Workshop on Establishing an African Agriculture Risk Sharing and Financing Mechanism

Ministerial Roundtable II: Developing an Inclusive Risk-Sharing Mechanism

13 July 2016, Nairobi
Overview and Objectives for Discussion

Objectives
Context and framing
Key questions for discussion
Objectives for today’s discussion


To identify...

1. **Innovative and inclusive finance and risk products** which can be utilized and deployed by both financial and non-financial institutions to meet the needs of different segments along the agriculture value chain.

2. **Innovative arrangements** between governments, financial and non-financial institutions, and technical service providers that can reduce risks throughout agriculture value chains.

3. **Results-based incentives** that can reduce uncertainty, lower transaction costs, and manage investment loss/failure rate.
Starting point: let’s distinguish two basic types of risk

PRINCIPAL/INDIVIDUAL RISK

- **Credit worthiness**: Capacity and willingness of a borrower to repay loans, driven by a variety of factors
- **Asymmetric information**: Moral hazard and adverse selection
- **Cost to serve**: High costs to conduct assessment and monitoring of loans, and enforcement of claims

SECTOR-SPECIFIC RISK

- **Production risks**: High variability of farm production outcomes driven by weather, pests, crop diseases and other natural calamities
- **Market and price risk**: Input and output price volatility driven by fragmented value chains and complex global market dynamics

Sector-specific risks can operate on many levels:
(1) **Idiosyncratic** or individual-level
(2) **Co-variant** among groups or sub-regions
(3) **Systemic** at a region- or national-level
Different financial and non-financial products can help mitigate, share or transfer these risks in the agriculture sector.

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<tr>
<th>CATEGORY</th>
<th>DEFINITION</th>
<th>EXAMPLES</th>
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| Risk Mitigation   | Active reduction of risk, limitation of the adverse effects of risk, or lowering of costs to serve | • Good agricultural practices  
• Financial literacy and savings  
• Innovations in mobile information services and decision tools  
• Market enablers (e.g., credit registries, collateral substitutes) |
| Risk Sharing      | Sharing of risk to limit adverse consequences of risk to any individual actor | • Credit guarantee mechanisms  
• Risk pooling via cooperative/farmer association structures  
• Blended capital vehicles |
| Risk Transfer     | Transfer of risk to those willing and able to bear it, often for a fee       | • Crop insurance  
• Weather index insurance  
• First-loss mechanisms  
• Catastrophe bonds |

DEFINITION

**Risk Mitigation**
Active reduction of risk, limitation of the adverse effects of risk, or lowering of costs to serve

**Risk Sharing**
Sharing of risk to limit adverse consequences of risk to any individual actor

**Risk Transfer**
Transfer of risk to those willing and able to bear it, often for a fee
These products can address risk across the value chain...

**NON-EXHAUSTIVE**

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<tr>
<th>Inputs</th>
<th>Farm Production</th>
<th>Agro-Processing</th>
<th>Distribution</th>
<th>Retail/Export</th>
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**FINANCIAL**

- Credit guarantees
- Crop and weather insurance
- Equipment leasing and asset-based finance
- Warehouse receipts finance
- Incentive and interest rebate schemes

**NON-FINANCIAL**

- Information services and innovative credit assessment tools
- Technical farm-level and agro-enterprise training
- Support to cooperative formation and training
- Innovative contracting models to share risk
- Technical support to banks and financial institutions
...with a set of roles and partnership arrangements that are tailored to the specific instruments and products deployed

- Market infrastructure
- Catalytic first-loss funding
- Enabling regulatory and policy environment
- Funding technical support
- Results-based incentives

- Investments in business improvements
- Value chain finance and contracting mechanisms

- New operating capacity to serve agro-customers
- Development of inclusive financial products
- Increased lending volume under risk-sharing cover

- Farm-level training and deployment of new tools
- Development of financial institution lending capacity
Key questions we will address in today’s discussion

1. Extent to which the RSF should operate across the value chain
   - How does risk vary across the agriculture value chain, and what are the unique risk-sharing needs of different types of value chain actors?
   - What segments tend to be particularly under-served, and in what ways?

2. Financial and non-financial products that can address differentiated risks
   - Beyond credit guarantees, what financial products should RSF offer? What other de-risking approaches do banks believe would unleash more capital?
   - Should RSF offer these financial products directly, or be a market catalyst?
   - What non-financial products should be offered or integrated with RSF?

3. Market enablers and supportive programs
   - What market enablers and policies must be in place for RSF to succeed?
   - How can RSF build capacity at banks (e.g., new products and risk processes), as well as among agriculture borrowers to proactively mitigate risk?
About Dalberg Global Development Advisors

About Dalberg
Our firm’s capabilities
Our Africa presence
Dalberg is an advisory firm dedicated to global development

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<th>OUR MISSION</th>
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<td>Our mission is to mobilize effective responses to the world’s most pressing issues and to raise living standards in developing countries.</td>
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<th>OUR APPROACH</th>
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<td>Our approach combines rigorous business analytics with on-ground experience to help corporations, governments, foundations, international agencies, and NGOs.</td>
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<th>OUR SERVICES</th>
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<td>Our services include: (i) developing innovative strategies, approaches and market mechanisms; (ii) establishing new financing facilities and impact investment funds; (iii) advising on reforms to internal organizational processes and structures; (iv) analyzing global markets and developing market-entry strategies; and (v) coordinating and facilitating large, multi-stakeholder initiatives.</td>
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<th>OUR STAFF</th>
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<td>Our staff have lived and worked in developing countries, fostering a unique depth of development expertise. We combine this insight with experience from top-tier professional services firms and leading academic institutions to create actionable solutions.</td>
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We deliver unrivaled insight across all development sectors

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- Financial Inclusion
- Gender
- Health & Nutrition
- Humanitarian Assistance
- ICT
- Inclusive Business
- Infrastructure
- Water & Sanitation

Service Lines

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- Strategy
- Talent & Leadership

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We have completed more than 1,300 projects, spanning all levels of engagement – from advising senior-level stakeholders on global policy, to refreshing an organization’s strategy, to conducting grassroots surveys. Our work lies at the cross-practice collaboration between the skills we bring to the subject areas we have deep expertise in.
We have completed over 1,300 engagements for 500+ clients across the public and private sector.
Dalberg’s Africa presence is core to who we are

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• Half of Dalberg’s professional advisory staff globally are based in Africa, and the firm serves clients across all regions of Africa

• We have four offices across East, West and Southern Africa, along with two emerging presences in Addis Ababa and Dar es Salaam
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