

AGRICULTURAL VALUE CHAIN FINANCE OPPORTUNITIES AND CHALLENGES



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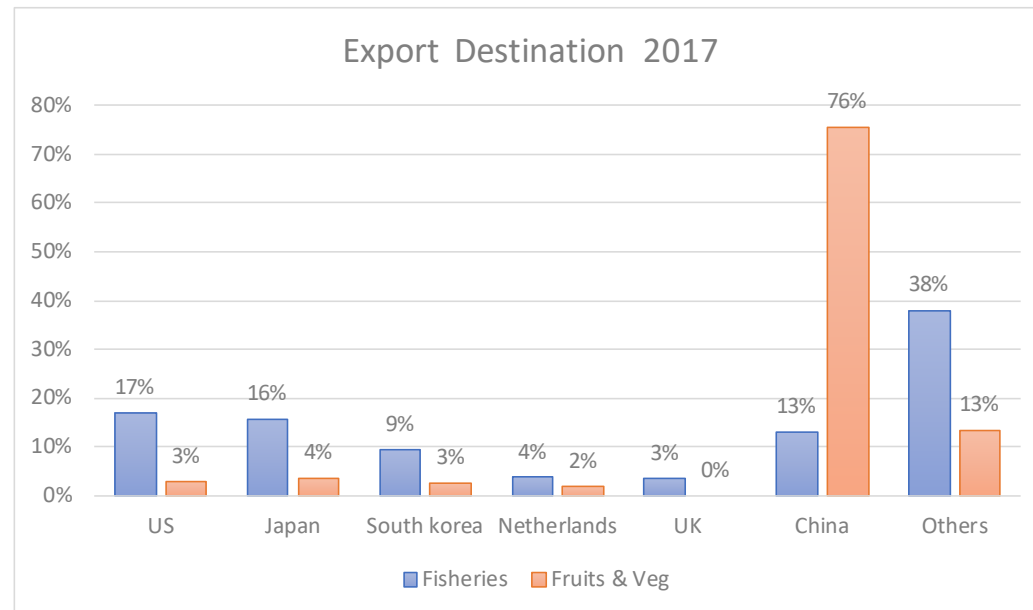
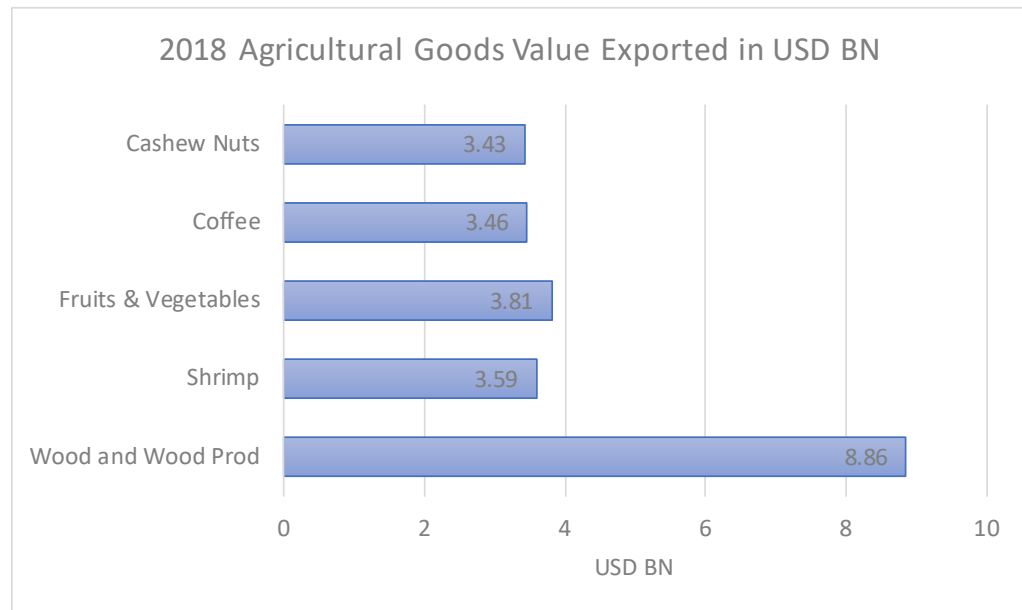
Hans Dellien
Agrifinance Specialist IFC

PROCESS TO IMPLEMENT AGRICULTURAL VC-FINANCE

- Opportunities and Challenges Agricultural Sector Vietnam
- Agri Supply Chain Finance Relevance
- Agri Supply Chain Finance Design and Implementation

OPPORTUNITIES AND CHALLENGES AGRICULTURAL SECTOR VIETNAM

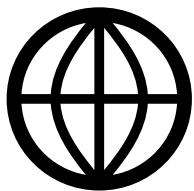
EXPORTS AGRICULTURAL SECTOR



Source: MARD 2018

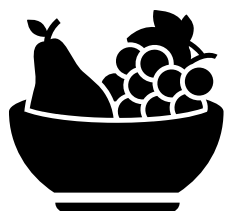
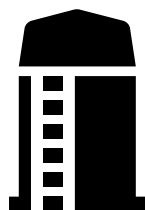
- Agricultural Exports in 2018 reached USD 40 BN, with a strong growth of 6% compared with previous year
- The products with more than USD 1 BN turnover where Woods, Shrimp, Fruits & Veg, Coffee and Cashew nuts
- While Shrimp has a diverse export destinations, 76% of Fruits & Vegetables exports go to China

MESSAGES



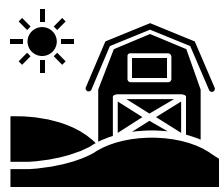
Vietnam should diversify its exports of fruit & vegetables to new markets with higher quality standards

Agri processing companies should invest in modernizing its processing plants and equipment to increase products quality



Sourcing high quality products should be secured thru contract farming

Farmers need support to improve Agricultural Best Practices to produce higher quality products

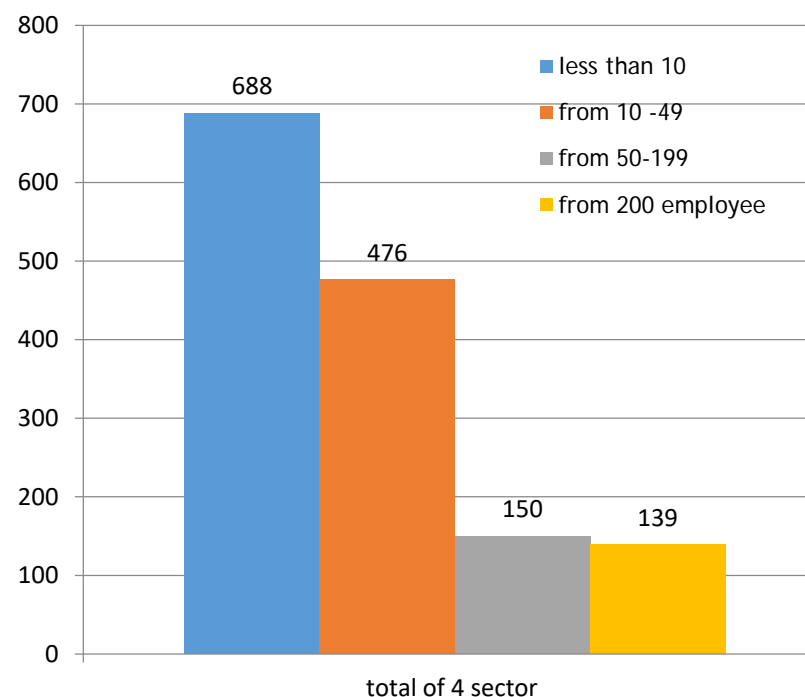


- Banks can play a critical role financing the modernization of the Agricultural sector
- Agribusiness should invest in improving agricultural best practices of their core farmers and suppliers
- Contract farming can be a powerful model to finance modernization of the agricultural sector

Why Agri supply chain finance is not working today in Vietnam

AGRI PROCESSORS IN THE MEKONG DELTA

Number of Agribusiness by Province	Fruits	Rice Mills	Fisheries
Long An	35	27	65
Tiền Giang	40	20	46
Bến Tre	117	5	81
Trà Vinh	12	6	16
Vĩnh Long	24	11	28
Đồng Tháp	35	34	48
An Giang	41	42	84
Kiên Giang	41	6	244
Cần Thơ	93	48	186
Hậu Giang	13	17	22
Sóc Trăng	5	4	12
Bạc Liêu	6	6	117
Cà Mau	4	3	52
Mekong delta River	466	229	1,001
% of total Companies	27%	14%	59%



- There are 1,696 Agribusinesses in the Mekong Delta,
- 47% of agribusinesses are small with less than 10 employees, 33% are medium to small size, 10% are medium size companies, and 9,5% are large companies.
- Only 15% of those companies do have contract farming in place
- 70% of their products are sourced thru traders and aggregators

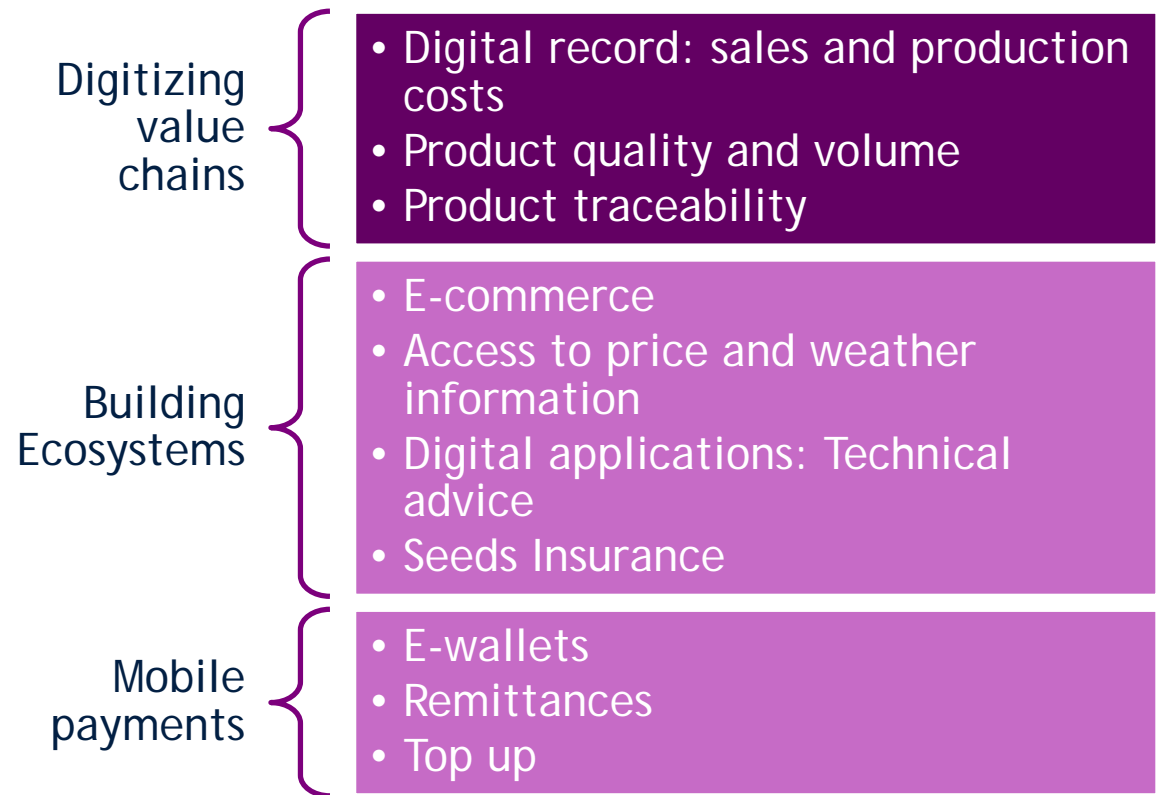
FINANCING MODELS IN RURAL AREAS

Farmers access to financial services

- Informal lending: 80% of subsistence farmer
- Supply finance (Input dealers): 30% of semi-commercial and commercial small farmers
- Fintech and e-commerce platforms: ND
- Banks: 5% to 10% of commercial small farmers including value chain finance
- Microfinance Institutions: 20% of commercial small farmers
- Rural Cooperatives: 30% of commercial farmers

Source CGAP: Small Holders Families Data Hub

New digital financial services and non financial services in rural areas



THESE TECHNOLOGY INNOVATIONS WILL HELP INCREASE THE FINANCIAL FLOWS TO THE AGRICULTURAL SECTOR

REGULATORY FRAMEWORK

Vietnam Government has approved a Civil Code to secure obligations with different instruments:

- Pledge, mortgage, deposit, Security collateral, escrow account, retention of title, guaranty, pledge of trust and retention of property

The government also has created a Collateral Registry to enable registration and monitoring of all obligation instruments

The volume of loans using movable assets in Agriculture are still very small compared with the potential opportunity

What is required to promote the use of movable assets to finance the agricultural sector with supply chain finance models

AGRI SUPPLY CHAIN FINANCE RELEVANCE

AGRICULTURAL SUPPLY CHAIN FINANCE IS A ZERO-SUM GAME FOR ALL PARTIES: SME, CORPORATES AND BANKS

“Supply Chain Finance is defined as the use of financing and risk mitigation practices and techniques to optimise the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements which can be enabled by a technology platform.”

ICC Banking Commission «Standard Definitions for Techniques of Supply Chain Finance», March 2016

Agribusinesses want to pay later

- Conserve their working capital
- Reduction of supply chain disruption
- Improve supplier relationship



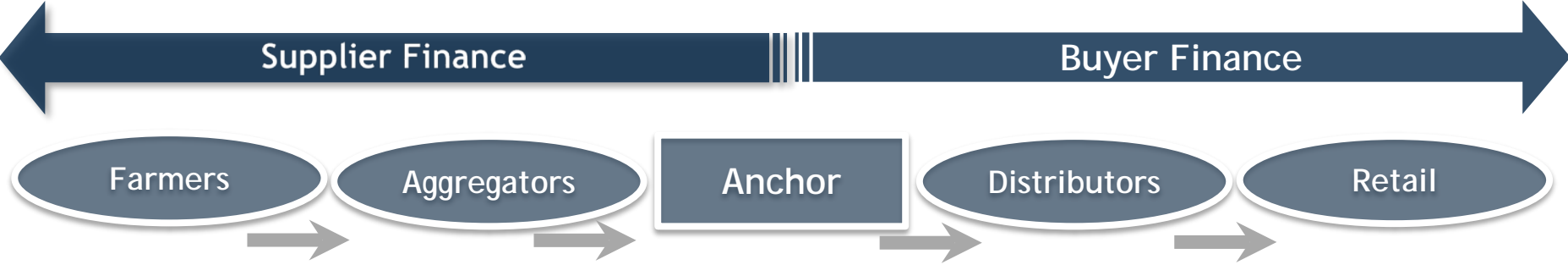
Farmers want to get paid earlier

- Improve cash flow
- Reduce financing costs
- Gain on-demand pool of liquidity

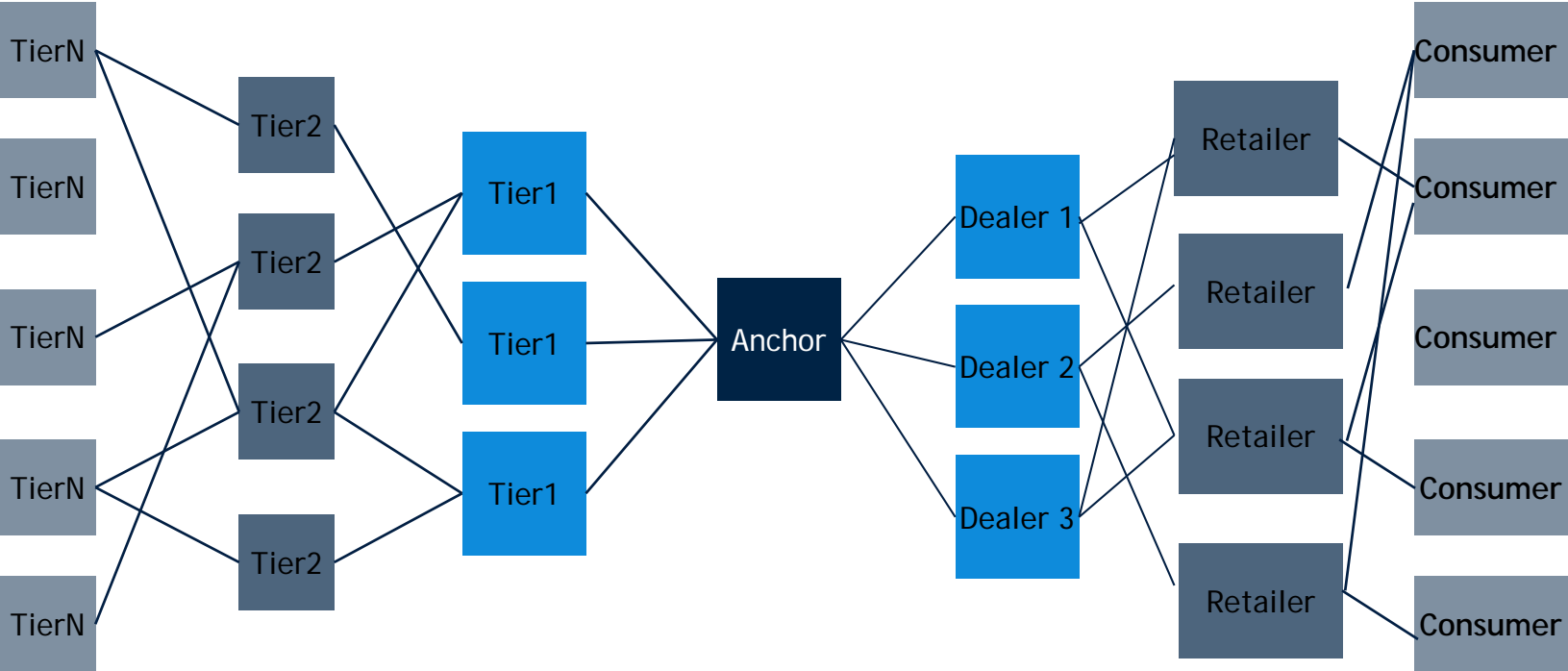
ADVANTAGES FOR ALL PARTICIPANTS

- **Agribusinesses:** improve working capital and increase stability of the value chain
- **Farmers & SME:** get access to finance and better financing terms
- **Government:** increase the market transparency
- **Banks:** get an opportunity to earn additional revenue and better visibility of transactional operations
- **FinTechs:** increase the use and utilization of the technology platforms

SUPPLY CHAIN FINANCE PROVIDES COMPLETE TRANSPARENCY OF THE FINANCIAL, PHYSICAL AND INFORMATION FLOWS



Financing the procurement side of the corporate business Financing the sales and distribution side of the corporate business

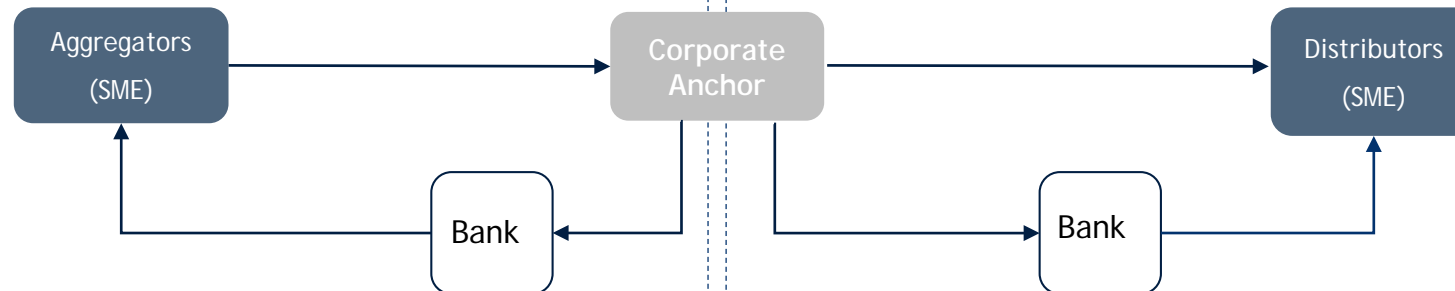


THERE ARE MULTIPLE SCF PRODUCTS THAT BANKS CAN CONSIDER DEPENDING ON THE MARKET DYNAMICS

Products	Market Size	IT Requirements	Risk	Risk Mitigants
Reverse Factoring	high	high	low	Sale of approved invoice only, irrevocable undertaking from Corporate
Purchase Order Financing	medium-high	high	medium	Trading and performance history, Corp guarantee, Loss sharing
Distributor Finance	very high	high	medium-high	Diversification, Corp 'stop supply', first loss, credit insurance wrap
Invoice Discounting	high	medium-low	medium-high	Diversification, Recourse, first loss

*Reverse Factoring - enables Anchor's Suppliers to have their invoices paid immediately at affordable cost.
 PO Finance - enables Supplier to obtain financing at time of Purchase Order
 Invoice Discounting - financing against existing invoices*

Distribution Finance - enables Anchor's Distributors to take longer to pay whilst ensuring Anchor is paid immediately, increasing both their cash positions.

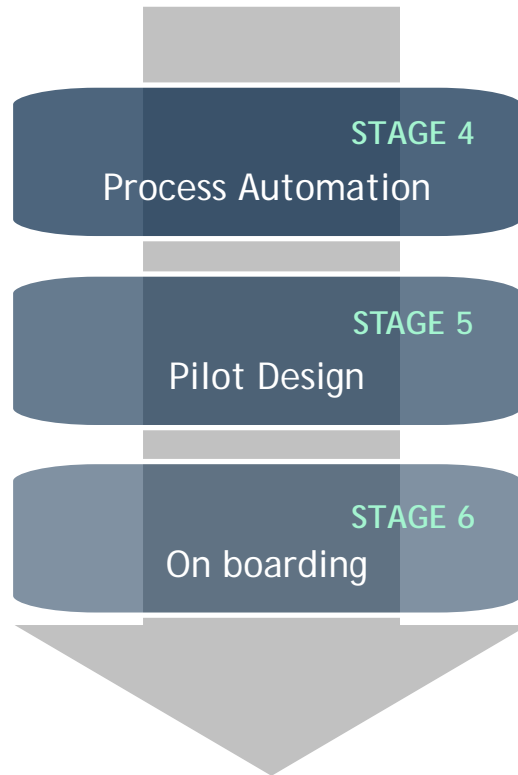


AGRI SUPPLY CHAIN FINANCE: DESIGN AND IMPLEMENTATION PROCESS

IFC OFFERS MARKET LEADING SOLUTIONS AT EACH STAGED OF SCF PROGRAM EXECUTION



PROCESS AUTOMATION AND PILOT DESIGN



- Process design and existing technology performance assessment
- Option analysis with knowledge sharing on available 3rd party platforms
- Proof of concept, RFP, selection matrix, vendor documentation

- Design criteria for Corporate selection
- Pitch books for Corporates, Economic Value Added tools
- Pilot Program Design and KPI framework

- Corporate (anchor) onboarding program for scalability
- SME customers onboarding program design
- Implementation Support (training, marketing, trouble shooting)

SCF TECHNOLOGY IS KEY, BUT NOT THE ONLY SUCCESS FACTOR OF THE SCF PROGRAM

