



## Brussels Development Briefing n.35

### Revolutionising finance for agri-value chains

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# Revolutionizing finance for agri-value chains

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CTA

Organised by:



production



storage



processing



traders



retailers



consumers

- Value chain finance – why now?
- Chain-linking farmers to finance
- What is needed to make it happen?

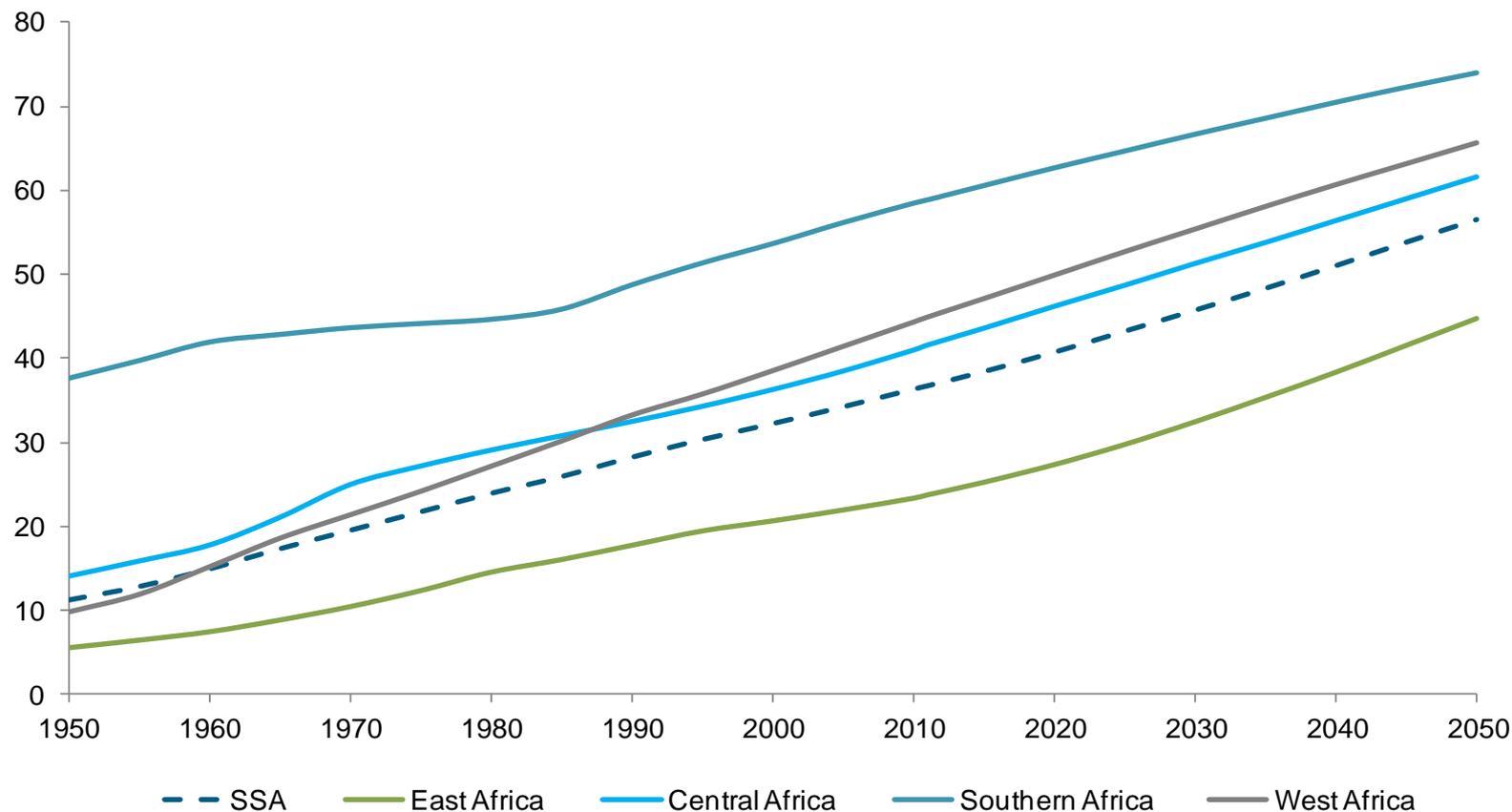
Push .....

- *The need to secure supply (in terms of quality and quantity) of the commodities that a fast growing and increasingly competitive market requires.*
- *Declining risk capacity*

and pull

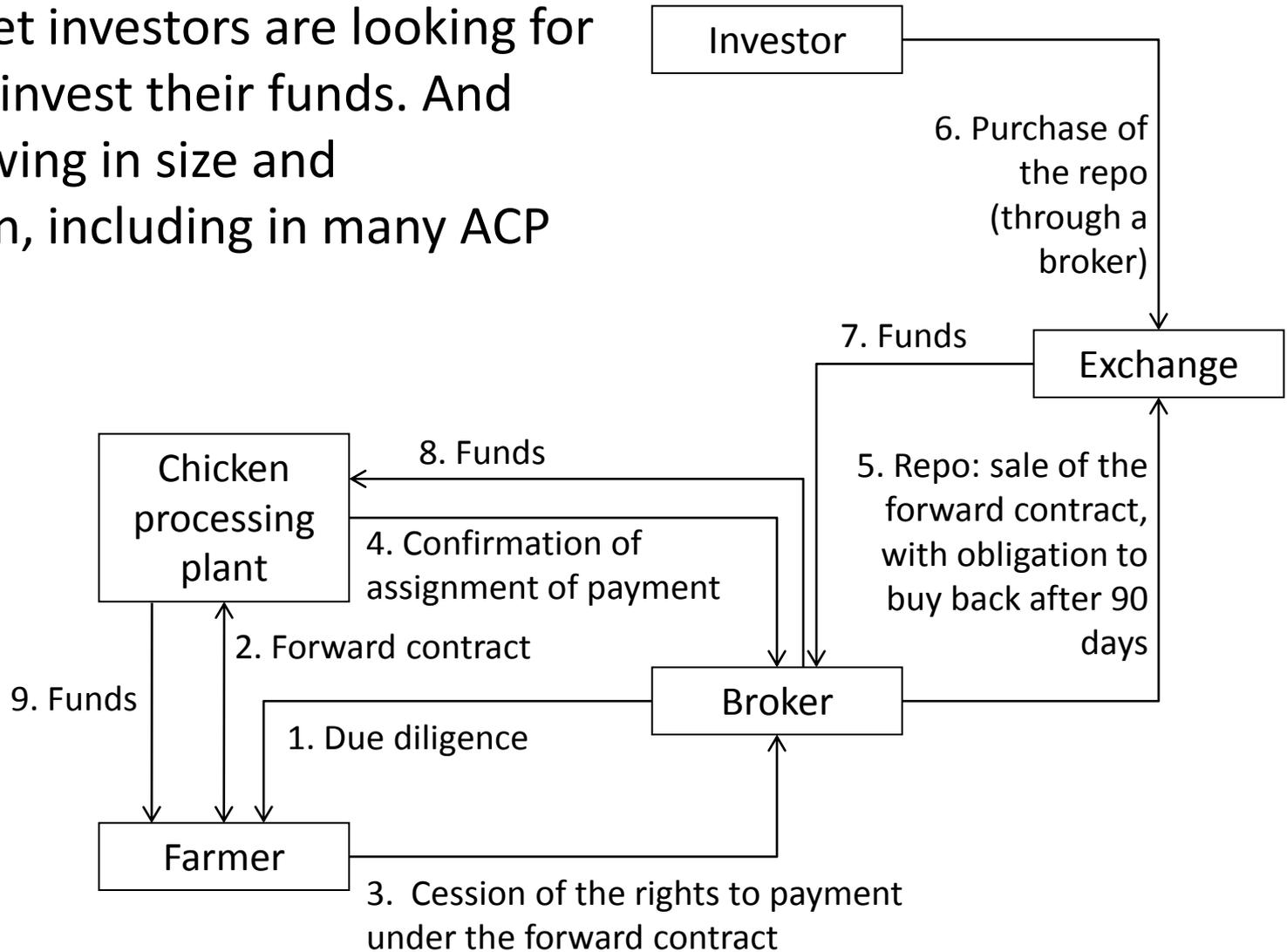
- *Consumers demand proper value chains*
- *ICT makes VC finance easier*
- *Traditional financial sector barriers are disappearing*

# African urbanisation rates as % of total population



Source: AFRACA/CTA/Ecobank, Opportunities for value chain finance in Africa's intra-regional food trade - forthcoming

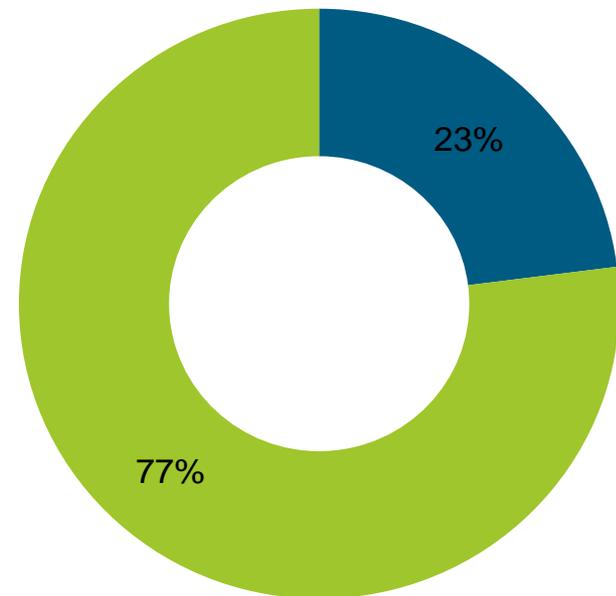
Capital market investors are looking for new ways to invest their funds. And they are growing in size and sophistication, including in many ACP countries.



# potential

Finance for agriculture has to increase by at least half. Currently, 90% of finance going into agriculture comes from the farmers themselves. So, either farming should become much more profitable, or external financing for agriculture has to increase radically.

SME financing requirement in Sub-Saharan Africa, 2012 – appr. US\$ 80-100 billion/year



■ Available financing ■ Financing gap

Source: IFC.

1

**Farmer produces for a specific offtaker**

**Off-taker**

E.g., contract farming

2

**Farmer produces to a set standard and sells in such a way that his market is secure, but competitive**

**Organized market**

1

2

3

E.g., warehouse receipts, auctions, commodity exchanges

**Inability to reimburse.**

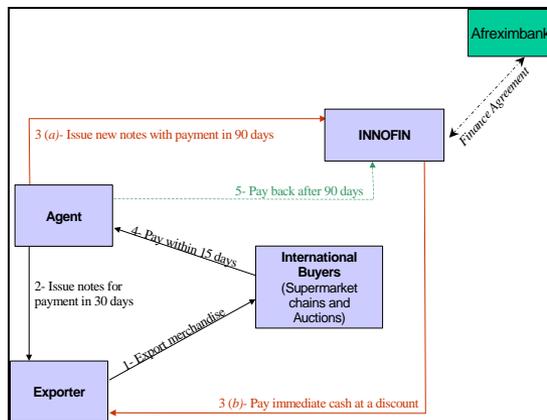
Agriculture is risky.  
Dependency on weather,  
prices, availability of  
markets, condition of  
roads, rural insecurity...

**Unwillingness to  
reimburse.** Past practices  
often discouraged farmers  
from honouring their  
obligations.

Make sure loan is used to  
improve farmer's revenue.  
Build risk management  
tools into the loan.

Ensure that the  
reimbursement is not by the  
farmer, but is made through  
a stronger link in the value  
chain.

Value chains generally continue functioning over many years. Thus, financiers can construct standardized financing mechanisms, where the “entry” of the commodity into one particular phase of the chain is sufficient to trigger the financing.



**Agri Business/Commodity Backed Loans in an instant !** **At Unbelievable Rates**

**Agri Business Loans**

- Loans available for Processors, Aggregators & Traders in Agricultural sector
- Overdraft & Term Loan facilities available
- Term Loans available upto a maximum of 15 years
- Loans available against Residential/Commercial/Industrial properties\*

**Commodity Backed Finance**

- Loans available to Farmers, Aggregators and Processors
- Loan against Agri commodities stored in CWC/SWC/Licensed Warehouses/Private Warehouses & Godowns or Dematerialised Agri Commodities
- Wide Range of Agri Commodities permissible
- Maximum term of 12 months and maximum funding of 75% depending on type of commodity

**Call us at:**

Mumbai - 26307799, Hyderabad - 23128777, Karnataka-984557 7799, Tamilnadu - 9894477799, Andhra Pradesh-984957 7799, Delhi Mobile - 9818177799, Delhi BSNL-41617799, Kerala - 9895477799, Chattisgarh & MP - 9893147799, Coimbatore - 4397799, Chandigarh - 9855799, Lucknow - 9895477799, Uttaranchal - 9897477799, Haryana-989617 7799, Punjab - 981597 7799, Jaipur-9829256548, Indore - 402 7799, Ahmedabad-66309891, Kolkata - 9831377799, Chennai-42047799, Bangalore - 41287799, Cochin-9836117799, Maharashtra & Goa - 9890447799, Gujarat-9898277799, Bihar & Jharkhand - 9934017799, West Bengal-9932007799, North East - 9862407799, Himachal Pradesh-9816647799, Jammu & Kashmir - 9906967799, Orissa-9938487799, Assam - 9954727877, UP East-9936127799

**# Once the call gets connected, dial 15 or 25 to talk to a phone banking officer**

**ICICI Bank Agri Business Loans**

*Its time your efforts paid off!*

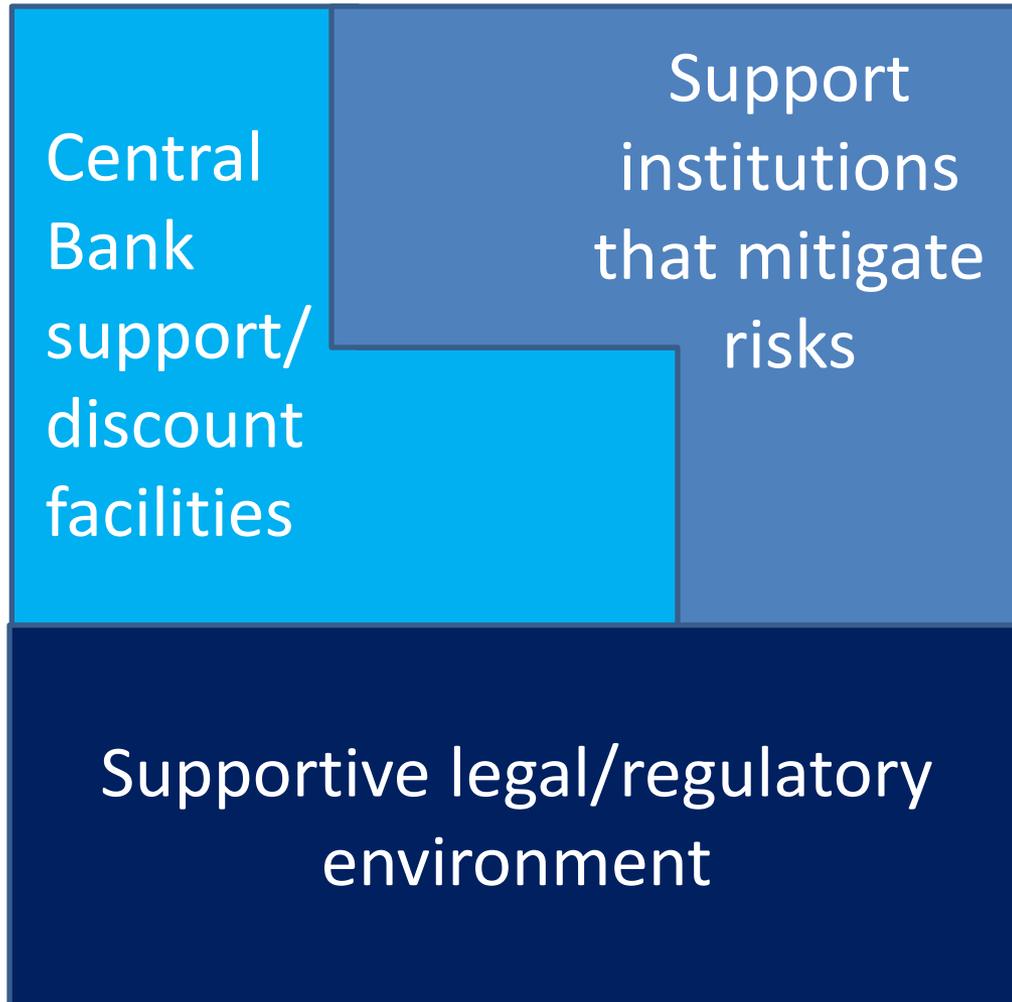
- Learn from best practices



"We are prepared to make you a loan, but first you have to prove that you really don't need it."

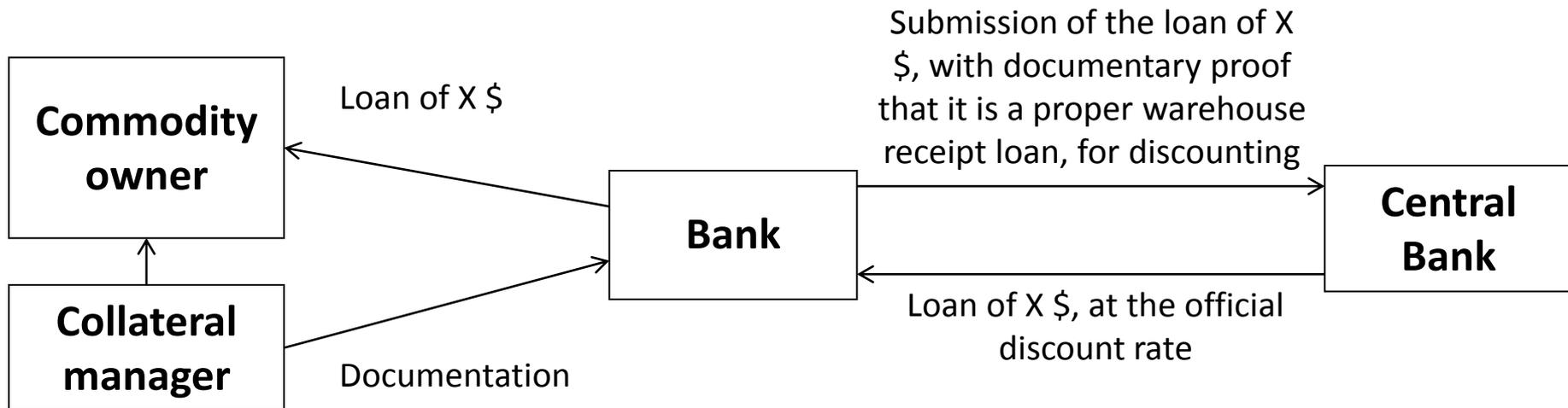
- pro-active governments and Central Banks

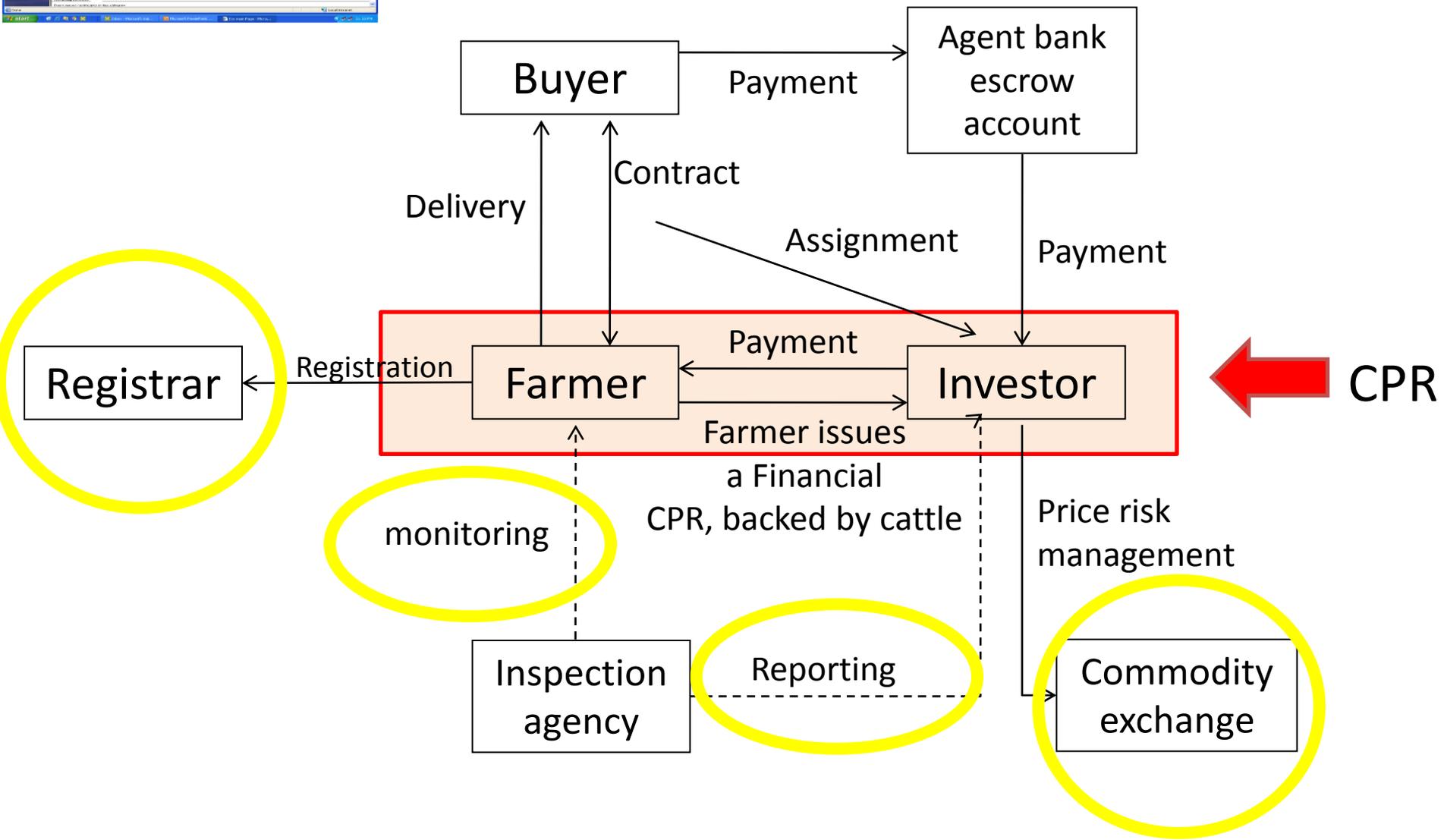
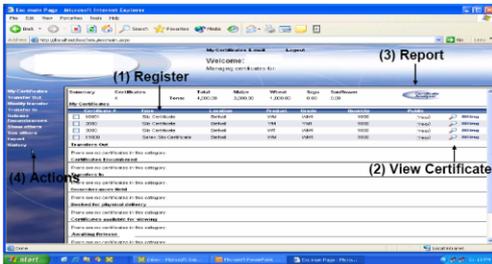
- supportive development partners



Central Banks played a central role in developing agricultural finance in 19<sup>th</sup> and early 20<sup>th</sup> century Europe and USA... providing good models for today's developing country Central Banks and Ministries of Finance.

In 1848, the Bank of France created forty-nine "bonded warehouses", which started to provide companies with warehouse warrants for various; sub-discount banks also set up by the Central Bank accepted these warrants as collateral, and their loans constituted discountable paper for the Bank of France.





- Value chain finance is a need of the day – a key tool to get agriculture to meet current challenges – but also, a great opportunity for banks.
- But mindsets have to change and skillsets need to improve.
- Governments should take their responsibilities... but not fall back in the failed 1960/70s model in state-driven subsidized credit.
- Development partners can provide support in several ways, from capacity- and institution-building to the provision of risk capacity.



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 production
-   
 storage
-   
 processing
-   
 traders
-   
 retailers
-   
 consumers