

# Affordability & Financing Models for the Smallholder Market

A primer for enabling smallholder farmer  
customer uptake of products and services

May 2015



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## **ABOUT FEED THE FUTURE PARTNERING FOR INNOVATION**

Feed the Future Partnering for Innovation is a USAID program that helps the private sector to scale and market agricultural technologies for smallholder farmers through investing in technology commercialization and knowledge exchange. Partnering for Innovation is part of Feed the Future, the US Government's global hunger and food security initiative, active in 19 countries. Fintrac produced this playbook in cooperation with the Initiative for Smallholder Finance, Deloitte Consulting, and Dalberg Global Development Advisors.

## **DISCLAIMER**

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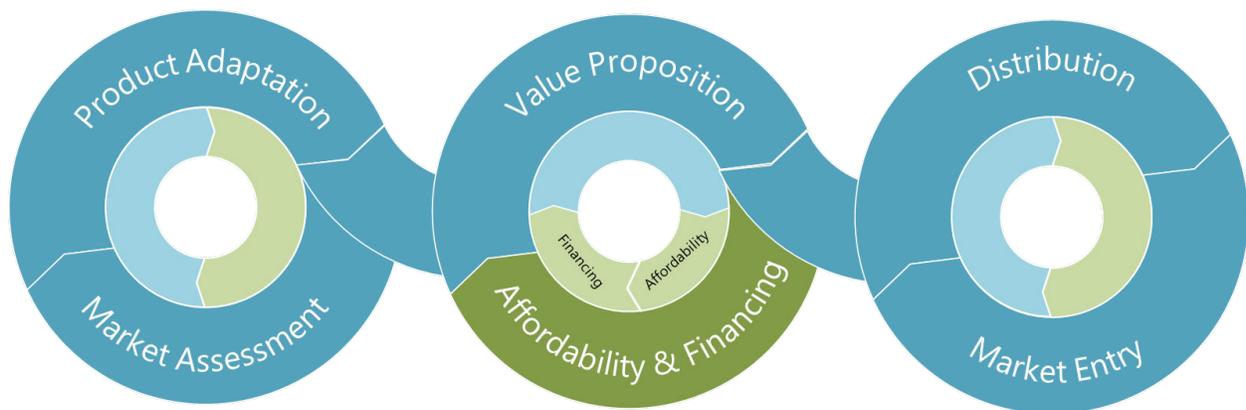
# About this Playbook Series

As part of the commercialization process, Feed the Future Partnering for Innovation has developed a series of user guides designed to accelerate the commercialization and scaling of agricultural technologies. This series is designed to provide practical and actionable guidance in addressing the market entry and business development challenges that arise when introducing and selling new agricultural technologies into the smallholder market.

The playbooks provide both the theory and practice for successfully introducing new products to the base of the pyramid market. In the following chapters we will introduce concepts that will assist you to:

- Access difficult-to-find information on this marketplace that will help you understand the buying power of your targeted customers, identify where your customers are located, and determine the best partners and channels that you can use to most efficiently distribute your product.
- Educate your customer on your value proposition (the benefits of your product in relation to the cost), strategies to effectively demonstrate and promote your product and to sell it to community leaders and early adopters.
- Explore options for financing that you can offer to your customers to improve the upfront affordability of your product.
- Develop your business and financial strategy and work on your pitch so that you have the tools to adequately finance your growth.

**Figure 1: Entering and Succeeding in the Smallholder Market**



This graphic illustrates the distinct phases of the smallholder business plan development process and in each playbook, highlights the relevant phases covered within, addressing three fundamental critical success factors of smallholder business: adaptability, affordability, and accessibility. The graphic demonstrates the iterative nature of each of these elements in business plan development.

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# Introducing the Gap and the Strategies

A playbook for enabling smallholder farmer uptake of products and services

## Affordability v. Financing

**Affordability:** decreasing the price of a good or service to enable use or ownership.

**Financing:** providing financial resources or an equivalent to acquire a good or the use of one.

## About this Playbook: Core Messages

While the estimated demand for financing by smallholder farmers globally is \$450 billion, local bank lending meets less than three percent of this need.<sup>1</sup>

Traditional commercial lenders often do not want to lend to smallholder farmers due to a number of factors, including low financial literacy, limited collateral, low perceived earning potential, and the perceived high degree of uncertainty and risk associated with agriculture. Lenders also do not understand the smallholder market well and most lack the infrastructure needed to effectively service this market. Given this financing gap and the fact that most farmer income is used to meet basic needs, businesses serving smallholder farmers must rely on innovative methods to enable customers to purchase products and services. Without doing so, companies risk having a limited market for their products and services.

There are a number of promising affordability and financing strategies available for companies to offer customers outside of traditional commercial lending. In many cases, companies can couple these strategies with product and service delivery to offer a comprehensive solution that increases customer adoption.

This document will assist partners in understanding the variety and viability of the strategies available to help customers afford a product or service and will help them to decide which strategy is best and most achievable for their business models. It provides examples of success stories of each strategy and enablers that can be used to increase the likelihood of success.

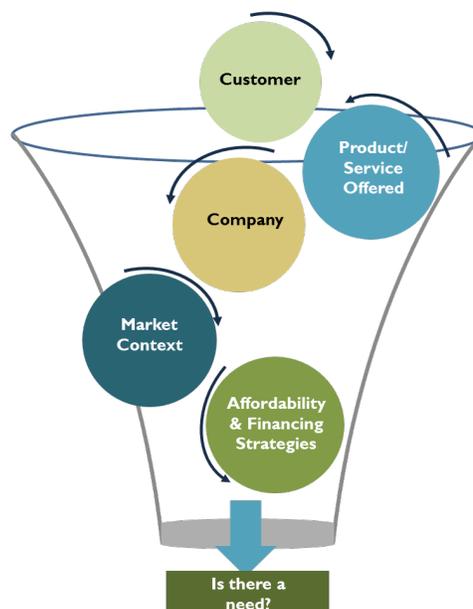
## The Need for Affordability and Financing

Data shows that smallholder farmers want financing options. In research the Monitor Group conducted for a report in 2010, 91 percent of farmer respondents said that “input access and funding” was their top concern and 55 percent said that “credit for input purchases” was their top desire.<sup>2</sup>

Beyond need, however, the decision to pursue product affordability and financing depends on a number of factors – in particular, an understanding of: 1) the customer, 2) the product or service being offered, 3) the company offering it, 4) the market context, and 5) the details of the strategies themselves.

If the price at which a company plans to sell its product or service is too high, creating a barrier to the customer, the company must offer its customers affordability and/or financing options that will facilitate product adoption. With information about the customer and the context, the company will be able to evaluate which affordability or financing choice is optimal.

Figure 2: Evaluating the Need for Affordability & Financing



1 “Local Bank Financing for Smallholder Farmers: A \$9 Billion Drop in the Ocean.” The Initiative for Smallholder Finance. 24 October 2013. Web.

2 “Market-Based Solutions to Poverty in Africa: Business Model Analysis: Smallholder Farmer Aggregators.” Monitor Inclusive Markets. May 2010. P6.

## When to Use the Strategies

Affordability refers to decreasing the cost of a product or service, whereas financing refers to providing assistance with purchasing the good or service by offering a choice of how to pay for it, usually reducing up-front costs. The approaches to implementing affordability and financing options differ, and in some cases more than one of the strategies can be used at the same time. Pairing these with the product or service makes the product or service more accessible to the customer. The choice of which approach to pursue is informed by several factors, including:

- What the product or service is and what it costs relative to the average income of the target customer.
- The company's cash flow and tolerance for risk.
- The current market penetration of the product or service.
- The availability of financing in the market.

This table can be helpful in determining which strategies to consider based on the product or service the company is offering in the smallholder market.

	 <b>Inputs</b> Examples: seeds, pesticides, additives, fertilizers.	 <b>Tools &amp; Light Equipment</b> Examples: plows, bicycles, pumps, storage bags, testing kits, micro-irrigation systems.	 <b>Heavy Equipment</b> Examples: on-farm processors (e.g., huller), irrigation systems, small silos, tractors.	 <b>Services</b> Examples: crop prices, weather data, insurance.
<b>Affordability</b>	Bundling/Cross-Subsidization (p. 10) No Frills (p. 12)	Bundling/Cross-Subsidization (p. 10) No Frills (p. 12)	Pay-per-Use (p. 14)	Bundling/Cross-Subsidization (p. 10) No Frills (p. 12) Pay-per-Use (p. 14)
<b>Financing</b>	Consumer Financing (p. 17)	Consumer Financing (p. 17) Leasing (p. 21)	Consumer Financing (p. 17) Asset Financing (p. 19) Leasing (p. 21)	

Both affordability and financing strategies can be used to scale product uptake, increase company productivity, and generate new financing opportunities for the company. Regardless of the strategy used, the greater the product uptake that results, the stronger the business case is for using it.

## The Strategies at a Glance

While there are many ways to reduce the cost of a product or to provide financing to enable a customer to purchase a product that is too expensive to be purchased with cash, this playbook focuses on six widely-used strategies in smallholder affordability and financing.

### Affordability

- **Bundling & Cross-Subsidization:** Bundling is a product delivery and marketing strategy through which several products are packaged, delivered, and marketed together for one price. Cross-subsidization uses higher margins on one good to allow charging lower prices for another. Both bundling and cross-subsidization increase product and service access by lowering the total price of one or all the goods and/or by increasing product utility and awareness.
- **No Frills:** No frills tailors products and services by paring them down to meet basic needs of lower income buyers while accommodating price sensitivity and maintaining functionality. Scaled back complexity enables companies to meet the needs of the consumer at ultra-low prices while still generating profits through high-volume sales.<sup>3</sup>
- **Pay-per-Use:** Consumers pay for a single use of a service (e.g., a cell phone call) or of a productive asset (e.g., a tractor) that is owned and/or provided by the company or a third-party. Products or services can be metered, pre-paid, rented, etc., with the company managing equipment maintenance and the associated customer transactions.

### Financing

- **Consumer Financing:** Consumer financing refers to a range of interest-generating lending options that enables products and services to be acquired without an upfront (or with a limited) cash requirement. This expanded access to credit is typically backed by some form of collateral and can be extended by a financial institution or non-traditional lender such as an agro-dealer with a financing department.
- **Asset Financing:** Asset financing is a system whereby the asset being purchased and the future income streams expected from use of the asset are considered by the lender as collateral, eliminating traditional collateral requirements. The farmer is the legal owner of the asset while the loan is being repaid.
- **Leasing:** Leasing provides an asset to a customer for a limited period of time and under specific terms of use. The company maintains ownership of the asset, reclaims ownership of it at the end of the lease, and is therefore responsible for the proper use and maintenance of the asset while under lease, while the farmer borrows and pays “rent” on the asset.

### Risk Sharing through Partnerships

Affordability and financing strategies do not have to be executed by a company alone. In fact, because the companies are often under pressure to fund their own operations and because financing may not be a core competency, they often bring on partners to facilitate financing and share risk, as illustrated below. Additionally, many of these partners are well-positioned through existing relationships to identify farmers who are eligible for financing and to whom products and services can be sold, bringing the added advantage of a new potential customer base.

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<sup>3</sup> Karamchandarni, Ashish; M. Kubzansky; P. Frandano. “Emerging Markets, Emerging Models: Market-Based Solutions to the Challenges of Global Poverty.” Monitor Group. March 2009. P6.

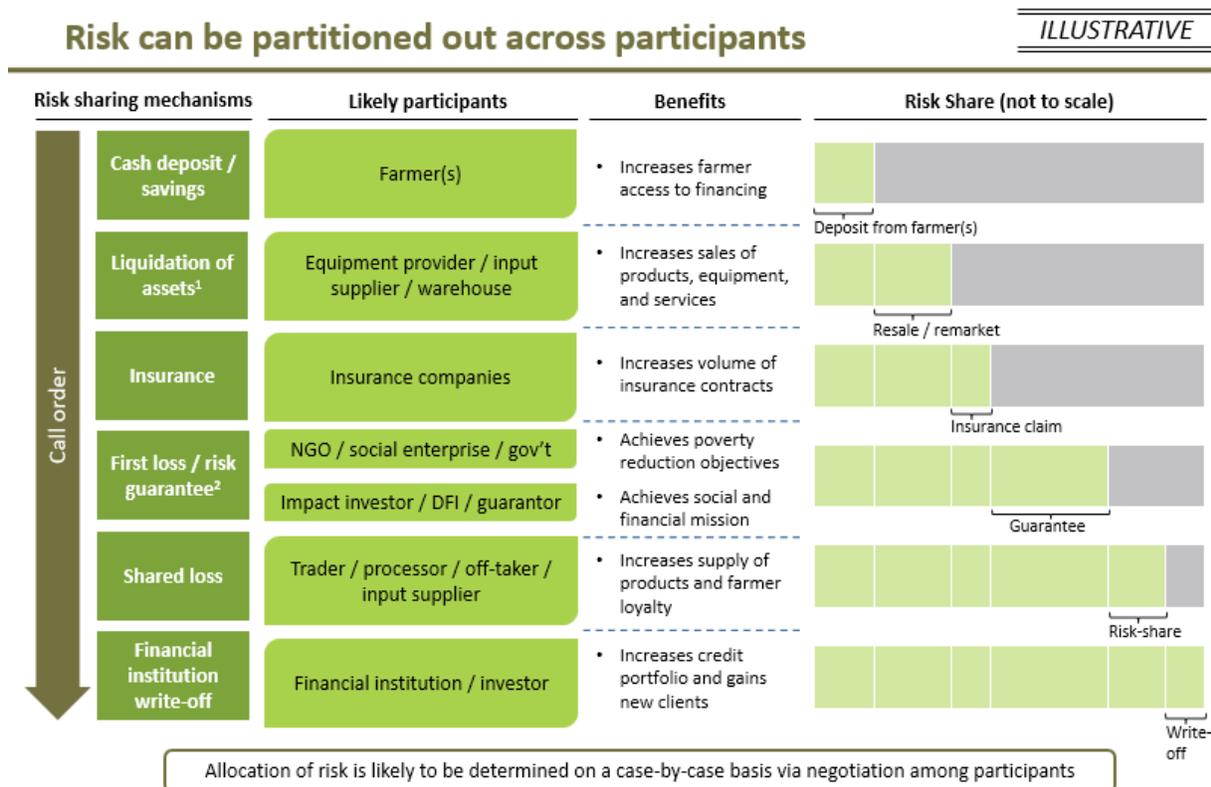
 Institution	 Motivation	 Method
<b>Bank</b>	<ul style="list-style-type: none"> <li>• Use lending expertise</li> <li>• Open new customer base for selling other products</li> <li>• Make profit on lending</li> </ul>	<ul style="list-style-type: none"> <li>• Debt: provide loans to smallholders, or line of credit to company to fund loans</li> </ul>
<b>Donor</b>	<ul style="list-style-type: none"> <li>• Accomplish development objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Credit guarantee</li> <li>• Interest rate subsidies</li> <li>• Debt</li> <li>• Technical assistance</li> <li>• Grants</li> </ul>
<b>Non-governmental organization</b>	<ul style="list-style-type: none"> <li>• Accomplish development objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Credit guarantee</li> <li>• Grants</li> <li>• Technical assistance</li> </ul>
<b>Domestic government</b>	<ul style="list-style-type: none"> <li>• Develop agriculture sector</li> <li>• Encourage smallholder farming</li> <li>• Contribute to domestic food security and nutrition</li> <li>• Assist private sector in gaining market foothold</li> </ul>	<ul style="list-style-type: none"> <li>• Interest rate subsidies</li> <li>• Technical assistance</li> </ul>
<b>Third party/ external commercial company</b>	<ul style="list-style-type: none"> <li>• Spread sales and distribution costs</li> <li>• Increase awareness</li> <li>• Share marketing costs</li> <li>• Use pre-proven sales/distribution channels</li> </ul>	<ul style="list-style-type: none"> <li>• Bundling</li> <li>• Shared channel distribution</li> <li>• Trade credits</li> </ul>

If a company does decide to offer financing itself, it should verify that local regulations do not require it to register as a financial institution. Should local regulations or operational limitations prohibit direct financing, the company may need to pursue third-party alternatives. “Soft funding” (below-market capital or grants) may be needed in some financing models to initiate the model, address critical barriers, and scale up.<sup>4</sup>

4 “Emerging Markets, Emerging Models,” P32.

This table, developed by the Initiative for Smallholder Finance<sup>5</sup> presents common participants and the roles and responsibilities they can take on to share the risk. If a company wants to decrease the amount of risk it is taking on itself when offering a product or service to the smallholder market, it can consider partnering with one or more of these entities based on the benefits each will bring. Moving down the table, as a participant's risk increases, the company's risk decreases.

**Figure 3: The Initiative for Smallholder Finance's Perspective on Risk Sharing**



1) Assets may include movable and/or non-farm collateral; 2) first loss guarantees may be introduced initially to incentivize private sector investment and phased out over time as model achieves a successful track record.  
 Source: Based on adaptation of Technoserve's risk share model, as detailed in "Aligning multi-party incentives to deliver input credit to cocoa farmers," Cracking the Nut Conference 2015.

5 Initiative for Smallholder Finance website: <http://www.globaldevincubator.org/initiative-incubator/current-initiatives/initiative-for-smallholder-finance/#>.

6 Developed by the Initiative for Smallholder Finance, internal documents

# Enablers: Making the Models Work

In addition to sharing risk with partners, risk can be reduced by building factors into the business model that will increase the likelihood of success. The most common of these factors are included in the table below and range from leveraging existing sales and distribution platforms to developing alternatives that build smallholder farmer credit history.

<b>Existing Sales Channels</b>	<p>Existing sales channels help companies reduce fixed costs, including marketing and distribution, which can lower prices and increase uptake. “Piggybacking products and services on existing customer supply chains [can] enable poor people to afford and gain access to socially beneficial goods.”<sup>7</sup> “Because distribution arises repeatedly as an obstacle to scale, this can be overcome through:</p> <ul style="list-style-type: none"> <li>• Use of existing distribution platforms.</li> <li>• Increasing the sales force’s responsibility to carry multiple products from a single hub deeper into the rural areas.</li> <li>• Properly incentivizing all participants in the distribution chain through sales commissions and other strategies.<sup>8</sup></li> </ul>
<b>High Sales Volumes</b>	<p>High sales volumes compensate for small profit margins on each unit with sales of high volumes of units. Fixed prices of marketing and distribution are spread out over a large number of units, making each unit more affordable. High sales volumes can also help make the case for external financing by demonstrating that there is a market ready and willing to pay for the product or service.</p>
<b>Technical Assistance &amp; Training<sup>9</sup></b>	<p>Technical assistance and training is one of the most commonly used enablers in smallholder farmer affordability and financing because it can:</p> <ul style="list-style-type: none"> <li>• Improve product performance, thus encouraging repeat purchasing and increasing loan repayment.</li> <li>• Enable product and client performance monitoring.</li> <li>• Strengthen customer relationship management, reducing long-term marketing and customer acquisition costs.</li> <li>• Improve product maintenance so that the asset can be sold or leased again in case of repossession.</li> <li>• Expand the model farmer approach through which farmers train others in a way that creates trust, increases product loyalty and customer satisfaction, and expands product uptake.</li> </ul> <p>In addition to training on a particular product pre- and post-purchase, technical assistance can provide smallholders with improved:</p> <ul style="list-style-type: none"> <li>• Financial literacy.</li> <li>• Farm operations.</li> <li>• Agronomy practices.</li> <li>• Establishment of market linkages with other market actors such as off-takers.</li> </ul> <p>All of these can contribute to better farm management, margins, and record-keeping, improving a farmer’s ability to pay and leading to an improved loan profile.</p>

7 “Emerging Markets, Emerging Models,” P6.  
 8 “Emerging Markets, Emerging Models,” P64.  
 9 For more information on Technical Assistance, see “Technical Assistance for Smallholder Farmers: An Anatomy of the Market.” The Initiative for Smallholder Finance. November 2014. <http://www.globaldevincubator.org/wp-content/uploads/2014/11/Technical-Assistance-for-Smallholder-Farmers-An-Anatomy-of-the-Market.pdf>.

<b>Deep Customer Knowledge</b>	Deep customer knowledge is necessary for understanding how to price the product, which directly affects whether the company should look at an affordability or financing strategy. It also enables the company to design loan terms that are serviceable by the smallholder customer. Customer knowledge informs where the customer will likely make purchasing decisions and therefore through which channel financing should be offered. Additionally, the company should understand if and how a potential customer becomes a paying one and if the customer will be creditworthy. This understanding is fundamental to ascertaining if affordability or financing models will be viable. <sup>10</sup>
<b>Value-Based Marketing</b>	Value-based marketing ensures that the potential customer is made aware of the direct and indirect benefits of the product prior to purchase. With risk-averse customers such as smallholders, this is important in encouraging customers to purchase products that may be on the edge of affordability. Value-based marketing is best communicated through lead farmers and demonstration plots, or trainings and demonstrations through agro-dealers.
<b>Sufficient Smallholder Aggregation</b>	<p>Smallholder aggregation refers to organizations of farmers that are in a similar location and farming the same crops. These groups are most productive when naturally formed and often exist in smallholder markets to share information and resources. Smallholder aggregation is beneficial because it:<sup>11</sup></p> <ul style="list-style-type: none"> <li>• Enables easier identification of individual customers.</li> <li>• Expands the customer base by selling multiple units simultaneously to many members, rather than reaching individuals separately.</li> <li>• Eases distribution of finance and payment collection, which can all be done at one aggregation point.</li> <li>• Can improve repayment through collective accountability mechanisms, increasing the availability of commercial financing.</li> <li>• Distributes risk sharing by using collective collateral for loan guarantees, increasing likelihood of commercial financing.</li> <li>• Allows the use of equipment by others in the group, should the first person default.</li> </ul>
<b>Accommodating Terms</b>	<p>Accommodating loan and payment terms for smallholder farmer borrowers include:</p> <ul style="list-style-type: none"> <li>• Repayment cycles matching income and crop cycles.</li> <li>• Grace periods on inputs and productive assets to enable income to be generated after purchase.</li> <li>• Lower interest rates and longer repayment terms.</li> </ul>
<b>Credit History</b>	<p>In smallholder markets, credit history is often limited or unavailable. To overcome this challenge, smallholder financing strategies can rely on proxies that can be used to predict the credit worthiness of a potential customer, albeit imperfectly. This can be done through:</p> <ul style="list-style-type: none"> <li>• Agro-dealers' receipt books showing repeat purchasing by customers and the value of these purchases.</li> <li>• Documentation from output aggregation points, such as warehouse receipts.</li> <li>• Top-up records from mobile phone companies, showing the income and payment cycles from other transactions.</li> <li>• Mobile money transaction records.</li> <li>• Savings records with local institutions or organizations.</li> <li>• Offtake contracts between producers and buyers.</li> </ul>

<sup>10</sup> For more information on market assessments, including developing customer profiles, see “Who and Where is Your Customer?” the first playbook in this series. May 2015.

<sup>11</sup> The Initiative for Smallholder Finance, internal documents.

# Strategies: Affordability

Affordability strategies lower the cost of a product or service to the end consumer and will typically increase access to a product or service. When evaluating affordability strategies, the company should consider the entire lifetime value of a customer, which is the customer's ability to generate revenue for the company in the long-term as the customer's buying power increases.

## Bundling & Cross-Subsidization



Bundling is a product delivery and marketing strategy through which several products are packaged, delivered, and marketed together for one price. Cross-subsidization uses higher margins on one good to allow charging lower prices for another. Both bundling and cross-subsidization increase product and service access by lowering the total price of one or all of the goods and/or by increasing product utility and awareness.

### Companies should use this if...

Company has multiple products to offer the market or complementary products are available from another company.

High portion of products' cost is marketing and/or distribution and there is the possibility for shared distribution.

Products and services have low enough price points that a **smallholder would be able to pay cash to purchase.**

The **combination** of products and/or services **enhances overall performance** (e.g. seeds and fertilizer, inputs and crop insurance).

### Companies can increase success of the strategy by using...

#### Existing Sales Channels

Sales force is used to sell multiple goods, spreading and lowering operational costs, and increasing profitability of each good.

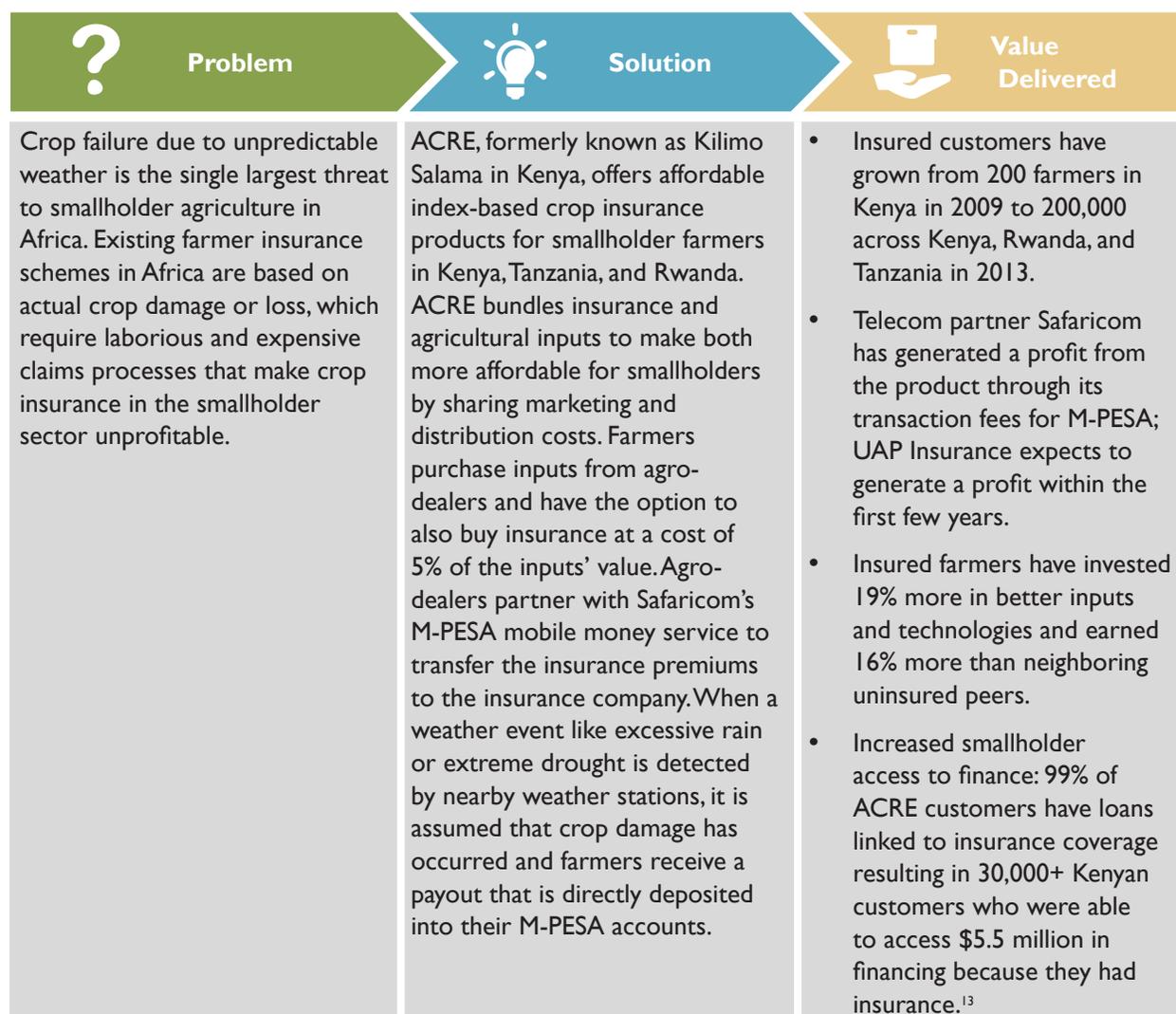
#### High Sales Volume

High volumes are needed to compensate for limited profit margins.

#### Technical Assistance & Training

Ensures proper use of products, increasing likelihood of increased income from use of goods, and encourages repeat purchasing or purchase of other products.

## Example: ACRE<sup>12</sup>



<sup>12</sup> Kilimo v—Index-based Agriculture Insurance: A Product Design Case Study. IFC Advisory Services.; AND IFC Case study. Kilimo Salama/Syngenta Foundation for Sustainable Agriculture - Kenya, Rwanda, Tanzania.”

<sup>13</sup> “Global Index Insurance Facility.” April 2013 Newsletter. International Finance Corporation. Web. [http://www.ifc.org/wps/wcm/connect/3fd932004f5ac5038deccf032730e94e/GIIF\\_Newsletter\\_Issue+5+pdf.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/3fd932004f5ac5038deccf032730e94e/GIIF_Newsletter_Issue+5+pdf.pdf?MOD=AJPERES).

## No Frills



No Frills tailors products and services by paring them down to meet basic needs of lower income buyers while accommodating price sensitivity and maintaining functionality. Scaled-back complexity enables companies to meet the needs of the consumer at ultra-low prices while still generating profits through high-volume sales.

### Companies should use this if...

There is a **demonstrated market need** and the **product or service would create significant value** for a smallholder, but **alternatives are unavailable or too expensive.**

Product or service is sufficiently adaptable that it **can be modified without losing its main functionality and effectiveness.**

**Productive goods or services** like drip irrigation and micro-insurance can be adapted to be sufficiently affordable so that a **smallholder would be able to pay cash to purchase.**

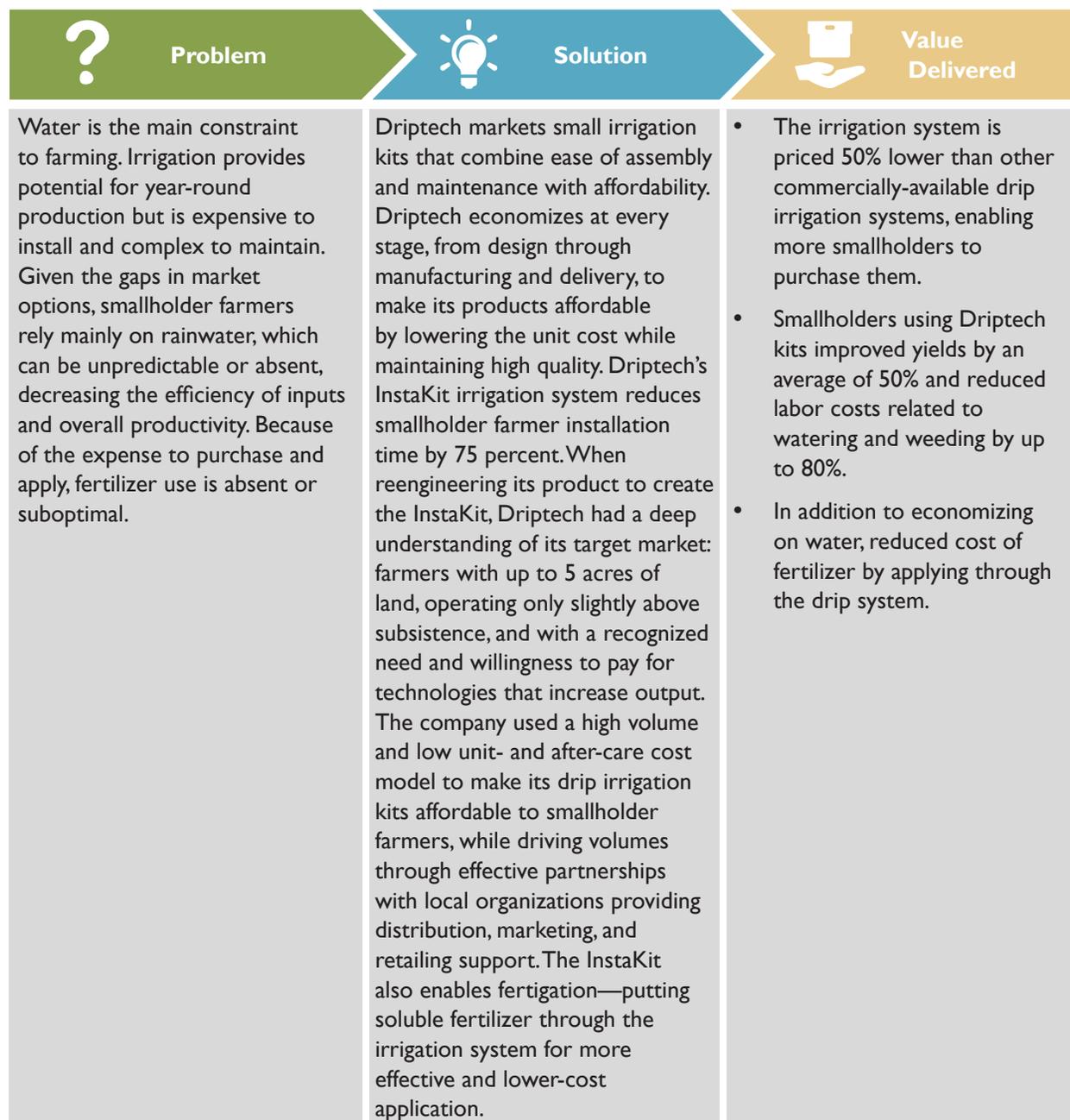
### Companies can increase success of the strategy by using...

**High Sales Volumes**  
High volumes are needed to compensate for limited profit margins.

**Value-Based Marketing**  
Value delivered to smallholder farmer (not only low cost) should be emphasized in marketing to avoid a perception of low quality.

**Deep Customer Knowledge**  
Informs selection of an appropriate price point and minimum appropriate functionality for product or service design.

## Example: Driptech<sup>14</sup>



<sup>14</sup> Feed the Future Partnering for Innovation Commercialization Profile, October 2013.

## Pay-per-Use



Consumers pay for a single use of a service (e.g., a cell phone call) or of a productive asset (e.g., a tractor) that is owned and/or provided by the company or a third party. Products or services can be metered, pre-paid, rented, etc., with the company managing equipment maintenance and the associated customer transactions.

### Companies should use this if...

**Limited use** of a higher-priced asset or service is **sufficient and economical to derive value** and smallholders usually are **able to pay cash for a single use**.

Purchase of the asset outright or use of the service on a longer contractual basis **would be unaffordable**.

**The need for the product is seasonal or infrequent** and thus full ownership is unnecessary and would result in downtime for the asset or service.

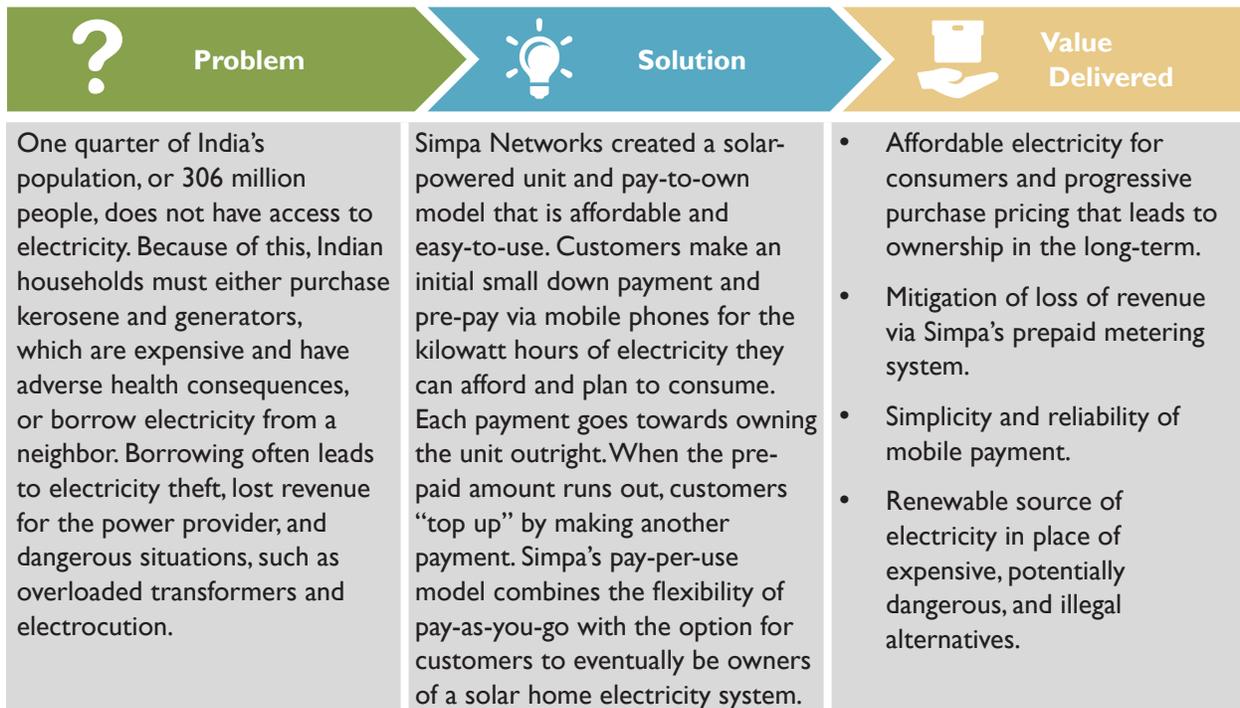
### Companies can increase success of the strategy by using...

**Sufficient Smallholder Aggregation**  
Groups enable the asset to be fully utilized over many smallholders.

**Accommodating Terms**  
Small payments and contracts for minimum uses or use over a period of time are determined based on the specific asset or service.

**Technical Assistance & Training**  
Encourages product or service adoption, repeat purchases, and maximizes farmer productivity.

## Example: Simpa Networks<sup>15</sup>



<sup>15</sup> Simpa Networks: <http://simpanetworks.com/>.

# Strategies: Financing

Financing strategies can facilitate access to larger and more expensive equipment. Given the reluctance of commercial lenders like banks or credit unions to provide financing to smallholder farmers, financing schemes are often guaranteed by concessionary lenders such as subsidized micro-finance institutions, donors, and impact investors. Usually the company provides a full buy-back guarantee or related collateral to entice lenders to finance purchases. Once the model is proven and the risk level is demonstrated, the company may be able to remove or reduce the guarantee with the bank, then assuming more of the risk. Successful financing strategies require effective functioning of all steps in the financial services value chain, from customer identification to collection.



<sup>16</sup> The Initiative for Smallholder Finance, internal documents.

## Consumer Financing



Consumer financing refers to a range of interest-generating lending options that enables products and services to be acquired without an upfront (or with a limited) cash requirement. This expanded access to credit is typically backed by some form of collateral and can be extended by a financial institution or non-traditional lender such as an agro-dealer with a financing department.

### Companies should use this if...

**Company is offering goods and services**  
where lending is intended to boost sales, product uptake, and increased smallholder production and income.

**When collateral is available** or when an **alternative to collateral is available** (e.g., customer relationships or credit history).

**Information on customers is available** to assess credit worthiness and likelihood of loan repayment.

### Companies can increase success of the strategy by using...

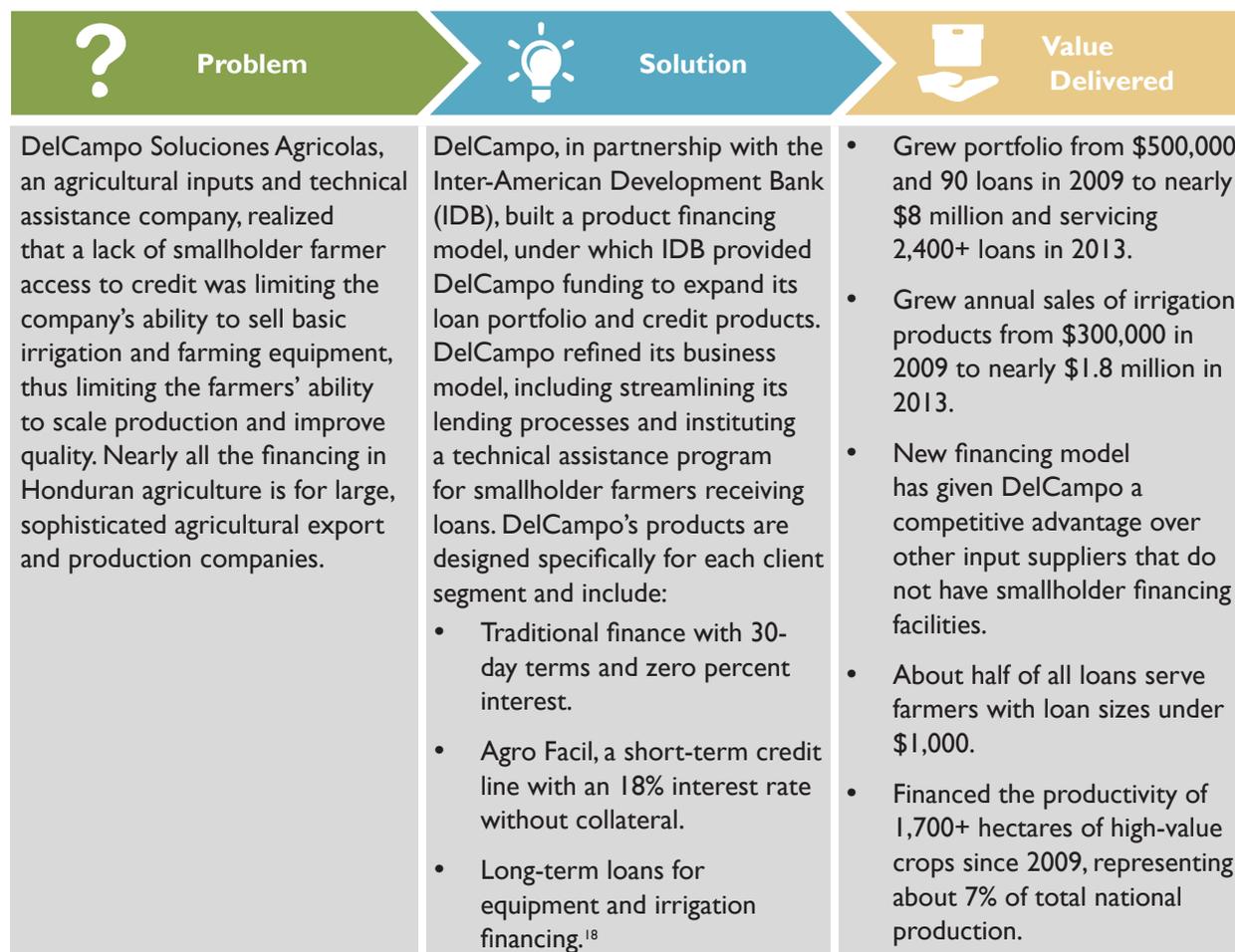
**Accommodating Terms**  
Seasonal or periodic repayment, serviceable interest rates, and innovative collateral options.

**Existing Sales Channels**  
Trusted client-facing agro-dealers increase uptake, especially when financing is paired with sales of a

**Sufficient Smallholder Aggregation**  
Loan is made to an individual, but assets or future income of the group may be considered as

**Credit History**  
Developed through aggregators (e.g., warehouse receipts), dealers (e.g., receipt books), and long-term relationships

## Example: DelhCampo<sup>17</sup>



<sup>17</sup> IDB investment report; DelCampo internal documents.

<sup>18</sup> "Financing Agricultural Value Chains in Latin America." Inter-American Development Bank. April 2014.

## Asset Financing



Asset financing is a system whereby the asset being purchased and the future income streams expected from use of the asset are considered by the lender as collateral, eliminating traditional collateral requirements. The farmer is the legal owner of the asset while the loan is being repaid.

### Companies should use this if...

**The use of assets increase income** (through increasing production or minimizing losses), but are too expensive to purchase without financing, and can be repossessed if necessary.

**Assets can be shared** for a price, generating income to repay loan.

A combination of smallholder and provider **maintenance can help ensure ongoing functionality** of the asset.

**Mature financial services market is present**, with lenders that can provide financing using innovative collateral methods and incomplete or non-existent credit histories.

### Companies can increase success of the strategy by using...

#### Technical Assistance and Training

Ensures proper product use, increasing likelihood of increased income and loan repayment. Opportunity to check in on farmer/borrower and maintain functionality of asset.

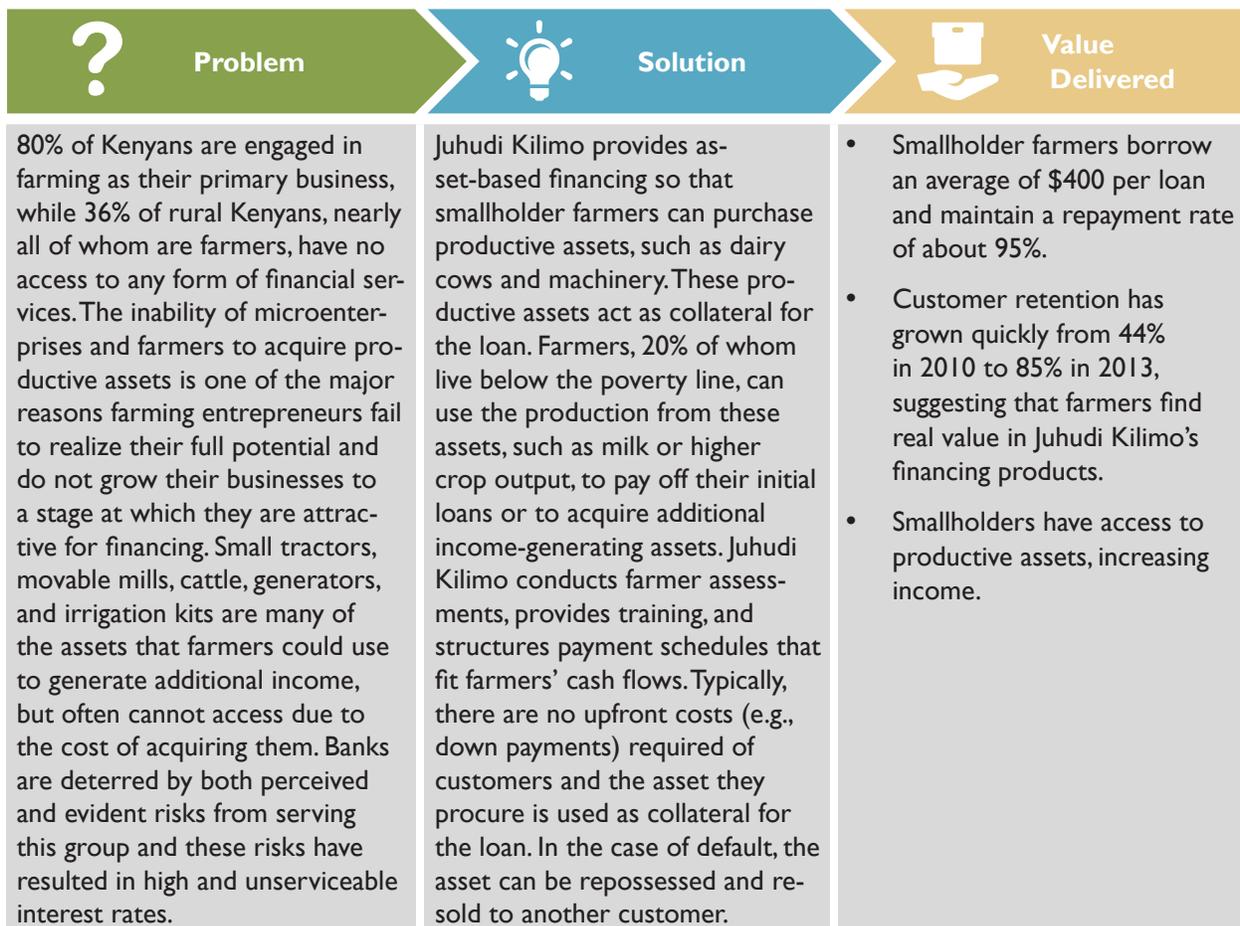
#### Sufficient Smallholder Aggregation

Reduces repayment risks by spreading liability over a larger number of farmers; increases purchases because asset can be shared.

#### Accommodating Terms

Customers pay as they have cash available; repayments are linked to harvest cycles; longer repayment schedules available for higher loan values; buy-backs offered by company or partners to decrease risk to lender.

## Example: Juhudi Kilimo<sup>19</sup>



<sup>19</sup> Acumen investment report; "Juhudi Kilimo: Changing the way farmers do business." Presentation to investors. 2010. AND Nat Robinson Knowledge@Wharton interview, January 2013. AND Moody's Social Performance Assessment: Juhudi Kilimo, September 2013.

## Leasing



Leasing provides an asset to a customer for a limited period of time and under specific terms of use. The company maintains ownership of the asset, reclaims ownership of it at the end of the lease, and is therefore responsible for the proper use and maintenance of the asset while under lease, while the farmer borrows and pays “rent” on the asset.

### Companies should use this if...

**Assets are income-generating**, usually equipment, **maintained by the owner** not by the farmer, and **can be repossessed** if necessary.

Asset is **too expensive to purchase** outright or only needed for a short period of time. **Down payments and collateral are often not required.**

**Mature financial services market is present** with lenders that can provide leasing terms using incomplete or non-existent credit histories or are willing to provide working capital loans to companies that are providing leasing internally.

### Companies can increase success of the strategy by using...

#### Technical Assistance and Training

Ensures proper product use, increasing likelihood of increased income and loan repayment. Opportunity to check in on farmer/borrower and maintain functionality of asset.

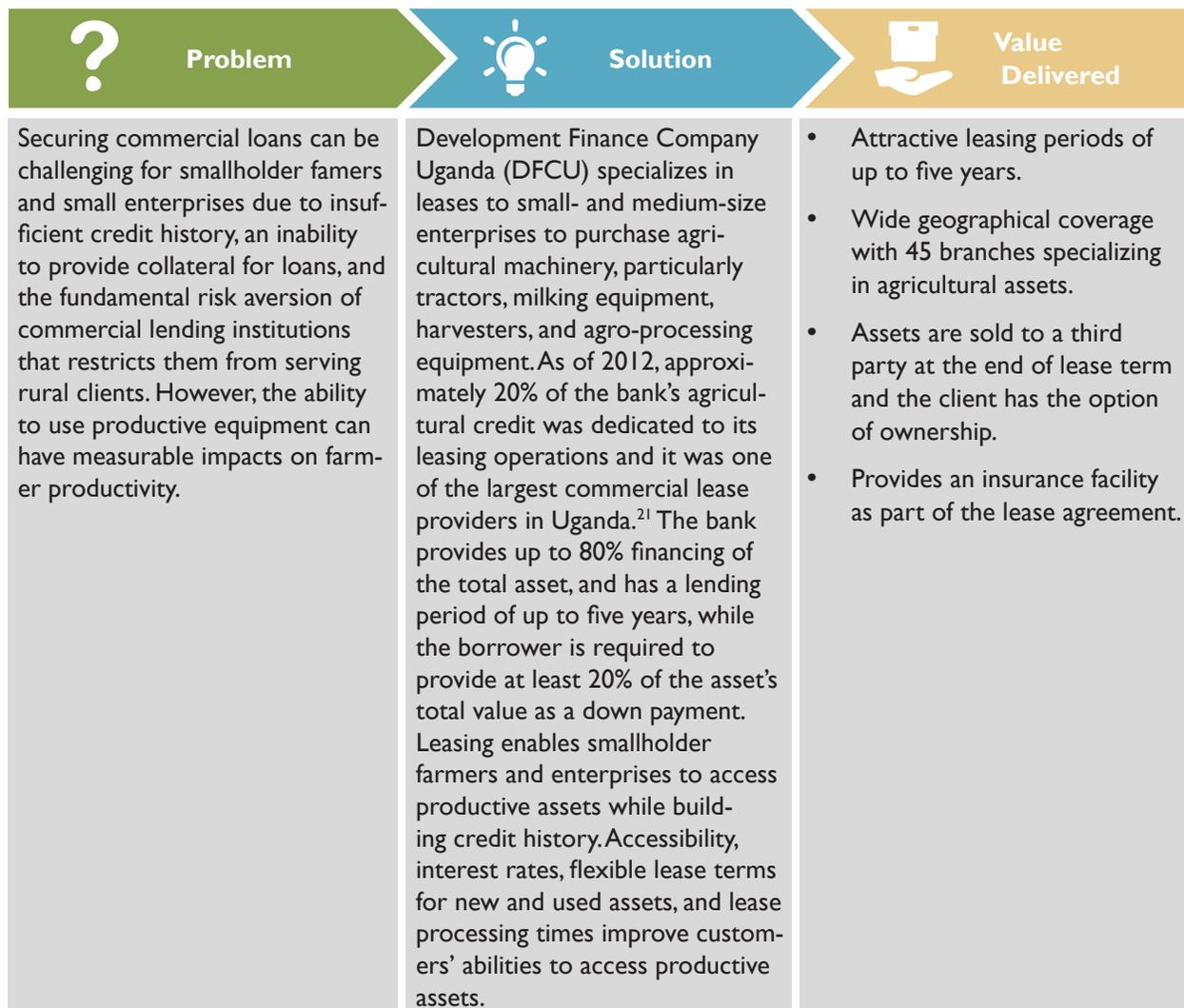
#### Deep Customer Knowledge

Enables selection of most viable farmers with crop types relevant to the asset to ensure increased productivity and sales to generate income.

#### Accommodating Terms

Customers pay as they have cash available and payment terms are linked to harvest cycles.

## Example: Development Finance Company Uganda (DFCU)<sup>20</sup>



<sup>20</sup> Sources: DFCU website: <https://www.dfcugroup.com/dfcu-leasing>.

<sup>21</sup> "Innovative Agricultural SME Finance Models." International Finance Corporation and Global Partnership for Financial Inclusion. November 2012. AND <https://www.dfcugroup.com/>.

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# Conclusion

Smallholder farmers offer a large and mostly untapped market for companies and financial institutions. However, companies face challenges with the pricing of products and services to this segment and financial institutions have often struggled with overcoming the real or perceived risks involved. In solving this challenge, one size does not fit all. Affordability and financing strategies need to be effectively tailored to each specific market opportunity, company, or product. This tailoring involves:

- Identifying key risks and success factors that can mitigate the risks.
- Establishing partnerships that can expand the customer base, lower transaction costs, increase product uptake, and share risks.
- Providing technical assistance to ensure successful technology adoption, especially for early adopters.

Specific to financing and partnerships with financial institutions, much of the responsibility for the success falls to the company itself. Financial institutions require:

- Elements of business model maturity; specifically, proof of or the potential for income generation and scale.
- The ability to find reasonable strategies to address the lack of collateral and/or credit history for customers.
- Assurances that the product or service will be able to reach scale and that the company will produce the cash flows to serve this increased demand.

It is also important for companies to involve financial institutions early on to jointly develop financing solutions, including incorporating enablers to reduce risk and to maximize success. If financing is anticipated, companies should engage these financial institutions in planning the business model, rather than only inserting them into the strategy as a last resort.

Using these strategies in collaboration with partners, companies will improve their success in “cracking the nut” on affordability and financing in the smallholder farmer market.