Bridging the divide

Inclusive partnerships, finance, investment & impact at scale
some comments on terminology…
Agricultural value chains

**Upstream**
- Inputs: seeds, agrochemicals, equipment, training
- Primary Production: farming, foraging, fishing

**AGRICULTURE VALUE CHAIN**
- Aggregation: local traders, logistics companies, warehouse operators
- Processing: packaging or transformation

**Downstream**
- Distribution: logistics to retailers or consumers
Relationships along value chains

Pay on delivery / spot - open market
Pay on delivery / spot - monopoly
Pay on delivery / spot - monopsony
Tenant farming
Contract farming

Significant differences based on:

- Commodity & production type
- Tenure & resource rights
- Local laws
- Existing information base & organization
- Wealth distribution / economic situation
- Others?
Impact aspects

Gender
Youth
Marginalized communities
Livelihoods & poverty reduction
Food security
Health
Education & skills

Water
Climate
Biodiversity
Soils
Chemical pollution
Financial inclusion
Rights & tenure
Impact aspects: theory of change

What is the impact you aim to achieve, and how?

- Vision
- Actions
- Stakeholders
- Baseline

Assumptions?

Resources and 'returns'?
Stakeholder motivations for partnerships

- Farmers
- Other local groups
- National government
- Local government
- Agricultural value chain companies
- Donors & development partners
- Other interest groups (NGOs, certification agencies)

Resources
KPIs
Mandate
Governance
Planning process
Stakeholder benefits?

What is the potential new value?
What is the timing of that new value?
How much does it cost to realize it?
How certain is it?
What is the potential saving?
What is the timing of that potential saving?
What is the cost to realize it?
How certain is it?
What is the potential risk / variability reduction?
Example: impact bond
looking at finance & investment
## Demands for finance & investment

(excluding grants & concessionary funding)

<table>
<thead>
<tr>
<th>Financing need</th>
<th>Suitable financing type</th>
<th>Collateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital to establish or grow SME</td>
<td>Equity</td>
<td>None – shares are backed by the SME’s assets net of its liabilities</td>
</tr>
<tr>
<td>Operational expenses</td>
<td>Working capital</td>
<td>Assets of the SME or its owners, as well as guarantees from third parties</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>Term loan</td>
<td>Assets of the SME or its owners, as well as guarantees from third parties</td>
</tr>
<tr>
<td>Equipment leasing</td>
<td>Lease</td>
<td>Lessor retains ownership over lease object and can repossess it in case of default by lessee</td>
</tr>
<tr>
<td>Post-harvest bridge financing</td>
<td>Receivables / trade finance</td>
<td>Produce and produce-related</td>
</tr>
</tbody>
</table>
What type of funding is needed along the value chain?

Upstream
- Inputs: seeds, agrochemicals, equipment, training
  - Primary Production: farming, foraging, fishing

AGRICULTURE VALUE CHAIN
- Aggregation: local traders, logistics companies, warehouse operators
  - Processing: packaging or transformation
- Distribution: logistics to retailers or consumers

Downstream
### Financing avenues (1/2)

<table>
<thead>
<tr>
<th>Product category</th>
<th>Examples</th>
<th>Relevance for agri-food SME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit / loans / debt</td>
<td>- From: banks, MFIs, SACCOs, VSLs, P2P platforms</td>
<td>Financing at a fixed cost, can be tailored to various needs</td>
</tr>
<tr>
<td></td>
<td>- To: finance assets, operations or receivables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- As: term loan, working capital line, lease, letter of credit</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>- Public, including SME exchanges</td>
<td>Capital and other benefits (networks, advice, etc.)</td>
</tr>
<tr>
<td></td>
<td>- Private (funds, direct, platforms)</td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td>- Bank accounts</td>
<td>Build own resources to finance current and future business</td>
</tr>
<tr>
<td></td>
<td>- ROSCAs, SACCOs</td>
<td></td>
</tr>
</tbody>
</table>
## Financing avenues (2/2)

<table>
<thead>
<tr>
<th>Product category</th>
<th>Examples</th>
<th>Relevance for agri-food SME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk mitigation</td>
<td>▪ Personal insurances (health, social)</td>
<td>Protection against potential losses</td>
</tr>
<tr>
<td></td>
<td>▪ Index insurance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Hedging instruments</td>
<td></td>
</tr>
<tr>
<td>Development finance instruments</td>
<td>▪ Grants</td>
<td>Funding tied to performance on social / environmental indicators</td>
</tr>
<tr>
<td></td>
<td>▪ Subsidized loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Outcome-based finance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Technical assistance</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>▪ Remittances</td>
<td>Other forms of support</td>
</tr>
<tr>
<td></td>
<td>▪ Digital Financial Services Vouchers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Guarantees</td>
<td></td>
</tr>
</tbody>
</table>
## Suppliers of finance (1/2)

<table>
<thead>
<tr>
<th>Financing provider</th>
<th>Approaches offered</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit-taking FIs</td>
<td>▪ Debt</td>
<td>Regulation can restrict lending to agriculture</td>
</tr>
<tr>
<td></td>
<td>▪ Receivables-based financing</td>
<td></td>
</tr>
<tr>
<td>Credit-only FIs</td>
<td>▪ Debt</td>
<td>Limited loan amounts</td>
</tr>
<tr>
<td>Leasing companies</td>
<td>▪ Financial leases</td>
<td>Only suitable to certain types of assets</td>
</tr>
<tr>
<td>Direct investors</td>
<td>▪ Public equity (if listed)</td>
<td>Typically requires certain scale, maturity or interest</td>
</tr>
<tr>
<td></td>
<td>▪ Private equity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Bonds &amp; notes</td>
<td></td>
</tr>
<tr>
<td>Government agencies or programs</td>
<td>▪ Depending on type of program, e.g. (concessional) loans or guarantees</td>
<td>Processes can be inefficient</td>
</tr>
<tr>
<td>Development finance institutions</td>
<td>▪ Debt</td>
<td>Typically large minimum investment size and lengthy processes</td>
</tr>
<tr>
<td></td>
<td>▪ Equity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Guarantees / de-risking capital</td>
<td></td>
</tr>
</tbody>
</table>
**Suppliers of finance (2/2)**

<table>
<thead>
<tr>
<th>Financing provider</th>
<th>Approaches offered</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment funds and vehicles</td>
<td>Depending on investment vehicle, often working capital, trade finance or equity</td>
<td>Often focused on hard-currency, export oriented financing</td>
</tr>
<tr>
<td>Concessional and grant funders</td>
<td>Grants</td>
<td>Demand costly reporting, not scalable</td>
</tr>
<tr>
<td></td>
<td>Zero interest loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loans at reduced interest rate</td>
<td></td>
</tr>
<tr>
<td>Funding platforms</td>
<td>Mostly debt, but also equity</td>
<td>Limited in size, require time to find and use</td>
</tr>
<tr>
<td>Savings vehicles</td>
<td>Mostly credit / debt</td>
<td>Limited in size, based on personal connections</td>
</tr>
</tbody>
</table>
Enabling factors

There are a range of factors that enable financing:

<table>
<thead>
<tr>
<th>Business track record</th>
<th>Assets</th>
<th>Guarantees</th>
<th>Laws and regulations</th>
<th>Risk protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Good agricultural practices</td>
<td>Management quality</td>
<td>Scale and scalability</td>
<td>Impact metrics</td>
</tr>
</tbody>
</table>
NIRSAL is driven by Five Pillars - particularly the Risk Sharing and Technical Assistance pillars…

NIRSAL ($500m assets to stimulate lending financial institutions)

1. Risk sharing Facility ($300m)
   - Shares lending risks with banks (e.g. 50% loss incurred)

2. Insurance Facility ($30m)
   - Link insurance products to the loan provided by the banks to loan beneficiaries

3. Technical assistance facility ($60m)
   - Build the capacity of banks, micro-finance institutions
   - Build capacity of agricultural value chains
   - Expand financial inclusion

4. Agricultural bank rating scheme ($100m)
   - Rate banks according to their effectiveness of lending to agriculture

5. Bank incentive mechanism ($10m)
   - Targeted incentives that move banks to a long term, strategic position and commitment to agricultural lending

Goal
Expand bank lending in agricultural value chains

NIRSAL Objective
De-risk agriculture finance value chain
Build long-term capacity
Institutionalise incentives for agriculture lending
useful tools & approaches
Design thinking

Reference: NNGGROUP.com
Business model canvas

Reference: strategyzer.com
Social enterprise “business” model canvas
Example

1. Purchase
   Farmers buy inputs and pay 5% extra to insure the inputs at selected stockists.

2. Registration
   - Policy Number: 10001
   - Inputs insured:
     - 1 kg Duma 43, 10 kg DAP
   - Crop & risk insured:
     - Maize, Rainfall (excess & drought)
   - Contract end date: 31 Dec 2010

3. Measurement
   During the season the weather station measures the rainfall.

4. Compensation
   In case of a payout farmers receive compensation via MPESA.
summary points
Some summary points

• Important of using a value chain approach (Alliances for Action!)
• Clarity on vision and theory of change including stakeholder incentives
• Where possible, design thinking approaches to quickly develop and test through iterations
• Use appropriate baseline information and KPIs
• Understand the local ecosystem, including existing finance & investment ecosystem and role of government
• Financial structuring is the plumbing