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The U.S. Government's Global Hunger & Food Security Initiative

GLOBAL LEARNING AND EVIDENCE EXCHANGE

M A R K E T S Y S T E M S

MARCH 21-24, 2017 // BANGKOK, THAILAND

Incorporating Finance into your Market Systems Programs



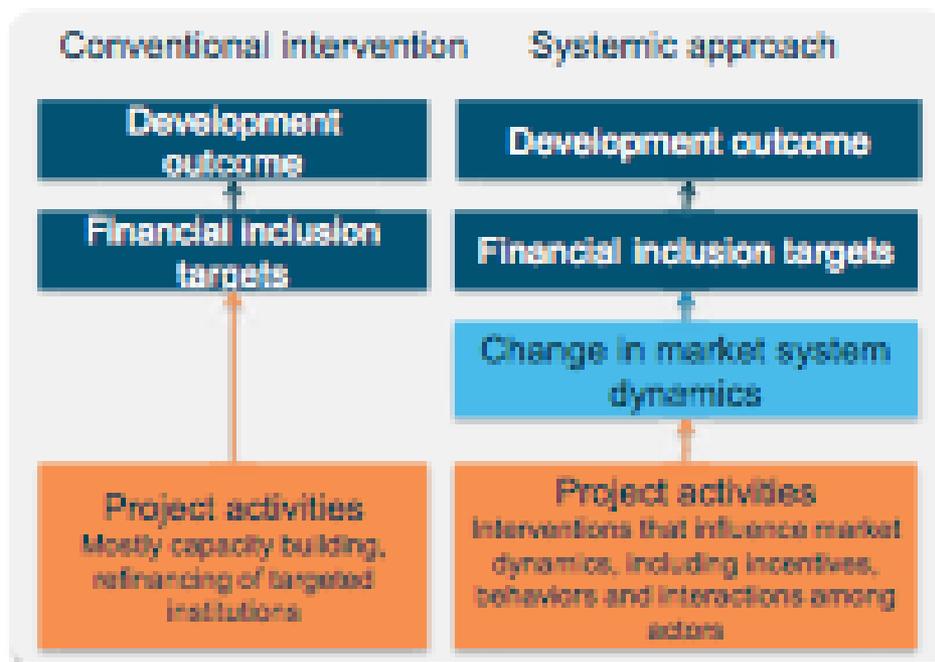
Objectives

- What do you need to know before considering an activity in finance?
- What tools are out there?



Who are the market drivers?

FIGURE 1. Theory of Change for Financial Inclusion Programs





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Brainstorming with User Centered Design

- How might we integrate finance into your Market Systems program?



Finance is no longer a stand alone activity

***Integrate* financial inclusion into your programs**

- Finance is a **tool** to support SHFs, SMEs, and Lead Firms to improve production, increase turnover and improve market linkages
- History shows us that stand-alone finance activities are not sustainable. *No more bank/MFI training please!*
- Select **influencers** of change, that will build competition and inclusive growth



Key Questions to Consider

- Is access to finance a significant barrier in your market systems program?
- What is the role of USAID? Is there additionality?
- Who is your target market (farmers, SMEs, lead firms)? What are their needs? Are there specific groups being excluded in the current financial system? Women, youth, minorities, regions of the country?
- Is there an insertion point later in the agricultural value chain that will enhance or undermine the effectiveness of the proposed intervention?



Key Questions to Consider

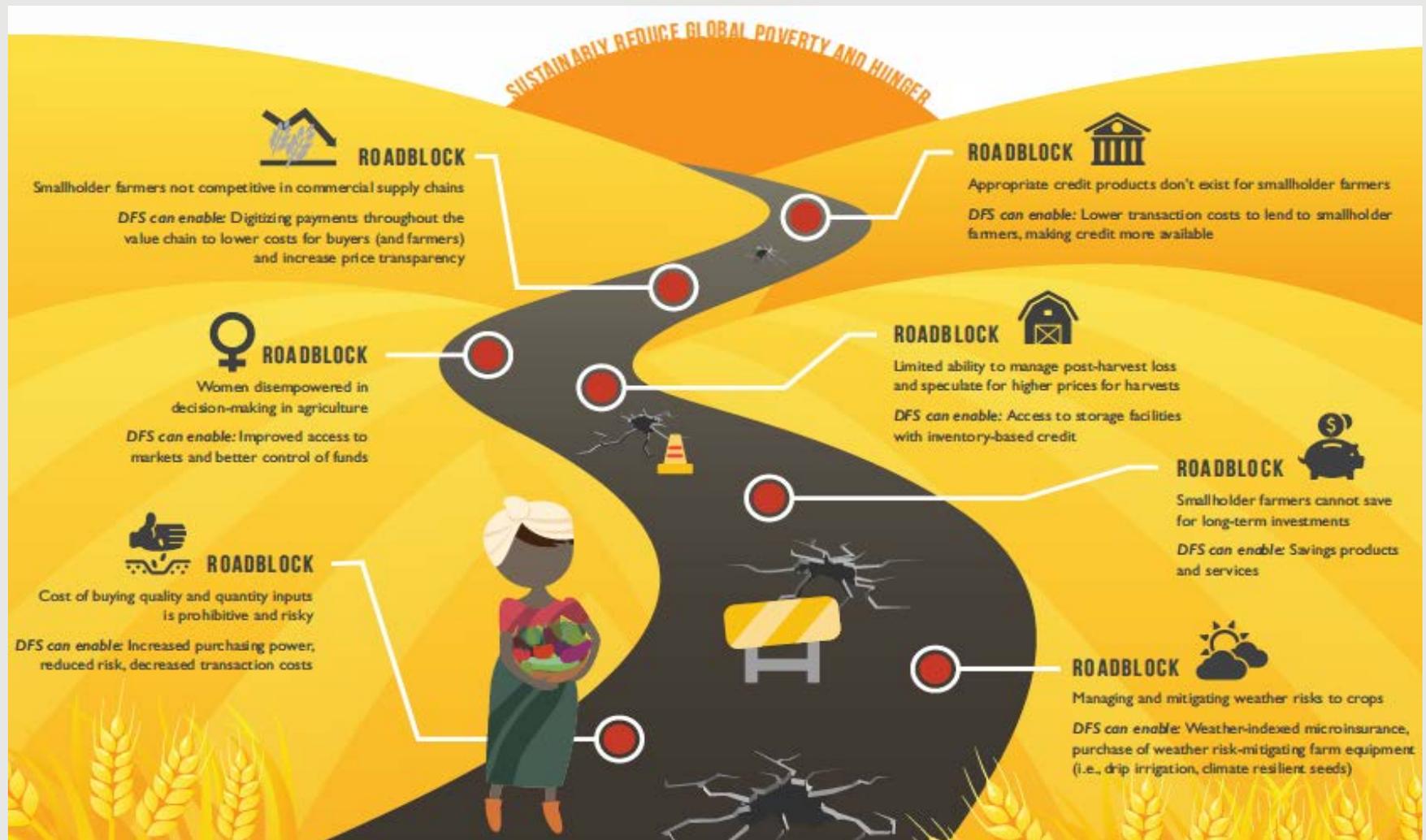
- Who are the suppliers of finance? Influencers of inclusive approaches to finance?
- How to crowd-in or facilitate providers that enhance the impact of access to financing/savings, such as financial literacy, business training, etc.?
- What constraints may inhibit the free flow of finance? Enabling environment?



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Digital Financial Services: multiple areas of intervention





Productivity Focused Mechanisms

Debt-Based Mechanisms:

- Bank/MFI Loan
- Lease
- Alternative collateral-based loans (e.g., factoring, warehouse receipts)
- Buyer check-off (credit)
- Agrodealer to farmer (business to consumer, B2C)
- Input supplier to agrodealer (business to business, B2B)





Productivity Focused Mechanisms

Non Debt-Based Mechanisms:

- Informal savings
- Formal savings
- Input selling mechanisms (pre-paid and layaways)
- Buyer check-off - non-credit
- Remittances
- Indexed-based (weather indexed)
- Personal insurance





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Growth-Focused

Debt-Based Mechanisms:

- Bank Loan
- Lease
- Debt instruments – convertible to equity
- Debt instruments – linked to revenues/dividends for prepayment

Equity-Based Mechanisms:

- Paid in capital
- Private investor/joint ventures
- Venture Capital





DCA Best Practices

- Win-win for both USAID and FI partner?
 - The existence of supporting technical assistance targeted at both the borrowers and lenders
- Lender with clear strategy for utilization and market penetration





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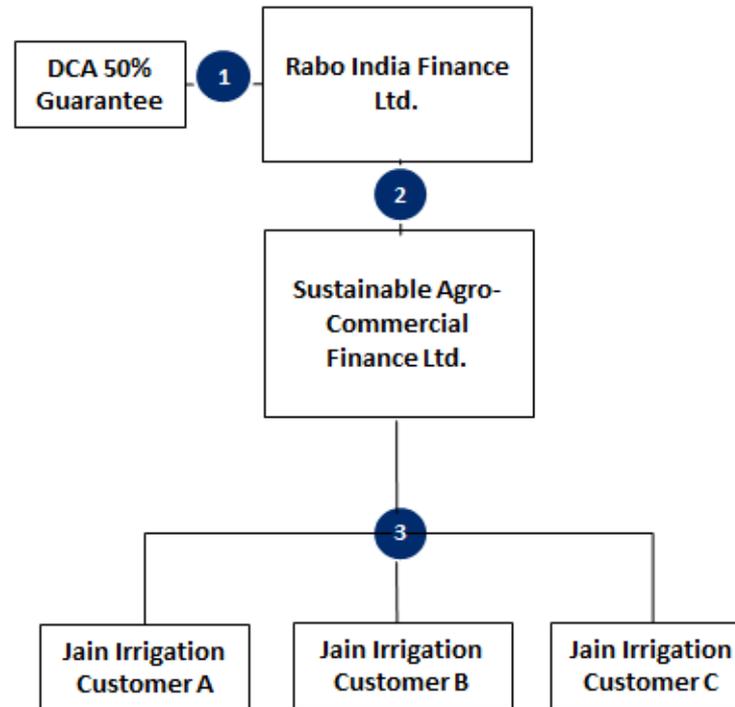
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Project description: A 50% pari passu Loan Guarantee (LG) to assist SAFL in raising much needed debt capital to fund its operations. SAFL is a new Indian NBFC subsidiary of Jain Irrigation, a global leader in water irrigation systems. The financing will enable SAFL to secure critical debt financing after just completing its first two years of operation. The transaction would not go forward without a USAID guarantee, given the limited scope that Jain Irrigation has to offer further parent/ sponsor guarantees as per its existing loan agreements with Rabobank. The NBFC will provide credit support for Jain's smallholder farmer customers in India who would otherwise not be able afford the long-term investment in a drip irrigation system. From a private sector engagement perspective, this deal enables USAID to work towards bolstering relationships with both Jain Irrigation and Rabobank.

General Features

- 1 DCA provides a 50% pari passu Loan Guarantee to Rabo Finance India.
- 2 Rabo India Finance extends an \$8.2M term loan to SAFL, Jain Irrigation's local Indian NBFC.
- 3 SAFL provides local currency loans to Jain Irrigation customers and dealers throughout India.

Structure





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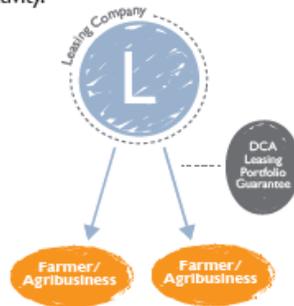
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Four new applications of these models

LEASING

Enabling farmers and agribusinesses to lease tractors and other machinery to improve productivity.

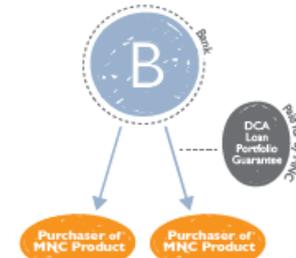
USAID provides a Leasing Portfolio Guarantee to a qualifying leasing company, enabling farmers to access equipment at affordable prices.



MULTINATIONAL CORPORATIONS

Increasing the purchasing power of small and medium enterprises (SMEs) operating in an MNC's sector.

USAID establishes a Loan Portfolio Guarantee with a bank to increase lending to SMEs. The guarantee is paid for by an MNC seeking to increase access to finance for the purchase of their products.

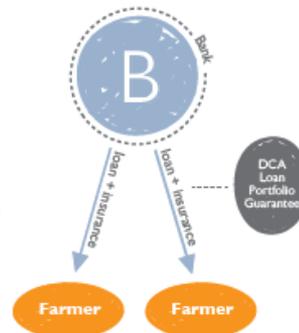


AGRICULTURE INSURANCE

Bundling loans with insurance products to protect farmers during drought.

USAID provides a Loan Portfolio Guarantee to a bank that will bundle its loans to farmers with agriculture insurance. As insurance payouts are made, the viability of agriculture insurance schemes is demonstrated — helping increase the uptake of agriculture insurance in Africa.

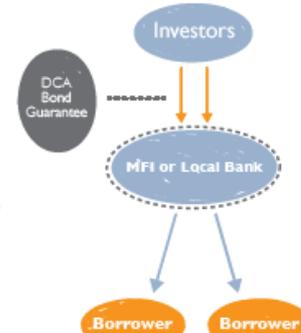
In the event of default, DCA shares losses beyond those covered by the insurance scheme.



LONG-TERM FINANCE

Helping local financial institutions access long-term capital to on-lend.

USAID provides a Bond Guarantee to an MFI or local bank seeking to raise funds on local capital markets. With affordable, long-term finance, local financial institutions can offer longer loan tenors to their customers.





Who do I turn to for assistance?

- Mission Investment Officers
- MPI - Agriculture Finance Working Group
- ASIA/EG
- DCA
- PCM



Additional Resources

- Guidance for feedback – discussion on Friday
- [Philippines Case Study](#)
- AVC case study



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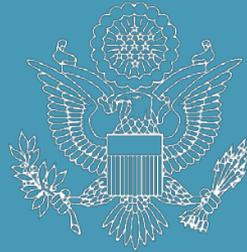
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