Financing Agriculture Forum 2015

Lending to Agribusiness: Financing Agricultural Value Chains

WORLD BANK GROUP

AGRIFIN
Agriculture Finance Support Facility

Forum Overview

Lending to Agribusiness: Financing Agricultural Value Chains

Outline

I. The rationale for this event

II. The opportunities for agricultural lending

III. Traditional Agricultural Lending vs. Value Chain Finance

IV. Value Chain Flows

V. Opportunities & Conclusion

Rationale for a Forum on VCF

- VCF is just one approach to lending to agriculture

- It may offer a financial institution for reaching farmers, who had previously been too challenge to serve

- VCF if undertaken in an effective manner enables risks to be managed effectively; and lending undertaken in a cost efficient manner

- There are a number of banks using VCF models to serve agricultural sectors. This forum shares successful experiences with others

Agriculture and Poverty

- 75% of the worlds poorest live in rural / agricultural areas
- GDP growth from agriculture benefits the income of the poor 2-4 times more than GDP growth from non-agriculture
- If we want to tackle poverty we can’t ignore the need to improve agriculture, and that requires access to finance to enable investment in productivity

Opportunities for Lending to Agriculture

- Demand for agricultural products is set to rise significantly in coming years
- To date financing for agriculture in developing countries has been limited, leaving an untapped and growing market
- Properly done, lending to agricultural value chains offers good business opportunities for banks looking to expand their lending portfolio

Agricultural Lending : Challenges

Information Asymmetry

- Wide Variety of Crops
- Variation in climate (microclimates) and conditions
- Cultural differences
- Informal marketplaces
- Lack of cash banking histories

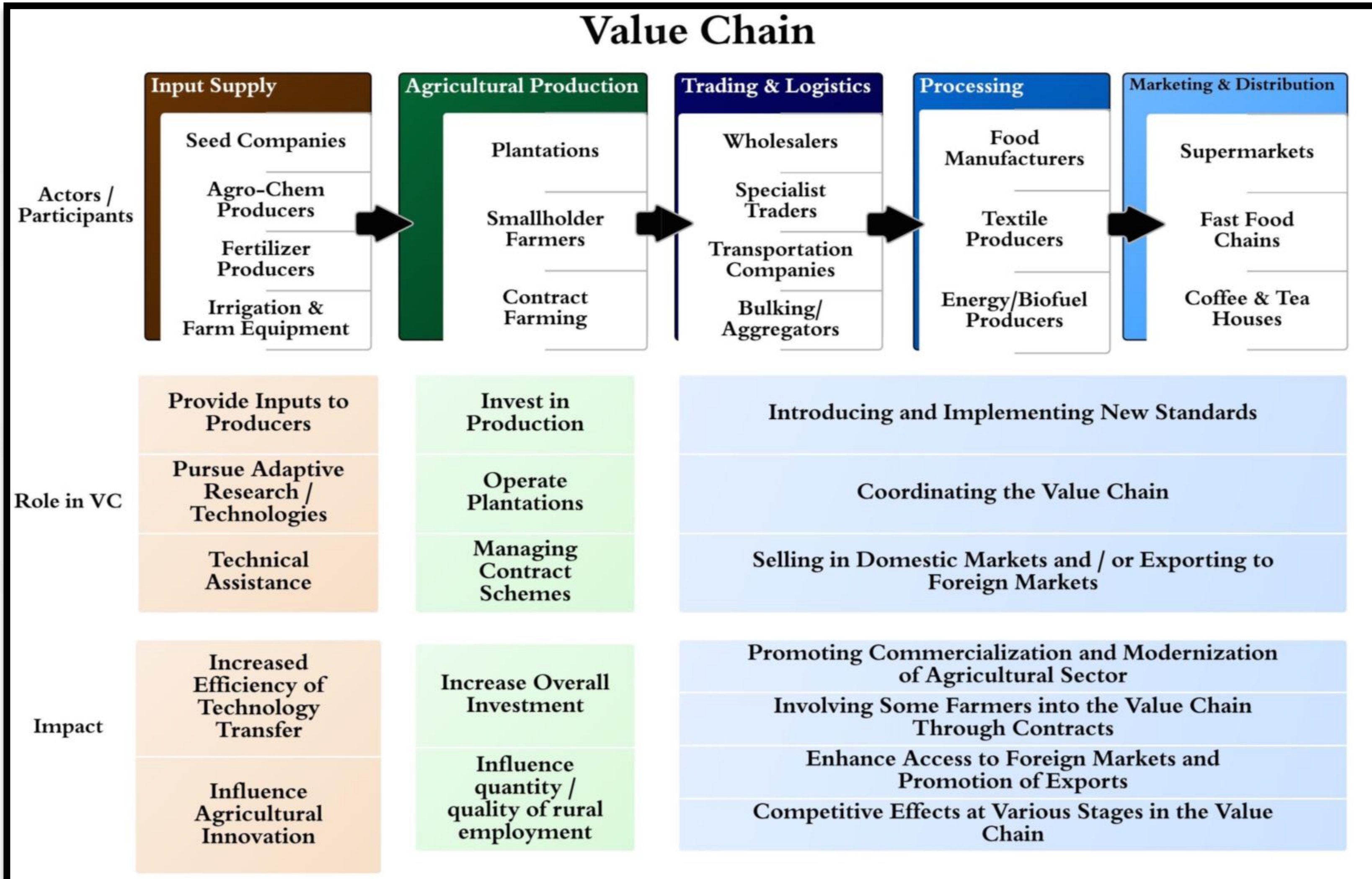
Elevated Operating Cost

- Operating in rural/ remote areas where densities and banking branches are fewer
- Costs of handling cash during collections
- Costs associated with supervision and loan monitoring

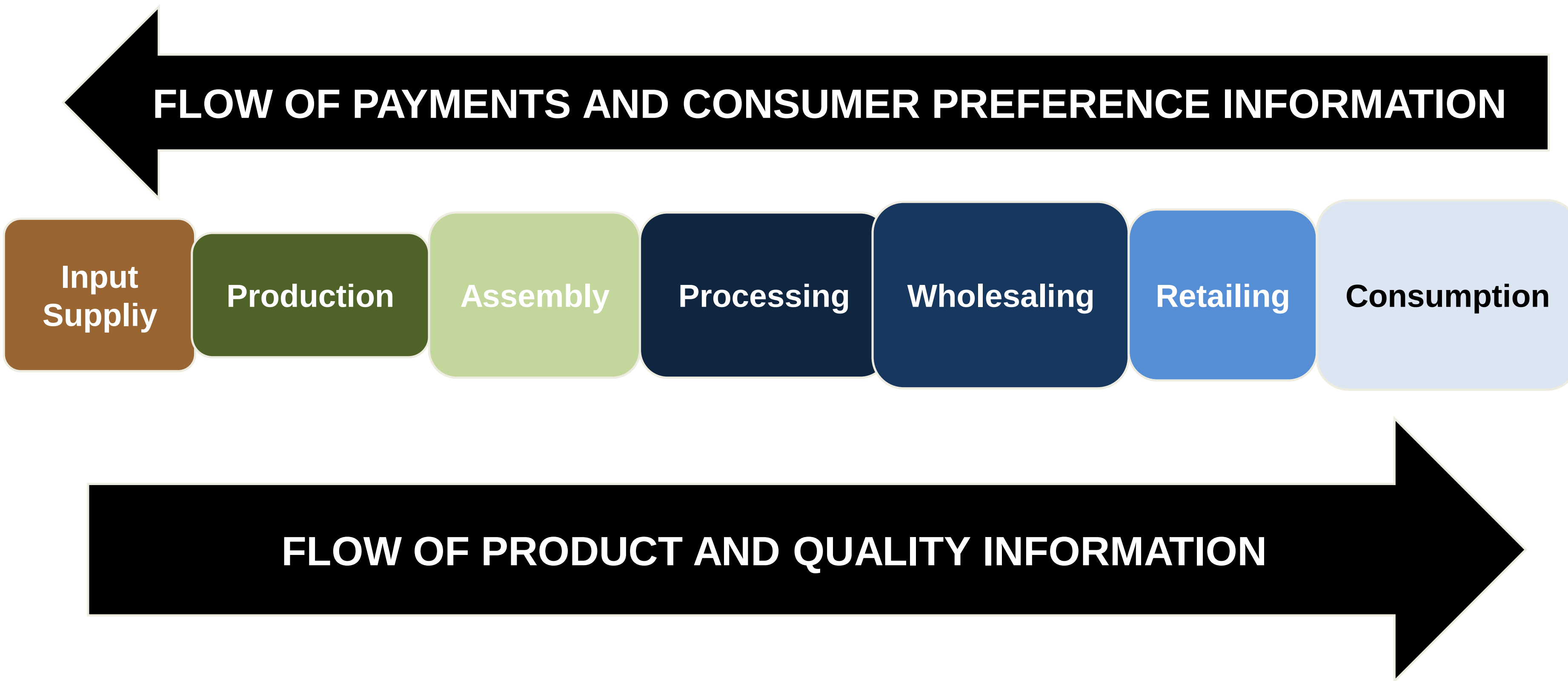
Traditional Lending vs Value Chain Financing

Key credit concepts	Traditional Lending	Value Chain Finance
Lending	Asset Based	Cash Flow Based; contracts
Know Your Customer	Relationship Banking	Value Chain
Credit Risk	Traditional Assessments, needs sufficient client information	Systems risk; info through value chain
Risk Mitigation	Careful Client Selection:	VC viability, Risk sharing,
Client Type	Larger operations	Smaller commercial operations

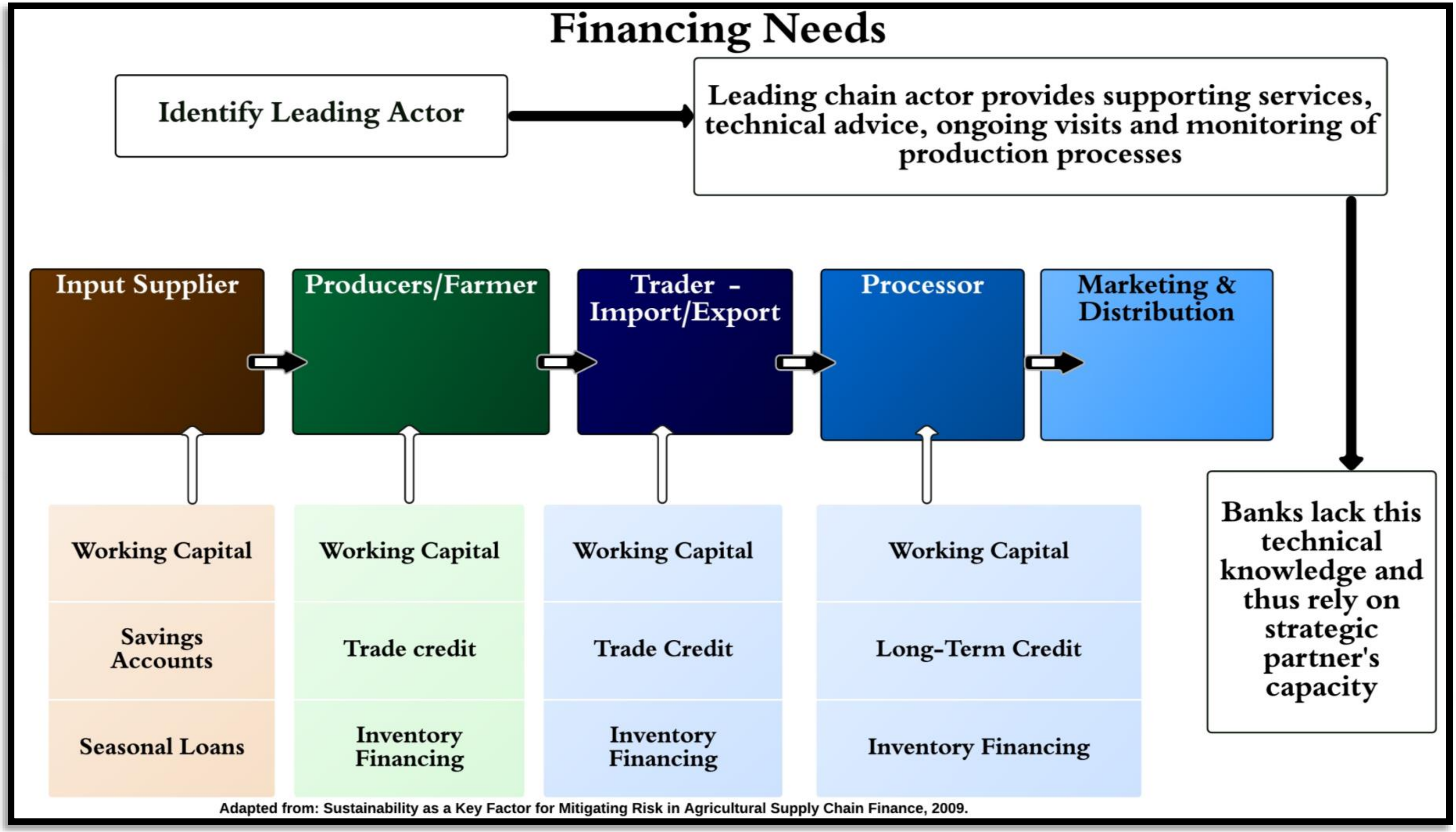
The Value Chain Approach: Participants & Linkages



Flows In The VC



The Value Chain Approach: Lead Actors/Entry Points



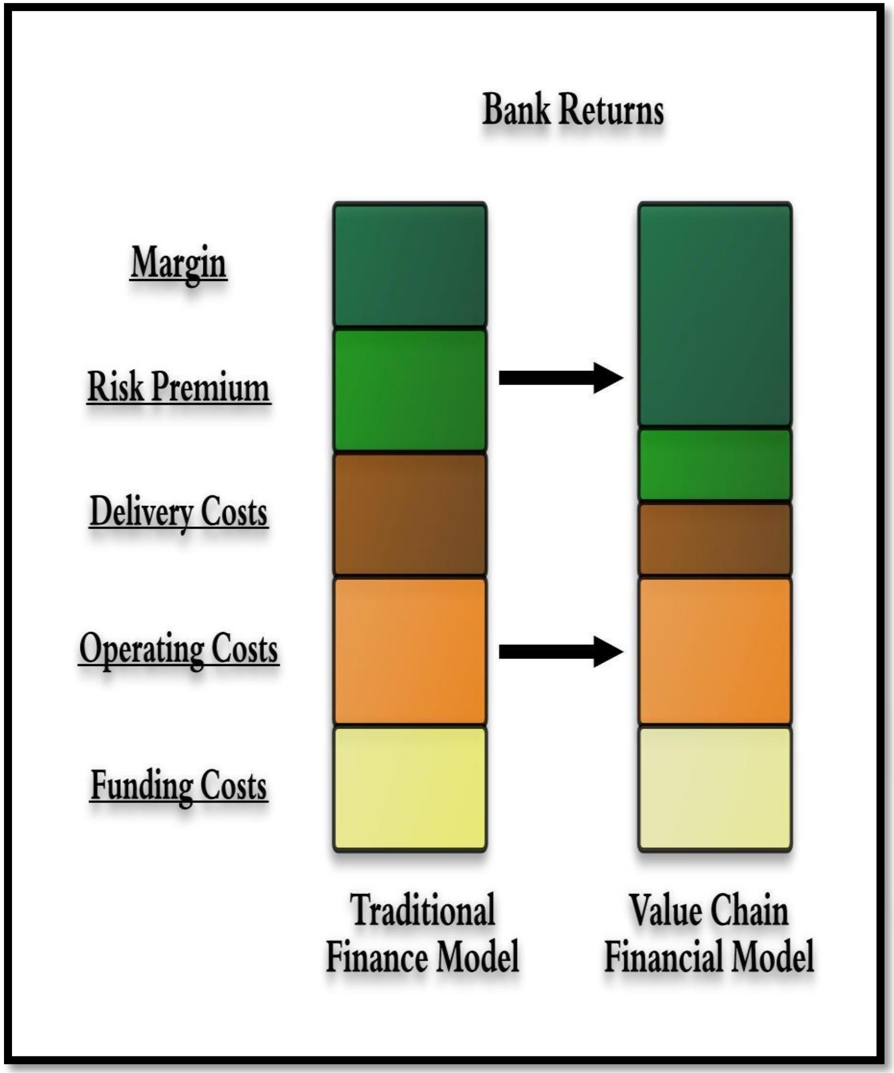
Benefits of VC: Delivery Cost Reduction & Risk Mitigation

Reduce Information Asymmetry

- Crop Specific Information
- Customer Profiles
- Market information on production

Reduce Operating Costs

- Density/aggregation of loan recipients –concentration through VCF partners
- Payment systems developed around specific needs
- Shared monitoring and supervision for early warning



Conclusions

- Significant market opportunities for banks – a relatively untapped market
- VCF provides a means for banks to reach smallholders where direct lending is not possible
- VCF is just one approach for serving agricultural clients and its appropriateness depends on the environment and the bank in question
- A number of banks are utilizing innovative VCF approaches, that significant improve risk and reduce transaction costs

Thank You

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Enjoy the Forum