

# Optional dial-in information for today's webinar

Webinar: How to engage with finance providers on agricultural programs

**Dial-in  
information**  
*(in case of technical  
difficulties)*

- Toll-free number (U.S. & Canada): (888) 330-1716
- International dial in number: 1-713-353-7024
- Participant Code: 2322896#

**Other  
questions or  
concerns**

- If you have any technical difficulties and/or want to receive a PDF copy of the presentation please email Patrick Starr at [pstarr@usaid.gov](mailto:pstarr@usaid.gov).



**USAID**  
FROM THE AMERICAN PEOPLE

# How to engage with finance providers on agricultural programs

# Planned webinars on agricultural finance

Topic	Date
Mobilizing capital for agricultural development with the Development Credit Authority	September 26th, 10 a.m. EST
Investing in agribusinesses: What makes an agribusiness attractive from an investor's perspective?	October 10 <sup>th</sup> , 10 a.m. EST
<b>How to engage with finance providers on agricultural programs</b>	<b>TODAY!</b>
How to use agricultural finance interventions to drive youth employment	November 7 <sup>th</sup> , 10 a.m. EST
Investor perspectives on agriculture in emerging markets	December 5 <sup>th</sup> , 10 a.m. EST

# Learning objectives

- To understand **how different finance providers can support USAID agricultural programming**
- To understand **the commonalities and divergences between different types of finance providers in the market**
- To understand **when and how to choose between different finance providers and how USAID can most effectively engage with them**
- To **walk through a sample case study on engaging with a finance provider** where participants will review what kinds of approaches work and what to look out for

# Your presenters today



**Shyam Sundaram** is an Associate Partner at Dalberg Advisors and leads Dalberg's work in Talent, Trainings and Leadership programs. Shyam also leads much of Dalberg's work on agriculture and food security and previously designed and facilitated a three-day AgFinance Training for USAID staff in Washington, DC.



**Mark Pedersen** is a Project Manager at Dalberg Advisors where he focuses on inclusive finance, strategy and Base-of-the-Pyramid business models. Mark has worked extensively in emerging markets as both a consultant and an entrepreneur, including as the co-founder and CFO of a for-profit social enterprise in Latin America.

# Rules of the Road



***Ask questions – this is a learning environment!***



***When not talking, remember to mute yourself!***



***If anything is unclear ... Please flag! It may be unclear to someone else as well.***

# Key terms we will use today

## *Investment Terms*

	Definition
<b>Debt</b>	An amount of money borrowed by one party from another.
<b>(Stockholders') Equity</b>	A stock or any other security representing an ownership stake.

## *Types of Finance Providers*

	Definition
<b>Angel investor</b>	Angel investors invest in small startups or entrepreneurs. The capital is typically used to support a company through its early stages.
<b>Microfinance bank</b>	Microfinance is a type of banking service that is provided to low-income individuals or groups who otherwise would not have access to financial services.
<b>Impact investor</b>	An investor who seeks both a financial return as well as to generate positive social and/or environmental impact through their investment.
<b>Commercial bank</b>	A type of financial institution that accepts deposits; offers checking account services; makes business, personal and mortgage loans; and offers basic financial products to individuals and small businesses.

# Agenda for today

1

**The role of finance providers in agricultural finance programming**

2

What to look for when partnering with a finance provider on agricultural programs

3

How to engage with different types of finance providers on agricultural programs

4

Interactive case study

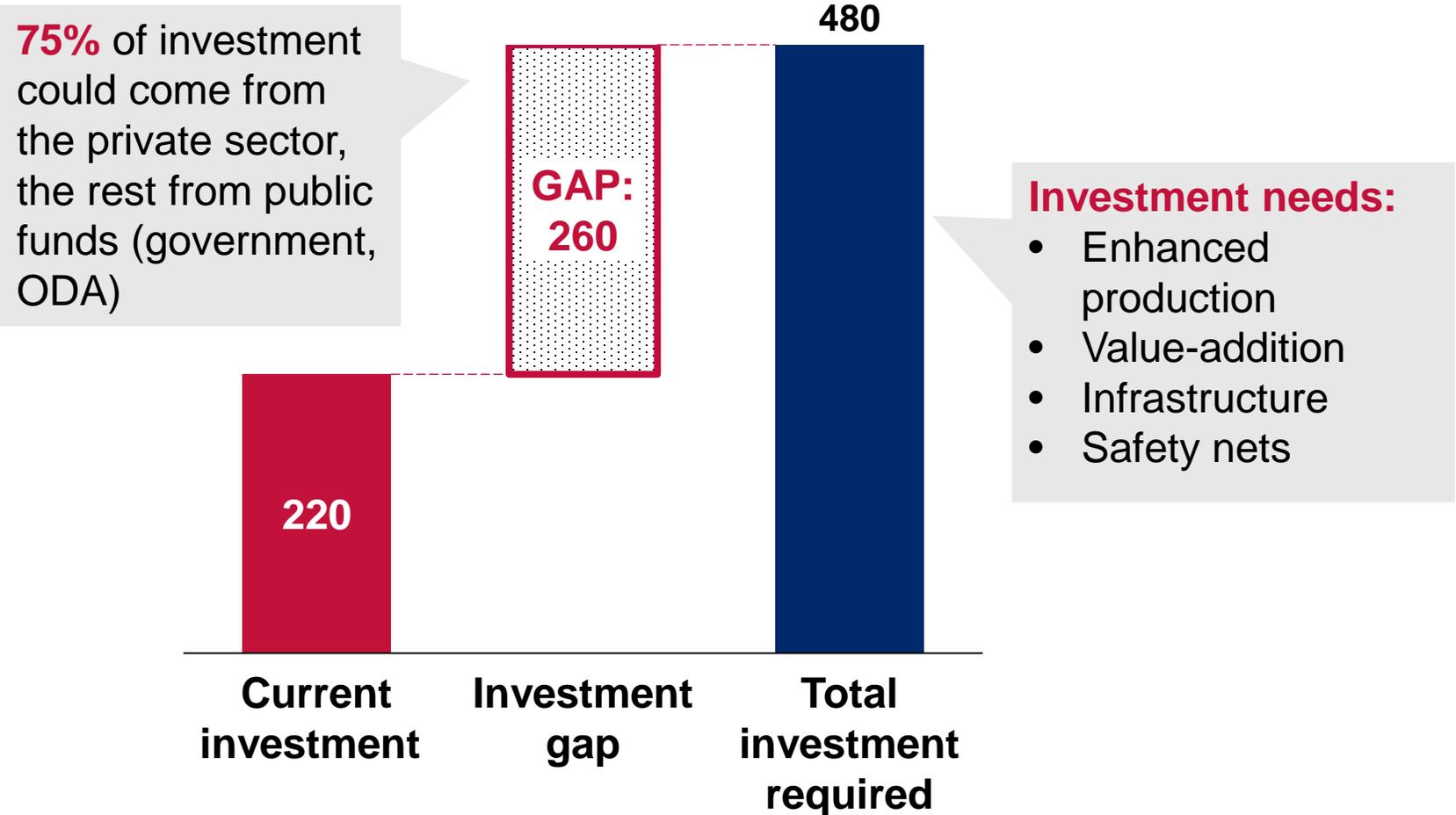
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Concluding thoughts

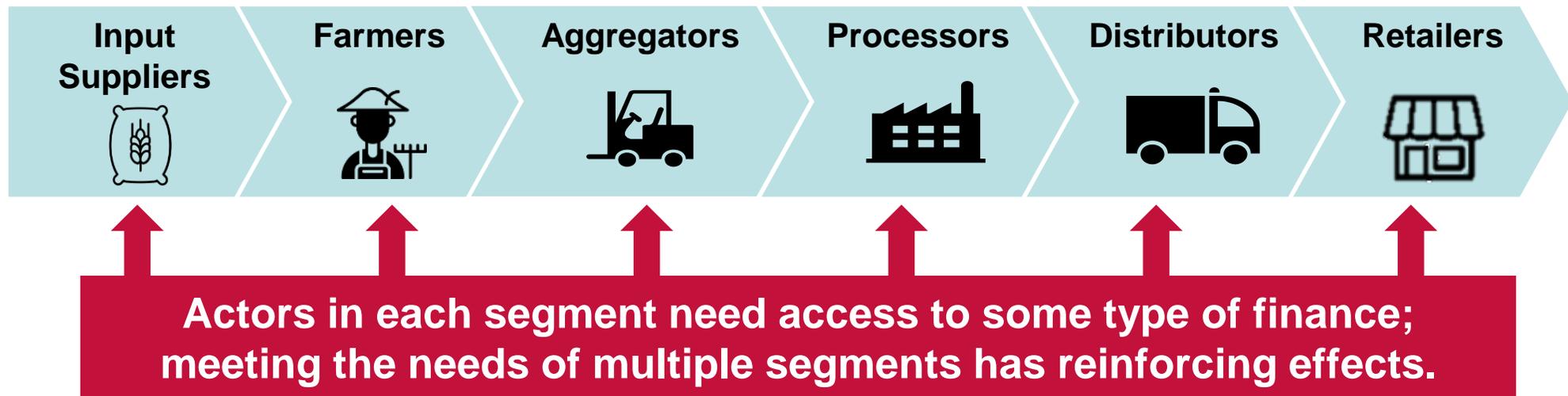
# Refresher: There is a large unmet need for agriculture finance...



## Estimated annual investment needed in agriculture and food security to reach SDG 2: Zero Hunger by 2030 (USD billion / year)

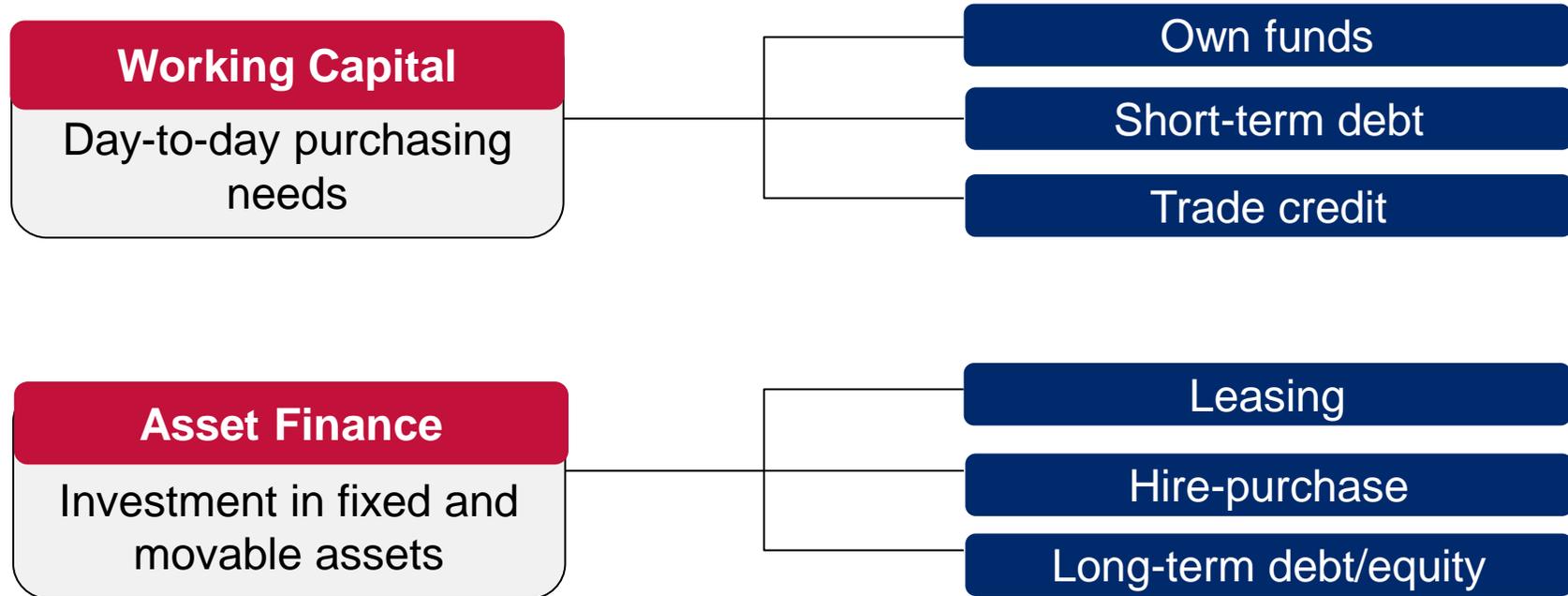


## ... and agribusinesses across the value chain need finance

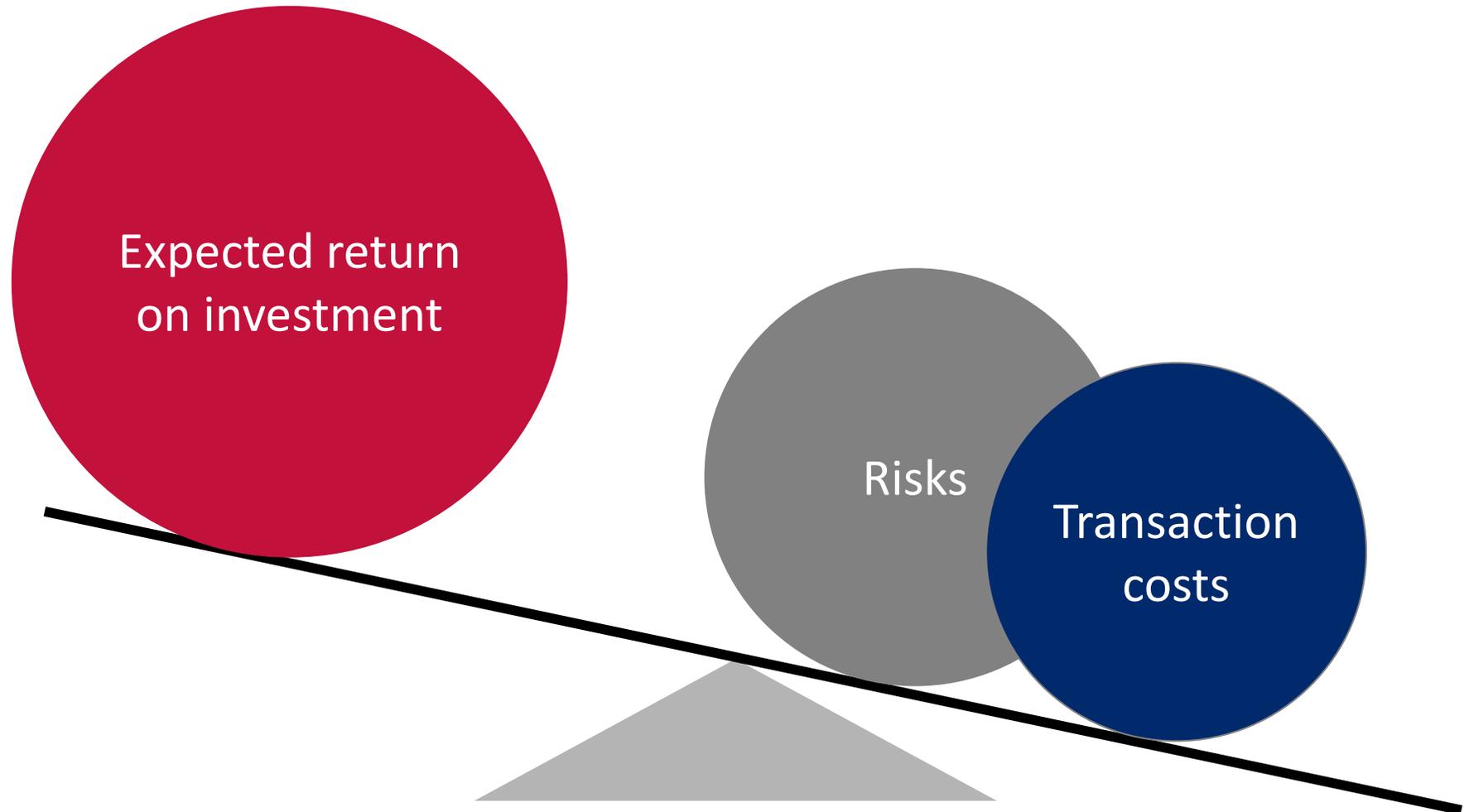


# Agribusinesses need different types of finance...

[Non-exhaustive]

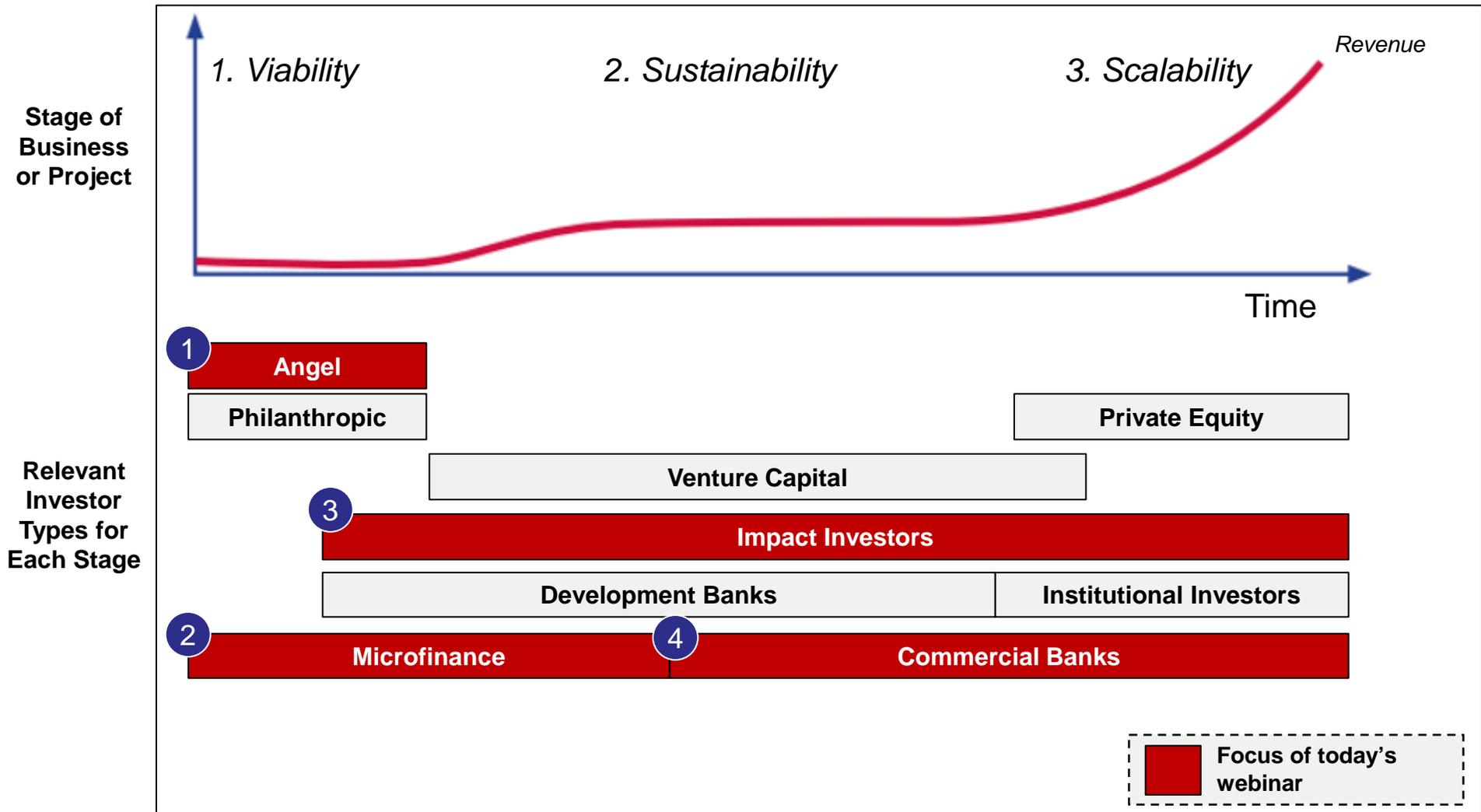


**... but many investors will not provide finance because they believe the return is too small relative to risks and costs**



# Different finance providers focus on different stages of the agribusiness lifecycle; we will focus on four of them today

The three stages of an agribusiness and when finance providers typically invest<sup>1</sup>



# The four types of agricultural finance providers we will cover today are intentionally very different from each other

	<u>What they do</u>	<u>What they care about</u>	<u>Main products</u>
1 <b>Angel investors</b>	<ul style="list-style-type: none"><li>• Individuals who provide capital to early-stage “agri-entrepreneurs”, usually those with innovative business models</li></ul>	<ul style="list-style-type: none"><li>• The entrepreneur’s vision and a high potential return on investment, typically through selling the company</li></ul>	<ul style="list-style-type: none"><li>• Equity investments</li></ul>
2 <b>Microfinance banks</b>	<ul style="list-style-type: none"><li>• Provide capital to MSMEs in agriculture (including smallholders) who generally do not meet the requirements for a commercial bank loan</li></ul>	<ul style="list-style-type: none"><li>• Primarily managing risk, but also driving returns, impact and leveraging additional support from development actors</li></ul>	<ul style="list-style-type: none"><li>• Short-term debt</li></ul>
3 <b>Impact investors</b>	<ul style="list-style-type: none"><li>• Provide capital in various ways to mid-sized agribusinesses which generate social impact</li><li>• Note: There is a wide range of strategies in this sector</li></ul>	<ul style="list-style-type: none"><li>• Strong potential for social impact, ability to be additive in the sector (i.e., addressing loan sizes that are too big for microfinance, too small for banks)</li></ul>	<ul style="list-style-type: none"><li>• Diverse set of products for investing equity and/or long-term debt</li></ul>
4 <b>Commercial banks</b>	<ul style="list-style-type: none"><li>• Provide working capital or growth capital to businesses with a demonstrated track record</li></ul>	<ul style="list-style-type: none"><li>• Managing risk by working with clients with a good credit history, valuable assets and stable cash flow</li></ul>	<ul style="list-style-type: none"><li>• Short-term debt</li><li>• Long-term debt</li></ul>

# How can finance providers help? As an example, loans from an impact investor helped a Haitian aggregator to triple exports

COOPCAB, Haiti<sup>1</sup>



**Finance need.** A coffee aggregator in Haiti had limited access to credit but needed working capital to increase its purchase of locally-sourced coffee for international markets.

**Finance solution.** Root Capital, an impact investor, provided a total of USD 350,000 in two working capital loans.

**Outcome & impact.** The aggregator increased its coffee purchase from 40,000-80,000 pounds to 200,000 pounds, improving the annual income of more than 1,000 additional farmers by USD 40-250 per year (in a country where average per capita income is only USD 660).



A truck-trailer load of coffee in Haiti.<sup>2</sup>



A beneficiary of Root Capital's loans.<sup>1</sup>

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Interactive case study

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Concluding thoughts

# Missions can use a four-step process to select the right partner; it starts with identifying the specific problem



# 1 Clarify the problem to be solved with (additional) commercial capital

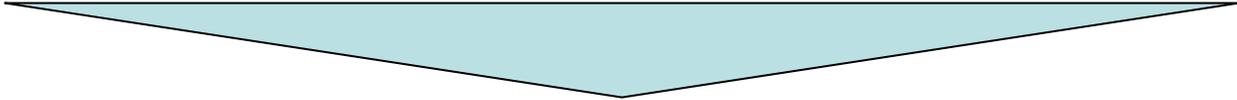
## Key questions to answer

**What is the specific problem in the agricultural system or value chain that USAID is trying to solve?**

- How can catalyzing **commercial investment** help to solve this problem?
- **What related challenges need to be solved** to make an investment successful?

## Pitfalls to avoid

- **Focus on a specific problem or set of problems** as opposed to larger, more systemic issues
- **Ensure that the specific issue(s) would benefit from additional private sector capital**



**GOAL: Identify a specific barrier in an existing agriculture development program where (more) commercial investment can help**

# Example of Step 1: Colombian dairy farmers have difficulty increasing productivity due to a lack of capital

**What is the specific problem?** Small-scale Colombian dairy farmers do not have sufficient capital to grow, leading to low sector competitiveness.<sup>1</sup> For example, a Colombian milk cow produces 4-15 liters/day compared to 15-20 liters/day/cow in Argentina.<sup>1,2</sup>

**How can commercial capital help?** Access to short-term loans would help dairy farmers grow by facilitating the purchase of more nutritious feed, medicine, better milking equipment and improved facilities.

**What are the related challenges?** Most small-scale dairy farmers lack business management skills as well as the knowledge of how loan products work.



A Colombian dairy farmer. Photo credit: CIAT.<sup>3</sup>

**USAID objective: Help dairy farmers grow by facilitating access to commercial loans**

Source: 1. *Colombia Dairy Value Chain Project Evaluation Report*, New Zealand Foreign Affairs & Trade Aid Program, May 2017. 2. *Argentina Profile: Animal Waste Management Methane Emissions*, Methane to Markets, September 2006. 3. *Boosting Agriculture as Key to Lasting Peace in Colombia*, CIAT website, accessed October 15, 2018.

## 2 Identify the best-suited finance provider to help with the problem

### Key questions to answer

**Who is the best suited type of financial provider to help with this problem?**

- What **specific kinds of commercial investments** would help to solve this issue?
- What is the **(approximate) size** of the investment needed?
- Does the **business case** for investment already exist?
- **How risky would you classify this investment** (i.e., are there assets to be used as collateral, is there a history of lending to this sector, etc.)

### Pitfalls to avoid

- **Go into the process with a specific solution in mind** – this will limit opportunities to consider alternative options for appropriate finance providers
- **Understand the business case for a commercial investment, not just the impact case** – finance providers care about social impact but they are primarily driven by financial responsibilities
- **Think about the capital needed in the short-term, not just the total amount** – promising returns on initial investments can often unlock additional capital

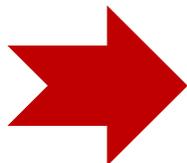
**GOAL: By articulating the risk / reward ratio, identify the most appropriate finance partner for this specific challenge**

# Exercise: Matching different commercial finance-related challenges with different types of finance providers

## Scenario

## Who is the best fit partner?

An entrepreneur has developed a new technology for preventing crop spoilage. The early testing results are promising and she would like to start commercializing it.



Angel investor

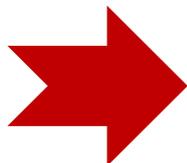


Microfinance bank

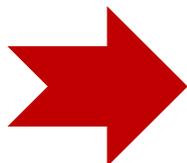
Impact investor

Commercial bank

A large mango farm has strong sales nationally and is now looking for capital in order to expand sales into a neighboring country.



A smallholder cashew farmer is profitable but unable to get a loan to purchase higher-yield seeds and better fertilizer which would allow him to increase production.



# Example of Step 2: Colombian dairy farmers need small short-term loans for working capital, a need best served by microfinance

**Recap of Step 1:**  
**What is the specific problem?**

**Small-scale dairy farmers in Colombia do not have sufficient capital to grow their business, leading to industry stagnation relative to other sectors.**

**Step 2:** What specific kinds of commercial investment would help to solve this issue?

- **Small loans** for working capital
- Loans which require **no collateral**
- **Large target borrower population**



**Microfinance banks** work with MSMEs who need working capital but cannot qualify for traditional bank loans

### 3 Refresher: There are five main tools USAID can use when engaging with finance providers on agriculture

	<u>USAID tool</u>	<u>When tool is typically used in agricultural finance</u>
Financial	<b>Grants</b>	<ul style="list-style-type: none"><li>• Demonstrate project viability and/or scalability; reduce lending costs in order to improve the risk vs. return profile</li></ul>
	<b>Guarantees</b>	<ul style="list-style-type: none"><li>• Reduce the risk to a lender by providing a partial loan repayment in the case of default</li></ul>
Non-financial	<b>Policy advocacy</b>	<ul style="list-style-type: none"><li>• Influence changes to public policy that affect the finances of agribusinesses</li></ul>
	<b>Convening</b>	<ul style="list-style-type: none"><li>• Promote communication, coordination and collaboration among different stakeholders in agriculture</li></ul>
	<b>Technical assistance</b>	<ul style="list-style-type: none"><li>• Provide a specific type of technical support to actors along the agricultural value chain and/or investors</li></ul>

### 3 Shortlist the specific tools that USAID can use to catalyze finance

#### Key questions to answer

What specific tools can USAID use to help catalyze private sector finance?

- Which USAID tool is most **appropriate** for the specific issue that was identified in Step 1?
- Aside from the primary tool, **what additional USAID tools could be used to support the program?**

#### Pitfalls to avoid

- A finance provider may want a **free resource without committing resources** – gauge their interest by asking them to co-pay for technical assistance after a market opportunity has been identified
- **Make sure you clearly understand the problem before looking at solutions** – solutions in search of a problem is rarely an effective approach



**GOAL: List the combination of USAID tools that can be applied to incentivize commercial investment**

# Example of Step 3: USAID can reduce the risk for a microfinance bank by providing a loan guarantee and additional support

**Recap of Step 1: What is the specific problem?**

Small-scale dairy farmers in Colombia do not have sufficient capital to grow their business, leading to industry stagnation relative to other sectors.

**Recap of Step 2: What specific kinds of commercial investment would help to solve this problem?**

Microfinance banks work with MSMEs who need working capital but cannot qualify for traditional bank loans

**Step 3: What specific tools can USAID use to help catalyze private sector finance?**

The primary tool USAID can provide is a **loan portfolio guarantee (LPG)** through the Development Credit Authority (DCA) to reduce the credit risk for Colombian microfinance partners that invest in the dairy sector.

Additional tools to consider using include:

- **Technical assistance** to help financial institutions to tailor their loan products to dairy farmers
- **Convening** of insurance firms and lenders to create hybrid loan-insurance products to support the farmers
- **Grants** to fund pilots that demonstrate proof-of-concept for both farms and microfinance partners

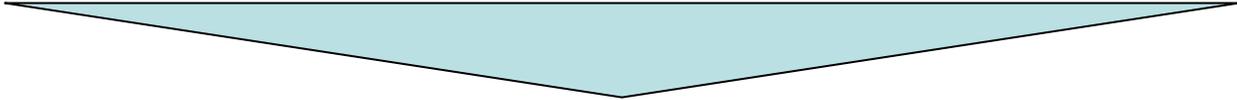
## 4 Start outreach to specific firms based on interest and project needs

### Key questions to answer

- Is the finance provider **interested in possibly investing in the specific sector and/or companies** that USAID works with?
- Is the finance provider **willing to commit resources** to a partnership with USAID?
- Is the finance provider **willing to receive support from USAID only after committing their own capital?**

### Pitfalls to avoid

- **Avoid interacting with only one finance provider at a time** – individual conversations are necessary but before making any decision, talk to several firms and, ideally, compare and contrast their levels of interest



**GOAL: Identify a group of committed finance providers and interact with all of them before making any partnership decisions**

# Sample scorecard: Illustrative criteria for narrowing the list of potential finance providers

## Potential scorecard template

Criteria	Answers to key questions	Assessment
<b>Level of interest</b> <i>(Most important criteria)</i>	<ul style="list-style-type: none"> <li>Does the finance provider appear interested and excited about a potential collaboration?</li> <li>Is the finance provider willing to commit its own resources to the partnership?</li> </ul>	High / medium / low
<b>Applicable Deal size</b>	<ul style="list-style-type: none"> <li>Does the finance provider already make deals of the size needed for the agricultural program?</li> </ul>	High / medium / low
<b>Experience in agricultural space</b>	<ul style="list-style-type: none"> <li>Does the finance provider already work in the agriculture sector? If so, which sub-sectors?</li> </ul>	High / medium / low
<b>Relevant geographical footprint</b>	<ul style="list-style-type: none"> <li>Which finance providers operate in the region(s) where the agricultural project is located?</li> <li>If the finance provider doesn't operate in the relevant region, could they easily expand there?</li> </ul>	High / medium / low
<b>Reputation and standing</b>	<ul style="list-style-type: none"> <li>Does the finance provider have a good reputation with customers and the government?</li> </ul>	Strong / middling / weak
<b>OVERALL ASSESSMENT</b>	Do you think this is a potentially worthwhile partner to pursue further?	Pursue / further questions / do not pursue

## Example of Step 4: To help dairy farmers USAID considered working with a microfinance bank that scored high on most criteria

Criteria	Answers to key questions	Assessment
<b>Level of interest</b> <i>(Most important criteria)</i>	<ul style="list-style-type: none"> <li>The bank expressed <u>strong interest in partnering with USAID</u> and had a track record of successful collaborations with other development actors</li> </ul>	High
<b>Applicable Deal size</b>	<ul style="list-style-type: none"> <li>The bank already provided loan sizes close to the amount needed by dairy farmers</li> </ul>	High
<b>Experience in agricultural space</b>	<ul style="list-style-type: none"> <li>The bank <u>did not have experience in dairy but had worked in other agricultural sectors</u></li> </ul>	Medium
<b>Relevant geographical footprint</b>	<ul style="list-style-type: none"> <li>The bank had a national presence including a few branches in a <u>few rural areas close to many dairy farms</u></li> </ul>	Medium
<b>Reputation and standing</b>	<ul style="list-style-type: none"> <li>The bank was <u>widely respected nationally</u> as both a leader in microfinance as well as for their social impact</li> </ul>	Strong
<b>OVERALL ASSESSMENT</b>	<ul style="list-style-type: none"> <li>The bank met the most important criteria for a potential partnership, starting with their high level of interest</li> </ul>	Pursue

# Key takeaways



- **Ensure you have identified the specific commercial finance-related challenge to agricultural development before any outreach.** Commercial investment can help to overcome many development barriers but it is not always the best first step, or even the right solution in many cases.
- **Identify the specific ways USAID can incentive a finance provider to invest in agriculture.** If the finance provider does not currently invest in agriculture, think about the different tools USAID can use to reduce risks and improve commercial returns.
- **Talk to several different finance providers at the same time.** The ultimate goal is having more than one finance provider interested in a partnership and, ideally, getting them to compete against each other.

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**How to engage with different types of finance providers on agricultural finance programs**

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Interactive case study

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Concluding thoughts

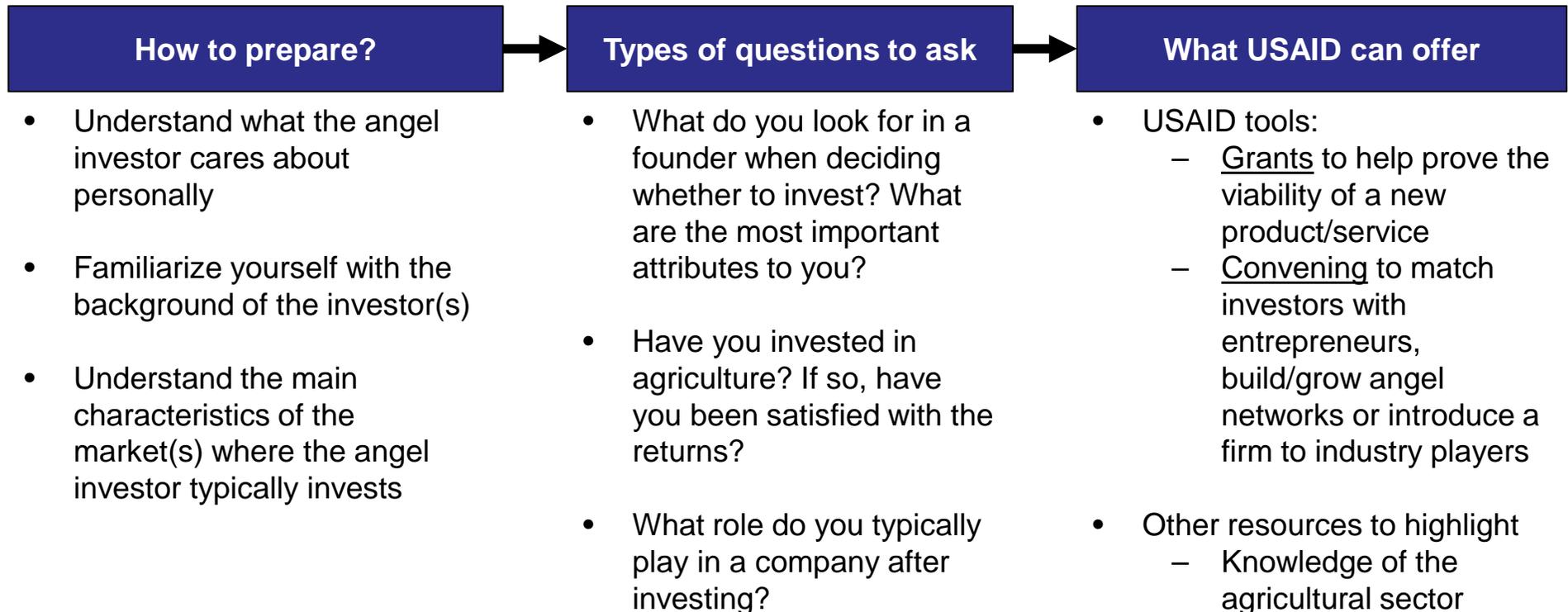
# REFRESHER: Finance providers have different strategies and concerns and hence should be engaged in different ways

	<u>What they do</u>	<u>What they care about</u>	<u>Main products</u>
1 <b>Angel investors</b>	<ul style="list-style-type: none"><li>• Individuals who provide capital to early-stage “agri-entrepreneurs”, usually those with innovative business models</li></ul>	<ul style="list-style-type: none"><li>• The entrepreneur’s vision and a high potential return on investment, typically through selling the company</li></ul>	<ul style="list-style-type: none"><li>• Equity investments</li></ul>
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3 <b>Impact investors</b>	<ul style="list-style-type: none"><li>• Provide capital in various ways to mid-sized agribusinesses which generate social impact</li><li>• Note: There is a wide range of strategies in this sector</li></ul>	<ul style="list-style-type: none"><li>• Strong potential for social impact, ability to be additive in the sector (i.e., addressing loan sizes that are too big for microfinance, too small for banks)</li></ul>	<ul style="list-style-type: none"><li>• Diverse set of products for investing equity and/or long-term debt</li></ul>
4 <b>Commercial banks</b>	<ul style="list-style-type: none"><li>• Provide working capital or growth capital to businesses with a demonstrated track record</li></ul>	<ul style="list-style-type: none"><li>• Managing risk by working with clients with a good credit history, valuable assets and stable cash flow</li></ul>	<ul style="list-style-type: none"><li>• Short-term debt</li><li>• Long-term debt</li></ul>

# 1. Angel investors

Focus the conversation on the vision of the entrepreneur

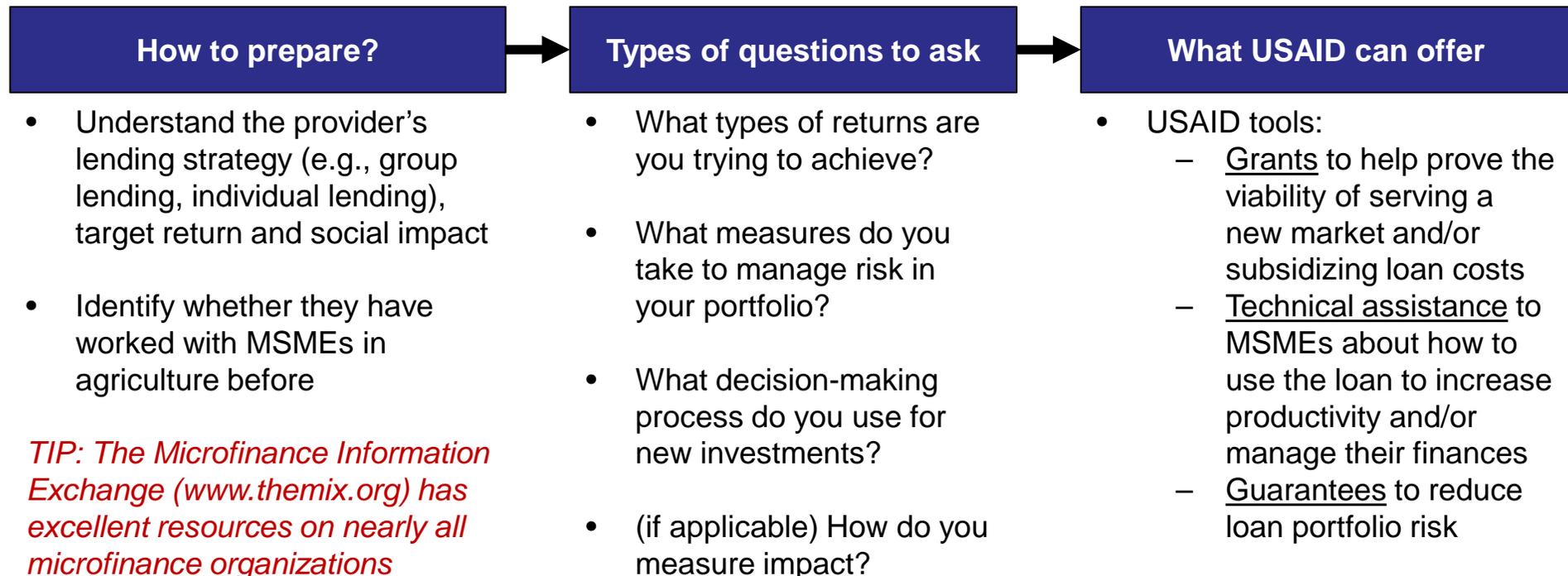
<b>What they care about</b>	<ul style="list-style-type: none"><li>• The entrepreneur's vision and abilities as well as a high potential return on investment, typically through a company sale</li></ul>
<b>When they can be useful</b>	<ul style="list-style-type: none"><li>• When the finance seeker has very high growth potential due to a new but largely untested product innovation and/or business model</li></ul>



## 2. Microfinance

Focus the conversation on how to minimize risks

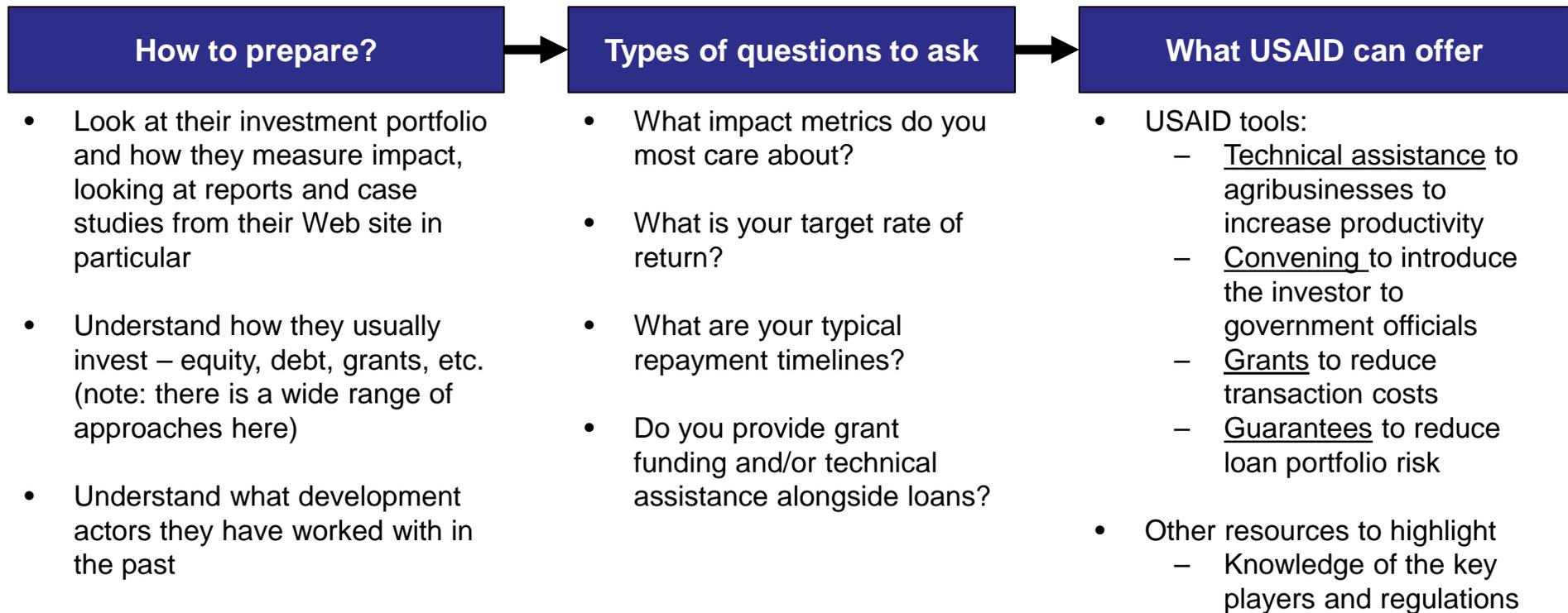
<b>What they care about</b>	<ul style="list-style-type: none"><li>• Primary concern is managing the risk of the investment – but depending on the organization, can also be motivated by social impact</li></ul>
<b>When they can be useful</b>	<ul style="list-style-type: none"><li>• When the finance seeker is part of a large but financially-underserved group and the size of investment required is towards the smaller end</li></ul>



# 3. Impact investors

Focus the conversation on both the financial and social impact

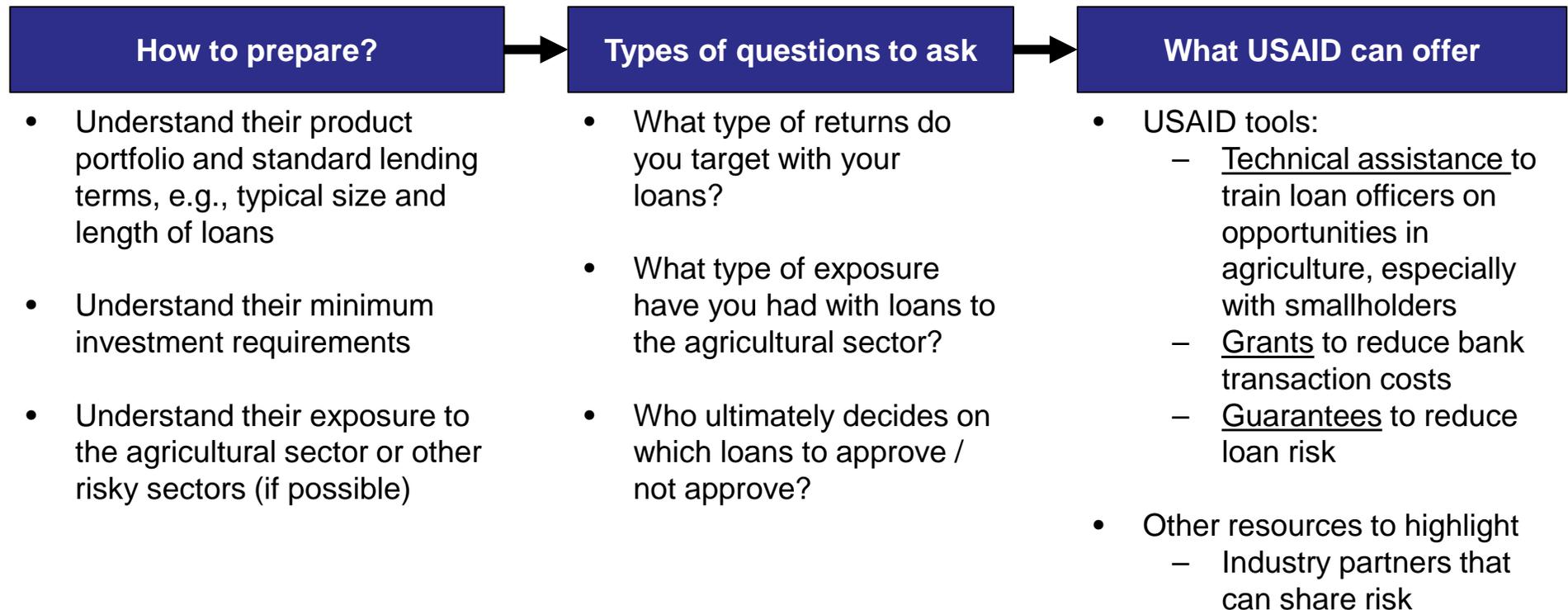
<b>What they care about</b>	<ul style="list-style-type: none"><li>• Having both a financial and social return on their investment as well as establishing partnerships that catalyze additional private sector investment</li></ul>
<b>When they can be useful</b>	<ul style="list-style-type: none"><li>• When there is clear social impact, and also when the loan size is too big for microfinance and too small for commercial banks</li></ul>



## 4. Commercial banks

Focus the conversation on how their risk can be managed

<b>What they care about</b>	<ul style="list-style-type: none"><li>Managing risk by working with clients with a good credit history, valuable assets and stable cash flow</li></ul>
<b>When they can be useful</b>	<ul style="list-style-type: none"><li>When finance seekers need short-term or long-term debt finance to support ongoing operations (working capital) or to fund growth</li></ul>



# Cross-cutting attributes of effective engagements are building strong personal relationships and a shared vision

Key Principle	Why it matters	How to do it
<b>Build a relationship, not just a transaction</b>	<ul style="list-style-type: none"><li>• Strong relationships lead to better program outcomes through more trust, alignment and commitment</li></ul>	<ul style="list-style-type: none"><li>• Invest time – a lot of time – getting to know people</li><li>• Understand motivations and incentives</li><li>• Be empathetic and honest</li></ul>
<b>Establish a shared big-picture vision</b>	<ul style="list-style-type: none"><li>• A shared vision helps to ensure alignment and motivate partners</li></ul>	<ul style="list-style-type: none"><li>• Start by talking about the end goal, even if it is years away</li><li>• Frame the long-term vision both in financial and social impact terms</li></ul>

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# RECALL: The four-step framework for identifying how to engage with finance providers



# Background on the agriculture program (fictional example)

## Background

- The USAID mission in Zazistan (a fictional country in Central Asia) has been working extensively with flower farmers in the northwest region of the country to increase their productivity by providing technical assistance on new agricultural techniques.
- Each flower farm tends to be medium-sized (~100 hectares) and grows a range of flowers including roses, tulips and carnations.
- Most of the flowers are exported to Europe where they are sold to individuals through economy grocery stores.

## Step 1: Identify the specific challenge

- The European flower market is growing but the producers in Zazistan are unable to get financing to expand production due to high perceived risks related to weather and exchange rate fluctuations.
- The farmers specifically need loans to purchase new land, seeds and fertilizer as well as hire new employees.
- They are likely to be able to pay back the loan in nine months (after Valentine's day, the biggest sales day of the year).

## STEP 2: Identifying the right type of finance provider

**STEP 2: What is the best type of finance provider to help with this problem?**

**REMINDER: The four types of finance providers to consider are:**

1. Angel investors
2. Microfinance banks
3. Impact investors
4. Commercial banks

### Potential answer

**Commercial banks** are the most appropriate type of finance provider because of the:

- Likely investment type and size needed
- The flower farmers have significant revenues and assets (e.g., land)

## STEP 3: Tools available to USAID

### STEP 3: What tools can USAID use to catalyze commercial investment?

**REMINDER: The five types of tools to consider are:**

1. Grants
2. Guarantees
3. Convening
4. Policy advocacy
5. Technical assistant

### Potential answer

The primary tool that USAID can use is **convening** industry and government stakeholders to discuss ways to protect exporters against exchange rate volatility.

Secondary tools could be:

- **Technical assistance** to train flower farmers on market opportunities beyond economy supermarkets in Europe.
- Using a **loan guarantee** to reduce the risk for the commercial bank.

# STEP 4: How can USAID next determine whether a specific finance provider would be a good fit?

## Recap of process so far

- **Specific problem:** Flower farms need significant growth capital to purchase land and inputs as well as hire new people.
- **Best-fit finance provider partner.** Commercial banks would be the best type of partner given their ability to provide large loans to stable companies with significant assets that want to grow.
- **USAID tools to highlight in conversations.** USAID has determined that it can use convening to potentially reduce the bank's risk as well as convening and technical assistance.

## How can USAID tell if a specific firm would be a good fit?

*On the following slides we will analyze two fictional conversations and discuss the key messages that may tell you whether a specific firm would be a good partner*

# Sample conversation #1: USAID conversation with a commercial bank on opportunities in the flower sector

**USAID:** As mentioned in our email, we have been doing some work in the fresh flower sector and see a huge opportunity to help provide these agribusinesses with additional capital to scale up operations.

**Commercial bank:** Ah, very interesting. The flower sector is not an area we have done a lot of work in before. We have generally found lending to the agricultural sector to be a bit difficult.

**USAID:** Ah, we very much understand that – what do you see about the sector that is risky?

**Commercial bank:** Well, it's just that we aren't that familiar with it. We hear that it's a bit risky and so we have focused on businesses with longer track records in more established sectors.

**USAID:** Very interesting. What types of returns do you usually try to target with your debt products?

**Commercial bank:** Most of the time we are looking for a return of 10 – 15% on our standard short-term loans. This changes when it is long-term.

# Sample conversation #1: USAID conversation with a commercial bank on opportunities in the flower sector (continued)

**USAID:** Very interesting – we have seen from other countries that commercial banks are able to achieve similar returns from investing in the flower sector in their countries.

**Commercial bank:** Ah, OK. But in any case, even if the returns can match, we don't have the capability to really understand whether or not the investment is a good one. It's a big risk for us to take.

**USAID:** That's an area where we might be able to help. We have a number of flower experts on our team, and we may also be able to help guarantee part of the loan through our Development Credit Authority facility.

**Commercial bank:** OK, that could be very interesting. But we would need to understand this in more detail – at the moment we don't have enough information to go on to make an informed decision. We would need to understand a typical flower agribusiness, what is the length and rate of the loan that we should focus on, among other things.

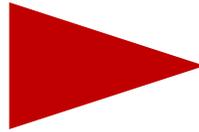
**USAID:** OK – that is definitely something that we can provide further information on. We have already done an initial feasibility study which has much of this information which we would be happy to share with you. Perhaps we can schedule a follow-up meeting after we send through some of the initial information?

**Commercial bank:** Sounds good, we are looking forward to discussing this further.

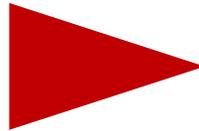
# Sample conversation #1: Discussion questions

## Question

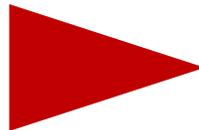
Based on this conversation alone, do you think they could be a credible partner?



What are some of the USAID tools that you think are necessary to get the commercial bank interested in this space?



What might you be concerned about / what are some risks that you would want to manage?



## Our Answer

- **No to maybe**. Low enthusiasm for a potential loan guarantee but willingness to keep the conversation going.

- **Technical assistance** to train loan officers on opportunities in the flower sector (if they will co-pay)
- **Grants** to fund pilots that show that investing in the sector can be viable

- **Lack of commitment** from the bank
- **Point-of-contact**. Is the person in the conversation the right contact?

## Sample conversation #2: USAID conversation with a commercial bank on opportunities in the flower sector

**USAID:** As mentioned in our email, we have been doing some work in the fresh flower sector and see a huge opportunity to help provide these agribusinesses with additional capital to scale up operations.

**Commercial bank:** Excellent – we have been looking to get involved in this sector for a while now, and we are very excited to hear that you are interested.

**USAID:** Great to hear that you are also excited! What prompted you to be interested in this area?

**Commercial bank:** Well, it's a sector which we believe has great promise. We think we can have some first-mover advantage in this space and really be able to define ourselves that way. In addition, it would be a great opportunity to partner with USAID.

**USAID:** What types of products do you tend to offer? What type of returns do you usually seek?

**Commercial bank:** We tend to do loans between USD 50,000 - 200,000 for businesses to help them scale and grow. We tend to look for returns of 15 – 20% on those loans.

## Sample conversation #2: USAID conversation with a commercial bank on opportunities in the flower sector (continued)

**USAID:** Ah – OK. These numbers may be higher than what the businesses are looking for, we hear they need something a bit smaller and short-term.

**Commercial bank:** Ah, we can change our terms accordingly! Not to worry. We also hear that there is an opportunity to receive a grant from USAID as part of this engagement?

**USAID:** Yes, that is possible, but we must emphasize that this is a short-term grant used for very specific purposes.

**Commercial bank:** Oh, interesting. We thought it would last longer than just “short-term”. As you know the risk for us is pretty significant and we need to ensure that we are managing our bottom-line accordingly – we can’t allow our portfolio to be overly-sensitive to risk.

**USAID:** Oh, we very much understand that – but from our end, we also need to ensure that this is sustainable. One of our working principles is that aid shouldn’t be forever, and so we definitely use grants to help partners like yourselves understand the value of the investment in an initial phase, but would want to use it to catalyze interest down the line.

**Commercial bank:** OK – I have to run, but I think we need to discuss this further.

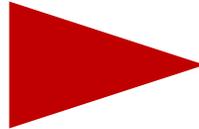
# Sample conversation #2: Discussion questions

## Question

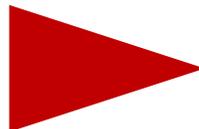
Based on this conversation alone, do you think they could be a credible partner?



What are some of the USAID tools that you think are necessary to get the commercial bank interested in this space?



What might you be concerned about / what are some risks that you would want to manage?



## Our Answer

- **Probably**. The bank has been interested in investing in agriculture for a while and even articulated that they see it as a potential strategic advantage.

- **Grants** to potentially reduce their transaction costs if they do invest.
- **Loan guarantees** to minimize the losses of a potential default.

- **Unwillingness to invest own resources**. The bank's enthusiasm for grants in particular may mean they don't want to invest their own resources in the project. This is key to manage early.

# Agenda for today

1

The role of finance providers in agricultural finance programming

2

What to look for when partnering with a finance provider on agricultural programs

3

How to engage with different types of finance providers on agricultural finance programs

4

Interactive case study

5

**Concluding thoughts**

# Concluding thoughts



- **USAID has a wide range of tools to incentive commercial finance providers to engage on agricultural programs.** By reducing risk, reducing transaction costs and increasing financial returns, these tools can turn a commercially-unviable agriculture project into a commercially-attractive opportunity.
- **Different finance providers need different kinds of support to invest in agriculture.** Understand the landscape of commercial investors and how different players may be able to help solve a specific problem before deciding if and how to engage with them.
- **Pay attention not only to what finance providers say but also what they do.** A finance provider may say they are interested in an agricultural project but until they make a firm commitment it is hard to be certain. Getting investors involved early on is key. Pay attention also to the language and tone that a finance provider uses in order to measure their level of interest.

# Question & Answer

