

Product Development for Agriculture Microfinance

FINANCING AGRICULTURE VALUE CHAINS WITH MICROFINANCE SERVICES

11th UMM Workshop:
Value Chains in Agricultural and Green Microfinance

3 July 2014

Topics

- Results to date
- Product concept and design
- Profitability



RESULTS

Agri-microfinance loans

	Number of MFIs	Total loans	Value of loans (USD)	Average loan size (USD)	PAR30
Philippines (2011-2014)	10	14,734	9,048,772	614	<5%*
Cambodia (2012-2013)	3	545	558,625	1025	< 1%
Vietnam (2012-2013)	2	322	41,998	130	< 1%
TOTAL	15	15,601	9,647,161	618	



PRODUCT CONCEPT

A HYBRID OF TRADITIONAL AGRI-FINANCE AND MICROFINANCE

	Purpose of Financing	Borrower	Lender	Basis for payment	Distinct features
Agri-loans/ Seasonal Loans	Food production	Farmers	Government	Farm yield	Medium term (1 year) Cash flow-based repayment (end of cycle) Limited client monitoring
Microfinance Loans	Livelihood activities	Micro-entrepreneurs	MFI	Collateral or substitutes Income & cash flow	Short term (6 months) Small, frequent and REGULAR repayments Close client monitoring

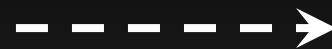
Individual cash flow-based loan product

No collateral requirement

Financing for production of “mainstay” crops and livestock



LENDING TO FARMERS IS A MATTER OF MANAGING RISK



Commodity profiles

Farm plan and budget tool

Loan terms and conditions



Product Policies

Procedures & instructions

Comprehensive risk framework



Financial literacy lessons

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Commodity cash flow profiles guide MFI field staff in determining the financing requirements for the main crops grown in the area.

Commodity profiles are developed through field research: interviews with farmers, government agriculture officers, seed and fertilizer suppliers, buyers, and other stakeholders.

Only profiled commodities can be financed with the agri-MF loan.

COMMODITY PROFILE	Rice (wet season)
Land area (ha):	2
Production time (months)	5
Gross yield (kg)	7,500
Storage loss ratio (%)	5%
Net yield (kg)	7,125

	Jun'14	Jul'14	Aug'14	Sep'14
Farm gate price (Php per kg)	25	24	22	21
Production volume	0	0	0	7125

DETAILED COMMODITY PRODUCTION PROCESS & INPUTS		TOTAL COST (Php)	Total number of units	Unit	Unit cost (Php)	Input required for each process			
						Month 1	Month 2	Month 3	Month 4
STEP 1. Seedbed preparation		6,700				6,700	0	0	0
Materials	Seeds	5,600	4	BAG	1,400	4.0			
Materials	Fertilizer (Other)	1,100	1	BAG	1,100	1.0			
STEP 2. Land preparation (plowing/harrowing)		10,000				10,000	0	0	0
Services	Tractor rental	10,000	2	PER HECTARE	5,000	2.0			
STEP 3. Transplanting		8,000				0	8,000	0	0
Labor	Labor	6,000	2	PER HECTARE	3,000		2.0		
Operations	Other operating cost	2,000	2	PER HECTARE	1,000		2.0		
STEP 4. First fertilizer & chemical application		12,900				0	12,900	0	0
Materials	Fertilizer (Urea)	9,600	8	BAGS	1,200		8.0		
Operations	Other operating cost	1,000	2	PER HECTARE	500		2.0		
Materials	Other materials	800	4	BOX	200		4.0		
Materials	Herbicides	1,500	1	LITER	1,500		1.0		
STEP 5. Second fertilizer & chemical application		9,200				0	0	9,200	0
Materials	Fertilizer (14-14-14)	4,400	4	BAG	1,100			4.0	
Materials	Fertilizer (Other)	4,800	4	BAG	1,200			4.0	
STEP 6. Harvesting		34,000				0	0	0	34,000
Labor	Labor	20,000	2	PER HECTARE	10,000				2.0
Services	Other services	14,000	2	PER HECTARE	7,000				2.0
TOTAL COST OF PRODUCTION		80,800			Total monthly expenses	16,700	20,900	9,200	34,000

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The farm budget (and plan) is part of the loan application. The farmer provides details of his expenses, which is compared to the commodity profile.

FARM PLAN AND BUDGET	TOTAL	Jun'14	Jul'14	Aug'14	Sep'14
Hired labor					
Seeds					
Fertilizer					
Pesticides					
Tractor rental					

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Product Policies

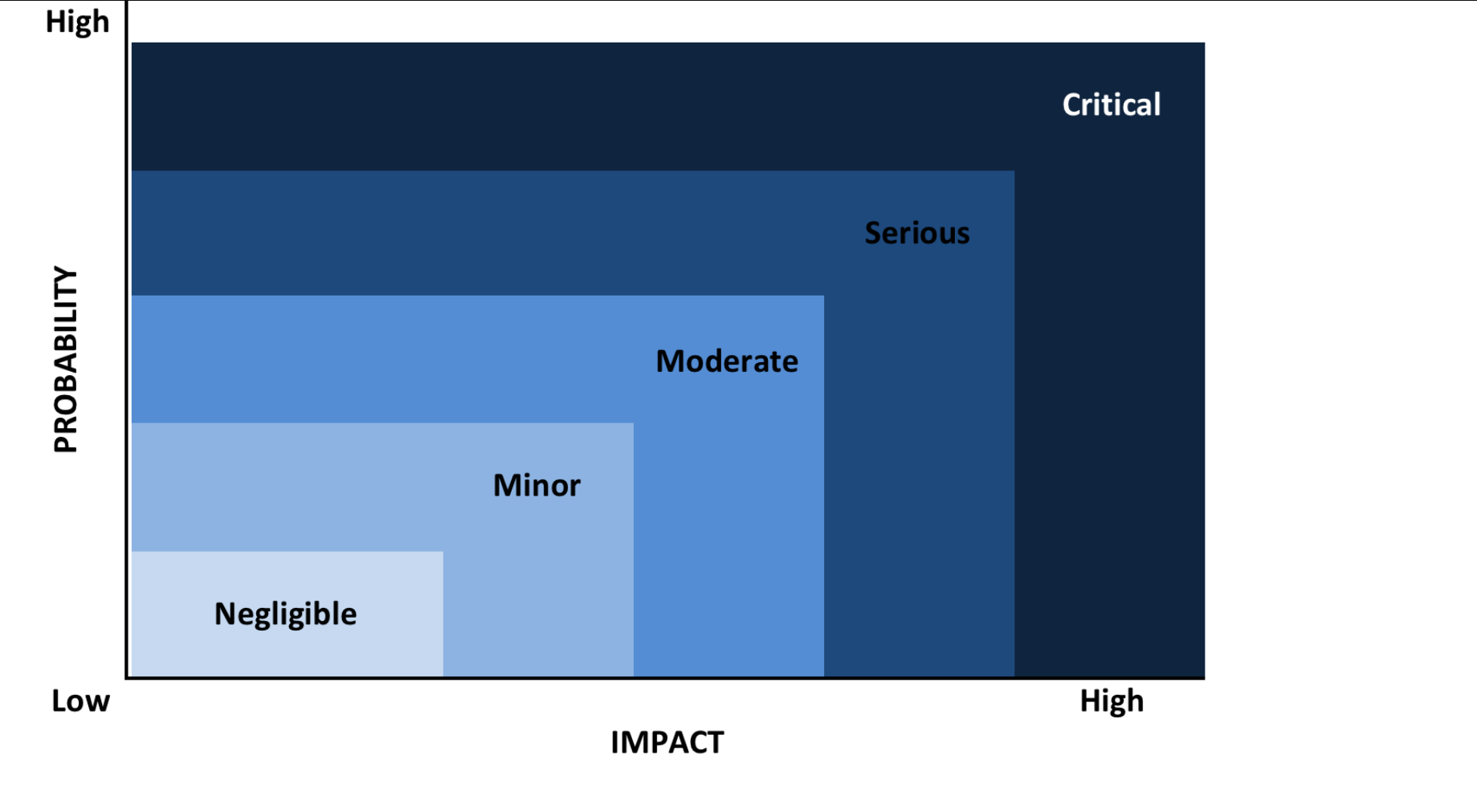
Procedures & instructions

Comprehensive risk framework

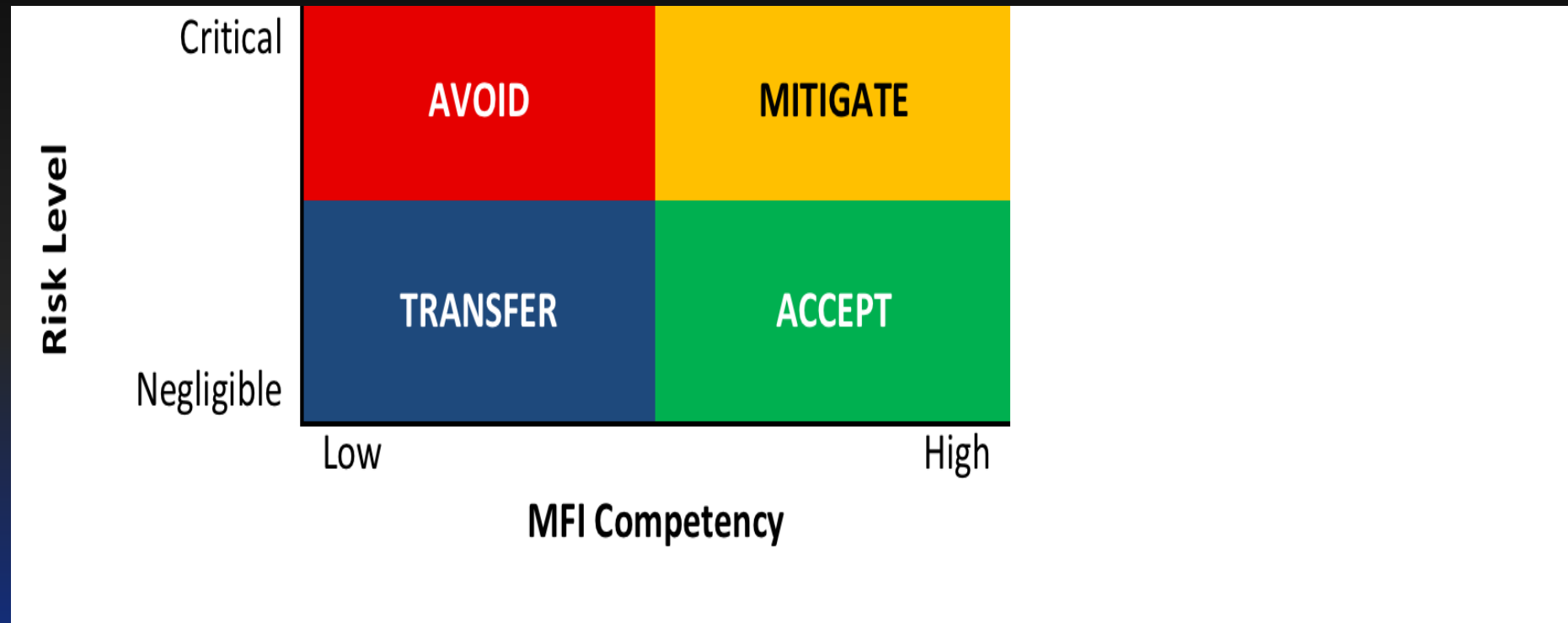


Financial literacy lessons

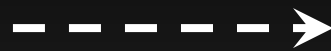
RISK FRAMEWORK STEP 1: RISK MATRIX



RISK FRAMEWORK STEP 2: RISK MANAGEMENT STRATEGY



LENDING TO FARMERS IS A MATTER OF MANAGING RISK



Commodity profiles

Farm plan and budget tool

Loan terms and conditions

Loan Terms and Conditions	Features	Risks	Impact <i>Negligible · Minor · Moderate · Serious · Critical</i>	Strategy <i>Avoid · Mitigate · Transfer · Accept</i>	Tactics
1) Eligibility Criteria	▪	▪			
2) Purpose	▪	▪			
3) Amount	▪	▪			
4) Term	▪	▪			
5) Interest Rate, Service Charges, Penalties	▪	▪			
6) Repayment Frequency	▪	▪			
7)	▪	▪			

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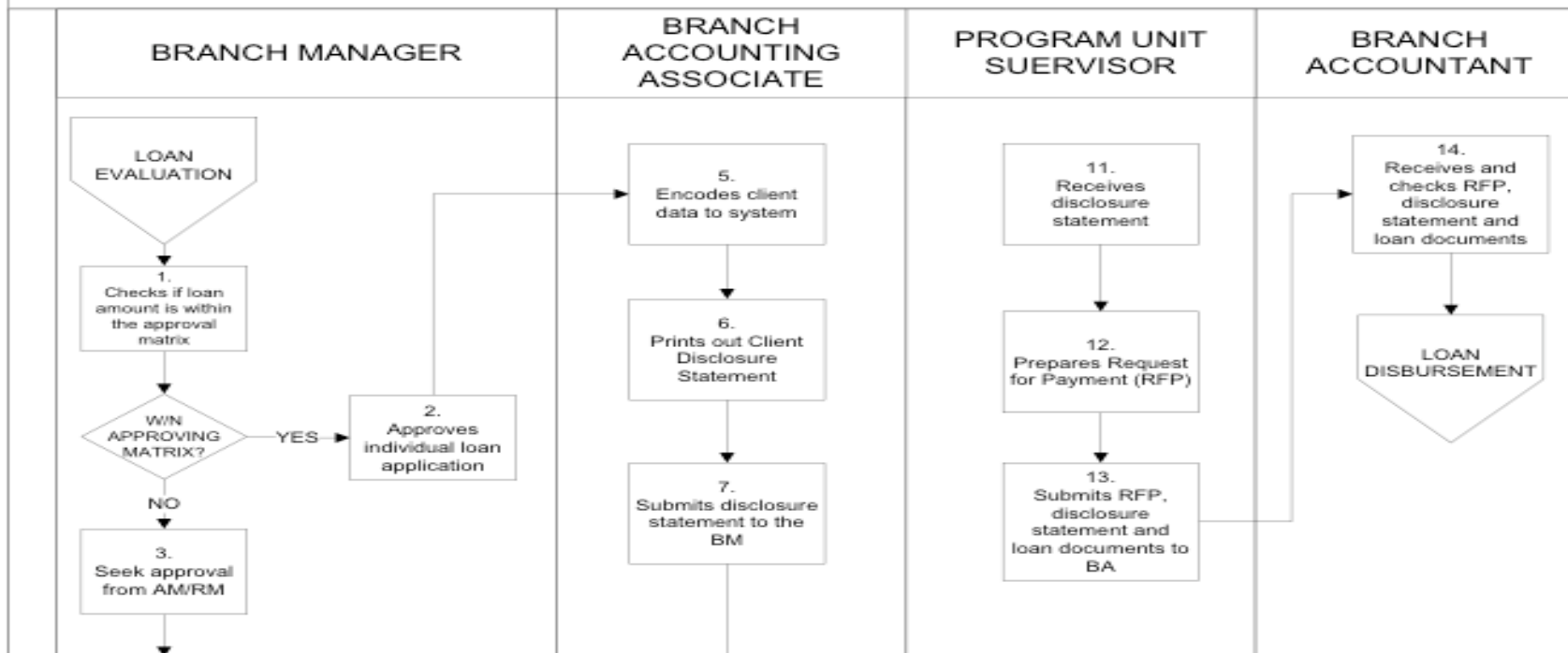
Procedure	Steps	Risks	Impact <i>Negligible · Minor · Moderate · Serious · Critical</i>	Strategy <i>Avoid · Mitigate · Transfer · Accept</i>	Tactics
1 Application	1. 2. 3.	▪			
2 Evaluation	1. 2. 3.	▪			
3 Approval	1. 2. 3.	▪			
4 Documentation	1. 2. 3.	▪			

LENDING TO FARMERS IS A MATTER OF MANAGING RISK



**Product Policies
Procedures & instructions**

LOAN APPROVAL



LENDING TO FARMERS IS A MATTER OF MANAGING RISK



-----> Commodity profiles
Financial literacy lessons
Farm plan and budget tool

-----> Loan terms and conditions
Product Policies
Procedures & instructions

Comprehensive risk framework

-----> Financial literacy lessons

LENDING TO FARMERS IS A MATTER OF MANAGING RISK



— — — — — ➔ **Financial literacy lessons**

Account officers see the clients regularly, even for end-of-cycle repayments.

15-20min financial literacy lessons are offered at each meeting.

The result: better debt management—and more savings—from clients.

LENDING TO FARMERS IS A MATTER OF MANAGING RISK



-----> **Financial literacy lessons**

Flipcharts:

BUDGETING AS A COPING MECHANISM



BUDGETING AS A COPING MECHANISM

Ask the client:

Subtract the EXPENSES from the INCOME to determine the SURPLUS or DEFICIT

Input:

If the result is DEFICIT, then you are spending more than you earn.

Two things can be done – Lessen the expenses or increase the income.

Ask the client:

Look at the expenses and identify items where you can save.

Think about other sources of income to cover the deficit.

Input:

If the result is SURPLUS, then you are managing your money well.

Two things can be done – increase the surplus more and invest in other economic activity to generate more income.

Conclusion:

The list of expenses, adjusted to the level of income of the family can be considered as the HOUSEHOLD BUDGET.

LENDING TO FARMERS IS A MATTER OF MANAGING RISK



-----> **Financial literacy lessons**

Structured learning exercises:





PROFITABILITY

Profitability

- With effective risk management, portfolio risk is no higher than for enterprise lending
- Agri loan sizes are 1.5-2 times larger than enterprise loans
- Account officers can manage a larger portfolio with fewer clients and more intensive client monitoring (with financial education lessons)

Profitability

Profitability is a function of mitigated risk, not outreach (e.g., number of clients and cost of reaching them)

Thank you

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