekende, Bank of Uganda; Moustapha Ndiaye, World Bank; and Fabian Kasi, Centenary Rural Development Bank

These farmers demand high quality and yield enhancing inputs. This has created an enormous business opportunity for financial institutions to provide farmers with the financial means of acquiring these inputs. Three elements are essential to building a sustainable agriculture financing business: (a) lending to farmers with multiple sources of income, who are tightly linked to the market through value chains, (b) collaborating with agro dealers for input supply and advice, and (c) working with aggregators, such as farmer associations, to reduce transaction costs, increase scale, and manage risk.

III. Market Segmentation

The first day of the forum was dedicated to client segmentation, ranging from smallholders, producer cooperatives to emerging farmers. During the first session, panelists from Hatton National Bank, Sri Lanka; Banco Oportunidade Moçambique; and One Acre Fund, Kenya discussed their respective institutional models and experiences in serving small farmers. These financial institutions have developed mechanisms that are focused on the aggregation of small farmers for scale, use of value chain linkages to manage risk, financial literacy, and low-cost delivery channels. Additional non-lending financial services, including savings, life and production insurance, and money transfers are equally important when targeting small clients. These services beyond credit generate additional income for the financial institution while assisting smallholders to better manage their businesses.

When lending to producer cooperatives, presenters agreed that the use of tripartite lending relationships is instrumental in reducing default risk. Tripartite agreements entail repayment to a bank, made by a buyer on receipts of goods from the producer. They also discussed the importance of value chain relationships to ensure repayment, and the need for banks to fully understand the value chain and the industry in order to accurately assess risk. Limited managerial capacity can be a significant barrier to working with producer groups.

Dos Dinn and Chheng Yanith, AMRET, Cambodia

Representatives from three African banks (ABSA Bank, South Africa; Equity Bank Ltd., Kenya; and Zambia National Commercial Bank) presented their experiences in offering services to emerging commercial farmers. These banks classified producers based on farm sizes, though this classification and subsequently product offerings vary significantly between banks. Loan repayments in all cases are tailored to the production cycles of the producers. Small-scale producers require comprehensive technical assistance in agricultural production and in business management to enable them to become bankable clients.

Ian Anderson from the Gatsby Charitable Foundation, Kenya, presented results of the first Agriculture Finance Market Scoping (AgFiMS) study in Tanzania. The objective of AgFiMS is to collect, interpret, and disseminate information on the need for financial services among agricultural businesses, and to identify factors that restrict their access to those services. AgFiMS estimates that the demand for agriculture credit in the Tanzanian market is approximately US$50 million. This approach can be replicated to promote the development of financial markets for agriculture finance in other countries throughout much of Africa. The execution of similar markets segmentation studies in other countries would bring a range of benefits, including inter-country learning, policy benchmarking, and cross-market analysis for international investors and banks.

IV. Product Development

On the second day, presentations and discussions were centered on the development of product and services, including transaction and payments, working capital, investment capital, and warehouse receipt financing. First, spokesmen from HDFC Bank, India; ABSA Bank, South Africa; and First Merchant Bank, Malawi, discussed their respective experiences relating to the use of technology and other mechanisms to facilitate lending and other financial services. A growing variety of technologies and models are available to reach agricultural clients in a cost-effective way. These include agency banking models, mobile branches, and migration to automated delivery service channels, such as ATMs, cell phones, and Smartcards. Finding cost-effective ways to conduct transactions is an important priority to maintain sustainability. Client recruitment needs to be reassessed in order for banks to migrate from the traditional recruitment model (recruiting clients individually) to a model by which groups of client are secured en-masse.

Subsequently, representatives from financial institutions in the Philippines, Burkina Faso, and Uganda explained the working capital loan products they offer to agricultural clients. While each bank utilized a different model (price, product, promotion, and security), they have all achieved a significant growth in scale and volume in recent years. With the exception of Centenary Rural Development Bank, banks generally classify working capital facilities as being for periods of less than one year, and the loans are primarily used for either trade finance (agricultural processors and traders) or for production cycles (farmers). The banks also noted that repayment cycles are linked to agricultural seasons, with producers due to repay following harvest periods.

Hatton National Bank spoke on its irrigation financing loan, DFCU on its leasing products, and Juhudi Kilimo on longer term loans for smallholders during the session on financing for longer term investment in agriculture. A major theme throughout the presentations and ensuing discussion related to the prerequisite of lenders having strong relationships with the suppliers of infrastructure equipment, who would use the loans to purchase this equipment. Through these relationships between lenders and equipment suppliers, borrowers can be encouraged to purchase appropriate technologies and quality products, and receive support in installing and maintaining them following the purchase. In this way, banks can significantly raise the probability of the investment producing positive returns and their chances of receiving repayment. Strong supply chain relationships also enable financing to reach down to the smallholder level, enabling banks to identify stable marketing arrangements for smallholder produce and ensuring tripartite repayment mechanisms, where appropriate.

The ensuing session was focused on warehouse receipt financing (WRF). Panelists concurred that a strong and reliable market system is fundamental to success in implementing WRF. Integrating the warehouse system into the supply chain and leveraging the facility to offer services to various actors in the supply chain contributes to a viable and sustainable WRF system.

Participants of the Financing Agriculture Forum 2012

Subsequent discussion centered heavily on the limited availability of infrastructure and the lack of professionally managed storage facilities, both of which, are in short supply across Africa and Asia. However, facilities do not necessarily need to be perfect, and those with a padlock and limited sets of keys are sufficient to serve as storage locations for collateralized lending, even if they are ineligible for a formalized warehouse receipts system. The discussion then moved to regulatory issues, specifically whether warehouse receipt system can only function where formal laws are in place. While most participants agreed that appropriate laws are helpful, it was noted that warehouse-receipt-based lending could, in fact, operate effectively where laws have not yet been enacted, Kenya being a particular example.

V. Outcomes

The forum has demonstrated the need to have banks share experiences with other banks so that they can learn from each other. South-South learning holds a tremendous potential to significantly increase access to finance, which is critical to improve agricultural productivity in order to meet market demands.

Participants during coffee break

The following were key outcomes from the Financing Agriculture Forum 2012:

- *Improved knowledge on agricultural lending practices*

Based on conference interviews and evaluations, the participants felt they had learned much from their peers about agricultural lending practices. Many participants expressed appreciation in learning about farmer aggregation models and linkages with input dealers and buyers to increase outreach, mitigate risks and reduce costs. The use of mobile technology and geo-spatial mapping to identify clients was an innovation that some of the participants from Asia would like to incorporate into their business models back home. There was also recognition of the importance of having specialized in-house agricultural lending 'know-how' for developing a viable business line. Participants appreciated the strategies that some financial institutions have employed to develop this expertise.

- *Enhanced networking among agriculture finance practitioners*

Since the challenges faced by banks wishing to lend to agriculture are similar across different regions, the solutions are also similar. This further demonstrates how information sharing between banks can—and will—reap rewards. The forum was designed to maximize South-South collaboration and networking. Throughout the forum, participants demonstrated a strong openness to share knowledge and eagerness to learn from each other. A global network of agriculture finance practitioners was truly in the making.

- *Better understanding of the demand for knowledge products on agriculture finance*

Having hosted the forum, AgriFin walked away with a better understanding of the demand for a wide array of knowledge products and topics on agriculture finance. Participants expressed interest to continue the peer-to-peer learning virtually and to delve more on topics, such as value chain financing, credit scoring, client advisory services to name a few. While participants expressed high satisfaction with the sharing of information about various operational models, they would like to have more sharing of specific tools, like product sheets, training modules, and credit scorecards.

VI. Looking Ahead

Most importantly, participants expressed their willingness to continue sharing and learning from their peers. To facilitate this process, AgriFin is creating collaborative channels and tools to enable practitioners from around the world to connect with their peers, share knowledge, tools and experience. Through active contribution and participation from its members, AgriFin seeks to build and share knowledge on agriculture finance with the end goal of improving access to finance for farmers and rural entrepreneurs worldwide. To access all conference presentations and materials, and learn more about AgriFin's program and upcoming events, please visit https://www.agrifinfacility.org.