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The Role of Investors in Agricultural Value Chain (AVC) Microfinance

Approach and Experience by Grameen Credit Agricole Foundation

University Meets Microfinance @ FSFM

Frankfurt, July 3rd 2014

Grameen Crédit Agricole Foundation: background

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A privileged partnership

- CREDIT AGRICOLE, a global banking and insurance group, with deep cooperative roots and values

and

- the « Banker of the poor », Prof. M. Yunus, founder of Grameen Bank, Nobel Peace Prize Laureate 2006

➢ …. decided to create the **Grameen Credit Agricole Microfinance Foundation in 2008**

Grameen Crédit Agricole Foundation: mission

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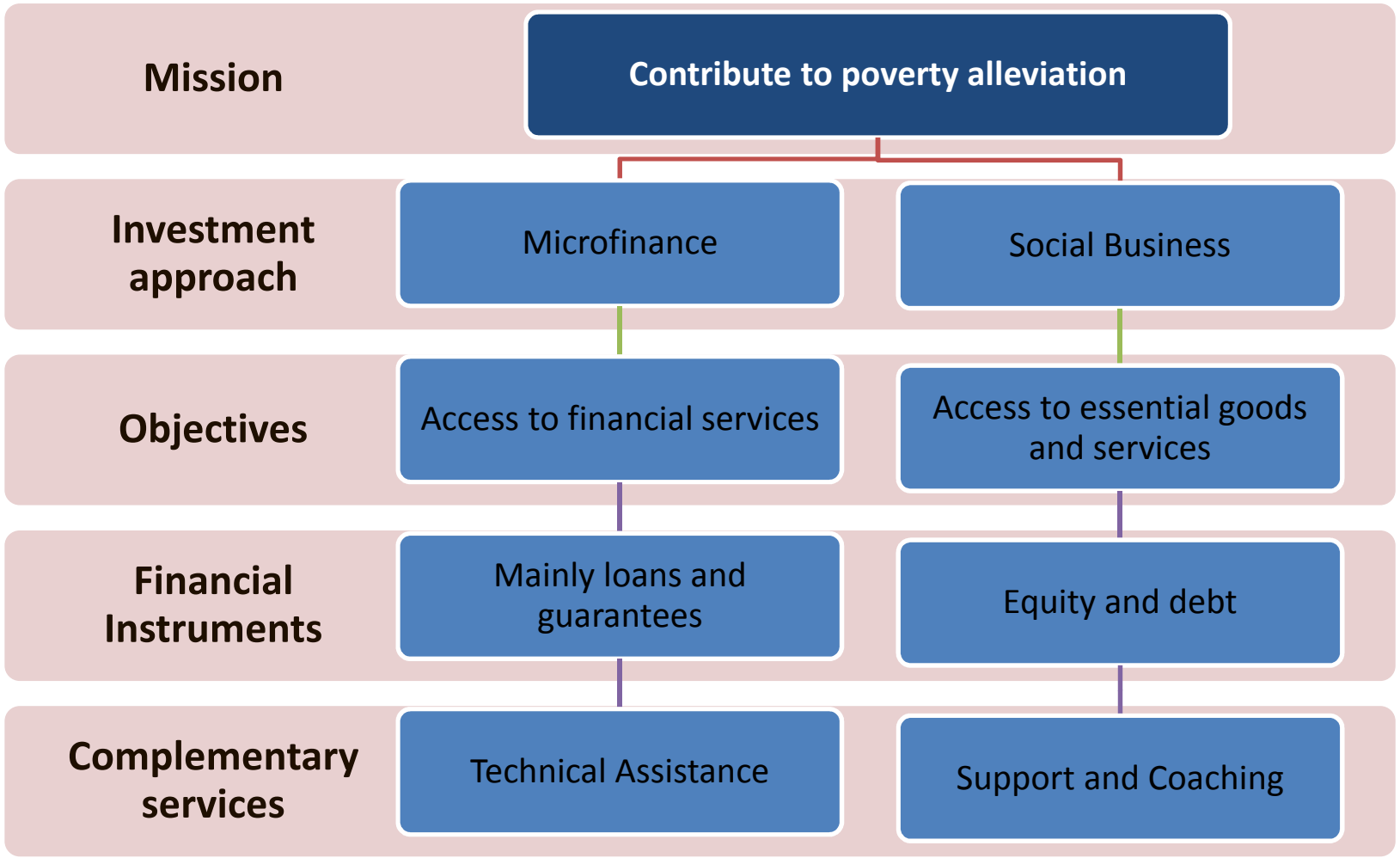

The role of investors in agricultural value chain microfinance

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1. Micro-Credit

2. Micro-Insurance

3. Social Business

Microcredit and AVC

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As of June 2014, GCAMF is supporting

- **39** MFIs
- **20** countries
- total outstanding portfolio € **24 Mn**.

As of end 2013 GCAMF's partners reached

- 1,9 Mn clients:
  - **86%** women
  - **84%** live in rural areas
- 34 out of the 39 partners are Tier 2&3 MFIs

But: despite **focus** on supporting **agricultural financing:**
< 30% of our partners' GLP.

Even if there is a **strong presence in rural areas**, very few have **adapted products** to finance such activities and very few are involved in **value chain finance.**

Microcredit and the AVC

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- **VC financing** goes **beyond conventional financing** as it includes **analysis** based on the **relationship between 2 or more actors in the VC**

- Main identified **challenges** leading to a **lack of product adaptation** and **a low involvement in AVC finance:**

Risks:
- **multiple factor analysis – producer, transformer, trader + product specificities**
- **different cash-flow and credit structures at the level of each actor + product**

Complexity:
- **direct vs indirect funding / "horizontal linkages"**
- **market analysis / globalization / business environment, etc …**
- **diversity of actors (production, marketing, sales) = diversity of needs for financial instruments**

Cost:
- **technical background of loan officers +++**

. . . especially for **Tier 2&3 MFIs -** the majority of GCAMF's partners.

Microcredit and the AVC

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Some exceptions – Example Tiavo, Madagascar + COLDIS

Type of client	Product	Type	% of GLP
Farmer	Short term income generating loans	Individual loan	60 %
	Mutual village warehouse loans (GCV)*	Stock pledge against loan (GCV managed by MFI) for rice COLDIS – (AVC finance) for cloves	
Professional	Short and medium term individual loans	Individual loan	30%
Employee / individuals	Non income generating loans		10%

(*) Grenier commun villageois

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The agricultural value chain

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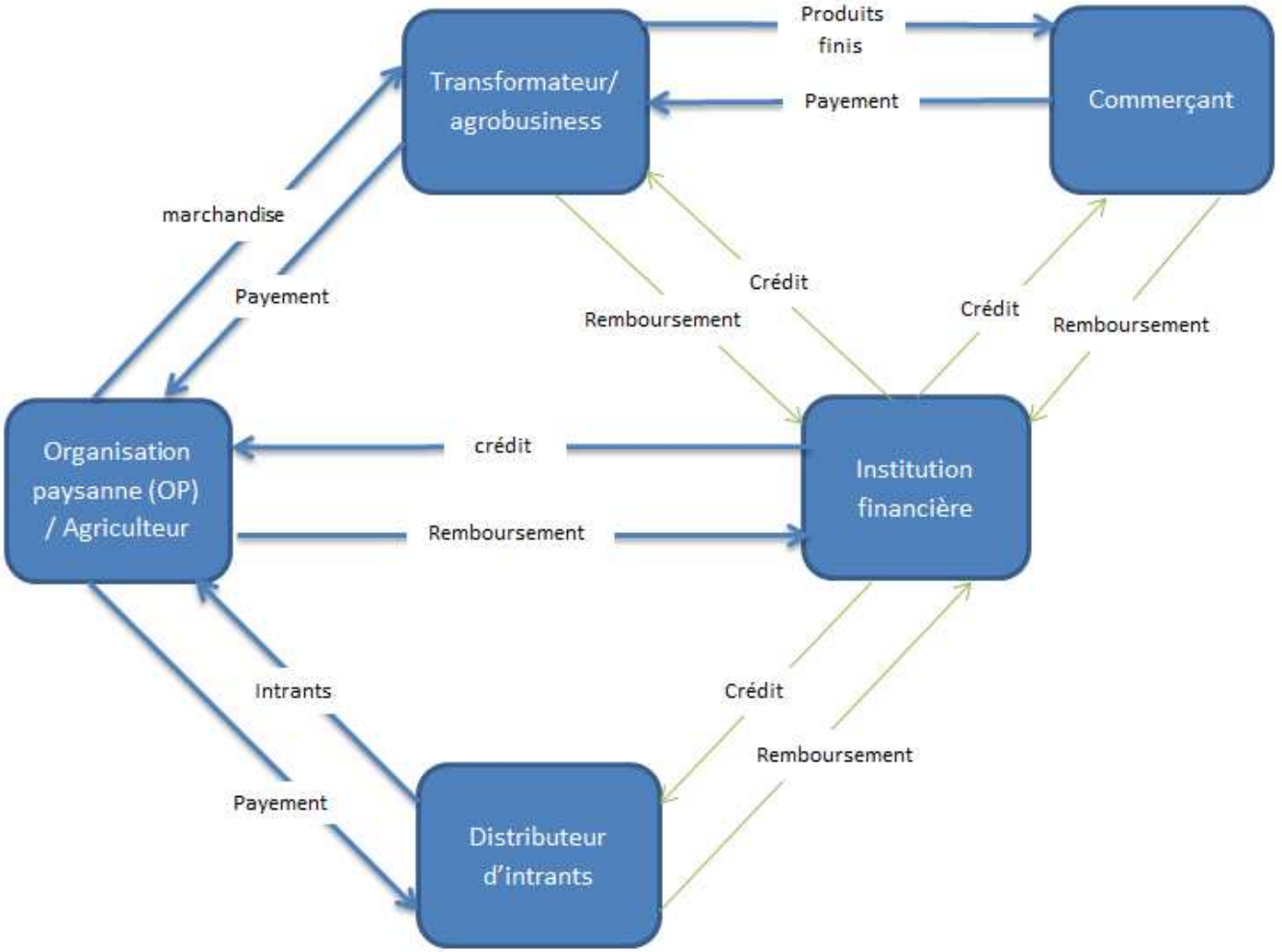
Classic financing map in West African agriculture

(source: Planet Guarantee)

Questions:

- Where do you believe insurance can add value?
- How and where in the AVC would you distribute insurance products?



New technologies and index-based insurance

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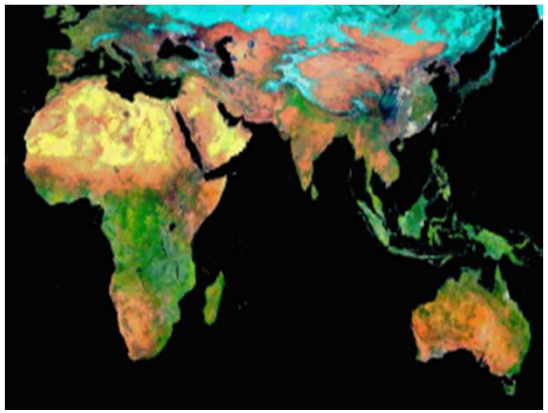
New technologies and index-based insurance make agricultural microinsurance accessible to small producers

Mobile financial services

Allows access to remote areas and to disseminate climate information to farmers

Satellite climate imagery

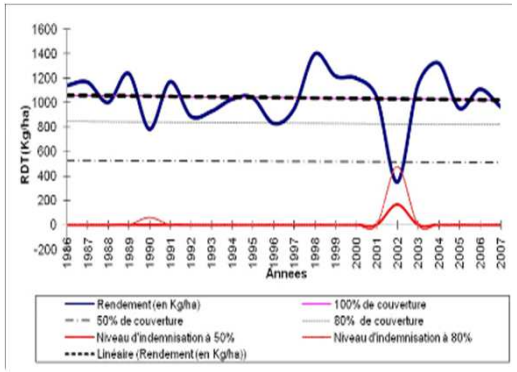


Supplements the lack of meteorological ground data and complements available information

Automatic weather stations

Lowers operating costs and produces useful data

Index-based insurance



New automatically triggered insurance products based on a weather or yield index have low management costs

Agricultural microinsurance

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Agricultural microinsurance (crop or livestock) helps to stabilise *farmer* incomes by:

- **protecting** their investments if the covered risk occurs
- **improving** their **access** to **credit**, particularly when the insurance cover is bundled with a loan

With the farmer protected against certain losses, many actors in the ACV can approach their business more confidently:

- ***MFIs/Banks***: reduce transaction costs of credit screening and grow GLP safe in the knowledge that farmer crop income is secured in case of climate risk
- ***Input providers***: know that an insured farmer will likely be more able to purchase seeds/fertiliser after a bad year
- ***Agri processing companies***: can take out policies (a form of meso insurance) against the need to import crops in if local farmers cannot provide due to climate risk
- ***Supermarkets*** and ***commercial actors*** at the end of the AVC can expect a steadier flow of goods

Where can investors add value?

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Channel approach

Investments in distributors (MFIs, banks, Mobile network operators etc)

Product approach

Specific goal driven investments to tackle specific risks that could benefit from a microinsurance intervention

Value chain approach

A microinsurance specific investment approach touching upon one or many elements of the microinsurance value chain (e.g. a in technical service provider or a broker)

Source: Leach, 2014 – Exploring new frontiers: the potential of impact investments in microinsurance

What can investors do?

- Provide Capital
- Management oversight
- Technical skills including distribution know-how
- Access to networks and branding support

What investors cannot do?

- General macroeconomic concerns (poor infrastructure, etc)
- Regulatory infrastructure

How can refinancing MFIs be used to increase coverage of agricultural insurance?

An example from Kenya: ACRE (ex Kilimo Salama)

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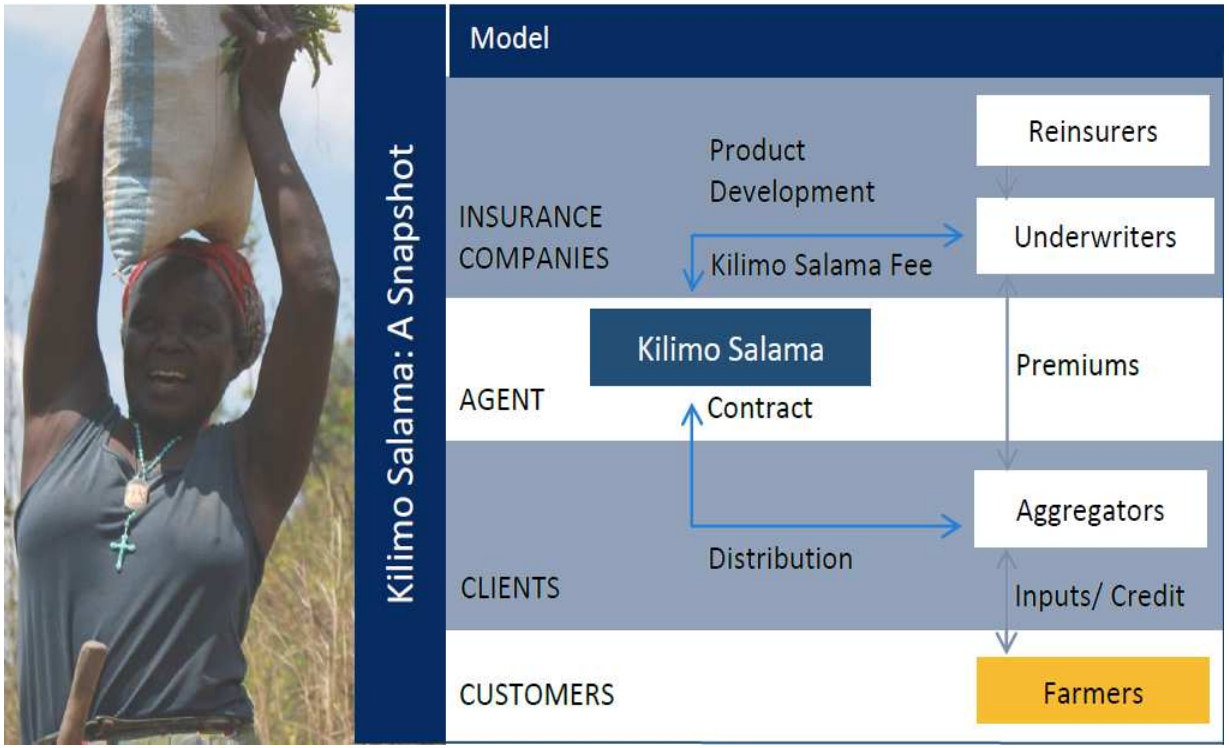
GCAF has invested in a *microinsurance broker* who develops and distributes index insurance for farmers, giving them:

- ❑ **Confidence to invest in quality seeds and fertilizer**
- ❑ **Improved access to agricultural loans**



ACRE's products are bundled with input or credit ahead each agricultural season:

- Insured farmers invested 20% more than uninsured peers
- + earned 16% more
- Currently available in Kenya, Tanzania and Rwanda and covered 185,000 farmers in 2013

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Broaden the spectrum through AVC Finance

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Taking VC approach into consideration leads to broaden the spectrum for investors to develop adapted product offer :

- **What is more efficient ?????**
  - **Microloans to poor rural households ?**
  - **A conventional loan to a (urban) trading or transformation firm?**
- **……. or are both needed together ?**

SB and agricultural value chain

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Food:
Biotropical (Cameroun)

Biotropical works with small scale farmers, collects, transforms and sells tropical fruit, labeled as Organic (+ Fair Trade for Mango) by ECOCERT.

Distributes to Organic wholesale channels

Chemical:
PhileoL (Madagascar)

PhileoL plays a pioneering role in the Androy region of Southern Madagascar, providing a revenue source for 3,000 farmers along a oil-seed related inclusive value chain (jatropha and castor oil)

It provides French wholesalers with industrial oils.

SB and agricultural value chain

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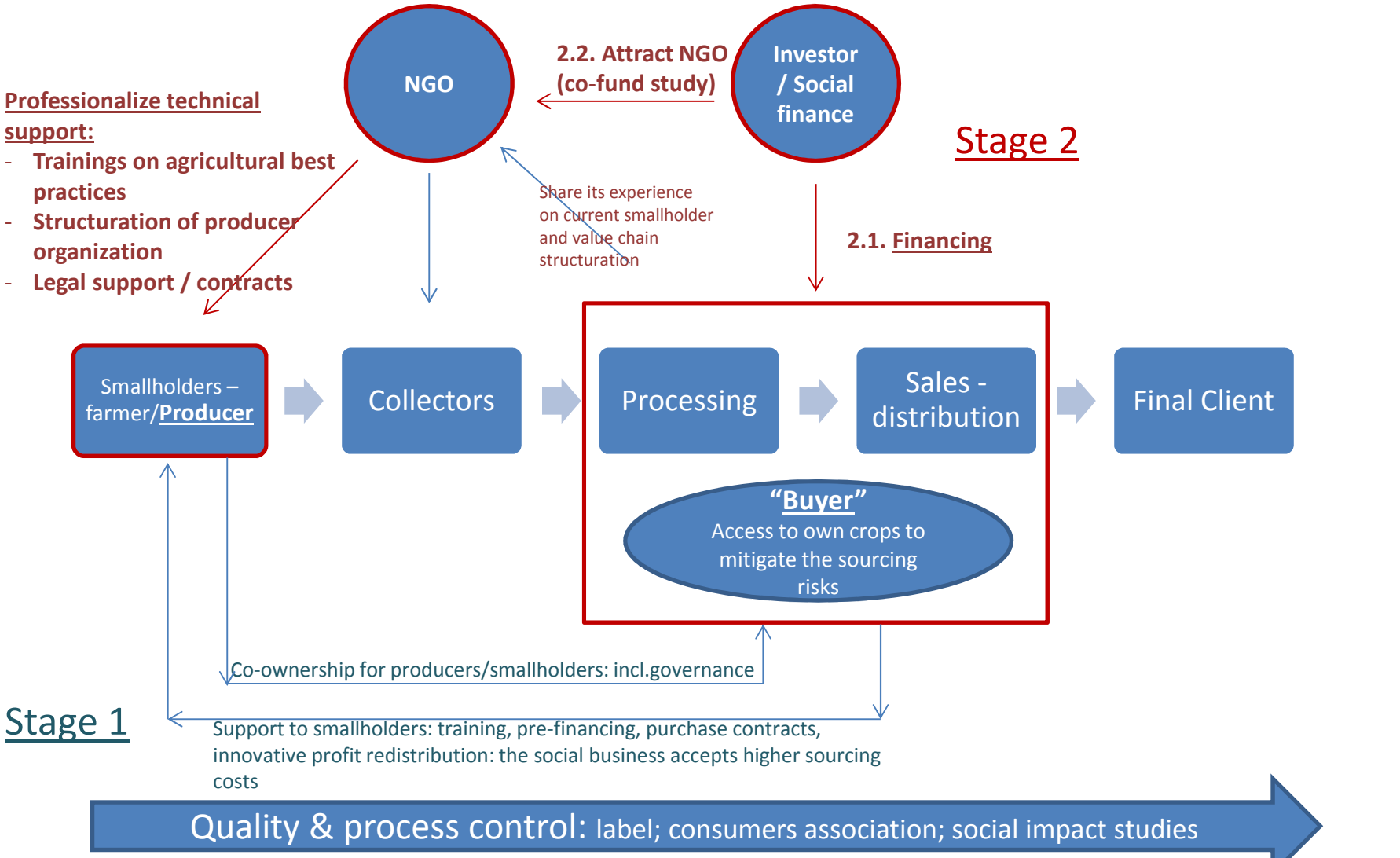

Overview of Financial Instruments for (Agricultural) Value Chains

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Category	Instrument / financial product
Product financing	• Trader credit • Input-supplier finance • Marketing and Wholesale company finance • Lead-firm financing
Receivables financing	• Trade receivables finance • Factoring • Forfaiting
Physical Asset Collateralization	• Warehouse receipt finance • Repurchase agreements (repos) • Financial leasing (lease-purchase)
Risk mitigation products	• Insurance • Forward contracts • Futures
Financial enhancements	• Securitization instruments • Loan guarantees • Joint venture finance

Source: AVC Finance Strategy and Design, IFAD 2012

Contacts

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