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 world’s 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**

**Lending**

- Asset Based
- Relationship Banking
- Careful Client Selection:
- Larger operations

**Value Chain Finance**

- Cash Flow Based; contracts
- Value Chain
- Systems risk; info through value chain
- VC viability, Risk sharing,
- Smaller commercial operations

**Traditional Lending**

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The Value Chain Approach: Participants & Linkages

Value Chain

<table>
<thead>
<tr>
<th>Actors / Participants</th>
<th>Input Supply</th>
<th>Agricultural Production</th>
<th>Trading &amp; Logistics</th>
<th>Processing</th>
<th>Marketing &amp; Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Seed Companies</td>
<td>Plantations</td>
<td>Wholesalers</td>
<td>Food Manufacturers</td>
<td>Supermarkets</td>
</tr>
<tr>
<td></td>
<td>Agro-Chem Producers</td>
<td>Smallholder Farmers</td>
<td>Specialist Traders</td>
<td>Textile Producers</td>
<td>Fast Food Chains</td>
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<td></td>
<td>Fertilizer Producers</td>
<td>Contract Farming</td>
<td>Transportation Companies</td>
<td>Energy/Biofuel Producers</td>
<td>Coffee &amp; Tea Houses</td>
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<tr>
<td></td>
<td>Irrigation &amp; Farm Equipment</td>
<td></td>
<td>Bulking/Aggregators</td>
<td></td>
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Role in VC

- Provide Inputs to Producers
- Pursue Adaptive Research/Technologies
- Technical Assistance
- Invest in Production
- Operate Plantations
- Managing Contract Schemes
- Introducing and Implementing New Standards
- Coordinating the Value Chain
- Selling in Domestic Markets and/or Exporting to Foreign Markets
- Promoting Commercialization and Modernization of Agricultural Sector
- Involving Some Farmers into the Value Chain Through Contracts
- Enhance Access to Foreign Markets and Promotion of Exports
- Competitive Effects at Various Stages in the Value Chain

Impact

- Increased Efficiency of Technology Transfer
- Increase Overall Investment
- Influence quantity/quality of rural employment
- Influence Agricultural Innovation
Flows In The VC

FLOW OF PAYMENTS AND CONSUMER PREFERENCE INFORMATION

FLOW OF PRODUCT AND QUALITY INFORMATION

Input Supply

Production

Assembly

Processing

Wholesaling

Retailing

Consumption
The Value Chain Approach: Lead Actors/Entry Points

Financing Needs

1. Identify Leading Actor
   - Leading chain actor provides supporting services, technical advice, ongoing visits and monitoring of production processes

   - Input Supplier
     - Working Capital
     - Savings Accounts
     - Seasonal Loans

   - Producers/Farmer
     - Working Capital
     - Trade credit
     - Inventory Financing

   - Trader - Import/Export
     - Working Capital
     - Trade Credit
     - Inventory Financing

   - Processor
     - Working Capital
     - Long-Term Credit
     - Inventory Financing

   - Marketing & Distribution
     - Banks lack this technical knowledge and thus rely on strategic partner's capacity

Adapted from: Sustainability as a Key Factor for Mitigating Risk in Agricultural Supply Chain Finance, 2009.
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