PROCESS TO IMPLEMENT AGRICULTURAL VC-FINANCE

• Opportunities and Challenges Agricultural Sector Vietnam
• Agri Supply Chain Finance Relevance
• Agri Supply Chain Finance Design and Implementation
OPPORTUNITIES AND CHALLENGES AGRICULTURAL SECTOR VIETNAM
Agricultural Exports in 2018 reached USD 40 BN, with a strong growth of 6% compared with previous year.

The products with more than USD 1 BN turnover where Woods, Shrimp, Fruits & Veg, Coffee and Cashew nuts.

While Shrimp has a diverse export destinations, 76% of Fruits & Vegetables exports go to China.

Source: MARD 2018
Vietnam should diversify its exports of fruit & vegetables to new markets with higher quality standards.

Agri processing companies should invest in modernizing its processing plants and equipment to increase products quality.

Sourcing high quality products should be secured thru contract farming.

Farmers need support to improve Agricultural Best Practices to produce higher quality products.

- Banks can play a critical role financing the modernization of the Agricultural sector.
- Agribusiness should invest in improving agricultural best practices of their core farmers and suppliers.
- Contract farming can be a powerful model to finance modernization of the agricultural sector.

Why Agri supply chain finance is not working today in Vietnam.
AGRI PROCESSORS IN THE MEKONG DELTA

<table>
<thead>
<tr>
<th>Number of Agribusiness by Province</th>
<th>Fruits</th>
<th>Rice Mills</th>
<th>Fisheries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long An</td>
<td>35</td>
<td>27</td>
<td>65</td>
</tr>
<tr>
<td>Tiền Giang</td>
<td>40</td>
<td>20</td>
<td>46</td>
</tr>
<tr>
<td>Bến Tre</td>
<td>117</td>
<td>5</td>
<td>81</td>
</tr>
<tr>
<td>Trà Vinh</td>
<td>12</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>Vĩnh Long</td>
<td>24</td>
<td>11</td>
<td>28</td>
</tr>
<tr>
<td>Dồng Tháp</td>
<td>35</td>
<td>34</td>
<td>48</td>
</tr>
<tr>
<td>An Giang</td>
<td>41</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>Kiên Giang</td>
<td>41</td>
<td>6</td>
<td>244</td>
</tr>
<tr>
<td>Cần Thơ</td>
<td>93</td>
<td>48</td>
<td>186</td>
</tr>
<tr>
<td>Hậu Giang</td>
<td>13</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>Sóc Trăng</td>
<td>5</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Bạc Liêu</td>
<td>6</td>
<td>6</td>
<td>117</td>
</tr>
<tr>
<td>Cà Mau</td>
<td>4</td>
<td>3</td>
<td>52</td>
</tr>
<tr>
<td>Mekong delta River</td>
<td>466</td>
<td>229</td>
<td>1,001</td>
</tr>
<tr>
<td>% of total Companies</td>
<td>27%</td>
<td>14%</td>
<td>59%</td>
</tr>
</tbody>
</table>

- There are 1,696 Agribusinesses in the Mekong Delta,
- 47% of agribusinesses are small with less than 10 employees, 33% are medium to small size, 10% are medium size companies, and 9.5% are large companies.
- Only 15% of those companies do have contract farming in place
- 70% of their products are sourced thru traders and aggregators
FINANCING MODELS IN RURAL AREAS

Farmers access to financial services

- Informal lending: 80% of subsistence farmer
- Supply finance (Input dealers): 30% of semi-commercial and commercial small farmers
- Fintech and e-commerce platforms: ND
- Banks: 5% to 10% of commercial small farmers including value chain finance
- Microfinance Institutions: 20% of commercial small farmers
- Rural Cooperatives: 30% of commercial farmers

New digital financial services and non financial services in rural areas

- Digitizing value chains
  - Digital record: sales and production costs
  - Product quality and volume
  - Product traceability
- Building Ecosystems
  - E-commerce
  - Access to price and weather information
  - Digital applications: Technical advice
  - Seeds Insurance
- Mobile payments
  - E-wallets
  - Remittances
  - Top up

These technology innovations will help increase the financial flows to the agricultural sector

Source CGAP: Small Holders Families Data Hub
Vietnam Government has approved a Civil Code to secure obligations with different instruments:

- Pledge, mortgage, deposit, Security collateral, escrow account, retention of title, guaranty, pledge of trust and retention of property

The government also has created a Collateral Registry to enable registration and monitoring of all obligation instruments.

The volume of loans using movable assets in Agriculture are still very small compared with the potential opportunity.

What is required to promote the use of movable assets to finance the agricultural sector with supply chain finance models?
AGRI SUPPLY CHAIN FINANCE RELEVANCE
AGRICULTURAL SUPPLY CHAIN FINANCE IS A ZERO-SUM GAME FOR ALL PARTIES: SME, CORPORATES AND BANKS

“Supply Chain Finance is defined as the use of financing and risk mitigation practices and techniques to optimise the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements which can be enabled by a technology platform.”


**Advantages for all participants**

- **Agribusinesses**: improve working capital and increase stability of the value chain
- **Farmers & SMEs**: get access to finance and better financing terms
- **Government**: increase market transparency
- **Banks**: get an opportunity for earn additional revenue and better visibility of transactional operations
- **FinTechs**: increase the use and utilization of the technology platforms

**Agribusinesses want to pay later**

- Conserve their working capital
- Reduction of supply chain disruption
- Improve supplier relationship

**Farmers want to get paid earlier**

- Improve cash flow
- Reduce financing costs
- Gain on-demand pool of liquidity
SUPPLY CHAIN FINANCE PROVIDES COMPLETE TRANSPARENCY OF THE FINANCIAL, PHYSICAL AND INFORMATION FLOWS

Financing the procurement side of the corporate business
Financing the sales and distribution side of the corporate business
Reverse Factoring - enables Anchor’s Suppliers to have their invoices paid immediately at affordable cost.

PO Finance - enables Supplier to obtain financing at time of Purchase Order

Invoice Discounting - financing against existing invoices

Distribution Finance - enables Anchor’s Distributors to take longer to pay whilst ensuring Anchor is paid immediately, increasing both their cash positions.

<table>
<thead>
<tr>
<th>Products</th>
<th>Market Size</th>
<th>IT Requirements</th>
<th>Risk</th>
<th>Risk Mitigants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reverse Factoring</td>
<td>high</td>
<td>high</td>
<td>low</td>
<td>Sale of approved invoice only, irrevocable undertaking from Corporate</td>
</tr>
<tr>
<td>Purchase Order Financing</td>
<td>medium-high</td>
<td>high</td>
<td>medium</td>
<td>Trading and performance history, Corp guarantee, Loss sharing</td>
</tr>
<tr>
<td>Distributor Finance</td>
<td>very high</td>
<td>high</td>
<td>medium-high</td>
<td>Diversification, Corp ‘stop supply’, first loss, credit insurance wrap</td>
</tr>
<tr>
<td>Invoice Discounting</td>
<td>high</td>
<td>medium-low</td>
<td>medium-high</td>
<td>Diversification, Recourse, first loss</td>
</tr>
</tbody>
</table>

There are multiple SCF products that banks can consider depending on the market dynamics.

Aggregators (SME) \[\rightarrow\] Corporate Anchor \[\rightarrow\] Distributors (SME)

Bank
AGRI SUPPLY CHAIN FINANCE: DESIGN AND IMPLEMENTATION

PROCESS
IFC OFFERS MARKET LEADING SOLUTIONS AT EACH STAGED OF SCF PROGRAM EXECUTION

**STAGE 1**
- Need Identification
  - Competency Assessment Framework
  - Maturity matrix & benchmarking
  - Regulatory/legal due diligence

**STAGE 2**
- Market Sizing
  - Market revenue pool sizing
  - Portfolio linked opportunity sizing
  - Sector linked physical, information, financial SC mapping

**STAGE 3**
- Product Program Design
  - Product program structures & templates
  - Credit underwriting standards, scoring and portfolio management
  - Documentation with Corporate and SMEs

**STAGE 4**
- Process Automation
  - Process design and existing technology performance assessment
  - Option analysis with knowledge sharing on available 3rd party platforms
  - Proof of concept, RFP, selection matrix, vendor documentation
  - Design criteria for Corporate selection
  - Pitch books for Corporates, Economic Value Added tools
  - Pilot Program Design and KPI framework

**STAGE 5**
- Pilot Design
  - Corporate (anchor) onboarding program for scalability
  - SME customers onboarding program design
  - Implementation Support (training, marketing, trouble shooting)
PROCESS AUTOMATION AND PILOT DESIGN

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Example of Reverse Factoring through the technology platform

1. Supplier sends invoices to the buyer
2. Buyer uploads approved invoices to the SCF platform
3. Supplier views receivables online and can offer to sell them before maturity for early payment
4. Bank receives and reviews early payment request and offers financing to the supplier based on buyer’s risk profile
5. At maturity date, buyer’s clearing account is instructed to pay supplier or the bank (if receivable was sold for early payment)

SCF TECHNOLOGY IS KEY, BUT NOT THE ONLY SUCCESS FACTOR OF THE SCF PROGRAM