



**FARM CONFERENCE
DEC 2020**

2020

Snapshot

Globally it is estimated that ~270 million smallholder farmers in developing countries require between 60-80B USD in agricultural insured value coverage, a premium value of ~8–15B USD. However, less than 20% of smallholder farmers in these countries currently have any coverage at all, a number that is less than **1.5%** in Sub-Saharan Africa.

- After decades of relative financial exclusion and on-farm management of agricultural risk the need for formal solutions is easy to define at a household level and at face value represents a large and lucrative market for the insurance industry
- A global inventory reveals an initial industry response and “ecosystem of actors” that have emerged over the past 10 years, with ~100 micro-level solutions targeting occasional smallholder agricultural risks.

Ref: ISF report

Demand and Supply of Agri finance

Demand

Key in the demand for finance in Africa is working capital demand. For smallholder farmers, financing is required to gain access to the requisite inputs such as fertilizers and improved seed varieties to increase yields.

Beyond working capital, there is a significant funding gap for supporting infrastructure (e.g., equipment, storage, irrigation, tractors, etc.).

Agricultural finance products offered by banks consist of mainly short-term production and trade credit. Co-operatives are meeting some of this demand, however their balance sheets become constrained as banks provide inadequate liquidity in terms of volume, pricing or funding tenors to be readily available for on-lending to smallholder farmers.

Working capital for cooperatives don't exceed USD 500,000, and investments for acquiring supporting infrastructure also don't exceed USD 500,000 in most cases.

Ref: Rebel Group report

Supply

Historically, commercial financing of agricultural investments in Africa have been limited to commercial agricultural companies that produce export-oriented crops. This pattern of investment has been driven to a large extent by the perceived financial returns associated with cash crops and exports.

For the same reasons, agricultural policies and support programs have not favoured a well-diversified and commercially-oriented agricultural sector.

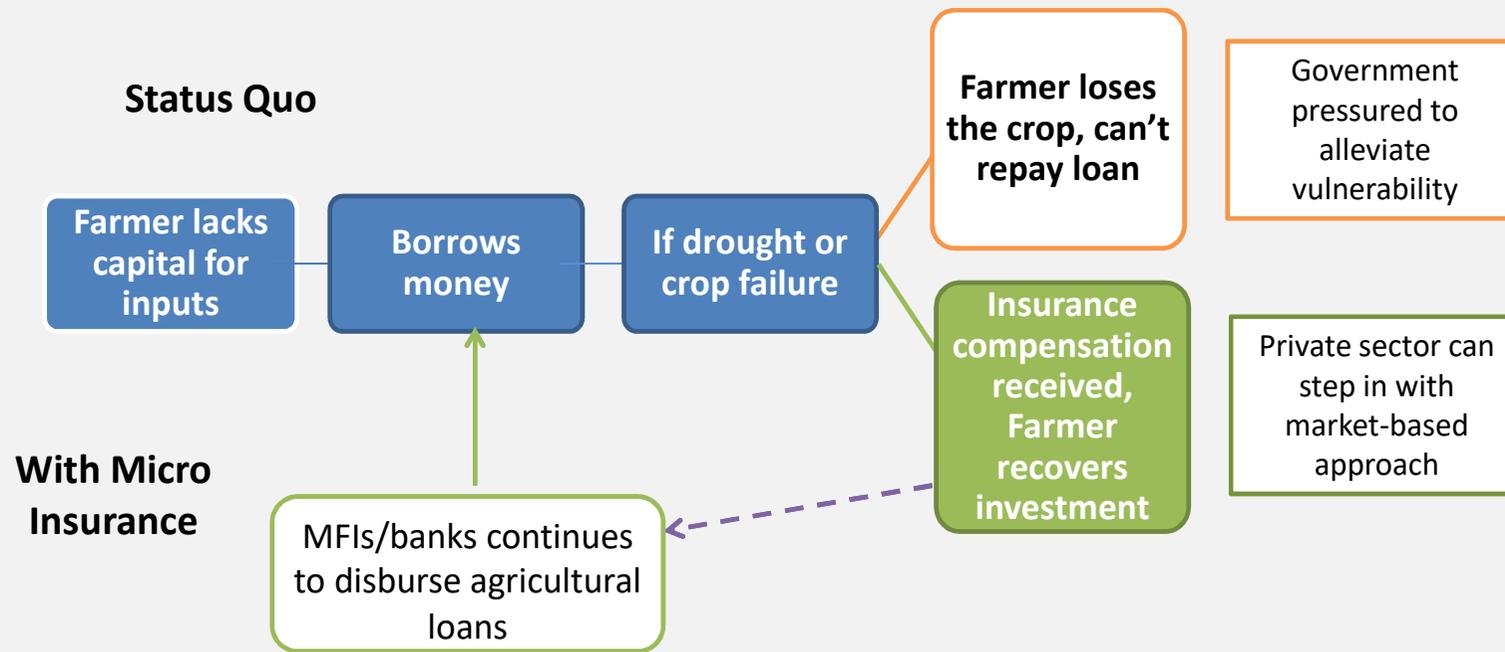
Massive support, mainly for input subsidies, has gone to increase production in export-oriented crops. In contrast, marketing and trade systems of most other value chains are underfunded and are poorly organized. Nevertheless, investments in food crops as maize are generally financed from public means by national governments, donors or NGOs. Despite contributing 40 per cent of GDP and employing roughly 65 per cent of workers, the agricultural sector only received 3.1 per cent of overall private sector credit

Why the gap Exists

- **Expensive financial services delivery model:** Financing requirements of agri-businesses in the small-scale sub-sector are generally small and seasonal. Often it is also difficult to physically reach agri-businesses in the small-scale sub-sector.
- **Low returns on high risk profiles and competing priorities:** Many local banks have experienced large losses on their agricultural portfolios, while net overall returns on portfolios won't exceed 10%. Despite specific mandates from their financiers as DFIs and governments to increase portfolio allocation to the agricultural sector, local banks have therefore shied away from financing the sector and focused on other sectors with better risk-return profiles.
- **High cost of funding:** Informal financiers and most formal financiers haven't benefited fully from the decrease of international interest rates during the last years.
- **Reliance on short-term funding:** Most local banks and MFIs only have access to short term funding. As such, they aren't able to provide financing to the sector that generally requires long term capital for investment in productive assets such as mills.
- **Lack of financial / management skills and data:** Agribusinesses in the small-scale sub-sector are generally small with turnover below USD 100,000 and fewer than 5 employees. In these cases, staff lack the managerial and financial skills to run the business in a professional manner. This results in lack of bankable business plans, financial history and (systematic) data on their historical production, making the businesses ineligible for any type of formal lending.
- **Lack of an enabling environment:** As a result of unclear land tenure, agri businesses in the small-scale sub-sector can't provide collateral to potential financiers.

Can Insurance increase access to agricultural credit?

Agriculture insurance is one of the financial products that offers risk mitigation for farmer risks when planting their crops, encouraging investments and wealth creation.



Insurance is particularly essential especially for countries in Africa where banks do not accept assets such as land as collateral.

How insurance improves access to

	Policy holders	Sales or distribution model	Potential benefits of insurance
Micro	 <p>Farmers</p>	<ul style="list-style-type: none"> Farmers buy insurance in a package (input, loans) or as a stand alone product. Financial institutions, producer organizations, or cooperatives can also be point of sales outlets for individual insurance 	<ul style="list-style-type: none"> Avoid default on loans Protect income for investment Facilitate access to credit Provide income support / supplement income
Meso	 <p>Financial institutions, Input suppliers, NGOs</p>	<ul style="list-style-type: none"> Meso-level institutions purchase insurance to protect their own portfolios and create rules on pay-outs to farmers which directly (through transfers) or indirectly (through loan forgiveness) impact farmers 	<ul style="list-style-type: none"> Opens access to new clients Manage mass defaults in case of catastrophic risk Allows innovative linkages (e.g. offtakers and input providers) to open up more opportunities
Macro	 <p>Government</p>	<ul style="list-style-type: none"> Government or relief agency with a wide spread of beneficiaries is re-insured to ensure receiving pay-outs in case of widespread disasters 	<ul style="list-style-type: none"> Opens access to early liquidity in case of disasters Protects fiscal considerations through spreading of risk

Accessing finance - the bundling model

Bundled product

Overview

Example model

1



Financial service products with MFIs / Banks

2



Seeds/fertilizers with input companies

- Financial institutions purchase insurance from intermediaries and bundle it for their customers during the loan process. The process is involuntary for farmers, thus spreading the risk, increasing access to finance and reaching a large number of farmers
- This can be at the micro or meso level. Hence for claims, on trigger of the index, a part of the loan is forgiven for the customers (in case of meso) or money gets credited to the bank accounts of farmers (in case of micro level insurance).
- Input companies purchase insurance from intermediaries and bundle it for their customers during sales of inputs before planting season. This product typically covers early stage of the crop lifecycle, due to involvement of input providers. However, this channel reaches an entire customer base and encourages farmers to invest in high quality inputs.
- On trigger of the index, farmers either get a replacement of inputs (seeds) or get money credited to mobile wallet

- **Micro.** Rural, commercial and cooperative banks in India compulsorily bundle insurance with their agriculture loans. On activation of trigger, accounts of farmers are credited with payments
- **Meso.** MicroEnsure runs weather index insurance in Rwanda for clients like KCB who take out policies before lending to agriculture sector players
- Linda Mbegu product in Tanzania which is a form of RPG insured by UAP. Farmers buy a pack of seeds from SeedCo which are insured
- On germination failure, amount spent on seeds is credited to mobile wallets of farmers

Challenges and Identified Solutions

THESE CHALLENGES REQUIRE INNOVATION AND COLLABORATION – THE OPPORTUNITY

Access to insurance because of high cost

- ACRE leverages data and technology to reduce the cost of insurance products.
- The use of digital platforms and peer-to-peer knowledge creation centers help to reduce the cost of insurance deployment operations and hence access to finance
- Advisories for best practice

Access to finance to acquire proper seeds and equipment is limited in the absence of collateral

- ACRE de-risks agri-financing company's risk by bundling loans with tailored insurance solutions.
- ACRE is using weather and agronomic data to offer value addition products such as the agri-risk scoring tool to support agri-finance decision

Lack of suitable insurance products, covering comprehensive risk events

- Research Partnerships to improve insurance products e.g. picture based index insurance and soil moisture index
- Soil Quality ?

BUSINESS CHALLENGES

Farmers do not follow best practices, and lack skills and access to agri-related information, educational resources etc.

Cash payments are risky and costly for agribusinesses and for farmers. A cash economy also prevents farmers from accessing credit savings and insurance

Farmers do not possess formal and/or economic identities that capture transactional history, geolocation, farm size etc.

Agribusinesses need full and real-time visibility for traceability and certification of goods when sourcing from smallholders

Agribusinesses rely on manual systems which do not capture the data required equipment, farm and warehouse management

Agribusinesses rely on manual data management systems and lack real-time visibility into their business data



DIGITAL SOLUTIONS

1. Information services: Agricultural extension, education, certification standards, skills development

2. Mobile money: Transfers, payments and digital financial services

3. Digital profiles: Mobile for authentication and verification and as a tool to create economic identities/ digital profile

4. Track and trace systems, farm management systems

5. IoT applications for agriculture: Equipment logistics, crop, soil and weather monitoring, smart warehousing

6. Agribusiness analytics: Predictive analytics, precision agriculture

END