# Bridging the divide

Inclusive partnerships, finance, investment

& impact at scale

some comments on terminology…

# Agricultural value chains

Upstream — AGRICULUTRE VALUE CHAIN — Downstream

| Inputs | Primary Production | Aggregation | Processing | Distribution |
|---|---|---|---|---|
| *seeds, agrochemicals, equipment, training* | *farming, foraging, fishing* | *local traders, logistics companies, warehouse operators* | *packaging or transformation* | *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

Resources

KPIs

Potential value

Mandate

Planning process

Governance

Farmers

Other local groups

National government

Local government

Agricultural value chain companies

Donors & development partners

Other interest groups (NGOs, certification agencies)

# 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?

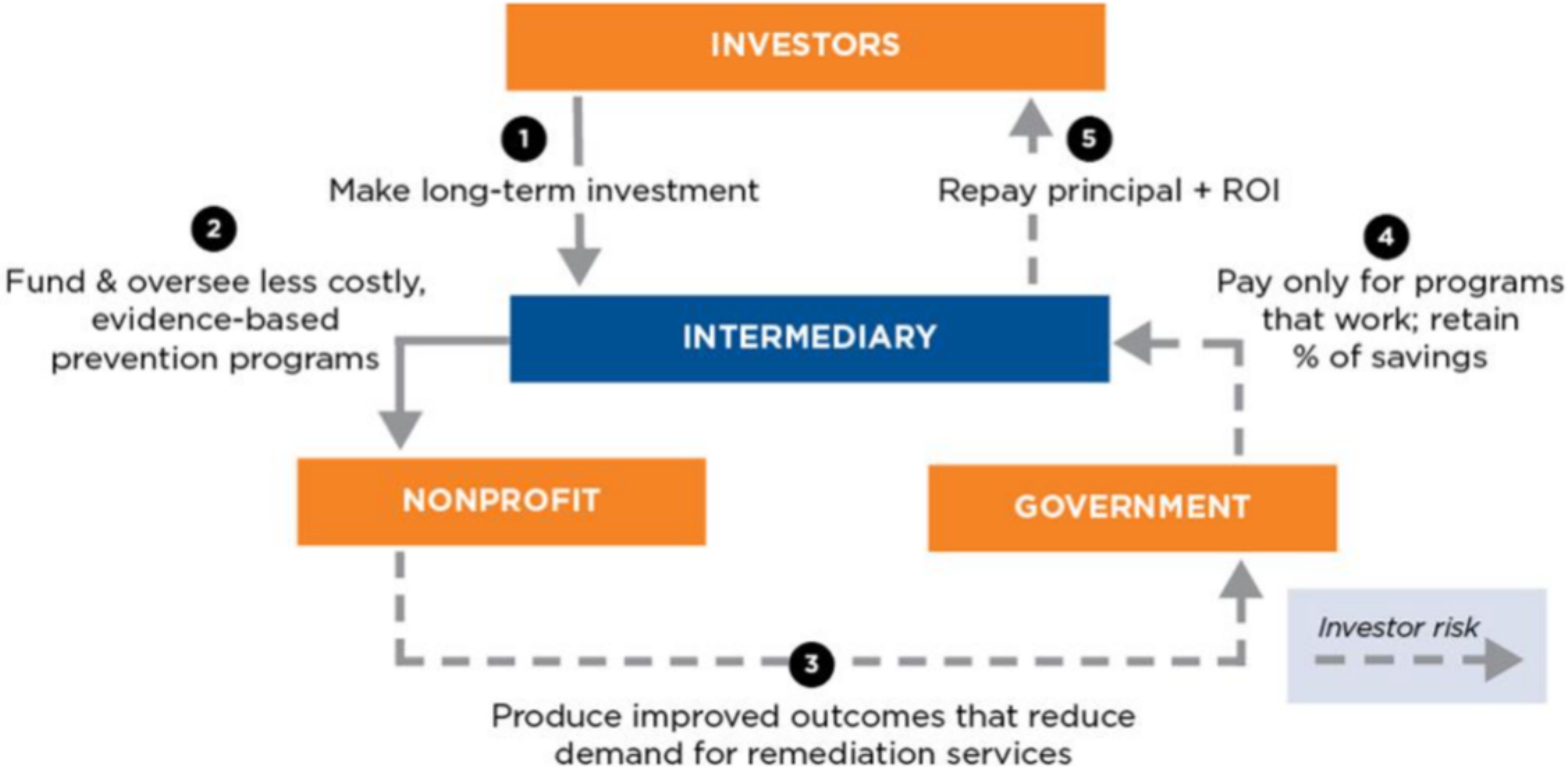
What is the timing of that potential saving?

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)

| Financing need | Suitable financing type | Collateral |
|---|---|---|
| Capital to establish or grow SME | Equity | None – shares are backed by the SME's assets net of its liabilities |
| Operational expenses | Working capital | Assets of the SME or its owners, as well as guarantees from third parties |
| Capital expenditure | Term loan | Assets of the SME or its owners, as well as guarantees from third parties |
| Equipment leasing | Lease | Lessor retains ownership over lease object and can repossess it in case of default by lessee |
| Post-harvest bridge financing | Receivables / trade finance | Produce and produce-related |

# What type of funding is needed along the value chain?

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# Financing avenues (1/2)

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

# Financing avenues (2/2)

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

# Suppliers of finance (1/2)

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

# Suppliers of finance (2/2)

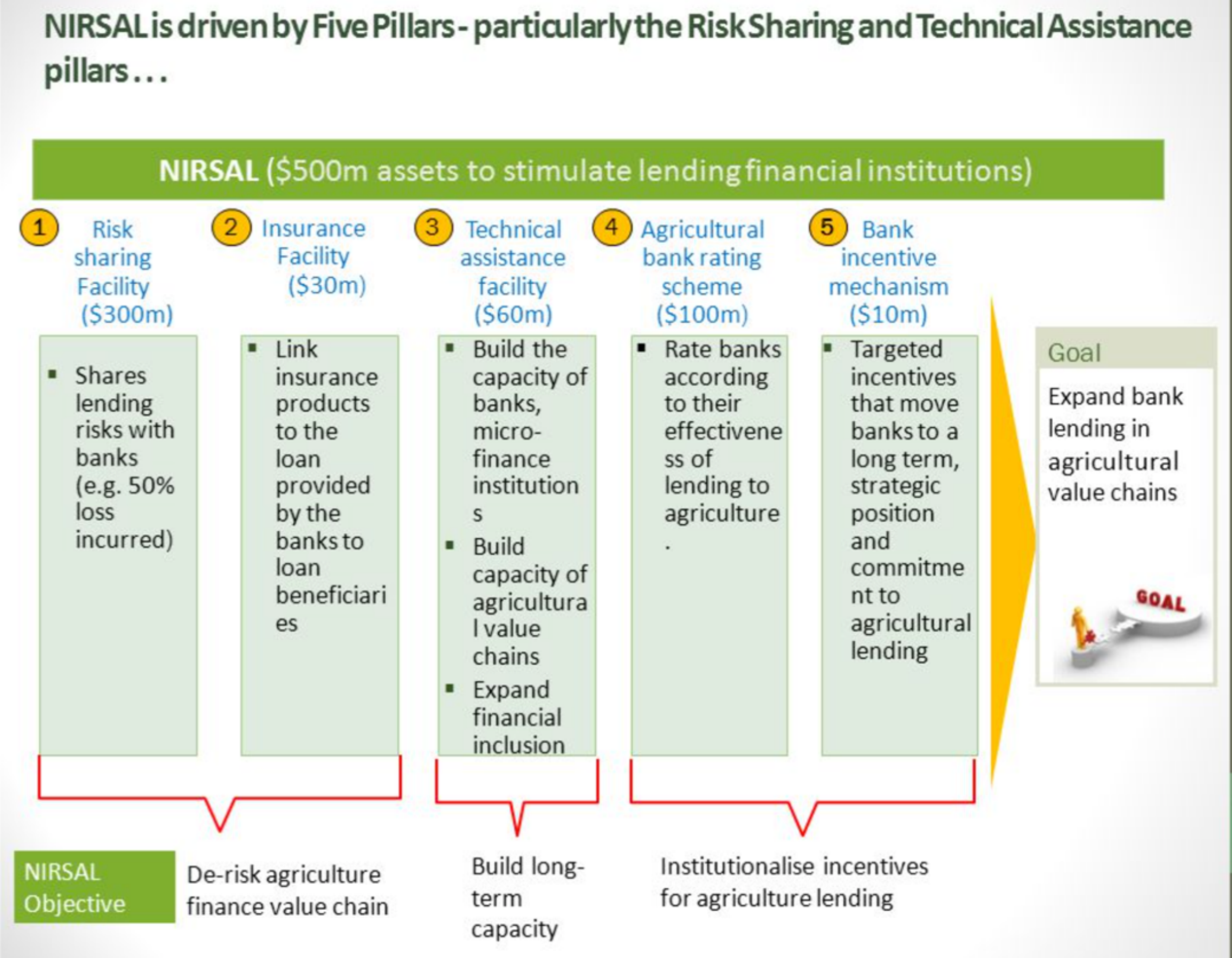
| Financing provider | Approaches offered | Challenges |
|---|---|---|
| Investment funds and vehicles | ▪ Depending on investment vehicle, often working capital, trade finance or equity | Often focused on hard-currency, export oriented financing |
| Concessional and grant funders | ▪ Grants<br>▪ Zero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

# Enabling factors

There are a range of factors that enable financing:

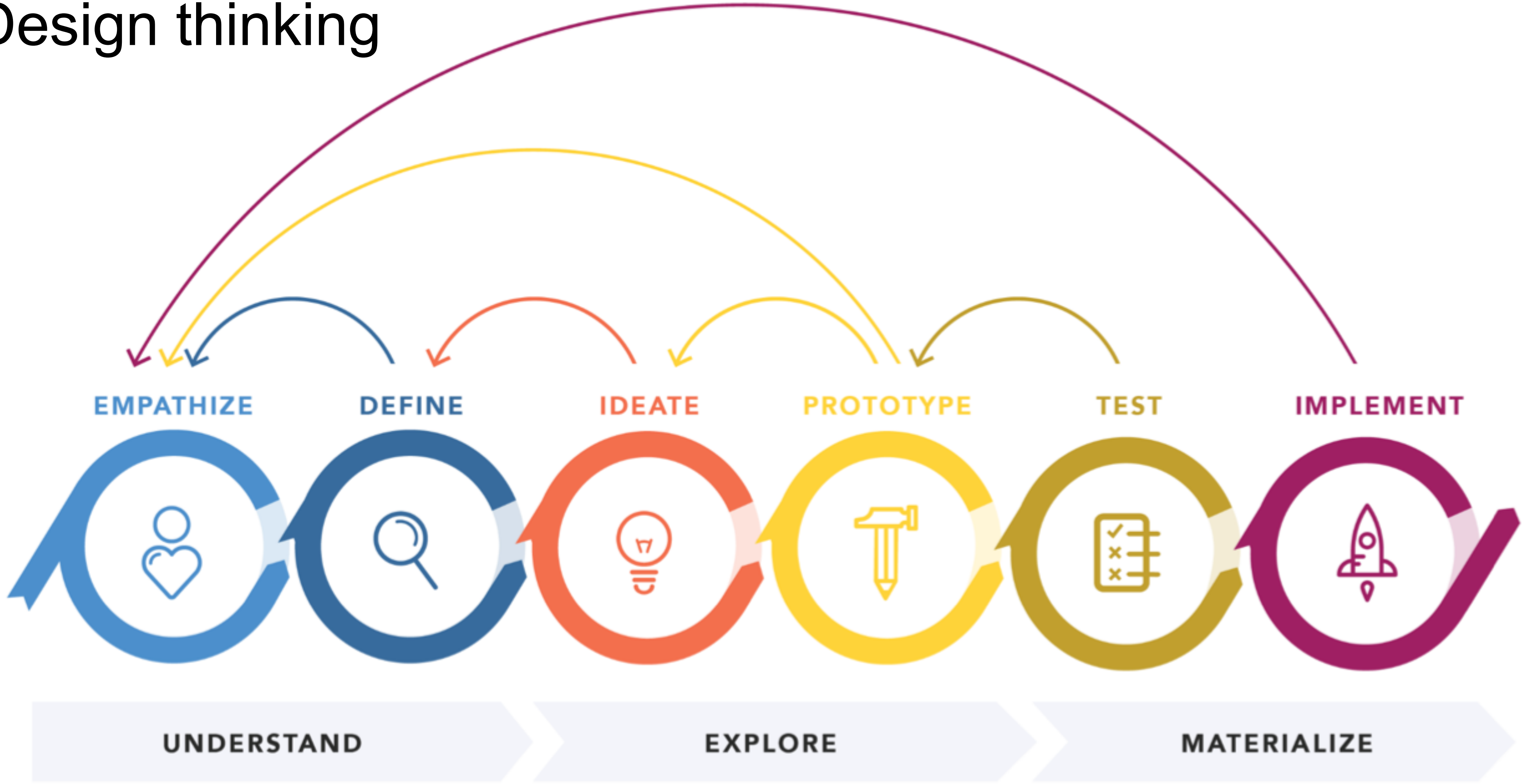
| | | | | |
|---|---|---|---|---|
| Business track record | Assets | Guarantees | Laws and regulations | Risk protection |
| Infrastructure | Good agricultural practices | Management quality | Scale and scalability | Impact metrics |

# Example


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
GOAL
NIRSAL Objective
De-risk agriculture finance value chain
Build long-term capacity
Institutionalise incentives for agriculture lending

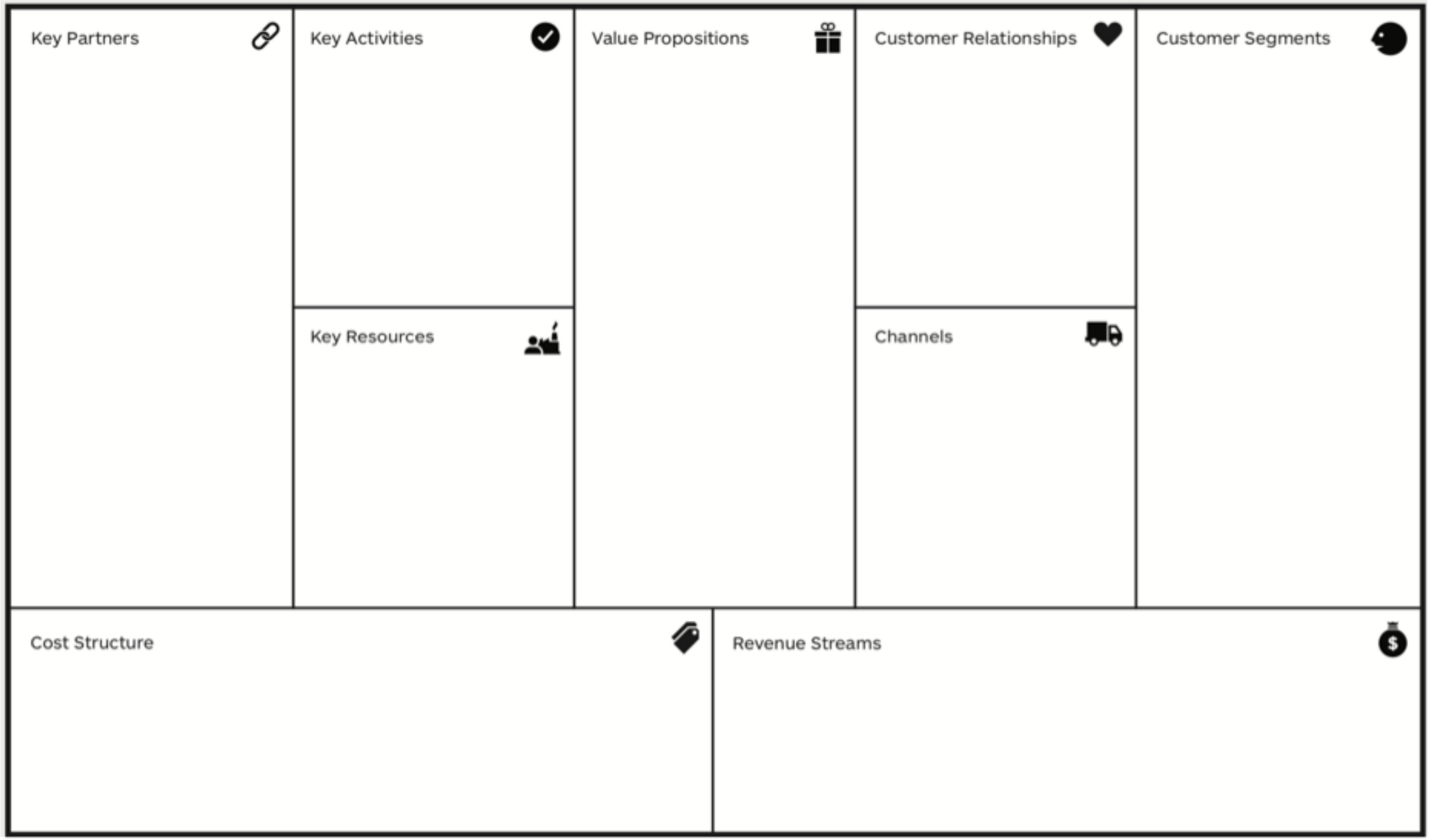
## useful tools & approaches

# Design thinking



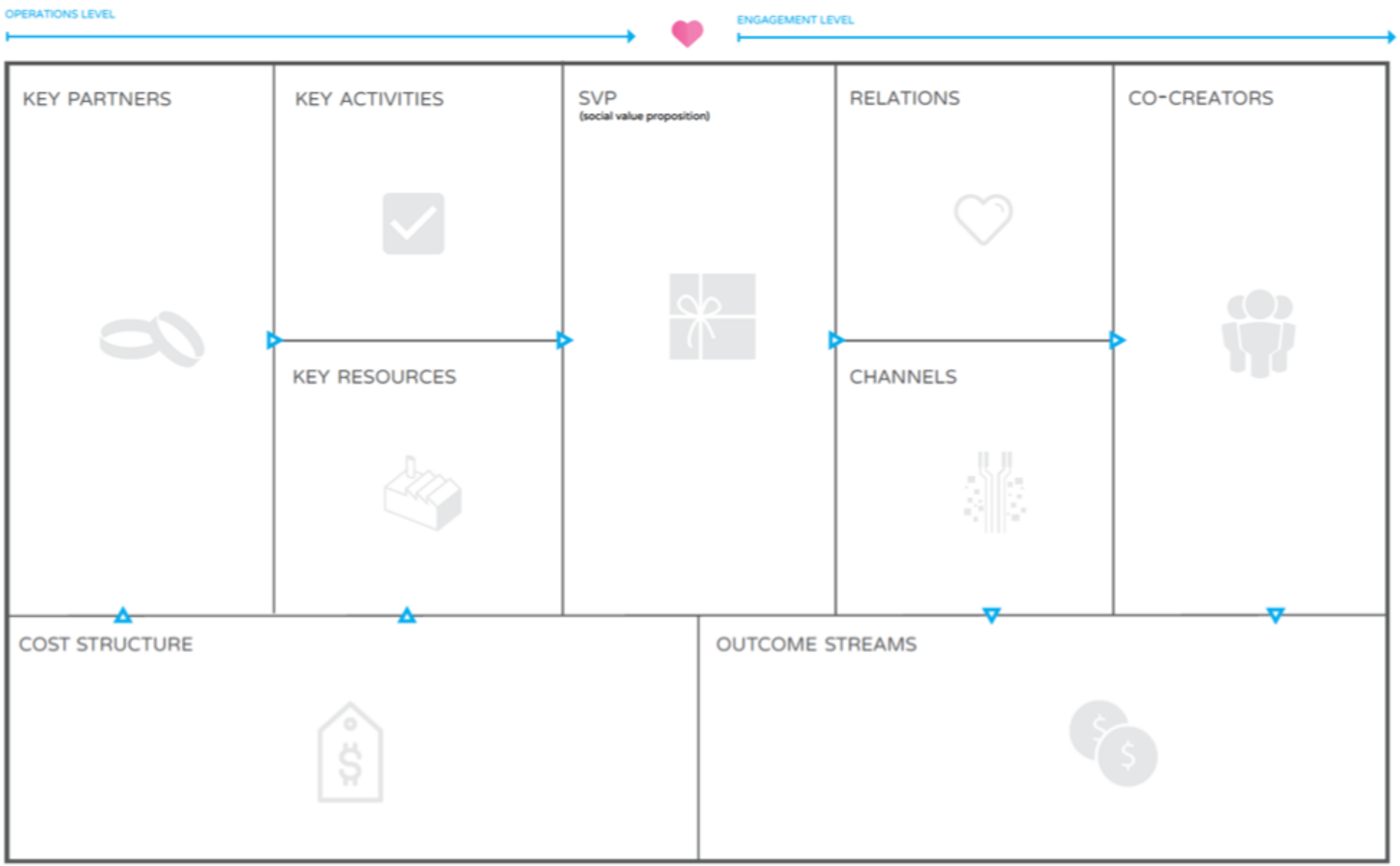

Reference: NNGROUP.com

# Business model canvas



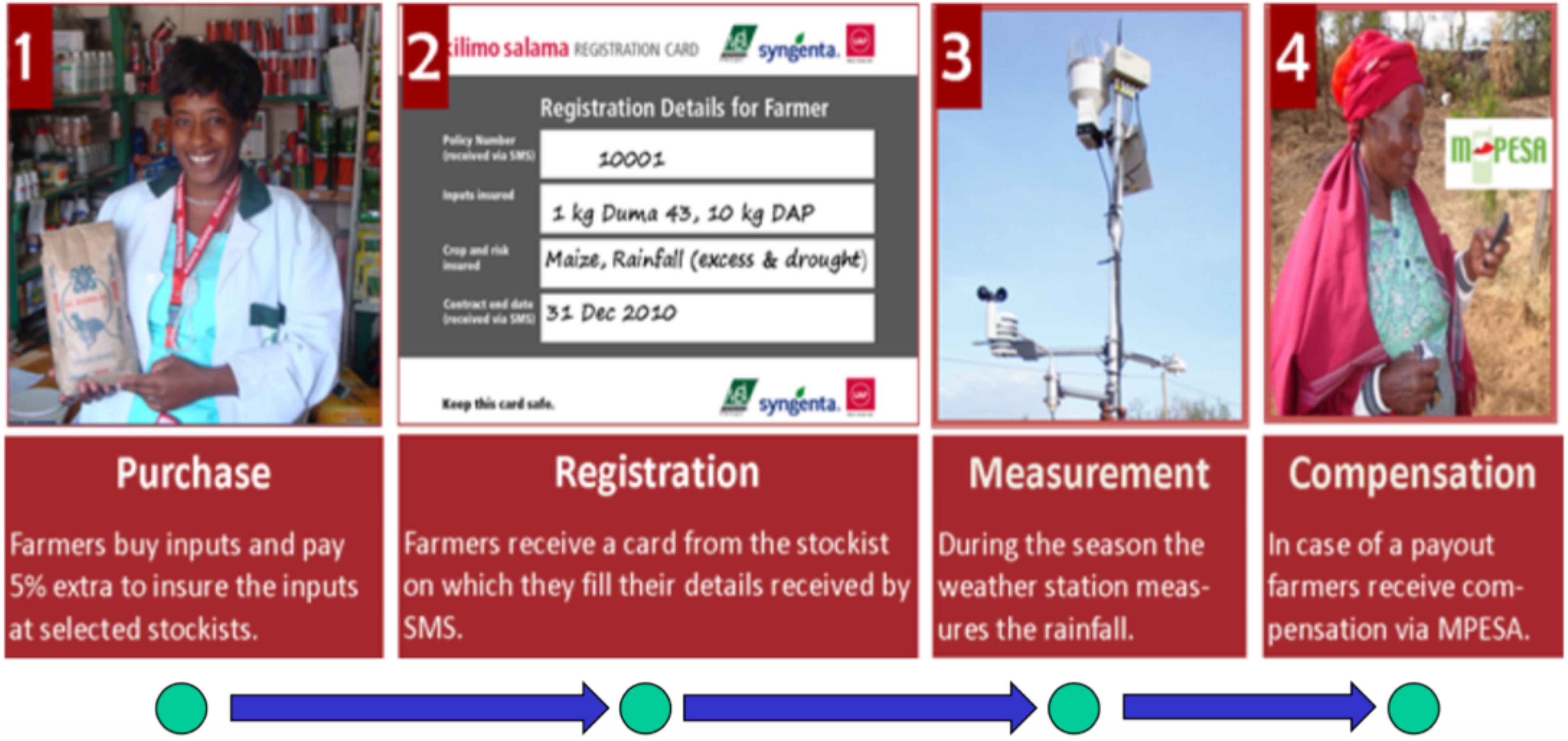

Reference: strategyzer.com

# Social enterprise "business" model canvas




Reference: nextnonprofit.com

# Example


1
2
kilimo salama REGISTRATION CARD
syngenta.
Registration Details for Farmer
Policy Number (received via SMS)
10001
Inputs insured
1 kg Duma 43, 10 kg DAP
Crop and risk insured
Maize, Rainfall (excess & drought)
Contract end date (received via SMS)
31 Dec 2010
Keep this card safe.
syngenta.
3
4
M-PESA
Purchase
Farmers buy inputs and pay 5% extra to insure the inputs at selected stockists.
Registration
Farmers receive a card from the stockist on which they fill their details received by SMS.
Measurement
During the season the weather station meas-ures the rainfall.
Compensation
In case of a payout farmers receive com-pensation 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