Inclusive Finance Accelerators

Les Batisseurs de l'Inclusion Financière en Afrique

The Builders of Financial Inclusion in Africa

Myka Reinsch

idh transforming markets

Kafui Adjogatse

Risk-Sharing Input Finance / Tripartite Financing:

Emerging Observations and Guidelines

AMEA Annual Learning Event 2023

Go to **www.menti.com** and use the code **1681 1138**

Do you agree or disagree with these statements?

Mentimeter

Strongly disagree

Input finance is a challenge for my stakeholders or my work

My organization has attempted to address the input finance gap in the past

I have experience with risk-sharing consortia/tripartite financing for inputs

Strongly agree

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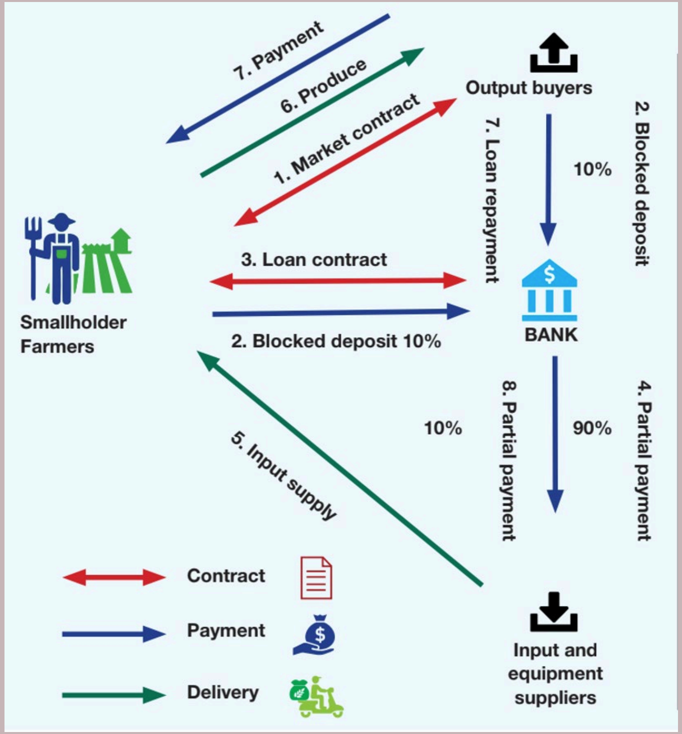
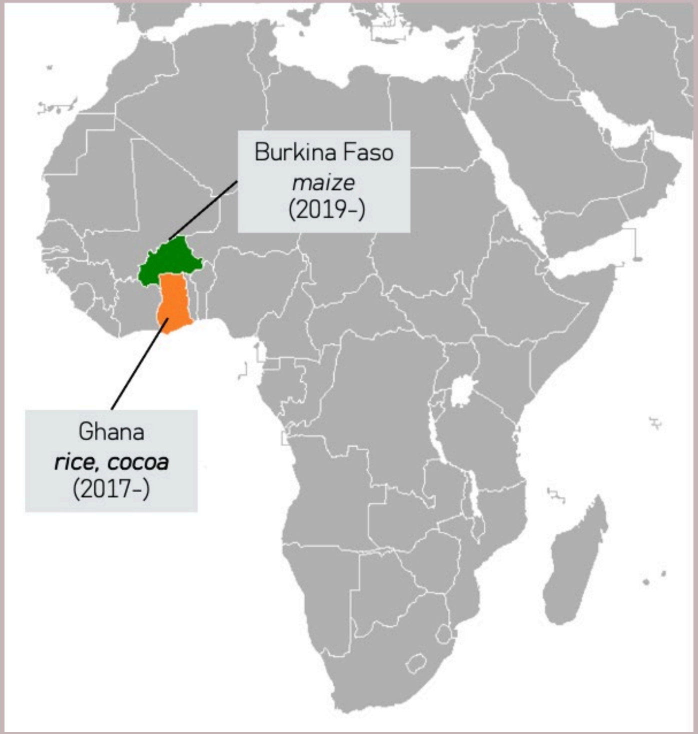
AGRA's Input Finance Risk-Sharing Model

How it works



Case study focus



Risk-Sharing Partner Motivations and Incentives

Keeping in mind the likely incentives of each partner in the model can help to identify appropriate actors, test assumptions, and support all partners in building and managing the consortium.

Actor	Incentives to participate in risk-sharing input finance scheme
Financial institution	• Expand outreach to new segment of clients • Diversify product offerings • Build agricultural portfolio, enhance competitive market position • Contribute to social mission by reaching lower income and smaller agribusinesses • Reach rural and agricultural clients more efficiently and at lower risk • Build skills in consortium approaches and negotiations
Off-taker	• Source of raw materials • Quality standards • Reduced procurement costs • Lower financial risk (covering just 10% of the input risk)
Producer	• Access to buyer contracts • Reduced risk – finding buyer, accepting low price • Ability to access inputs with only 10% down • Increased exposure and access to access to improved inputs • Agricultural extension and other technical support
Input supplier	• Substantial risk reduction • Free up working capital • Build local demand for specialised inputs • Increase efficiency • Reduce risk of anticipatory investment in inputs being lost • Reduce risk of inputs not being properly used / under-performing

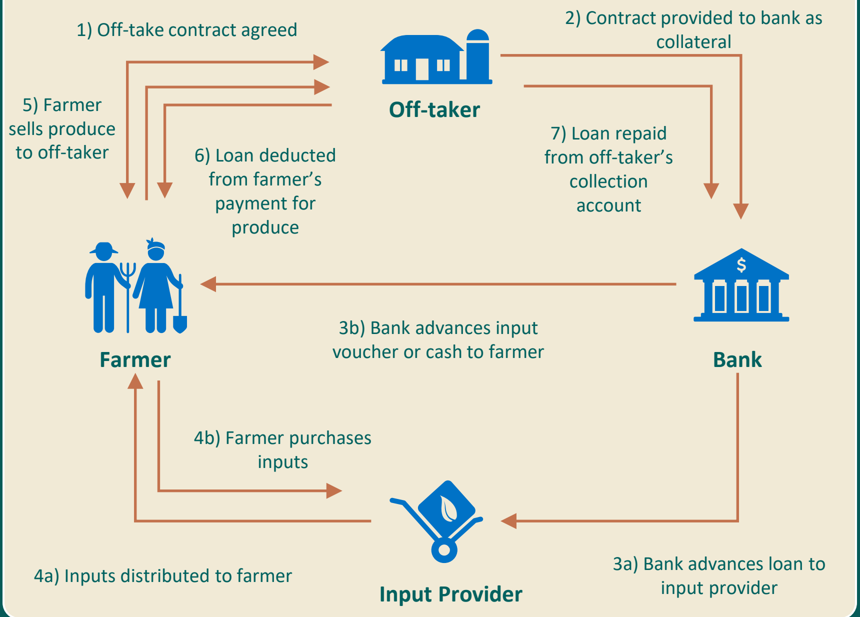
Results

- **Scale:**
  - ~13,000 cocoa producers ($2.3m)
  - ~ 350 rice producers ($.5m)
  - ~13,000 maize producers ($3.5m)
- **Off-takers:** operational expense line decreased by 20%
- **Producers:**
  - Substantial increase in quantity and quality of maize crop,
  - Production cost reduced by 15% (due to interest and bulk ordering)
- **Indirect social impacts:**
  - Integration of SHF into formal VCs, contracts
  - Perceive value of improved inputs
  - Adoption of good agricultural practices
  - Leveraging local supply over imports

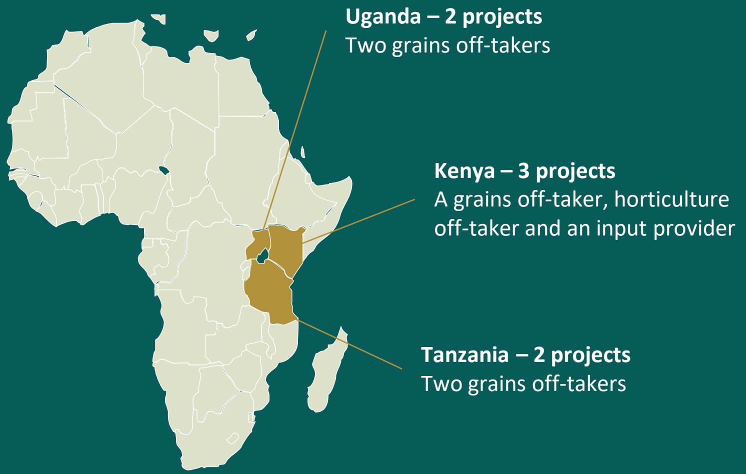
IDH Farmfit & Tripartite Financing Agreements

What is it?	A financing agreement involving three or more parties, including a financial service provider, the farmer (loan recipient), and an off-taker provider where guaranteed off-take contracts are provided as collateral

How does it work?



Where have we been testing it



5 Lessons Learned:

What are our key recommendation from our experiences?

Lesson 1: Leave ample time for negotiations

- Long negotiations have led to delayed disbursement
- Rejection rates can be high
- Be prepared that aligning on key terms can be costly
- If using segmentation, match segmentation criteria with a bank's eligibility criteria

Lesson 2: Lend Responsibly

- Be selective over which groups you put forward
- Perform checks to ensure you aren't over-indebting farmers
- Invest in financial literacy training

Lesson 3: Agree on responsibilities in advance

- Farmers tend to need support at various stages
- Agribusiness have been surprised at the amount of time they need to invest
- There are opportunities for more efficient collaboration for loan recovery

Lesson 4: Use in-kind loans and repayment

- Providing loans in the form of inputs ensure better use of loan proceeds

- Repayment through produce creates efficiencies for collection

Lesson 5: Consider additional risk mitigation

- Additional collateral can smoothen the credit process but can reduce inclusivity
- Banks are increasingly asking for climate insurance to be bundled
- Additional guarantee mechanisms can be used to support certain groups

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Breakout Session 1:

Presentation, discussion and questions for stakeholders considering design and implementation of a tripartite / risk-sharing input finance model

Breakout Session 2:

Presentation, discussion and questions on selecting ideal partners (off-taker, financial, producers, inut suppliers) for inpinstitutionut finance risk-sharing

Checklist for stakeholders considering input finance risk-sharing model

- √ Does your **target value chain** have at least one buyer with a strong and ongoing demand for product that is not in adequate local supply, and are they willing to buy on contract?
- √ Is there a critical mass of producers of that crop or a related crop in a manageable geographic area and who are organised in groups or can be assembled in **collaborative groups of producers**?
- √ Do the producers have trouble accessing inputs due to **lack of financing options**?
- √ Do the producers have access to a certain type of inputs but lack knowledge, demand or **appetite to invest** in inputs that would substantially increase their yield/quality/profits?
- √ Are there **input suppliers** in the value chain who are interested in such a risk-sharing arrangement and willing to try it?
- √ Are there **FSPs with a genuine motivation** to participate and willingness to devote time and attention in collaboration with other consortium partners?

Consortium Partner Selection Criteria

Selection criteria: Producers

- Organised in groups, governance
- Minimum 2 years with off-taker
- Minimum farm size (by VC)
- Can meet internal bank and regulatory requirements (age, ID card, citizenship)
- Ideally: funding and technical assistance for capacity building

Selection criteria: Financial institution(s)

- Business-driven interest, leadership-level commitment
- Time, staff, operational budget
- Basic understanding of agriculture (risks, seasonality, prices, timing, market)
- Institutional flexibility and intention
- Digital component - transparency, efficiency
- Open search vs. existing relationships
- Individual or pool of FIs

Selection criteria: Input supplier(s)

- Offers inputs meeting off-taker and producer criteria
- Acceptable pricing
- Motivated to engage with other consortium partners
- Training, demo plots, coaching, etc.

Selection criteria: Off-taker(s)

- 2-3 years in target VC
- Existing relationships with the farmers
- Has financed own farmers
- Training, capacity building for farmers
- Tracks and monitors crops

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Thank you for your attention

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