



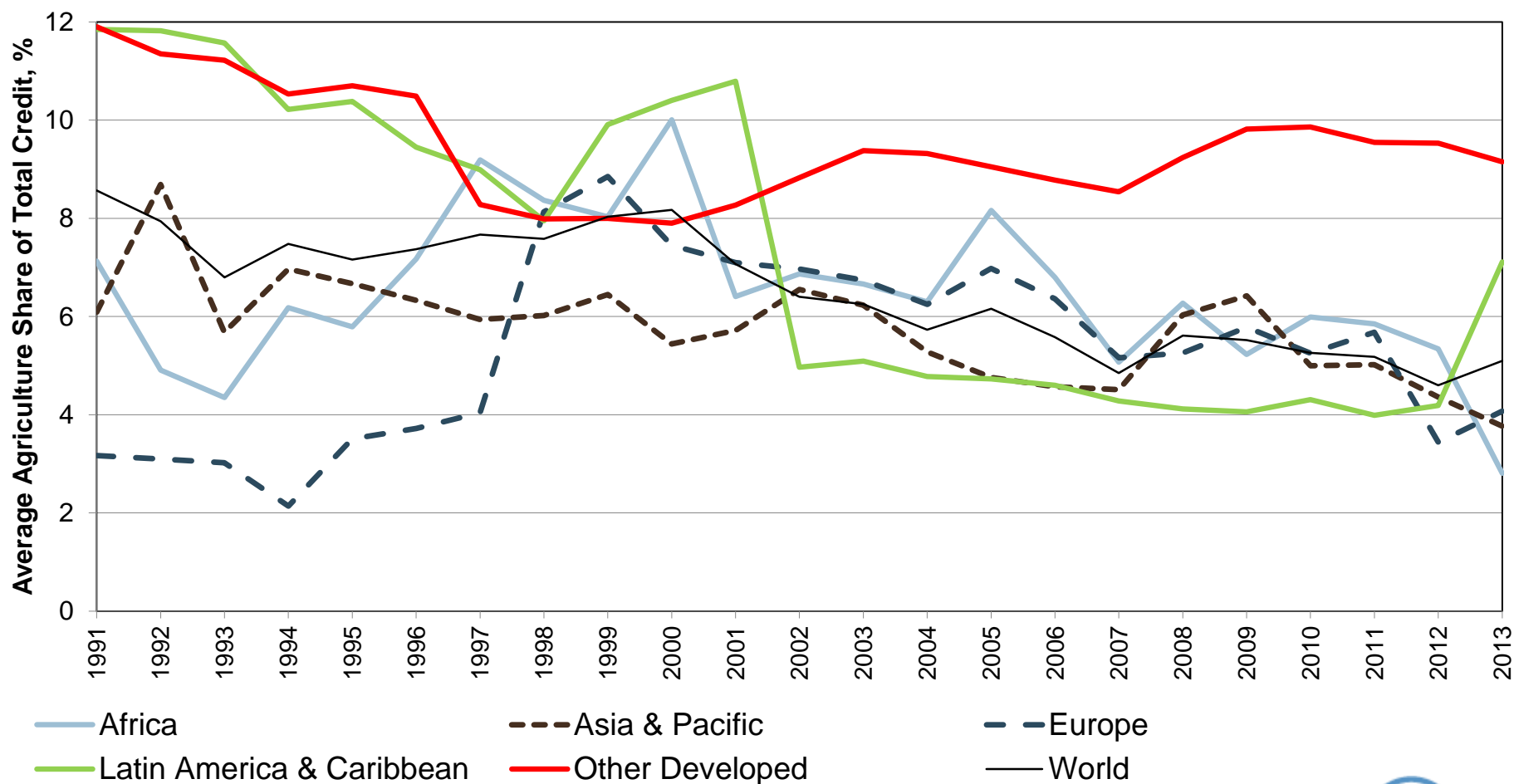
Agricultural Value Chain Finance Innovations

Calvin Miller
FAO, Rome, Italy

Agriculture Value Chain Finance Workshop
ADB, Manila,
May 27-28, 2015



Agriculture Share of Credit by region, 1991-2013

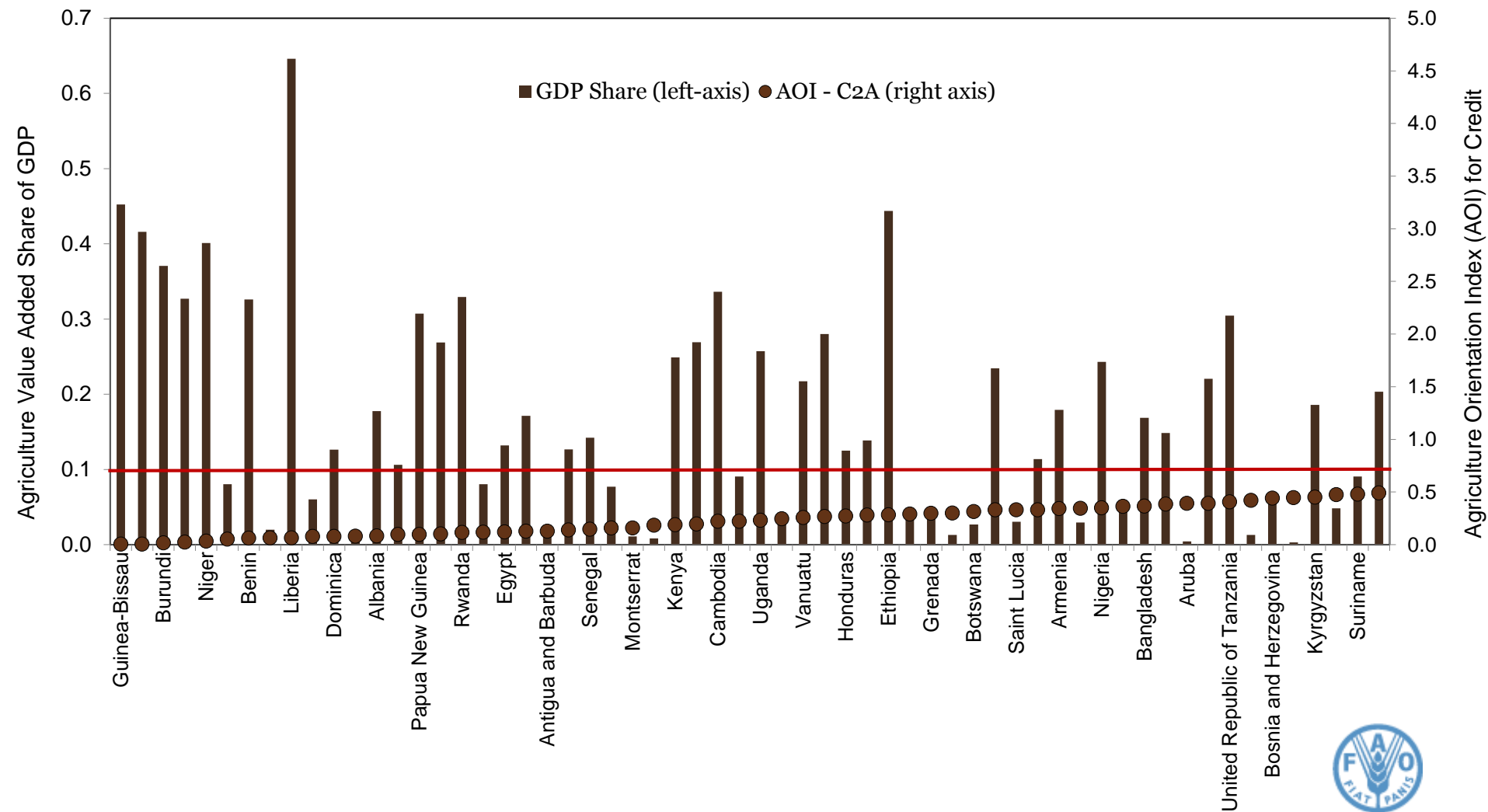


Other Developed refers to Australia, New Zealand, Japan and North America



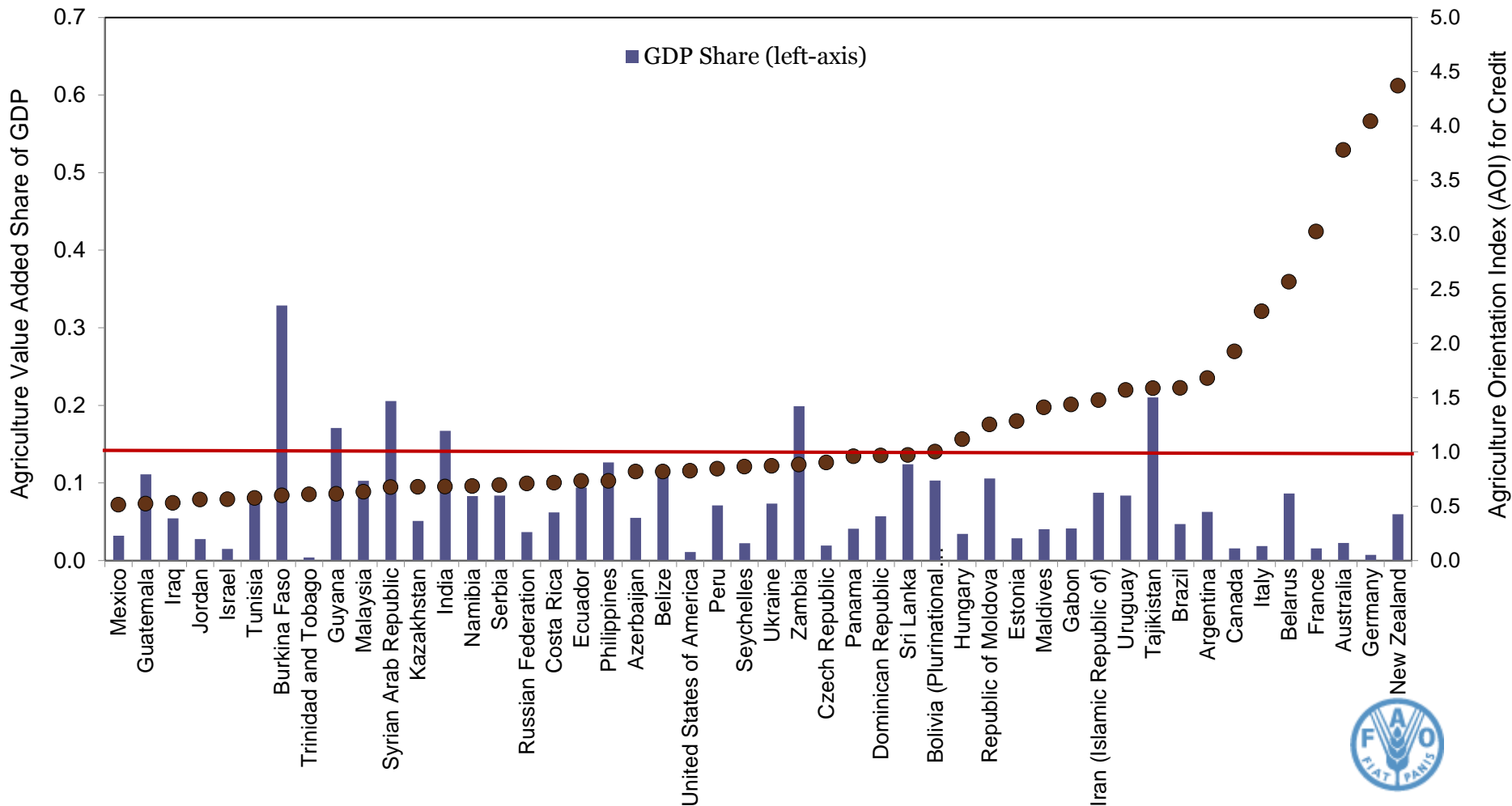


Agriculture Orientation Index (AOI<0.5) vs Agriculture Value-Added Share of GDP, 2008-2012 Averages





Agriculture Orientation Index (AOI>0.5) vs Agriculture Value-Added Share of GDP, 2008-2012 Averages





What is needed in investment?

1. Successful private investment entities tailor their approach to the socio-economic context
2. Most use some combination of the financial tools and risk mitigators
3. The process of identifying the most pressing constraints for agribusiness investors and producer groups is crucial
4. The approach, tools and relationships are also crucial for enabling inclusive financial services and agribusiness growth



Overcoming the constraints

Vulnerability Constraints

- Systemic Risk
- Market Risk
- Credit Risk

Operational Constraints

- Low and slow investment returns (historically)
- Low levels of assets and investment
- Low levels of knowledge of agricultural lending



What is a value chain?

Value chain describes the full range of activities involved in getting a product or service from conception, through the different phases of production, transformation and delivery to the final consumer.





Defining agricultural value chain finance

Value chain finance – financial products and services flowing **to** and/or **through** a VC to address the needs of those involved in that chain, be it a need for finance, a need to secure sales, procure products, reduce risk and/or improve efficiency within the chain.

Objectives:

- *Align and structure financial products to fit the chain*
- *Reduce costs and risks of finance*

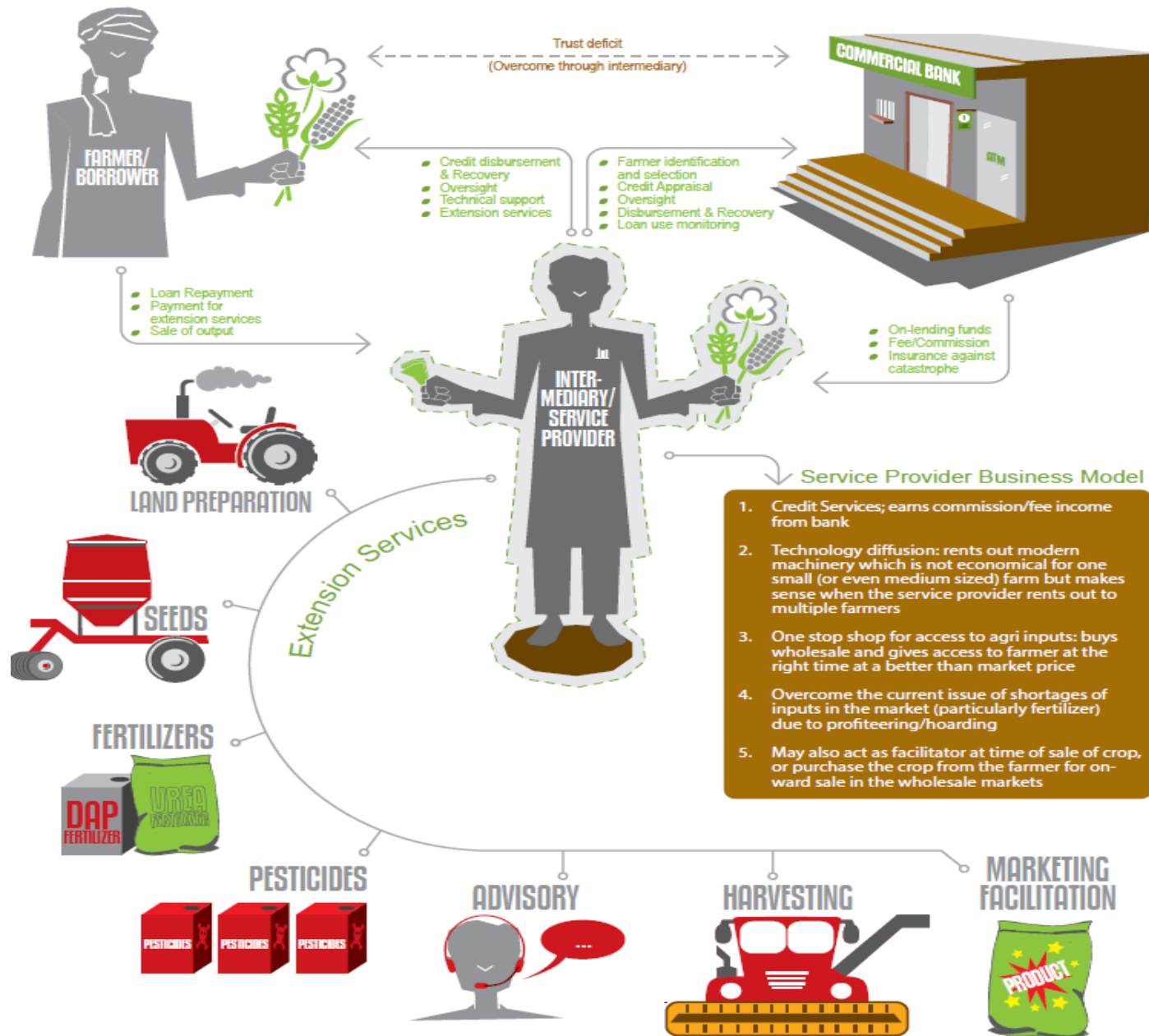


Where do we invest in the VC?



Learning from the Artis (traders); working with and/or competing with them

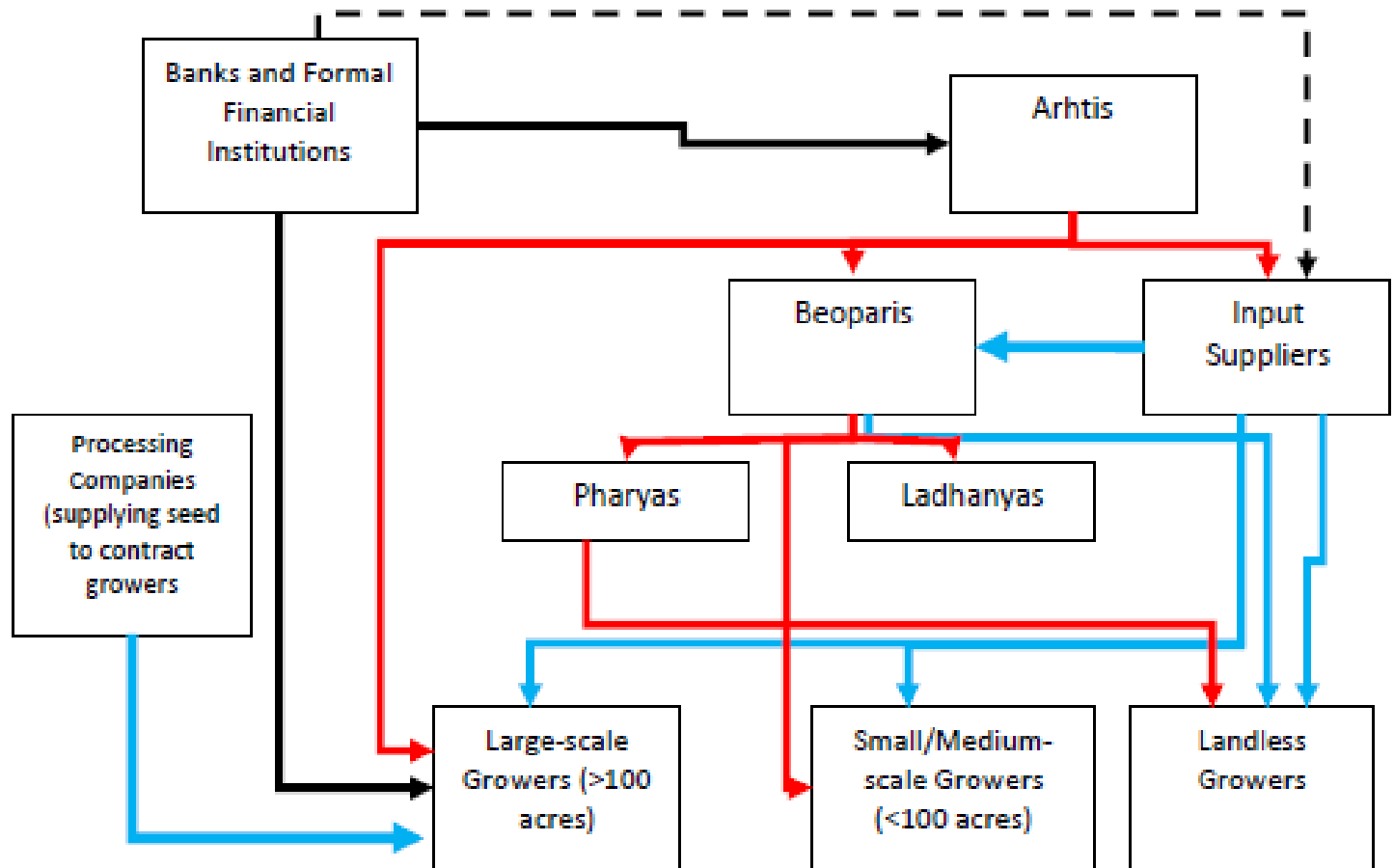
Using an Intermediary to reach the Farmer





Structuring Finance to Fit the Value Chain

Map of Finance Flows in the Potato Value Chain



Key

Financing
banks

from



Credit
arhtis

from



Trade credit

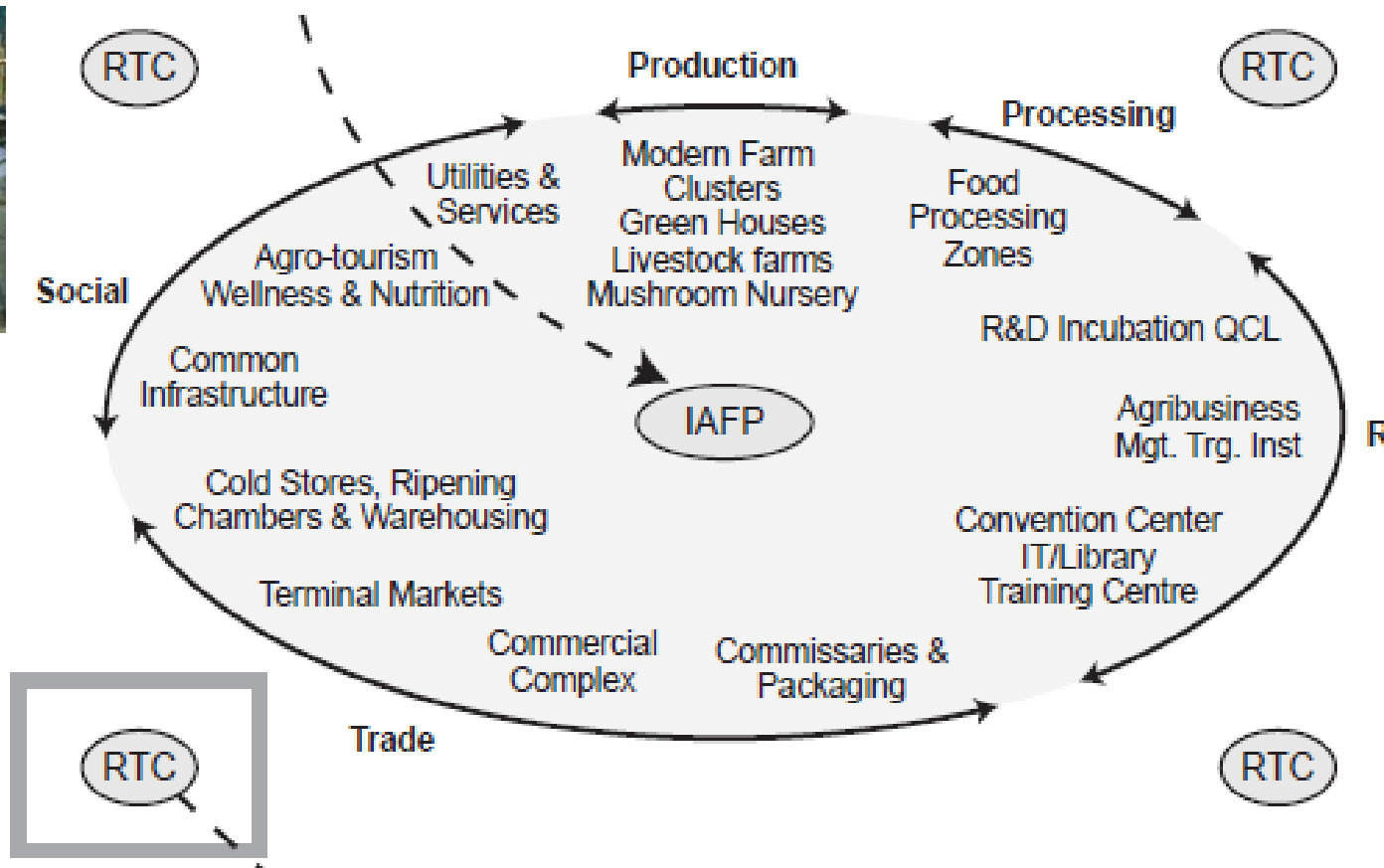


Bank guarantees
to support trade
credit from input
suppliers





How do we organize for efficiency?



Rural Transformation Centre



5 Categories of financing instruments

Category	Financing instrument
Agricultural product based	<ul style="list-style-type: none">• Trade credit• Input supply credit• Marketing company credit• Lead firm financing / contract farming
Receivable based	<ul style="list-style-type: none">• Trade receivable finance• Bill discounting• Factoring and reverse factoring• Forfaiting
Physical asset based	<ul style="list-style-type: none">• Warehouse receipts system• Re-purchase agreements• Leasing



Financing Instruments

Type of product	Financial instrument
Risk mitigation	<ul style="list-style-type: none">• Insurance• Forwards contract• Futures
Financial enhancements	<ul style="list-style-type: none">• Securitization• Loan guarantees• Joint ventures

There are multiple agricultural value chain financing instruments to consider; often to be used in conjunction with one another.



5 Cs and a big C of AgVCF Loan Analysis

- Common Cs
 - Character – the person and family
 - Capacity – the technical, economic and financial feasibility and past history of the person and enterprise
 - Capital – the funds invested into the business and other assets vs. debt level
 - Collateral – the risks and guarantees
 - Conditions – the loan terms (amount, use, repayment requirements) and market conditions
- Big C: Cash and transaction flows
 - Cash and process flows within the VC and the finance available for transactions as well as VC actors' household and enterprise expenses, reinvestment and repayment

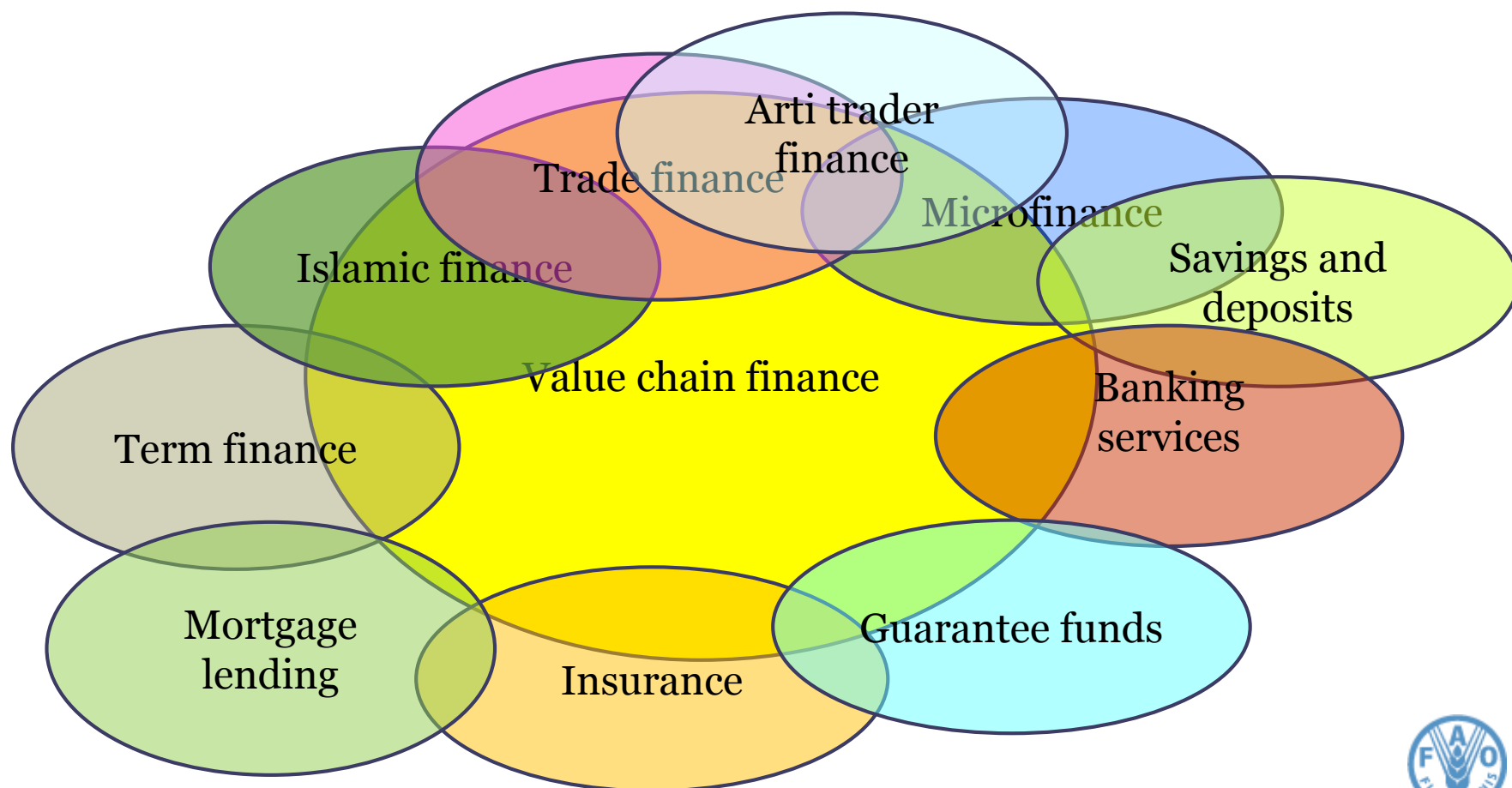


Where do we invest in the AgVC?





Complements and overlaps of AgVCF





Summary of the Case Studies

Type of business model	Case study
Producer driven	
Buyer driven	Loran Rice Mill, Cambodia
	Idemitsu, Cambodia
	Konica, Bangladesh
Facilitated	UFL, Bangladesh
	Ethiopian Blended Model
Integrated	NABARD, India
	BRAC, Bangladesh
	FIRA, Mexico
Islamic VC finance	Islami Bank, Bangladesh (IBBL)





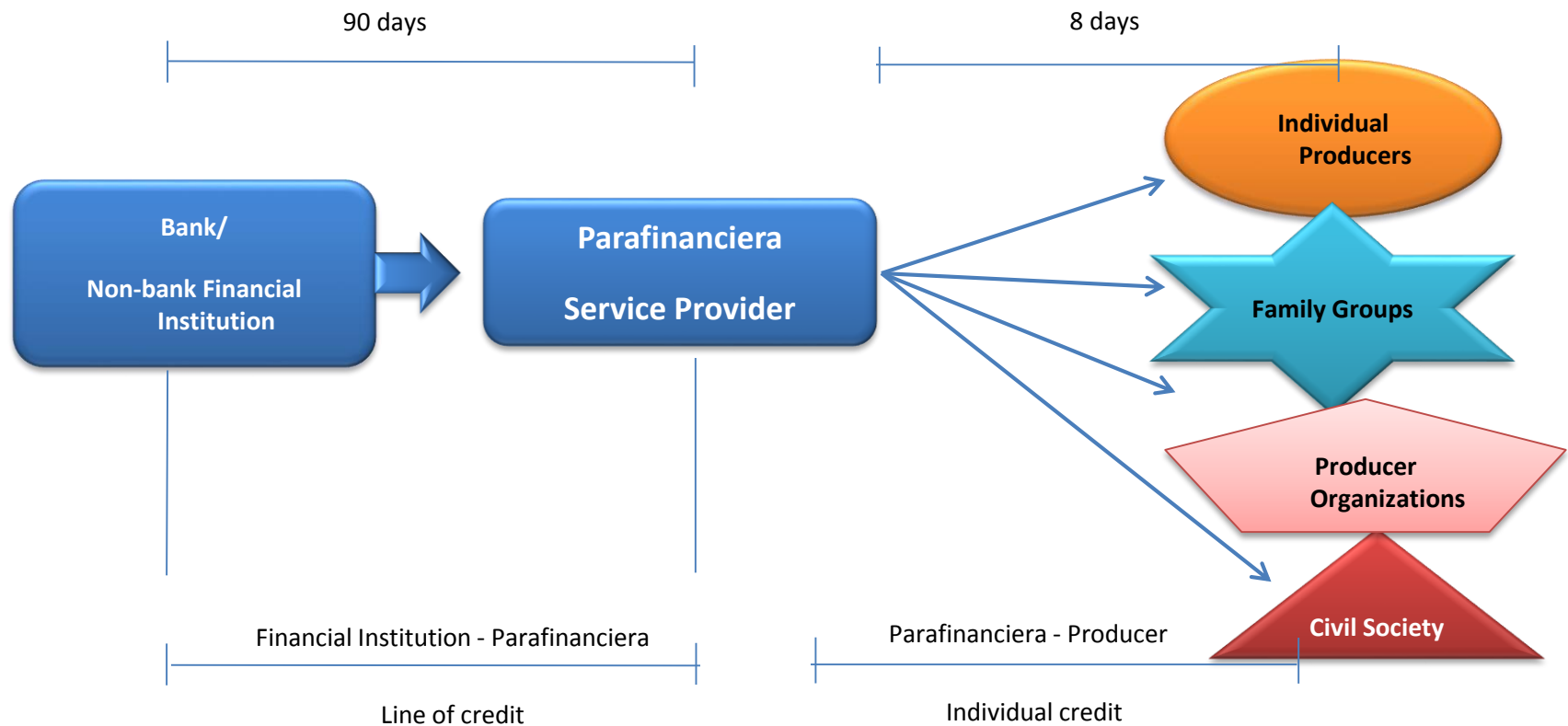
Summary of the Case Studies

Type of financial instrument	Case study
Marketing company finance	FIRA, Mexico
Marketing company finance with Islamic banking	Islami Bank, Bangladesh (IBBL)
Lead firm finance (contract farming)	Loran Rice Mill, Cambodia
	Idemitsu, Cambodia
	Konica, Bangladesh
Factoring	UFL, Bangladesh
Warehouse receipts	Ethiopian Commodity Exchange
	NABARD, India
	BRAC, Bangladesh
Lease purchase	UFL, Bangladesh
Islamic banking financial lease and partnership	IBBL
Other Islamic VCF banking practices	IBBL



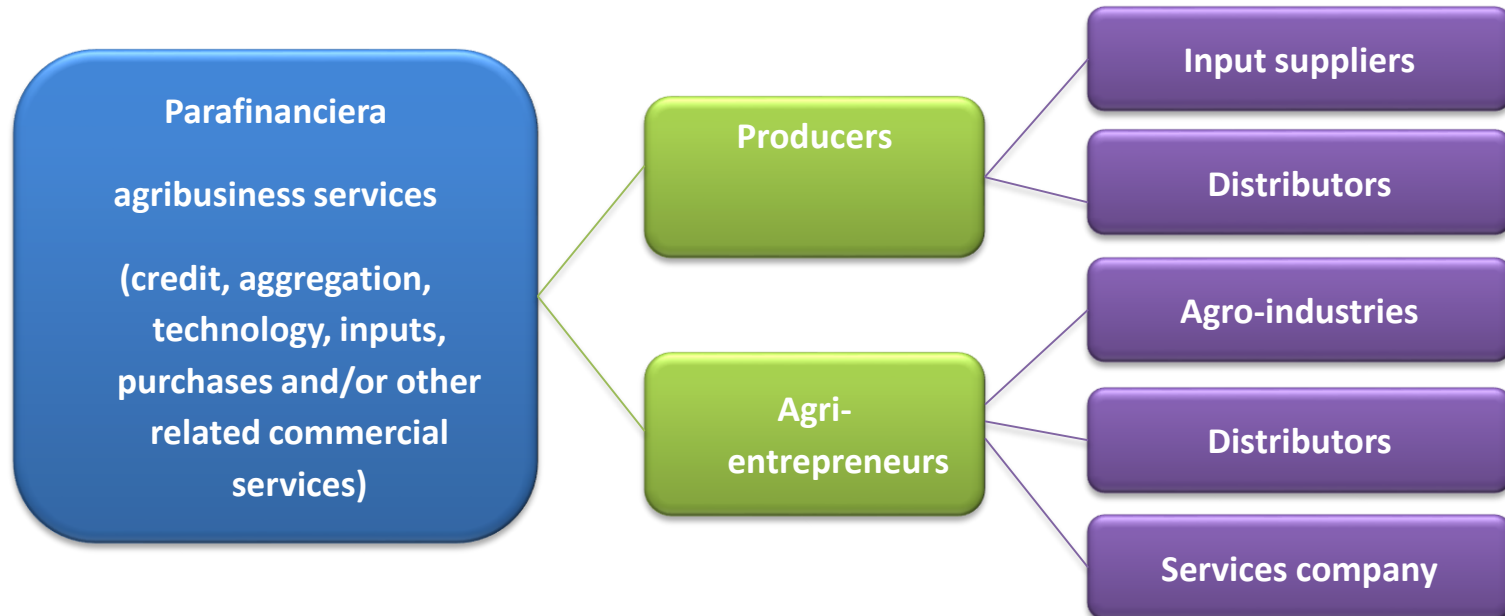


FIRA parafinanciera credit delivery intermediation



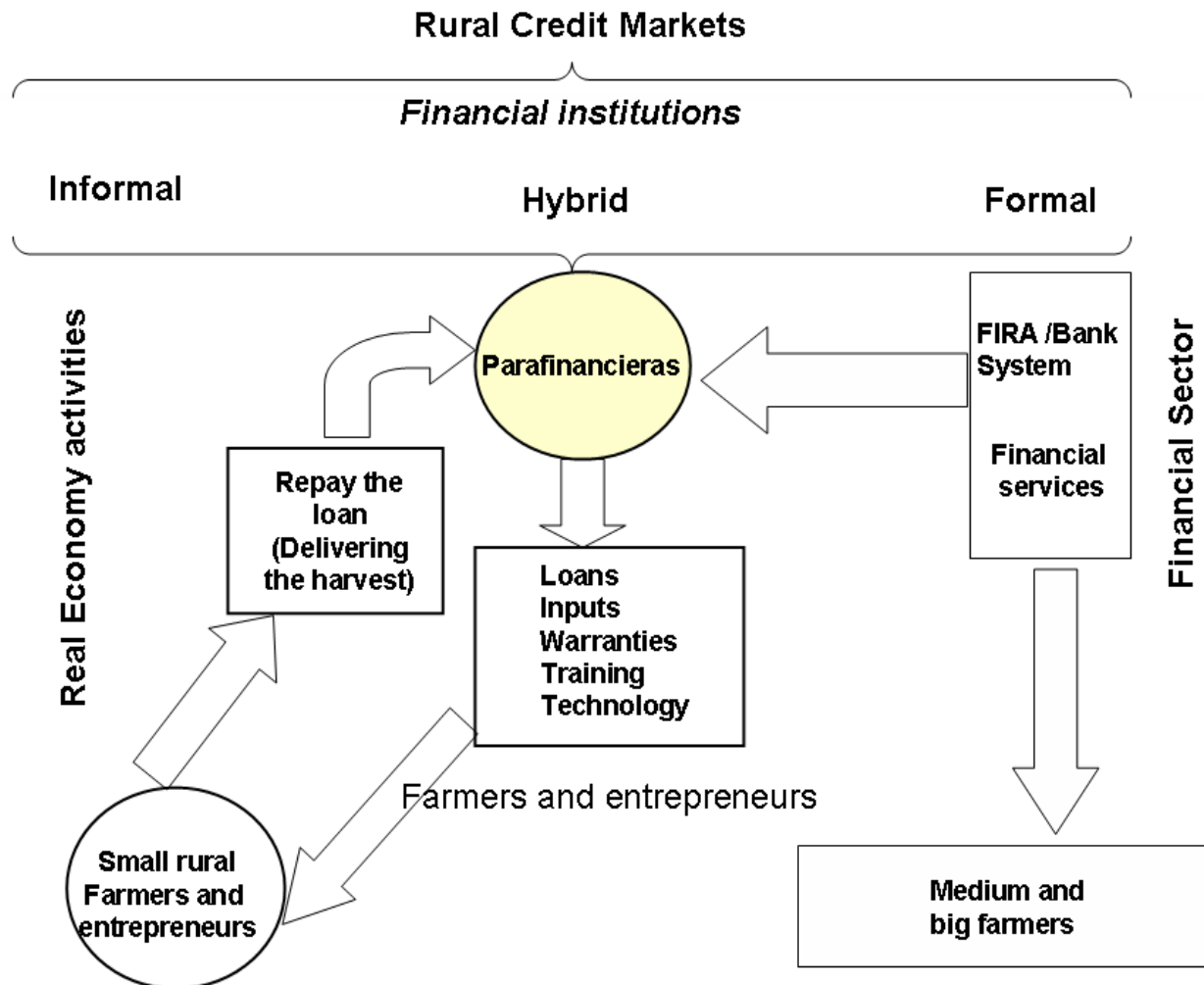


Types of parafinanciera agribusiness service providers





Summary of the Financiera System





Value chain finance

- a) Bai Al-Salam (Pre-purchase or advance contracting)
- b) Bai Murabaha (Mark-up)
- c) Shirkatul Meelk (Financial lease and partnership)
 - Bai-Muajjal (sale on credit)
- d) Sharia Insurance



Agriculture Finance Products

- **Tohum Kart**
- **Vegetable Agriculture Finance**
- **Dairy Finance**
- **Fattening Finance**
- **Beekeeping Finance**
- **Poultry Finance**
- **Land Finance**
- **Tractor Finance**
- **Commercial Real Estate Finance**
- **Vehicle Finance**
- **Machinery Finance**
- **Real Estate Finance**

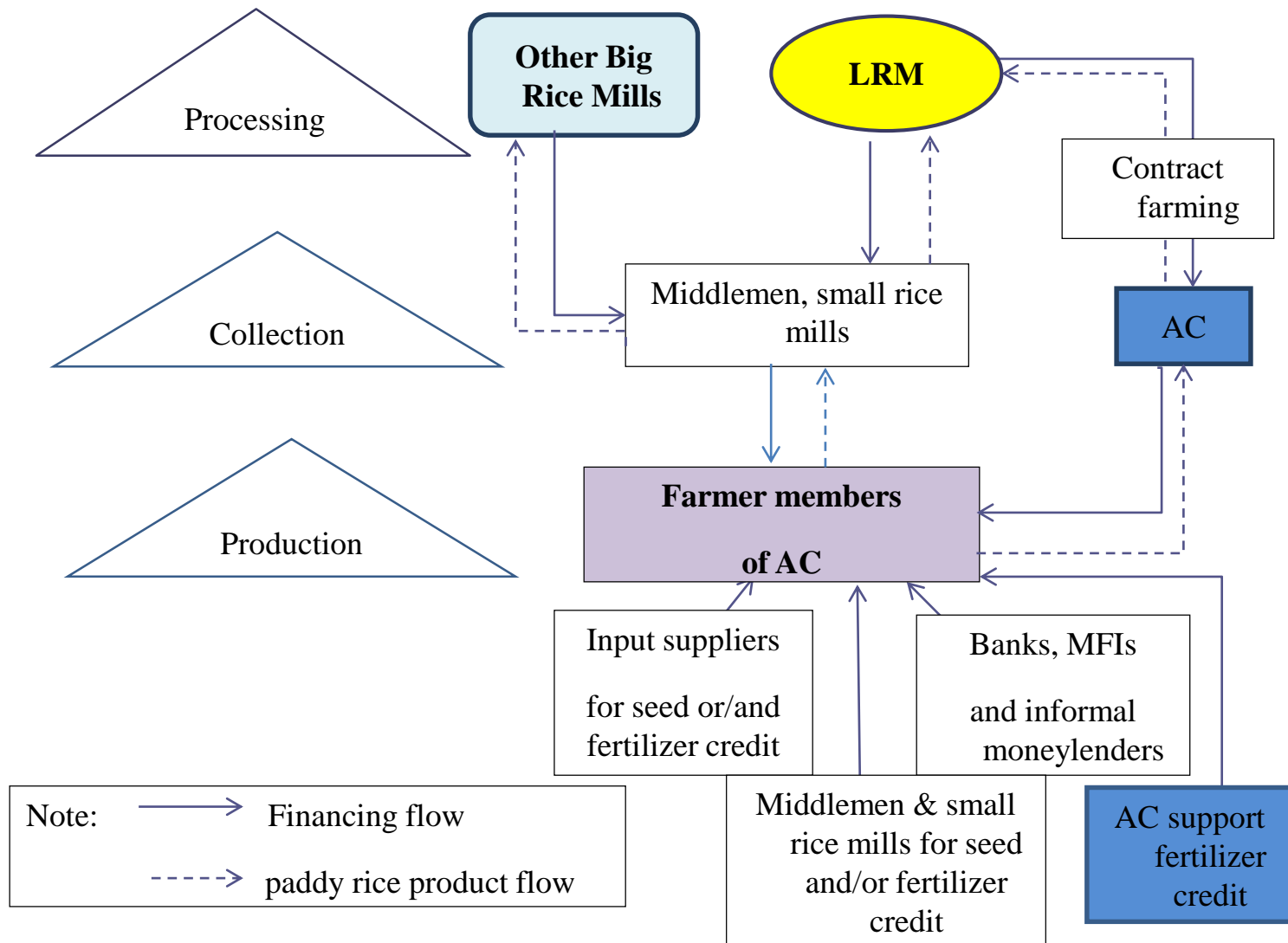


KLAVYETÜRK



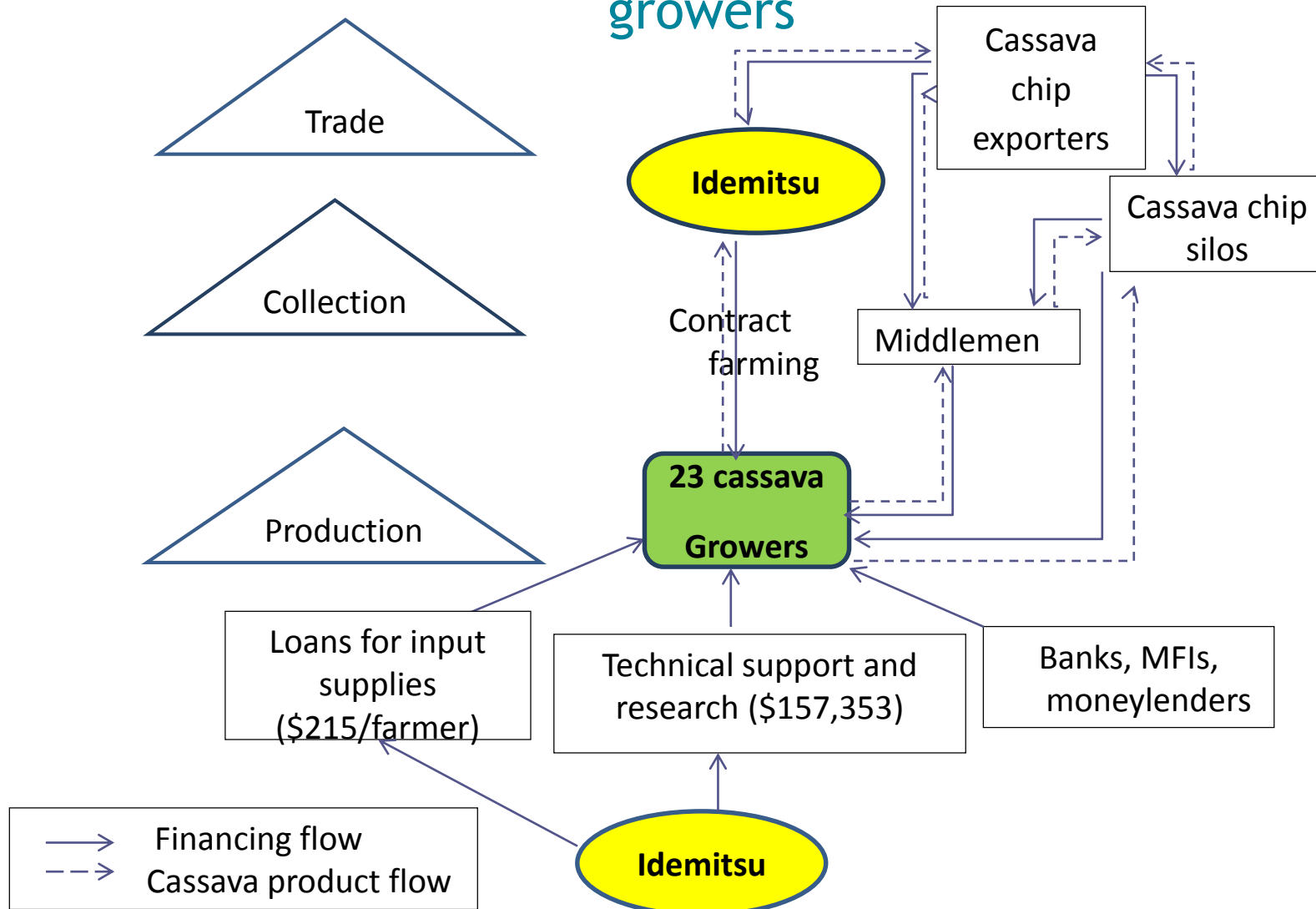


Business value chain and financing flow of Nikum Presihanouk Cooperative (AC)

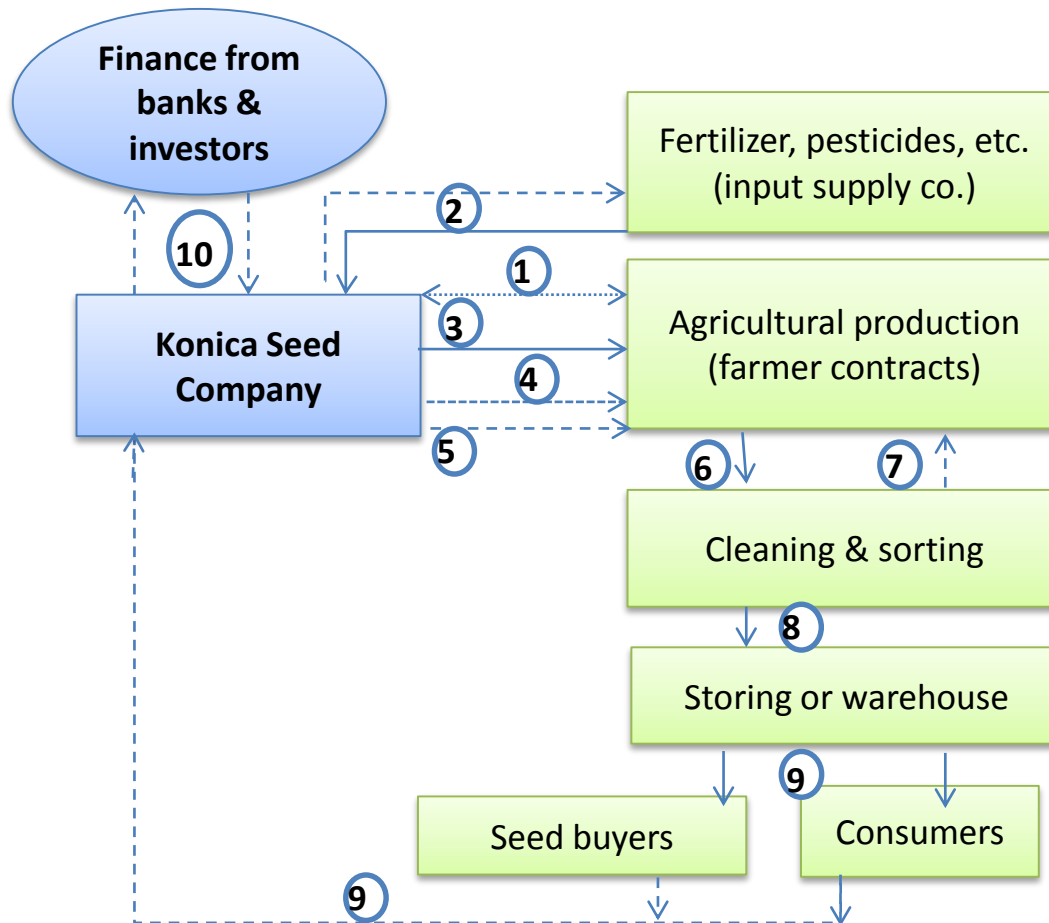




Finance and product flows for contract cassava growers



The Konica Seed Value Chain

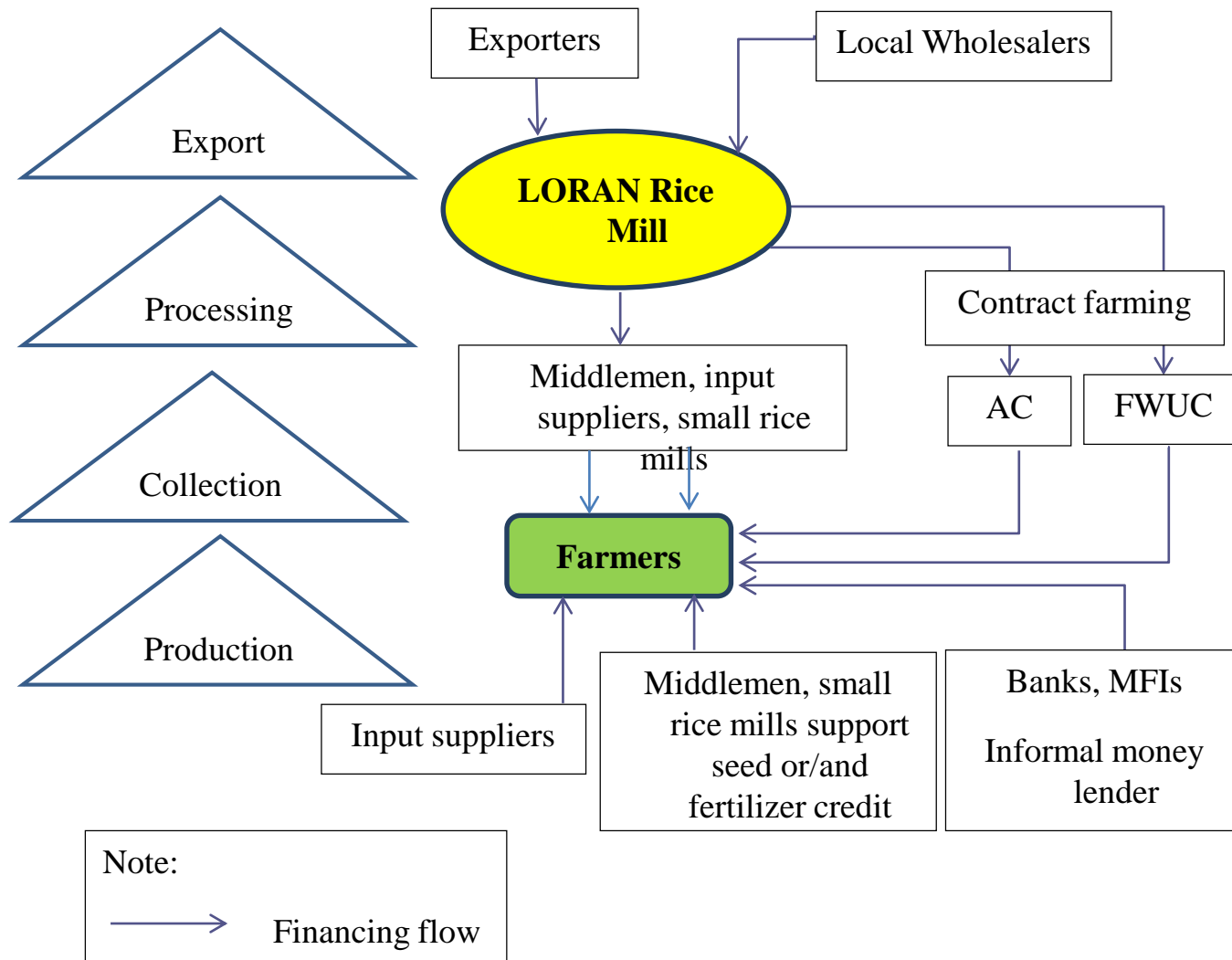


1. Seed growers contract Konica
2. Konica buys input
3. Konica supplies seed & inputs to growers
4. Receive finance from Konica
5. Technical assistance provided
6. Growers deliver production
7. Final payment to growers
8. Konica outsources storage
9. Sale of seed and non-seed quality produce
10. Borrowing and repayment of finance to Konica

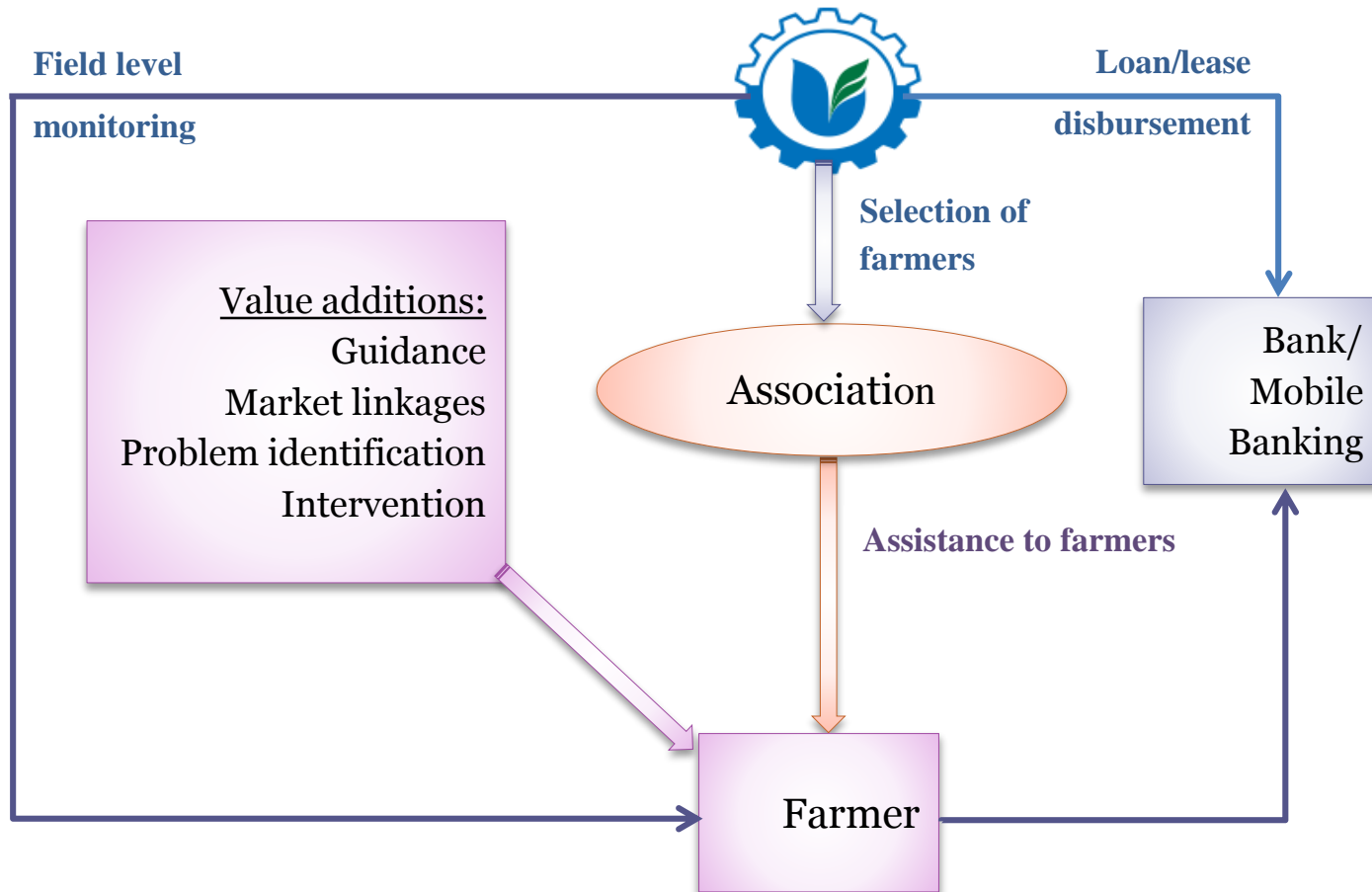
- ↔ Contracts
- Flow of products
- - - - - Flow of funds
- - - - - Technical assistance



Value Chain financing for LORAN Rice Mill

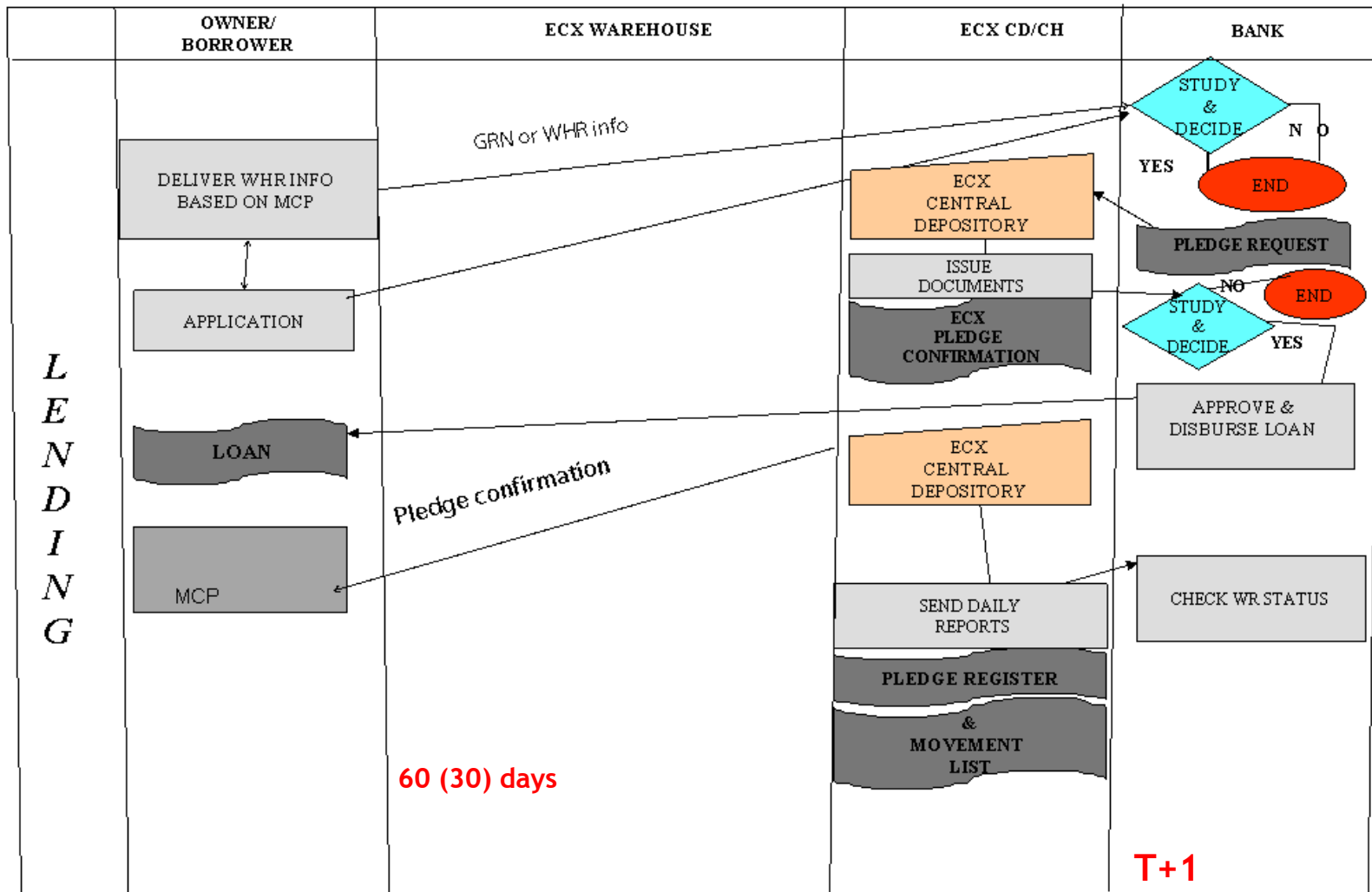


United Finance Limited - lending, leasing, factoring



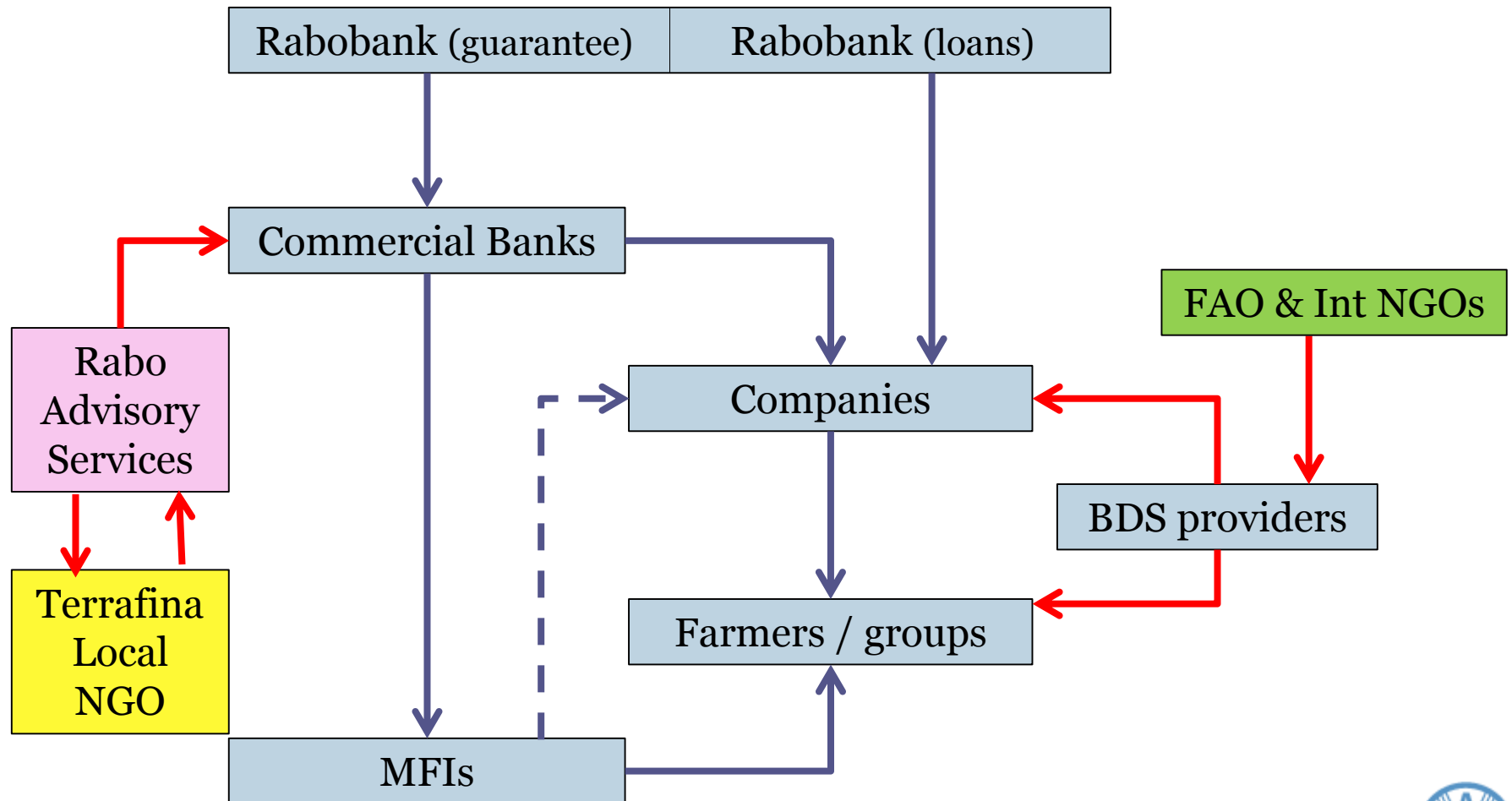


The ECX WHR Financing -lending





Ethiopia blended approach to AgVCF Inclusion



Adapted from Harms





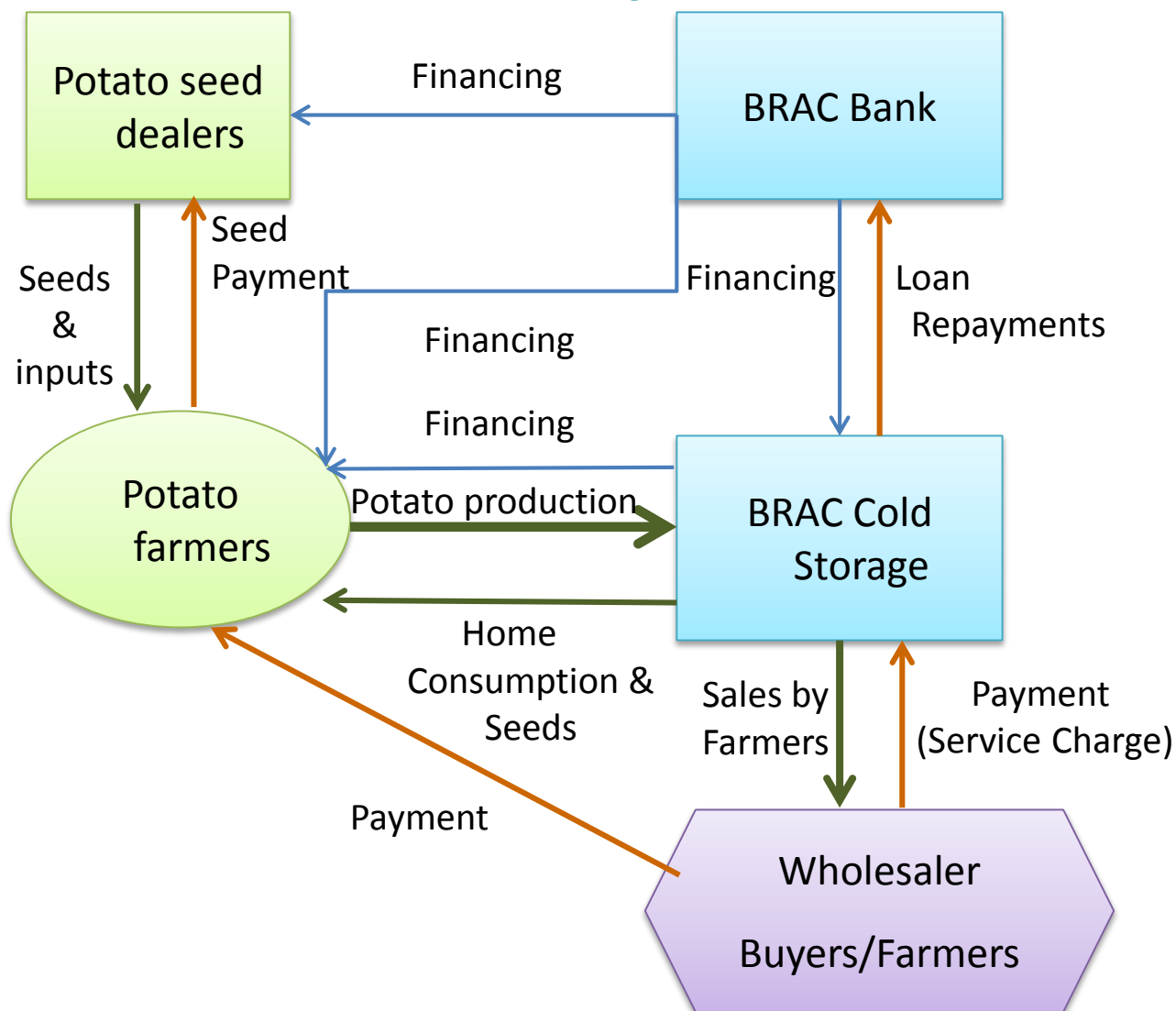
The value chain BEFORE the intervention



The value chain AFTER the intervention



Potato production, cold storage, finance and marketing





Useful Websites

FAO

www.fao.org/ag/ags



www.ruralfinanceandinvestment.org

Thank You

