

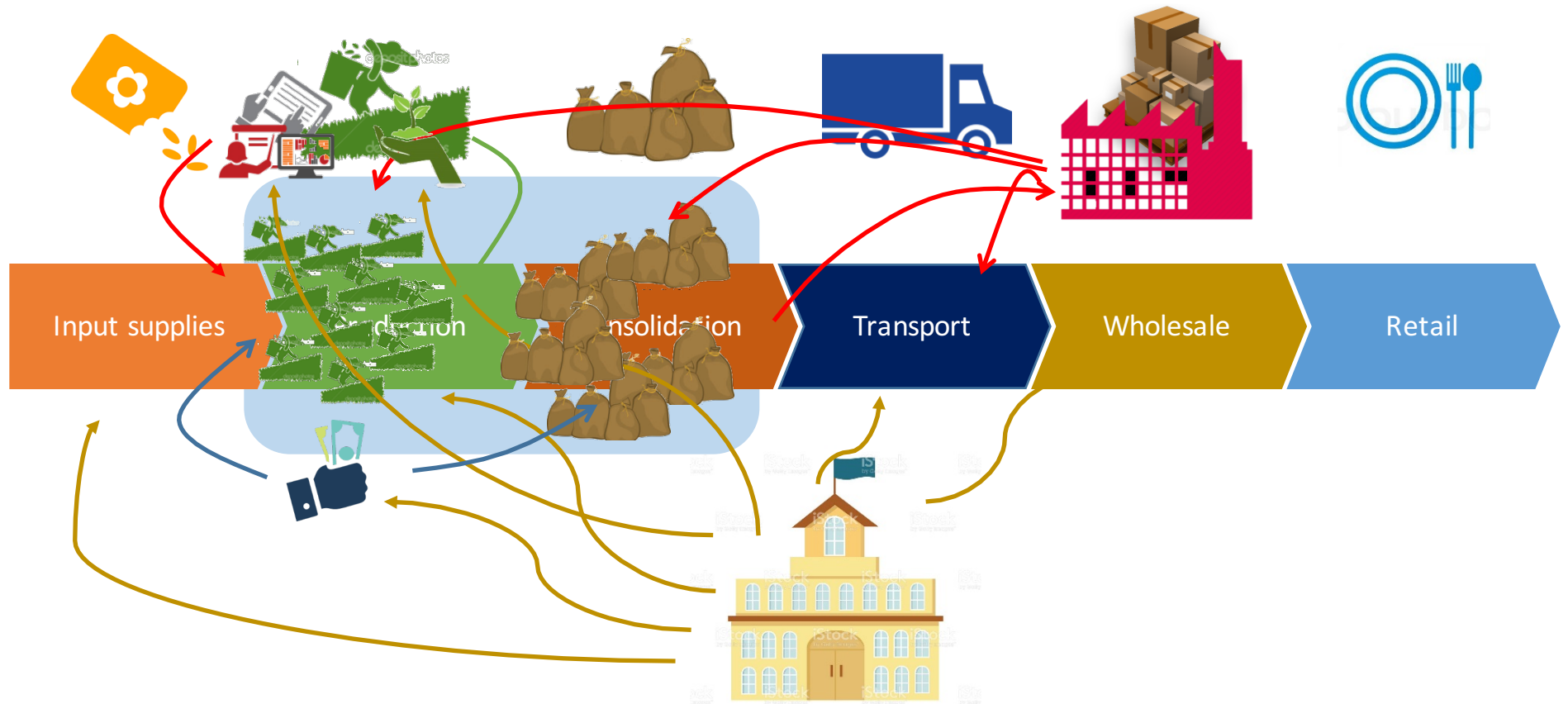
2018 MCPI Annual Conference
Going Back to Basics
26 – 27 July 2018 | Century Park Hotel Manila



Issues and Opportunities in Value Chain Financing / Rural Finance

Danilo A. Songco
President and CEO
PinoyME Foundation

Inclusive Value Chains



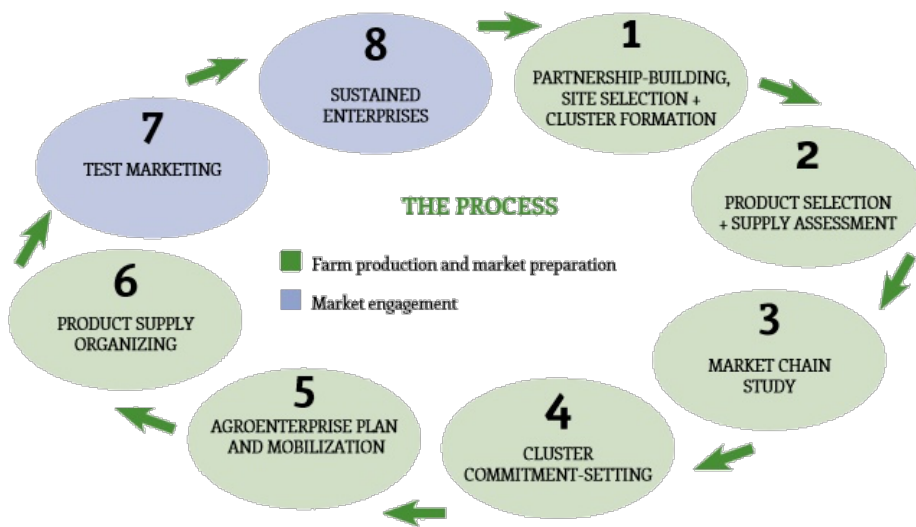
REQUIREMENTS OF SMALL FARMERS TRANSACTIONS WITH INSTITUTIONAL MARKETS



Approach to consolidation



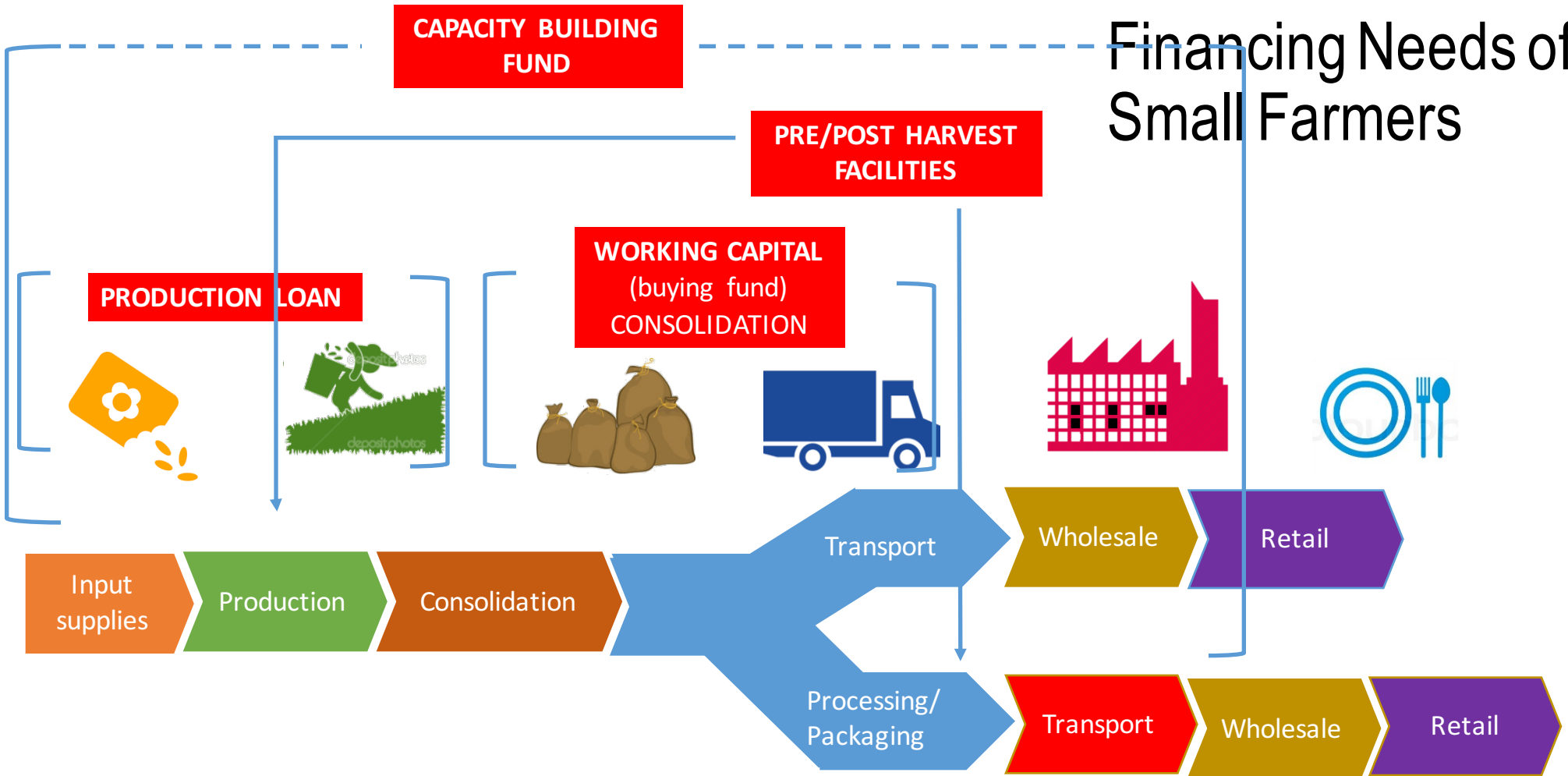
The 8-Step Approach to Agroenterprise Development



Rural Enterprise Acceleration Program (REAP)

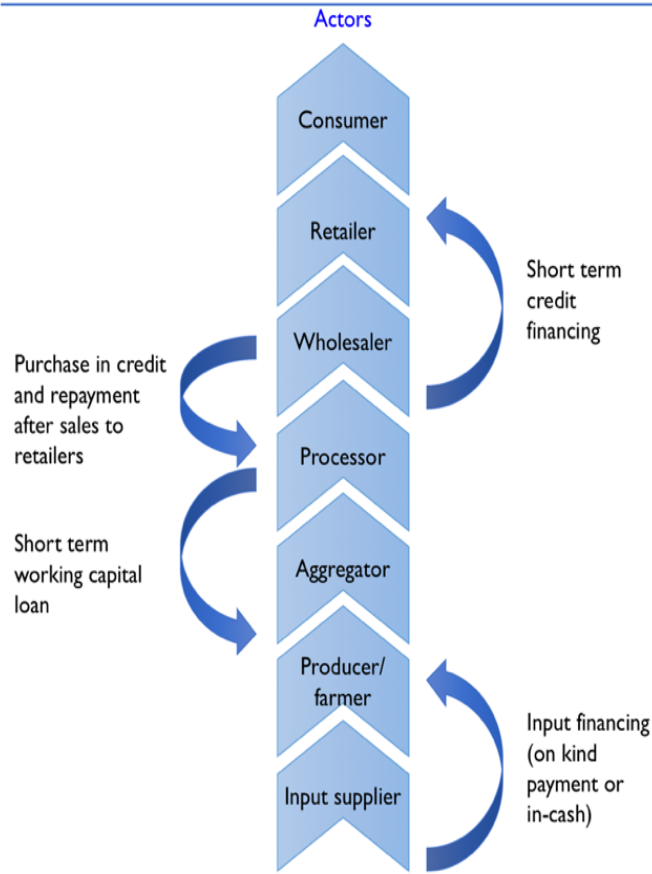
CONSOLIDATION	BUSINESS SYSTEMS DEVT	INSTITUTIONALIZATION	COMMERCIALIZATION
Feasibility analysis	Financial systems devt	Business registration	Value-addition
Value Chain study	Policies, systems and procedures	Manuals devt	Membership expansion
Market linkage	Business model devt	Stable markets	Commercial investments
Cluster organizing	Productivity enhancement	Leadership devt	
Test marketing			
Month 1 – Month 9	Month 10 – Month 18	Month 19 – Month 27	Month 28 – Month 36

Financing Needs of Small Farmers

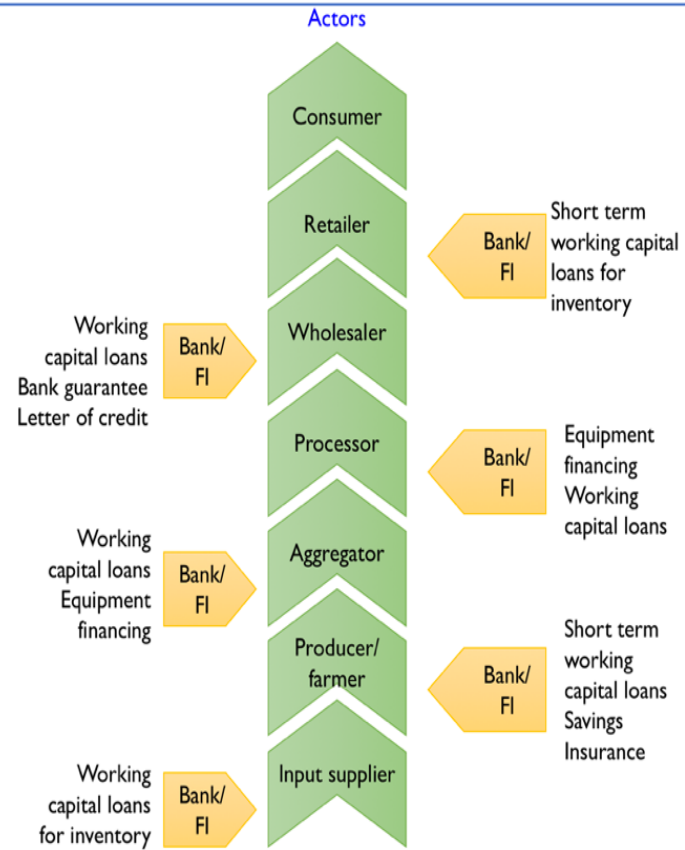


Value Chain – Agricultural Finance Linkage

Without external finance



With external finance



Credit Gap, 2014 estimates (in PBillion)

Major Commodity	Credit Requirement (PBillion)	Supplied by Banks (PBillion)	Credit Gap (PBillion)
Rice & Corn	226.7	56.1	170.6
Coconut	78.3	6.1	72.2
Sugarcane	29.8	14.3	15.5
HVCC ¹	80.3	37.7	42.7
Livestock & Poultry	88.1	37.6	50.5
Fisheries	21.7	6.5	15.2
Total	524.9	158.3	366.6

¹ HVCC include abaca, cassava, rubber, mango, coffee, banana, durian, lanzones, mangosteen, durian, oil palm, and other vegetables such as cabbage, onion, carrots, tomato, eggplant, white potato, cauliflower, broccoli, and habitchuelas

NOVEMBER
24-25

MARRIOTT GRAND BALLROOM



Compliance to Agri-Agra Law (RA 10000) (in billion peso)

As of June 30, 2017	All Banks	Uni / Com	Thrift	RB/Coop
A. Total Loanable Funds	3,813.986	3,578.941	178.810	56.235
B. Minimum Requirement:				
10% Agra	381.399	357.894	17.881	5.624
15% Agri	572.098	536.841	26.822	8.435
Total	953.497	894.735	44.703	14.059
C. Agra Compliance				
Amount	39.519	28.531	3.132	7.856
Rate	1.04%	0.80%	1.75%	13.97%
D. Agri Compliance				
Amount	504.439	472.255	16.816	15.369
Rate	13.22%	13.20%	9.27%	27.34%
E. Total Compliance				
Amount	543.959	500.787	19.948	23.224
Rate	14.26%	13.99%	11.16%	41.30%
Direct: Alternative	50: 50	47:53	68:32	92:8

BANKING ON INCLUSIVE RURAL ENTERPRISE DEVELOPMENT

LEAD ORGANIZER:

PARTNERS:



Agrifinancing Conundrum

OPPORTUNITIES

- Increasing demand for high value crops and commodities
- High priority of government
- Increasing private interest
- Large supply of funds from agri-agra compliance
- Increasing popularity of Inclusive Business models
- Several initiatives in linking small farmers to big markets

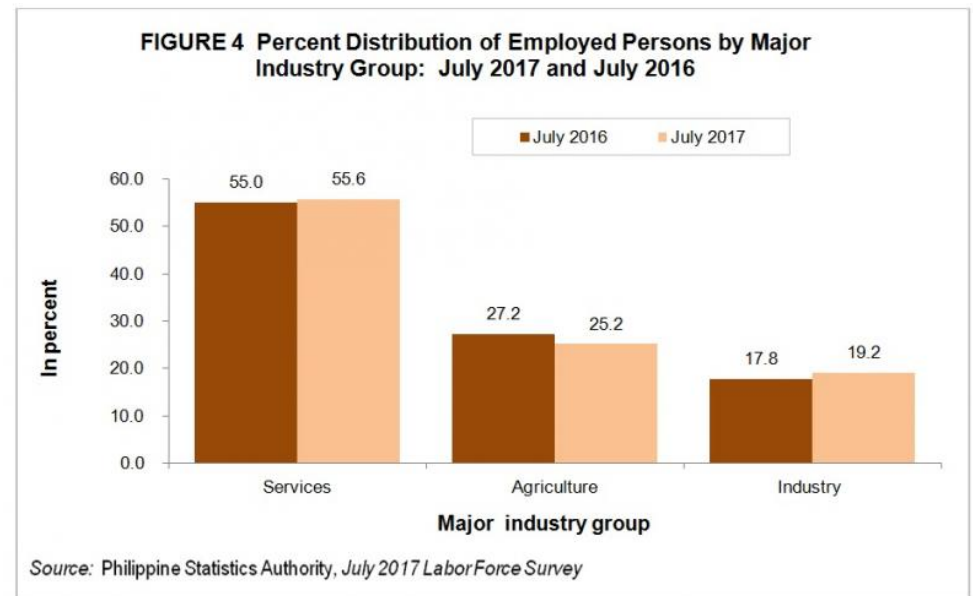
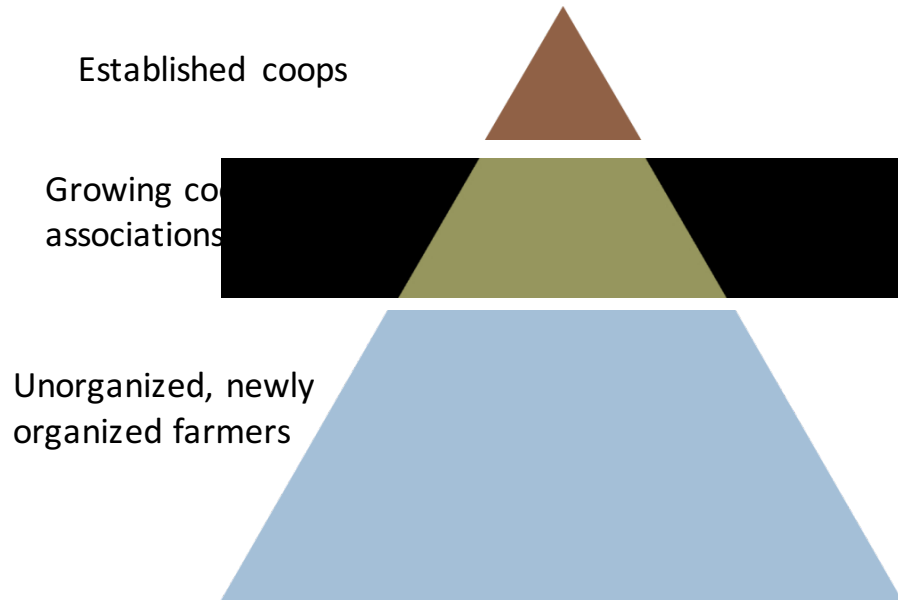
RISKS

- Low productivity
- Pests and natural disasters
- Price volatility of agriculture products
- Lack of scale in supply of small farm products
- Farming not profitable
- Poor management of farms
- Unsecured loans
- Land conversion

COSTS

- High transport/logistics cost
- High cost of credit delivery (small amount of loans)
- High cost of organizing and capacity building of farmers

Demand side of Agrifinancing



Credit enhancements and their challenges

GOVERNMENT

Credit Guarantee - AGFP

Limited crop coverage
High qualification criteria for
financial institution

Crop Insurance - PCIC

Low capitalization
Limited crop coverage
Slow pay-out

PRIVATE SECTOR

Crop Insurance – CARD - PIONEER

Limited coverage
Expensive

Emerging insights on Agrifinancing

Agrifinancing is not just credit. It has to be combination of financial and non-financial products and services.

Agrifinancing cannot be all commercial. There needs to be subsidies for organizing and training farmers to create economies of scale

Subsidy needs to be managed so that it leads to commercialization instead of dependence

Commercial banks want to address the credit gap but: 1) need credit enhancements to manage the risks and costs of lending to small farmers, 2) intermediaries

Government credit enhancement efforts are too little and/or inefficient. We need to consider private sector credit enhancements (e.g. multilateral institutions credit guarantees and commercial crop/micro insurance)

Addressing financing needs of small farmers needs to be a multistakeholder and collaborative engagement