The challenge and opportunity of the decade

ACCESS TO AGRICULTURAL FINANCE

World Cocoa Conference
12 June 2014
Although agriculture forms the backbone of many countries’ economies, the agricultural sector is heavily underfinanced.

In order to close the agricultural finance gap there needs to be a common language to link supply and demand

“How to structurally and systemically create an efficient and effective mainstream agricultural finance market?”

The Missing Middle is key to:
- Increase Productivity
- Lower environmental footprint
- Increase employment
- Enable graduation
This agricultural finance gap exists as a result from barriers on the demand and supply side

**Barriers on the demand side**
- Many unprofessional POs
- Small loan sizes
- Lack of collateral
- Lack of access to inputs, labor, markets, finance, services
- Too much focus on the technical side of farming, too little on business side
- Insufficient and uncoordinated support in reaching professionalism

**Barriers on the supply side**
- Profitable alternatives
- Bad past experiences
- Lack of knowledge
- Unfavorable regulations
- High systematic and firm-level risks*
- High operational costs*
- Lack of (risk management) tools

**Risk/return matrix for FIs**

- **Systematic risks** apply to every entity in a sector and are difficult to predict or prevent (weather, crop failures, etc.)

- **Firm-level risks** apply to individual organizations and can be mitigated at reasonable costs (poor governance, poor production capacities, etc.)

- **High operational costs** are caused by poor quality and availability of information, costly credit analysis processes, high monitoring costs, etc.
In order to close the gap and increase access to finance, markets, inputs and services, POs need to improve their level of professionalism.

The current agricultural sector

- **0-1**: Unprofessional, unorganized farmers, low yield
- **2**: Potential but requires significant investments
- **3**: Organized, > avg production

Majority of **unprofessional** and **unorganized farmers**

- Small **MSME segment** that:
  - Lacks access to finance, markets, inputs and services
  - Lacks collateral
  - Requires small loan sizes
  - Is insufficiently supported in reaching professionalism

Only a few **organized farmers** with large production levels

Do more professional POs have better access to finance?

**“GOOD BUSINESSES WANT TO DO BUSINESS WITH OTHER GOOD BUSINESSES”**

SCOPE scores
The SCOPE - How do you measure PO professionalism and robustness?

The SCOPEinsight assessment methodology:

- 9 chapters
- 31 subchapters
- Over 200 control points

In a range of 1 to 5 the business potential, professionalism and bankability of producer organizations in agriculture, dairy/livestock, aquaculture and forestry are scored.

The SCOPE tool measures professionalism and forms a common language between different actors.
Our products target both the supply and demand side of the market.

PROFILE profile: Business decisions

Primarily aimed at access to finance, inputs and markets.

Data, information and benchmarking for (potential) business partners:

- Financiers
- Value chain players

Gives insight in professionalism and management maturity.

ASSESSMENT report: Continuous improvement

Primarily for business development services (BDS).

Insights and benchmarking for improvement and graduation for:

- Producer organization internally
- Value chain players

Gives insight in professionalism and management maturity.

CONSOLIDATED report: Compare groups of POs

Primarily for business development purposes.

Summary and overview of key findings of an assessment project of five or more producer organizations from one customer.

Internal and external benchmarking.

Our products target both the supply and demand side of the market.

PROFILE profile: Business decisions

Primarily aimed at access to finance, inputs and markets.

Data, information and benchmarking for (potential) business partners:

- Financiers
- Value chain players

Gives insight in professionalism and management maturity.

ASSESSMENT report: Continuous improvement

Primarily for business development services (BDS).

Insights and benchmarking for improvement and graduation for:

- Producer organization internally
- Value chain players

Gives insight in professionalism and management maturity.

CONSOLIDATED report: Compare groups of POs

Primarily for business development purposes.

Summary and overview of key findings of an assessment project of five or more producer organizations from one customer.

Internal and external benchmarking.
Through the SCOPE assessment, SCOPEinsight can provide market linkages and enable more efficient and effective business development services.
Through the assessments, we can build an ecosystem that graduates POs towards professionalization and links them to finance, markets, inputs or services.

Level of professionalism

1. Assessment
   - Insight in strengths and weaknesses

2. Basic Agribusiness Graduation
   - Insight in strengths and weaknesses

3. Higher professionalism
   - Assessment & benchmarking

4. Advanced Agribusiness Graduation
   - Building track record

5. Better terms of access
   - Linking point

   FIs (banks, MFIs, NBFIs)
   - Markets
   - Inputs
   - Services

PRO ASSESSMENT

BASIC ASSESSMENT
The ecosystem transforms the agricultural sector to a more profitable and sustainable sector where POs reach their full potential and have access to finance, markets, inputs and services.

**The current agricultural sector**

1. Unprofessional, unorganized farmers, low yield
2. Potential but requires significant investments
3. Organized, >avg production

**The future agricultural sector**

1. Unprofessional, unorganized farmers, low yield
2. Organized SME farms: higher yield, close to optimal
3. Highly organized farms; optimal yield

**Professionalism**

- Majority of unprofessional and unorganized farmers;
- Unprofessional middle segment that lacks access to finance, markets, inputs and services;
- Few organized farmers with access to finance, markets, inputs and services.

- The less professional farmers are stimulated to graduate upwards;
- Relatively professional middle segment with access to finance, markets, inputs and services;
- Professional and organized POs reach the top segment.
SCOPE scores can be used for single analyses as well as for local, regional and global benchmarking.

**SCORES RANGE FROM 1 - 5**
(5 highest level of professionalism)

The Total Score is a weighted average of the scores of the nine key SCOPE chapters.

Only 15% of POs has complete documentation available and presented for assessment.

More professional POs have more documentation available.

Half of assessed POs have part of the required documentation available.

The lowest scoring POs (< 2.0) have no financial statements.

There is a clear relation between financial management and professionalism.

Scores show a lot of producer organizations with good levels of professionalism.

**Financial performance is an issue in all countries in all sectors**

Most variations can be observed in sustainability, operations, external risks.
The data can for example show the relation between access to finance and professionalism...

**ARE POs THAT HAD ACCESS TO FINANCE MORE PROFESSIONAL?**

- With A2F
- Without A2F

**DO MORE PROFESSIONAL POs HAVE BETTER ACCESS TO FINANCE?**

- 1.0 - 1.5: 15,000 (15,000)
- 1.5 - 2.0: 46,000 (26,000)
- 2.0 - 2.5: 23,000 (9,000)
- 2.5 - 3.0: 260,000 (51,000)
- 3.0 - 3.5: 396,000 (117,000)
- 3.5 - 4.0: 542,000 (187,000)
- 4.0 - 4.5: 4,200,000 (744,000)

**DO BETTER POs HAVE MORE LONG TERM LOAN NEEDS?**

- 4.6 - 5: 0% 50% 61%
- 4.1 - 4.5: 0% 59%
- 3.6 - 4.0: 53%
- 3.1 - 3.5: 0% 56%
- 2.6 - 3.0: 53%
- 2.1 - 2.5: 0% 56%
- 1.6 - 2.0: 0% 53%
- 1.0 - 1.5: 0% 50%

There is a clear relationship between access to finance and professionalism (as expressed in SCOPE scores)

A significant part of POs across all levels indicate to have a long term loan need.
... Or the relationship between certification and professionalism

Across the board certified POs score higher than non-certified POs, most notably on Sustainability, Operations and Market. Financial Performance shows no difference and is a weak area.

Producer organizations with ACCESS TO FINANCE of the ones
CERTIFIED: 50%
NON-CERTIFIED: 58%

MOST USED CERTIFICATIONS
- Fairtrade
- Utz Certified
- FSC
- Rainforest Alliance

Of assessed POs
16% is certified (n=44)

46% of certified POs has multiple certifications

Most forestry organizations are certified
Certification in other sectors in our portfolio is relatively low, except in coffee.
CENTRAL AMERICA

One of five finalists in Access to Finance Challenge ANDE-Argidius with program “Creating a mainstream market for agricultural finance by profiling producer organizations”.

EAST AFRICA

PPP program with Dutch Embassy in Kenya “Finance for Agriculture F4A” together with partner Financial Access and (local) implementation partners.

Total assessments done: **333**

*until June 2014*
Thank you for your attention

Any Questions?

Please do not hesitate to contact us for more information:

SCOPEinsight
info@scopeinsight.com
+31 (0) 30 234 82 73

www.scopeinsight.com
@SCOPEinsight
SCOPEinsight