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

AGRICULTURE
SECTOR COUNCIL

MPEP SEMINAR SERIES
Exploring Frontiers in Inclusive Market Development

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October 22, 2014

From Smallholders to Shareholders: Optimizing Private Sector Engagement for Smallholder Impact

Speakers

Laura Cizmo, *Bureau for Food Security Office of Market
and Partnerships Innovation*

W. Robert de Jongh, *Feed the Future Partnering for
Innovation*

Tom Carroll, *Global Development Incubator*

Louisa Parker, *AGCO Corporation*

Upcoming Agrilinks Events:

- Special Event, October 30
“Climate Change Impacts on Agriculture and Food Security: Implications for Developing Climate Resilient Agriculture Programs”
- AgExchange, November 18-20
“Feeding the World in 2050: How Human and Institutional Capacity Development Can Support Agricultural Innovation Systems”



Laura Cizmo

USAID Bureau for Food Security

Laura Cizmo currently serves as a private sector advisor in the USAID Bureau for Food Security's Office of Market and Partnerships Innovation, which leads private sector engagement for the U.S. Government's global hunger and food security initiative, Feed the Future. A foreign service officer with 10 years of experience in international private sector and agricultural development, she began her career as a small business development Peace Corps Volunteer in Paraguay prior to joining USAID. Laura holds an MBA from Thunderbird School of Global Management and a BA in International Studies from American University



W. Robert de Jongh

Feed the Future Partnering for Innovation

W. Robert de Jongh is responsible for working with Partnering for Innovation grantees to help manage the commercialization of each partner's funded technology as well as document successes and best practices in the newly released guide *From Smallholders to Shareholders: A Guide to Optimizing Private Sector Partnerships for Smallholder Impact*.

Tom Carroll

Global Development Incubator



Tom Carroll is the Treasurer of the Global Development Incubator and the Director of the Initiative for Smallholder Finance. He has extensive strategic advisory experience in a wide range of industries, including agriculture, health, media, telecommunications, consumer goods, and financial services. His recent work has been focused in the agricultural sector and includes such efforts as a comprehensive market analysis of global and sub-Saharan Africa horticulture markets, market analysis, stakeholder outreach, facilitation, investment planning in the cashew market; and the development of public-private partnerships across a host of commodity markets.



Louisa Parker

AGCO Corporation

Louisa Parker is the Manager of Institutional Funding and Stakeholder Relations in Africa and the Middle East at the AGCO Corporation.

Partnering for Innovation

From Smallholders to Shareholders

Optimizing Inclusive Business Models for Smallholder Impact

Ag Sector Council Seminar, October 22, 2014



USAID
FROM THE AMERICAN PEOPLE



**six misconceptions
about business with
smallholders**



**Smallholder
farmers prefer
cheap products.**



***Successful* inclusive business models are high volume, low-margin businesses.**



**Smallholder finance is best done through banks,
not companies.**



Local regulatory issues do not interfere with low-income business models

Local regulatory issues do not interfere with low-income business models.



Risk in low-income markets is well understood.



<http://www.yourventuratherapist.com/wp-content/uploads/2013/07/Fear-and-Anxiety-Triggerpe-Over-Sharks.jpg>

**Companies
engage with
smallholders
primarily to
improve
their
reputation.**

**misconceptions can
lead to failure**

Why Inclusive Business Models Fail

- Immaturity of Business Model
- Lack of Market Understanding
- Inadequate Logistics and Infrastructure
- Lack of Access to Finance
- Underestimation of Customization Required



**BUT,
there is hope**

The Wheel of Fortune



**what works and
why**

BUSINESS MODEL ARCHETYPES

Asset Financing

Micro-franchising

Consumer Financing

Deep Procurement

Pay-Per-Use

No Frills

Aggregator

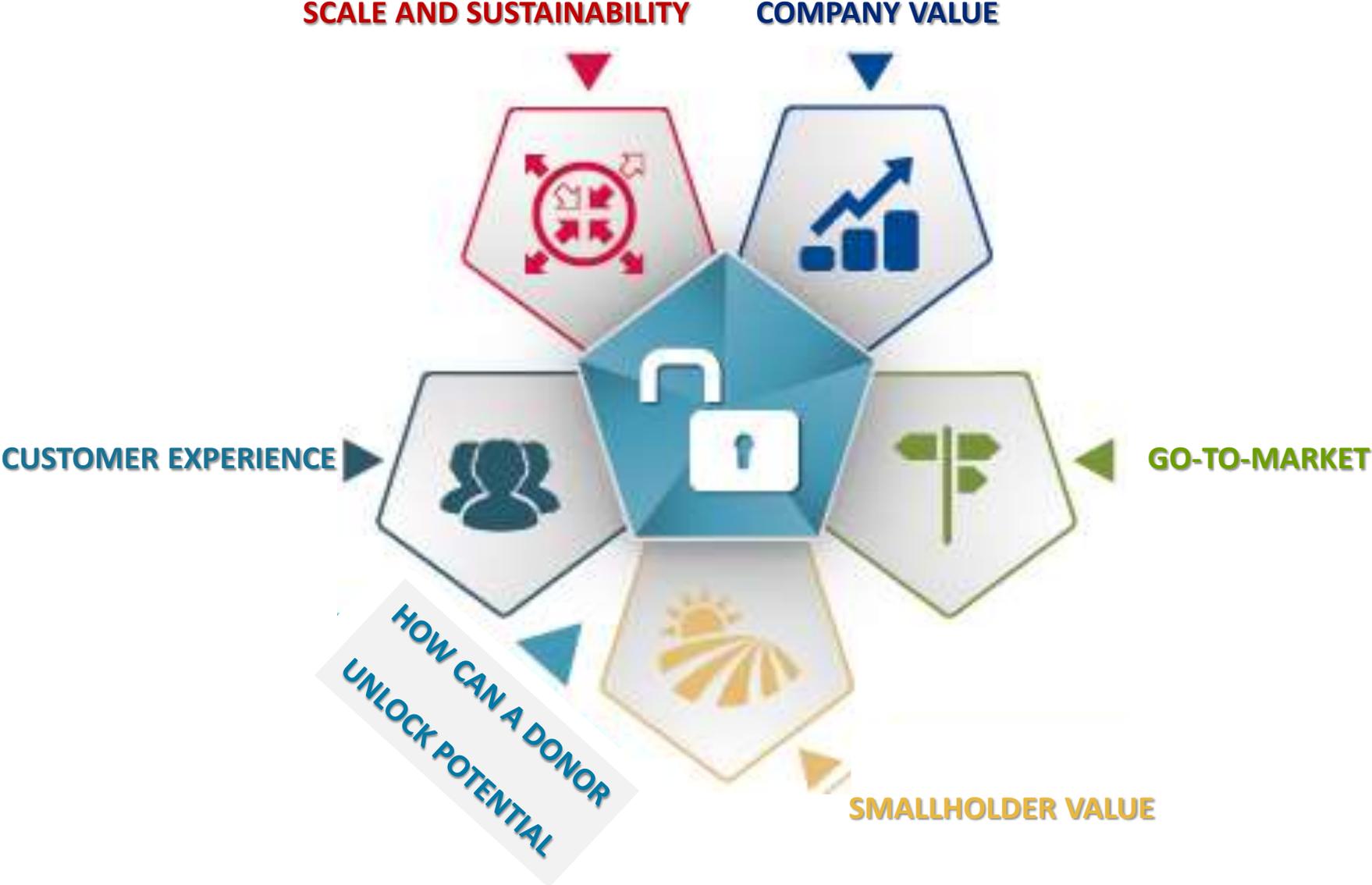
Shared Channel Distribution

Bundling

Contract Farming

Dedicated Direct Sales Force

Understanding Business Models: Shared Value Canvas



Shared Channel Distribution Model

CHALLENGE



Rural households are hard to reach due to poor infrastructure and geographic dispersion.

MODEL



Piggyback on existing distribution systems to reduce costs and extend reach.

MODEL ELEMENTS

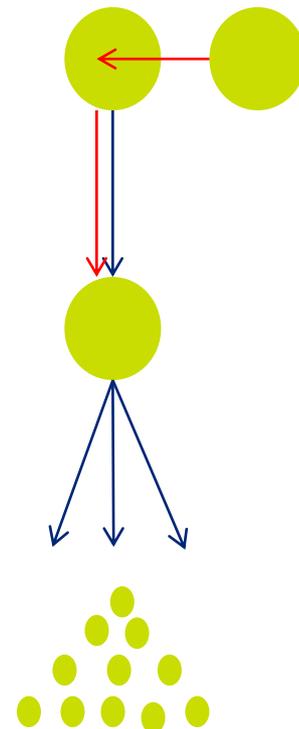


- Existing channel
- Front-line salesforce
- Tailored incentives
- Leverages value chain competencies



SHARED CHANNEL DISTRIBUTION: How does it work?

PRIVATE SECTOR PARTNER VALUE	SMALLHOLDER VALUE	GROWTH POTENTIAL
 <p>COMPANY VALUE</p> <ul style="list-style-type: none"> Reduces costs Generates new revenue 	 <p>CUSTOMER EXPERIENCE</p> <ul style="list-style-type: none"> Increases accessibility to new products and services Direct engagement with local salesforce 	 <p>SCALE AND SUSTAINABILITY</p> <ul style="list-style-type: none"> Sales exceeds costs of “renting” channel space , profits used to grow model Per unit cost can be controlled to maximize profits and revenues while delivering increased value to customer base
 <p>GO-TO-MARKET</p> <ul style="list-style-type: none"> Effective delivery Efficient delivery Shared risk Bundling opportunities 	 <p>SMALLHOLDER VALUE</p> <ul style="list-style-type: none"> Affordability Access 	

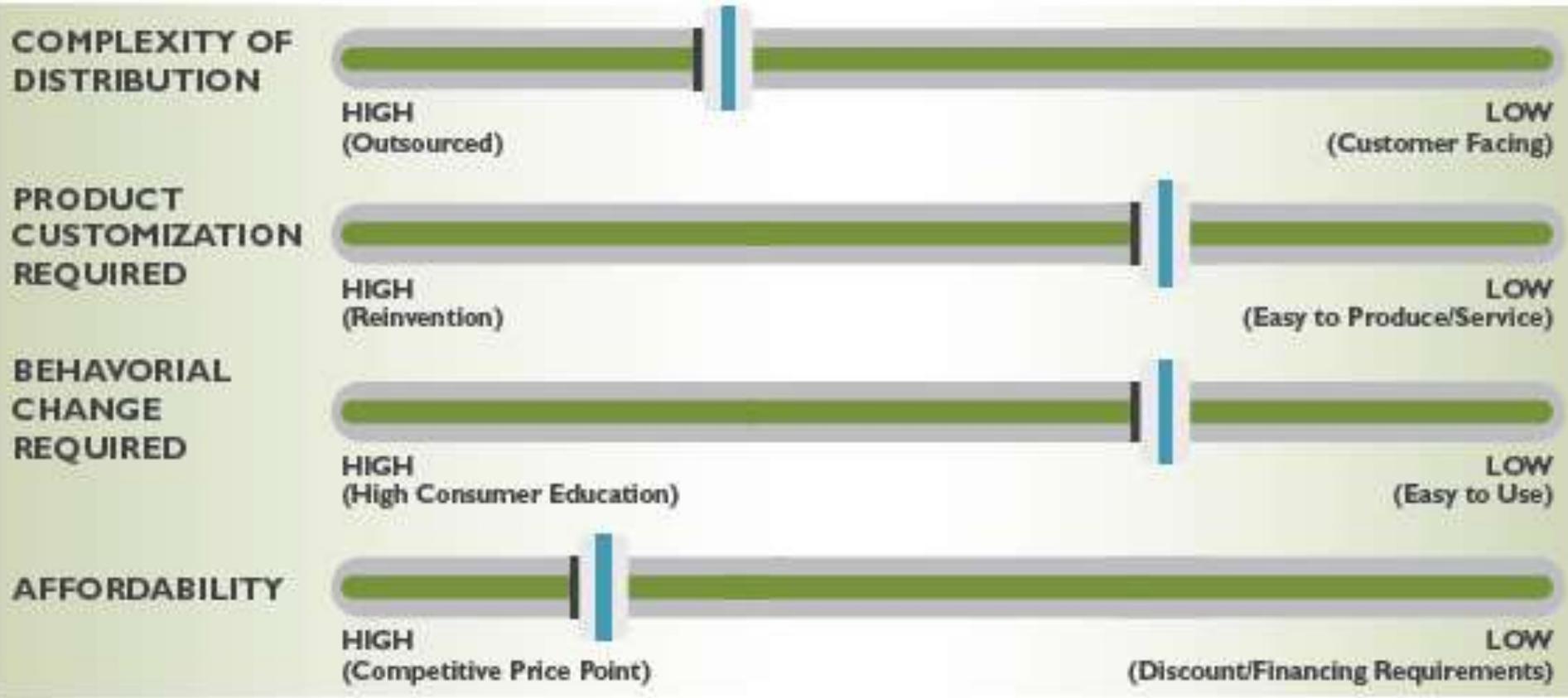



DE-RISKING AND VALUE ACCELERATION

May accelerate value creation by examining **actors’ existing distribution networks** and facilitating partnerships with these market players.

May de-risk the venture **by offering donor or NGO distribution networks**, though company and product due diligence is necessary to avoid program reputational risks.

Shared Channel Distribution Model – Managing Uncertainty



Gramin Suvidha Kendra (MCX and Indian Post)



Creating awareness about GSK



Agri input demand placed at village post office



10% advance given and order confirmed



Consolidated demands placed with agri input companies



Training and awareness programs

Post office issues cheques to the Dealer or Company



Delivery of goods at doorstep and payment collection done by postmaster



Ordered agri inputs delivered at village PO

Gramin Suvidha Kendra (MCX and Indian Post)

BUSINESS CASE



Problem: Information asymmetry among Indian farmers (prices, weather, threats, innovations)
Solution: Leverage Indian postal service to post real-time information and provide targeted services

VALUE DELIVERED

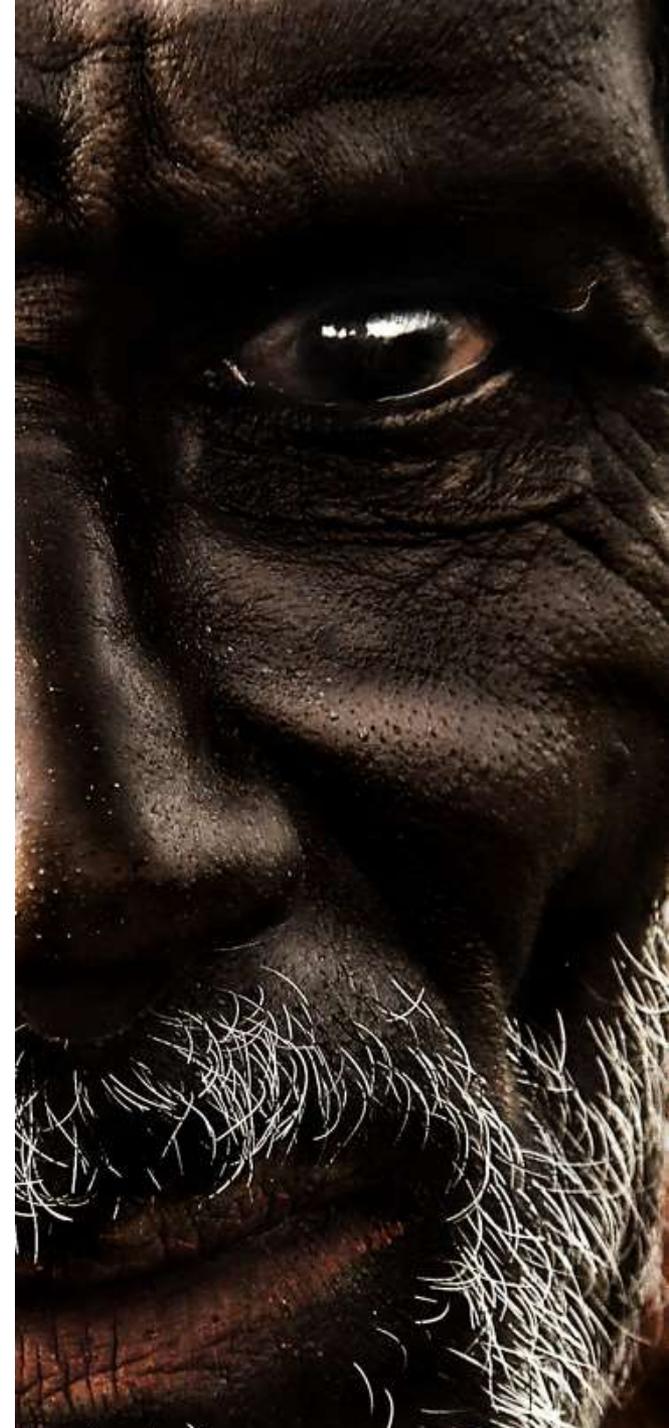


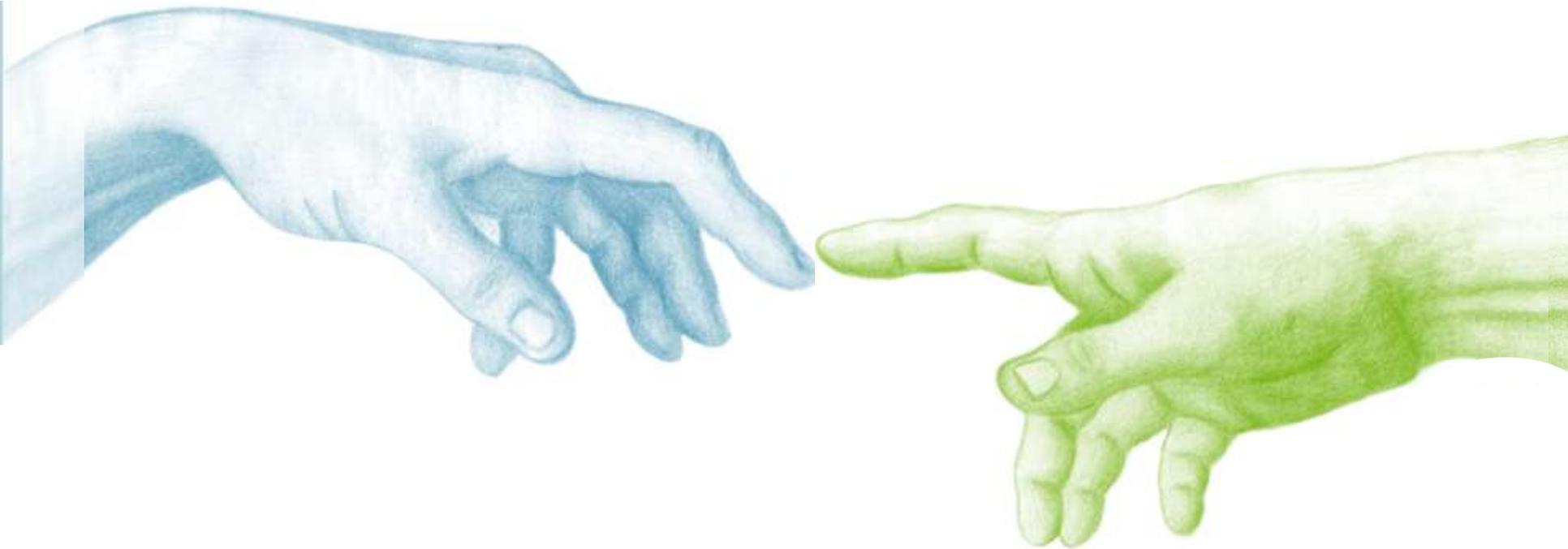
For company: New sales; increased profits.
For smallholders: Access to information, inputs, innovation; increased income, improved productivity and performance.

SUCCESS FACTORS



- Leveraging last-mile infrastructure
- Tapping into latent demand for information
- Sharing extensive networks





High touch business models.



Innovative smallholder finance schemes.



Aggregation of Supply.

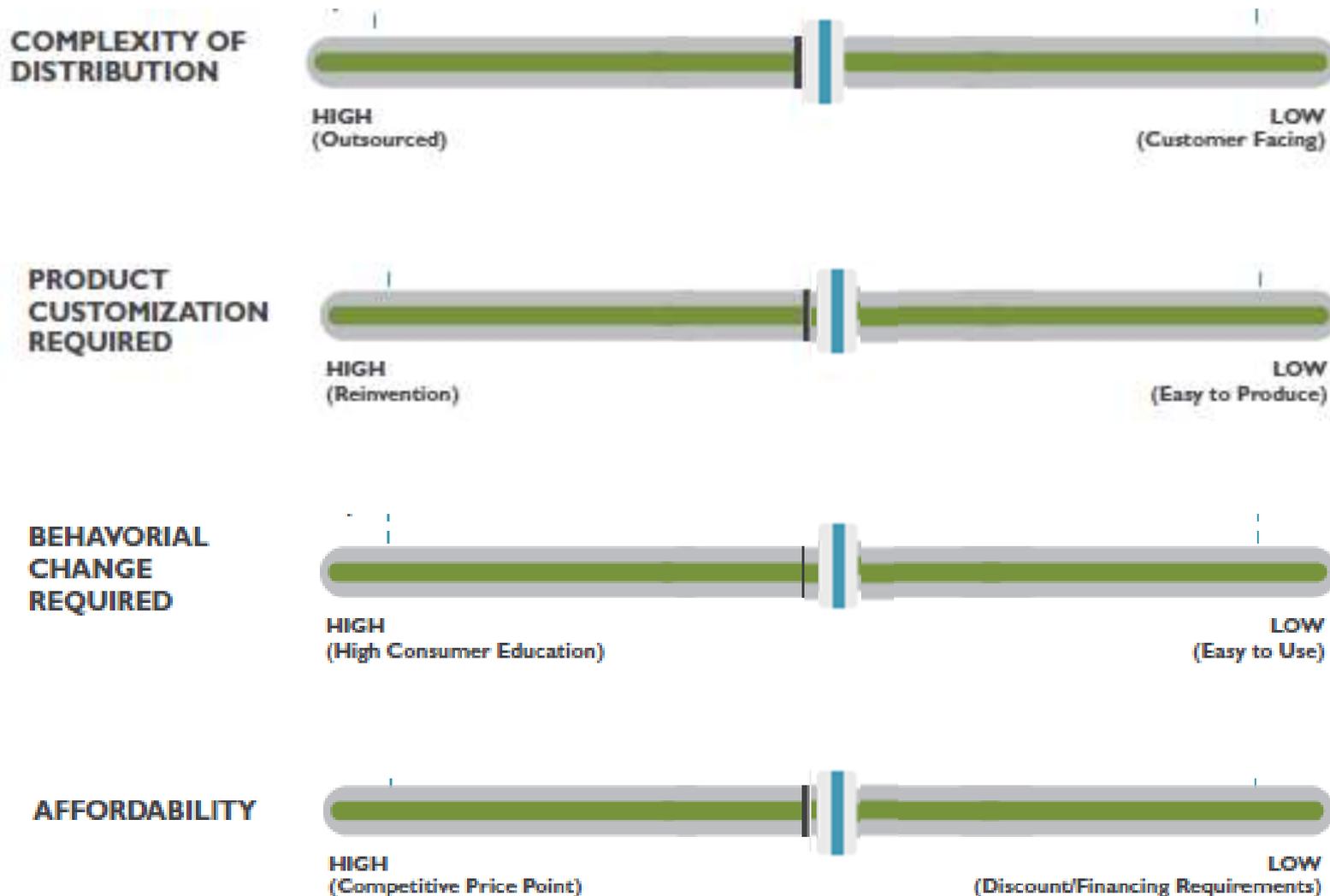


Third party facilitation through an “ethical agent.”



**Effective
customer
segmentation
can lead to
better results.**

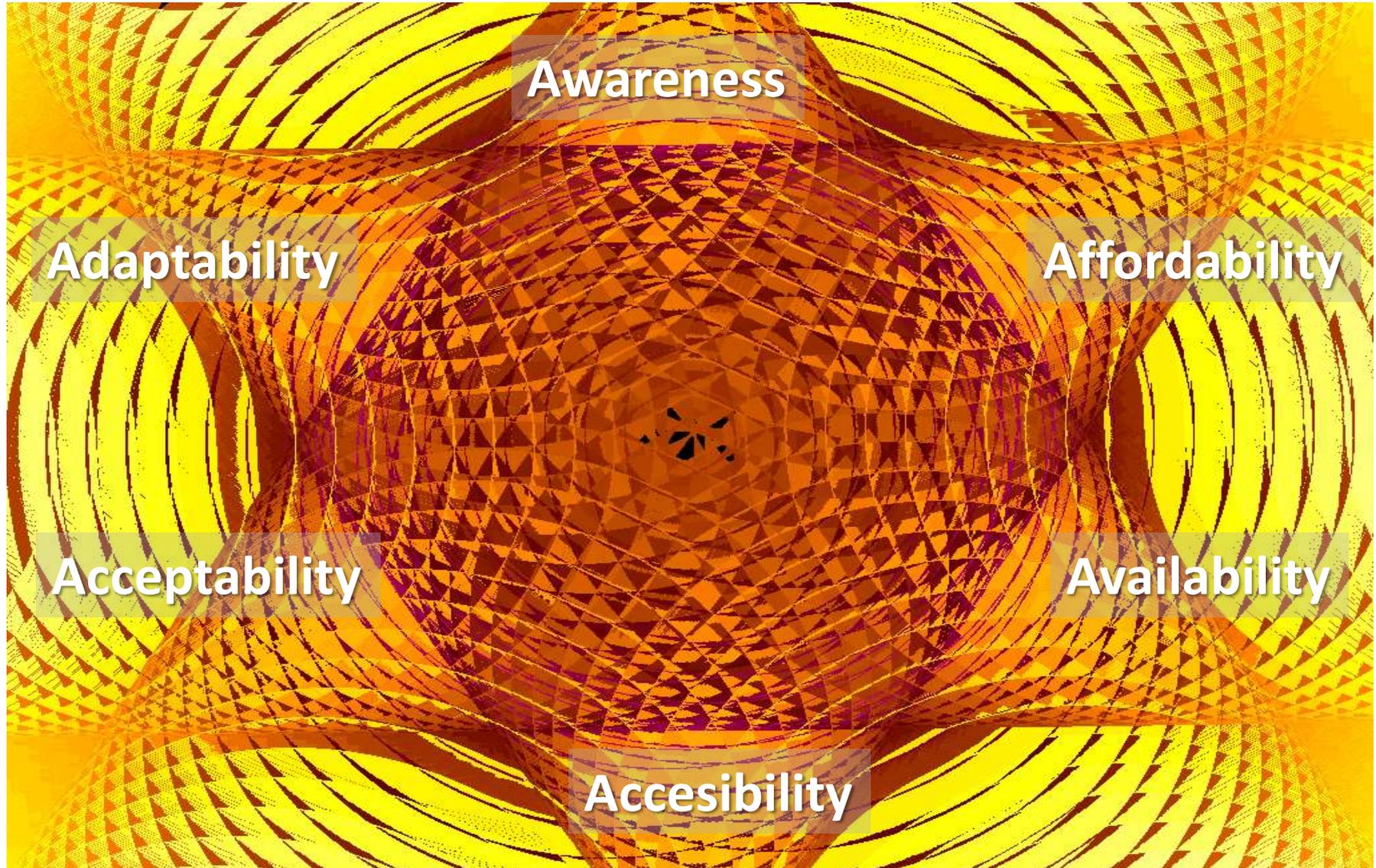
Understanding Contextual Uncertainty – Smallholders as Consumers



Key Take-Aways

- Getting the business model right
- Context Matters
- Understanding and managing risk
- Creating Trust
- Establishing meaningful partnerships
- Know your customer

Remembering the Six As for Inclusive Business Model Design



From Smallholders to Shareholders

is available at:

www.partneringforinnovation.org

A man in a light-colored shirt is shown in profile, looking at a corn cob he is holding. The background is a dense field of corn plants with golden-brown leaves. The scene is lit with warm, natural light.

AGCO IN AFRICA

October 2014

LOUISA PARKER



OVERVIEW

1 Company background

2 Africa Strategy

3 Product Segment

4 Future Farm Concept

5 Bags2Bulk

6 Challenges



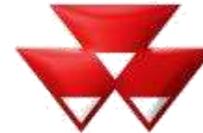
HIGH TECH SOLUTIONS TO PROFESSIONAL FARMERS FEEDING THE WORLD

FENDT

Leaders Drive Fendt



Grain storage and protein production solutions



MASSEY FERGUSON®

A World of Experience – Working With You

Challenger

Serious Machinery, Serious Results



 **AGCO**
Your Agriculture Company

VALTRA

Your Working Machine



COMPANY BACKGROUND



PURE PLAY GLOBAL AGRICULTURAL EQUIPMENT MANUFACTURER



Best-in-Class Ag Equipment Solutions



COMPANY BACKGROUND



PROVIDING COMPLETE SOLUTIONS IN AFRICA

From a full line of Ag-Equipment



to agriculture infrastructure



AGCO will achieve this by using Smart Tactics

- **Products:** Tailoring our product and service offerings to the market
- **Future Farms:** Investing in human capital to improve the skillset of local farmers and to improve local support for our products
- **Local Footprint:** Establishing local assembly centers
- **Finance:** Developing a suitable finance solution and improving distribution

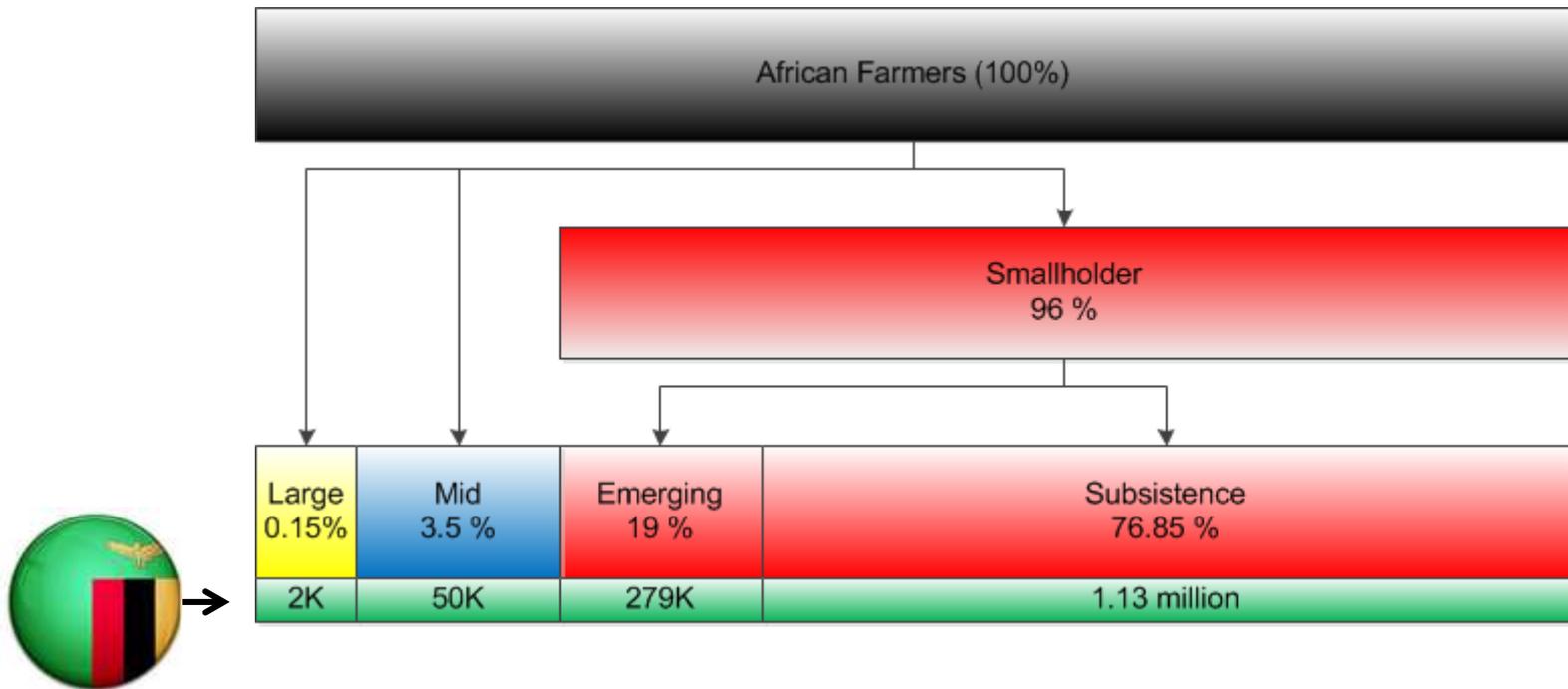


AFRICA STRATEGY



TARGETING THE EARLY ADOPTERS OF TECHNOLOGY

AGCO core market is large-scale commercial farmers, targeted mid-sized & emerging farmers required a new strategy – potential market with right strategy is vast



MECHANISATION PACKAGES

Customer Segments	Tractors	Tillage	Seeding	Fertilization	Harvesting	Storage
1 Large, professional farmers						
2 Medium-sized farmers						
3 Upcoming farmers						
4 Subsistence farmers	 STICK PLANTER (STICK PLANTER.MOV)					



PRODUCT SEGMENTS



PRODUCT – A NEW GENERATION OF TRACTORS FOR A NEW GENERATION OF FARMERS

- The biggest new product development project ever undertaken by AGCO
- An investment of more than 350mn USD
- A completely new range of sub 100kW Massey Ferguson tractors for the 21st century
- Designed and developed from the ground up by Massey Ferguson Engineers using the latest engineering techniques and manufacturing processes
- Designed for maximum productivity and straightforward dependability
- Phased introduction



PRODUCT SEGMENTS



AGCO FUTURE FARM

Vision:

- Develop a sustainable food production system that is able to increase farm output by utilising Africa's agricultural resources more efficiently

Mission:

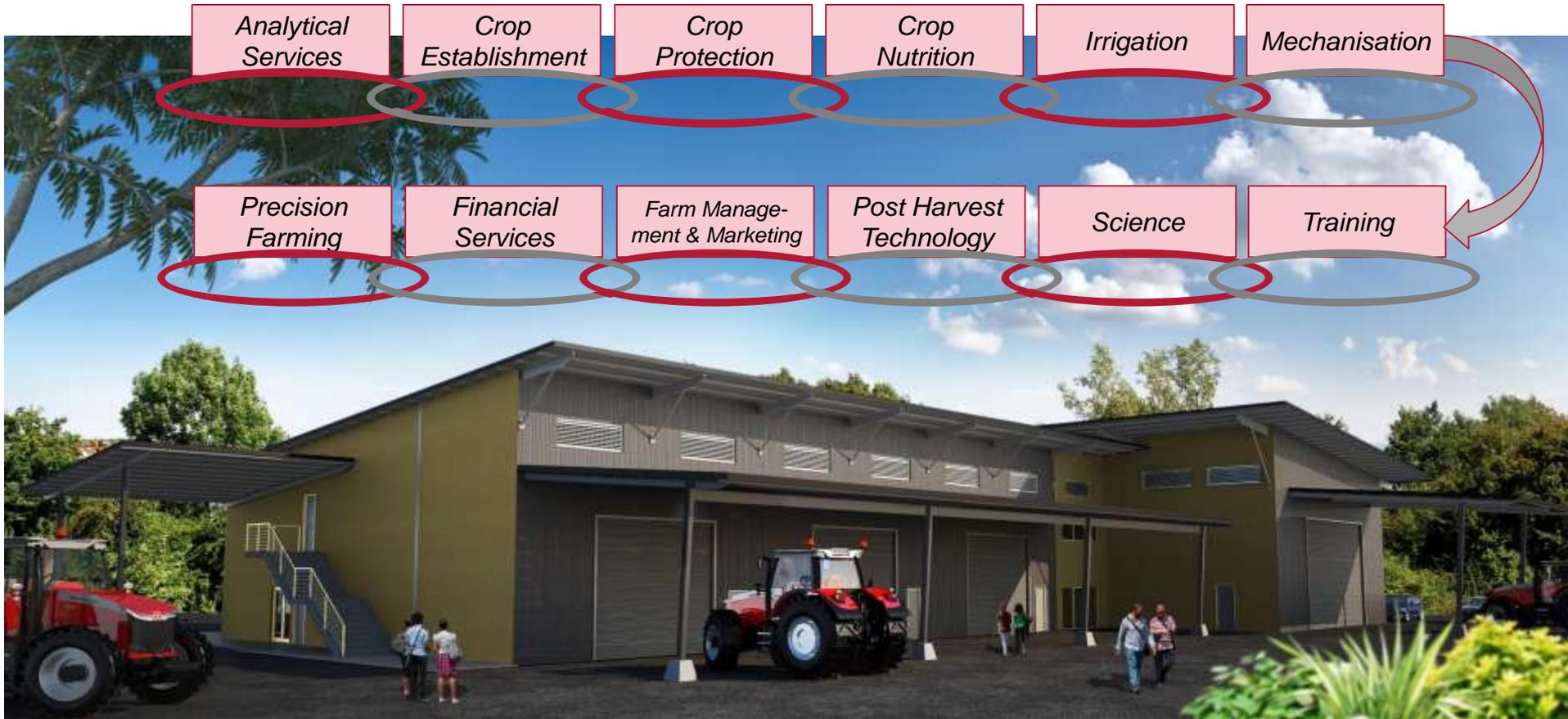
- Develop a range of training programs to build capacity within African food production systems
- Encourage sustainable infrastructure development through agricultural centres like Zambia to facilitate agricultural support services to enable knowledge to be used on farms that increase food production



FUTURE FARM CONCEPT



PULLING PARTNERS FROM ACROSS THE AGRICULTURAL VALUE CHAIN



FUTURE FARM CONCEPT



LEVERAGING PARTNERSHIPS TO DELIVER VALUE TO CUSTOMER AND BUSINESS

Resources

Training centre | Farm land | Business facilities | Products & services – AGCO & partners

Deliverables

Projects using shared resources

Field days | Business facilities | Technical training | Product training | Operator training

Farm business training | Mechanised solutions | Farm business solutions

Agricultural alliance

Value

Closer to customer business | Cross customer referrals | Develop leading edge |

Reduce costs through shared resources | Transfer model to other regions

Increased visibility within agricultural sector | Establish systems integration

Catalyst for change

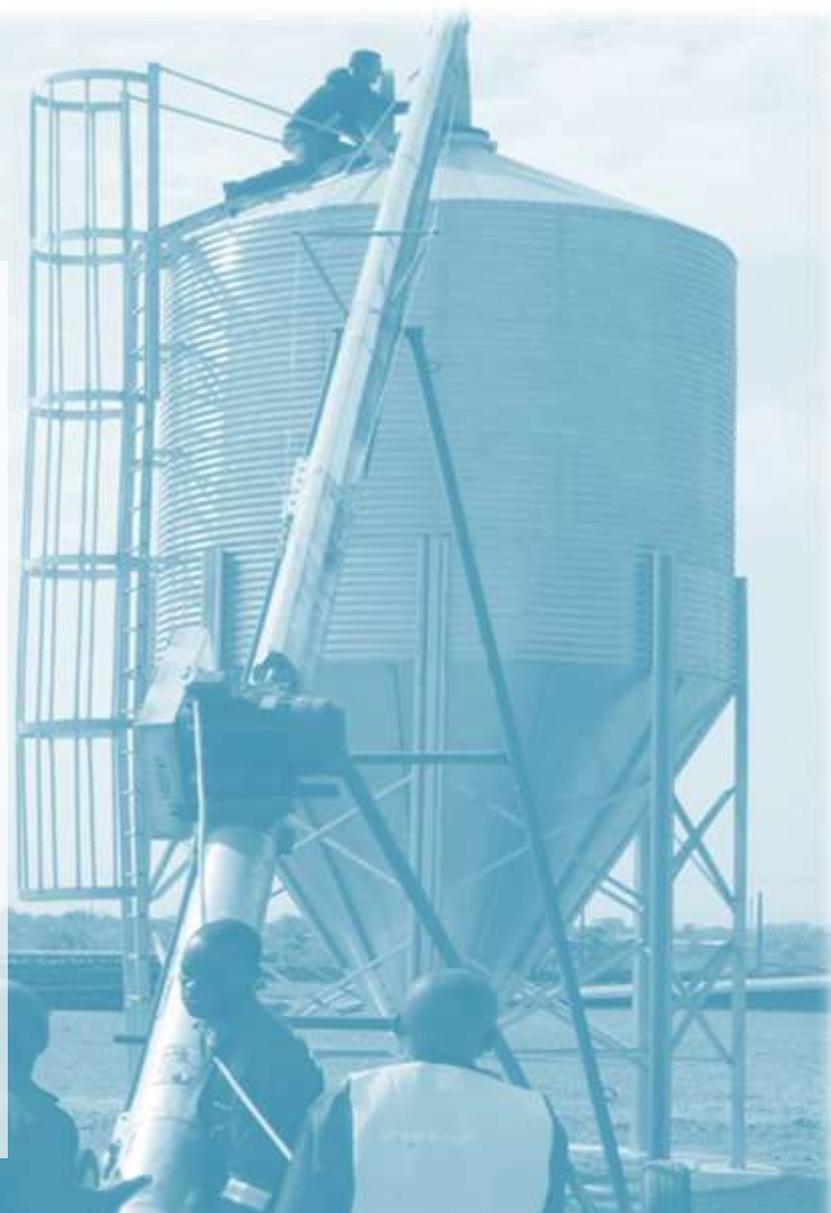


FUTURE FARM CONCEPT



BAGS2BULK –INTRODUCE AN EXISTING TECHNOLOGY TO A NEW MARKET

- Sell grain storage silos to mid-sized grain traders in Zambia (2.5-500 tonnes)
- Target the quickest adopters of technology (mid-sized grain traders)
- Identify barriers to adoption and develop solutions
- Increase incomes of 12,000 smallholders
- Supported by USAID: Feed the Future/Partnering for innovation
- Develop business plan and scale up beyond pilot – entry point for mechanisation (assets on traders/tribal land)



MAIN PROJECT COMPONENTS

Support traders to build profitable businesses

Mobile grain training unit/
Business skills

Tailored to new market –test
different approaches

Distributor supported to
resource new market

Demo's

Training

Marketing

Finance

**GSI
support**



Held locally in
Central and
Eastern Province.
See and touch the
technology

Working with
selected banks to
develop finance
models

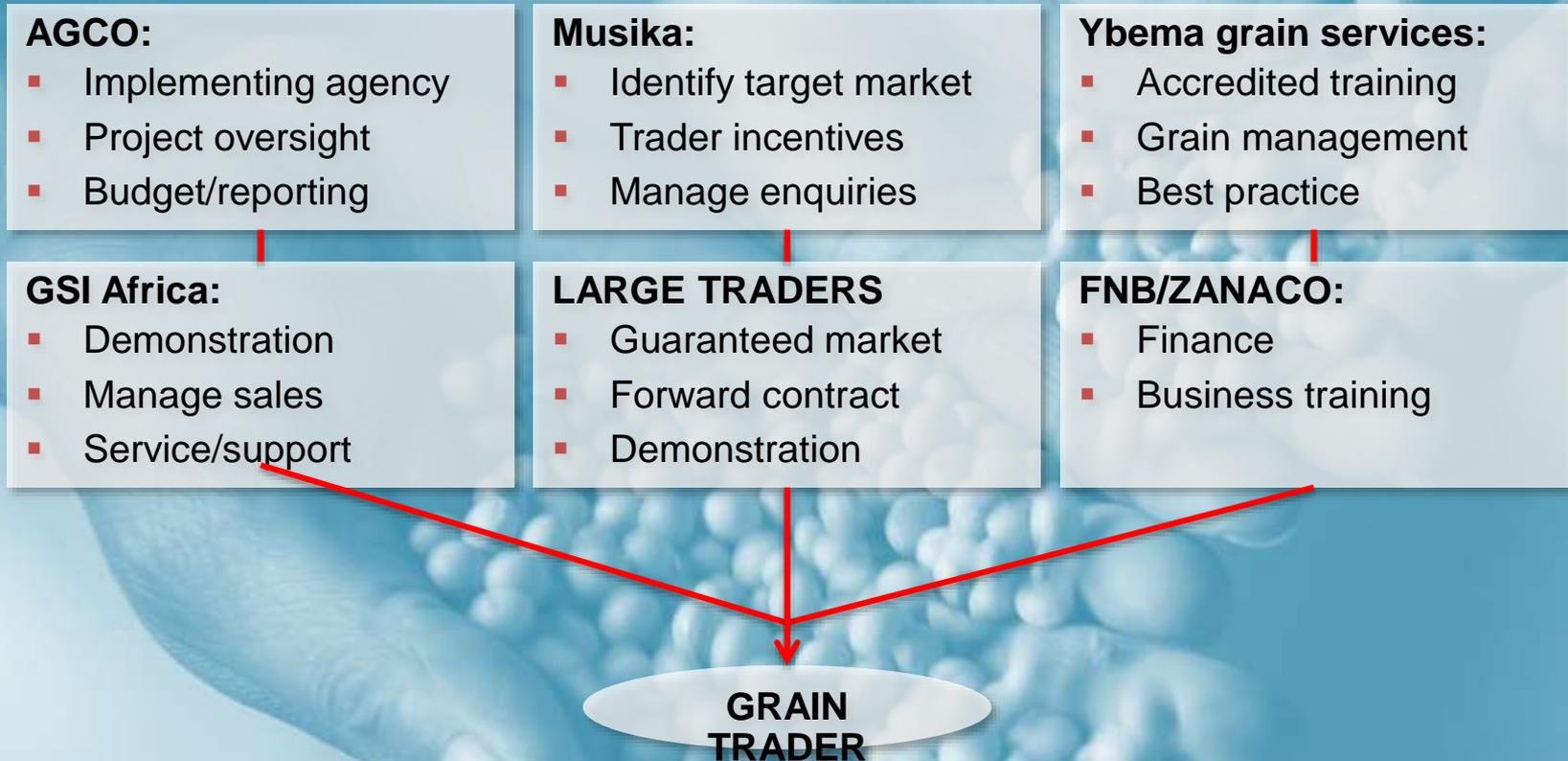


BAGS2BULK PROJECT



PROJECT PARTNERS

- Consortium of partners to tackle identified barriers for grain traders



CHALLENGES FOR PRIVATE SECTOR

- Accurate market segmentations – to build business case for interventions
- Overall policy frameworks –supportive of mechanisation efforts
- Preparing the ground – distribution models and supporting infrastructure
- Accessing target market –identifying the right method and partners
- Addressing the knowledge gap
- Rural/mechanisation finance



CHALLENGES



THANKYOU





THE INITIATIVE FOR
SMALLHOLDER FINANCE

USAID Ag Sector Council 2014



ISF is a “platform” for the research and development of financial services serving the smallholder farmer market



It is a **time-bound 3 year effort housed** in the non-profit Global Development Incubator and guided by a Steering Committee of sponsor funders and key actors

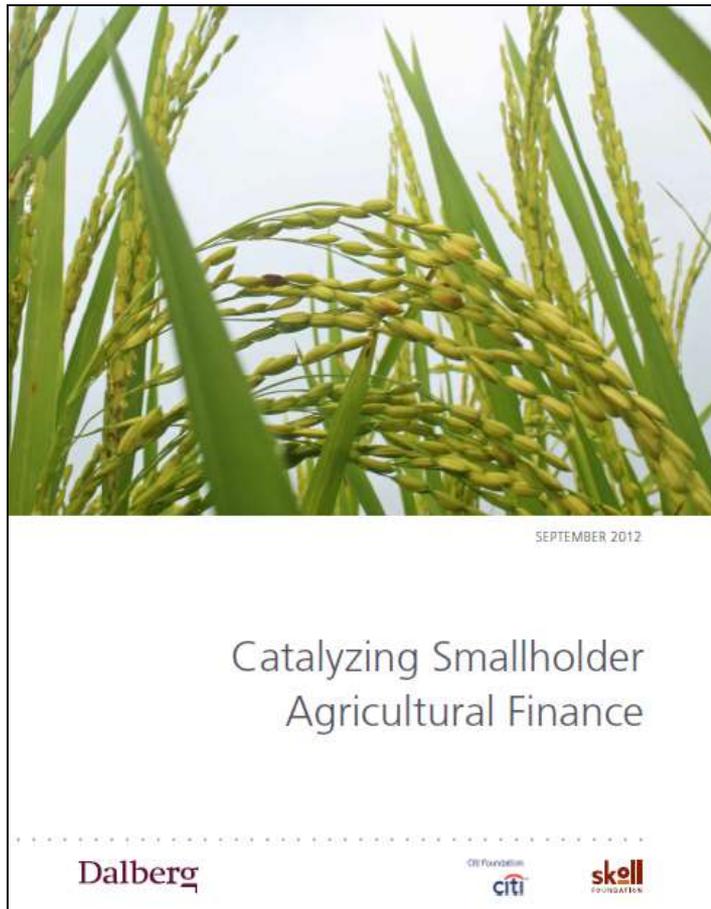
Three main activities are: 1) Research 2) Facilitation and 3) Brokering

The goal of the Initiative is **marked progress toward closing the gap** between the \$450 billion in smallholder financing demand and the current \$10-20 billion supply

Citi Foundation



The five 'growth pathways' to increased smallholder finance



Growth Pathway

1

**Replicate and scale existing
social lending models**

2

**Innovate new social lending
products beyond short-term
trade finance**

3

**Finance out-grower schemes of
multinational buyers**

4

**Finance through alternate
aggregation points**

5

Finance direct to farmers

Five areas of innovation emerged from research and design activities with service providers

	Key challenges addressed	Current areas of experimentation	New ideas
Infield efficiency	<ul style="list-style-type: none"> Field- and branch-based delivery are key drivers of direct-to-farmer operational costs 	<ul style="list-style-type: none"> Mobile repayment Non-branch delivery models 	<ul style="list-style-type: none"> Mobile maize mill Group leader app
Agronomic learning	<ul style="list-style-type: none"> Agronomic training is a key success factor in direct-to-farmer finance, but can create challenges to scale and sustainability 	<ul style="list-style-type: none"> Agronomic training from finance providers via tablets Mobile training resources targeted directly at farmers 	<ul style="list-style-type: none"> Adaptive learning platform Farmer mentoring incentives
Credit assessment	<ul style="list-style-type: none"> Collecting information to assess smallholder credit worthiness is difficult and expensive 	<ul style="list-style-type: none"> Alternative credit assessment tools, some which incorporate agriculture-related data Supply chain management data collection platforms 	<ul style="list-style-type: none"> My farm, my data Federated data hub
Portfolio diversification	<ul style="list-style-type: none"> Finance providers with portfolios heavily concentrated in agriculture face significant prices and crop risks 	<ul style="list-style-type: none"> Provider promotion of crop diversification Provider promotion of livestock farming 	<ul style="list-style-type: none"> The “4-hour farmer” Family guarantee
Individual motivation	<ul style="list-style-type: none"> Group lending traditional used to mitigate default risk, however this model is associated with limitations 	<ul style="list-style-type: none"> Financial incentives Mobile technology for repayment reminders 	<ul style="list-style-type: none"> School fee incentive fund Community contributions

Experimentation: Infield Efficiency

Mobile loan repayment platforms and alternative branch models



Photo credit: Dalberg field research, One Acre Fund farmer



One Acre Fund

LOAN REPAYMENT USING MOBILE MONEY

“Our field officers are tasked with a lot: they are expected to conduct all loan related monitoring and repayment activities, in addition to facilitating agronomic training for our farmers. In certain regions, we are piloting mobile loan repayments, where smallholders repay loans through mPesa. This reduces the burden on our field officers.”

– Arnold, Communications Coordinator



Photo credit: Gates Foundation (flickr)



Opportunity International

MOBILE VAN BRANCHES

Opportunity International uses mobile vans to reach rural areas, which allows many individuals to access financial services for the first time. Mobile vans are armored trucks with many of the capabilities of a traditional bank branch, enabling farmers to do banking within walking distances of their farms. Due to the popularity of the service, some mobile van stops have been converted into permanent banking structures to meet client demand.

New ideas

Infield Efficiency: Group Leader App

1

INFIELD EFFICIENCY

NEW IDEA: GROUP LEADER APP *Connecting and empowering farmer group leaders through mobile services*

The day-to-day mechanics of managing farmer groups can be time-consuming and cumbersome. There are a handful of technology solutions that streamline operations for larger, more connected farmer coops and informal associations, but similar solutions don't exist for smaller farmer groups. This idea brings technology innovation to smallholder groups, empowering group leaders to be more effective and achieve greater impact.

FINANCE PROVIDER CAPABILITIES REQUIRED



Continual training for field officers to provide appropriate support to group leaders.

Provision of mobile phones to group leaders.



ADDITIONAL ENABLERS REQUIRED

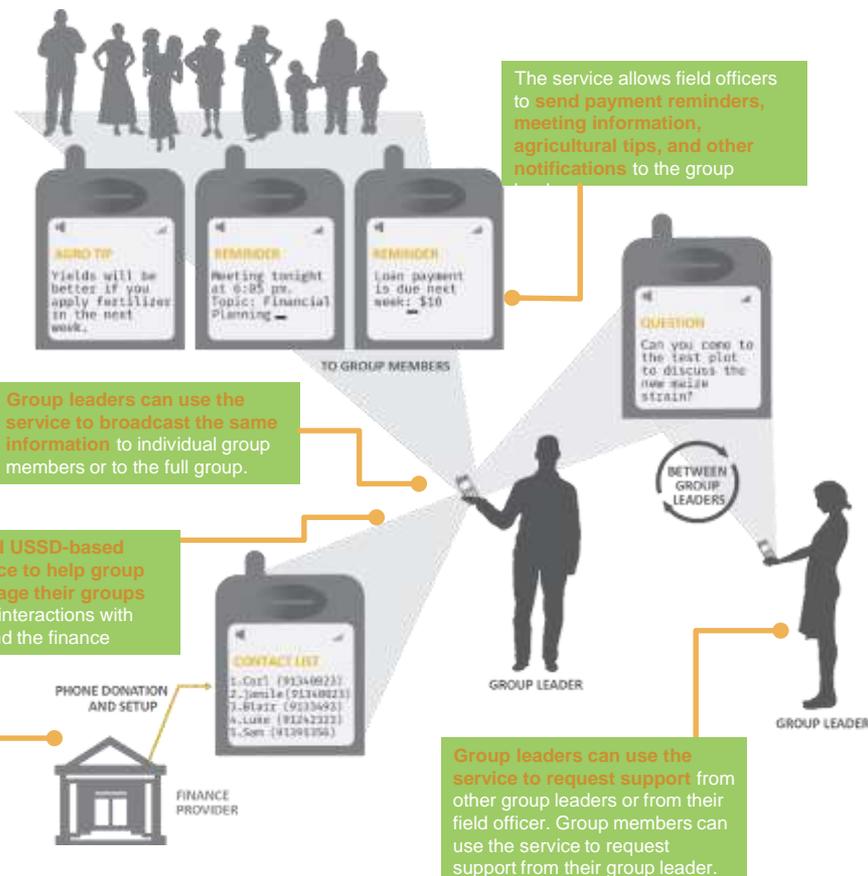
Optional operator partnerships to share costs of device provision and SMS/USSD usage in return for access to potentially new customer base.

VALUE TO SMALLHOLDER FARMERS

- Easier communication across the group and with the finance provider, particularly around cumbersome administrative tasks such as payment reminders and meeting notifications, allowing group leaders to focus on higher value activities and supporting services.
- Easier access to peer and finance provider expertise and knowledge-sharing.

VALUE TO FINANCE PROVIDERS

- Easier communication with farmer group leaders and members, particularly around cumbersome administrative tasks like payment reminders and meeting notifications, allowing field officers to focus on higher value activities and supporting services.
- Improved standardization of farmer group leader roles, responsibilities, and communication channels.



Experimentation

Technology-assisted Training for Farmers



Photo credit: David Picciao, Kiva

JUHUDI KILIMO

VIDEO TRAINING BY TABLET

“All of our loans officers have been equipped with Samsung tablets. One of the things we are experimenting with is showing training videos and training presentations on the tablets that are very specific and technical to agriculture. That way our loan officers don’t have to be experts and they can just show the video and get people to understand a bit more about how to take care of their animals.”

– Nat Robinson, CEO as quoted in *How We Made It In Africa*



Photo credit: iCow



Safaricom iCow

AGRICULTURAL TIPS BY SMS

Safaricom’s pushed information service in Kenya delivers SMS tips to communicate best practices in cow and chicken rearing, including those related to health, diet, nutrition, illness and disease. Tips are customized to the types of livestock that customers register and each SMS costs 3 Kenyan shillings. Other value-added services include a livestock calendar, immunization calendar, and a search engine for veterinarians or artificial inseminators.

New ideas

Agronomic Learning: Adaptive Learning Platform

2

AGRONOMIC LEARNING

NEW IDEA: ADAPTIVE LEARNING PLATFORM

Content and delivery to support individual learning styles

Current training services rely on relatively standard training content that covers agronomic and financial basics, delivered via conventional formats such as group meetings or SMS. This idea expands the role of the field officer to an educator, allowing him or her to draw on a robust content platform, multiple delivery technologies, and diverse training formats to enable higher quality learning.



FINANCE PROVIDER CAPABILITIES REQUIRED

Continual training for field officers to provide appropriate training to farmers.

Strong understanding of benefits and challenges of different training formats and preferences of farmers.



ADDITIONAL ENABLERS REQUIRED

Partnerships for content provision, aggregation, and distribution.

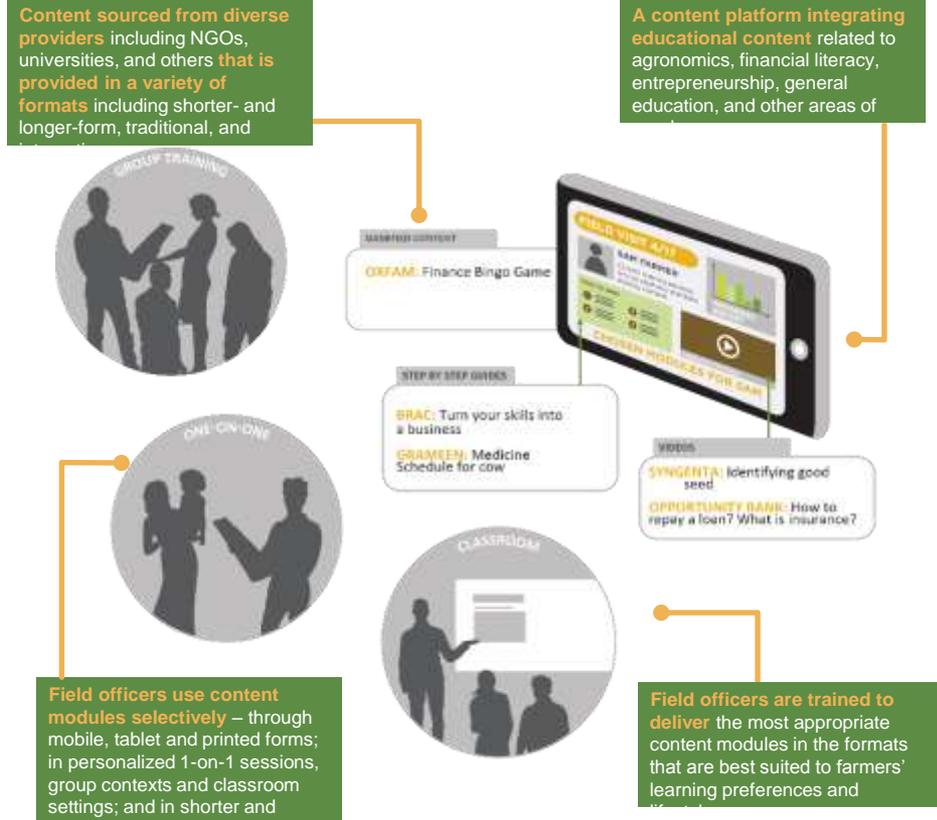
Technology platform supporting connected and offline usage.

VALUE TO SMALLHOLDER FARMERS

- Training covers wide range of topics that have the potential to improve farm performance and financial planning.
- Higher quality learning due to training in formats that work best for the farmer given their individual learning styles and life constraints.

VALUE TO FINANCE PROVIDERS

- Reduced cost of agronomic training and greater control over agronomic training content.
- Stronger farmer-field officer relationships from greater focus on improving farmer knowledge and higher impact touch points.
- Reduced risk of smallholder default due to farmers' improved agronomic and financial educations.



For A LOT more information...

www.globaldevincubator.org/isf

Thank you for joining us!



Share Feedback

Take a moment to respond to our Polls.

You can also visit the [event page](#) to post comments & questions.



Stay In Touch

Contact Us:
agrilinks@agrilinks.org

OR

Julie MacCartee,
USAID/BFS
jmaccartee@usaid.gov



Upcoming Events

Special Event | Climate Change Impacts on Agriculture and Food Security | Oct 30

AgExchange | Feeding the World in 2050 | November 18-20