IFC and Agri-Finance

Creating Opportunity Where It’s Needed Most
Agriculture remains an important activity in emerging markets

**IMPORTANCE OF AGRICULTURE as major source of livelihood**

- 75% of poor people in developing countries live in rural areas - 2.1 billion live on less than $2 a day.

- Agriculture is a source of livelihood for 86% of rural people - Jobs to 1.3 billion small holders and landless workers

- 2.5 billion households of the developing world population are involved in agriculture with low access to finance
Agri-finance: a key global challenge

LACK OF ACCESS TO FINANCE
to adopt efficient technologies and efficient resource allocation

India: in 2 states 87% of marginal farmers surveyed had no access to formal credit; only 49% of small farmers have access to institutional finance.

Rural Nicaragua, Honduras and Peru: 40% of all agricultural producers are credit constrained.

CEU: nearly 50% of smallholders in five countries report financial constraints as the major barrier to growth and expansion of their enterprises.

Africa: less than 1% of commercial lending goes to agriculture.
Financial Institutions Reluctant to Participate in first Stages of agriculture supply chains

Risk generally decreases as chain moves forward
IFC Advisory Services
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Why Financial Institutions do not finance agribusiness - high risk profile

- **Cost to serve** - Rural financing involves higher transaction costs than in urban areas

- **Seasonality and loan term structure** - frequently long gestation periods from planting/livestock birth to harvest/slaughter

- **Farming heterogeneity & lack of information** - range of farm and non-farm income can make the assessment of loan suitability more complex

- **Production and yield risks** - uncertainty due to natural hazards (weather, pests etc.)

- **Market and price risk** - fluctuations in price, particularly where markets are likely to be imperfect and information may be lacking

- **Risk of loan collateral limitations** - local farmers may lack land title or land value may be low
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A portfolio of 69 Agri-Finance Projects at IFC
IFC Agri-finance Advisory Approach

- SME Banking
- Microfinance
- Leasing
- Insurance
- Sustainable Energy Finance

Crosscutting expertise in financial products

Agri - Business Finance

Agri sector specific knowledge

IFC Financial Markets

Wholesaling

IFC Real Sector

Financial Institution

Supply Chain Linkages
- Farmer Training
- Ag Productivity
- Eco standards
- Water
- “Doing Agri Business”
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IFC promotes and integrated approach to agricultural development

Market Access (*trader - processor*)

Technical Assistance & Access to Technology

Agri-Finance (agribusiness firm/ Financial Institution)
IFC Advisory Services
Agri-Finance

Through a combination of services, farmers receive multiple direct and indirect benefits

**Market Access** *(trader - processor)*

- Better access to markets/prices
- Higher-value products
- Improved quality
- Better practices
- Higher yields
- Income smoothing
- Long-term assets
- Price risk mitigation
- Insurance

**Technical Assistance & Access to Technology**

**Agri-Finance** *(agribusiness firm/ Financial Institution)*
Supply chain finance differs from traditional agriculture lending

<table>
<thead>
<tr>
<th>Area</th>
<th>Traditional Lending</th>
<th>Supply Chain Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td>Asset Based</td>
<td>Cash flow based; contracts</td>
</tr>
<tr>
<td>KYC</td>
<td>Relationship Banking</td>
<td>Supply Chain</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>Traditional Assessment, needs sufficient client information</td>
<td>Improved systems for risk assessment; info through supply chain</td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>Careful client selection; insurance / hedging</td>
<td>Portfolio diversification; Risk sharing, insurance / hedging</td>
</tr>
<tr>
<td>Client Type</td>
<td>Large commercial farmers</td>
<td>Smaller commercial farmers Associations of farmers</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>Clients are knowledgeable</td>
<td>Additional knowledge on technical and financial topics needed</td>
</tr>
</tbody>
</table>
Agriculture supply chain finance integrates multiple actors

Supply Chain Financing includes multiple options for financing and contractual relationships

Technical assistance can be delivered by the FI, the buyer or supplier
Business Models in Agri-Finance
Business Models in Agri-Finance - Example 1

PRE-HARVEST LOANS - REACHING FARMERS THROUGH MFI / BANK

Assisting MFIs/Banks in reaching underserved farmers

IFC AS to Bank:
- New Lending products
- Risk management
- Policies / procedures

IFC AS to Farmers:
- Productivity
- Standards
- Business practices
PRE-HARVEST LOANS - REACHING FARMERS THROUGH MFI / BANK (with IS)

Leveraging synergies across IFC investment and advisory services

IFC Advisory to Bank:
- Risk management
- Lending products
- Policies / procedures

IFC Advisory to Agribusiness / Buyer and Farmers:
- Productivity
- Standards
- Business practices
PRE-HARVEST LOAN TO GROWERS - INCLUDING INPUT SUPPLIERS IN SCF

Leveraging synergies across IFC investment and advisory services
WAREHOUSE RECEIPTS – REDUCING PAYMENT LAG

Allowing Farmers to Capitalize on Production earlier in the Cycle

IFC AS to Warehouse/Bank:
- Risk management
- Lending products
- Policies / procedures

IFC AS to Farmers:
- Productivity
- Standards
- Business practices
Business Models in Agri-Finance - Example 5

LOANS AS PREPAYMENTS – WORKING DIRECTLY THROUGH SUPPLY CHAIN

Allowing Farmers to Finance Pre-Harvest Expenses through future Sales

IFC AS to Farmers:
- Productivity
- Standards
- Business practices

IFC AS to Buyer/Trader:
- Risk management
- Policies / procedures

Consumer Food & Beverage firm

IFC

Buyer / Trader

Harvest Produce

Pre-harvest Loans

Project Financing

Purchase Guarantee

Credit line
IFC Advisory Services
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Business Models in Agri-Finance - Example 6

LOANS AS PREPAYMENTS - WORKING DIRECTLY THROUGH SUPPLY CHAIN

Allowing Farmers to Finance Pre-Harvest Expenses through future Sales

IFC AS to Input Supplier:
- Risk management
- Policies / procedures

IFC AS to Farmers:
- Productivity
- Standards
- Business practices

IFC
Input Supplier
Buyer / Trader
Farmers

Project Finance
Farm Inputs / Machinery
Repayment

Produce
IFC Advisory Services

**Agri-Finance**

**IFC’s Offering - Financial Institutions / Agribusiness firms**

**Assistance to FIs**

- Diagnostic of FI capabilities to lend to the agriculture sector
- Marketing strategy to approach lead firms and farmers
- Assessment of potential opportunities with clients
- Assist in development of new financial products, policies and procedures (mainly in credit)
- Screening/credit scoring models
- Training for loan officers in farm/agribusiness assessments

**Impact**

- Increased client base
- Improved loan performance
- Expansion of product portfolio
- Increase in capital base
- Improved control on financial performance
- Enhanced skill set loan officers
IFC Advisory Services
Agri-Finance

IFC’s Offering - Financial Institutions / Agribusiness firms

Market Outreach & Pipeline Development

- Scoping studies to assess opportunities and risks
- Develop risk mitigation and coping strategies
- Client/Farmer training in financial literacy

Impact

- Improved strategic decision-making
- Improved business continuity and risk management
- Clients/farmers prepare to become better clients for financial institutions
IFC Advisory Services

Agri-Finance

ICF’s Offering - Farmers & Agribusiness Firms

Technical Assistance to Farmers

- Workshops & Training sessions on Sustainable Practices
- Assistance in obtaining certification
- Knowledge and training on improving farm productivity
- Facilitation of enhancing input provision
- Assessments of best local practice implementation
- Impact evaluation studies of sustainability, productivity programs

Impact

- Improved farm practices, sustainable use of farm land
- Improved access to markets through certified products
- Improved farm margins through certification premiums
- Increase in farm productivity, net income
- Improved effectiveness of outreach activities
- Improved farmer loyalty
- More stable supply chain
Annex
IFC Services
IFC Services

**Investment Services**
- Loans
- Equity
- Trade finance
- Syndications
- Securitized finance
- Client risk management services
- Treasury services
- Liquidity management

**Advisory Services**

Four business lines:
- Access to finance
- Sustainable Business
- Investment Climate
- Public-Private Partnerships
IFC’s value proposition in agri-finance

- Global agribusiness knowledge combined with financial market capabilities
- Access to finance project delivery capabilities: Global KM with field management capacity
- Ability to combine Investment & Advisory Services
- IFC/WB convening power: the enabling environment