

STRENGTHENING AGRICULTURAL VALUE CHAINS

Linking TA with investments

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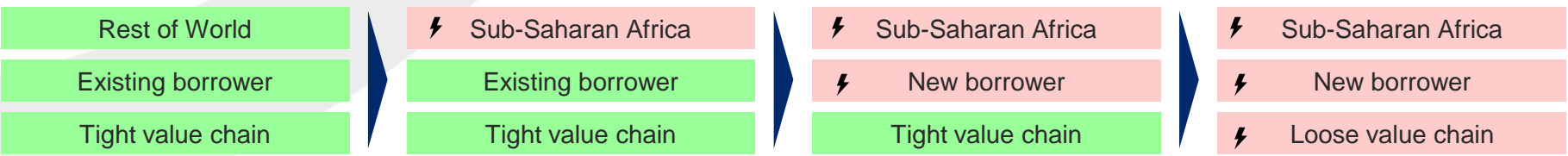
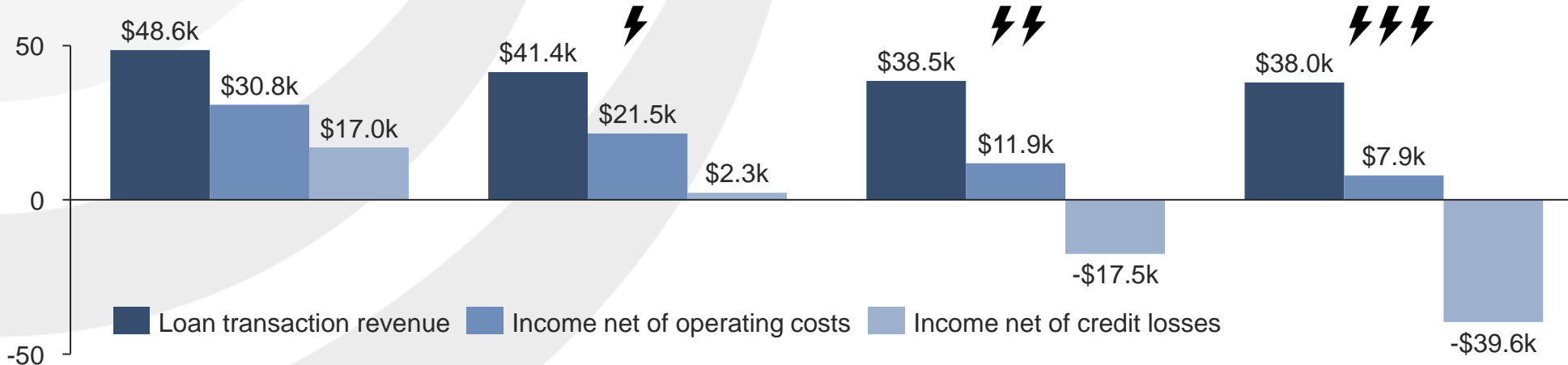
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Daphne van Dam, Cordaid

AN ILLUSTRATION OF SOME OF THE CHALLENGES IN FINANCING AGRICULTURAL VALUE CHAINS

Average loan transaction revenue, income after operating costs, and income after credit losses
Assuming a 12-month fully-drawn loan of \$500k, in USD thousands

⚡ = 1 risk segment



# loans	1,562	266	92	188
% of portfolio	43%	7%	3%	5%
	\$706k	\$767k	\$649k	\$326k

CSAF dataset
(Dalberg survey)



CHALLENGES FOR FINANCIAL INSTITUTIONS IN TERMS OF RAISING FUNDS AND PROVIDING SERVICES TO SMALLHOLDER FARMERS (1/2)

- **Lack of in-house expertise on agriculture** (agronomists) and hence difficulty to capture specific clients' needs and specific risks of the agri sector
- Inherent **credit risk with rain fed agriculture**, which is exacerbated by the effects of climate change → need for insurance and/or guarantee mechanisms, which are complex to develop and can be expensive.
- **Need to strengthen value chains to manage risks:** MFIs and their clients' generally lack links with off takers, input providers, etc.
- MFIs often serve smallholder farmers through their traditional product suite (**no dedicated agricultural loan**) and rarely have products adapted to specific value chains

CHALLENGES FOR FINANCIAL INSTITUTIONS IN TERMS OF RAISING FUNDS AND PROVIDING SERVICES TO SMALLHOLDER FARMERS (2/2)

- **Long distances** to serve isolated rural areas → **need for digitization** of the processes, and development of digital channels
- **Strong need for non-financial services from clients** (technical trainings on agricultural best practices, climate-smart practices), which can be costly to implement for MFIs
- **Limited margins on agricultural activities** make it more challenging for MFIs to incorporate some costs into pricing (insurance, guarantee, non-financial services...)



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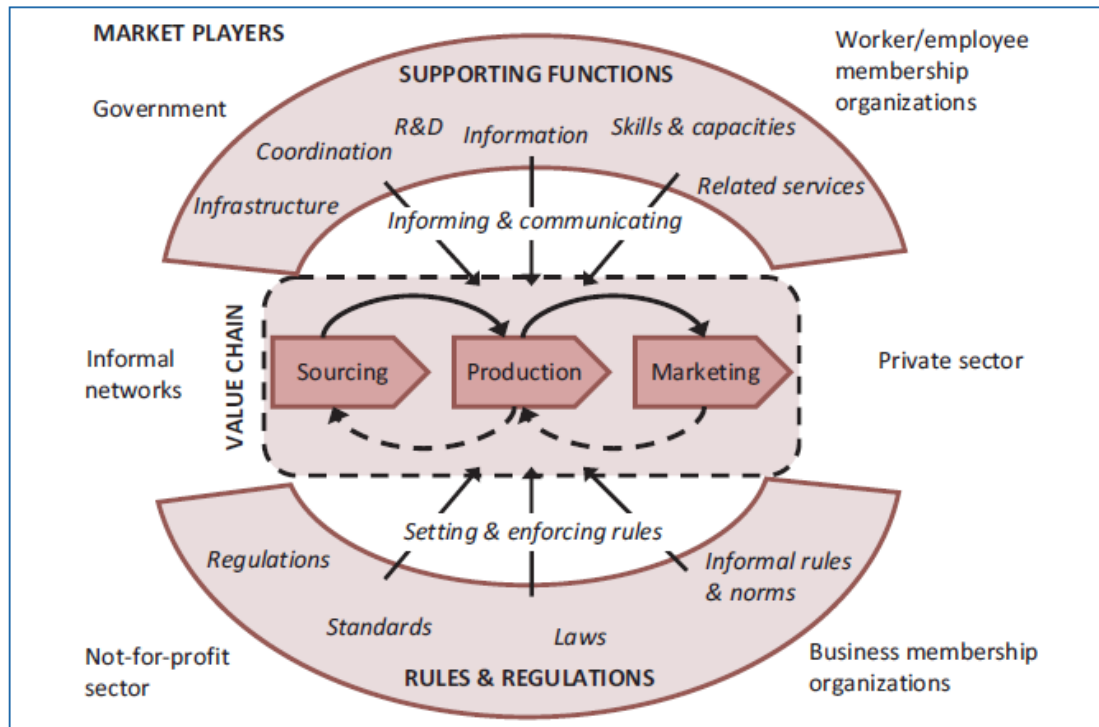
alterfin 

Sustainability Linked Loan

- Grameen Crédit Agricole Foundation and Crédit Agricole CIB have granted a 350 million INR (EUR 4.5 million) **sustainability-linked term loan** to Annapurna Finance, a leading Indian non-banking finance institution - *first microfinance institution in India to sign a Sustainability-Linked Loan*.
- Aligned with the Sustainability Linked Loan Principles, transaction's terms include a **sustainability margin adjustment mechanism** dependent on whether **annual targets** are met for the following KPIs:
 - ✓ the **solar energy capacity** installed by customers
 - ✓ the construction and upgrade of **resilient housing in cyclone-prone areas**
 - ✓ the **enrollment of women clients in entrepreneurship skill building programme**.
- GCA Foundation and CACIB have been providing TA to Annapurna Finance, and will continue to provide TA, to support them in reaching these KPIs
- Goal to replicate SLL mechanism with targets on sustainable agriculture, outreach to smallholder farmers...

MARKET SYSTEMS DEVELOPMENT

M4P: MARKETS FOR THE POOR



TA/CAPACITY BUILDING
←

INFLUENCE
←

Source: The Springfield Centre (2008): The M4P operational guide, for DFID and SDC, Durham (UK).
See www.springfieldcentre.com

COMMON CHALLENGES RURAL FARMERS

- Inability or unwillingness to purchase quality inputs (seeds, fertilizer)
- Low availability of and/or lack of access to appropriate financing
- Limited technical farming skills (irrigation, pesticides, farm equipment and post-harvest management)
- Low productivity and quality of crops; lack of awareness of potential value
- Sub-optimal cooperative organization and management
- Lack of connection to input providers and markets
- Weak bargaining position with off takers, low negotiating skills, insufficient market information and other factors
- Low participation of women in higher value crops and minimization of “women’s” farm products



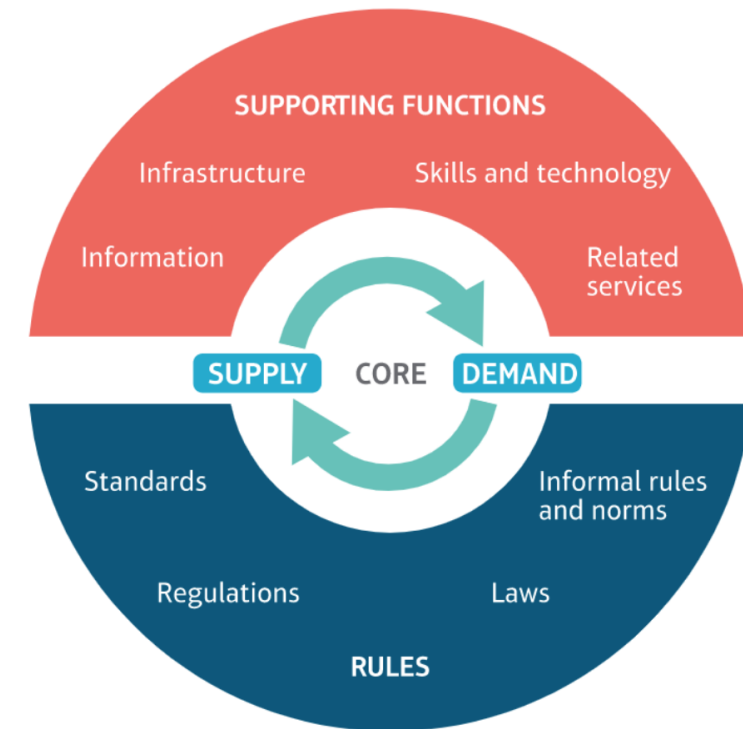
TWO CORE PILLARS OF STARS: STRENGTHENING AFRICAN RURAL SMALLHOLDERS

ACCESS TO FINANCE

- Capacity building of financial service providers (FSPs):
 - Develop crop-specific products for farmers
 - Enhancing risk management (A-CAT)
 - Business plan development
 - Deposit mobilization
 - International refinance





VALUE CHAIN DEVELOPMENT

- Capacity building of other Supporting Functions:
 - Access to information (business development services)
 - Infrastructure (e.g. cold storage services)
 - Skills provision (agri-technical skills services)
 - Technology (e.g. solar)
 - Related services
- Influencing underpinning rules



Source: M4P Operational Guide (2015)

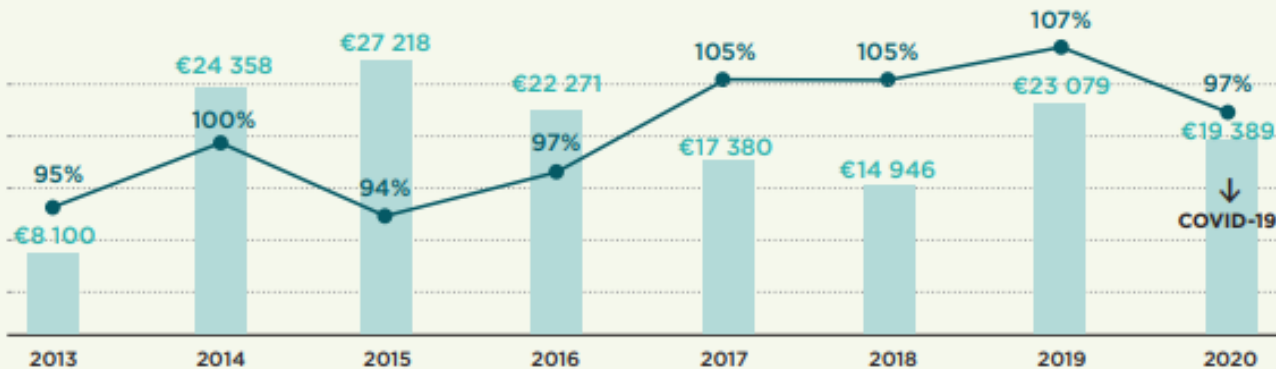
PRE-INVESTMENT TA: THE AFRICAN FACILITY (1/2)

	GOALS 	TARGET 	METHODS OF ACTION 	FUNDERS AND TECHNICAL PARTNERS
AFRICAN FACILITY (AF) 2013-2021	<ul style="list-style-type: none"> • Improve financial inclusion in sub-Saharan Africa • Strengthen selected MFIs according to criteria that are more flexible than the Foundation's traditional funding criteria, and support them towards financial sustainability 	<ul style="list-style-type: none"> • MFIs • Tier 2 and Tier 3 • Operating mainly in rural areas • Strong social vocation • Sub-Saharan Africa 	<ul style="list-style-type: none"> • Grant: €3.52 million • Ariz portfolio guarantee: €5.5 million • Line of credit: 6 million 	

- Focus on small MFIs (Tier 3) in SSA, with a strong presence in rural areas
- Main goal: support MFIs on their institutional strengthening, with ultimate goal to allow them to scale up, improve their financial and social performance, and comply with GCAF usual investment criteria

PRE-INVESTMENT TA: THE AFRICAN FACILITY (2/2)

DEVELOPMENT OF THE AVERAGE OSS OF ORGANISATIONS THAT RECEIVED TECHNICAL ASSISTANCE MISSIONS, BETWEEN 2013 AND 2020.



> Average amount of technical assistance spent per partner and per year

Source: Grameen Crédit Agricole Foundation Technical Assistance Evaluation Report for Better Direct Impact, Cerise, July 2021

“When we started the technical assistance, we were a small microfinance institution... We have grown and improved our risk management considerably”

MIF - Zambia -
beneficiary of the African Facility

TA FOR CLIMATE CHANGE ADAPTATION IN THE AGRO VALUE CHAIN

Building climate resilience for smallholder farmers through agricultural insurance

Nicaragua, FUNDENUSE, MICREDITO, FUNDESER



17.800 farmers covered

20% women
90% have <10 ha

5 payouts

For more than **USD 1 million**

Based on success, the project is being replicated in Bolivia

Sharing meteorological data and early alerts with smallholder quinoa producers

Bolivia, SINDAN

3 Communities with meteorological sensors installed

Producers to receive climate data and advice on how to adjust practices accordingly on their phone



Planting drought and pest-resistant sugarcane varieties to increase smallholder resilience

Paraguay, COOPERATIVA MANDUVIRA

33% avg. increase in yield (tons of sugar cane/ha) for new seed varieties

115 members planting new varieties to date



TA FOR STRUGGLING ORGANISATIONS

To strengthen the Brazil nut value chain in the Bolivian rainforest in the context of COVID-19 through supporting PAMOC's turnaround plan

Bolivia, PAMOC



The TA has helped the company monitor and achieve the KPIs defined in the restructuring plan agreed with Incofin and Alterfin, allowing for both investors to provide fresh capital.

Advisory Board in place
Renewal of ISO 22.000 certification
9 people coached

- Financial and administrative management
- Production processes
- Governance
- Commercial policy
- Suppliers' policies



CASE STUDY

FINANCING SOLAR INNOVATION IN SENEGAL

- Smallholder farmers in Senegal face challenges:
 - Access to sustainable technologies to support their production
 - High cost of fuel for irrigation
 - High start-up costs
- Networking & negotiating with MFIs & Solar equipment suppliers:
 - develop and adopt a tailored loan and solar equipment package for irrigation of onion crops
 - Designed for local smallholder farmers – enabling access to affordable technology
 - Repayments tailored to the agricultural cycle of crops
- Outcomes:
 - 2374 smallholders accessed solar loans
 - Reduced production cost by 23%
 - MFIs profits of 6%
 - Solar suppliers profits of 15-20%



CASE STUDY

IMPROVING COWPEA SEED MULTIPLICATION IN SENEGAL

- Seed multiplication in hands of government (old varieties)
 - Climate change impacts
 - Food security issues
- Agreement between network of producer organizations, POs and government on seed production: adopted by selected POs
- New varieties introduced
- Outcomes:
 - Increased volumes of cowpeas
 - POs now responsible for seed multiplication
 - Enhanced climate change mitigation & food security
 - Positive outcomes for women
- Additional issues:
 - No traditional market for increased produce
 - Business to Business event:
 - Exploring bakers as new market (wheat flour high, limited availability and high import cost)
 - Capacity building of PO members to improve quality cowpea production, harvest + post harvest handling





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