USAID Bureau for Food Security Agricultural Financing Strategic Support

Phase 1 & 2 report – Findings from Field Visits

Executive Summary and Honduras Extract

21 July 2017

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Summary: Our interviews drew out findings in several areas:

Shared themes from Agricultural Finance markets:

1. Significant **sources of finance** are available across markets in terms of both debt and equity…
2. …but these are **difficult to mobilize** for agriculture due to constraints affecting both investors and investees
3. The **policy environment** is a critical bottleneck, particularly in less mature markets
4. **Digital solutions** have roles to play especially in product distribution and risk management
5. **Additional products** represent exciting, but longer-term, opportunities

Perspectives on USAID programming:

6. USAID is viewed as having **clear strengths** around quality program delivery and convening / advocacy power although are not a technical leader and should improve contract flexibility …
7. The **relationship between USAID missions and DC** depends on specific relationships and is therefore non-standard across programs
8. **DCA** guarantees can be effective when institutions are sufficiently supported

Improving Agricultural outcomes through Finance:

9. **Investment** should focus on building market linkages across the value chain
10. There a range of **interventions** for USAID to consider

1. Significant sources of finance are available across markets

Bank finance

Large and Available

- Significant debt is available in the market
  - *"Banks have significant amounts of capital available to lend" – Rockefeller*
- Typically provided by formal institutions such as Commercial Banks and MFIs
  - *"Multiple local MFIs are supplying finance to MSMEs with commercial banks focus on the big projects"* – USAID MARKETS Kenya
- As well as community / cooperatives
  - "*Local financial cooperatives are the most effective tool to reach smallholders*" – FUNDER Honduras

Traditional Equity

Large but Latent

- Latent pool of funding available in the form of formal Private Equity and Impact investors…
  - *"There is material equity available in the market"* – USAID FIRM Kenya
- …as well as High Net Worth Individuals
  - *"There a material number of wealthy individuals who are looking to invest in business"* – USAID NEXT Nigeria

Other Finance

Currently Unobtainable

- Each geography appears to have a source of equity that is untapped due to lack of appropriate policies:
  - *"**Remittances** make up about 30% of the GDP of the country but all of this is consumed, government schemes have not been able to catalyze these funds"* – World Bank Nepal
  - *"**Pension Funds** in Nigeria are prevented from making equity investments by law, representing a material opportunity"* – USAID, Nigeria
  - *"**Commercial Paper and SACCOs** could be an opportunity for investment in Kenya but policy environment doesn't exist yet"* – FSD Kenya
  - "***Non-debt financing options** in Honduras are nascent*" – Across Interviews, Honduras

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2. But financing is difficult to mobilize due to constraints that affect both investors and investees

Investors

Agriculture is unattractive vs other sectors due to:

- Lower expected return on investment (ROI)
  - *"Typical agri-business ROI is 20% whereas we expect around 25-30% in other sectors"* – DEG West Africa
- Longer timeline to deliver return
  - *"Investments will take 2 years before they even start delivering cash flow"* – Sahel Partners FISFAP West Africa
- Higher actual investment risk
  - *"Climate change and pest challenges are increasing risk in the sector"* – Ficohsa Bank Honduras
- Higher perceived investment risk
  - *"Lack of understanding around sector dynamics increases risk perceptions" – USIAD Kenya*
- Lack of skill set amongst investees
  - "Investees lack basic skills around Strategy Design, Governance and Agronomic knowledge" – CIMMYT Nepal
- Few equity exit opportunities
  - *"The market is immature which means there are few exit opportunities – this is the biggest equity barrier here"* – DFID Sakchyam Nepal

Investees

Agri-businesses are generally smaller and less mature vs other sectors, and:

- Debt products do not meet borrower needs
  - *"**Interest rates are prohibitively high** for small and medium-sized businesses"* – Banhprovi Honduras
  - *"**Disbursement timings** are often not optimized for seasonality of agriculture businesses which reduces utility of loan"* – MARKETS USAID Kenya
  - *"**Repayment terms** ignore seasonality of the business since many businesses have no cash flow for multiple months in the year"* – Fintrac, USAID
- Equity investments are culturally unattractive to many entrepreneurs
  - *"Agri-businesses are run as family enterprises: they have little interest in sharing control of the business with an investor"* – Impact Investor, Nepal
  - *"Entrepreneurs typically remove all cash from a business at year-end, this kind of behavior is unpalatable for equity investors" – USAID NEXTT Nigeria*

3. The policy environment is a critical bottleneck, particularly in less mature markets

Government action	**Ag-focused Policy**	• Governments are prioritizing ag lending through **interest rate caps and lending quotas**, although these are **not always well-designed** and can lead to de-prioritization of the sector • Some government **guarantee schemes are being set up** and are effective in stimulating the market, but risk distorting incentives and behaviors over the longer-term • Land is still **owned by the state in many markets**, eliminating a source of collateral
	Financial Sector Regulation	• **Equity investment is curtailed** in some markets both by sector-based FDI restrictions and by prudential regulation of domestic pension funds • Prudential lending guidelines **restrict lending on moveable collateral or unsecured basis** in many markets, limiting agricultural lending
	Government capacity	• Policies and sector promotion schemes are sometimes viewed as **competing or inconsistently / poorly implemented** • **Contract enforcement is a major roadblock** to development of market linkage schemes
Gov't Investment	**Enabling environment & infrastructure**	• **Physical infrastructure** enables bank reach and financial inclusion which drives product awareness and distribution for the most inaccessible communities • **Digital infrastructure** enables high volume, low value transactions so is particularly pertinent to smallholder farmers • Countries are developing **central credit bureaus** to reduce risk and build trust, but they are at very low levels of maturity in most markets

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4. Digital solutions have a role to play in distribution of financial products as well as risk management

Relative market maturity

Digitally Ready

Kenya — *"Everyone has a bank account, mobile and probably uses M-Pesa too"* – Mastercard Kenya

Immature Digital Environment

Nigeria — *"Digital Inclusion is beginning for smallholders but many lenders lack a platform to push"* – Union Bank, Nigeria

Nepal — *"Digital is the big untapped opportunity that donors are pushing. The sector is nascent at the moment as literacy is so poor, but mobile remittances are prevalent"* – UNCDF Nepal

Honduras — *"Much of the population has a cellphone, but it is only used for leisure"* – Cadelga, Honduras

Potential role of digital

- **Reduce cost to serve** low value accounts and inaccessible regions where infrastructure is underinvested
  - The immediate opportunity could drive financial inclusion in inaccessible regions / nascent markets, thus acting as branch extensions eg through agent networks
- Enable **remote transactions** to be made between businesses
- Improve **risk management** processes, both by **tracking transaction data** and by **providing alternate credit scoring methods**
- There is an outstanding requirement, across geographies, for a consistent policy framework to sustainably enable digital markets

5. Additional products represent exciting but longer-term opportunities

Intervention	Market Need	Current Product Availability
Equipment Leasing	**High** • *"Significant latent opportunity for equipment leasing"* – GEMS4, Nigeria	**Low** • *"Developing the right business model is the critical challenge"* – Christoph Walters
Cash flow or moveable collateral-based lending	**High** • *"Banks cite lack of collateral as the key bottleneck to accessing finance for SMEs"* – Invest-H, Honduras	**Low** • *"Currently all lending requires collateral, early initiatives around psychometrics tests are promising"* – Mastercard, Kenya
Crop and inventory insurance	**High** • *"Insurance products are not properly understood or implemented by institutions nor trusted by borrowers. The market require innovation"* – AfDB, Africa	**Mixed** • *"There are no products that cover the real value of the crop, rather than just the inputs"* – DFID, Nepal • *"The government is missing appropriate regulation to stimulate the market"* – GEMS4, Nigeria
Warehouse Receipts	**Medium** • *"Enables price maximization as products can be sold throughout the year and value-add businesses (eg processors) can maintain access to product"* – SNV, Kenya	**Low** • "Some *local financial cooperatives are doing warehouse receipts but it is nascent*" – Fintrac, Honduras • *"lack of enabling sectors eg cold chain prevent warehouse receipt system"* – NEXTT, Nigeria

6. USAID is viewed as having clear strengths and weaknesses relative to other donors

Quotes from Interviewees[1]

Strength

- **Local Knowledge**
  - *"The missions and implementing partners have a good understanding of the local issues"* – Implementer
- **Quality Capacity Building Programs**
  - *"USAID's Capacity building activities are generally well regarded, so connecting beneficiaries to institutions would enable lending"* – Implementer
  - *"Stamp of approval from USAID is a big deal for borrowers"* – Implementer
- **Convening power**
  - *"USAID should be working to bring stakeholders together and drive top-down change"* – Government Agency
- **Policy Advocacy**
  - *"USAID have a good relationships with government and can influence the right people"* – Other Donor

Weakness

- **Flexibility** during contract implementation
  - *"Contract flexibility and donor responsiveness is a big issue for USAID, particularly when compared to others like DFID. It is hard to make contract changes or updates, which in turn reduces program impact"* – Implementer
  - *"It took 6 months to add each beneficiary organization, so we lost time. It is a particular issue in seasonal markets"* – Implementer
- **Technical Knowledge**
  - *"Central bureau don't have the technical expertise nor the field knowledge to design programs, they need to devolve as much of that knowledge as possible and contracts local experts"* – Implementer
  - *"USAID aren't thought leaders in the tech / financial space. Donors like BMGF and Mastercard are leading that area"* – Sector Expert

1. Interviews from Nepal, Nigeria, Kenya and Honduras

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7. The relationship between Missions and DC depends on specific relationships and differs by program

Quotes from Mission Staff[1]

	Description	Strength	Weakness
Quality of Central Programming	Central teams should **coordinate their program design** activities with the missions to align on local needs…	• *"The central team have been effective when they invest in sufficient implementation resources on the project and have a clear program design that we can support on"*	• *"Some research projects have lacked coordination with the mission team, resulting in a program design that couldn't work"*
	…and **invest in an appropriate delivery teams** to ensure successful implementation	• *"The central team have been effective when they invest in sufficient implementation resources on the project and have a clear program design that we can support on"*	• *"Central projects can be understaffed and we don't have the resources to run additional projects"* • *"When a centrally-run project is not going well, we need a process to influence central decision-making, this is hard at the moment"*
Relationship between Missions and Central Office[2]	Central office should **push relevant information** to the missions…	• *"We get a good amount of useful information from the Asia office but that might just be our good relationships there"*	• *"There is too much generic information sharing and central databases are hard to use"* • *"We don't get enough good information transfer across missions"*
	…and focus on **leveraging core competencies**	• *"As an organization, USAID have convening power – we can certainly get the right people in the room"*	• *"USAID central and BFS are too focused on pushing ideas out but lack understanding of the local or technical issues, including financing"*

1. Interviews from Nepal, Nigeria, Kenya and Honduras
2. Honduras commented that *"most funding goes to Africa / Asia therefore DC rightly reduce attention on Latin America so the mission is arguably more independent"*

8. DCA guarantees can be effective when institutions are sufficiently supported

Quotes from Interviewees[1]

Implementation

- Implementation can be **expensive** in terms of **time** spent by employees…
  - *"We were first introduced in 2011, opened in 2016 and we are just now getting 3 weeks of capacity building assistance"* – MFI, Nepal
- …and the **premium paid** upfront
  - *"The economics didn't stack up for us, the up front cost wasn't worth the risk of under-utilization"* – Bank, Nepal
- DCA should be accompanied by **capacity building** to support the institutions
  - *"At my last bank, no one on the sales side knew when to use the DCA. But even when they did, our applications were blocked by the credit team anyway"* – Bank, Nigeria
  - *"The DCA program in Honduras is run through an MFI that lacks knowledge/capacity in the ag sector; as a result loans don't make it to rural communities"* – USAID Mission, Honduras

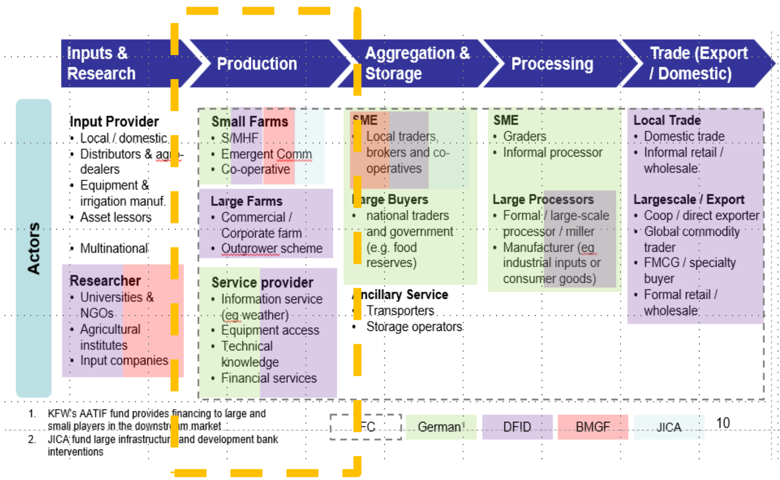
Impact

- Lending, backed by the DCA, can drive **material market growth**
  - *"Our DCA-related lending has been for projects that we never would have signed off before" – MFI, Nepal*
- But depends on the strength and capacity of the **institution's leadership…**
  - *"You need a committed team and expertise across the organization"* – Implementer, Kenya
- …as well as the **needs of the beneficiaries** which often don't match the DCA terms
  - *"We can't make working capital loans, but that is a material challenge for the market" – MFI, Nepal*
- **Further impact** could be delivered by coordinating with other USAID programs
  - *"DCA activities should be coordinated with other programs to multiply the impact"* – Implementer

1. Interviews from Nepal, Nigeria, Kenya and Honduras

9. Investment should focus on building market linkages across the value chain

Historical & Existing Programs focused on Production and SMEs…



Historically, donors focused on smallholder farmers and productivity…

…many donors, including DFID and KfW, are emphasizing the systems approach and broadening programming to include the entire value chain

…the next phase of programming should address market linkages

- **Agronomic practices remain important for productivity**, but improvements can be made by building market linkages
  - *"Strong market linkages are the critical piece of the puzzle, rather than just agro-training"* DEG, Nigeria
  - *"Thanks to our agronomic training and technical assistance, producers get the stamp of approval they need to strengthen trust with FIs and access financing"* – FUNDER, Honduras
- **Input Supply** and **Equipment provision** are critical bottlenecks for productivity
  - *"Farm productivity remains the critical challenge which means timely / quality inputs and improved post-harvest mechanization"* – GEMS4, Nigeria
  - *"Timely input provision and application requires integration across suppliers and producers"* – FSD Kenya
- **First-level Aggregation** and **Storage** are the key bottlenecks to improving outcomes in rural communities
  - *"The outstanding challenge is aggregation and market linkages post-harvest"* – ASI Nepal
  - *"Post-harvest linkages are critical for smallholder farmers in Africa" – Technoserve Kenya*

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10. There a range of interventions to explore in the next phase

Donor Interventions

Preliminary – Not exhaustive

Technical Assistance	Public Information	• Build a federated data set of beneficiaries from field programs to match with financing • Analyze and document value chains and integrate findings into lender processes
	TA for organizations	• Build pipeline of value chain actors for future investment • Build capacity of financiers to innovate new products reach new investees[1]
	Form Groups	• Formalize market linkages between value chain actors • Support formation of cooperatives
Advocacy	Inform	• Build internal knowledge sharing capability for best practices and AgFi learnings • Develop thought leadership on a specific topic eg mobile payments
	Convene	• Convene US companies to invest in attractive markets eg equipment supply • Convene donors and value chain actors to coordinate interventions in-country
	Lobby	• Advocate to government by convening government and the private sector
Direct Funds	USAID Funds	• Set up a low ticket size VC fund, offer seed funding / first-loss risk guarantee • Set up a Challenge Fund and prioritize critical bottlenecks for investment • Set up a Loss Fund to mitigate currency risk for private investors
	New Fund	• Set up a Peer to Peer lending platform that catalyzes latent funds • Develop a DIB product that others can leverage

1. Innovative financial products include: Working Capital Loans, Equipment Leasing, Goods-in-Transit Insurance, Crop Insurance, Forwards, Movable Asset Collateral, Trade Financing

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Key challenges are around capacity building & policy design

		Lending to Value Chain Actor				
	Challenge	Inputs	Production	Aggregation & Storage	Processing	Trade
Borrower	Awareness					
Borrower	1 Capacity	High	High	High	High	
Borrower	2 VC linkages	Mid	Mid	Mid	Mid	
Financer	Awareness					
Financer	3 Capacity	High	High	High	High	
Financer	4 Risk Management	High	High	High	High	
Financer	5 Product Terms			Mid	Mid	
Financer	6 Liquidity			Mid	Mid	
Financer	7 Cost to Serve		High	Mid	Mid	
Sector	8 Policy / Regulation	High	High	High	High	
Sector	Enabling Sectors					

Challenge: High | Mid | Low

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Borrowers lack basic skills to attract investment

	Challenge	Description	Impact on Market Actors	Importance	Intervention Example
Borrower	1 **Capacity**	**Lack of basic skills across:** • Governance structure • Business strategy • Business plan • Financial literacy • Agronomic knowledge	• **Financiers** cannot invest in entrepreneurs with material **skills deficiencies** but there is a lack of knowledge across all market actors: ○ **MSMEs across the value chain** lack a clear governance structure, well-articulated business strategy and even agronomic knowledge ○ **Smallholder farmers** are primarily challenged by financial literacy	**High** Critical challenge that prevents investors performing effective / accurate applicant diligence	• Capacity build businesses across key skills • Invest for multiple seasons to affect sustained behavior change • Match potential investors with the businesses
Borrower	2 **Value Chain Linkages**	• Limited relationship strength between value chain actors • Results in low trust… • …leading to a loose value chain that is hard to monitor and therefore unattractive to finance	• The lack of assured revenue pipeline and ability to forecast business profitability increases risks for financiers resulting in rejected applications for equity / debt **All value chain actors are affected:** • Agro-dealers lack a ready market for their products • Producers lack access to inputs and a guaranteed buyer of output • Processors / aggregators cannot predict or guarantee input volumes and prices making business plan challenging to rely on • Insurance can be leveraged by VC actors to mitigate production shocks (eg weather) but is not widely used currently	**Medium** Formalizing relationships across a value chain de-risks business activities, increasing attractiveness to a financing party	• Convene value chain actors to formalize purchasing agreements • Work with stakeholders for multiple successful harvests to instill behavior change • Prioritize tight value chains initially[1]

1. Commodities that lack opportunity for side-selling (specialty crops) or where transactions are higher frequency (eg dairy)

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Lender challenges are around building internal knowledge and systems (1/2)

	Challenge	Description	Impact on Market Actors	Importance	Intervention Example
Financer	3 **Capacity**	• Lack of knowledge across value chains and typical agri-business economics • Systems optimized for other sectors cannot support agri-businesses	• **Financer Understanding** of agri-businesses is poor, particularly within informal markets, so they cannot reliably diligence an application resulting in **inflated interest rates** on loans or **applicant rejection** • Although information availability is better within tight value chains[1] which increases financier comfort • **Financier Systems** are not optimized for MSMEs in terms of a high volume of low transaction value, so much invest in new capabilities / platforms	**High** Critical challenge that prevents investors performing accurate applicant diligence and fund disbursement	• Work with senior management to change strategy from top-down • Employ experts to capacity build the bank's team • Invest in appropriate systems / staff
Financer	4 **Risk Manage-ment Tools**	• Lack of understanding drives inflated risk perception • Appropriate risk mitigation tools required to manage a portfolio	**Lenders** are particularly affected: • Financiers should be able to design products and systems that flag risks early, trigger an appropriate intervention and mitigate aggregate risk at a portfolio level • Failure to do so overly-inflates risk estimation, resulting in application rejections and inflated lending rates	**High** Critical challenge that enables appropriate investment terms (eg interest rate)	• Build better credit scoring and data-sharing systems • Work with financial institutions to develop an insurance product that de-risks value chain financing

1. Commodities that lack opportunity for side-selling (eg tobacco) or where transactions are higher frequency (eg dairy)

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Lender challenges are around building internal knowledge and systems (2/2)

	Challenge	Description	Impact on Market Actors	Importance	Intervention Example
Financer	5 **Product Terms**	• Existing products do not meet the needs of customers	**SMEs** across value chain are particularly affected: • **Lenders** typically require material collateral, often exceeding the value of the loan, SMEs are unable to supply this, **preventing disbursement**. • **Lenders** won't rely on SME financial reporting (cash flow lending) given short business history and low reliability of borrowers • MFIs are able to leverage community groups to de-risk payments and therefore offer products with affordable terms	**Medium** Follows from capacity building and risk management tools (previous page)	• Understand customer needs • Develop products that meet these needs • Trial, test and iterate to drive scalability
	6 **Liquidity for Agri-culture**	• Availability of financing for agriculture sector	**SMEs** across value chain are particularly affected: • **Financiers** do not allocate liquidity for agribusinesses as higher returns are often available from lower risk sectors (eg Oil & Gas in Nigeria); • But, **lenders** can be forced to invest in agribusiness through the use of regulatory quotas	**Medium** Generally an attractive investment pipeline would drive liquidity into the market, although constraint varies by market	• Offer guarantees / risk sharing agreements • Set up funds that target particularly unserved value chain segments
	7 **Cost to Serve**	• Existing diligence, disbursement and investment management systems are too costly	• **Financiers** do not offer mid-size loans (eg between \$10k-200k)[1] since disbursement is unprofitable resulting in a **Missing Middle** • **Rural MSMEs** are supported by poor infrastructure and far from central hubs (eg non-urban) are expensive to serve	**High** Required once proposition to the market is well-defined	• Innovate new delivery mechanisms by leveraging existing market actors and technology to increase efficiency

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Government policy is often a critical challenge

	Challenge	Description	Actors Affected	Importance	Intervention Example
Enabling Sectors	8 **Policy / Regulation**	• Existing policy framework hinders market eg constrains liquidity or prevents market formalization	• **Entire value chains** can be affected by subsidies and grant schemes • Some investors seeking to build portfolio are cut out of ag sector lending due to **prudential regulation** or **investment restrictions** • **Agribusinesses** may choose to not access formal financing since business formalization increases tax burden	**High - Mid** Depends on market maturity	• Understand market dynamics and bottlenecks in AgFi supply • Build policy platform to advocate for change • Support government to design and deliver policy improvements

1. However: (1) do not have significant assets to offer as collateral, (2) lack sizeable / reliable cash flows (3) are expensive to serve through traditional products

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There were some clear nuances within each market

Performance vs Average of Surveyed Markets: Better | Same | Mixed | Worse

	Challenge	Kenya	Honduras	Nigeria	Nepal
Borrower	Awareness	High levels of financial inclusion and more mature value chains (eg coffee)	Smallholders lack financial literacy; other VC actors aware of options and well-equipped		Low levels of financial literacy, small plot sizes and nascent value chains
	Capacity				
	VC linkages		Strong market linkages		
Financer	Awareness	Leading market for Innovative financing (eg digital) drives improvements across financier capabilities, risk management and product innovation	Good understanding of the sector	Lenders tried and failed to enter market	Poor knowledge of the agri-space hampers capacity risk management and product innovation
	Capacity		Banks perceive material risk in production, resulting in limited products and liquidity for producers; but they serve large agri-businesses elsewhere in the market		
	Risk Management			High interest rates and currency risk reduces attraction of investment	
	Product Terms				
	Liquidity	Material liquidity and investee accessibility reduces cost to serve		Capital constrained since competing with profitable O&G[1] sector	Remittances drive liquidity
	Cost to Serve				Topography and poor infrastructure
Sector	Policy / Regulation	Mature Framework	Pro-ag policy, but mixed implementation	Catalyzing gov. guarantees	Pro-ag policy, but mixed implementation
	Enabling Sectors	Digital is advanced			

1. Oil and Gas

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The Agri-Finance market is split between small producers and larger agri-businesses

Performance vs Average: Better | Same | Mixed | Worse

	Challenge	Overview	Description
Borrower	**Awareness**	Smallholders lack financial literacy; other VC actors are aware of options and well-equipped	• Smallholders lack financial literacy and basic business skills • SMEs and larger agribusinesses have the market awareness and business know-how to access forms of financing
Borrower	**Capacity**		
Borrower	**VC linkages**	Strong market linkages outside of production	• The market has strong linkages, outside of the production stage; agricultural production has a fragmented smallholder base
Financer	**Awareness**	Good understanding of the sector	• Lenders understand the sector but won't serve smallholders, citing: collateral, farm resilience and price fluctuations etc as key concerns
Financer	**Capacity**	Banks perceive material risk in production, resulting in limited products and liquidity for producers; but they serve larger agri-businesses elsewhere in the market	• **Commercial lenders** are willing to lend to established businesses outside of production, but perceive the small-mid production segments to be too risky • **Limited equity investors** in the market as they prioritize other sectors, likely due to market consolidation • **Value Chain Finance** is offered to mid-size farmers and some smallholders • **MFIs** serve mid-size farmers but won't serve smallholders due to perceived risk • **Smallholders** remain mostly served through informal institutions: aggregators and the newly formed financial cooperatives
Financer	**Risk Management**		
Financer	**Product Terms**		
Financer	**Liquidity**		
Financer	**Cost to Serve**	Fragmented farmers and poor infrastructure	• Poor rural infrastructure remains a cost driver for lenders but smallholders are increasingly organized in coops / rural banks
Sector	**Policy / Regulation**	Pro-ag policy, but mixed implementation	• Government offers cheap financing to banks to on-lend but distribution is limited in reality; moveable property can be used as collateral, but no lenders do so
Sector	**Enabling Sectors**	Nascent digital space	• Material mobile penetration but limited digital financial inclusion • Underdeveloped weather monitoring hinders agri-practices and insurance market

1. Financial cooperatives, locally known as *cajas rurales*, are capitalized through the contributions of individual community members. They are not limited to the agriculture sector and can lend funds for non-agriculture purposes.

Strong market linkages are a key enabler for agriculture although productivity is challenged

Key: **Bottleneck** **Challenge** **Enabler**

	Inputs →	**Activity** →	**Output**
Challenge	*Access to quality goods and services*	*Efficient business processes*	*Value / Price maximization*
Farmers	• **Plot Size:** land holdings are small (<1Ha) and many farmers are not grouped in coops or enterprises; weak bargaining position for access to inputs and affordable lending • **Equipment (particularly Irrigation):** low investment in irrigation equipment and water management due to limited awareness and lack of financing/leasing options	• **Technical skills:** agronomic skills are outdated; slow adoption of modern practices resulting in poor farm resilience • **Literacy:** financial and business knowledge levels are poor • **Access to finance:** while large producers have access to credit, smallholders face significant challenges; high risk and cost-to-serve limit options	• **Market Linkages:** strong linkages in some value chains involved in exporting build trust within value chains. Risk sharing contracts exist between banks, producers, input suppliers and processors, but nascent • **Storage:** some cooperatives offering storage and warehouse receipts, but nascent
Other VC Businesses	• **Market formalization:** significant formalization in specific value chains • **Cooperatives:** exist but are poorly managed / nascent • **Input suppliers and exporters** provide pre-harvest financing and inputs	• **Business maturity:** enterprises in non-production sectors have reached scale particularly in tight value chains	• **Value-add services** exist, particularly in the coffee sector, however most processing is done by a few established players: limited opportunity for value addition among smaller players

Debt is available from commercial banks and informal lenders

		Debt	Equity
Scale of Finance for Agriculture	**What is the opportunity for private funding / liquidity?**	**Large** • Commercial banks provide finance to large and established agribusinesses • MFIs, VC actors (e.g. input suppliers), financial cooperatives are growing and there are many underserved communities	*Not raised as a priority during stakeholder meetings*
	Is agriculture a priority sector?	**Yes**, although commercial banks remain reticent to lend to the sector • Given agriculture's large share of the economy, the government is engaged in providing resources, providing policy direction, and setting up guarantee funds to lower costs and boost access • However, commercial banks are not mobilizing additional funds: they will invest if supported by government guarantees or other risk-sharing schemes • VC actors and non-bank financial institutions are actively lending to the sector	
	How available is financing for agri-business?	**Limited** for small- and mid-sized producers, but **Available** for large/mid-sized agribusinesses • Large/medium-sized agri-businesses have access through banks and MFIs • Small, poorer producers are mostly left out of the market; they access credit either through financial cooperatives, unregulated aggregators (*coyotes*), or trade finance • Interest rates are prohibitively high for smallholders	
Lender Delivery Capacity	*Market Knowledge*	• Commercial banks understand the sector, and consider the returns to serving producer SMEs to be too low • Financial cooperatives and input suppliers have strong relationships with producers	
	Risk management	• Commercial banks perceive the sector as high risk • Some risk-sharing partnerships[1] have shown success	
	Insurance / Guarantees	• Crop insurance is very expensive and only accessible to large producers • Public-private guarantee funds have had some success in boosting access	

Key: Bottleneck Challenge Enabler

1. Partnerships are between producers, upstream and downstream VC actors, FIs, and NGOs

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Smallholders lack access to affordable credit

		Smallholder Farmers	Commercial Agri-Businesses
Opportunity	**What is the size of opportunity by customer segment?**	**Large** • Lots of small farms (fragmented producer market) • Increasingly, smallholders are grouping into cooperatives and associations, which helps reduce risk and cost-to-serve	**Large and consolidated** • Consolidated group of input suppliers, processors, and exporters with established supply chains in many markets • Commercial banks serve larger businesses • Small-medium businesses struggle to obtain financing
Penetration of Current Services	**Does the segment have access to finance?**	**Limited**, but growing, as smallholders become financially included and set up cooperatives	**Mixed** • Large agribusinesses have access through commercial banks but mid-size struggle
	Source of finance	Financial cooperatives (*cajas rurales*), un-regulated intermediaries (*coyotes*), input suppliers	Scaled businesses access Commercial Banks Mid-size producers access MFIs and Trade Finance (eg through input suppliers and exporters)
	Product Design Tailored to customer	• Financial cooperatives have the reach and relationships to reduce cost-to-serve, however many lack capacity for tailored product design and cash flow management • Interest rates charged by intermediaries are too high for smallholders	• Large agri-businesses have access to both long-term and short-term financing options from commercial banks • MFIs offer mid-sized businesses both working capital and CAPEX, but usually require collateral
	Pipeline Quality	• Large pipeline of investees; however they lack financial/business skills • Many are not grouped in coops or associations	• Small pipeline of mature agri-businesses, but businesses are mature with good management practices and access to markets
	Cost to serve	• High cost to serve; volumes are often insufficient to justify investment • Can be served profitably by local financial cooperatives	• Cost to serve limited challenge given scale and market consolidation • However, serving mid-sized producers is still expensive; lenders often require guarantee funds

Key: Bottleneck Challenge Enabler

Government policies could be catalytic, but implementation is a challenge

Key: Bottleneck Challenge Enabler

Government action

Ag-focused Policy

- **Interest rates** to smallholders are capped by government (FIRSA) to make lending affordable for smallholders
- **Guarantees** are available through public-private partnerships with commercial banks
- **Credit access** for farming of specific, high value crops to drive value-added exports
- **Land Ownership**: land holding is still informal as many farmers lack official land tenure

Financial Sector Regulation

- **Collateral** is a bottleneck as formal lenders don't accept rural land; banks cite lack of clear titles and low land values as key concerns; movable assets can be used as collateral legally, but few banks will accept them
- **Oversight** of financial coops is poor, since are informal organizations, which limits access to credit from second-tier lenders

Government capacity

- **Policy implementation** is a challenge owing to mixed incentives and sub-optimal policy design
  - Limited access to low-cost government-backed credit as these funds are mostly administered by commercial banks who lack the rural footprint and incentives to lend to smallholders
  - Lack of focus on non-export crops that are still a significant portion of the sector

Gov't Investment

Enabling environment & infrastructure

- **Physical infrastructure** is a challenge with low-quality weather monitoring stations and poor rural roads
- **Digital infrastructure** is well-penetrated but not being applied to agriculture finance; much of the population has a cellphone, but it is only used for leisure
- **Institutional Trust** has been damaged by historic government debt forgiveness programs which have since discouraged farmers from repaying loans as well as banks from lending

Interviewees proposed several types of interventions

Donor Interventions

Mentioned in: **Honduras** Other Country

Technical Assistance	Public Information	• Build a federated data set of beneficiaries from field programs to match with financing • Landscape value chains and integrate findings into lender processes
	TA for organizations	• **Build pipeline of value chain actors for future investment** • **Build capacity of financiers to innovate new products reach new investees**[1]
	Form Groups	• **Formalize market linkages between value chain actors** • **Support formation of cooperatives**
Advocacy	Information	• Build internal knowledge sharing capability for best practices and AgFi learnings • Develop thought leadership on a specific topic eg mobile payments
	Convene	• Convene US companies to invest in attractive markets eg equipment supply • **Convene donors and value chain actors to coordinate interventions in-country**
	Lobby	• **Advocate to government by convening government and the private sector**
Direct Funds	USAID Funds	• Set up a low ticket size VC fund, offer seed funding / first-loss risk guarantee • Set up a Challenge Fund and prioritize critical bottlenecks for investment • Set up a Loss Fund to mitigate currency risk for private investors
	New Fund	• Set up a Peer to Peer lending platform that catalyzes latent funds • **Develop a DIB product that others can leverage**

1. Innovative financial products include: Working Capital Loans, Equipment Leasing, Goods-in-Transit Insurance, Crop Insurance, Forwards, Movable Asset Collateral, Trade Financing