

CIIP COMPETITIVE INDUSTRIES AND INNOVATION PROGRAM

CIIP Round Table on Competitive Industries

World Bank

KAMPALA

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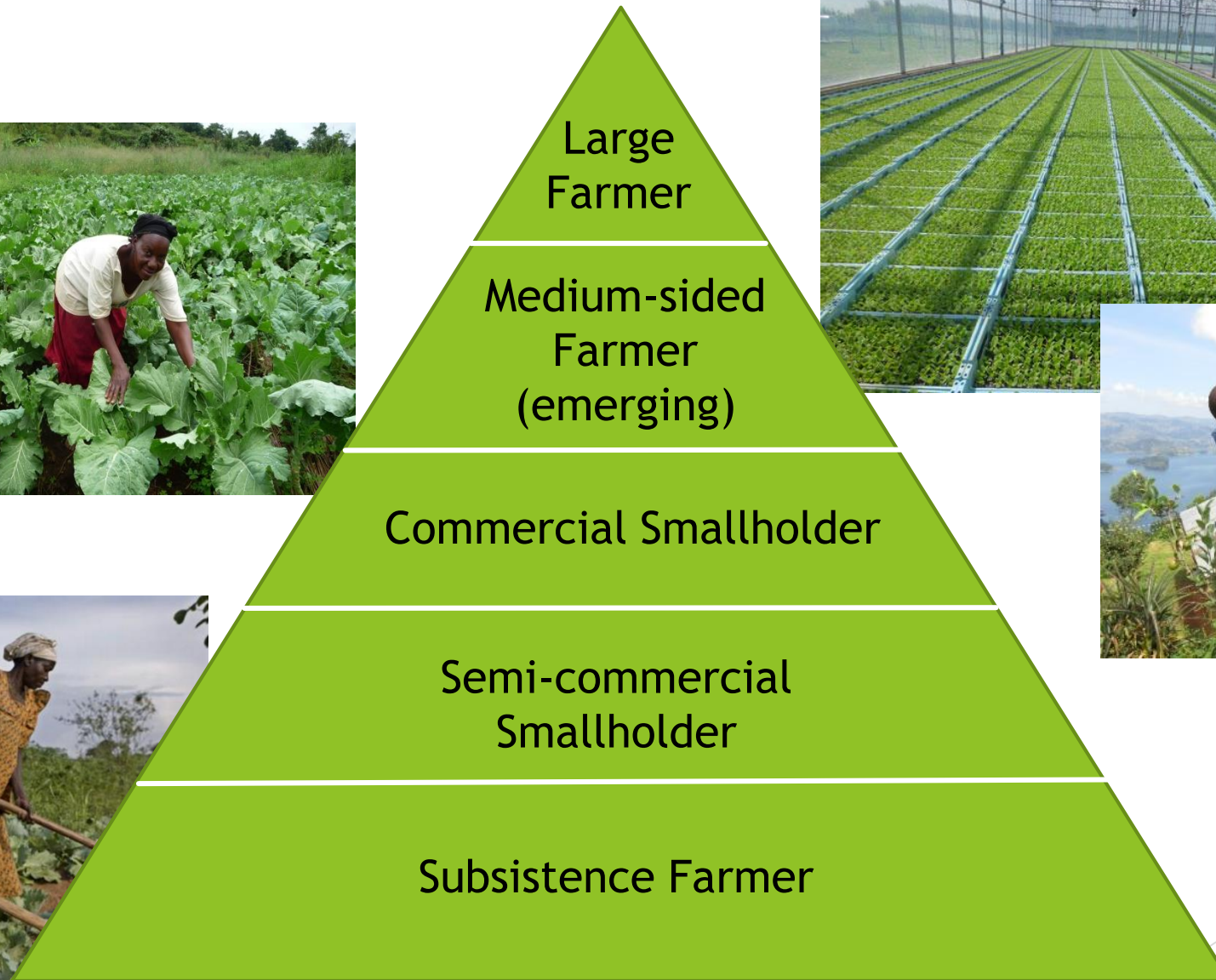


WORLD BANK GROUP

INTRODUCTION

- Agriculture contributes 23.5% of GDP in FY 15/16
- Accounts for 48% of exports
- Employs 73% of populations aged 10 years and above
- Comprises of small scale ,low technology farmers and low investments
- Largely rain fed

FARMER SEGMENTATION



KEY CHARACTERISTICS OF FARMER SEGMENTATION

Subsistence Farmer

Land	Size of the cultivated land is relatively small, e.g. <2ha
Labor	Primarily family labor
Technology	Low technology, little access to knowhow
Resources	Limited resources, e.g. capital, skills, labor, risk management etc.
Production	Subsistence commodities, with part of their income from off-farm activities
Capacity	Limited capacity of marketing, storage, and processing
Value Chain	Extremely limited, no linkages to supply chains

KEY CHARACTERISTICS OF FARMER SEGMENTATION

Semi-commercial Smallholder

Land	Size of the cultivated land is relatively small, e.g. <2ha
Labor	Primarily family labor
Technology	Low technology, little access to knowhow
Resources	Limited resources, e.g. capital, skills, labor, risk management etc.
Production	May produce subsistence or commercial commodities, with on-farm and off-farm sources of income
Capacity	Limited capacity of marketing, storage, and processing
Value Chain	Often vulnerable in supply chains

KEY CHARACTERISTICS OF FARMER SEGMENTATION

Commercial Smallholder	
Land	Size of the cultivated land is small, 2 - 20ha
Labor	Primarily family labor
Technology	Minimal mechanization
Resources	Mainly informal finance
Production	Partly commercial, at least one cash crop
Capacity	Marketing through group structures
Value Chain	Position depending on group strength

KEY CHARACTERISTICS OF FARMER SEGMENTATION

Medium-sized Farmer

Land	Cultivated land is medium-sized, 20 - 500ha
Labor	Combination of family members and external labor
Technology	Partly mechanized
Resources	Limited access to formal bank loans
Production	Largely commercial
Capacity	Reasonable market access but limited access to information
Value Chain	Weaker position, stronger in cash crops

KEY CHARACTERISTICS OF FARMER SEGMENTATION

Large Farmer

Land	Size of the cultivated land is large, >500ha
Labor	Mainly depending on skilled labor
Technology	Fully mechanized
Resources	Formal bank loans and or external capital, skilled management
Production	Fully commercial and often dollarized
Capacity	Good market access, own storage/logistics, and market information
Value Chain	Well positioned within the value chain

DEMAND FOR FINANCING

- Who gets financing?
- What are the characteristics and constraints subsistence farmers, semi-commercial smallholder, commercial smallholders, medium-sized farmer (emerging) and large farmers face?

SUPPLY FOR FINANCIAL SERVICES

- Commercial banks
- MFIs and SACCOs
- ROSCAs
- Friends and relatives
- Government budget resources(ACF)

CHOICE OF SERVICE PROVIDER

Drivers of Uptake per Service Provider		
Provider	Main Driver	Secondary Driver
Banks	To save	Process salaries/wages
MFIs	To get credit	To save
SACCOS	To save/buy shares	Turn to them when in financial need
Mobile money operators	Had to receive money	Had to send money

CONSTRAINTS TO ACCESSING FINANCING

- Low productivity (low quality inputs) and loose value chains
- Lack records to establish performance of their operations
- Limited business skills, e.g. book keeping, business plans/accounting and so lack the capacity to develop and prepare bankable business plans
- Lack of collateral, e.g. land and buildings
- Absence of movable assets registry, despite Chattels Act 2014
- Absence of appropriate crop insurance—MFIs bundled credit insurance not sufficient, though some other attempts are in progress (aBi) Trust and Government
- Inadequate market information
- Financial literacy

FINANCING FARMERS

Several financing models are available that can be used to lend to farmers including:

- Direct smallholder lending, indirect lending through coops/farmer organizations
- Emerging farmer business finance
- Savings account input finance
- Financing movable assets
- Equipment finance
- Leasing
- Warehouse receipts

FINANCING FARMERS CTD

- Collateral management financing
- Financing farmers value chains
 - Tight value chain financing(with output buyers)
 - Loose value chain financing (with output buyers)
 - Out growers schemes
 - Value chain financing with input suppliers
- Factoring
- Trade finance

ISSUES & CHALLENGES

- Lack of appropriate products menu that fit the agricultural cycle
- Inadequate staff skills regarding agricultural sector
- Branch network inadequate to cover the remote areas
- Lack of strong repayment
- Lack of adequate documentation from borrowers

RISK MITIGATION MODELS

- Personal insurance
- Production risk insurance for farmers
- Weather insurance for contract farmers
- Commodity price risk management
- Partial guarantees
- Insurance (crop peril, weather index based)
- Tight VCF

OTHER SUPPORTING INFRASTRUCTURE

- Collateral registries and insolvency regimes
- Credit Reference Bureau
- Auditing and accounting standards
- Platforms (eg Pakistan Punjab State)

DISTRIBUTION MODELS MECHANISM

- Branchless banking
- Mobile payment
- Mobile banking