Access to financing for Agri SMEs:

Challenges and Solutions

IFAD | FIDA

ABC fund
Agri-business Capital

SAFIN

The Context

- Despite the plethora of **emerging new funding structures and specialised financial intermediaries** to complement the local financing landscape-access to finance for small holders remains elusive with an estimated 500M small holders requiring $450B amount of financing/year.
- Only 4.7% of adults in rural areas in developing countries globally have a loan from a formal financial institution and only 5.9% a bank account. In Africa- only 1% of local bank financing goes towards the agricultural sector.
- Perceived risk and lack of expertise are the main reasons why local banks and financial institutions do not target small holders. In addition, financial institutions do not have the experience and knowledge in structuring appropriate financial products to help mitigate risk
- Local FIs also deem the cost of lending to these clients as prohibitively high- making the business case a hard- sell
- Agri-SMEs which include farmer organizations (FOs)- represent the business needs of millions of small producers- and play a vital role in the food systems ecosystem through the delivery of key enterprise development services. An estimated 66% of agri SME financing goes unmet the equivalent of $106B/year
- Critical gaps in access to finance for agri-SMEs remain- particularly in the area of climate finance.

Agricultural Small and Medium Enterprises (Agri SMEs)

"Agri-SMEs are profit-oriented enterprises that are involved in the agricultural value chain either directly or by providing enabling services to value chain actors"

To classify as an agri-SME, these enterprises must be able to service an investment of $50,000 - $2M, as indicated by at least 2 of the following: → Have more than 5 but less than 250 employees (at least 25 members for coops) → Have annual turnover of $100,000 - $5 Million USD → Have total assets of at least $20,000

Clarifications: These enterprises do not have to have ambitions to grow but must be profit-oriented. They may include small commercializing farms and farmer cooperative-owned enterprises. However, farmers must sell at least 50% of their production to qualify. The exact legal structure and level of formality of the enterprise does not matter

Importance of Agri-SMEs

SMEs play key roles in food system transformation

Ensure access to safe and nutritious food for all

Help **shift** to sustainable **consumption**

Advance **equitable livelihoods**

Build **resilience to vulnerability, shocks and stresses**

Boost **nature positive production**

SMEs **work across the entire food system -** as input providers, producers, transporters, traders, processors and retailers.

Smallholder farmers are more likely to shift to **sustainable farming practices** when closely linked to agri-SMEs through the value chain.

CERES 2030, 2020

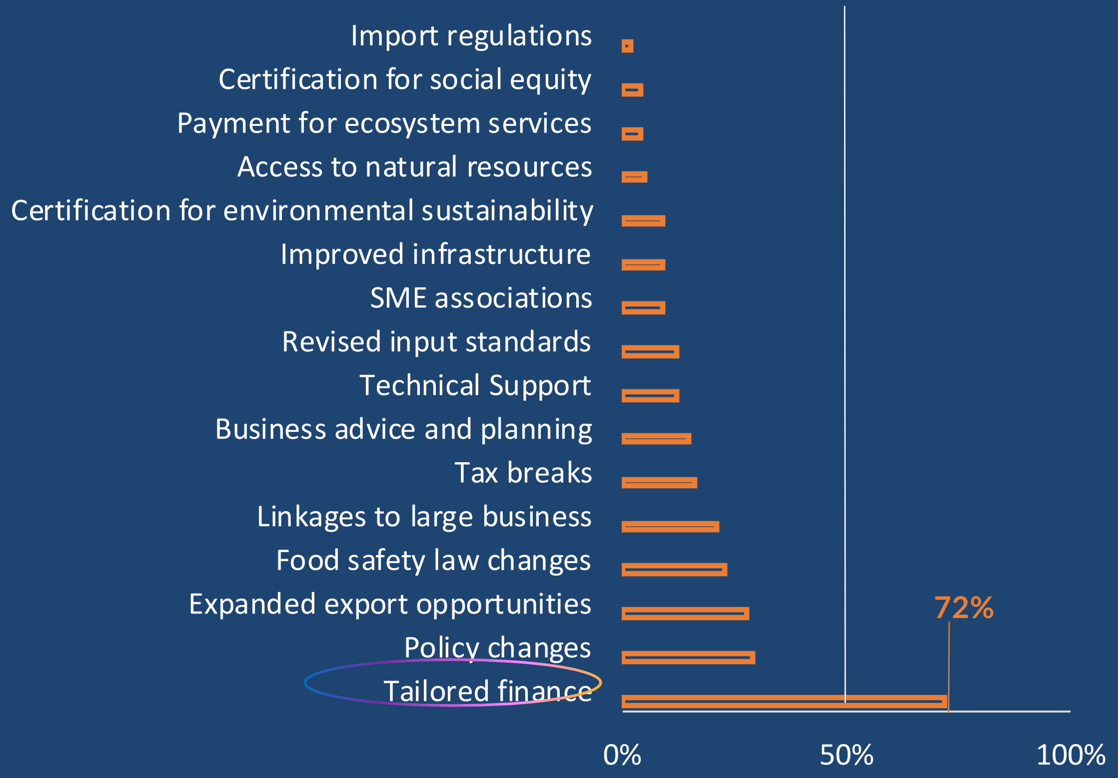
The **majority of food produced** for consumption on the African continent goes through SMEs.

AGRA, 2019

Why agri-SME finance?

Finance is a top constraint for agri-SMEs

The type of support agri-SMEs say they most need in order to expand their impact:



Source: UNFSS, 2021.

Mainstream lenders tend to use the same processes to service loans at different sizes, making SME clients too costly compared to the revenue they can generate for lenders.

SMEs: The missing middle

Microfinance institutions struggle to service clients with needs above 50k, because their origination processes are not adequate to cover potential risks and because of need/asset base mismatch.

Source: Aceli Africa, 2020

Some solutions currently in the market

IFAD’s Private Sector Financing Program (PSFP)

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Improving the income, **food security** and **resilience** of rural poor and small producers in Lower Income Countries, Lower Middle Income Countries and Fragile Situations.

How

- Through **debt, equity, risk mitigation,** such as guarantees and **risk sharing facilities**.
- In countries where IFAD operates with focus on **Lower Income Countries, Lower Middle Income Countries**, and countries in **fragile situations**.
- Focus on **youth employment, women's empowerment, environmental sustainability and climate resilience** of small scale producers and poor rural communities.
- IFAD sources investment opportunities from its portfolio of **sovereign projects** as well as from partners.

Who are PSFP private sector recipients?

1. Agri SMEs, aggregators, and Farmers’ Organizations which are often perceived as **too small or risky** for private lenders.

2. Financial Institutions or other intermediaries with strong **development objectives** aligned with IFAD’s objectives.

ABC Fund

ABC Fund: key facts

- **The Agri-Business Capital Fund (ABC)** is an impact investment fund that seeks to invest, to catalyse blended capital, and to mobilize technical assistance to be deployed into underserved agribusiness segments.
- ABC was launched in February 2019 but only approved its 1st investment in later that same year.
- ABC has a global mandate with an initial focus on the ACP region.
- Bamboo Capital Partners manages the ABC Fund.

ABC Fund Investors

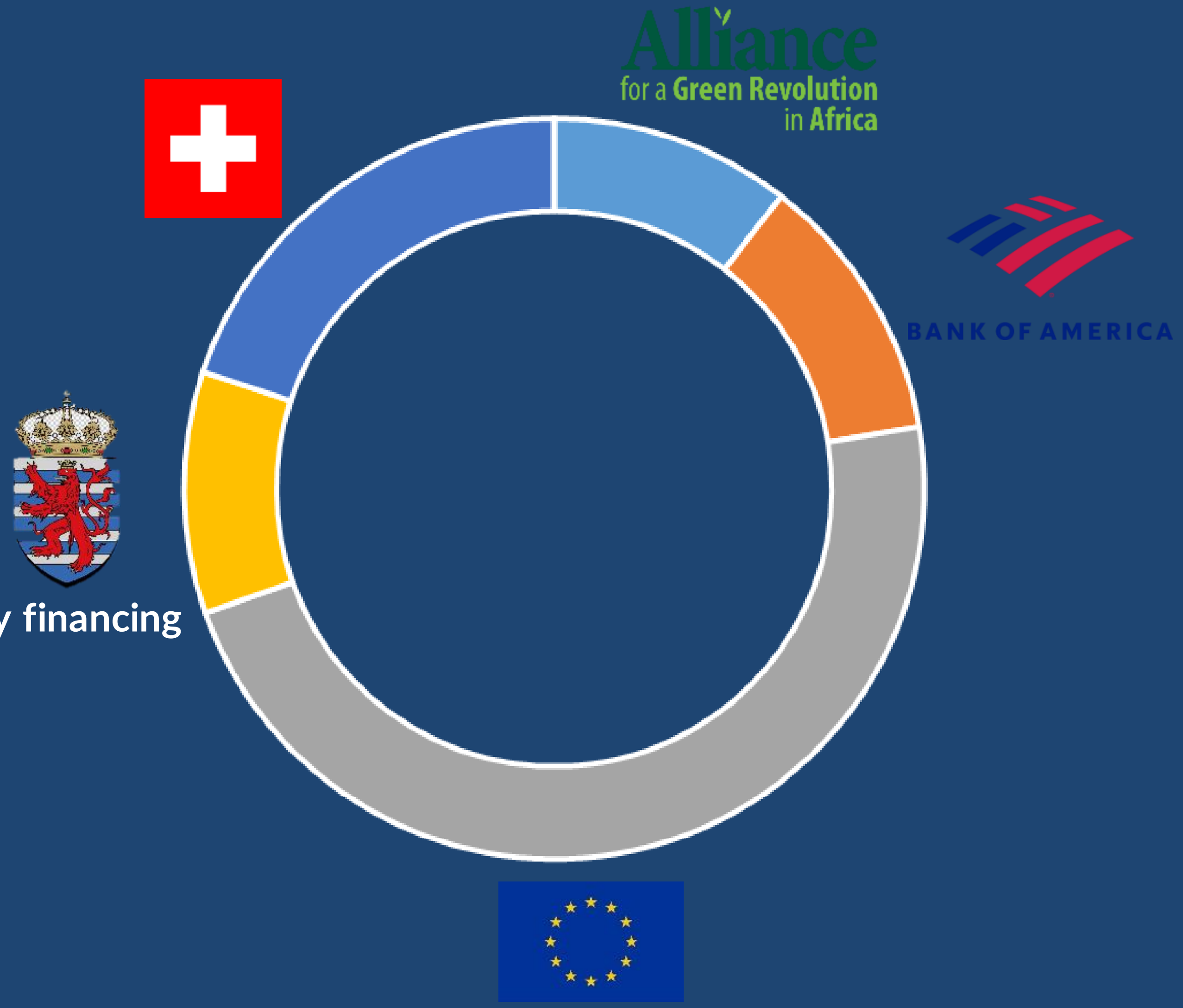
State of the Grand Duchy of Luxembourg

IFAD acting in its own name but on behalf of and for the account of the European Union represented by the EC
(C Shares)

Alliance for Green Revolution in Africa (AGRA)
(C Shares)

IFAD holding shares on its own account, (supported by financing received from the Swiss Agency for Development and Corporation)
(C Shares)

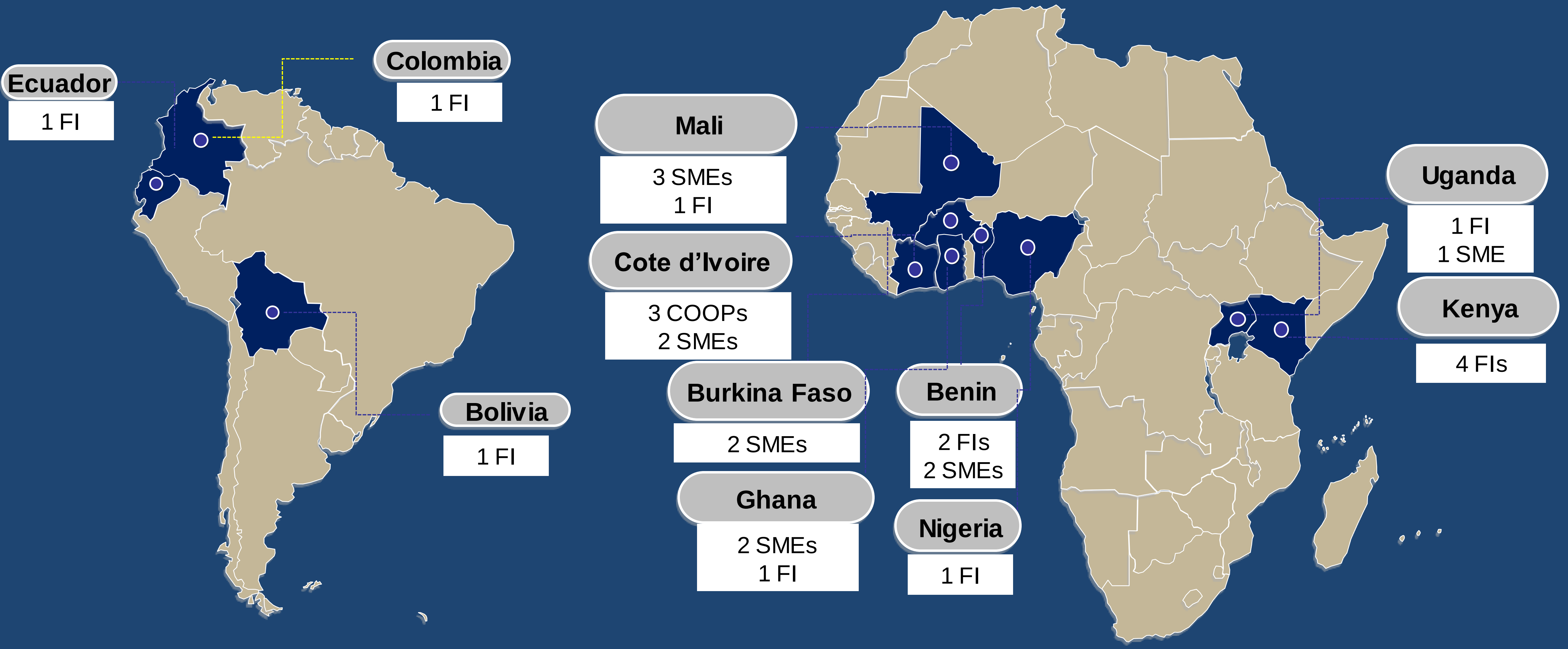
Bank of America
(B Shares)



ABC financing approach

Governance and Engagement Criteria:	IFAD has no influence over the investment decisions of the ABC Fund. IFAD can suggest projects to the ABC Fund Manager from its PoLG, but IFAD is not involved in the investment decision-making process.
Financial Instruments:	The ABC Fund can invest directly into rural MSMEs, and indirectly through Financial Institutions. The portfolio is planned to reach a 60:40 ratio between indirect and direct investments
Eligibility:	The Fund exclusively invests in duly registered farmer organisations/cooperatives, financial institutions on lending to small producers and SM agribusiness companies with commercial links to small producers. The Fund does not invest in early stage/start-up companies or mature companies.
Ticket size:	EUR 200K-800K for direct investments EUR 200K -4 million for indirect investments (in Financial Institutions)
Geographic focus:	The Fund can operate globally, but currently has a focus on ACP countries

Geographical distribution of ABC Fund Portfolio



SAFIN

SAFIN: The Smallholder and Agri-SME Finance and Investment Network

Who we are

The **only global network** exclusively dedicated to **agri-SME finance**

Our value proposition

A dynamic, **collectively owned space** for partners to address strategic knowledge gaps, share learning, and identify opportunities to work together on **transformative initiatives.**

Our mission

Leverage the different capabilities of partners to help build effective and inclusive institutional and market ecosystems in agri-SME finance.

A fragmented financial ecosystem

Diverse actors provide or intermediate agri-SME finance.

Lack of coordination or mutual understanding leads to **cross-purpose action, duplication, and mutual crowding out** in this field.

Many agri-SMEs find it **hard to navigate** the financial system.

Many initiatives and/or portfolios remain at a **small scale.**

Early stage and growth capital providers are **poorly linked** to each other.

International and in-country sources of finance are also often poorly connected, **limiting the impact of donor- or DFI-funded investments.**

Photos: IFAD

Our priorities

Five focus areas

CONVENE
Bringing the ecosystem together to build trust and mutual understanding

TRACK
Mapping out opportunities for innovative collaborations

FOCUS
Fostering shared understanding of strategic issues for the future of agri-SME finance

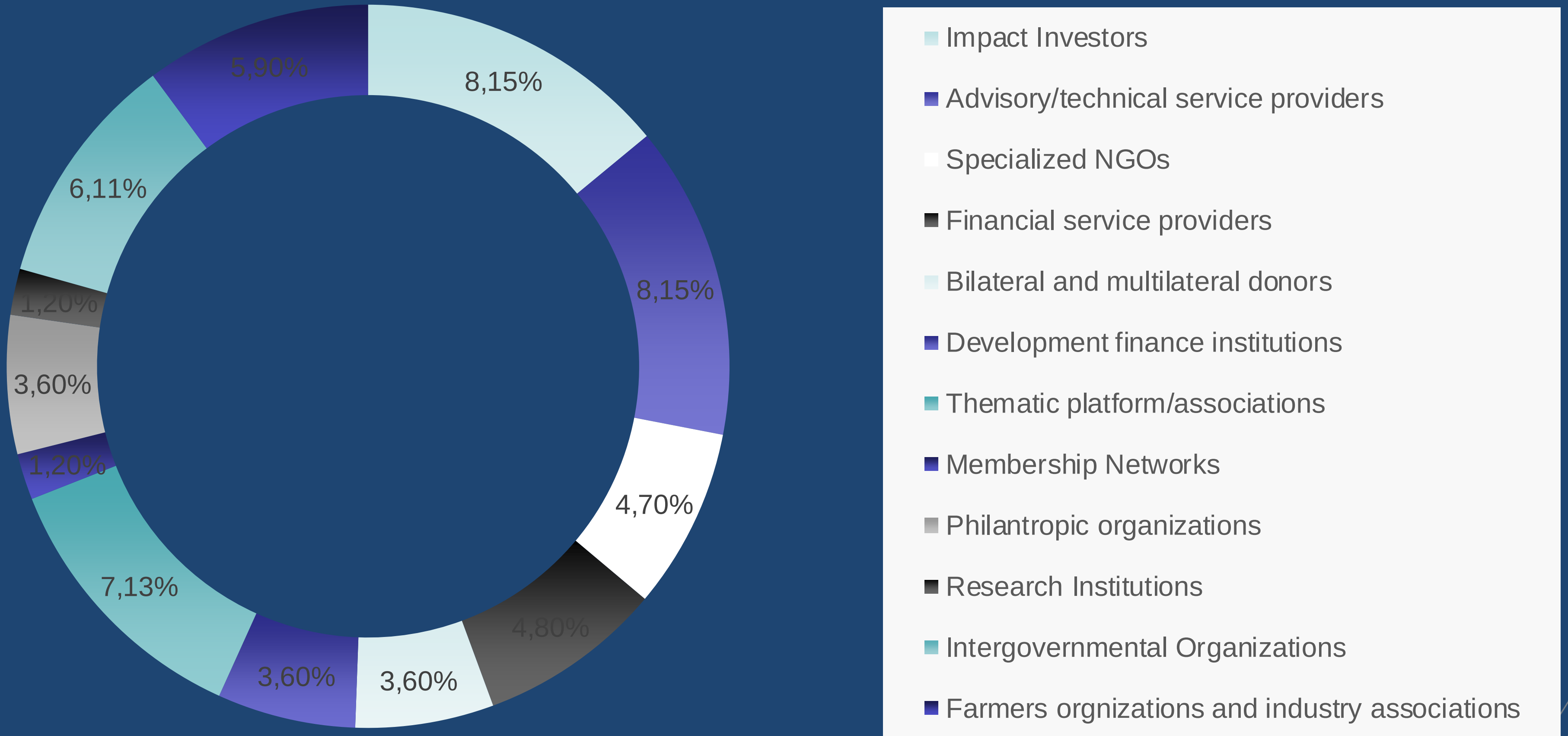
INFLUENCE
Bringing an agri-SME lens to country-led initiatives for investment towards sustainable food systems

CO-CREATE
Aligning around financial solutions to emerging sector challenges

The Network

An inclusive ecosystem for agri-SME finance

SAFIN comprises 53 partner institutions located in different regions and countries, with around 20 additional second-tier partners receiving the SAFIN newsletter and being invited to events organized by the Network.



Learning Agenda

Cross-cutting themes

1. **Green finance** for agri-SMEs
2. Scaling up **digital innovations** in agri-SME finance
3. Access to finance for **farmers' organizations**
4. Agri-SME **support environment**

Agri-SME Finance in the evolving crisis food and climate crisis…… Issues/approaches to scale green finance

- Coming water/climate crisis in LAC and need for green finance focused solutions
- Scalable solutions to increasing green finance are currently elusive
- Current models often focus only on production, thereby imposing additional financial pressure on small farmers who often already manage considerable debt.
- Scalability can only be achieved through the design of simple and replicable solutions that are informed by the needs of farmers and agri-SMEs on the ground and that take a more systemic view of the value chain
- These solutions should also account for the risks associated with the long term nature of climate finance in general.
- Need for green finance taxonomy to ensure that everyone is speaking the same language
- The type of financing instruments. Blended finance, incentives on both demand and supply

……Agri-SME Finance in the evolving crisis food and climate crisis

- Focus on Digitization- to lower costs, increase efficiency and achieve greater scale
- Green finance focus on adaptation finance- longer term investments is critical even though considered high risk
- Financial investors perception is that risks are increasing.
- In addition, measurement of climate impact as a result of green finance solutions needs to be captured in a simplified, market-driven manner aligned with the needs of actors across the value chain.

Partner with us

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