

AgriFin Webinar | Financing Small Farmers Commercially

Webinar held on **September 27, 2012**
9:30 AM Eastern Standard Time (US and Canada)



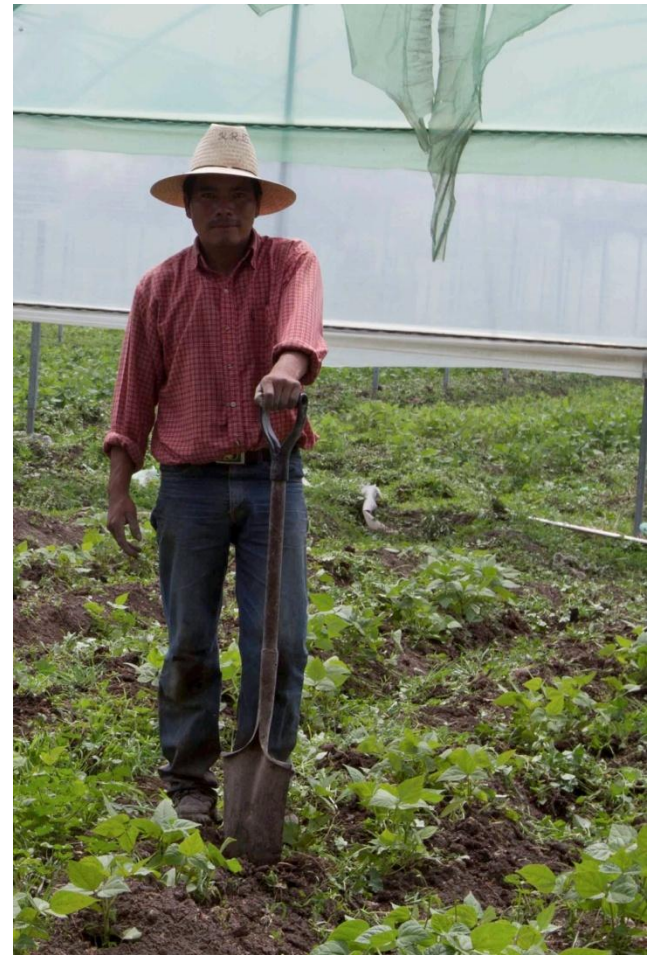
Can small farmers be financed on a commercial basis by a financial institution?

The case of Agrofinanzas in Mexico



Small farmers have traditionally been credit constrained

- Asymmetric information: Lack of financial information and credit history
- Perceived higher risk / low scale of production
- Low capital endowment / lack of collateral
- High transaction costs in serving them (origination and collection)
- Concerns on commercial viability
- Many processors and traders have been forced into financing farmers to secure commodity origination

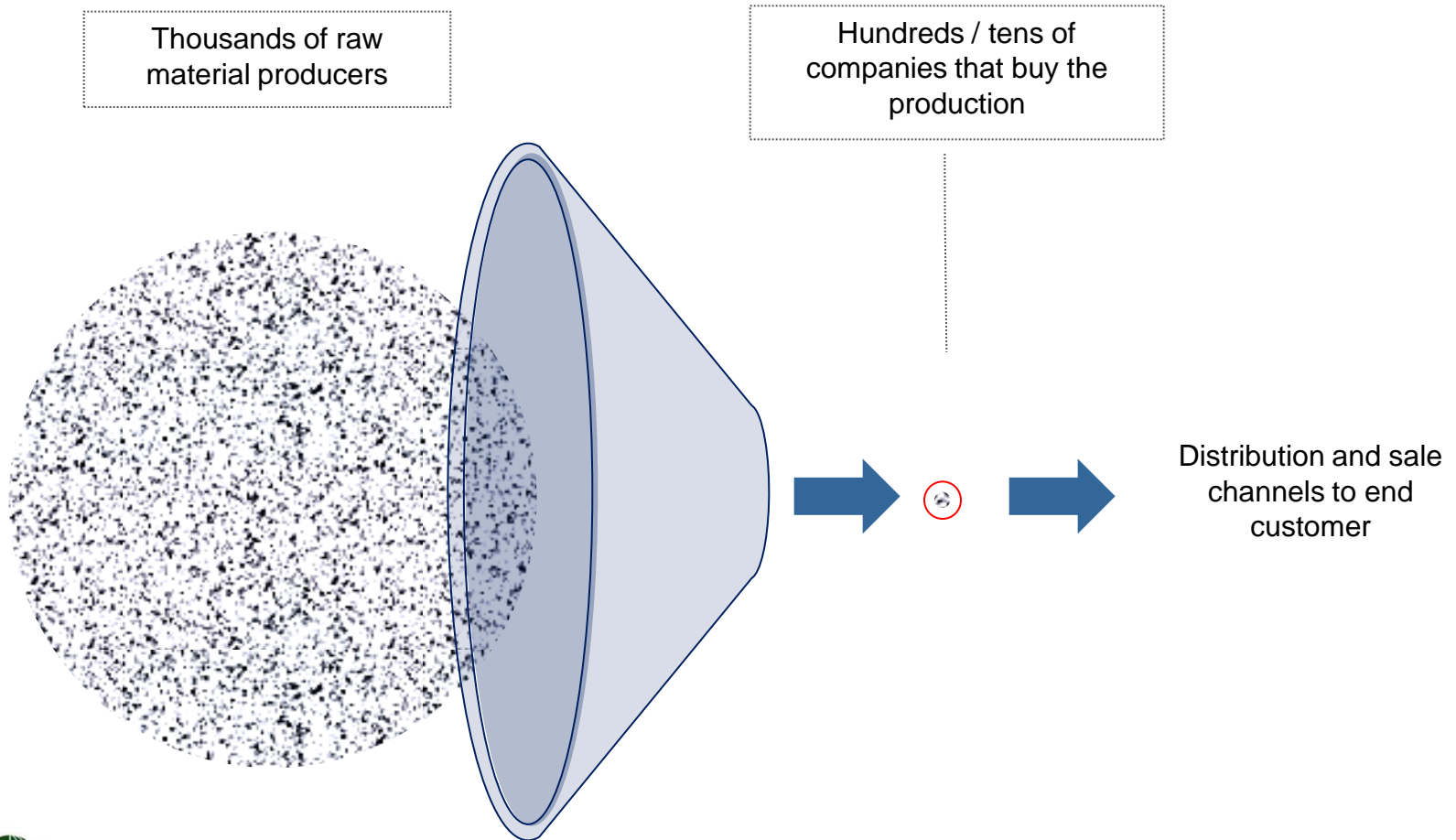


Agrofinanzas has developed an innovative business model to serve small farmers

- Partnership with “anchor” company (processor, trader, etc.)
- Profit and loss sharing
- Transformation of fixed costs into variable ones
- Industrialization of processes
- Applying banking standards (credit files, KYC, IFRS rules and Basle II rules)



A key is to identify supply chains with integration and a large number of producers



Business model that solves the issues

✓ SOLUTION

Asymmetric info

Using database of suppliers and past performance to assess cashflows

Risk / low scale

Processor acts as off-taker and guarantor of 1st loss of portfolio (junior tranche)

Lack of collateral

Future cash flows act as collateral; partner retains payment and guarantees 1st loss

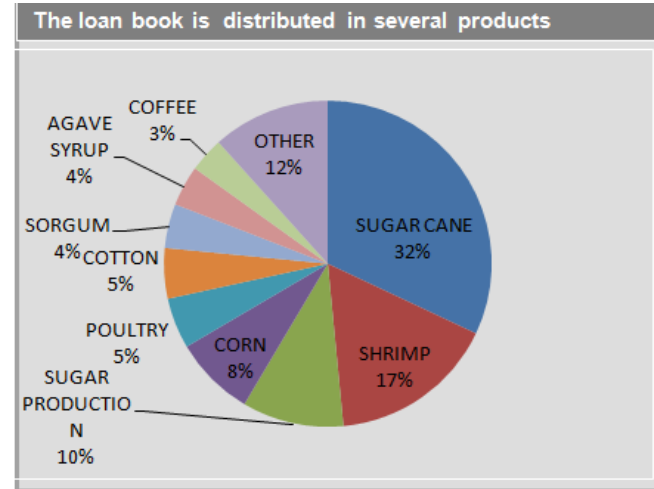
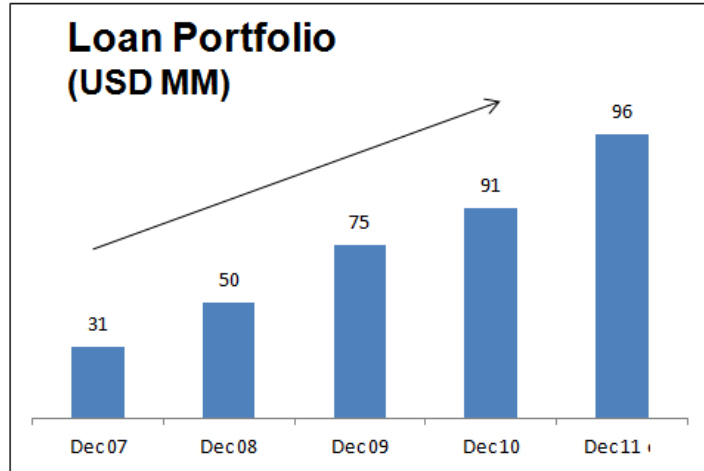
High transaction cost

Outsource of logistics: documentation; field supervision, distribution of money and collection

Developed strong IT platform and standardized processes



The model has proven successful



- AF has 28,000 active loans; average size is US3,400.
- Interest spread is 770 bps after reserves (risk free rate in MXP is 4.2%); higher than loans to agribusiness companies
- NPLs ratio is 3.5%; in line with banking sector and lower than consumer lending and microcredit in Mexico
- +80% had no formal credit history; retention rate is +90%
- AF's ROE in 2011 was 20%+ (15% average for the past 3 years)

The model creates value to all stakeholders

- Processors / traders establish a supply chain financing facility off-balance sheet
- Leverage and credit risk are reduced for processors
- Farmers have access to formal credit; develop a credit history and are able to get CapEx loans
- Farmers maintain one-stop shopping
- Agrofinanzas develops a profitable model while solving information, credit and transaction costs problems
- Efficient model; AF manages loan book with a headcount of 40
- Reorigination process is streamlined (portfolios become perpetuities)



Agrofinanzas has a strong position to continue its solid growth

- Regulated and supervised by the Mx Banking Authorities
- Esteve family owns 76%, IFC 15.5% & management 8.5%
- Main funding has come from government-owned bank
- Diversification of funding with locally and globally. In 2010 mezzanine debt was placed with NY investment fund
- In 2011, credit rating upgraded to investment grade in Mx
- Capital adequacy ratio is +28% (Basle II)
- In 2012, AF issued short-term commercial paper listed in the Mexican Stock Exchange for a program of US\$40 MM
- AF is seen by investors as a “fixed-income ETF” that invests in Mx agriculture, offering an additional asset for diversification
- AF obtained a banking license to operate in Mexico. This will enable expand its business model into other economic sectors



For more information about Agrofinanzas,
please visit: www.agrofinanzas.com

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