

Closing the smallholder finance gap

Lessons from three service providers

Webinar

December 2019



Farmfit



Rural & Agricultural Finance
LEARNING LAB

About us



Supporting companies to professionalize, scale, and finance impactful smallholder engagement models.



Analyses, advises and supports companies to set up inclusive smallholder business models



De-risks investments



Actionable insights on viable business models



- The Lab is a seven-year initiative of the Mastercard Foundation and is the Learning Partner of the Foundation's rural and agricultural finance portfolio.
- The Lab provides learning guidance, conducts independent research, shares knowledge, and connects partners
- Learning areas are: (1) understanding business model sustainability, (2) what clients want and use, (3) what works in providing effective financial solutions, and (4) building the ecosystem

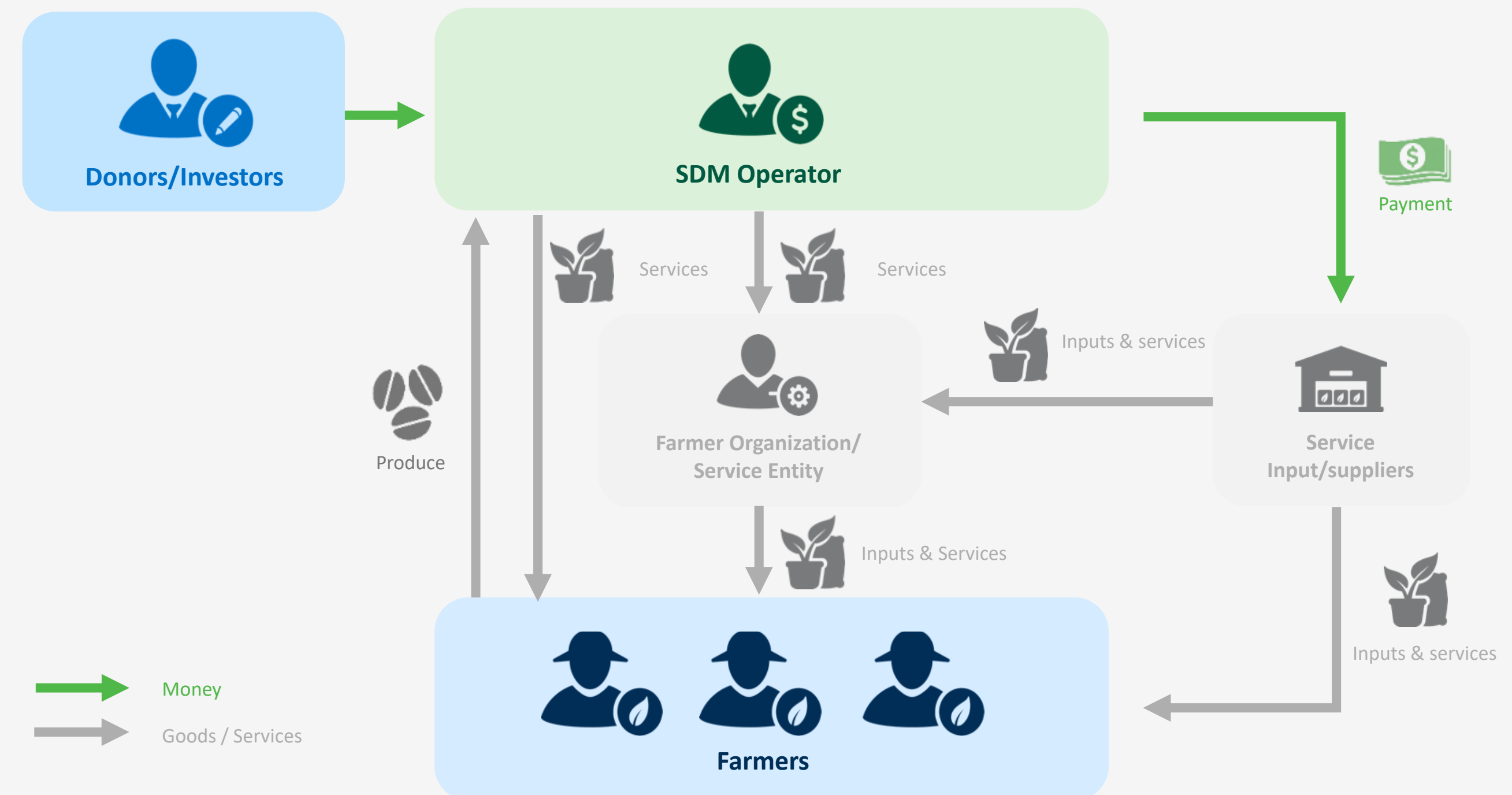


Our SDM approach | Systematically analyzing and quantifying the business case of service provision for farmers and companies alike

We started with the SDM approach to create:

- ✓ A common way of understanding and analyzing service delivery
- ✓ Data-driven and systematic insights into the efficiency and sustainability of SDMs
- ✓ Better-informed investment strategies to be able to offer a complete package

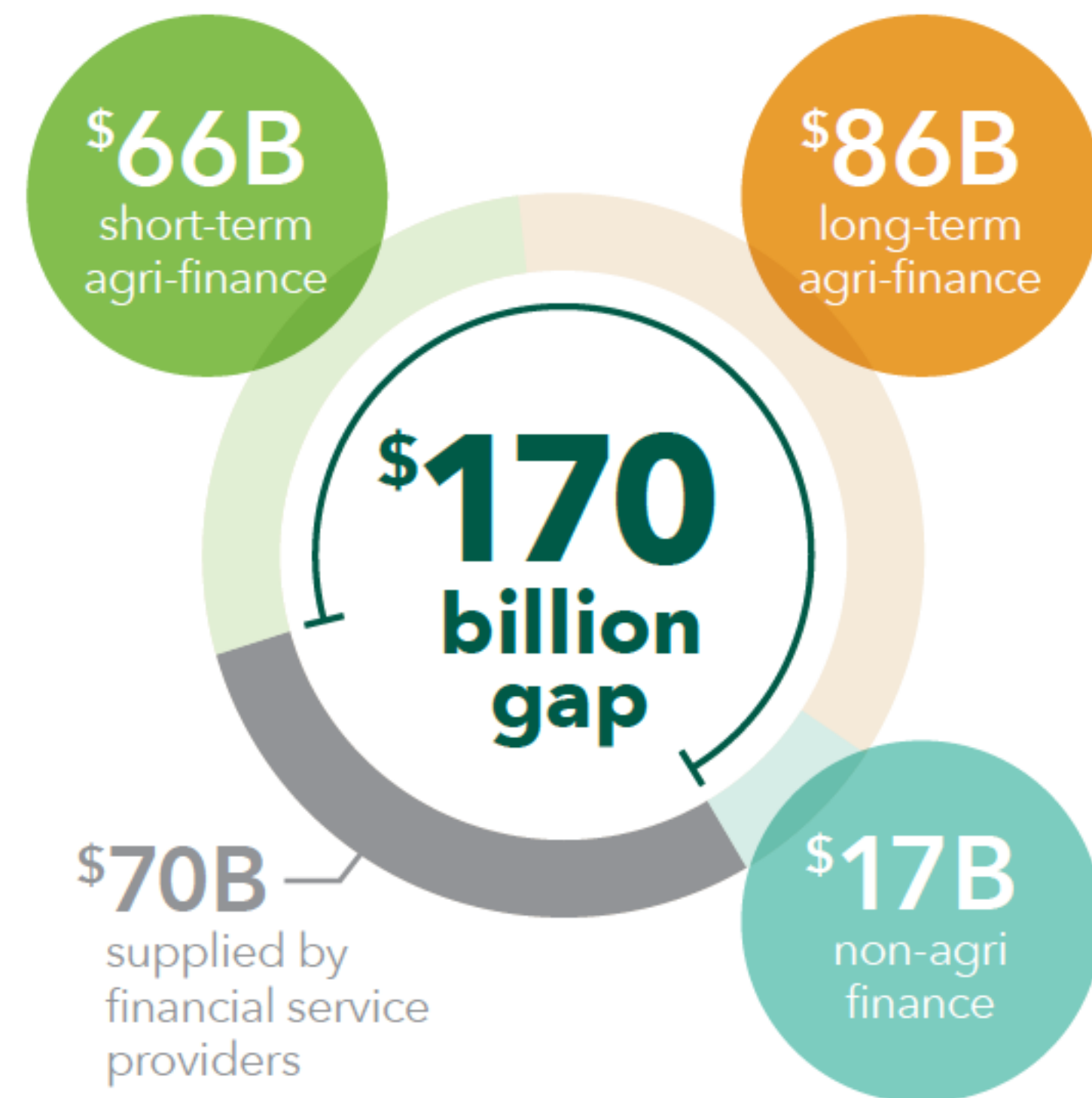
Service Delivery Models (SDM) are supply chain structures which provide services such as training, access to inputs, and finance to farmers, to improve their performance, and ultimately their profitability and livelihoods.



We have analyzed 60 companies and will expand to 200+ in the coming years, allowing us to generate actionable insights on what works where



The smallholder finance gap | Despite progress, there continues to be a persistent gap in smallholder and agricultural SME financing



- 70% of smallholder demand for agricultural and non-agricultural finance goes unmet – a gap that cuts across all geographies and financing types.
- We also see a large gap in lending to agricultural SMEs. In sub-Saharan Africa alone, the lending gap agri-SMEs is estimated at over USD 100 bn.
- Without access to finance smallholder households and agri-SMEs are unable to access the productive assets they need to increase yields, scale and lift themselves and their communities out of poverty
- IDH Farmfit data confirms the crucial role of finance as an enabler by showing that smallholder services packages including financial services realize approx. 70% higher income increases.

Our speakers



Hillary Miller-Wise
CEO & Founder

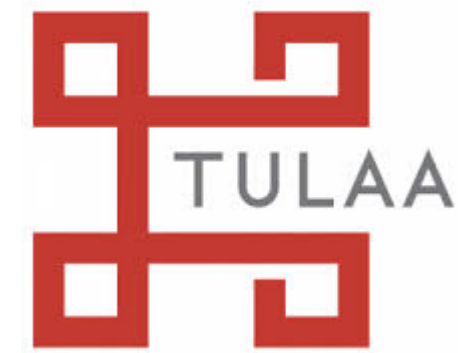


Phyllis Warui
Regional Development & Sustainability Manager



Felistars Obonyo
Business Development Manager

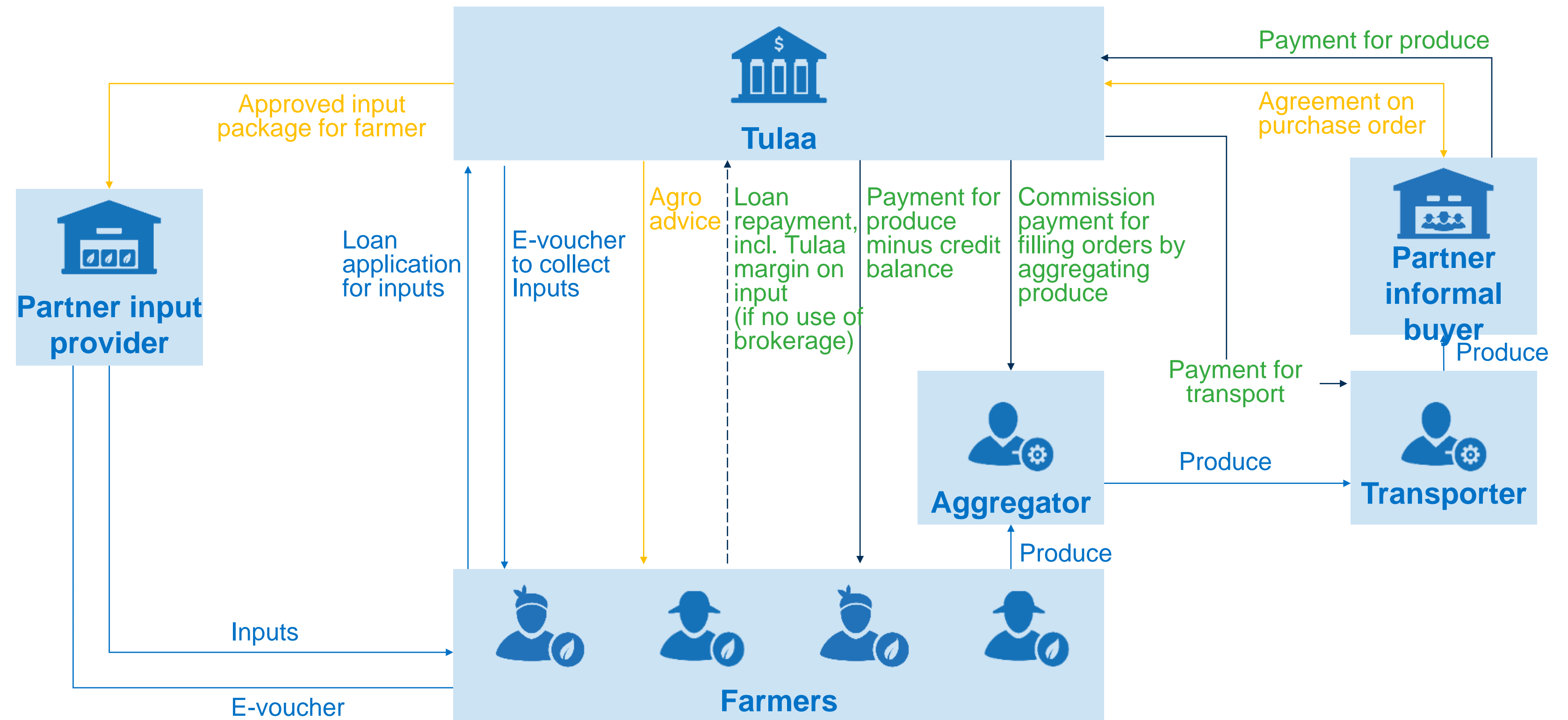
About | Tulaa's mission is to transform lives by connecting farmers to markets



Key facts

- **Location:** Kenya
- **Value chains:** potatoes, cabbage
- **Value proposition:** end-to-end digital solution for farmers to access credit, advisory services and markets at fair prices
- **Scale to date:** 15,000 farmers reached and over 100 partnerships with input retailers, aggregators and buyers

Service Delivery Model



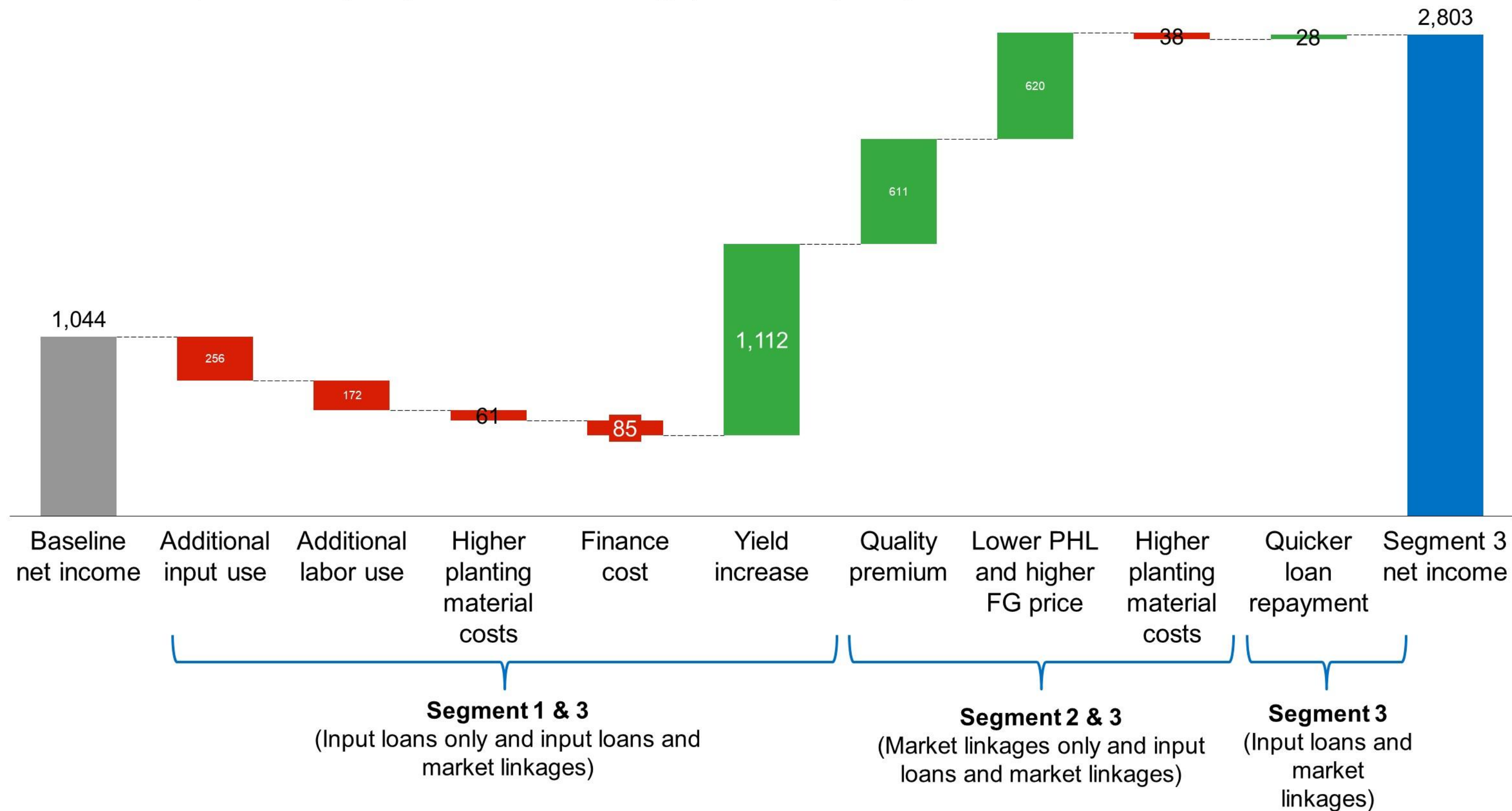
Legend → Flow of goods and services → Cash flow → Information/data

Impact and financial sustainability | Tulaa's value proposition is compelling for farmers and commercially profitable for investors



Farmer impact

Net income per farmer, 10-year annual average, 1.6 acre (USD)



Financial sustainability

- Gross margins projected to exceed 85% within the next five years
- Market access services are the big value driver, with a net margin 9x that of inputs on credit
- The standalone profitability of inputs on credit is more challenging - due to small loan sizes, high cost of capital and high fixed overhead costs – but the service a fundamental part of Tulaa's end-to-end value proposition

Challenges | Partnership management, access to capital and optimizing operational efficiencies



Partnerships are key to Tulaa's service delivery model but are challenging to develop and manage, and sometimes fail; to date Tulaa's attempt to partner with financial institutions to finance the input loans have not been able to take off



Access to appropriately priced and structured capital hampers Tulaa's ability to scale and drive agricultural transformation by creating shared value across its service delivery model



Operational challenges – particularly those associated with market access services e.g. transportation and price volatility

What's next for Tulaa | Scaling current operations and expanding into new markets



Grow in existing value chains



Expand to new value chains



Offer a broader range of products and services



Expand to new markets within East Africa

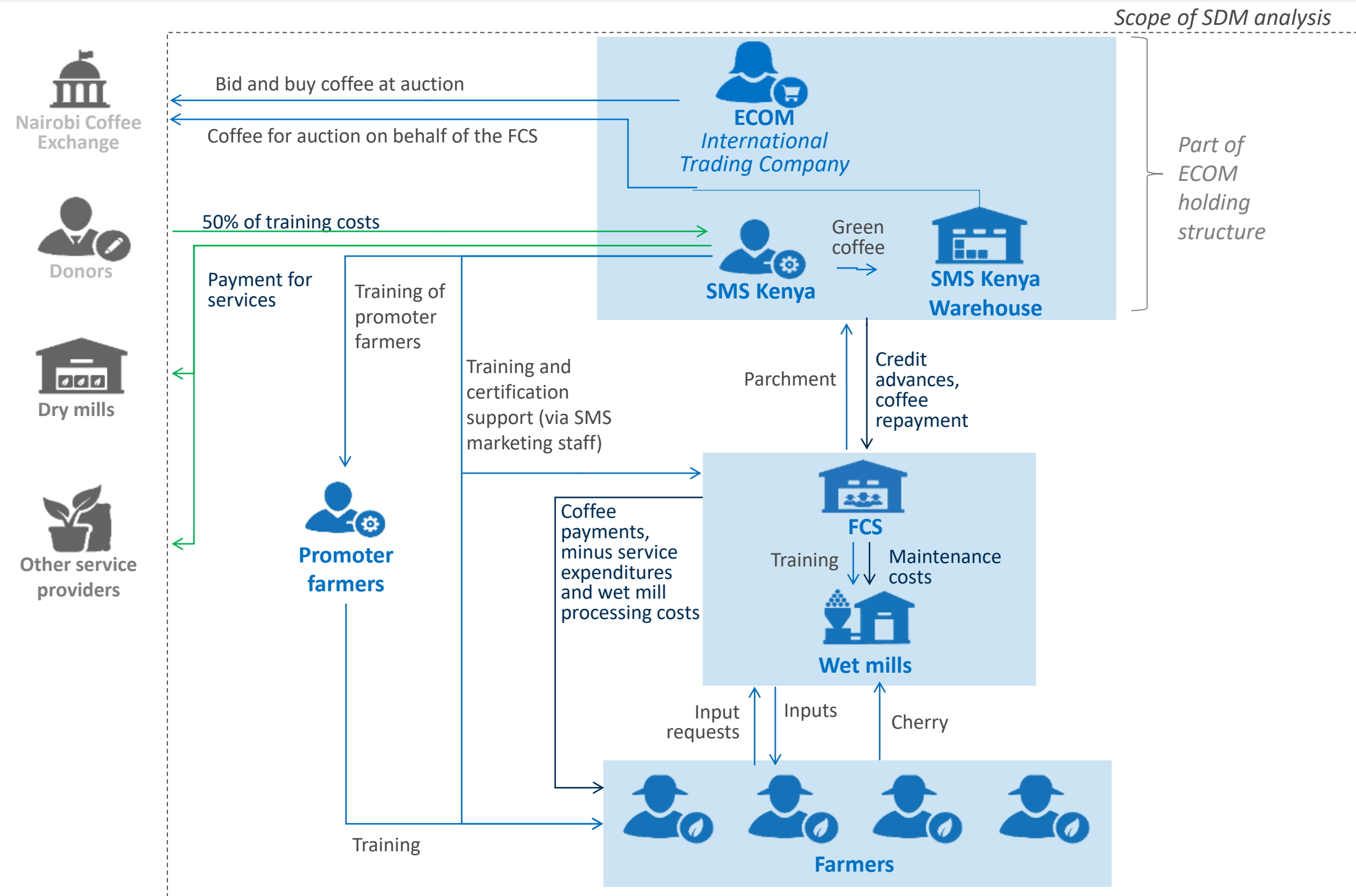
About | ECOM SMS Kenya's mission is to capture high quality coffee markets by strengthening farmer cooperatives' (FCS) and farmer's loyalty through credit advances and investments



Key facts

- **Location:** Kenya and other geographies in East Africa
- **Value chain:** Coffee
- **Value proposition:** Credit advance to FCS up to 40% of expected auction value to pre-finance inputs
- **Scale to date:** 43,000 farmers reached, working with 46 Farmer Cooperative Societies (FCS)

Service Delivery Model



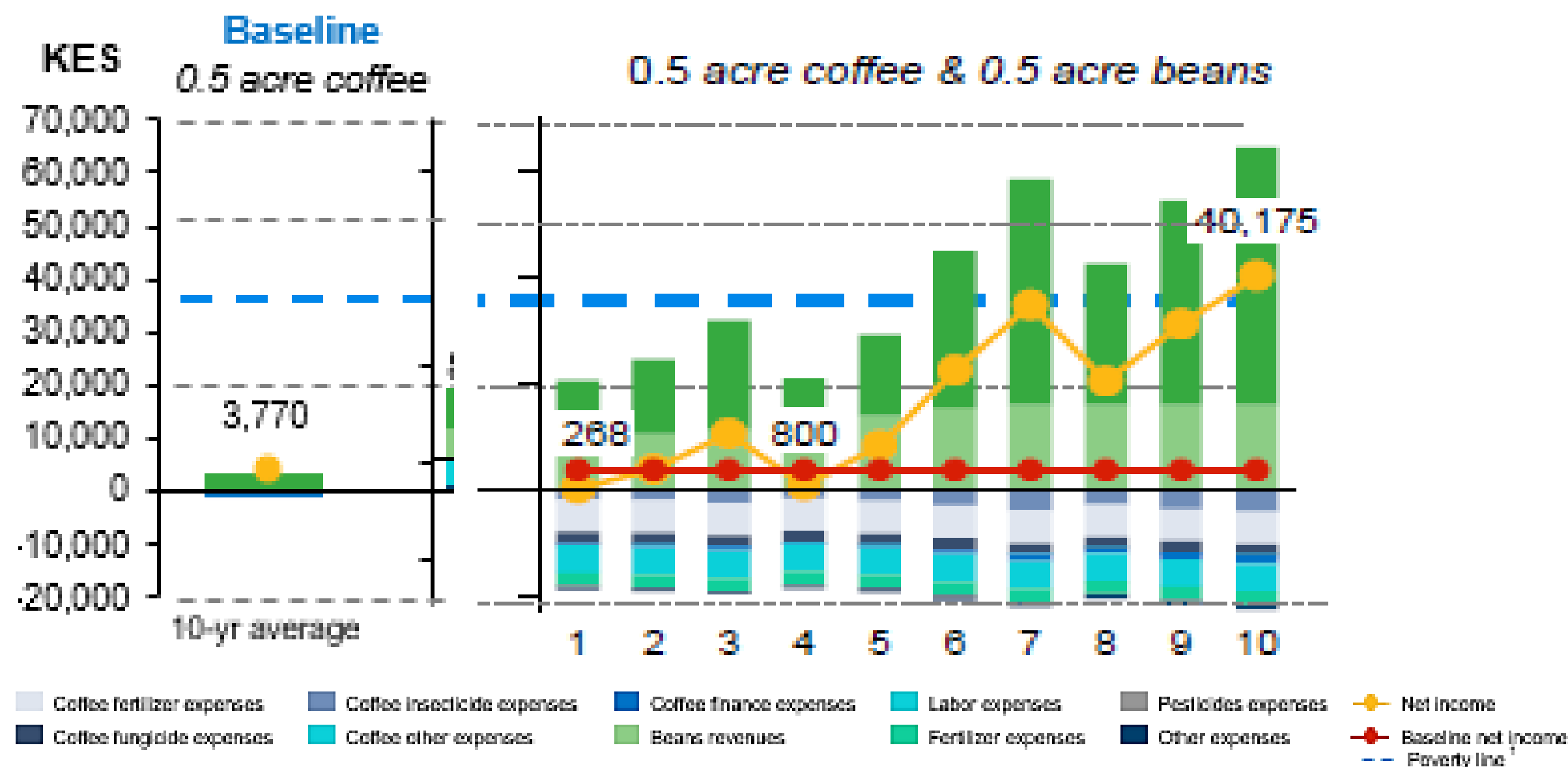
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Impact and financial sustainability | SMS Kenya enables farmers to increase their net income by providing credit advances for inputs, stimulating crop diversification and providing market access for farmers



Farmer impact

Average net income for average SDM farmer with beans



- **Improved farmer cash flow through crop diversification:** Net income for SDM farmers also growing beans is on average 126% higher than the baseline farmers' net income. Harvesting beans over two seasons gives SDM farmers six additional cash injections per year on top of coffee and thus improves the cash flow.

Financial sustainability

- The SDM provides a wide range of solutions to farmers with direct services to smallholder farmers accounting for 97% of revenues.
- Providing credit advances has proven a big win to both farmers and the company. As the advance amount is tied to gross coffee earnings, SMS Kenya can increase profits by supporting farmers to improve yields and quality.
- Currently advances (working capital, picking, inputs) are in excess of USD 30Million (90% smallholders, 10% plantations) and recovery rate is 99.5%
- Challenges within the current financing structure are: low international coffee prices, low production, climate change and side selling.
- Providing inputs and planting materials shows a significant revenue potential, which in turn incentivizes SMS to train farmers and increase farmers' demand for inputs.

Challenges | Constraining local and global environments and a strong reliance on external funding for training



The **enabling environment** poses key challenges, such as coffee prices are at historic low in the global coffee market and Kenya's **production levels continue to decline** given the poor farmer business case. **Reliance on coffee alone is risky.**



The **viability of training** depends on external funding to enable scale—both for the current and new training model. As training is an enabler for securing volumes as well as for its indirect effects on other business lines such as input sales and finance, the **drying up of funding for training would heavily affect the SDM.**



Long-term investments are hindered by market regulations. On the Kenyan market, contract between FCSs and Marketing Agents like SMS must be renewed annually. This makes investment in FCSs and farmers a high risk strategy for SMS Kenya. If the FCS drops out then SMS Kenya **cannot reap any of the long-term benefits of its investments.**

What's next for ECOM SMS



Crop diversification to improve farmer cash flow and resilience



Long-term partnerships with established financial institutions and other value chain players



Greater focus on quality to access niche markets for better prices and higher farmer income

About | Syngenta



- **Leading agricultural company that offers seed and crop protection to farmers.** We help improve food security by promoting sustainable agriculture through innovative research and technology.
- Our ambition is to **bring greater food security in an environmentally sustainable way.** Bringing plant potential to life is our company purpose.
- We offer **seed, crop protection** (herbicide, fungicide and insecticide) and **agronomic support** to our customers.
- **Value chains** include cereals, vegetables, field crops and other specialty crops. We work in over 50 countries.

Customer pain points Syngenta is trying to solve

- Access to finance by smallholder farmers
- Access to quality inputs
- Connecting farmers with market that has favourable pricing to sell produce
- Increasing farmers productivity
- Connecting farmers with cold storage in order to reduce post harvest damages

The role of finance in Syngenta's Service Delivery Model

- Finance facilitates the purchase of quality inputs through banks and fintech's



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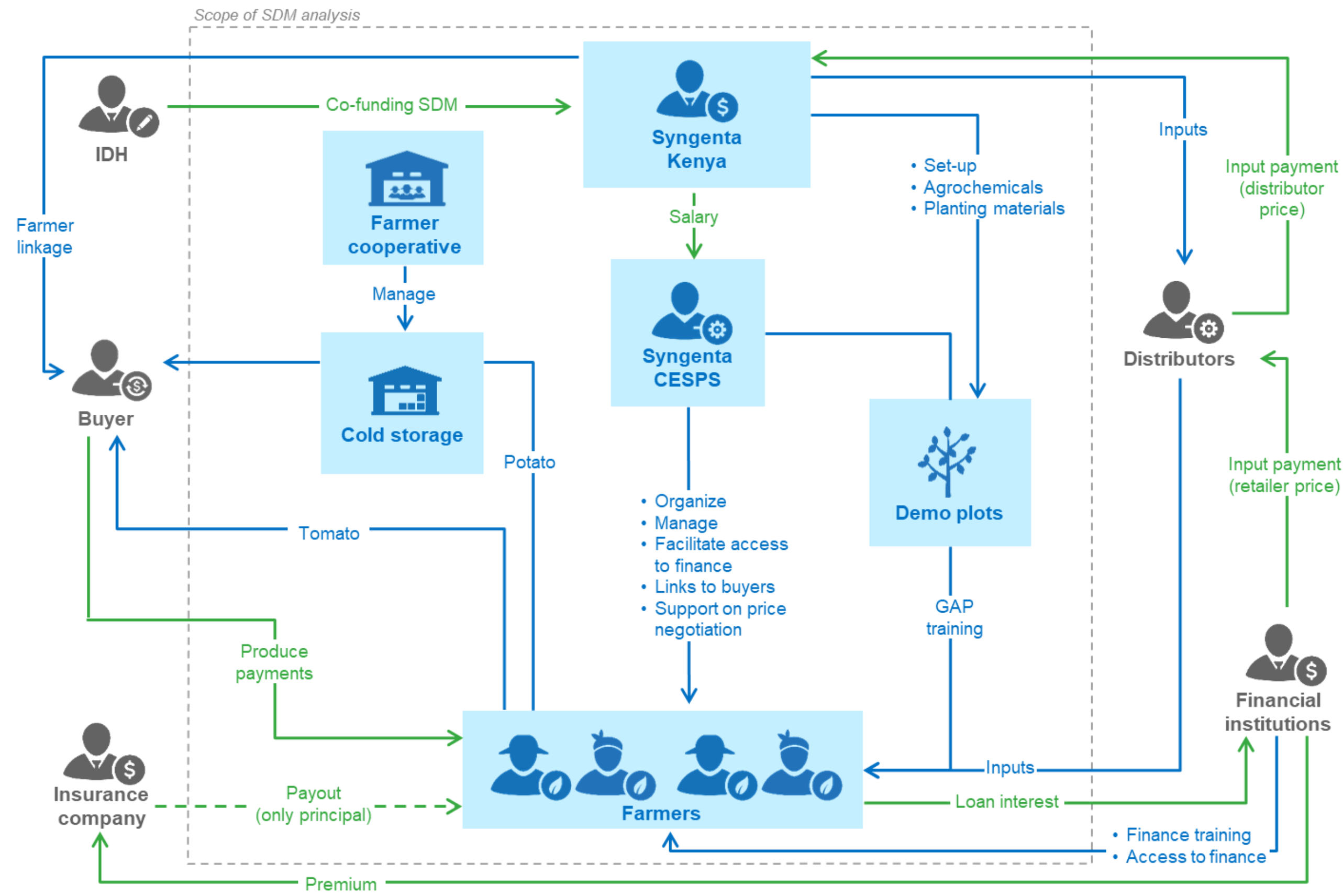
About | Syngenta provides affordable high-quality inputs to farmers to improve productivity and thus farmer incomes



Key facts

- **Location:** Kenya
- **Value chain:** Tomato, Potato
- **Value proposition:** Holistic service delivery model to provide access to affordable high-quality inputs
- **Scale to date:** 26,000 farmers reached, working with several value chain partners to provide input credits to farmers.

Service Delivery Model



Legend → Flow of goods and services → Cash flow → Information/data



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Impact and financial sustainability | Digital tools reduce amount of time to process applications



Farmer impact

- Farmers are getting affordable inputs through different financiers
- Agrovets have scaled business and increased profits and are still operating.
- Farmers access to credit in time for season and hence maximizing on seasonal planting and production without delays

Financial sustainability

- Expansion to different value chains offers opportunity to increase business.
- Increase in farmer profitability increases opportunity for more credit to scale to bigger acreage.
- Banks and fintech's are scaling up in terms of profit and wider coverage.
- Continuous engagement with farmer groups on marketing activities as well as avenue for new product introduction.

Challenges | Low availability and untimely administration of loans are limits to scaling of Syngenta's operations



Transaction costs of loans: Loan applications are currently done manually, which is inefficient and lengthy. Long lead times result in loans being approved too late for the farmer to effectively acquire inputs. Digitalizing by working with digital platforms is estimated to have a great impact on reducing costs of the SDM.



Lack of structured markets: To scale up operations, virtual and physical aggregation of produce is needed.



Weather fluctuations: Derivative product



Distance between agrodealers and farmers: The distance between agrodealers and farmers is currently too large. Improving farmers' access to inputs by opening agrovets nearby will have a positive impact on the SDM.



Service cost to farmer: The cost to serve per farmer is high. Partnering and cost sharing with donors/partners would decrease this service cost per farmer.

What's next for Syngenta



Develop partnerships with financial institutions and insurance providers to improve credit portfolio



Digitalization of loan applications by tapping into the platform approach of other organizations (eg. KCB Mobigrow, Agriwallet, Tulaa)



Further improve market linkages to ensure offtake for the increasing production volumes stemming from improved farm yields



Q&A



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Bernd Isenberg

Senior Manager Farmfit

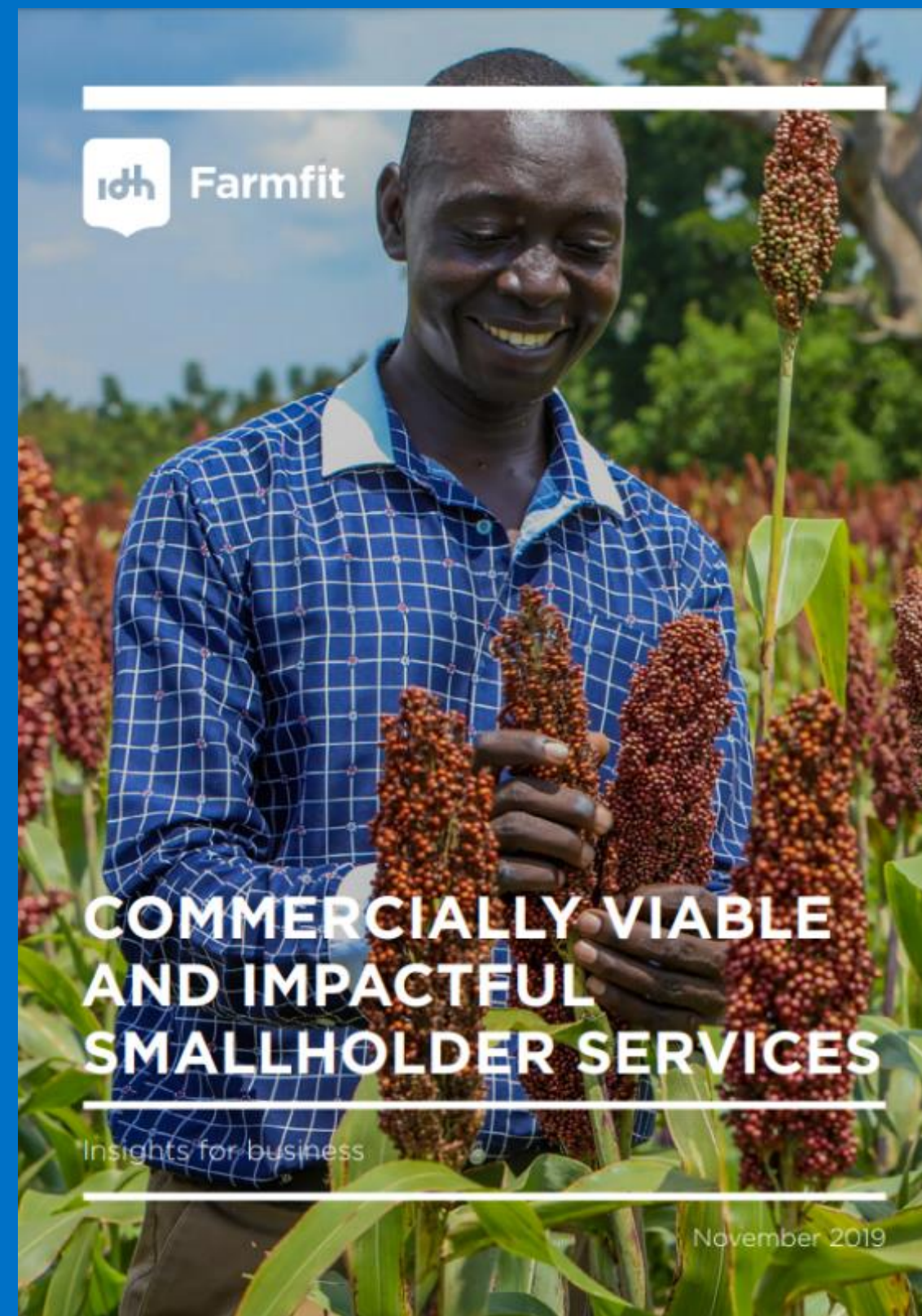
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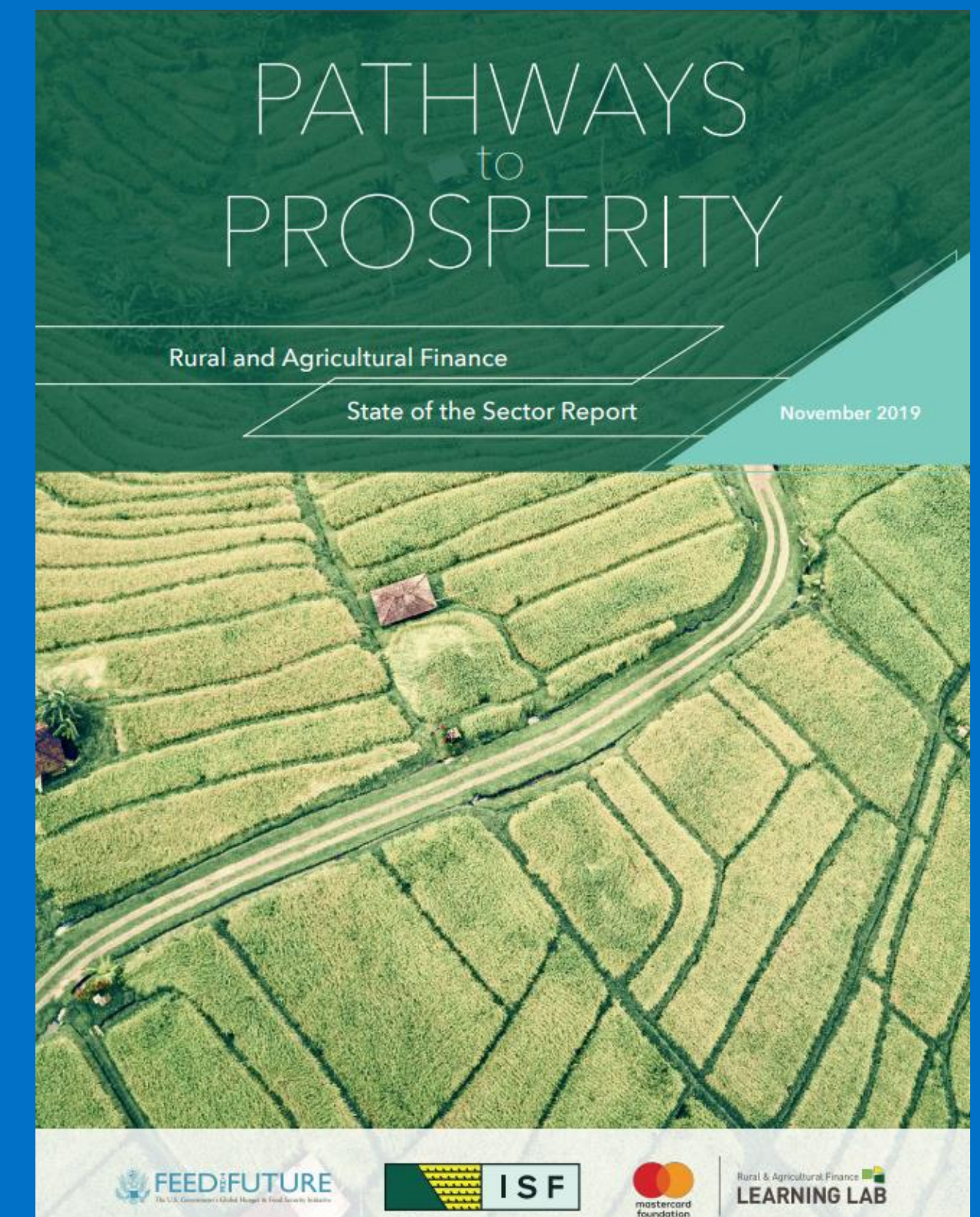
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