



# Financing Agriculture Forum 2015: Financing Agricultural Value Chains

May, 2015

“Banking is no longer  
somewhere you go, but  
something you do”

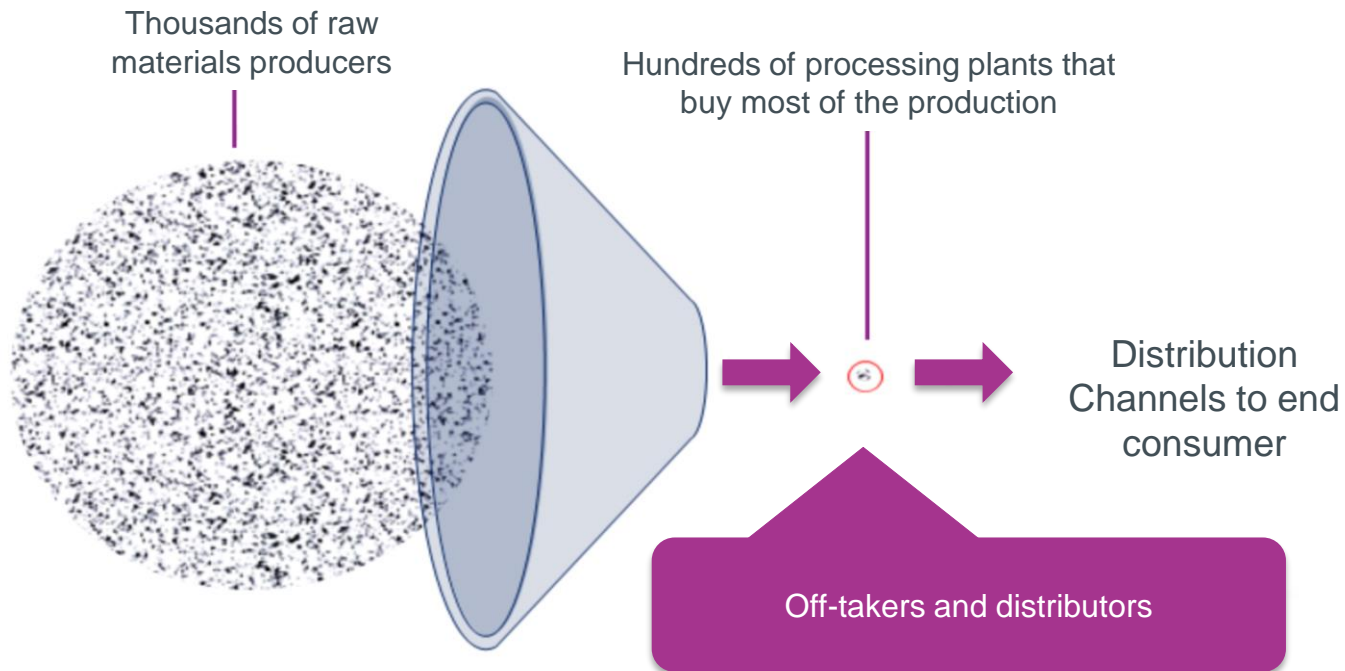
Brett King

## Bankaool: who we are

- First digital branchless bank in Mexico
- Our business model is based on contextual banking
- Whenever, wherever and what you need based on use cases
- Model based on leveraging partnerships and technology
- We provide 48% of the total number of loans from the Mexican banking sector to agriculture
- More than 120 K loans granted; 80% of our clients are first time borrowers
- Bank accounts opened via web without documents, in 3 clicks, and a MasterCard debit card
- Committed to revolutionize the banking industry in Mexico
- Recognized as an Leader in Inclusive Business Innovation by the G20

## Bankaool: our business model

- Our business model for financing small producers is based on a **win-win proposition**, built around working with an “anchor company” (AC)
- The AC handles the credit documentation, as well as disbursement, collection and repayment of the credit to suppliers.



## Expanding and selecting our value chain financing

- Both for potential new business opportunities and the strategic need to diversify our value chain financing portfolio, we needed to develop a model to identify additional value chain financing opportunities
- The first – and most important – criterion for a winning methodology for selecting a value chain is that it must be a **WINNING VALUE Chain**
- We use publically available data from:
  - Central Bank
  - Ministry of Agriculture
  - Government statistical agency
  - United Nations – FAO
  - Bankers Association
  - Business chambers
  - USDA

# Selecting a winning value chain

## Downstream criteria

- **Growth:** The assumption is that the higher the growth rate, the higher the probability of the viability of the specific value chain
- **Investment:** The assumption is that entrepreneurs would be reluctant to invest in businesses in which they saw limited growth possibilities
- **Volatility:** The assumption is that a high level of volatility in a value chain increased the credit risk
- **Size:** Measured in the value of production is used to determine the attractiveness of the specific chain
- **International position:** Calculated by comparing value of imports and exports. Growth in exports is considered positive, while imports need to be determined whether or not they are competitive or complementary

# Selecting a winning value chain

## Upstream criteria

### Field and fruit crops

- **Growth:** The assumption is that an increase in planted area is indicative of a more dynamic industry.
- **Changes in yield:** The availability and application of technology to the production process based on the assumption that sustained growth in yields is consistent with investment in a healthy industry.
- **Value of production per hectare:** Real rather than nominal values should be used (at least a decade long).
- **Difference between planted and harvested area:** Large differences and/or significant variations from year to year indicate an unstable system (at least a decade).

# Selecting a winning value chain

## Upstream criteria

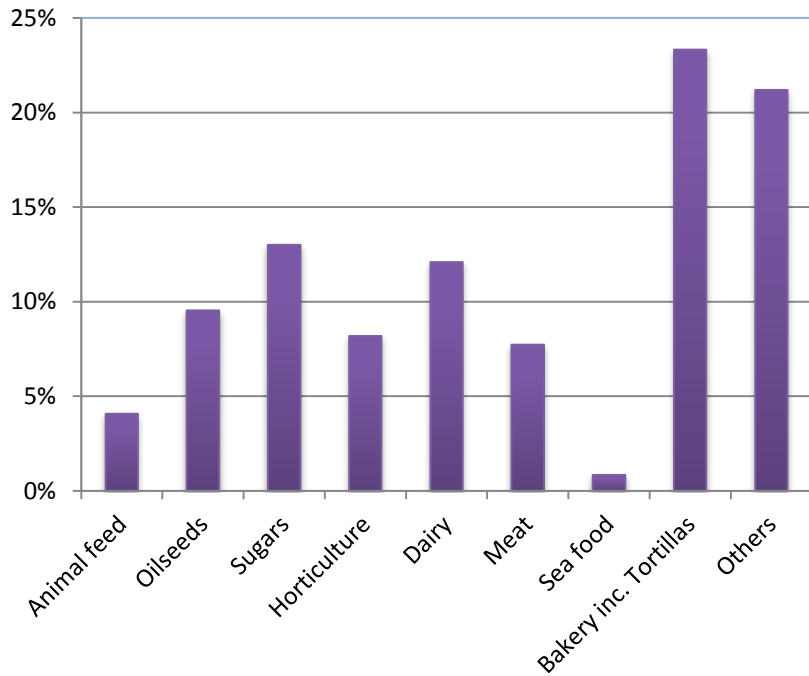
### Animal protein

- › **Growth:** Measured by the change in the animal population, an increase in the animal numbers is consistent with the profile of a dynamic industry.
- › **Yield:** Increasing yields or conversion ratios suggest an industry with sustained potential
- › **Changes in the size of the operating unit:** While a trend to larger-sized units may be considered as a positive indication of growth within an industry. However, if growth and consolidation is occurring rapidly, it may result in more difficult conditions for value chain financing in the short run due to structural changes occurring in the value chain.

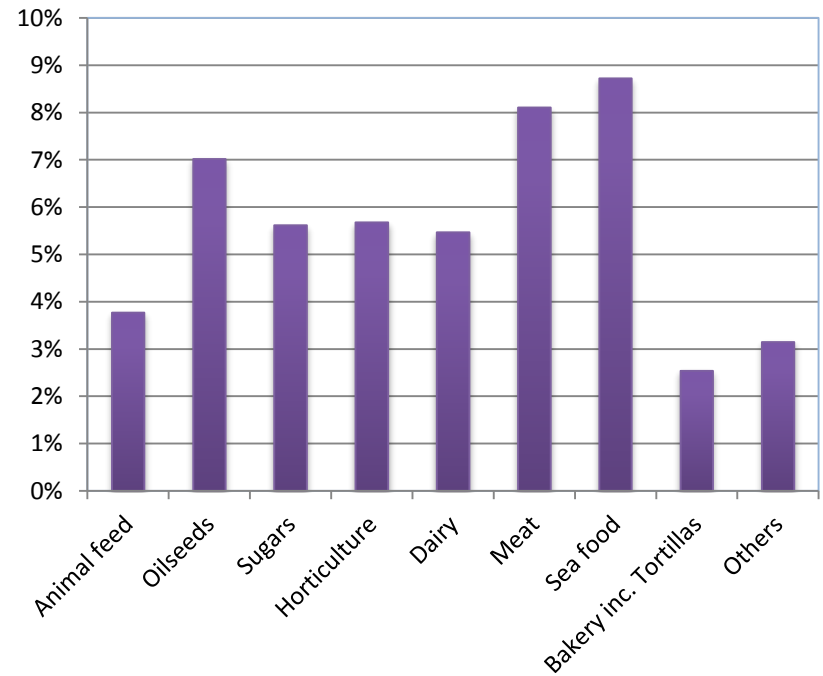


## Growth and Investment

- Share of total food sector value added



- Investment as a share of value added



## Foreign trade

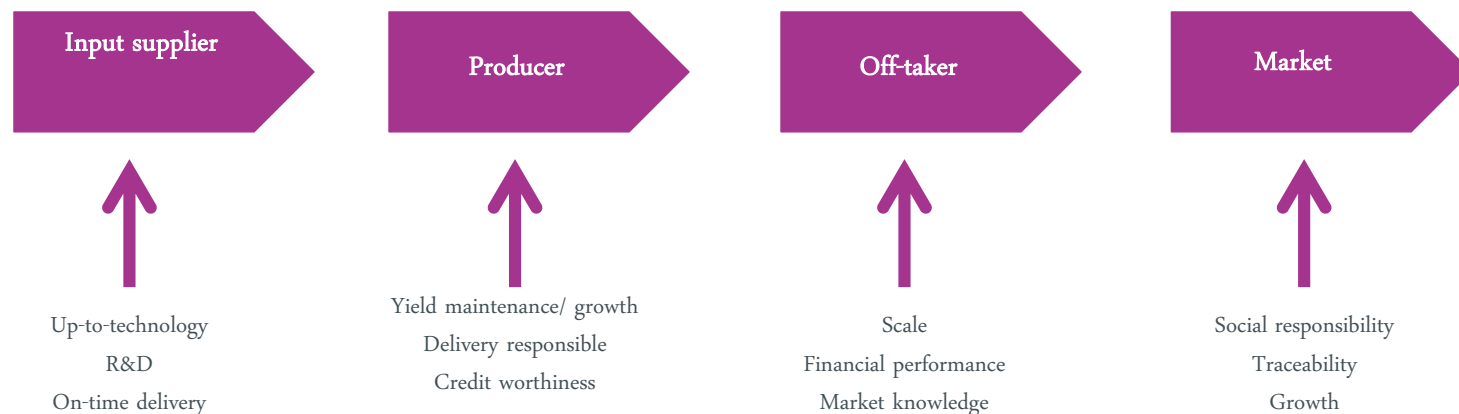
- Leading agricultural exports: million USD

| Description             | Jan-Dec 2010 | Jan-Dec 2011 | Jan-Dec 2012 | Jan-Dec 2013 | Jan-Dec 2014 |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| Vegetables              | 3,896        | 4,568        | 4,486        | 5,033        | 5,096        |
| Edible Fruit And Nuts   | 1,635        | 1,957        | 2,132        | 2,323        | 3,129        |
| Sugars                  | 274          | 694          | 185          | 1,052        | 922          |
| Baking Related          | 612          | 735          | 794          | 810          | 734          |
| Preserved Food          | 396          | 467          | 408          | 498          | 560          |
| Fish And Seafood        | 252          | 462          | 315          | 229          | 221          |
| Spices, Coffee And Tea  | 255          | 528          | 614          | 352          | 174          |
| Cocoa                   | 110          | 84           | 93           | 81           | 58           |
| Other Vegetable         | 26           | 24           | 21           | 26           | 35           |
| Lac;Vegetabl Sap,Extrct | -26          | -39          | -54          | -31          | 1            |
| Live Trees And Plants   | -22          | -52          | -50          | -55          | -57          |
| Other Of Animal Origin  | -158         | -159         | -185         | -212         | -226         |
| Milling;Malt;Starch     | -263         | -269         | -322         | -294         | -322         |
| Prepared Meat,Fish,Etc  | -208         | -218         | -226         | -291         | -327         |
| Miscellaneous Food      | -246         | -219         | -320         | -316         | -436         |
| Fats And Oils           | -1,149       | -1,518       | -1,421       | -1,263       | -1,178       |
| Dairy,Eggs,Honey,Etc    | -1,081       | -1,447       | -1,411       | -1,691       | -1,707       |
| Meat                    | -2,590       | -2,466       | -2,307       | -2,772       | -3,159       |
| Misc Grain,Seed,Fruit   | -2,914       | -3,418       | -3,574       | -3,433       | -3,309       |
| Cereals                 | -2,987       | -5,134       | -5,002       | -3,791       | -3,637       |

# Additional considerations to select a winning value chain

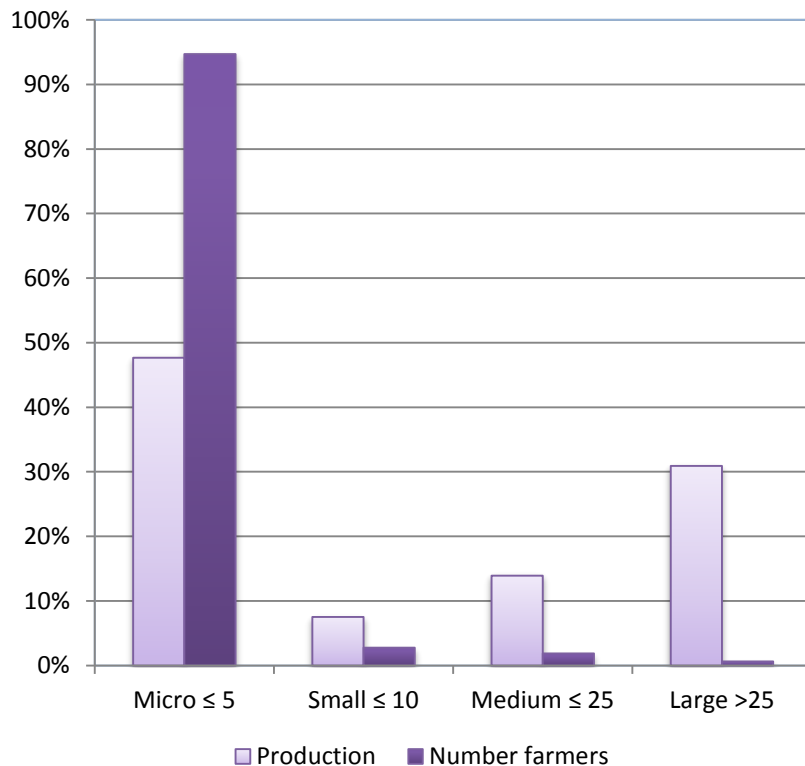
- **Policy environment:** The extent and types of government policies and instruments can impact both the attractiveness and the risk profile of the value chain
- **Structural change:** The food and agricultural system is constantly evolving and changing: concentration, retail power, environmental concerns

## Key Success Factors

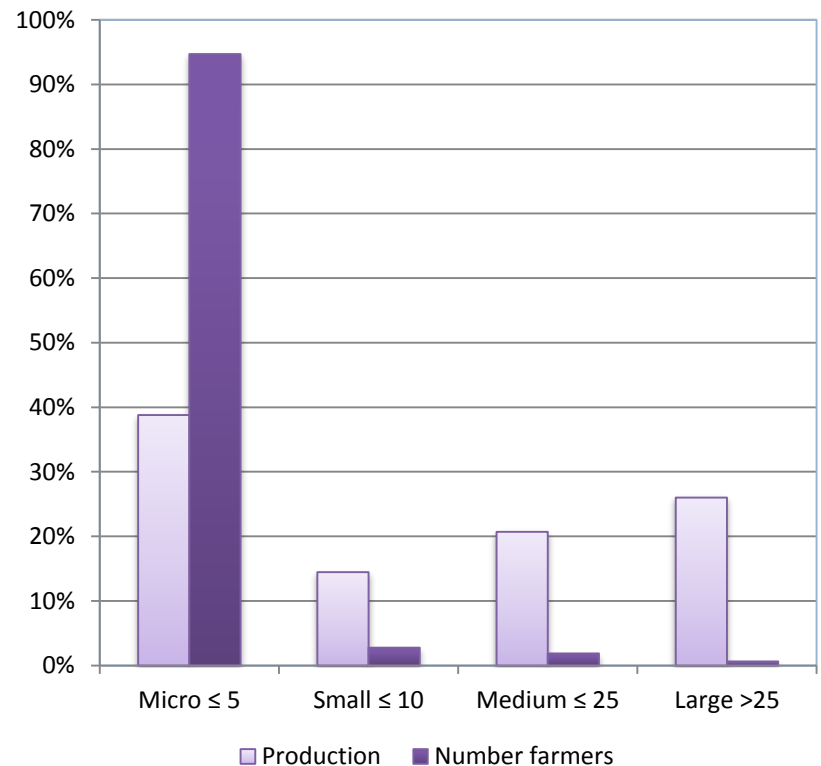


# The vegetable value chain: Small farmers account for the bulk of the producers and production

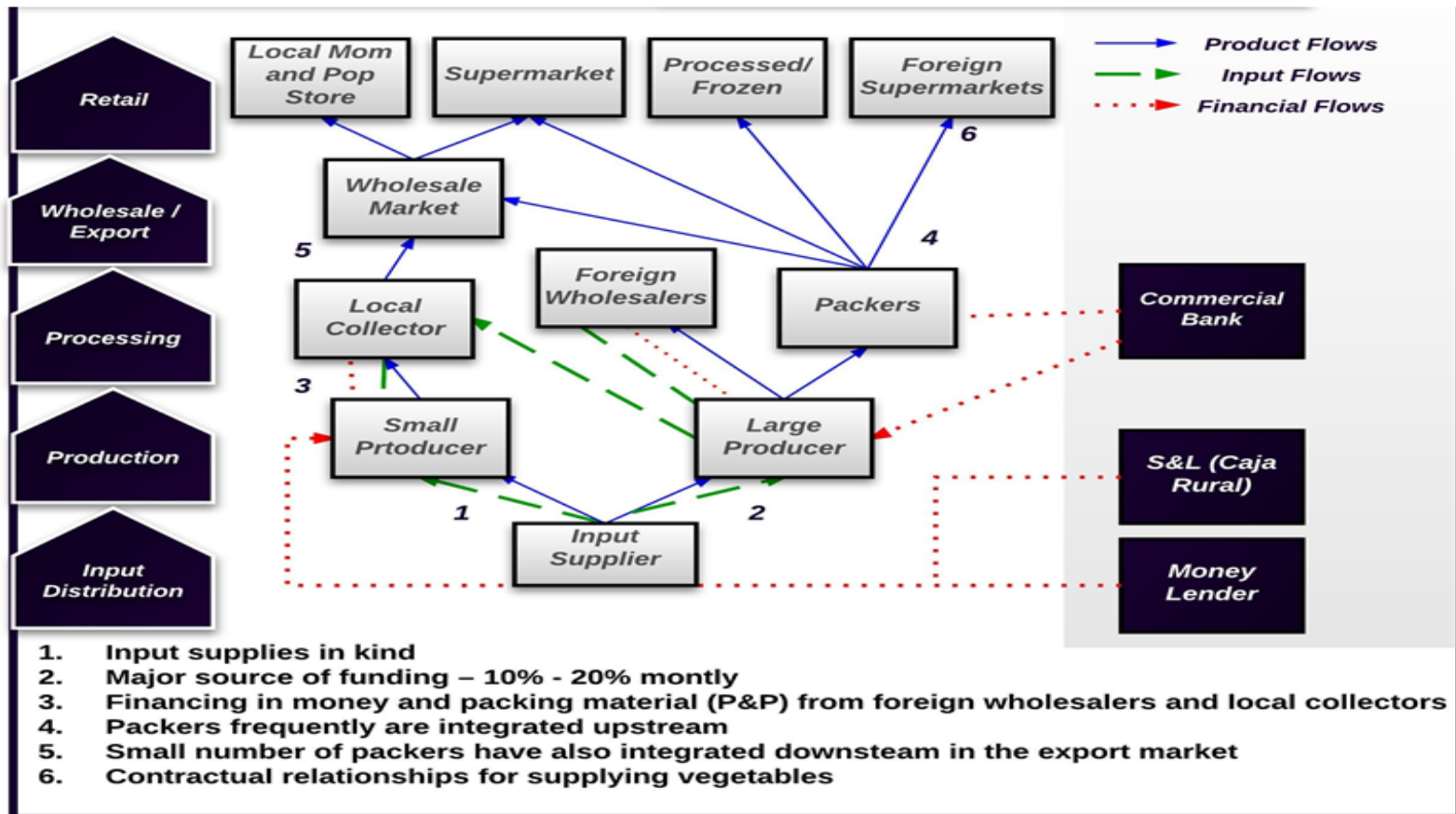
Distribution: Tomatoes



Distribution: Chili



# The vegetable value chain: The off-takers and local money lenders are the major sources of financing...



## Opportunities to expand the business: cross-selling and up-selling

- Our clients farm at least two crops in addition to the one financed through the value chain
- 50% of our clients do not have a bank account and thus lack access to the payment system and e-commerce
- Many farmers have other small businesses and require credits
- Non-traditional data gathered through the value chain contribute to create new credit score algorithms

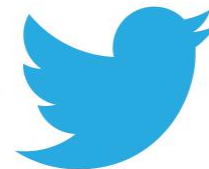
## What we learned

- VC financing offers contextual banking
- Interests of the off-taker and the bank need to be aligned
- Careful due diligence of the off-taker and industry is key
- Investing in technology and processes to industrialize programs are key to scalability
- Change management at the AC is needed to ensure compliance with banking regulation
- Non-traditional data is produced that enrich credit scoring models; thus need to invest in big data capabilities
- VC financing increases financial inclusion and creates “blue oceans” opportunities for cross-selling and up-selling

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