

MOVING THE NEEDLE

**Critical Success Factors for Scaling
Innovation in Asset Finance for Small and
Growing Agribusinesses**

With case studies from Kenya, Guatemala and India

Jack Luft and Tim Chambers

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Executive Summary

The investment opportunity in agribusiness assets in emerging economies runs into the billions of dollars. The social and environmental benefits that can be gained by reducing food losses, increasing employment and enterprise sustainability, as well as empowering women and rural communities, are equally significant.

According to the Initiative for Smallholder Financing (ISF) “formal financial institutions meet less than a sixth of the \$200 billion in demand for financing from smallholder agribusiness globally. Bridging that gap between supply and demand will require ongoing innovation at the business model level. Asset financing is one form of finance that is quickly emerging as a promising new model with a growing number of providers diversifying into the sector. As is highlighted in ISF’s recent report, the ongoing need for progressive partnerships will be key to developing sustainable and scalable models”.

Acquiring technology means that Small and Growing Businesses (SGBs) in the agribusiness sector need capital, but fall into the ‘missing middle’ in agricultural finance. This is a result of being seen as too small and too risky to most financial service providers (FSPs), who resort to high collateral requirements that rural entrepreneurs often don’t have or charging inflated ‘risk-premium’ interest rates that are unaffordable.

Asset finance offers SGBs a pathway to unlock capital. This pathway, according to the 75 participating FSPs and industry experts who work at the ‘coal-face’ of asset finance in Kenya, Guatemala, India and other regions of the world, is based on a set of three critical success factors.

In developing economies these critical success factors can be substituted for by the use of risk mitigating mechanisms like guarantees (such as ‘first-loss’ and ‘buy-back’ guarantees), where these success factors are absent. However, this report focuses on the underlying success factors that drive scale in asset finance, and the innovations that are emerging across the three case countries.

Firstly, the asset must be liquid in order to act as collateral for the finance.

The advantage that asset finance gives over other means of finance is the ability to use the asset being purchased as security. Without collateral, many SGBs must put up personal assets or find guarantors for their financing needs.

In Kenya, Guatemala and India, many of the market and regulatory factors that enable assets to be liquid (retain their value and to be resold) do not exist, meaning that FSPs might be less likely to recover their investment should the SGB default. Innovation in the focus countries is focused on nascent technology markets and experimentation with asset finance business models, but is still reliant on guarantees to overcome these market failures.

Secondly, SGBs and FSPs must focus on cash flows to calculate financial viability and creditworthiness.

Cash flows provide one of the strongest financial indicators of both of the historic creditworthiness of an SGB and the future viability of an asset investment.



In Kenya, Guatemala and India, SGBs tend not to have the technical capacity to demonstrate these cash flows effectively, and building a robust cash flow model requires collaboration between the SGB and the FSP. Innovation in the focus countries shows that some FSPs are applying capacity development support directly to their SGB clients, and standardization of due diligence and credit assessment processes in other cases is yielding positive results.

Thirdly, the SGB must have a stable and secure market for the expected outputs of the asset.

In the agriculture sector there is no tradition of secure contracts. In order to create positive incentives for the FSPs, embedding the SGB in strong value chains is important to ensure a stable stream of revenues arising from the assets. Innovations are showing how the private sector is taking initiative in establishing clear purchase agreements in structured value chain alliances, and FSPs are involving value chain buyers in the asset finance transaction itself.

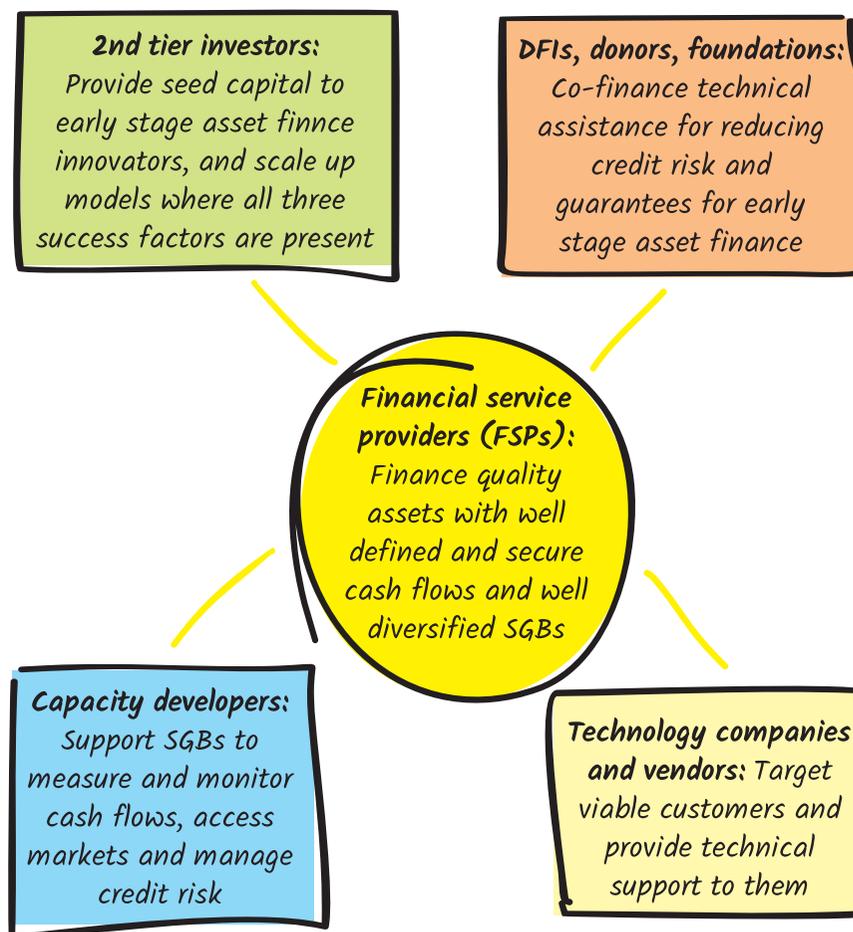
Finally, network organisations have an ecosystem coordination role to play between technology companies, FSPs and value chain actors.

Without this coordination the cost of collaboration can be high and be affected by information gaps and time delays. The Aspen Network of Development Entrepreneurs (ANDE) and the Global Impact Investing Network (GIIN) group together impact investors, foundations, NGOs, DFIs and business development service providers, the necessary components of an asset finance ecosystem. The Sustainable Food Lab works with a vast network of major purchasers of agricultural and

food products. All three networks are ideally positioned to facilitate and foster cooperation across the ecosystem.

A functional ecosystem is central to generating scale in the asset finance sector. Structural challenges facing asset finance cannot be overcome in isolation, and require collective efforts and coordination in the ecosystem. The model below summarises key roles for the main actors of the asset finance ecosystem, followed by detailed recommendations for these capacity developers, 2nd tier investors, donors, DFIs and foundations, technology companies and vendors, and the financial service providers at the coal-face.

AN EFFECTIVE ASSET FINANCE ECOSYSTEM



CRITICAL SUCCESS FACTORS FOR SCALING INNOVATION IN ASSET FINANCE FOR SMALL AND GROWING AGRIBUSINESSES



SUCCESS FACTOR 1: ASSET LIQUIDITY

STRATEGIES TO INCREASE THE USE OF THE ASSET AS COLLATERAL

Technology companies and distributors

- Provide SGBs with high-quality training and operating manuals for the equipment use
- Establish a network of maintenance and service providers
- Provide 1-2 year warranties on technology and sell extended warranties to customers
- Create secondary markets for equipment by partnering with online trading platforms or by selling used technology directly to customers

Financial service providers and capacity developers

- Finance products that meet international standards for quality and reliability
- Require that borrowers take out insurance policies or pay for extended warranties on their assets
- Align loan repayment periods with warranties or service contracts
- Gauge the ability of the vendor to re-sell the assets or use buy-back agreements

Foundations, donors and DFIs

- Provide seed capital in the form of co-financed grants or equity positions to technology companies to foster innovations that enhance asset liquidity
- Work with existing online platforms to diversify offering and bring technology vendors together to create a marketplace for information on, and trade of, machinery and equipment.

SUCCESS FACTOR 2: SGB CAPABILITY

MECHANISMS TO ASSESS CREDIT WORTHINESS

AND IMPROVE MANAGEMENT CAPACITY

Technology companies and distributors

- Generate deal pipeline by recommending creditworthy SGBs to FSPs
- Experiment with new payment mechanisms, such as pay-as-you-go devices and mobile payments to facilitate the collection of lease or loan payments

Financial service providers and capacity developers

- Provide support to help SGBs improve their financial management, such as reconstructing cash flow records and basic finance management
- Include projected cash flows that the financed equipment is expected to generate when evaluating a potential borrower's creditworthiness
- Utilise purchase orders, letters of intent and interviews with a business' off-takers to help measure the strength of its market linkages and thus its creditworthiness
- Collaborate with accelerator programs and credit assessment providers to help ensure they are providing SGBs with the type of support that will make them creditworthy borrowers

Foundations, donors and DFIs

- Co-finance short-term credit guarantees for new and innovative funds, with the purpose of reducing collateral requirements
- Co-finance FSPs to cover additional costs and services as they scale innovative business models
- Co-finance technical assistance windows for business development services that approved financial service providers can access as well as participate in their design (such as I-DEV, TechnoServe and online marketplaces like lendablemarketplace.com)
- Facilitate the development of promising alternative credit assessment techniques with grant capital to finance the piloting of new models (e.g. SCOPEInsight)

SUCCESS FACTOR 3: MARKET ACCESS

TOOLS TO ENHANCE THE ACCESS AND STABILITY

OF THE MARKET FOR THE OUTPUT OF THE ASSET

Technology companies and distributors

- Target organized value chains and work with buyers to target investment-ready SGBs
- Provide manageable payment terms to customers that guarantee repayment but also provide them with needed flexibility in the early stages of using the new asset
- Monitor commercial use of the asset and inform the financial service provider of any potential red flags that could affect repayment

Financial service providers and capacity developers

- Target SGBs whose supply base is diversified and whose suppliers have access to irrigation and other production technologies that mitigate pure agricultural risks
- Target SGBs that have diversified sources of income or work with products that provide hedging (e.g. dairy in domestic markets and horticulture for export)
- Match loan repayment schedules with the cash flow cycles of SGBs
- Provide grace periods on the interest or the principle of loans if there is a lag between an SGB's acquisition of the equipment and generation of new cash flows or if production fails

Foundations, donors and DFIs

- Foster partnerships along high-potential value chains to de-risk SGBs at scale in collaboration with key sector associations such as the Sustainable Food Lab
- Co-finance short-term credit guarantees or insurance policies to mitigate temporary repayment problems that result from agricultural or market risks
- Co-finance technical assistance facilities that help SGBs diversify their agricultural production or scale up the value chain

The Asset Finance Opportunity for Small and Growing Agribusinesses

ASSETS GROW AGRIBUSINESS SGBS

“We focus on technology because it transformed agriculture in the Western world”¹

McKinsey values the agribusiness investment opportunity for storage infrastructure in emerging markets at over \$50 billion, with ‘high’ rates of return of over 12% in the period up to 2020 - three to four times higher than current global GDP growth rates².

According to their report an estimated 30% of agricultural production in Africa and Asia is lost in post-harvest processes, with availability of infrastructure (such as storage facilities and energy access) cited as a critical bottleneck. Small and Growing Businesses (SGBs) that acquire cold chain technology can reduce their post-harvest losses dramatically, and adding value to this raw agricultural product represents a proven path for SGBs to increase their income and sustainability.

A recent worldwide study of successful agribusiness SGBs found that the ones that experienced the highest levels of income growth of 80 – 140% over one year, all relied on some form of productivity-enhancing technology³.

As many of these SGBs are locally owned and operated, profits and jobs created stay with the farmers and their local community. For this reason many of the impact investors interviewed actually require that the SGBs source their raw materials from smallholders⁴. Furthermore, a recent study found women’s control

of productive assets is ‘associated with positive development outcomes at individual and household level’⁵.

In order to acquire the technology necessary to move up the value chain and take advantage of this investment opportunity, most SGBs need to access finance.

THE MISSING MIDDLE IN ASSET FINANCE

“The root of the problem is that lenders tend to offer only a limited menu of products, mainly with heavy collateral requirements”

The financing gap for SGBs globally is estimated to be \$2 trillion, and is even more acute for those operating in the agribusiness sector⁶. A significant contributor to this is the lack of asset collateral.

Despite the investment opportunity and social benefit described above, few SGBs in developing countries are able to obtain the finance they need, and fall into what is known as the ‘missing middle’. Their financing needs are too large to be met by microfinance institutions, but “too small, too risky, and too remote to receive financing from conventional banks”⁷.

Studies on financing assets in the agribusiness sector have focused only on ubiquitous farming equipment such as tractors and combine harvesters, and many successful financing solutions for farming machinery have had to rely on significant government support to

1 Shah, 2016
2 Lutz, Horii and Sanghvi, 2015
3 Hystra, 2015
4 Srivatsa, 2016; Mathur, 2016

5 Nancy L. Johnson et al. 2016
6 ANDE 2014
7 Milder, 2008, p.2



scale up⁸. Financial Service Providers (FSPs) find assets like tractors easier to finance as they are moveable and have widespread secondary (resale) markets. This allows them to secure loans for tractors or other assets against the asset itself, acting as its own collateral.

These existing asset finance models however are not working for a wider range of agricultural and post-harvest technologies. In many developing countries these assets are reported to have rapid depreciation rates and weak or non-existent secondary markets (such as auctions or online marketplaces), making it difficult to calculate the value or to offload the asset if necessary.

THE PURPOSE AND APPROACH OF THE RESEARCH

“The first innovators able to finance assets for small agriculture businesses will be well placed to take advantage of a large market”⁹

The research set out to answer three simple questions regarding the availability of asset finance for SGBs, with a focus on Kenya, India and Guatemala:

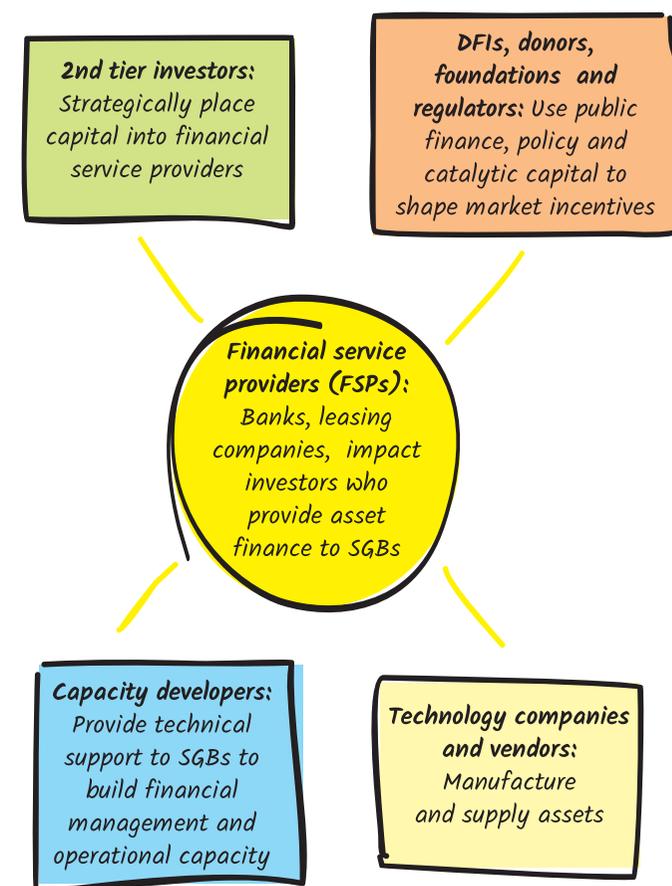
1. What are the common challenges limiting availability of asset finance?
2. What innovations are addressing those challenges?
3. What critical success factors can help to scale these innovations?

Interviews and round table events during the course of 2016 were held in Kenya, India and Guatemala. Research was also conducted with 50 FSP organisations and a further 25 representatives of foundations, business accelerators, technology companies, technical assistance providers and NGOs that actively participate in the asset finance ecosystem (see Section 6 for participant details). As the literature on asset finance is extremely limited, extracts from existing research are modest.

DEFINITIONS AND SCOPE OF THE REPORT

1. **Asset Finance:** Leases or loans that are secured by the asset being financed.
2. **Small and Growing Business (SGBs):** A category of enterprises whose owners or members are seeking capital to grow the business, this includes private companies and cooperatives but excludes individuals and non-commercial entities.
3. **Finance range:** The report focuses a range of \$1,000 to \$250,000, deemed ‘affordable’ for typical agribusiness SGBs and inclusive of both small and larger items of machinery and equipment.
4. **Types of technology:** This report is ‘technology-agnostic’, however illustrations of cold chain and renewable energy technology such as solar irrigation and cold storage facilities have been referred to without mentioning specific brand names.
5. **Asset finance ecosystem:** A subset of stakeholders from the finance, capacity development and public and service sector that support SGBs (see Figure 1 alongside).

FIGURE 1: A MODEL ASSET FINANCE ECOSYSTEM



Critical success factors in asset finance

This report reflects the opinions of people who represent the 'coal-face' of asset finance in agribusiness. Attracted by the potential for economic gains or social impact in rural areas, a number of FSPs have been developing innovative approaches to meet the agribusiness SGB demand for productive assets. Scale however still eludes many.

Based on initial research findings, participating asset finance practitioners (the 50 FSPs in the sample group) were asked to rank eight factors on a scale of 1 to 5 that were found to influence scale of asset finance.

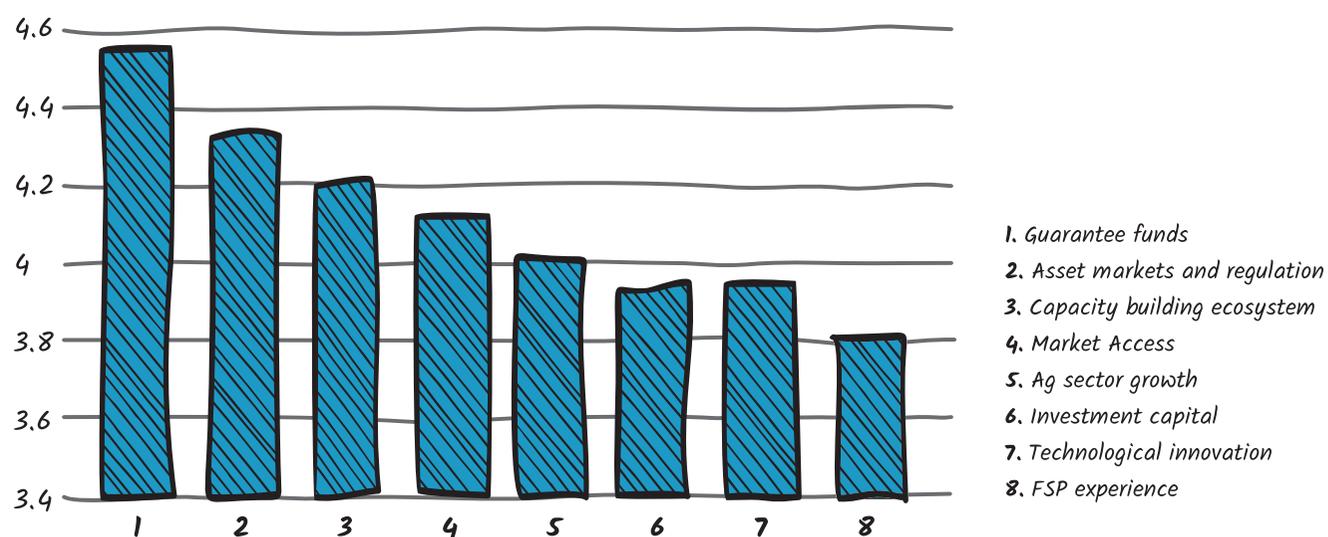
The top ranked result was the availability of guarantee funds, followed by financial regulations, capacity building and entrepreneurship.

There is no clear evidence of the effect of guarantees on generating scale in asset finance, some FSPs claim that guarantees "don't get used", "don't reduce cost of capital", essentially acting as a "band-aid" and are used to substitute or compensate for the absence of other critical success factors.

The use of guarantees should however not be discarded as they serve a purpose in plugging 'market failures', particularly in the early stage of establishment and growth of asset finance innovations.

For the purpose of this report a focus on the following three factors will be taken in order to understand the underlying conditions that either make guarantees necessary, or that are generating innovations that look to solve the problem.

SUCCESS FACTOR RANKING BY RESEARCH PARTICIPANTS



Asset markets and regulations impact upon the ability to use the asset itself as collateral.

Capacity building ecosystem refers to the availability of technical support to SGBs to be able to effectively measure and manage their cash flow, and to demonstrate their credit-worthiness.

Market access refers to whether the SGB has managed to build a secure, diverse and stable market for the outputs generated by their asset.

CAN THE ASSET BE USED AS COLLATERAL?

“The difficulty with financing machinery is the recovery. If for some reason the business turns bad or goes into bankruptcy you have to take the machinery as collateral”

A key benefit of asset finance, besides the possibility of keeping long-term assets off the balance sheet, is their ability to act as their own collateral.

In the following table, research participants point to a number of more detailed criteria that make an asset ‘liquid’ and thus valuable as collateral:

Collateral criteria

Effect on Asset Liquidity

Quality and reliability

The asset must outlive the loan term and function effectively (have a ‘useful life’) to generate a return on investment for the SGB

Resale value

Change in asset value over time must be balanced against loan repayments and required returns on investment

Secondary markets

Where resale value can be identified and the asset can easily be re-sold

Asset registry

The asset must be traceable

Regulatory frameworks

Regulations must allow for the asset to be repossessed

The liquidity of an asset, its ability to retain a recognized or verifiable ‘market value’ based on the presence of secondary markets, and the ability to repossess the asset are the principle conditions that allow financial institutions to secure loans with the asset.

Financial service providers in all three countries report that depreciation rates for agricultural assets are rapid (assets lose their value quickly) and as a result that secondary markets (such as auctions, classifieds and online marketplaces) are absent or weak for agricultural, post-harvest and renewable energy technologies, and are left uncertain that they could resell these types of assets for anything other than their scrap value.

Faced with this array of risks and costs for securing loans or leases with the asset itself, FSPs have instead protected themselves with a combination of high collateral requirements and elevated risk premiums.

While effective in reducing risk on paper, in practice, both tools shut out much of the potential SGB market segment. Few SGBs are able to provide collateral to meet the requirements, often worth over 100% of the value of the asset, and the entrepreneurs that provide collateral often must put up their own assets, such as family homes and private vehicles. Many other financial service providers have avoided the problem simply by not financing these types of assets at all.

Leasing companies are able to substitute collateral with a down-payment from the entrepreneur, but for larger items, or where no secondary market exists, leasing companies may resort to transferring the credit risk to the vendor in the form of a buyback guarantee, or use first loss or other guarantees from development finance institutions or foundations.

CAN THE SGB DEMONSTRATE A CAPACITY TO EFFECTIVELY UTILIZE THE ASSET?

“Risk assessment is a huge bottleneck in agricultural finance. Most banks don’t know how to handle agricultural risk, and they’re reluctant to invest in figuring it out”¹

Elevated risk premiums are partly the result of information gaps that make it difficult for them to distinguish the real risks of providing asset finance to agribusiness SGBs from perceived ones. According to the IFC (2), the presence of a credit bureau, whether formal or informal, results in reduced interest rates for borrowers.

The scarcity in rural areas of business development assistance and other services however has important consequences on the supply of asset finance for agribusiness SGBs, and the lack of easily accessible, quality data on the assets, the SGBs and the market risks they face make the vetting process costly and difficult.

A key advantage of asset finance is the ability to calculate expected future cash flows against the asset. However, SGBs in the sector are said to operate with a high degree of informality, even if registered, and lack formal financial records, particularly cash flows, and have limited credit histories. Even when SGBs keep financial data the accuracy of the projections of costs and revenues for the acquisition and utilization of the asset is will always be questioned in detail during due diligence.

Agribusiness SGBs looking to expand into value-added activities are often perceived by financial institutions to be extremely risky as a result of their history of trading raw, unprocessed goods, at thin margins and without fixed assets. This often questions the capability of the owner and their employees to plan the cash flow and to operate the new machinery or equipment properly.

DOES THE SGB HAVE A STABLE, SECURE AND DIVERSE MARKET FOR THE OUTPUTS OF THE ASSET?

“I’d like to know where that business gets its chickens from and where they offload the processed product. If the SME has covered those two aspects, then I can lend to them for equipment”²

Asset finance exposes financial service providers to a combination of agricultural and market risks over multiple years, while assets pay back.

Many SGBs lack formal relationships with buyers (off-takers) along the supply chain, leaving FSPs exposed to volatile markets, particularly where the SGB is focused on a single market such as dairy, which can see significant price fluctuations throughout the year.

This risk is greater than short-term loans for inputs and working capital that are more common in the agribusiness industry. Furthermore, as it is essentially a once-off transaction, the transaction cost is relatively high and escalates the risk factor.

Some agribusiness SGBs are only a step removed from farming, and tend to have a relatively undiversified source of local suppliers. This can still leave them highly exposed to local weather-based risk, often with limited access to any insurance.

Compounding these risks, agribusiness SGBs face currency fluctuations, which can affect their ability to repay dollar-based loans or leases and payments on imported machinery. This can be particularly difficult for international impact investors and FSPs facing currency mismatches and volatility, and a lack of affordable hedging options.

Innovations in Asset Finance: Learning from Kenya, Guatemala and India

The following country studies highlight the innovative approaches that a number of pioneering financial institutions are developing to address these risks and challenges in a more efficient way so as to achieve scale.

THE STATE OF THE ASSET FINANCE MARKET IN KENYA

“In Kenya, banks can make money elsewhere so why should they enter such a difficult market?”¹

This research managed to reach the majority of the FSPs providing asset finance in Kenya. Collectively however, participating FSPs made only \$3 million of transactions with SGB clients for agricultural technology in 2015.

FSPs in Kenya struggle to reach rural SGBs at scale and go beyond the high collateral and risk-premium approach to risk management. Impact investors and DFIs are active but most still favour minimum investments of well above \$250,000.

“A lot of equity investors don’t go below \$1 million [per deal] and like to do \$2 to \$3 million. Not a lot of businesses in Sub-Saharan Africa can absorb that type of debt. However, a lot of businesses could absorb \$40-\$50k...” Petty, 2016

The following table provides an indication as to the structure of the sector in Kenya, average size of transactions and repayment periods and demand for collateral for asset finance:

ASSET FINANCE PROVIDERS IN KENYA (PARTICIPANTS ONLY, AUTHOR’S ANALYSIS)

Financial Service Providers	Min-max range	Average Size	Collateral required?	Finance period
Equity Bank, Chase Bank Kenya, Family Bank, Root Capital, Oikocredit, Rabobank Foundation, Juhudi Kilimo	\$500 to over \$1mn	Ranges from under \$1,000 to near \$1 million	Yes, for specialized equipment	3 years, can go up to 5 or 7
GroFin, Grassroots Business Fund, Social Equity Fund (SEF)	\$100,000 to \$2.5 million	Only one averages under \$250k	No	4-7 years



Banks report that assets can be ‘self-secured’ if there is a secondary market for the asset, but where this not available they must take other forms of collateral, such as property. An additional challenge in Kenya to securing finance with the asset itself is that there is no way to register many assets. As a result, banks ask for additional collateral to guarantee recovery. Repossession of a leased asset is time and cost-intensive and can be a particular disadvantage².

FSPs also report that extending loans or leases for assets below \$20,000 is extremely challenging. Borrowers are perceived to be riskier due to lower levels of financial literacy and transaction costs can swamp returns quickly³.

Kenya has a relatively high presence of accelerator programs and technical assistance providers that could help improve the capacity of agribusiness SGBs to demonstrate their effective use of assets, but they are largely concentrated around Nairobi and are not designed to meet the business needs of rural SGBs⁴.

Participating financial service providers expressed concern around pricing technical assistance into a loan until they understand the effect it will have on profitability, and are wary of stand-alone packages of technical assistance. Even if they are free, financial institutions prefer technical assistance packages they can design and control because it guarantees greater accountability from the borrower.

The emergence of Fintech and other tech innovations in Kenya has transformed sectors like consumer credit and household access to energy, and had positive spill over effects on the asset finance sector.

There is an explosion of platforms that provide payment technology for off-grid energy, smart meters and back office for payments processing and help to reduce market risk and transaction costs. Technology providers and financial institutions are also using remote sensing devices to better understand the needs and payment abilities of their clients.

INNOVATORS IN ASSET FINANCE IN KENYA

“Equipment providers could work with potential clients and their buyers to develop guaranteed purchase contracts”⁵

Innovator: Root Capital

Success factors: Asset liquidity, SGB capability, market access

What they are doing differently

Root Capital has traditionally only financed assets after having extended at least two years of working capital loans to a client, though they have made exceptions for special cases. Those loans have also usually been for amounts greater than \$50,000 and represent a very small percentage of the lender’s global portfolio.

Root Capital is currently developing models to extend asset finance to cooperatives. As part of these efforts to develop asset finance models, Root Capital recently provided a farmer cooperative with a \$30,000 loan to finance a solar-powered instant Dairy Chiller. Root Capital was able to take calculated risks by employing targeted mitigation tactics based on the merits of this particular case, exemplifying the three critical success factors.

The Dairy Chiller financed by Root Capital was manufactured by a new company whose products have the potential for high impact, but also have a limited track record. The manufacturer mitigated some risk by manufacturing to EU quality standards, providing a warranty and demonstrating the ability to recover, transfer and re-sell the asset.

Root Capital had never lent to or worked with this farmer organization before extending it this loan. As a precursor to assessing any loan application, Root Capital required that the farmer organization register as a cooperative. Following this, Root Capital provided its leadership with a 10-day financial training package to ensure that financial fundamentals were in place and that the accounting and financial decision-making would be managed properly.

A three-way loan agreement between the cooperative, the lender and the off-taker (buyer) will allow the cooperative to begin to produce chilled milk that it will sell in the domestic market for a premium⁶.

2 FSD Kenya, 2015

3 Frank, 2016

4 Kenya Round Table, 2016

5 Macharia, 2016

6 Root Capital, 2016

Innovator: Innovare

Success factors: Asset liquidity, SGB capability

What they are doing differently

Innovare Advisors recently launched Innovare Leasing Facility, which is noteworthy because it finances lease-to-own financing packages for agro-processing machinery, as opposed to primary production assets. Innovare raised the capital by issuing dollar-denominated bonds to international investors, and has established a series of partnerships designed to reduce transaction costs, increase the pipeline of potential clients, and most importantly, mitigate risks for both its investors and lessors.

Innovare has a non-exclusive partnership with VAELL, an established corporate leasing company in Kenya. Equipment vendors in VAELL's network recommend it creditworthy clients, which VAELL performs credit checks on, according to standards established in coordination with Innovare. This is designed to provide a pipeline of creditworthy clients and improve the efficiency and efficacy of credit evaluations.

The partnership with vendors includes an evaluation of the future order books of potential clients to ensure that leases are going to credit-worthy SMEs that have off-takers committed to purchasing their output. All of its leases require a customer down payment, and are backed by a credit guarantee from the African Development Bank, as well as by vendor buyback guarantees⁷.

Innovators: Fintech and other web-based platforms

Success factor: Asset liquidity, SGB capability, market access

What they are doing differently

Kenya has recently had an explosion of high-tech start-ups and disruptive innovations that have changed the finance landscape in the region. Fintech has the capacity to reduce transaction costs, bring real-time market information and technical support to remote, rural operators. These solutions in time may act upon all three success factors: from facilitating asset finance payments and compliance for a range of technology and providing technology re-sale platforms, to measuring, aggregating and sharing credit information for SGBs and streamlining market information and supply chain integration.

lendablemarketplace.com build technology and financial products that promote access to finance for SGBs

m-kopa.com provides a combination of solar home systems and innovative payment terms that bring asset finance into the hands of households across East Africa

lumeter.net provides payment technology for off-grid energy, smart meters and back office for payments processing to 'de-risk renewable energy project finance'

mshamba.net provides an online marketplace, information exchange and logistics platform in the agriculture sector one-africa.net is Africa's largest online platform for jobs, cars and property

icow.co.ke is an agricultural subscription-based information service

mfarm.co.ke is a market information and trading platform.

Numerous other applications exist and are part of a significant re-structuring of how information and finance services are being delivered, connecting millions of formerly unconnected and unbanked people into the mainstream economy.

Innovator: Equity for Tanzania (Tanzania)

Success factors: Asset liquidity

What they are doing differently

Equity for Tanzania (EFTA) is a leasing company that has been operating for almost ten years, and has organized supplier fairs to promote brand and product awareness among clients. Co-financing the fairs with its suppliers has allowed EFTA to host four such fairs at a low-cost and in different parts of the country. 24 suppliers contributed \$500 each for the most recent fair, held in Arusha in February. These contributions allowed EFTA to place radio advertisements and billboards, which helped attract over 8,000 people to the event. This low-cost approach to raising product awareness also allows vendors and EFTA a chance to market and gauge demand for new products. Now that it has developed its brand, EFTA plans to start tailoring these fairs to specific sectors and potential clients⁸

Innovator: Rent to Own (Zambia)
Success factors: Asset liquidity

What they are doing differently

Rent-to-Own has targeted the ‘small asset’ market segment in Zambia for around six years and provide finance for assets that ranges from \$500 to \$20,000, with a broad product offering that includes retail refrigerators, solar solutions, petrol pumps, micro-irrigation kits, food processing machinery, and vehicles. Loan officers evaluate client applications based on their current cash flows, as well as the expected cash flows the asset to be financed will generate, and Rent-to-Own handles distribution, delivering products to the clients and they use data to build and manage client profiles and track impact metrics⁹

Innovator: Entrepreneurial Finance Lab (EFL)
Success factors: SGB capability

What they are doing differently

The Entrepreneurial Finance Lab (EFL Global) develops loan applications that incorporate psychometrics, cellphone usage data, and digital footprints of applicants. This data can help lenders assess the entrepreneurial capacity and willingness to repay, of underserved SMEs in developing countries, and can serve as a proxy for creditworthiness. A number of lenders have used these tests to extend unsecured loans to SMEs, and although EFL does not have an application specifically designed for SGBs in the agro-processing sector, some of its partners have used existing tests for that purpose.

Further analysis of its database of over 600,000 completed applications could perhaps yield insights into how to more accurately assess the creditworthiness of agribusiness SGBs in developing countries¹⁰.

Innovator: SCOPEinsight
Success factors: SGB capability

What they are doing differently

SCOPEinsight is addressing the need for improved data on agribusinesses by providing independent assessments of the professionalism of farmer organizations and SMEs in a number of countries, including Kenya and Guatemala. These assessments are carried out by certified assessors, uploaded to an online system, and then used to create several types of standardized reports. So far, SCOPEinsight has conducted over 800 assessments globally and is growing rapidly, working with organizations like IFC, FairTrade Africa, ICCO, and TechforTrade.

Farmer organisations and SMEs that undergo regular assessments are able to build much-needed track records of their business activities, which can help them access finance. Financial institutions that have subscribed to SCOPEinsight are able to search through the profiles of farmer organisations and SMEs that have given their approval for such searches. Those financial institutions can then reach out to businesses they believe could be creditworthy, which brings greater efficiency and transparency to the early stages of due diligence¹¹.



9 Hemsworth, 2016

10 Martinez, 2016
 11 SCOPEinsight, 2016

THE STATE OF THE ASSET FINANCE MARKET IN GUATEMALA

“The transaction costs on a \$100,000 loan are often the same as those on a \$1 million loan”¹²

Guatemala enjoys the presence of a number of established impact investors, but most investors struggle to directly reach agricultural clients with equipment needs between \$1,000 and \$250,000. Three of the four participating commercial banks provided well under \$1 million of asset finance to agricultural SGBs in 2015.

Socially minded investors have a presence in Guatemala’s agricultural sector, but of the six impact investors interviewed, only one lent for equipment in this ticket range last year in Guatemala, and only a two have loan ranges that officially go below \$250,000.

ASSET FINANCE PROVIDERS IN GUATEMALA (PARTICIPANTS ONLY, AUTHOR’S ANALYSIS)

Type of Financial Institution	Financial Service Providers	Range of loans or leases	Average Size of Loans or Leases	Collateral required	Average
Commercial Banks	Banco GyT, Banrural, Grupo Financiero de Occidente, Banco Industrial	\$500 to over \$1mn	Data Unavailable	Yes. Secured with a combination of fixed-assets, personal guarantees or credit guarantees	3 years but can go up to 5 or 7 years.
Impact Investors	Eco Enterprises, Oikocredit, Pomona Impact, PYME Capital, Root Capital	\$50,000 to \$7 million	\$100,000 to \$2.5 million	No. Flexible with long-standing clients or when credit guarantees are available	4-7 years
Credit Unions, MFIs and Leasing Companies	MICOOPE, Arrend, Genesis Empresarial	\$1,000-\$25,000	\$10,000	Yes. Fixed assets worth 70-80% of the asset to be financed for loans over \$10,000	3 to 5 years

The commercial banking sector in Guatemala uses high collateral requirements and high interest rates when lending to SGBs for assets. The country’s leading rural bank, Banrural, is reported to charge interest rates of at least 20% on loans for assets¹³. One prominent bank in Guatemala requires fixed-asset collateral and a guarantor even on loans that are backed by credit guarantees that would cover 50-80% of losses.

The greatest concern of FSPs in Guatemala is the ability of SGBs to repay long-term loans. This concern is linked to the extended exposure to agricultural and market risks that come with loans for agriculture-related assets. Both banks and impact investors pointed to the damage that the coffee rust plague and major drops in coffee prices caused to the industry over the past few years.¹⁴ Several financial service providers also cited the ability of SGBs to properly use the equipment and to access maintenance services as concerns.¹⁵

The registry for non-land collateral is still being developed in Guatemala, and the registry for fixed assets is still not an online system. Complicating matters further, many smallholder farmers lack legal titles to their land but do have *derecho a posesión*, or use-rights. Using such land as collateral requires extra due diligence on the part of financial institutions to make sure that the land is not serving as collateral elsewhere.¹⁶

In the case of default in Guatemala, repossession of an asset represents a financial and ethical challenge for impact investors. One fund that has had to repossess agro-processing assets in the region on two occasions, reported that they were costly and difficult experiences¹⁷. Another impact investor said that repossession involves transaction costs that are difficult to estimate, and more importantly, represents an ethical challenge that could negatively affect a fund’s reputation and identity.

There are examples in Guatemala where value chain actors have replaced FSPs in generating the investment

capital required for asset financing. Co-investments of this nature might have challenges in scaling up beyond the chain, however they provide an interesting insight into how capital can be leveraged to compliment FSP’s and to reduce the risk of an investment and the role of national associations in scaling innovation.

Financial institutions, as well as foundations, report that the ecosystem of technical assistance providers and accelerator programs is not geared to meet the needs of agribusiness SGBs. Most of these programs and providers focus on startups, and they struggle to provide the more tailored and sophisticated services that businesses require as they graduate beyond that stage¹⁸.

Guatemala’s asset finance ecosystem struggles to address key challenges due largely to a lack of coordination and business development service providers. Although impact investors report that due diligence costs are high and many SGBs in Guatemala lack formal credit ratings, there is little sharing of due diligence processes.

INNOVATORS IN ASSET FINANCE IN GUATEMALA

“If they have certainty of a buyer, they can consider investing in technology”¹⁹

Innovator: Agexport and private sector agribusiness

Success factor: Asset liquidity, SGB capability, market access

What they are doing differently

A farmer cooperative, two downstream buyers and the Association of Agricultural Exporters in Guatemala (Agexport), who operate in a fresh vegetable export chain, co-invested in a solar-powered cold storage facility and processing plant for the cooperative. The solar-powered cold storage unit will help the cooperative reduce its post-harvest losses and increase product quality significantly, which will bring greater efficiency to the supply chain.

Although the cooperative had a limited credit history, their buyers and Agexport felt comfortable investing alongside the cooperative because they each have long-standing relationships with it. This particular investment occurred without the direct involvement of a third-party financial service provider, Agexport is interested in replicating the model and is exploring partnerships with banks and international impact investors in order to do so with several other supplier’s cooperatives.

14 Gudiel, 2016; Molina, 2016
 15 Fleischman, 2016; Saavedra, 2016
 16 Saavedra, 2016
 17 Prado, 2016

18 Colloff, 2016

19 Cordon, 2016

Innovator: MICOOPE

Success factor: Asset liquidity

What they are doing differently

MICOOPE is a credit union that aggregates 25 cooperatives across the country and finances a range of productive assets for agribusinesses. Average loan size for productive assets in the agricultural sector is \$10,000 and up to \$100,000 for irrigation, pickup trucks, and even *beneficios húmedos* for coffee, while loan terms are usually three to five years. MICOOPE tries to be flexible with collateral requirements. For assets under \$10,000, it can accept a personal guarantee; above that, it requires collateral and limits the loan to 70-80% of the value of the collateral.²⁰

Innovator: Guate Invierte

Success factor: SGB capability

What they are doing differently

Started by the Ministry of Agriculture in 2005, Guate Invierte is a credit guarantee program designed to free up bank liquidity in the agricultural sector. The guarantees can be used to cover between 50% to 80% of a loan, and so far they have backed close to \$50 million in loans.

Annually, Guate Invierte covers around \$5 million in loans, with 85% of these guarantees going toward loans in the agricultural sector. The guarantee comes with the condition that supplying farmers take out a crop insurance policy. As crop insurance premiums in Guatemala are quite expensive, Guate Invierte covers 70% of their cost. This mandatory insurance

20 Saavedra, 2016

scheme helps smallholders develop formal value chain relationships (by lowering risk to buyers) and partially mitigates agricultural risks by guaranteeing that growers will be able to plant crops the following season at no additional cost.²¹

Innovators: OikoCredit, Financiera SUMMA and

Genesis Empresarial

Success factor: Asset liquidity, SGB capability

What they are doing differently

Oikocredit is acting as a second-tier investor in Arrend, a local leasing company that serves a variety of markets. Oikocredit's investment is designed to develop leasing products for agricultural technologies in the range \$10,000-\$25,000 Financiera SUMMA, a leasing company targeting a range of equipment needs of SMEs has recently gained access to Guate Invierte, whose guarantee will cover the first year of the lease, usually the riskiest one, in the hope that this will provide enough coverage to promote some financing for assets in the agribusiness sector²².

Genesis Empresarial, a microfinance institution, is collaborating with Alternativa, a local accelerator organisation, to develop a leasing product for biogas digesters²³.

21 Ortiz, 2016
 22 Ortiz, 2016
 23 Guatemala Round Table, 2016

Innovator: Pomona Capital

Success factor: SGB capability

What they are doing differently

Aware of its portfolio companies' need for a high quality business development services, Pomona Impact, a regional impact investor that offers mezzanine debt in the range of \$50,000 to \$250,000 to SGBs, is in the process of raising a grant-funded technical assistance facility for them.

It would use the fund to provide them with tailored technical assistance packages that can help them leapfrog multiple levels in their value chain, thereby increasing returns. Pomona will use the fund to help a coffee producer begin to brand and market its roasted coffee beans directly to purchasers in higher end markets, in parallel with financing equipment that lets its companies enter the early stages of processing.²⁴

Innovator: Grupo Financiero de Occidente (GFO)

Success factor: SGB capability

What they are doing differently

GFO has a department that provides loans for working capital and productive assets to indigenous communities that have timber concessions in the Mayan Biosphere, a protected area. As these communities rarely have any financial literacy or credit histories, the lender provides extensive technical assistance packages, and begins by providing working capital loans. Once it has worked with a community for at least two years, it can extend loans for productive assets. Access to a blended finance window from the Inter-American Development Bank

24 Ambrose, 2016



(IDB) has allowed the bank to provide more reasonable interest rates²⁵.

Innovator: Scope Insight and USAID

Success factor: SGB capability

What they are doing differently

Through its Regional Trade and Market Alliances (RTMA) program, USAID has been channelling grants for processing machinery and technical assistance to cooperatives in Central America, as well as assisting them in accessing financing options.

Although grant programs have limited scalability as financing options, two aspects of RTMA have important implications for the asset finance space for two key reasons: its grants are for value chains that target regional markets as opposed to higher-value crops destined for premium export markets, and they also help cooperatives develop credit histories.

RTMA works with SCOPEinsight to help it evaluate grant applicants. Each cooperative, regardless of whether it was selected for a grant, undergoes an evaluation with SCOPEinsight, and then has the right to share that evaluation with financial institutions if it attempts to access finance²⁶.

Innovator: Oxfam's Women in Small Enterprise (WISE)

Success factor: SGB capability

What they are doing differently

WISE is an investment fund that has encountered problems with its credit guarantee program. Closing just below \$1m in 2015, the WISE fund provides technical support and capacity development for female entrepreneurs, of which several are in the food processing industry, as well as credit guarantees for loans of up to \$10,000. While WISE initially expected to partner with the commercial banking sector, the gap in expectations between the commercial bank partner and the entrepreneurs was too large to overcome through a partial-loan guarantee fund.

In response to requests from the entrepreneurs and the training partner that works closely with them, WISE's team is now working with a cooperative savings and loan institution. This institution is interested in growing its loans for business purposes but also wants to meet its commitment to community service and deepen its work with women clients²⁷.

²⁵ Fleischman, 2016
²⁶ Hasfura, 2016

²⁷ Bolis, 2016

**THE STATE OF THE ASSET
FINANCE MARKET IN INDIA**

“Very few investors understand agricultural businesses”²⁸

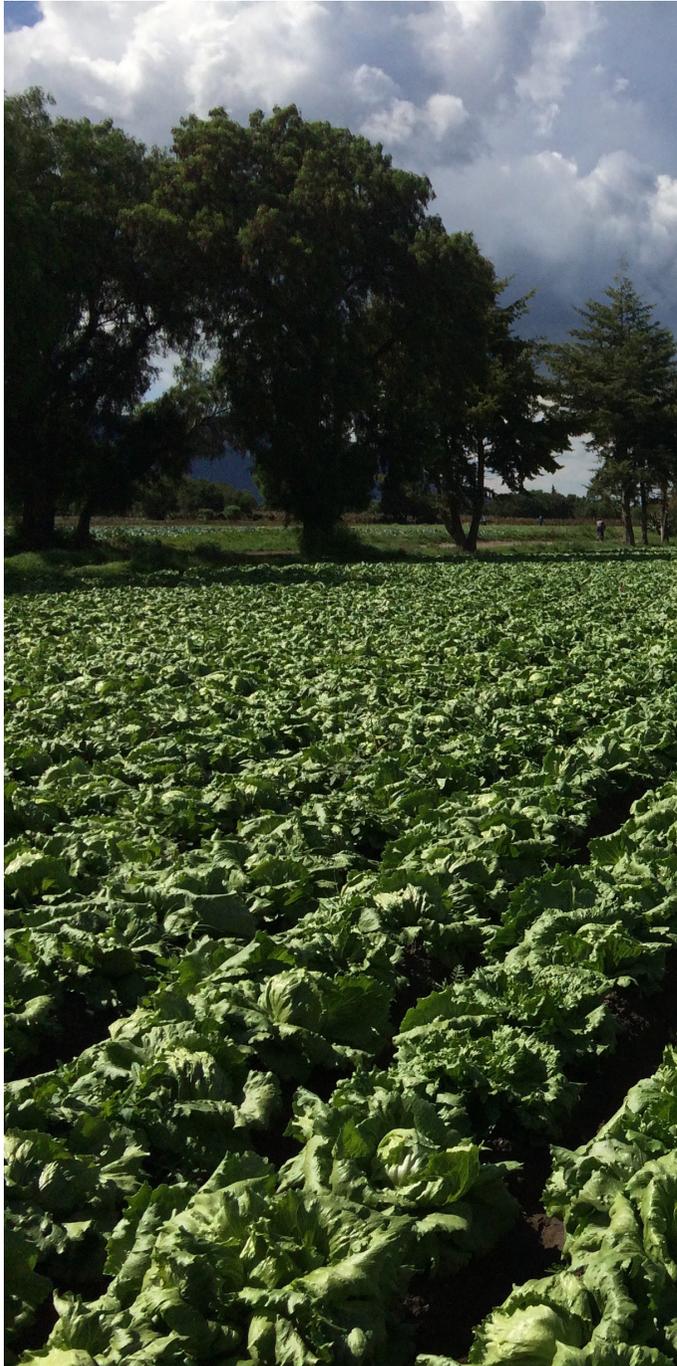
The asset finance ecosystem in the agribusiness sector in India differs from Kenya and Guatemala in two key respects: first, it has a limited number of impact investors; and secondly the government plays a more active role via regulations and financial support channelled through public-sector banks.

Following recommendations by the Reserve Bank of India (RBI), most of India’s banking sector employs several conservative underwriting requirements that few SGBs can meet, demanding collateral worth 130-150% of the value of the asset, two years of profitability and three to four years of cash flow records. These requirements result in a low supply of bank finance to SGBs.

ASSET FINANCE PROVIDERS IN INDIA (PARTICIPANTS ONLY, AUTHOR’S ANALYSIS)

Type of Financial Institution	Financial Service Providers	Loan or investment range	Average size of loans or investments	Collateral required?	Average maturities
Banks	ICICI Technology Finance Group, NABARD, RBI Bank, SIDBI, Yes Bank	\$2,000 to \$10 million	\$50,000 to \$580,000	Yes. Fixed-asset collateral unless guarantees are present	3 to 5 years. Can go up to 7 or 10 years
Private Equity and Venture Capital Funds	Aspada Investments, Lok Capital, Omnivore Partners Sangam VC, SEAF	\$100,000 to \$6 million	\$350,000 to \$5 million	N/A	5 to 6 years
NBFIs and Impact Debt Funds	Caspian Investments, Intellegrow1, Vistaar Capital	\$50,000 to \$1.5 million	\$1,500 to \$250,000	Depends on the fund.	1 to 4 years

Public sector apex institutions, principally NABARD and SIDBI, provide some direct lending to the sector and channel government funds as well. In addition, a few private sector banks have managed to play an active role in this space. Although private sector banks in India tend to have higher interest rates than their public sector counterparts and similar collateral requirements, a few have managed to provide a significant amount of traditional loans to SGBs.



The funds and NBFCs listed above have social impact embedded in their missions, but as most of them face high borrowing costs, they have developed models that blend impact with commercial returns. The financing needs of these funds' portfolio companies usually exceed the target of this report, with average deal sizes over \$250,000.

The lack of impact investors in India is partially the result of regulations. The RBI heavily regulates the uses of offshore investment and grant capital through the Foreign Contribution Regulatory Act and other measures. A combination of venture capital and private equity funds, non-banking finance companies (NBFCs) and foundations partially occupy the space that impact investors occupy in countries like Kenya and Guatemala.

In India, many SGBs lack accurate cash flow records and often have only recently been incorporated. Businesses with financing needs in \$1,000-\$20,000 ticket range are more difficult to reach, as they tend to have significantly lower levels of literacy, weaker financial records and limited awareness of the range of products available²⁹. Most financial service providers cited the need for technical assistance facilities to help de-risk SGBs and prepare them to enter new markets. However, the majority of them consider the ecosystem of technical assistance providers in India to be weak. In particular there is a lack of technical assistance providers that can offer scalable packages with clear value. The financial institutions that have had the most success in this space have had to develop their own technical assistance facilities or processes for de-risking SGBs.

29 India Round Table, 2016

Rapid depreciation rates and weak secondary markets for technology make it impossible to secure such loans with the asset being financed. These factors, along with concerns over the legal authority to repossess assets in rural areas, have hindered the development of an organized leasing market.

In India there is often a lag between when a SGB installs new machinery and when it secures sufficient supply of raw materials so that it can operate that machinery at optimal capacity. This lag often lasts two years, and grace periods allow the business to source enough raw materials so as to reach optimal levels of capacity.³⁰

Some banks have considered using longer-term purchase guarantees from established off-takers as a way to secure asset finance loans, but large fluctuations in commodity prices make these guarantees too risky to serve as collateral.³¹

30 Mathur, 2016
31 Satnur, 2016

INNOVATORS IN ASSET FINANCE IN INDIA

“If there were a secondary market for cold-storage units, retail finance institutions could probably start financing them tomorrow”³²

Innovator: Rabobank Foundation

Success factors: Asset liquidity, SGB capability, market access

What they are doing differently

The Rabobank Foundation has focused on improving financial inclusion for farmer producer organisations (FPOs). To help FPOs become creditworthy despite these limitations, Rabobank Foundation provides them with a combination of tailored technical assistance packages and well-designed credit guarantees. Rabobank Foundation begins the process by identifying the more mature FPOs and provides them with a comprehensive set of business development services designed to help them understand risks, develop necessary financial records to access finance and to create market linkages.

These technical assistance packages usually last one to two years, after which the foundation helps these FPOs obtain financing by providing guarantees that cover a combination of rupee-denominated working capital and asset finance loans in the range of \$25,000 to \$1 million, with repayment periods of up to five years. Since 2012, the foundation has extended guarantees annually on up to twelve loans worth between a total of three and four million Euros, thereby providing a growing number of FPOs with financial inclusion and a path to move up their value chains.³³

32 Gupta, 2016
33 Datta, 2016

Innovator: ICICI Technology Finance Group

Success factor: SGB capability

What they are doing differently

With energy efficiency technologies that provide significant reductions in energy costs, innovative financial service providers have been able to forego fixed-asset collateral by monetizing those savings into a trust and retention account.

ICICI Bank’s Technology Finance Group has developed and employed this structure to finance projects of energy service companies in the range of \$50,000 to \$300,000. To calculate energy savings, it worked with the borrower and its utility to determine a baseline of energy consumption; the difference between that baseline and the energy costs from the new technology was deposited into the trust and retention account³⁴.

Even though agribusinesses often use off-grid sources to meet a part of their power needs, the ICICI model could be transferable to them if financial institutions can establish a new method for determining a baseline for their energy consumption.³⁵

34 Dhumal, 2016
35 Dhumal, 2016

Innovator: Vistaar Finance

Success factor: SGB capability

What they are doing differently

Vistaar is an NBFIs that focuses on the working capital and asset financing needs of SMEs, including agribusinesses. Vistaar has also taken a hands-on approach to de-risking SGBs. It leverages its extensive network of credit officers located at each one of its 200 branches to provide financial training to potential borrowers. These credit officers work directly with SGBs to reconstruct their cash flow records, which can often involve going through old journal entries in order to provide accurate financial records.

32 Gupta, 2016
33 Datta, 2016

Conclusions and Recommendations

CONCLUSIONS

Three critical success factors need to be in place in order to maximize the scalability of asset finance services, and a fourth factor concerns the focus and consolidation of asset finance ecosystems.

Firstly, the asset must be liquid in order to act as collateral for the finance.

The asset must play a role in providing security, both for the asset finance used in its purchase and to raise future capital.

Without this collateral value, FSPs are forced to use more traditional means of reducing their risk, and the transactions start to look much more like traditional loans that depend on personal assets of the entrepreneur as collateral. The focus countries and many other developing economies lack many of the basic factors that allow assets to hold their value, it is difficult to re-sell assets and therefore FSPs would not expect to be able to get back their investment should the SGB default.

Innovation is in a very early stage, with a focus on awareness-raising of new products and building demand for assets, and experimentation with asset finance models to side-step the need for resale markets such as buy-back guarantees. Kenya however is poised to take advantage of web-based services for financial transactions that might enable bypassing the need to purchase assets altogether, building on 'pay-as-you-go' service models that are already scaling in the renewable energy sector.

Secondly, SGBs must demonstrate that they have the capability to effectively utilize the asset.

This factor means being confident about expected future cash flows, proving a track record of performance, shaping business models around the new assets and actually demonstrating the ability to execute their operations around the asset effectively. In the focus countries and more widely too, SGBs tend not to have managerial and operational expertise readily available.

Innovation is rich in the capacity development and credit assessment field across all countries. In India successful FSPs are employing technical assistance directly, however up-take by FSPs in Kenya and Guatemala, appears to be cautious and limited. Willingness to share information and rely on data from other parties is weak. However, the models do exist and given that many FSPs use similar data for due diligence and relatively standard approaches to capacity building, more ownership of these services needs to be taken by the FSPs themselves in order to see scale emerging.

Thirdly, the SGB must have a clear route to a stable and secure market for the expected outputs of the asset.

In order to create positive incentives for the FSPs, entrepreneurs need to demonstrate market linkages and in particular, strong value chains are important to ensure a stable stream of revenues for the SGB arising from the assets output. In the focus countries and in the agriculture sector in general, there is a culture



of informality that is often translated into the market strategies of the SGBs.

Innovations are showing how the private sector is taking initiative in establishing clear off-take agreements in structure value chain alliances, and FSPs like Root Capital are involving buyers in the asset finance transaction itself. These value chain approaches are critical for agribusiness investment as they are the principle means for SGBs to enter into high-value markets for processed goods, which ultimately is the objective they have in mind when investing in assets.

Finally, network organisations have an ecosystem coordination role to play between technology companies, FSPs and value chain actors.

Without this coordination the cost of collaboration can be high and be affected by information gaps and time delays. The Aspen Network of Development Entrepreneurs (ANDE) and the Global Impact Investing Network (GIIN) group together impact investors, foundations, NGOs, DFIs and business development service providers, and the Sustainable Food Lab works with a vast network of major purchasers of agricultural and food products. All three networks are ideally positioned to facilitate and foster this type of cooperation.

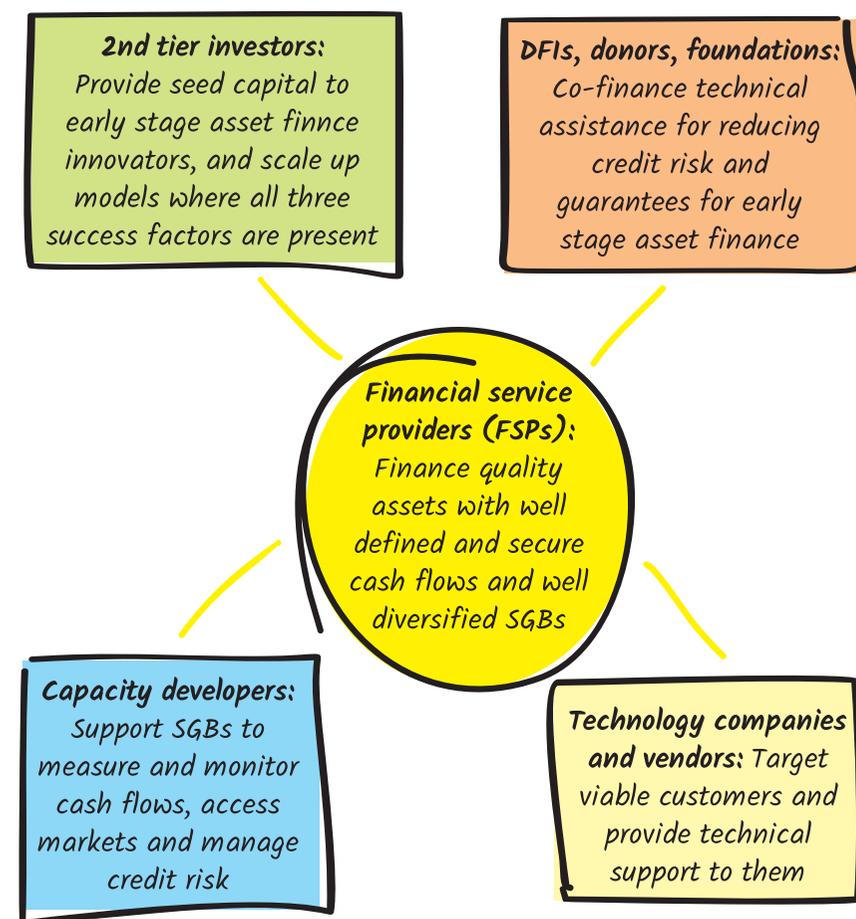
By establishing a platform where information about the sector can be gathered, key actors can engage with each other and come together around common objectives. This would allow them to disseminate key learning and good practices back into their wider network, use their limited resources efficiently and bring new actors into the asset finance sector.

RECOMMENDATIONS

“Formal financial institutions meet less than a sixth of the \$200 billion in demand for financing from smallholder agribusinesses globally. Bridging that gap between supply and demand will require ongoing innovation at the business model level. Asset financing is one form of finance that is quickly emerging as a promising new model with a growing number of providers diversifying into the space. As is highlighted in ISF’s recent report, the ongoing need for progressive partnerships will be key to developing sustainable and scalable models”¹.

A functional ecosystem is central to generating scale in the asset finance sector. Structural challenges facing asset finance cannot be overcome in isolation, and require collective efforts and coordination in the ecosystem. The model below summarises key roles for the main actors of the asset finance ecosystem, followed by detailed recommendations for capacity developers, 2nd tier investors, donors, DFIs and foundations, technology companies and vendors, and the financial service providers at the coal-face.

FIGURE 2: AN EFFECTIVE ASSET FINANCE ECOSYSTEM



1 ISF, 2016

SUCCESS FACTOR 1: ASSET LIQUIDITY

STRATEGIES TO INCREASE THE USE OF THE ASSET AS COLLATERAL

Technology companies and distributors

- Provide SGBs with high-quality training and operating manuals for the equipment use
- Establish a network of maintenance and service providers
- Provide 1-2 year warranties on technology and sell extended warranties to customers
- Create secondary markets for equipment by partnering with online trading platforms or by selling used technology directly to customers

Financial Service Providers and Capacity Developers

- Finance products that meet international standards for quality and reliability
- Require that borrowers take out insurance policies or pay for extended warranties on their assets
- Align loan repayment periods with warranties or service contracts
- Gauge the ability of the vendor to re-sell the assets or use buy-back agreements

Foundations, donors and DFIs

- Provide seed capital in the form of co-financed grants or equity positions to technology companies to foster innovations that enhance asset liquidity
- Work with existing online platforms to diversify offering and bring technology vendors together to create a marketplace for information on and trade of machinery and equipment.

SUCCESS FACTOR 2: SGB CAPABILITY

MECHANISMS TO ASSESS CREDIT WORTHINESS AND IMPROVE MANAGEMENT CAPACITY

Technology companies and distributors

- Generate deal pipeline by recommending creditworthy SGBs to FSPs
- Experiment with new payment mechanisms, such as pay-as-you-go devices and mobile payments to facilitate the collection of lease or loan payments

Financial Service Providers and Capacity Developers

- Provide support to help SGBs improve their financial management, such as reconstructing cash flow records and basic finance management
- Include projected cash flows that the financed equipment is expected to generate when evaluating a potential borrower's creditworthiness
- Utilise purchase orders, letters of intent and interviews with a business' off-takers help measure the strength of its market linkages and thus its creditworthiness
- Collaborate with accelerator programs and credit assessment providers to help ensure they are providing SGBs with the type of support that will make them creditworthy borrowers

Foundations, donors and DFIs

- Co-finance short-term credit guarantees for new and innovative funds, with the purpose of reducing collateral requirements
- Co-finance FSPs to cover additional costs and services as they scale innovative business models
- Co-finance technical assistance windows for business development services that approved financial service providers can access and participate in their design (such as I-DEV, TechnoServe and online marketplaces like lendablemarketplace.com)
- Facilitate the development of promising alternative credit assessment techniques with grant capital to finance the piloting of new models (e.g. SCOPEInsight)

SUCCESS FACTOR 3: MARKET ACCESS

TOOLS TO ENHANCE THE ACCESS AND STABILITY OF THE MARKET FOR THE OUTPUT OF THE ASSET



Technology companies and distributors

- Target organized value chains and work with buyers to target investment-ready SGBs
- Provide manageable payment terms to customers that guarantee repayment but also provide them with needed flexibility in the early stages of using the new asset
- Monitor commercial use of the asset and inform the financial service provider of any potential red flags that could affect repayment

Financial Service Providers and Capacity Developers

- Target SGBs whose supply base is diversified and whose suppliers have access to irrigation and other production technologies that mitigate pure agricultural risks
- Target SGBs that have diversified sources of income or who work with products that provide some hedging (e.g. dairy produced for domestic markets and horticulture for export)
- Match loan repayment schedules with the cash flow cycles of SGBs
- Provide grace periods on the interest or the principle of loans if there is a lag between an SGB's acquisition of the equipment and generation of new cash flows or if production fails

Foundations, donors and DFIs

- Foster partnerships along high-potential value chains to de-risk SGBs at scale in collaboration with key sector associations such as the Sustainable Food Lab
- Co-finance short-term credit guarantees or insurance policies to mitigate temporary repayment problems that result from agricultural or market risks
- Co-finance technical assistance facilities that help SGBs diversify their agricultural production or scale up the value chain

These detailed recommendations will enable an alignment of effort amongst actors in the asset finance ecosystem and support the emergence of the three success factors.

Ultimately, scaling up the availability and access to asset finance for Small and Growing Businesses will generate new opportunities for investors and new value for the SGBs working in the agribusiness sector in Kenya, Guatemala and India.

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Abramovich, Jane. Access to Finance, Technoserve	Escobar, Alejandro. Lead Agricultural Specialist at the Multilateral Investment Fund (FOMIN)
Agrawal, Nitin. Chief Operating Officer at Intellegrow	Fernandez, Tony. President, SEF
Ahmed, Sheikh Javed. Chief Water Resources Management Expert at the African Development Bank	Firmenich, Benjamin. Partner, Impact Finance
Alvarado, Yovani. Independent Consultant	Fleischman, Eduardo. Grupo Financiero de Occidente
Ambrose, Richard. Managing Partner at Pomona Impact	Frank, Roger. Managing Director at Innovare Advisors LLC
Ashok, M.V. Chief General Manager of Department of Economic Analysis and Research at NABARD	Gangoly, Colonel Arvind. CEO of Schedulers Logistics India Pvt Ltd
Blom, Marise. General Manager at SCOPEinsight	Gichinga, Amos. Senior Investment Officer at Grassroots Business Fund
Bolis, Mara. Senior Adviser on Market System Innovations at Oxfam America	Goldfarb, Daniel. Co-founder and CEO of Lendable
Bonwit, Holden. Project Leader at Open Capital Advisors	Gudiel, Eduardo. Banco GyT
Bressan, Caroline. Portfolio Manager at Open Road Alliance	Gupta, Avishek. Investment Manager at Caspian Impact Investment Advisor
Campbell, Bruce. Director of Ag and Project Finance at OPIC	Hanson, Stephanie. Senior VP, Policy and Partnerships at One Acre Fund
Carmichael, Elicia. Director of Business and Product Development at Root Capital	Hasfura, Claudia. Coordinator PRUCRAM
Chandrasekar, Karthik. Partner at Sangam Ventures	Hemsworth, Marc. CEO and Co-Founder at Rent-to- Own
Chin-Sweeney, Patricia. Senior Partner and Africa Director at I-DEV	Hughes, Nick. Chief Product Officer and Co-founder at M-Kopa
Colloff, Nicholas. Executive Director of Argidius Foundation	Hyland, Thomas. Co-founder at Aspada Investments
Cordon, Augusto. Guatemala Country Manager at Oikocredit	Isaac, Chris. Director of Investments and Business Development at AgDevCo
Conibear, L. Business Development, Shell Foundation	Jansen, Martine. Programme Manager Africa at Rabobank Foundation
Datta, Arindom. Head of Rural and Development Banking at Rabobank Foundation	Karinga, James. Head of SME Banking at Family Bank Limited
Davies, Harry. Senior Associate at CeniARTH LLC	Khubchandani, Rishi. Investment Executive at GroFin
Del Castillo, Jorge. CEO, PYME Capital	Kivava, Bernard. Chief Executive Officer at Juhudi Kilimo
Dhumal, Jaishingh. Chief Manager and Head at ICICI Technology Finance Group	Komarina, Srinath. Executive Vice President of Responsible Banking at Yes Bank
Ellis, Tim. Chief Operations Officer at Equity for Tanzania	Koome, Kagwiria. Program Associate at the Rockefeller Foundation

Lee, Songbae. Senior Investment Officer of the International Portfolio at Calvert Foundation	Prado, Nathalie. Managing Director at EcoEnterprises
Macharia, George. Head of Agriculture Credit Sector at Equity Bank Kenya Limited	Rabatisky, Bob. Director of Partnering for Innovation at Feed the Future
Martinez, Alan. Director of Advisory Services at Entrepreneurial Finance Lab	Ridley, Jonathon. Head at M-Kopa Labs
Mathur, Hemendra. Managing Director of SEAF's India Agribusiness Fund	Roul, Suryamani. Deputy Director at TechnoServe India
Mayen de Dardon, Lorena. Senior Corporate Banking Executive. Grupo Financiero de Occidente	Saavedra, Santiago. Institutional Development Director, MiCoope
McKay, Brenna. Technology Commercialization Lead at Feed the Future's Partnering for Innovation.	Satnur, Raviraj. Regional Head of Agribusiness for North India at RBL Bank
Mecagni, Laura. Head of the Global Agriculture and Food Security Program (GAFSP) at IFC	Schiff, H, Research Managers, Global Impact Investing Network
Molina, Celso. Director de Creditos in the Direccion de Creditos Agropecuarios Municipalidades de Banrural	Shah, Jinesh. Founding Partner at Omnivore Partners
Musyoki, Geoffrey. Agriculture Loans Specialist for Oikocredit East Africa	Shakhovskoy, Matthew. Executive Director at Initiative for Smallholder Finance
Mwanzi, Wycliffe. Operations Manager at Social Equity Fund	Sharma, Mahender. Chief Manager at SIDBI
Nagachethan, S.M. Lead on Product Team at Vistaar Financial Services Pvt.	Silverman, Seth. Operations Director and Investment Associate at Factor(E) Ventures
Natarajan, Venky. Managing Partner at Lok Advisory Services	Srivatsa, Kartik. Managing Partner at Aspada Investments
Ndogna, Samuel. Head of Agribusiness Banking at Chase Bank Kenya Limited	Timmerman, Michiel. Director of Equity for Africa
Oliver, Jehiel. CEO and Founder of Hello Tractor	Webster, Robert. Managing Director for at SEAF
Olson Onyango, Ashley. Agribusiness Finance Consultant	
Ortiz, Saúl. Coordinator of Risk Management and Analysis at Guate Invierte	
Patel, Bobby. Investment Associate at CrossBoundary	
Pathak, Nilotpal. Principal at Intellect Advisory Services Private Limited	
Petty, George. CEO at Venture South	