Agrifin Quarterly Newsletter

Introduction

The impact of COVID-19 on agrifinance is at the center of our attention in this quarterly newsletter. We are sharing with you several COVID-related events, publications and blogs such as the Agrifin-SAFIN webinar series, the Cooperative Financial Institutions events and our blogs on Agricultural Finance During COVID-19 and Recovery: Instruments and Elements for a Strategy and To Avoid Food Insecurity, Keep Finance Flowing. As part of the Agrifin-SAFIN webinar series, we discussed how COVID-19 is impacting specific segments (Recording - Agri SME Finance), financial institutions (Recording - role of NBFIs), and regions (Recording - Agri SME trade and value chain finance in Africa). In the “Event Round-up” section, we present two new approaches in agricultural finance and risk management featured in the WB webinar on crop receipts in Ukraine and the CABFIN-FAO webinar: Review of Integrated De-risking Schemes to Promote Rural and Agricultural Finance in Sub-Saharan Africa. In the “knowledge features” section, we present two published country diagnostics related to financing agriculture and rural financial inclusion respectively(Vietnam, Romania) and new publications about two key instruments Matching grants, Credit Guarantees that are used in many programs aiming to promote financing in agriculture. Finally, the “what caught our eye” section includes blogs and publications from colleagues both inside and outside the World Bank Group such as a blog by G Coetzee from CGAP "Now is the time to reflect on the past and future of rural finance", and an ISF publication on the Role of Government in agrifinance. Enjoy your reading.

COVID-19 Agrifin and SAFIN webinar series

In partnership with SAFIN, we have organized 3 webinars related to the impact of Covid-19 on agrifinance.

Webinar: Agri-SME Finance and COVID-19: Issues to Consider in the Short and Longer Term

An introductory webinar jointly organized by SAFIN and AGRIFIN. This webinar was the first of a series of virtual discussions dedicated to understanding the implications of the COVID-19 crisis on agri-SME finance and possible short and long term responses. The session started with a presentation of data and analysis conducted by FAO on the current impacts on agricultural supply chains and their possible consequences. The panelists addressed how the crisis is affecting farmers organizations, agro-dealers and other agribusinesses along the value chain, as well as African financial institutions operating in the sector, and they laid out some of the emerging responses and areas where opportunities to “build back better” can be identified. During the Q&A session, the panelists underlined the need for greater and better informed collaboration across and beyond the agricultural finance ecosystem, the importance of measures to improve women’s access to finance in agriculture, and the critical role of digitalization of market and financial transactions during the current crisis and most likely also in the recovery phase.

| Video and Presentation (FAO) |
SAFIN/WBG Webinar on 16 June: "The role of non-bank financial institutions in the COVID-19 response: Experience from Ethiopia, Mexico, and Bangladesh"

The speakers shared observations on how COVID-19 is affecting different parts of the non-bank financial institution (NBJ) community in the three countries, notably microfinance institutions and rural saving and credit cooperatives, and innovations that are emerging throughout this crisis. During the discussion, speakers emphasized the importance of building stronger linkages between NBFIs operating at the last mile and larger financial institutions operating at national level. The need to involve NBFIs in government-led response strategies to COVID-19 in the rural and agricultural finance sector, and to address arising liquidity challenges through public financial institutions was also highlighted.

Challenges and opportunities for innovation in agri-SME trade and value chain finance in Africa

While the COVID-19 crisis has caused disruptions in African agricultural value chains, access to financial products and services for agri-SMEs to engage in markets has remained critical. In this webinar, we explored how actors that provide or facilitate access to value chain and trade finance for agri-SMEs had responded to the crisis. While the immediate impact of the pandemic has been moderate, speakers involved in the agriculture trade and value chain financing in Africa are observing the slower movement of goods and decline of trade finance. Their consensus was that it would take 2-3 years to recover. Going forward, one speaker highlighted that the African free trade agreement could become a game-changer for trade finance. Others emphasized that additional resources should be used for risk management and future planning together with investment in digital technologies.

COVID-19 and Cooperative Financial Institutions

Coronavirus and Cooperative Financial Institutions, an agenda for the future

A blog post by Juan Buchenau, Panos Varangis, and Bjorn Schrijver (Rabo Partnerships, Netherlands).

The pandemic is affecting severely ample segments of the global population, including members of Cooperative Financial Institutions as well as the cooperatives themselves, exposing their strengths and weaknesses; and, also, opening opportunities and challenges that should be addressed in an ‘agenda for the future’.

Cooperative Financial Institutions (CFIs) in times of Covid-19: How have they fared? what is the road ahead?

Cooperative Financial Institutions, CFIs, face very specific challenges in addressing the impact of COVID-19 which stem from their cooperative nature as well as from their ability to access public resources to cope with the consequences of the pandemic. CFI supervisors from Kenya and Mexico and CFI representatives from Albania and India had an opportunity to discuss some specific challenges faced by CFIs during a webinar organized earlier in July by the World Bank in partnership with Rabobank Foundation. While none of the countries represented at the event reported thus far any failures attributable to COVID-19, signs of emerging difficulties were evident: The pace of CFI business is slowing down, non-performing loans increasing and access to liquidity becoming an area of concern. While multiple uncertainties remain about the extent and pace of the pandemic and its effects on CFIs, their membership, and the economies...
Further COVID-19 Updates

AgriFin Survey Results on COVID-19

The survey received 82 responses globally; 40% of which came from financial institutions, 30% from international organizations, and the rest from regulators, government agencies and consulting companies. Here are some major observations:

About 60% of the respondents expect that the food crop production will decrease. On the other hand, 40% of the respondents in Africa and South Asia think that the food crop production will decrease. Over 90% think that food prices will increase; 30% of these expect that such price increases will be significant. More than 55% of the African respondents also expect a significant price increase. On the other hand, over 40% of the respondents from East and South East Asia & Pacific think that the price will decrease or there will be no change.

More than 80% expect that access to finance by farmers and agribusiness SMEs will become more difficult. They also think that agriculture should be prioritized to receive financial assistance by governments over other sectors. The respondents ranked lines of credit and credit guarantees ahead of other instruments to promote finance, followed closely by grants. Interest rate subsidies were considered to be the least important instrument to deal with the crisis.

Agricultural Finance During COVID-19 and Recovery: Instruments and Elements for a Strategy

Flash note by Agriculture Finance team

Agriculture and agribusiness constitute a significant percentage of employment and still a sizable proportion of GDP in many developing economies, particularly in lower income countries. Incoming reports indicate that COVID-19 could have a significant impact on agriculture and MSME (Micro, Small and Medium Enterprise) agribusinesses through disruptions to the logistics, distribution, and production of food. At the same time, COVID-19 can be expected to further reduce the supply of finance to agriculture by adding to the challenges it faces among other things due to a) the heterogeneity and dispersion of farmers and MSME agribusinesses, b) the seasonal nature of production, c) the bulky finance requirements, and d) its exposure to political interventions. The timing of any financial support has to consider agriculture production cycles and logistics. This is critical to ensure continuous food production and distribution to consumers. Financing, even more than before, needs to look at the whole value chain, from farm to fork.

Blog: To Avoid Food Insecurity, Keep Finance Flowing

As lockdowns in response to the coronavirus (COVID-19) curtail economic activity around the world, the agricultural sector seems to be less affected than other industries, at first glance. Yet enterprises in the sector are far from immune to what is happening in the broader economy. Agricultural production and distribution systems are under serious strain—with logistics and marketing disruptions caused by widespread sanitary restrictions, social distancing measures, and labor shortages.
Due to COVID-19 associated lockdowns and social distancing measures, Agri SMEs, often designated as essential businesses, have experienced disruptions in accessing inputs and distributing their products. However, the demand for finance by Agri SMEs appears to be less affected compared to some other sectors. In the agricultural sector, even before the pandemic, farmers and small agribusinesses struggled to obtain the necessary funds they needed to run and maintain their businesses. The SME Finance Forum’s member survey suggests a greater shift towards digital financial services to address social distancing and expedite delivery of financial services to their Agri SME clients. This means both, new digital financial products for clients and reliance on such technologies to improve internal processes. During this webinar, panelist representing financial institutions from Africa, Europe, and Central Asia, and the Middle East and North Africa regions, discussed the situation in financing agriculture, and SME agribusinesses during COVID-19, and what new approaches and products their institutions have been using to sustain lending to agriculture.

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**Event Round Up**

**Webinar: Made in Brazil, ADOPTED in Ukraine: INNOVATIVE PRE-SEASON financing for farmers Ukraine Crop Receipts – Pre-Conditions for Success**

Crop receipts have become a secure and efficient financing instrument in Ukraine that enables farmers to use their future crops as collateral to access financing for inputs such as seeds and fertilizers. Supported by the IFC project, over 2,000 farmers in the country have issued 4,500 crop receipts for 40 crops in just a few years to obtain over $1 billion of financing from 200+ creditors (60% of which was input suppliers) and the NPL ratio remains less than 1%. The presentation explained the details of the project and summarized the key success factors ranging from proactive government, out of court enforcement, public register to developed and diversified supply chains. During the Q&A, the discussants and the participants further discussed the possibility to introduce crop receipts in other counties.

**CABFIN-FAO webinar: Review of Integrated De-risking Schemes to Promote Rural and Agricultural Finance in Sub-Saharan Africa**

In recognition of the well-understood macro-, meso- and micro-level challenges and risks associated with rural and agricultural finance, there is a need for a system-level approach to managing those risks. Within this system-level view, the concept of holistic, integrated risk management as a means to de-risk the overall operating environment of agricultural value chains is recognised as a fundamental building block. Accordingly, numerous stand-alone and project-based "de-risking" arrangements have recently launched or are at various stages of design throughout sub-Saharan Africa and other regions. These schemes employ a coordinated set of financing, risk-management and capacity building instruments to make agricultural finance less risky and to incentivise private financial service providers to increase their portfolio commitments to smallholder farmers and agri-SMEs. This webinar reviewed the findings of a recent study by the Food and Agricultural Organization of the United Nations (FAO), the Alliance for a Green Revolution in Africa (AGRA), and the International Fund for Agricultural Development (IFAD) that analyses five such schemes in Sub-Saharan Africa in Nigeria, Ghana, Kenya, Togo and Zimbabwe.

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**Knowledge Features**

**Vietnam Agriculture Finance Diagnostic**
The report was prepared under the Vietnam Country Support Program of the Financial Inclusion Support Framework, an initiative of the World Bank supported with funding from the Netherlands and the Bill and Melinda Gates Foundation.

Agriculture remains economically and socially important in Vietnam despite agriculture's declining share of gross domestic product (GDP). The share of primary agricultural activity in the GDP has fallen to 13 percent, compared with more than 30 percent two decades ago. The active labor force in agriculture remains as high as 45 percent. However, agriculture is still very important in some regions such as the Central Highlands and the Mekong River Delta. Agriculture finance in Vietnam has to address two fundamental challenges: (a) facilitating financial inclusion and (b) supporting the transformation and growth of agriculture.

Financial Inclusion in Romania: Issues and Opportunities. Chapter 2: Finance for Agriculture

The report aims to explore and analyze the major gaps in financial inclusion and access to finance in Romania, as identified in the Technical Note on Financial Intermediation prepared in the context of the Financial Sector Assessment Program (FSAP) (2018). The FSAP technical note analyzed the factors at play explaining the relatively low and declining level of financial intermediation in Romania for both the household and the corporate segment and offered policy recommendations to support sustainable enhancement of financial intermediation. The report is organized as follows: chapter one conducts a geo-spatial mapping of financial inclusion and access to finance for both individuals and enterprises. Chapter two is a diagnostic assessment of the state of finance for agriculture and identifies constraints and potential opportunities. Chapter three provides an overview of the role of the cooperative financial institutions in financial inclusion especially in rural areas and recommendations how this may be enhanced.

How Can Matching Grants in Agriculture Facilitate Access to Finance? Lessons Learned from World Bank Group’s Experience

Matching grants are an instrument aimed at promoting private sector development that have been used extensively over the past years, in particular for agriculture development. This paper focuses on three specific issues: (1) What is the rationale for using matching grants in agriculture and why does the financial sector matter? (2) What has been the specific experience with WBG matching grants for agriculture and what are the key drivers of success? (3) What are the various models of linkages with financial institutions and how can matching grants be used to promote financial inclusion? Based on this analysis, this paper suggests emerging good practice on when to use matching grants for agriculture, and how to design them in a way that promotes sustainable impact and linkages with the financial sector.

How to Address Unique Risks in Agriculture Credit Guarantee Schemes: Lessons Learned from Credit Guarantees for Agriculture

What are the key success factors for the agriculture Credit Guarantee Schemes (CGS)? Are there any design features/interventions to minimize the risk? This paper tries to draw some lessons learned specific to agriculture CGSs based on some case studies in developing countries, and aims to provide useful insights for future interventions, including World
Bank projects. These lessons learned focus on risk management and operational features of the CGSs serving the agriculture sector.

| Read more |

The Role of Insurance in Promoting Climate Smart Agriculture

In collaboration with the World Bank Agricultural Finance team, a team of students from Columbia School of International and Public Affairs as part of the Capstone Program conducted this year a study on the role of insurance in promoting climate-smart agriculture. Climate change is resulting in an increased frequency and severity of droughts in countries such as Senegal and Ethiopia. For smallholder farmers who are dependent on rainfed agriculture and have limited protection from weather risks, climate change has the potential to devastate livelihoods, perpetuating the cycle of poverty in rural communities. Climate-smart agriculture offers the potential to increase the adaptive capacity of farmers while increasing incomes. However, climate-smart investment entails risks and costs that oftentimes risk-exposed farmers are unwilling or unable to manage. The team developed an interactive risk analysis framework that simulates the farmer’s decision-making process for various investment options using data and parameters for a smallholder farmer in Senegal. The model showed that, at lower levels of climate risk, farmers may rely more on risk reduction technologies rather than insurance to cover production risks. In such a case, government support for adoption of such technologies rather than insurance may be more effective. At higher levels of climate risk, farmers may need both technology and insurance to manage production risks. Under these conditions, subsidizing insurance could be considered, as insurance may function to mitigate the residual risk that technology is unable to mitigate.

What’s Cooking - Digital Agriculture Series

The BBL/webinar series What’s Cooking - Digital Agriculture Series covers a wide range of topics and looks at the topic from all angles: technical, economic, implementation, political, etc. This platform serves to discuss the role of the public and private sector on how to make better use of digital agriculture tools to combat hunger and poverty and enhance food security all over the world. The public policy entry points to be considered are efficiency, equity, and environmental sustainability (EEE). As COVID-19 seems to have accelerated the digital transformation of the agriculture and food sector, it is of utmost importance to make sure all three entry points are taken care of in a balanced way so everybody – especially farmers on the ground in developing countries – benefit from this accelerated transformation.

What caught our eye

Blog: How Resilient are We? A Dive into the Global Data on How People Deal with Unexpected Shocks

The Revolution of Mobile Phone-Enabled Services for Agricultural Development (m-Agri Services) in Africa: The Challenges for Sustainability

Now is the time to reflect on the past and future of rural finance,“ G. Coetzee, CGAP
Agent Networks: Vital to COVID-19 Response, in Need of Support

Role of Government ISF Brief

Sowing the seeds of innovation in smallholder finance

AgriFin is managed by the Agriculture finance team of the Finance Competitiveness and Innovation Global Practice, World Bank Group