



Brussels Development Briefing n.35

Revolutionising finance
for agri-value chains

5 March 2014

<http://brusselsbriefings.net>

Agricultural Value Chain Finance and
VC Business Models.
Calvin MILLER, *FAO*.



Agricultural Value Chain Finance and VC Business Models



Revolutionising finance for agri-value chains

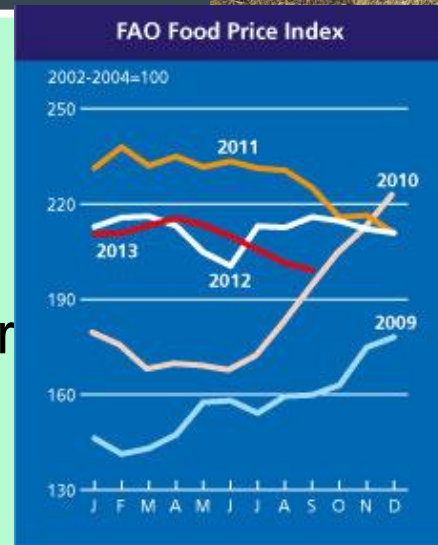
Brussels Policy Briefing no. 35

Calvin Miller, FAO
Brussels, 5 March, 2014





- Market integration
 - ✓ Tighter supply and value chains
 - ✓ Increased concentration of market leaders' power
- Open trade with intense regional and global competition
- Consumer changes
 - ✓ More food processing and segmented demand
 - ✓ Stringent standards, specifications and conditions
- Information and communication technology (ICT)
 - ✓ access to information is easier and more important
 - ✓ back-office technologies are more robust to manage data





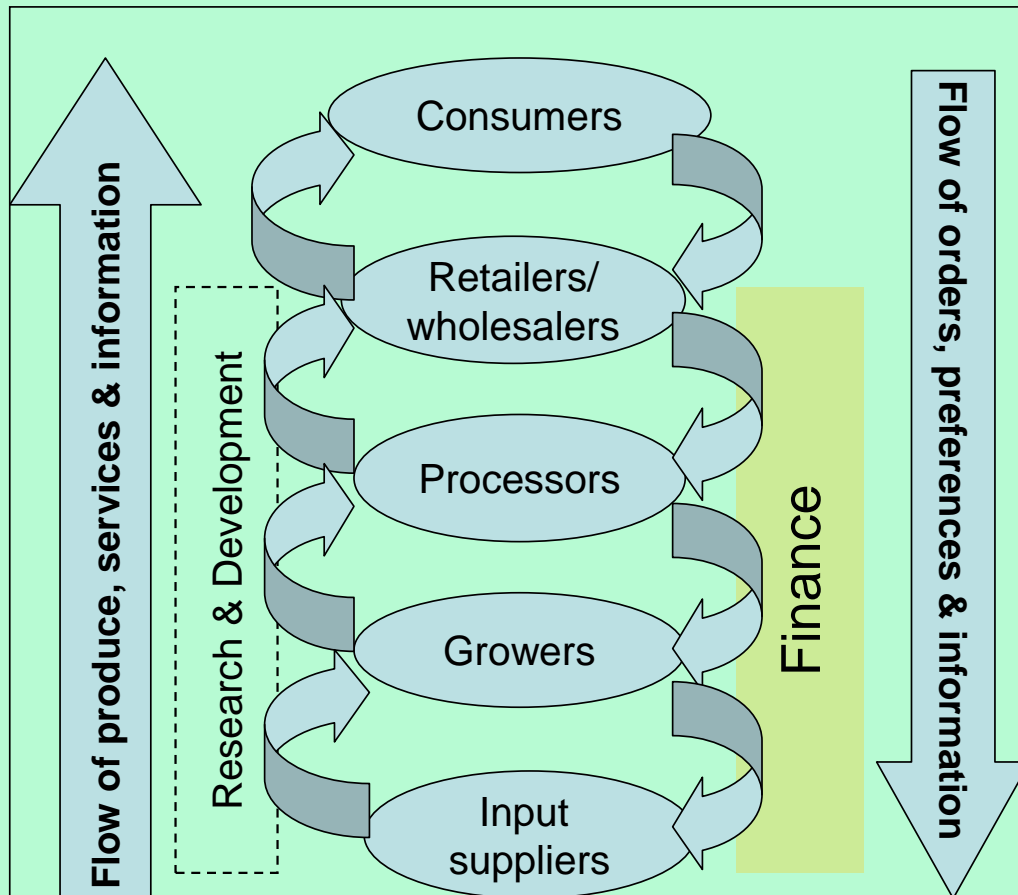
What is an agricultural value chain?

Value chain describes the full range of activities involved in getting a product or service from conception, through the different phases of production, transformation and delivery to the final consumer.





VCs have market-pulled value chain linkages



- Inputs, production and processing are demand driven.
- Continuous flow of information.
- Market oriented.
- Reap competitive advantage.

Production based on the needs of the consumers and closely linked with the processors and other market players
(market Pull)-Value chain marketing



Defining Value Chain Finance

Value chain finance – financial products and services flowing ***to*** and/or ***through*** a VC to address the needs of those involved in that chain, be it a need for finance, a need to secure sales, procure products, reduce risk and/or improve efficiency within the chain.

Objectives:

- **Align and structure financial products to fit the chain**
- **Reduce costs and risks of finance**





Goals and drivers of value chain financing



Reduce risks

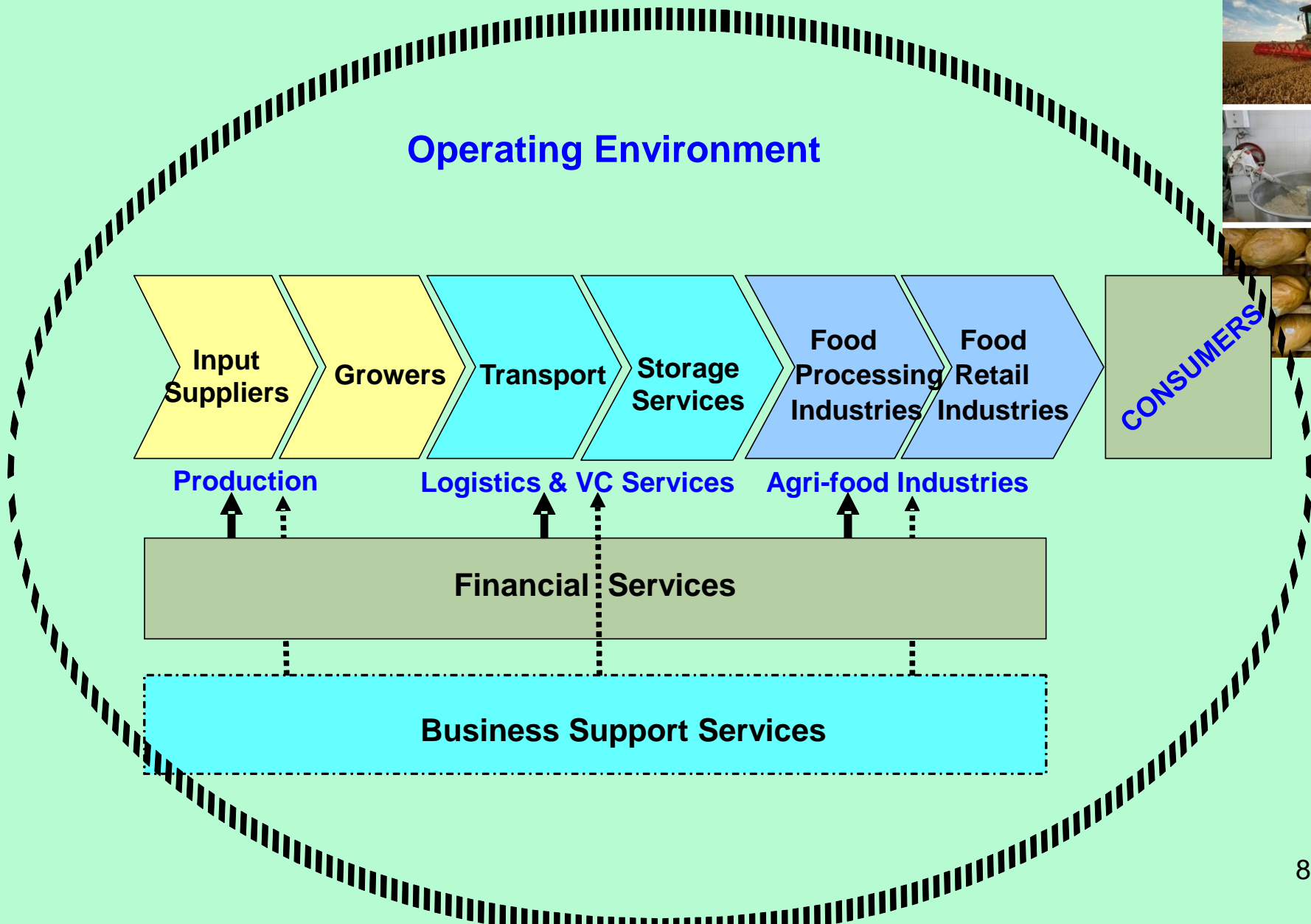


Reduce costs

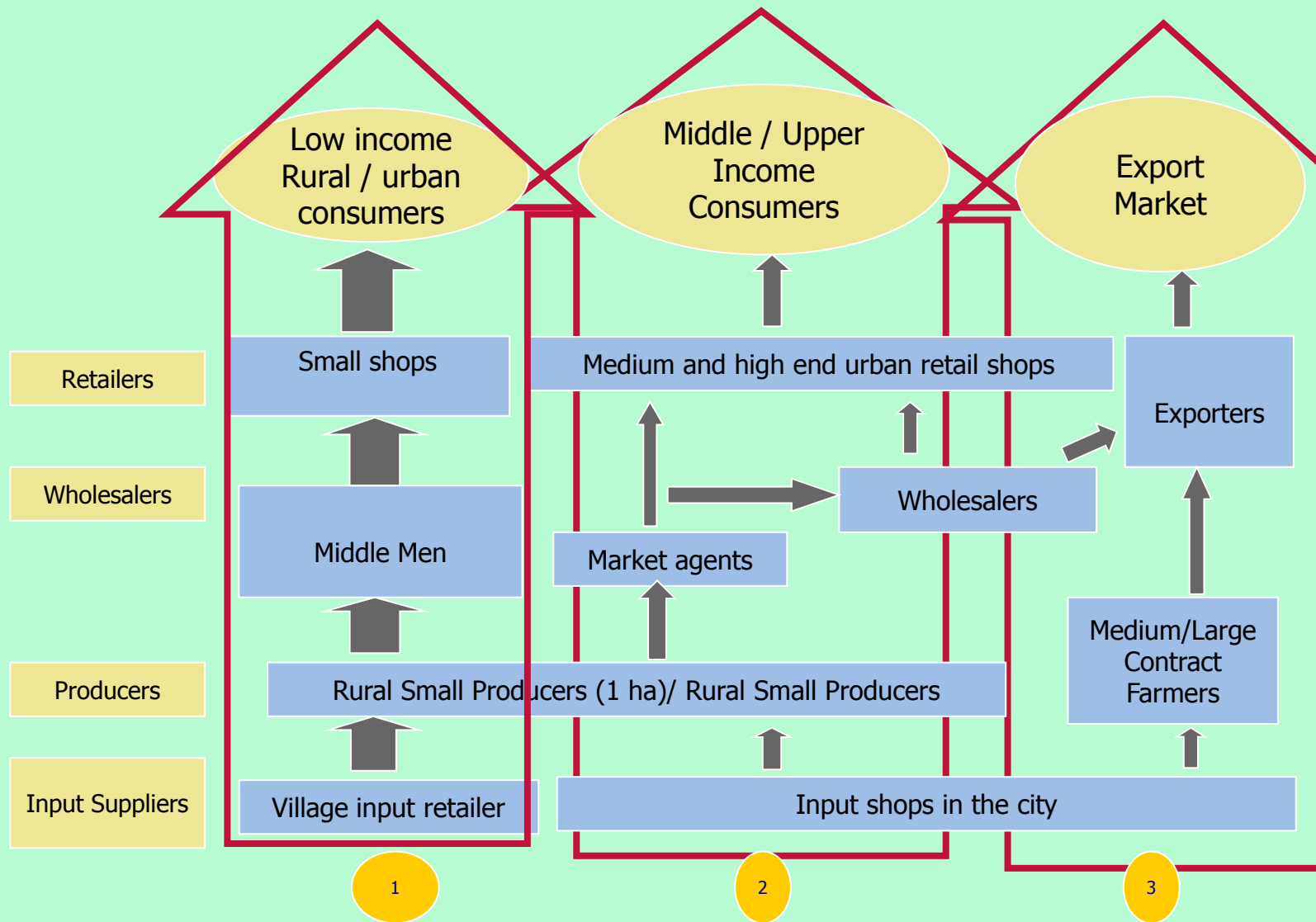
Improve relationships

If designed well, AgVCF interventions can increase the competitiveness of small producers, as well as agribusiness enterprises.

Stakeholder Roles in Agricultural VCs



Different VCs in the same product



A value chain also defined by its particular market (consumer) segment



The business model in the AgVC from the smallholders' perspective can be divided into four types:

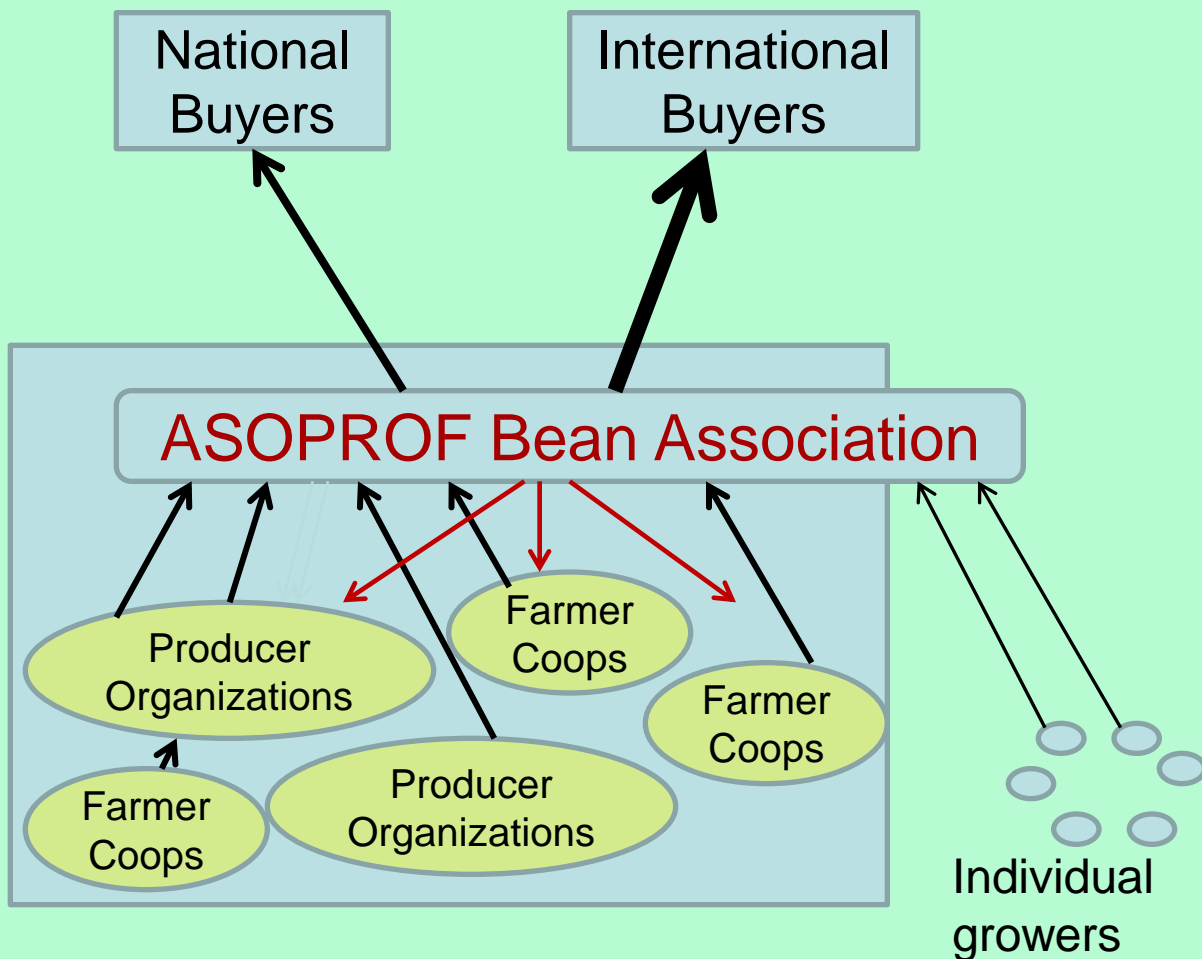
- **Producer-driven**
- **Buyer-driven**
- **Integrated**
- **Facilitator-driven**





ASOPROF Producer-owned Model

Bolivia



ASOPROF Services:

- Seed production
- Technical assistance
- Processing
- Marketing/export
- Member profit share
- Financing linkages (not direct financing)



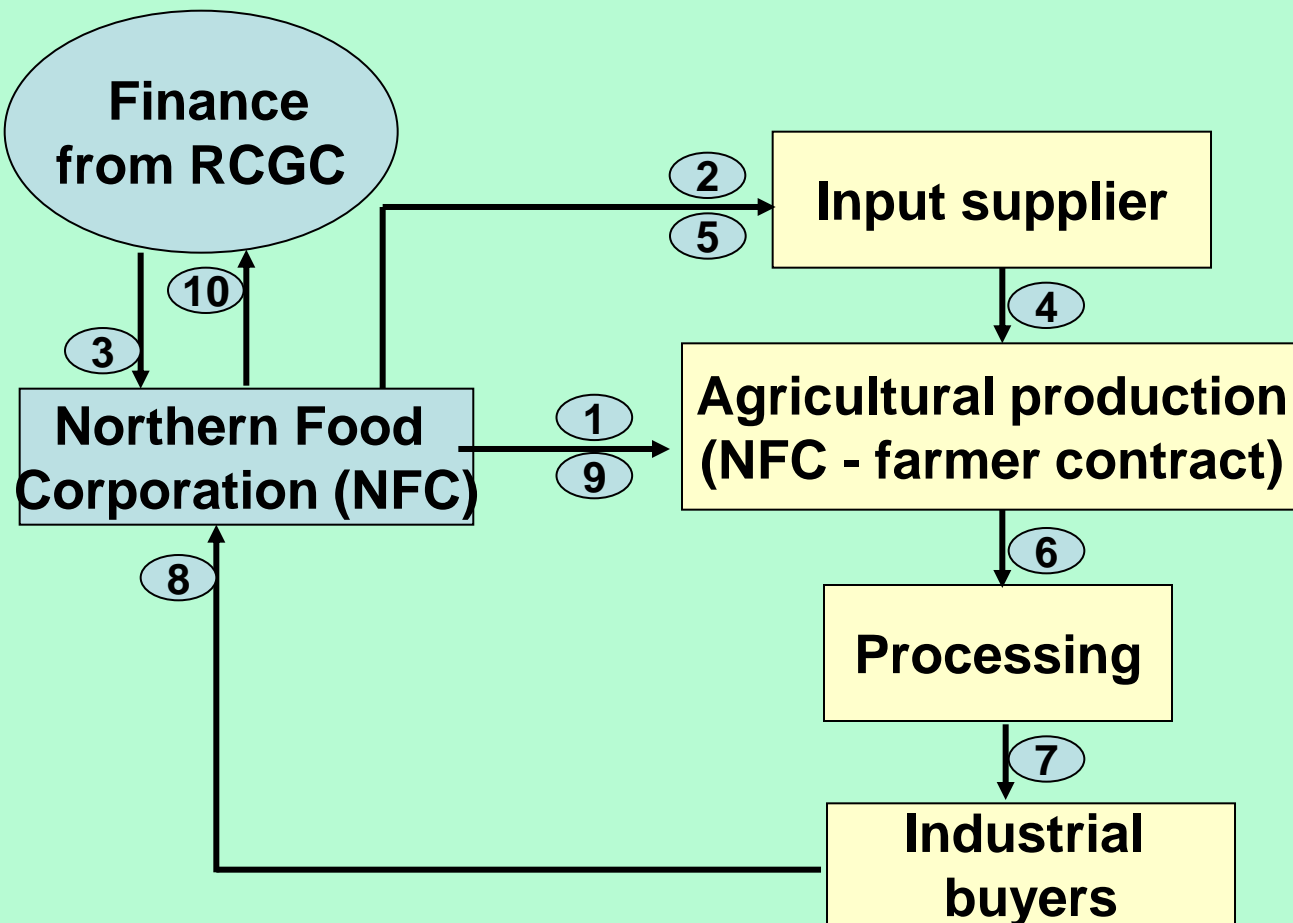
Example: Buyer-driven business models



Philippines

Buyer-driven AgVC

Northern Food Corporation (NFC)



1. Farmers' contract with NFC
2. Negotiate with input suppliers by NFC
3. Receive finance from RCGC
4. Supply of inputs to growers
5. Payment to suppliers
6. Growers supply tomato to processor (in this case, NFC)
7. Processor supplies to industrial buyers
8. Buyers pay to NFC
9. Payment to farmers by NFC
10. Repayment to RCGC



LAFISE Integrated AVCF Model



1

AGROPECUARIA LAFISE

Identify organized producers

2

Financing:

- * Asset management
- * Warehouse receipts

BANCENTRO

3

Technical Assistance
Quality Certification

Productor cosecha

↓

SEGUROS LAFISE

Insurance - transport, life, fire, etc.

Nicaragua
4

Consolidation **Processing Added Value** **Product in storage**

AGROPECUARIA LAFISE

↓

ALMACENADORA LAFISE

Certification of Deposit and Warrants

5

LAFISE Trade

LAFISE
El líder financiero regional

Identify markets And buyers

Place Products

Office network in 10 countries

Collection and payment to producer

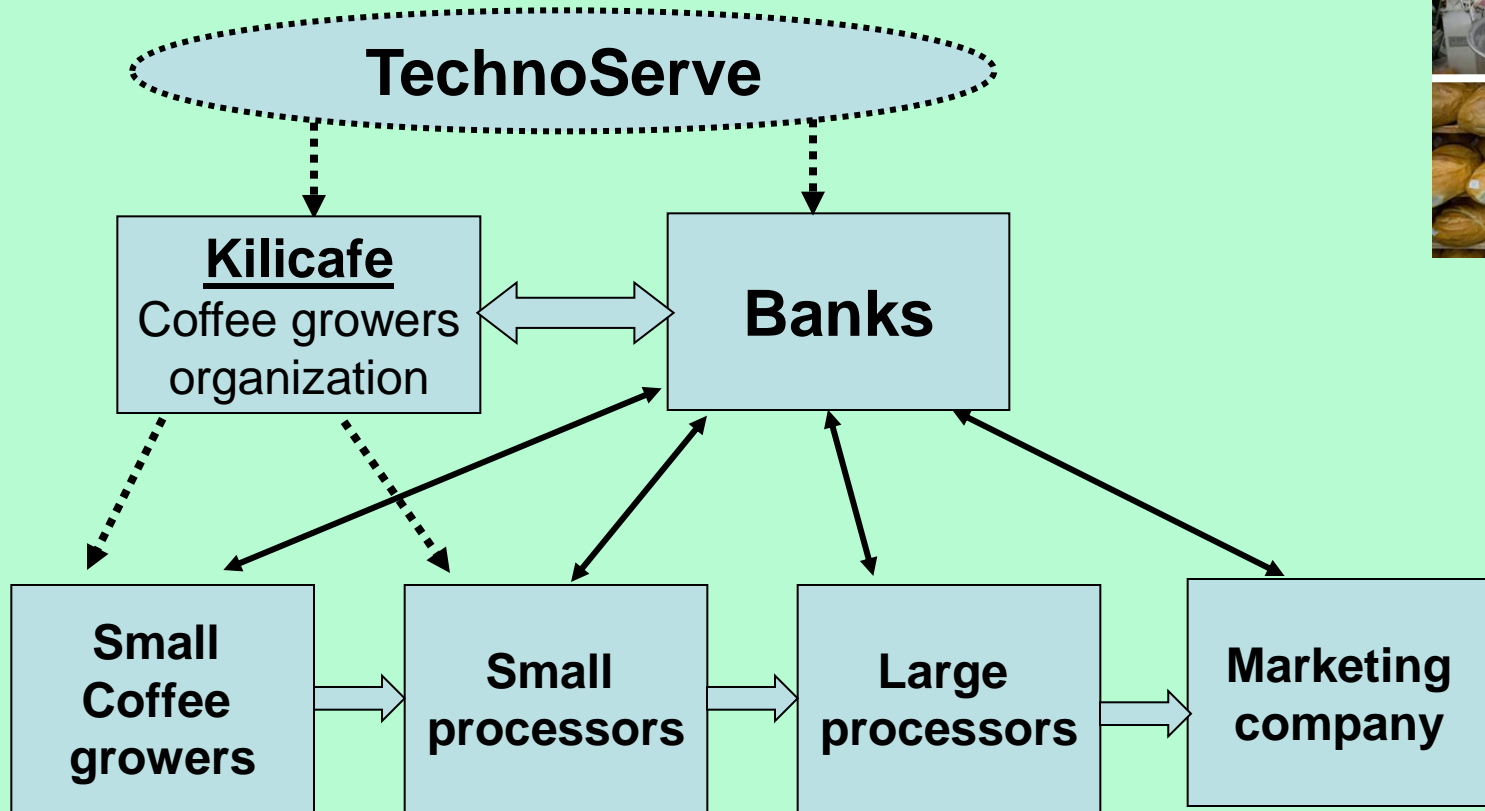
6



Tanzania

Facilitator driven model

TechnoServe



.....► Flow of technical support
 ◄► Flow of finance
 ► Flow of products
 ◄► Flow of guarantee and product innovation



AgVC Financing Instruments



Category	Financing instrument
Agricultural product based	<ul style="list-style-type: none">• Trade credit• Input supplier credit• Marketing company credit• Lead firm financing / contract farming
Accounts receivable based	<ul style="list-style-type: none">• Trade receivable financing• Factoring• Forfaiting
Physical asset based	<ul style="list-style-type: none">• Warehouse receipts• Re-purchase agreements• Leasing



AgVC Financing Instruments

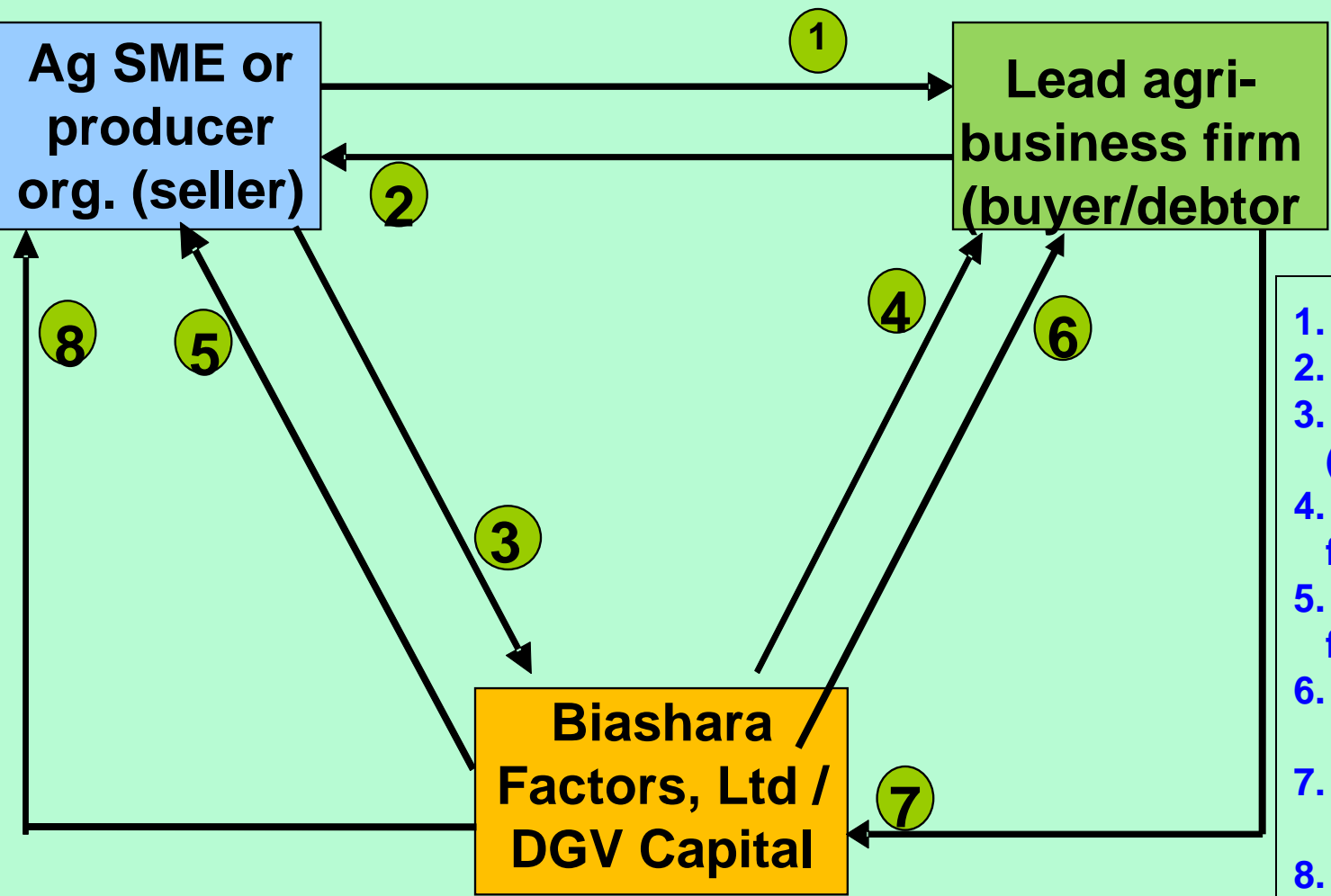


Type of product	Financial instrument
Risk mitigation	<ul style="list-style-type: none">• Insurance• Forward contracts• Futures
Financial enhancements	<ul style="list-style-type: none">• Securitization• Loan guarantees• Joint ventures

The instruments of agricultural value chain financing channels are many and can be used in conjunction with one another.



A. Domestic factoring



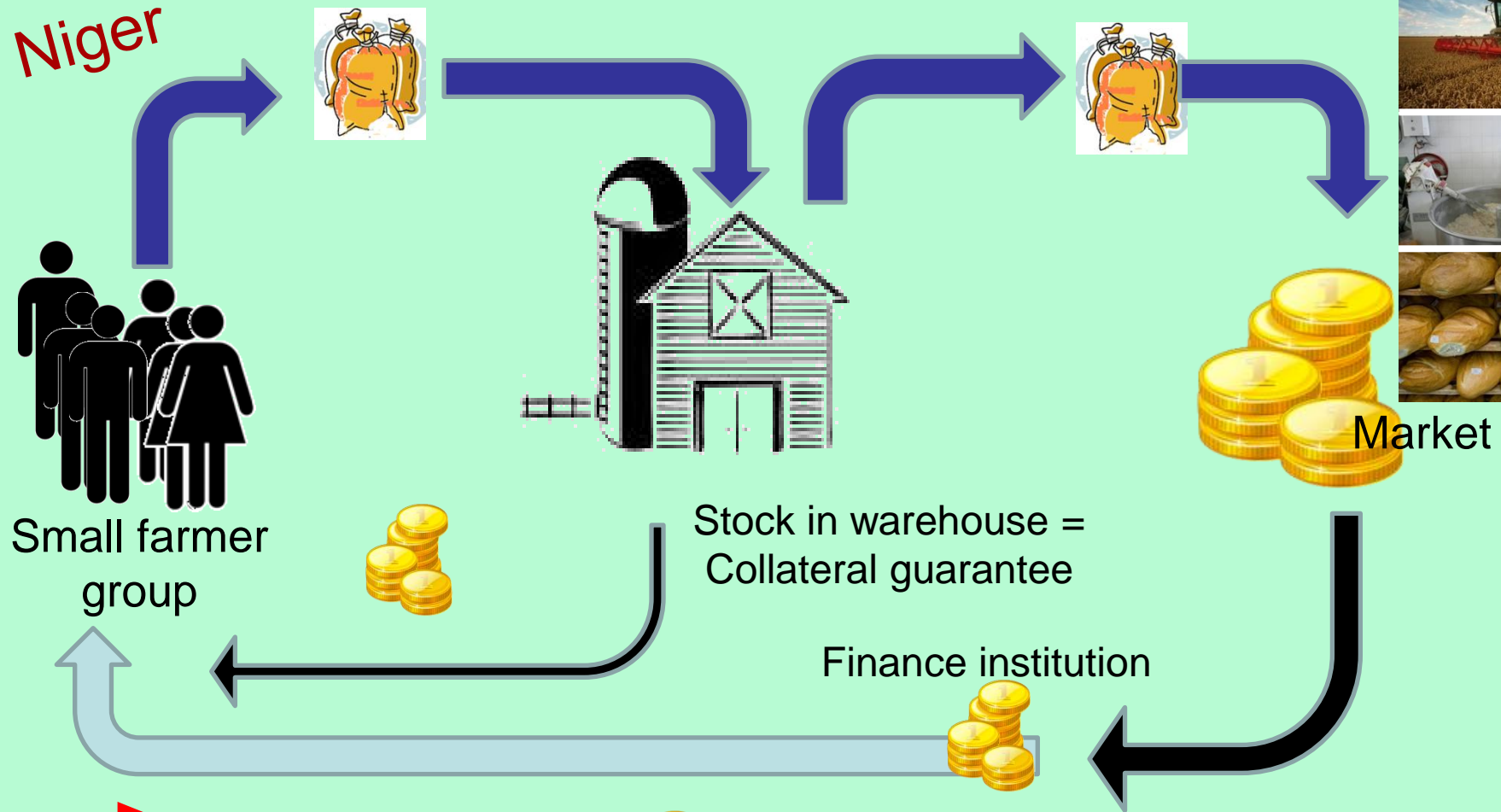
1. Sale of products
2. Invoice certified
3. Receivables sold (at a discount)
4. Notification of factoring
5. Advance by factor
6. Billing on expiry of term
7. Payment of invoice
8. Final settlement




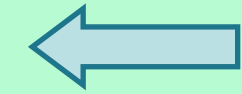
Example: Informal warehouse receipts system



Niger



 Physical flows

 Monetary flows



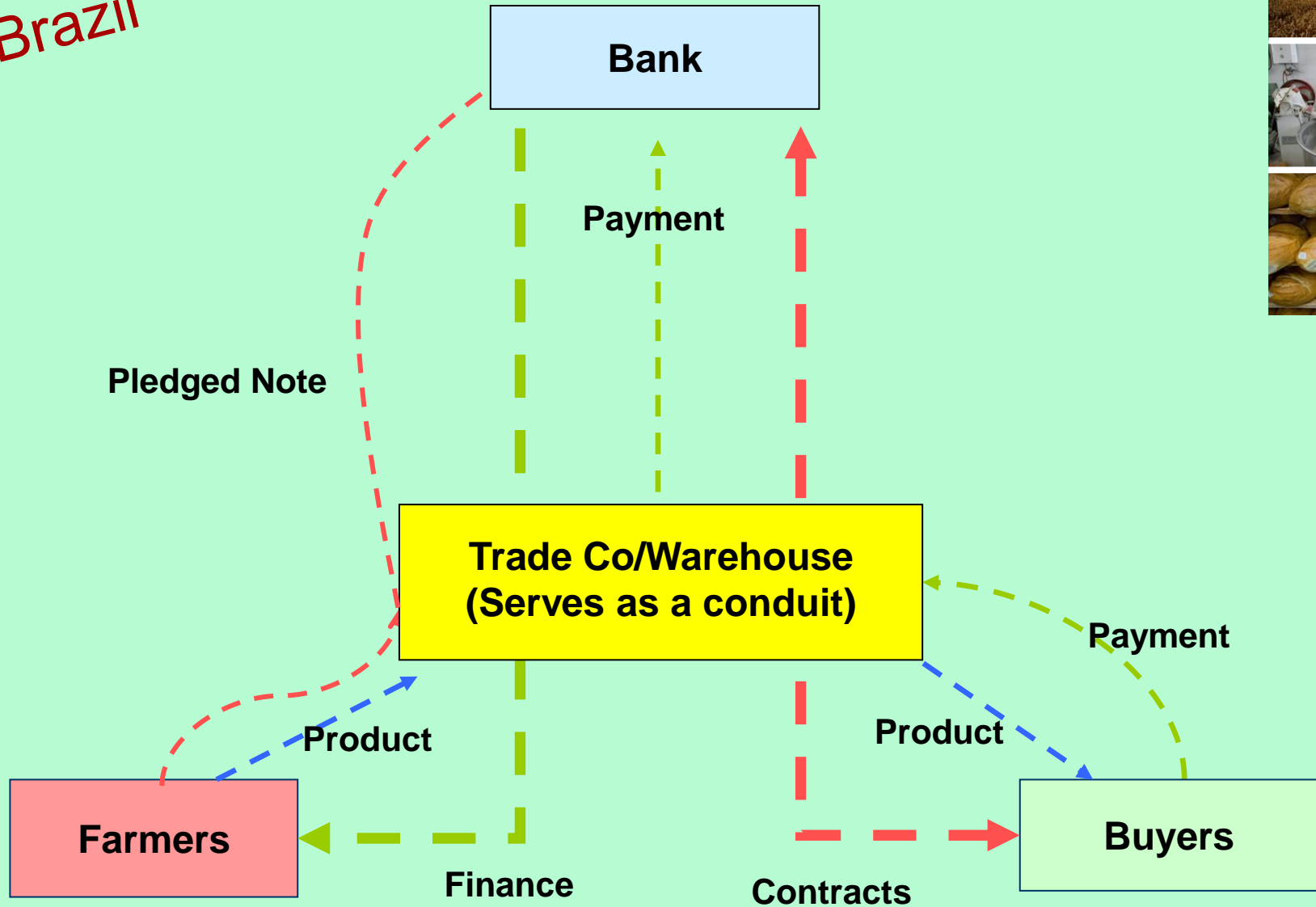
- In Niger – 33% increase in stock value (in 4-6 months of storage)
- 18% of food stocks used for the lean season
- New income from off-season cultivation



Small Farmer Pledge Forward Contracting

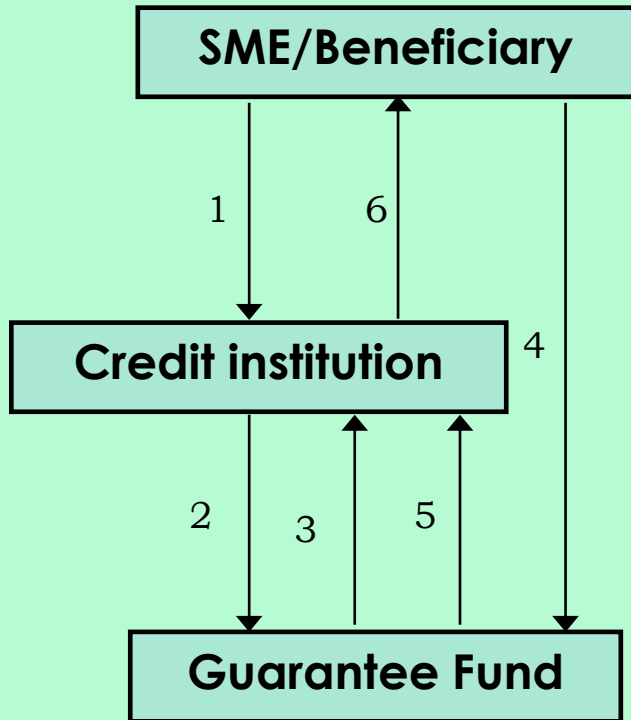


Brazil





Uganda



ALGC characteristics:

- Agriculture guarantee (along the entire value chain)
- Maximum cover is 50% of loss of principal only and not interest or fees.
- Maximum Loan of \$200k
- Maximum loan period of 5 years
- Fees – range between 0.75% and 1% of Guarantee limit
- Decisions on use of guarantee are made by the financial institutions

