

RISK MANAGEMENT FOR AGRI-SME FINANCE

Good practices and innovations in risk management for agri-SME finance under COVID-19

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This publication was produced by Stenio Andrade, Michael von During, Pranav Prashad and Karima Cherif with key contributions by Bettina Prato, Emily Kitongo and Michael Hamp. The design was prepared by Stefano Orfei.



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Introduction

Live Talks Series on risk management for agri-SME finance

The COVID-19 crisis has brought into sharp relief a number of weaknesses in agri-food systems. It has also created new challenges, the repercussions of which may be felt in the sector for a long time. Among other things, it has shown the limits of our capacity to anticipate shocks and tested the risk management capacity of actors in supply chains, as well as in government, finance, and other areas. Going forward, it is not clear how different parts of the sector will respond to the longer-term impacts of the crisis or to other persisting sources of risk. In this context, many agricultural small and medium-sized enterprises (agri-SMEs) are suffering from disruptions in supply chains and from cash flow issues. Additionally, many lack the capital and capacity to undertake investments that could strengthen their resilience. As a result, most of the financial service providers (FSPs) targeting such institutions have been facing an increased risk of non-performance in their agriculture portfolios, which compounds the heightened risk environment faced by financial actors related to the crisis more generally.

This is a very opportune time to take a close look at the existing range of agricultural risk management tools that can be deployed both to address the current crisis and to build resilience for the future. What tools are most relevant in the present environment and what can be learned from recent examples of their application? What are the main areas where innovative products, delivery mechanisms, or complementary measures are most needed in the short or longer term? These questions were addressed in an e-learning LIVE TALKS series jointly organized by the Smallholder and agri-SME Finance and Investment Network (SAFIN), the International Labour Organization's (ILO) Social Finance Programme, and the Platform for Agricultural Risk Management (PARM). The series was co-hosted by SAFIN and the Forum for Agricultural Risk Management in Development (FARM-D).

The complete LIVE TALKS Series included the following three webinar sessions held between September and December 2020:

LIVE TALK 01 [↗](#)

Risk management for agri-SME finance: addressing new challenges in the era of COVID-19
(held on 24 September 2020)

LIVE TALK 02 [↗](#)

Case study analysis: examples of risk management for agri-SME finance
(held on 29 October 2020)

LIVE TALK 03 [↗](#)

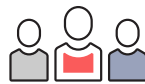
Examples of agri-SME risk management and post-COVID policy implications
(held on 11 December 2020)



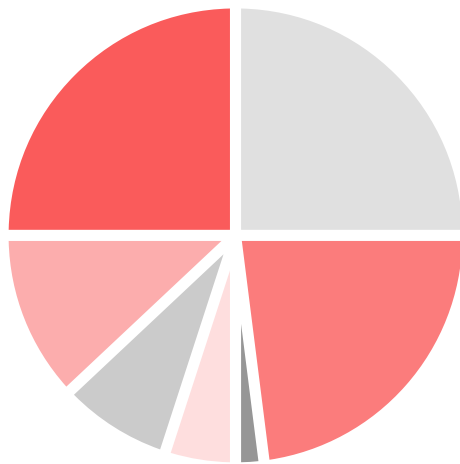
The LIVE TALKS series shed light on the recent experiences of agri-SMEs and FSPs operating in a range of developing countries. They were selected through a call for case studies that was open between the months of July and August 2020. Six case studies were selected based on the relevance of their experiences to the series, three of them sharing the perspective of agri-SMEs and another three contributing the FSPs' point of view.

We express our sincere gratitude to the case studies' presenters: Samunnati Financial Intermediation & Services Pvt Ltd, Mécanisme Incitatif de Financement Agricole (MIFA S.A.), Center for Financial Inclusion (CFI), SCOPEinsight, Self-Employed Women's Association (SEWA), Root Capital and Pula Advisors GmbH. We would also like to thank the representatives of the Agence Française de Développement (AFD), Rabobank and FEDECOCAGUA for sharing their expert view on the agricultural risk management landscape in our introductory session (Live Talk 01). Great appreciation also goes to the 307 participants in our webinars and to anyone who has watched the sessions' video recordings (follow the links to watch [LT01](#), [LT02](#) and [LT03](#)) or who is reading this paper.

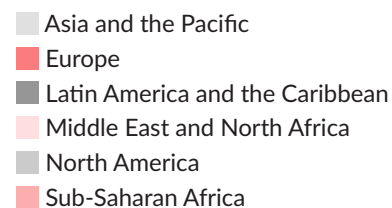
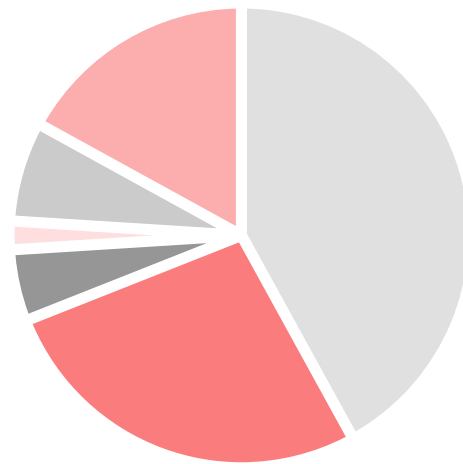
307 PARTICIPANTS



PARTICIPANTS BY SECTOR



PARTICIPANTS BY REGION







ABOUT FARM-D

The **Forum for Agricultural Risk Management in Development (FARM-D)** is a Community of Practice managed by PARM for knowledge sharing on agricultural risk management, serving as a collaborative space for content dissemination, exchanges and expertise location. To join the Community register at: www.farm-d/register 


ABOUT ILO'S SOCIAL FINANCE

With an emphasis on social justice, the **ILO's Social Finance Programme** works with the financial sector to enable it to contribute to the ILO's Decent Work Agenda. In this context, they engage with banks, microfinance institutions, credit unions, insurers, investors and others to test new financial products, approaches and processes. www.ilo.org/socialfinance 

ABOUT PARM

The **Platform for Agricultural Risk Management (PARM)** is a G20 global partnership that provides technical support to governments of developing countries for the integration of agricultural risk management into policies, institutional capacities and investment to move away from a culture of coping with disasters towards a smart management of risk. www.parm.org 

ABOUT SAFIN

The **Smallholder and agri-SME Finance and Investment Network (SAFIN)** is a network of institutions from different parts of the landscape of agricultural finance, who share a commitment to close the finance gap for small and medium agri-enterprises. The network provides a pre-competitive space for these institutions to share learnings, address strategic issues and knowledge gaps in a coordinated manner, and foster innovative solutions to address common challenges. www.safinetwork.org 



PART I.

Risk management for agri-SME finance: addressing new challenges in the era of COVID-19

Agri-SMEs are critical investors in agricultural supply chains, which is the main source of employment, livelihood and income in most developing countries. They create economic value for themselves, and jobs and opportunities for many others – starting from small-scale farmers. However, access to finance is a critical obstacle to the success of agri-SMEs in emerging markets. Although no reliable estimates have been calculated for the financing gap facing agri-SMEs globally, in Sub-Saharan Africa alone it is estimated to reach around US\$ 65 billion annually¹, thus limiting their growth potential, as well as that of the value chains and economies they are active in.²

From the perspective of traditional banking institutions, investing in agri-SMEs tends to be perceived as riskier than investing in larger businesses, in other sectors, or both. At the opposite end of the spectrum, microfinance institutions generally target individuals or smaller institutions. As a result, agri-SMEs find themselves in what is commonly referred to as a “missing-middle” where access to finance is a particular challenge, thus limiting their ability to sustain or grow their businesses.

From a risk-management perspective, agri-SMEs are generally set up to manage risks that occur with high frequency and low severity, such as standard market price fluctuations. However, less frequent but highly severe risks, such as the multidimensional COVID-19 crisis, represent a significant challenge, particularly for the most vulnerable businesses. As was the case in 2003 with the SARS outbreak, and in 2007-2008 with the global food price crisis, numerous agri-SMEs are facing difficulties dealing with the current pandemic’s knock-on effects. Indeed, the COVID-19 crisis has considerably disrupted activities across agricultural value chains in developing countries, raising new risks for agri-SMEs, such as the abrupt interruption of transportation and market closures, as well as exacerbating pre-existing ones like agri-SMEs’ inadequate access to finance and limited market linkages.

1 Aceli Africa and Dalberg Advisors. Bridging the Financing Gap: Unlocking the Impact Potential of Agricultural SMEs in Africa. 2020. Available at: <https://aceliafrica.org/bridging-the-financing-gap-unlocking-the-impact-potential-of-agricultural-smes-in-africa/>

2 The Smallholder and Agri-SME Finance and Investment Network PHASE 2 (2020). Brochure. Available at: <https://bit.ly/393uyLX>



While there is no single solution or standard package of solutions to be systematically used by any enterprise, it is possible to recommend a common methodology to manage agricultural risks. This methodology leads to an agricultural risk management (ARM) toolbox based on the following steps:

1. Understand the risk environment;
2. Assess and prioritize agricultural risks following a holistic approach;
3. Identify the appropriate tools to manage prioritized risks;
4. Plan, implement and monitor the ARM Toolbox.

A risk assessment is one of the most powerful instruments agri-SMEs and financial service providers (FSPs) can use ahead of any value chain related investment decision. A proper risk assessment allows the investor to quantify risks, thereby informing their decision through an evidence-based scale of risks rather than any pre-existing perceptions of risk. The impact of risks is measured in quantitative and/or monetary terms as the probability of losses due to an occurrence of the negative event. Monetary terms are used mostly for comparability and convenience.

Despite the widespread disruptions affecting supply chains and demand for non-food agriculture products the agricultural sector has demonstrated significant resiliency during the COVID-19 crisis.³ In fact, it has served as a stark reminder to governments of the sector's importance and the need to further reinforce its resiliency ahead of future shocks. It has also likely accelerated the movement toward increased development and use of technology and digitization, as actors have sought innovative ways to maintain their commercial activities, as well as to make and receive payments despite the restrictions imposed on physical contact and transportation.

Nevertheless, the high perceived risk associated with agri-SME financing has either remained unchanged or has increased in the wake of the pandemic. As a result, agri-SMEs find themselves in a considerably vulnerable situation in the current environment, as liquidity enhancing measures available to a wide range of businesses may remain out of reach for agri-food sector SMEs, particularly in those countries where formal financial institutions already struggled to address this segment before the crisis.⁴ Additionally, many governments do not have sufficient resources to adequately assist small rural businesses, as their limited budgets are being stretched to address a vast number of priorities related to the pandemic. In certain cases, the disruptions from the ongoing health crisis can be compounded with additional external shocks, both natural (e.g. locusts in the Horn of Africa) and man-made (e.g. political upheaval in Peru) that only serve to exacerbate the vulnerability of agr-SMEs.

Finally, it is also worth pointing out that the term "agri-SMEs" encompasses a wide variety of institutions around the world. Therefore, few general conclusions can be drawn across the full range of actors to determine the impact of the crisis on their ability to access finance and manage risks, as it is highly dependent on the activities and value chains they engage in, as well as the country or region they operate in. Instead, the LIVE TALKS series sought to present a number of case studies to provide concrete examples of the different approaches and tools available to FSPs and agri-SMEs to navigate a new risk environment and continue to operate in different contexts.

3 World Trade Organization (WTO). COVID-19 and Agriculture: A Story of Resilience. 2020. Available at: https://www.wto.org/english/tratop_e/covid19_e/agric_report_e.pdf

4 FAO. Farmers and agribusinesses at risk under COVID-19: What role for blended finance funds? 2020. Available at: <http://www.fao.org/3/ca9753en/CA9753EN.pdf>



PART II.

Case study analysis: examples of risk management for agri-SME finance

Financial service provider perspective



CASE STUDY 1

CONNECTING THE DOTS FOR INCREASED ACCESS TO FINANCE IN INDIA

NAME OF INSTITUTION	Samunnati
NAME OF TOOL	Financial intermediation, market linkages and business development services
ACTORS INVOLVED	Samunnati
GEOGRAPHICAL LOCATION	India
TYPE OF ORGANIZATION	FSP – private sector

ABOUT THE INSTITUTION

Samunnati operates as a value chain enabler in India, offering smallholder farmers and agri-enterprises financial intermediation, market linkages and advisory services. As part of its unique approach, the company supports Farmer Producer Organisations (FPOs) to source inputs in bulk and at lower cost by leveraging its bargaining power as a representative of a large number of clients.

Samunnati also sets itself apart in its approach to lending, as it evaluates the creditworthiness of its clients by accounting for both “trade capital”, as well as “social capital”. While trade capital refers to the volume of successful transactions between a buyer and a seller over a certain period, the social capital assessment is determined by the number of years over which such transactions have taken place, or in other words, the duration of the commercial relationship.

DESCRIPTION OF THE INITIATIVE

Samunnati promotes an approach to risk management that blends strong relationship development with clients and other value chain actors, with reliable sector presence and expertise. This approach is supported by financial tools, such as credit guarantees, that serve to further mitigate risks, and have effectively helped Samunnati expand its operations through the COVID-19 crisis.



Samunnati has contributed to the development of guarantee facilities (*first loss and pari passu*) with key partners, which supports its clients to access further investment. Under first loss default guarantees the provider is liable to bear losses up to a specified limit (e.g. 10-20% of principal availed for the facility). By contrast, *pari passu* guarantees ensure that the loss is incurred by both parties based on risk sharing agreement for a stipulated limit. At the time of the presentation, Samunnati was working on the creation of a risk capital pool that would assemble funds from different sources, including development agencies, foundations and philanthropic organizations. The pool would serve as a vehicle to enhance access to capital for agri-SMEs by providing guarantees.

RISKS AND TOOLS

	PRE-COVID	COVID
RISKS	<p>Agri-SMEs in India typically face risks related to the following:</p> <ul style="list-style-type: none">– Difficult access to finance;– Difficult access to markets;– Insufficient business skills.	<p>Due to social distancing and related business restrictions, Indian agri-SMEs have witnessed greater difficulties to access both finance and markets during the COVID-19 pandemic.</p>
TOOLS	<p>Samunnati works to aggregate, strengthen and grow agri-SMEs and FPOs through a combination of three essential tools that include access to finance, market linkages and advisory services. Its products include an input procurement loan to assist FPOs in sourcing inputs in bulk and at lower cost. It connects farmers directly to large-scale input suppliers. This solution offers members of FPOs opportunities to scale while cutting production costs.</p> <p>The institution has introduced virtual payment tools, such as the innovative Samunnati Pay Card, a QR-based virtual card that allows farmers to directly pay for inputs or other resources from their loan account. Linked to a specific list of registered merchants, it ensures the borrowed agri-loan is being used for its intended purpose.</p>	<p>The risk capital pool proposed by Samunnati would provide guarantees (<i>first loss and pari passu</i>) with the aim of increasing investors' ability to take higher risk/exposure. Samunnati could contribute to 10% of the pool capital, whose mechanism could be hosted under Samunnati Foundation – the company's non-profit arm.</p> <p>In light of the pandemic's crisis and in line with the accelerated digitalization trend, Samunnati has launched Samaarambh – an online platform to support and enable innovative agricultural start-ups and agtech players in the ecosystem. Through Samaarambh, Samunnati helps such enterprises improve and scale operations with the expertise of industry experts and mentors across the agricultural sector.</p>



KEY LESSONS

KEY LESSON 1 Developing knowledge expertise and relationships with key stakeholders in the value chains is crucial for FSPs looking to assess and manage risks more accurately.

KEY LESSON 2 Guarantees are particularly powerful tools in an environment that is characterized by increased risk, as has been the case in the wake of COVID-19, because they allow FSPs to continue servicing existing clients they may otherwise have turned away from, or sometimes even take on new clients, thereby growing their business in otherwise difficult circumstances.

LEARN MORE

Samunnati: <https://samunnati.com/> 



CASE STUDY 2 TRIPARTITE AGREEMENTS: A TRIPOD FOR RISK-SHARING IN TOGO

NAME OF INSTITUTION	Agricultural Financing Incentive Mechanism (MIFA S.A.)
NAME OF TOOL	Togo Incentive-Based Risk Sharing System for Agricultural Lending
ACTORS INVOLVED	MIFA
GEOGRAPHICAL LOCATION	Togo
TYPE OF ORGANIZATION	Financial service provider – Public State-owned enterprise

ABOUT THE INSTITUTION

Togo's Agricultural Financing Incentive Mechanism (MIFA S.A.) was created by a governmental decree in 2018 with the objective of developing risk-sharing mechanisms that provide a holistic approach to addressing the challenges facing the agricultural sector. These mechanisms aim to drive additional financing, including insurance (provided alongside loans), technical assistance for value chain actors and FSPs, as well as interest rate subsidies. MIFA supports sustainable and evolving agribusinesses in order to make a significant contribution to wealth creation, an improved redistribution of income generation, the creation of decent jobs, and the reduction of poverty in the agricultural and rural sectors.



DESCRIPTION OF THE INITIATIVE

MIFA's goal is to increase agricultural finance in Togo by generating more interest from FSP's through the development of risk-sharing agreements. In this tested scheme, farmers grouped in cooperatives sign a tripartite agreement with MIFA and an agri-SME stakeholder that can be either an input supplier or an aggregator (a buyer). MIFA puts the cooperative in touch with the agri-SME, facilitating a contract between them and ensuring that each party fulfils its obligations. In the agreement involving input suppliers, they are responsible for ensuring the provision of high quality products. In the one that includes aggregators, they act as a buyer and credit deliverer to the cooperatives, holding the guarantee of purchasing their produce.

At the end of production, the agri-SME retains the quantity of products corresponding to the purchase contract and reimburses MIFA the input credit granted to the cooperative. Then, the agri-SME pays the cooperative the remaining amount of the proceeds collected. With the risk sharing agreements in place, FSPs are incentivized to participate more actively in a sector they traditionally perceive as very risky, with the hope that over time confidence, increased operational capacity, as well as newly adapted financial products and services are developed, leading to a more sustainable and inclusive agricultural sector.

RISKS AND TOOLS

	PRE-COVID	COVID
RISKS	<ul style="list-style-type: none">- Lack of adequate linkages between different actors along agricultural value chains.- Low proportion of overall FSP lending targeting the agricultural sector (0.2% in Togo).- High interest rates limit access to finance for agri-SMEs.- Substantial impact of weather risks on agri-SMEs in Togo, particularly the unpredictability of rainfall.	<p>According to the World Bank,⁵ in Togo, since the onset of the pandemic:</p> <ul style="list-style-type: none">- 41% of companies in the agricultural and agro-industrial sectors have experienced a drop in sales of around 75% to 100%.- Access to finance has become more difficult. The uncertainty generated by the crisis has increased the risk of liquidity shortages and general risk aversion. About 23% of companies have seen a decrease in available funding. This proportion was higher for medium-sized enterprises (40%) and in certain sectors, such as agriculture and agribusiness (55%). In particular, sources of medium and long term financing are more difficult to secure, and short term financing, is more expensive and difficult to obtain.- At the beginning of June 2020, 21.2% of private sector's businesses were closed temporarily and 1.9% permanently. Overall, 96.2% of businesses saw a decline in sales with an average decline of 51.3% between May and June.

⁵ World Bank, August 2020. Rapport sur la Situation Economique du Togo : Dynamiser l'Investissement Prive Pour Plus de Croissance et d'Emploi. Available at: <https://bit.ly/3eK3FzX>



- TOOLS** The Pillars of MIFA work together to incentivize the participation of FSPs in financing agricultural activities, mainly by addressing and limiting risks. These include:
- Risk sharing through a tripartite agreement that ensures the purchase of goods at a pre-fixed price and the repayment of any input financing provided, as well as a 50% loan guarantee where the other 50% risk is shared between the beneficiary and the FSP.
 - Insurance (agriculture, health and pension) is provided alongside all loans.
 - Technical assistance is provided to FSPs (to improve their analysis of the agriculture sector, and develop suitable products) and to agri-SMEs (to strengthen their technical and management capabilities).
 - Interest rate subsidies are provided to limit the high cost of lending.
 - Incentive measures to encourage lenders to adopt a long-term strategy and commitment to financing agriculture.
- In response to COVID-19, MIFA plans to spur production through the provision of input kits for the production of rain-fed crops (soybeans, rice, maize) by farmers with available land that will form solidarity groups with close technical supervision and pre-established sales contracts.
 - MIFA's range of insurance schemes, particularly agricultural and health insurance, play a significant role under COVID, as they can address the potential onset of climatic hazards and natural disasters on top of the pandemic (as has been seen in Kenya) and the possibility of falling ill to COVID.

KEY LESSONS

- KEY LESSON 1** The combination of low- or zero-interest loans, insurance products and technical assistance can help unlock finance by addressing key risks agri-SMEs face in the Togolese context, where the usual high-interest credit products often prevent them from accessing finance and business development.
- KEY LESSON 2** Governments have a unique capacity to coordinate different actors around collaborative efforts and address specific risks that impede the flow of capital to a given sector, either through subsidies or through guarantees. This can result in creating an environment that invites more risk-taking, collaboration and the promise of a more sustainable future (although transformative change requires large financial commitment that often need to be sustained over long periods of time).
- KEY LESSON 3** At the onset of the pandemic, many governments responded by adapting their existing programs or mechanisms, such as MIFA in Togo, to address issues related to the crisis, including: ensuring the continuation of agricultural production, and addressing concerns related to food security by incentivizing the production of staple food crops (e.g. rain-fed crops in the case of MIFA).

LEARN MORE

MIFA: <https://mifa.tg/> 



CASE STUDY 3

MORE TRANSPARENCY, MORE OPPORTUNITIES

NAME OF INSTITUTION	Center for Financial Inclusion (CFI) / SCOPEinsight
NAME OF TOOL	Agri-SME Portal
ACTORS INVOLVED	CFI, SCOPEinsight, Alliance for a Green Revolution in Africa (AGRA)
GEOGRAPHICAL LOCATION	Global
TYPE OF ORGANIZATION	CFI: Non-Profit SCOPEinsight: Private Sector

ABOUT THE INSTITUTIONS

The Center for Financial Inclusion (CFI) is an independent think tank housed at the international non-profit organization Accion that works to advance inclusive financial systems for low-income people around the world. CFI engages in advocacy and research, examining key financial inclusion questions, including financial health, the efficacy of government-to-person transfers, and the technologies enabling digital financial services.

SCOPEinsight is a business intelligence company dedicated to creating opportunities in agriculture by measuring the level of professionalism of farmer organizations. It implements a standardized and scalable approach to measure and benchmark how farmers manage their business. Since 2010, SCOPEinsight has trained over 768 assessors and conducted 4,445 assessments, reaching over 14 million farmers in 41 countries. Its clients include global agri-businesses, non-governmental organizations (NGOs), financial institutions, as well as multilateral development and food security organizations.

DESCRIPTION OF THE INITIATIVE

CFI and SCOPEinsight are planning to launch the agri-SME Portal, a website that aims to provide mapping, assessment, measurement and comparison of agri-SMEs based on common bankability metrics, which will play a key role in enhancing transparency and addressing the challenges of access to finance. This effort seeks to reduce the barriers for lenders and agri-SMEs to connect by designing a common language that helps FSPs identify bankable opportunities and informs agri-SMEs on the requirements of potential lenders. The bankability metrics will serve to highlight financing needs of agri-SMEs, as well as areas to be addressed through technical assistance. Ultimately, they will feed into the portal, which will aim to match agri-SME and finance providers, thus lowering the transaction costs on both sides. By using the common bankability metrics, lenders will have access to verified and standardized information to identify those agri-SMEs that meet a set of pre-due diligence criteria, so they can spend their due diligence resources on a pre-select group of promising enterprises.



RISKS AND TOOLS

PRE-COVID

- RISKS**
- Agri-SMEs generally face very limited access to finance, which undermines food security and rural livelihoods.
 - Lack of transparency in the market affects both lenders' ability to accurately assess the risk of agri-SMEs, as well as agri-SMEs' understanding of the landscape of available funding options and their respective lending requirements.
 - There is a lack of standards to measure agri-SMEs' financial and operational management performance, which makes it difficult to adapt financial products and services to better meet their requirements, or to reliably assess their technical assistance needs.
 - FSPs tend to perceive agri-SME financing as high risk, which is largely due to the lack of transparency and standards in the sector. Furthermore, developing a pipeline of small "bankable" deals is quite costly, leading many FSPs to prefer larger deals in more established entities.

TOOLS Although the bankability metrics and Agri-SME Portal were still under development during the COVID crisis, they have been designed to address a key information/transparency gap that existed before COVID and will likely endure post-crisis. In particular:

- The bankability metrics address many of the risks commonly raised by FSPs in relation to agri-SME finance. They create a "common language" that allows the development of shared standards based on which finance providers can better measure the capacity of agri-SMEs, and determine their level of bankability.
- The Agri-SME Portal will provide FSPs and agri-SMEs greater visibility on available options for transactions, lowering the risk of engagement through reduced cost and more accurate risk assessment capabilities.
- The bankability metrics and Agri-SME Portal are expected to lead to improved access to finance and technical assistance for a broad and diversified range of agri-SMEs, thereby addressing a number of risks associated with the sector, such as employment (including for youth and women), food security, alleviation of poverty, etc.

COVID

- Despite the fact that many agricultural value chains are considered an essential service, since the onset of the pandemic agri-SMEs in Sub-Saharan Africa have widely faced a decline in demand (particularly those providing farm inputs), liquidity shortfalls, harvesting and production problems due to labour shortages, export and transportation delays due to lockdowns, and cancelled international contracts. All these challenges are exacerbated by ongoing climate change-related shocks, like droughts, floods and locust plagues. The resilience of agri-SMEs is being tested with these events.⁶
- The COVID-19 crisis has aggravated the financing gap for agri-SMEs in Sub-Saharan Africa.⁷

The risk perception that FSPs have traditionally associated to agri-SMEs has only grown since the pandemic, leading to a general drop in financing to new and existing clients. In light of this, the bankability metrics and Agri-SME Portal have the potential to play a key role during the pandemic by improving transparency in the market, which could lead to an increase in financing to agri-SMEs during challenging times. Furthermore, these tools could also significantly impact the post-COVID recovery efforts, by setting a new standard of increased transparency for the sector going forward.

⁶ Center for Financial Inclusion. From Crisis to Opportunity: How Can Lenders Help Build Resilient Agri-SMEs. Sep 8, 2020. Available at: <http://bit.ly/3bnozDa>

⁷ Idem.



KEY LESSONS

- KEY LESSON 1** Increasing agri-SMEs' transparency and visibility is key to attracting financing from different sources, such as social lenders, local financial institutions and value chain players. However, improved data on agri-SMEs is also required in order to reliably measure their performance, as well as to make recommendations for capacity building to improve bankability. These elements have only gained in importance in the wake of COVID-19, which has increased nearly all risks addressed by this solution.
- KEY LESSON 2** Common standards provide a point of reference and comparison for lenders looking for potential investees that fulfil their investment criteria.
- KEY LESSON 3** While lenders may be tempted to take a more conservative stance, those with sufficient capacity should be initiating even more new deals during the crisis in order for agri-SMEs to keep goods and services flowing through the highly interdependent agricultural value chain.⁸

LEARN MORE

Center for Financial Inclusion: <https://www.centerforfinancialinclusion.org/>

SCOPEinsight: <https://scopeinsight.com/>

Bankability metrics:

<https://www.themix.org/news-blog/mix-and-scopeinsight-launch-partnership-with-agra>

<https://scopeinsight.com/how-to-create-access-to-finance-for-agri-smes/>

⁸ Center for Financial Inclusion. From Crisis to Opportunity: How Can Lenders Help Build Resilient Agri-SMEs. Sep 8, 2020. Available at: <http://bit.ly/3bnozDa>



Agri-SME perspective



CASE STUDY 1 **SOLIDARITY AMONG WOMEN**

NAME OF INSTITUTION	Self Employed Women's Association (SEWA)
NAME OF TOOL	Rural Distribution (RUDI)
ACTORS INVOLVED	SEWA
GEOGRAPHICAL LOCATION	India
TYPE OF ORGANIZATION	Trade union

ABOUT THE INSTITUTION

SEWA is an Indian trade union registered in 1972. Inspired by the spirit of solidarity among its members, the institution is open for membership to self-employed women workers all over India. Composed mostly of rural women, SEWA provides supportive services like savings and credit, health care, child care, insurance, legal aid, capacity building and communication services to poor women. The main activity carried out by SEWA leaders, managers and members is to organize women to achieve collective strength, bargaining power and greater productivity.

DESCRIPTION OF THE INITIATIVE

The Rural Distribution (RUDI) network is a private institution that was established by SEWA in 2004 to generate funds for rural producers. The RUDI Multi Trading Company Limited was launched in 2007 and has developed into an integrated value chain to improve agricultural efficiency and reduce hardship experienced by small producers by creating employment opportunities and establishing market linkages for small-scale farmers.

RUDI links small-scale farmers, women who work at local processing centres and distribution hubs, and sales women within a value chain (called 'RUDIbens'), prompting rural capital and good quality food to circulate locally. Through this network, raw agricultural goods are procured locally from marginal farmers and sharecroppers, and then cleaned, sorted, graded, processed and packaged at *haat* (market) centres where SEWA members work. Processed goods can be sold back to the farmer at low prices or packaged under the RUDI brand and distributed through hubs to RUDIbens.

In 2013, RUDI introduced a mobile management information system using basic mobile phone technology, saving RUDIbens hours of time they had previously spent travelling to and from the processing centres to place orders.



RISKS AND TOOLS

PRE-COVID

RISKS The major concerns for small and marginal farmers in India are weather- and market-related risks. Farmers and marine fishers' lives and livelihoods are primarily defined by the risk they face juxtaposed to the absence of any safety net. They cannot afford insurance and do not have any security measures to cover their risks, and are therefore vulnerable to the smallest challenges. They often lack access to finance, while government support is often provided only after the sowing season is over.

TOOLS Recognizing the need for supportive services, SEWA has helped women take a number of initiatives in organizing services for themselves and other SEWA members. Many important lessons have been learned in the process of organizing supportive services for and by poor women. They provide these services in a decentralized and affordable manner, at the doorsteps of workers. Further, supportive services are themselves a source of self-employment. For example, midwives charge for their services and crèche workers collect fees for taking care of young children.

COVID

India's lockdown in March 2020 brought changes overnight to the agricultural sector. Labourers had no access to transportation for several days, hence many fields saw no available workforce to harvest standing crops or for threshing. Those who had already harvested and who normally sold their harvest in bulk to traders at local marketplaces faced severe difficulties to sell their produce due to the closure of many of these same markets. In addition to these restrictions in the early phase of COVID-19, the pandemic continued to disrupt markets, prices and the livelihoods of smallholder farmers.

When the pandemic hit Indian farmers, RUDI scaled up the procurement of seasonal produce from small-scale and marginal farmers and partnered with delivery apps for last-mile delivery in urban areas, thereby playing a key role in ensuring food security during lockdown. The integration of cashless transactions and digital supply chain management solutions into its model has enabled business continuity in the face of COVID-19 and the related containment measures affecting the possibility of travel and physical contact.

KEY LESSONS

KEY LESSON 1 Local decentralized supply chains have proven to be an effective way to overcome disruptions in larger state-level and national supply chains during the pandemic.

KEY LESSON 2 Access to technology has been important for business continuity during the pandemic. SEWA has successfully maintained a mobile-based information system that has increased efficiency of stock ordering processes among farming members.

LEARN MORE

SEWA:

<https://www.sewa.org/> 

<http://sewarudi.com/> 



CASE STUDY 2

HEALTH AND SAFETY ABOVE ALL

NAME OF INSTITUTION	UNICAFEC
NAME OF TOOL	Health protocol and community harvesting for a farming cooperative in Peru
ACTORS INVOLVED	UNICAFEC, Root Capital
GEOGRAPHICAL LOCATION	Peru
TYPE OF ORGANIZATION	Farmers' organization

ABOUT THE INSTITUTION

UNICAFEC is a Peru-based small coffee producers' cooperative founded in 2001 that has adopted an organic production approach and has received International Fair Trade and UTZ certifications. At the time of writing, UNICAFEC was made up of 385 associates, of which 104 were women and 281 were men.

DESCRIPTION OF THE INITIATIVE

To address COVID-19 restrictions in Peru, UNICAFEC adopted a number of risk management measures to ensure business continuity. These included a combination of training provided to farmers on health and safety practices related to COVID, and the implementation of different approaches to secure the continued availability of labour, such as active engagement of the community population for harvesting, as well as the continued supply of produce from its members in an environment where the cooperative did not necessarily offer the highest prices.

As an investee of the international non-profit Root Capital before the crisis, UNICAFEC benefited from the financial institution's COVID-response through a combination of loans, grants and advisory services that aimed at ensuring its clients could effectively navigate the resulting uncertain environment. Additional funding allocated by Root Capital replaced emergency resources from the government that the cooperative was unable to secure. The fund's additional support enabled awareness-raising and education activities focused on health protocols and sanitization processes required to continue operating safely throughout the pandemic.



RISKS AND TOOLS

PRE-COVID

RISKS Like many production-focused cooperatives operating in developing countries, the main risks traditionally faced by UNICAFEC relate to issues of governance, production, access to finance, market opportunities and quality control.

TOOLS Root Capital invests in the growth of agricultural enterprises through loans ranging from about USD 200,000 to USD 2 million specially tailored to harvest and sales cycles. To help businesses grow over the long-term, Root Capital mixes their financing with highly-customized training to strengthen recipients' financial management, governance, and agronomic capacity. Enterprises that borrow from Root Capital over multiple years grow at an average rate of 20-25% per year. This growth enables them to invest in sustainable production methods and improve livelihoods for more farmers.

With the support of Root Capital, UNICAFEC sought to develop effective cash management tools and processes, accurate production projections, export contracts tracking, climate resilient agronomy, improved internal inspections and data digitalization.

COVID

In a survey run with its clients in the Global South, Root Capital identified a notable persistence of disruptions to transport services and government restrictions on movements through curfews, quarantine, and stay-at-home orders, all of which were experienced by UNICAFEC. 45% of the survey's respondents who had to lay off workers said these cuts disproportionately impacted women.

For UNICAFEC the effects of the crisis were particularly felt through logistical and commercial restrictions, decreased competitiveness due to higher local purchase prices, and health risks to its members.

Root Capital adapted its lending actions to ensure its client agri-SMEs obtain enough cash for business continuity in the face of restrictions imposed as a result of the health crisis. The organization increased loan amounts, accelerated its credit approval process, opened exceptions in the formalization of loan contracts, and proposed a debt relief fund in case of necessity. Additionally, it supplemented its funding with grant and advisory services to ensure a full package of support to its clients.

Following Root Capital's guidance, UNICAFEC implemented a variety of health-focused practices to prevent the spread of the coronavirus within the organization and its members. These measures demonstrated the cooperative's health priority and sensitivity to the safety and well-being of its members. The health protocols came together with increased loans from Root Capital and increased communication with farmer members, as well as with lenders, buyers and services suppliers. Communication to members focused on ensuring the continued supply of their products to the cooperative despite competitors buying at higher prices. To strengthen its members' competitiveness, UNICAFEC also shifted from outsourced to community harvesting practices.



KEY LESSONS

- KEY LESSON 1** Prioritizing employees' health during the pandemic has brought important benefits to the cooperative supported by Root Capital. UNICAFEC has instilled confidence in its members, keeping them safe and increasing the volume of coffee production.
- KEY LESSON 2** The current pandemic has been perceived by UNICAFEC as an opportunity to develop resilience for the future – e.g. by developing contingency plans for labour shortages and solidifying and diversifying commercial relationships.
- KEY LESSON 3** Developing agri-SMEs' resilience requires a multidimensional approach, prioritizing cash flow for operations, building capacities for adaptation and providing targeted funding that could directly mitigate the impact of shocks at the level of enterprises and producers.
- KEY LESSON 4** Strong communication with members and partners is essential to ensure the business flow during times of crisis. This is especially the case when it comes to communicating changes in business management.

LEARN MORE

UNICAFEC:

<https://unicafec.com/en/portada-english/?v=3acf83834396> 

<https://rootcapital.org/keeping-farmers-safe-and-business-running-one-coops-pandemic-response/> 

Root Capital:

<https://rootcapital.org/> 



CASE STUDY 3

INSURANCE TO KEEP LIGHTS ON

NAME OF INSTITUTION	Vitalite
NAME OF TOOL	Development and implementation of index insurance linked to pay-as-you-go services in Zambia
ACTORS INVOLVED	Vitalite, Pula, Insurance for Rural Resilience and Economic Development (INSURED), Rural Finance Expansion Programme (RUFEP)
GEOGRAPHICAL LOCATION	Zambia
TYPE OF ORGANIZATION	Private Sector

ABOUT THE INSTITUTION

Vitalite is a solar energy company established in Zambia. It was created to increase rural electrification by selling affordable off-grid solar energy products through a Pay-As-You-Go (PayGo) model to rural households whose primary economic activity is farming. Considered a social enterprise, Vitalite follows a business model common among solar PayGo companies that effectively makes them lenders: the value of the solar home system they provide is taken as a loan to be repaid through weekly/monthly instalments by the customers. Vitalite seeks to provide index insurance products to de-risk their loan portfolio and minimize costly repossession of equipment that comes when rural farmers default due to loss in production or lower yields, which leads to loss in their income.

DESCRIPTION OF THE INITIATIVE

Given the increasing energy demand in developing countries, there has been a rapid rise in the use of solar PayGo systems. For instance, Kenya, Tanzania and Ethiopia accounts for around half of the 5 million people gaining access through new solar home systems according to 2018 estimates from the international firm Pula. However, farmers in developing countries are especially vulnerable to the impacts of weather-related risks because of their low incomes, greater reliance on agriculture and limited capacity to seek alternative income sources. This condition exposes solar PayGo companies to high default rates, which leads them to repossess the solar panels through costly operations.

Given that challenge, a Pula-implemented initiative applied by Vitalite and other solar PayGo companies has resulted in positive gains for both these companies and their customers (farmers). Through this initiative, a solar system company purchases an insurance product at the start of the agricultural season and pays premiums on behalf of the farmers. Farmers, in turn, make regular low-cost payments alongside their regular solar system payments. In case of a weather shock – e.g. a drought –, both the customers and the solar home system company are eligible for compensation. The compensation is initially used to give these drought-affected farmers a ‘repayment holiday’, thus keeping farmers’ lights on as well as protecting the solar company’s good will and balance sheet.



RISKS AND TOOLS

PRE-COVID

RISKS Major agricultural risks in Zambia include locusts, drought, flood, pests and crop diseases. Concerning agricultural insurance, the key challenges to implementation in the country include: the difficulty customers face to understand complex insurance terms and conditions, lack of trust, and the complexity of product design and distribution.

COVID

Lockdowns and movement restrictions have added further uncertainty to an already uncertain rural climate.

For smallholder farmers:

- The losses for farmers with perishable goods was felt as lockdowns led to the closure of markets both for input purchase and sale of produce.
- The pandemic has directly impacted food systems at the level of food supply and demand, and indirectly through decreases in purchasing power, as well as logistical barriers and trade blockages.

For solar companies:

- The decreased income level for farmers also means that PayGo Solar providers, who are often the only formal credit providers in these rural markets, are strained and their sustainability is at risk due to growing default rates.



TOOLS Pula uses insurance and digital products to assist smallholder farmers to mitigate climate risks, improve their farming practices and bolster their incomes over time. Through its initiative in Zambia, Pula has offered a strong value proposition to all parties in the value chain, including the farmers covered, the insurance partners and the solar PayGo companies.

For smallholder farmers, the value lies in: (1) protection from repossession of PayGo assets or increased repayment burden in case of risk events; and (2) more manageable daily payments bundled into the daily solar payments.

For solar PayGo companies, the unique benefits include: (1) balance sheet protection in case of catastrophic weather events; (2) insight into market trends and consumer behaviour for business strategy and product development; and (3) reduction in the burden and reputational costs related to repossession of assets in default cases.

For insurance partners, the unique value proposition of the model includes: (1) increased reach and access to the smallholder farmer market through leveraging the PayGo client base; (2) development of highly relevant insurance products to serve a previously neglected or poorly understood market segment; and (3) easing of the insurance distribution challenge through the bundling of insurance with PayGo assets.

Vitalite and other solar PayGo companies have increasingly adopted agricultural insurance during the COVID-19 crisis. This increase is expected to avoid compounding any potential added climate or disaster-related risk to the existing risk from the pandemic.

Pula has partnered with a pioneering agriculture-focused solar home system PayGo provider in Zambia through the RUFEP programme. This is supported by IFAD's technical facility INSURED to develop a pilot product that insures the existing customers of Vitalite and provides them with a financial cushion in case of a climate catastrophe.



KEY LESSONS

- KEY LESSON 1** The COVID-19 crisis motivates agri-SMEs to adopt insurance coverage, which in turn makes them better prepared for and more resilient to similar pandemic-related shocks, as well as potential climate or disaster-related events in the future.
- KEY LESSON 2** The case has demonstrated that even insurance products designed to manage different types of risks can have a positive impact in terms of increasing lenders' confidence when engaging with rural clients, as these may be simultaneously affected by the pandemic and by other recurrent types of risks (e.g. weather shocks).

LEARN MORE

Vitalite: <https://vitalitegroup.com/> 

Pula: www.pula-advisors.com 

IFAD: www.ifad.org 

INSURED: www.ifad.org/insured 

RUFEP: <https://www.rufep.org.zm/> 



PART III.

Emerging policy issues in agricultural risk management

The current pandemic has led to changes in the agricultural sector that are reflected at the policy-making level. Indeed, most governments have taken steps to deal with the risks and needs along different value chains throughout the COVID-19 crisis.⁹ Maintaining the crucial activities of food production, transformation, trade and distribution has met with serious challenges during the pandemic.¹⁰ Yet, the strategic importance of agriculture in most low- and middle-income countries cannot be understated, particularly the significant role it plays in their economies and for local populations' livelihoods.

In response to the pandemic, policy-makers have been urged to expand social protection programs, including cash transfers and tax moratoriums. Loan moratoriums, tax breaks, continuity grants and credit guarantees are examples of mechanisms that have been applied in different countries on a temporary basis to help business continuity.¹¹ Measures adopted by many governments in the first months of the crisis played a critical role, not only in ensuring the continued delivery of food to markets, but also in supporting a large population facing major income shortfalls.

Organizations from the development sector have stepped up their response as well, particularly through efforts aimed at increasing financial inclusion in poor rural areas. Development institutions like the Agence Française de Développement (AFD)¹², the World Bank (WB)¹³, and the Inter-American Development Bank (IaDB)¹⁴ have supported initiatives to promote social protection efforts in low-income countries.

Governments around the world have implemented a wide range of emergency financial measures. In several countries they have provided 100% credit guarantees directly or via agencies to encourage SME financing. Popular policy instruments observed include equity infusion and debt support to incentivise bank lending to SMEs, emergency credit lines, partial credit guarantees for lower-rated non-bank financial institutions and microfinance institutions, and collateral-free loans.¹⁵

Over the past few months, governments in Latin America and the Caribbean have raised public spending to promote income support programs for formal and informal workers, as

9 FAO, Novel Coronavirus (COVID19), Country Profiles (2020). Available at: <http://bit.ly/3p9gwOs>

10 Torero Cullen, M. COVID-19 and the risk to food supply chains: How to respond? FAO, 2020. Available at: <https://bit.ly/39Yzmlk>

11 ODI (2020). Saving Africa's private sector jobs during the coronavirus pandemic. ECDPM/ODI/UNECA/Re-Define for EDFI. Available at: <https://bit.ly/3iyHsVy>

12 AFD (2020). Le groupe AFD aux côtés du Maroc face à la crise Covid-19 | AFD - Agence Française de Développement. Available at: <http://bit.ly/3o5vTGn>

13 World Bank (2020). How the World Bank Group is helping Guinea to address the COVID-19 (coronavirus) Pandemic. Available at: <http://bit.ly/3qH6vbD>

14 New Development Bank. Brazil Emergency Assistance Program for Economic Recovery. Available at: <https://bit.ly/364IKDU>

15 TMF Group. Government support schemes for COVID-19. Sep 22, 2020. Available at: <http://bit.ly/2OrtyfP>



well as increased financial support for SMEs, including wage bills and loan instalments.¹⁶ Meanwhile, the Organisation for Economic Co-operation and Development (OECD) has made policy recommendations to a number of countries in the region for strengthening social safety nets, reducing income and opportunity inequalities, increasing tax systems' effectiveness and raising spending efficiency, among others.¹⁷

In India, there are reforms under way, as well as amendments to existing laws. The national government has launched a USD 23 billion pro-poor package to provide direct cash transfers, basic consumption goods and free cooking gas cylinders to the poor, and extended insurance coverage to frontline health workers. It has also disbursed emergency credit lines for banks to provide working capital loans to existing SMEs and agricultural borrowers, as well as financial assistance to self-help groups. Because agri-SMEs are considered as an integral part of essential supply chains, they can benefit from the support mechanisms that were immediately set up for cash-starved agri-SMEs along with partial loan guarantees.¹⁸

A recent analysis covering the first four months of 2020 indicates that emerging economies focused their attention on trade and market interventions, information, coordination, and food assistance measures, and more particularly on measures that were “urgent and necessary” to safeguard the safety of workers and ensure the minimum functioning of the agriculture value chains.¹⁹ By contrast, OECD members – which are generally high-income countries – relied more on support measures, be it in the form of agriculture and food sector support, general economic assistance, or temporary relief measures.²⁰

16 OECD Policy Responses to Coronavirus (COVID-19) COVID-19 in Latin America and the Caribbean: An overview of government responses to the crisis. Nov 11, 2020. Available at: <http://bit.ly/2ODPUbt>

17 Arnold, J. et al. Policy responses to COVID-19 in Latin America: Big steps in a small space. OECD: 8 June 2020. Available at: <http://bit.ly/39QH0hn>

18 Op. cit. note 15.

19 Gruère, G., & Brooks, J. (2020). Characterising early agricultural and food policy responses to the outbreak of COVID-19. Food policy, 102017. Advance online publication. Available at: <https://doi.org/10.1016/j.foodpol.2020.102017>

20 Idem.



Key Takeaways: trends and lessons

RESILIENCE OF THE AGRICULTURE SECTOR

- Despite the global economic downturn and local disruptions to supply chains, the agricultural sector has demonstrated enduring strength through the pandemic – e.g. in India, the sector has grown by 3.4% while the overall economy has declined 23.9%.²¹

HOLISTIC RISK ASSESSMENT

- Quantification and prioritization of risks can provide large benefits to agri-SMEs. By mapping all important aspects of the agricultural sector, one may better understand what the most pressing risks to be addressed are. This is about being holistic: risks are assessed from an overall perspective, and not in an isolated manner. Having adequate information is crucial to develop a holistic risk assessment.

BANKABILITY & RISK PRIORITIZATION

- As FSPs are particularly risk-averse in the wake of the COVID-19 pandemic, agri-SMEs increasingly need to demonstrate bankability and a comprehensive risk management strategy in order to access credit. The Bankability Metrics from SCOPEinsight may support this by creating visibility for all stakeholders and enabling comparison through common standards.

INSURANCE & INCENTIVES

- Insurance schemes can increase the willingness of agricultural value chain actors to make riskier and potentially more profitable investments, thereby scaling up their businesses. Additionally, they can be powerful tools to help manage the impact of unexpected economic shocks like COVID (health insurance) or climate and natural disasters (agriculture insurance), or both.
- Short-term incentives such as the zero-interest loans provided by MIFA can assist in making production more competitive.

²¹ India's Ministry of Statistics and Programme Implementation, National Statistical Offices. Press note on estimates of Gross Domestic Product for the first quarter (April-June) 2020-2021. Available at: <https://bit.ly/30pcBIP>



RISK-SHARING & FUNDS POOLING

- Investing in risk-sharing among different stakeholders along the value chain can help reduce individual exposures to risks that have been exacerbated as a result of the COVID-19 pandemic.
- Different credit guarantee mechanisms can incentivize investors to take higher risks, or to continue investing during a period of uncertainty brought on by external shocks.

PARTNERSHIPS

- Taking a partnership approach in the relationship between FSPs and agri-SMEs can foster a better understanding of each other's activities and expectations, while also leading to the potential design of better adapted products and services that contribute to reduce risk, and produce goodwill during more challenging times. Third-party organizations can facilitate these partnerships.
- Direct cash transfers, guarantee funds and social safety nets can help shore up demand. Joint efforts from public and private stakeholders (i.e. public-private initiatives) may produce even greater benefits in light of the pandemic's knock-on effects.

TECHNOLOGY & INNOVATION

- The use of technology has increased dramatically among agri-SMEs with quick and early adoption across various levels of personnel and clients. As in many other sectors, remote business modalities driven by COVID-19 have accelerated digitalization in the agricultural sector.

CLIENT-ORIENTED APPROACH

- Many SMEs are seeking a more client-centric approach through the pandemic, focusing on customers' safety and expanding communication channels and ways customers can reach them.²²
- Creating solutions for solving the partner's problems can help reach new customer segments, ensure business continuity and potentially even generate growth.

COMMUNICATION


- UNICAFEC and SEWA are examples of agri-SMEs that have sought to improve internal processes and practices, strengthen governance and increase digitization, which ultimately fosters more frequent communication among the institution's staff.
- Increased communication with staff, cooperative members and commercial partners in times of crisis is key to minimize tensions, raise transparency, improve reliability and retain business.

22 Salesforce Research. Small and Medium Business Trends Report, 4th Edition. 2020. Available at: <https://sforce.co/3roRBb0> 



LOCAL SOLUTIONS

- Decentralized and flexible local supply chains have been considered an important alternative to avoid the drawbacks and risks associated with centralization paradigm.²³ agri-SMEs should seek to develop direct market linkages, hence strengthening ties with the final customers.
- In line with local solutions, some agri-SMEs have become involved with ‘community’ services, which ensures the availability of labour and improves their connections with local people.

²³ Serpil Aday, Mehmet Seckin Aday, Impact of COVID-19 on the food supply chain, Food Quality and Safety, Volume 4, Issue 4, December 2020, Pages 167–180, <https://doi.org/10.1093/fqsafe/fyaa024> 



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