AGRO MINDS AFRICA

Join our LIVE webinar on:

Positioning your Agribusiness or Agro-Startup to Secure Financing

Friday
31st July, 2020

2pm GMT

Series 1

- Securing credit financing for your agribusiness

Facebook Live
AgroMinds Africa Challenge

Speaker
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PRESENTATION OUTLINE

1. **INTRODUCTION – DEFINING AN AGRIBUSINESS**
2. NATURE OF CREDIT FROM FINANCIAL INSTITUTIONS
3. KEY CONSIDERATIONS BEFORE SEEKING CREDIT FINANCE
4. WHAT BANKS/CREDIT INSTITUTIONS LOOK OUT FOR
5. HOW BANKS PERCEIVE AGRIBUSINESSES
6. DEVELOPING AN AGRIBUSINESS CREDIT FINANCING PROPOSAL

1. DEFINING AGRIBUSINESS

Google defines it as “agriculture conducted strictly on commercial principles”.

Inputs	Farmers Producers Cooperatives	Commodity Trading	Agro-Processing	Mechanization	Storage
Fertilizer, Agro-Chemicals, Bio Agents	Animal, crops	Aggregators	Food industry, food ingredients, food raw materials	Tractors, harvesters, planters, accesories	Warehouse, cold storage

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2. SOURCES OF FINANCING

Own Equity	Other people's money (OPM)	Other people's money (OPM)	Other people's Money (OPM)
• Your own savings	• Private Equity • Venture Capital	• Commercial banks • Development banks • Savings & loan banks • Micro Finance Banks	• Suppliers Credit • Buyers Credit

2.1 Types of Credit from financial institutions
Commercial Banks & Development Banks

Long term
- Acquisition of fixed asset
- 5-10 years

Medium term
- An asset whose economic value is long but not expensive
- 3-5 years

Short term
- Used for working capital and other operational expenses
- 1 year

2.2 Types of Long-Term Financing

Long term Financing

- Mostly employed by Commercial banks & development banks
- Used for the financing of fixed assets such as agricultural machinery and equipment
- Could also be used for land development

Lease financing

- Mostly employed by commercial banks & development banks
- Usually used for assets financing
- Initial deposit (Rental) required
- Assets theoretically owned by the lessor and used by the lessee
- My preference for the financing of agricultural equipment

2.3 Types of Credit from financial institutions

Savings & Loans | Microfinance

Short term lenders

- Inappropriate for agricultural credit lending

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2.4 Major Difference between major credit institutions

Commercial & Development Banks	S&L and Microfinance
Cheaper cost of finance	Higher cost of finance
Cover long medium- and short-term loans	Usually do not provide medium to long term financing
Suitable for agribusinesses	May not be suitable for asset financing of agribusinesses

2.5 OTHER Credit sources

Suppliers Credit

- Get supplier to supply inputs you need and pay later

Buyers Credit

- Buyer advances the funds for you to produce

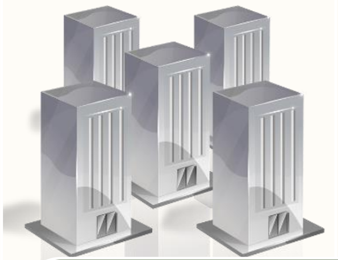
3 KEY CONSIDERATIONS BEFORE SEEKING CREDIT FINANCE

3. Key Considerations before seeking credit financing

Have your own money

Suppliers credit and buyers' credit

Someone’s equity



Commercial bank loans

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4. The foundations of an attractive agribusiness model

What credit institutions look out for? – Pt 1

Existing and identifiable market for the output/product	Healthy Cash flow	Profitability	Stable Financial Capital structure
Identified strong offtakers (with strong representation of the market)	Revenues (sales) – not receivables	Net margin	Lender always/comparatively prefers a higher Equity to debt ratio
Understand risk mitigation steps business model e.g. like rain fed Agric vs irrigation based Agric	Cash outflows e.g. cost of seeds, fertilizers, chemicals	Cash flow/profitability is a function of yield or productivity	Business owner should retain earnings to increase shareholder equity
	Net cash must always be positive		Debts should always be paid down systematically

4.1 The 5Cs

What credit institutions do not take for granted. Pt 2

Character

Applicants credit history

Capacity

To pay back the loan (debt to income ratio)

Management capacity

Adequate technical capacity

Doing a farm and no strong technical agronomist

Capital

Amount of capital an applicant has already invested

Collateral

Asset that can back or act as security for the loan

Your biggest collateral asset is your character

Conditions

Purpose of the loan

The amount involved and the prevailing interest rate

The tenor of the facility

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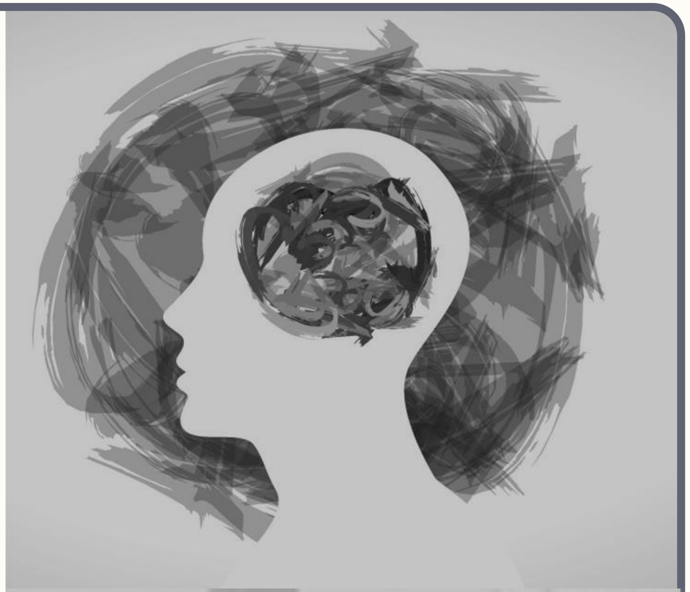
5. How Banks perceive agribusinesses

Does agricultural credit financing really matter?
Banks don’t really care, right?

Perception of high risk



5.1 Risks

across value chain sectors

Value Chain Sectors	Inputs	Farmers Producers Cooperatives	Traders Aggregators	Processing	Warehouse	Export/Retail
Risks	• Wrong quality of inputs • Inputs would be kept under wrong conditions	• Lack of market for produce • Low price at harvest • Land is not properly prepared • Poor seed quality • Pests • Climate volatility	• Cost of production will be high (energy, people, raw materials, logistics, etc • Quality of the products will not meet specifications	• Limited Equity & Working Capital • Insufficient raw materials for processing	• Limited Equity & Working Capital • Poor inventory Managem ent • Quality Control • Security	• Limited Equity & Working Capital • Documenta tion Costs • Packaging & Listing Costs

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5 PSYCHOLOGY OF BANKS TOWARDS AGRIBUSINESS LENDING

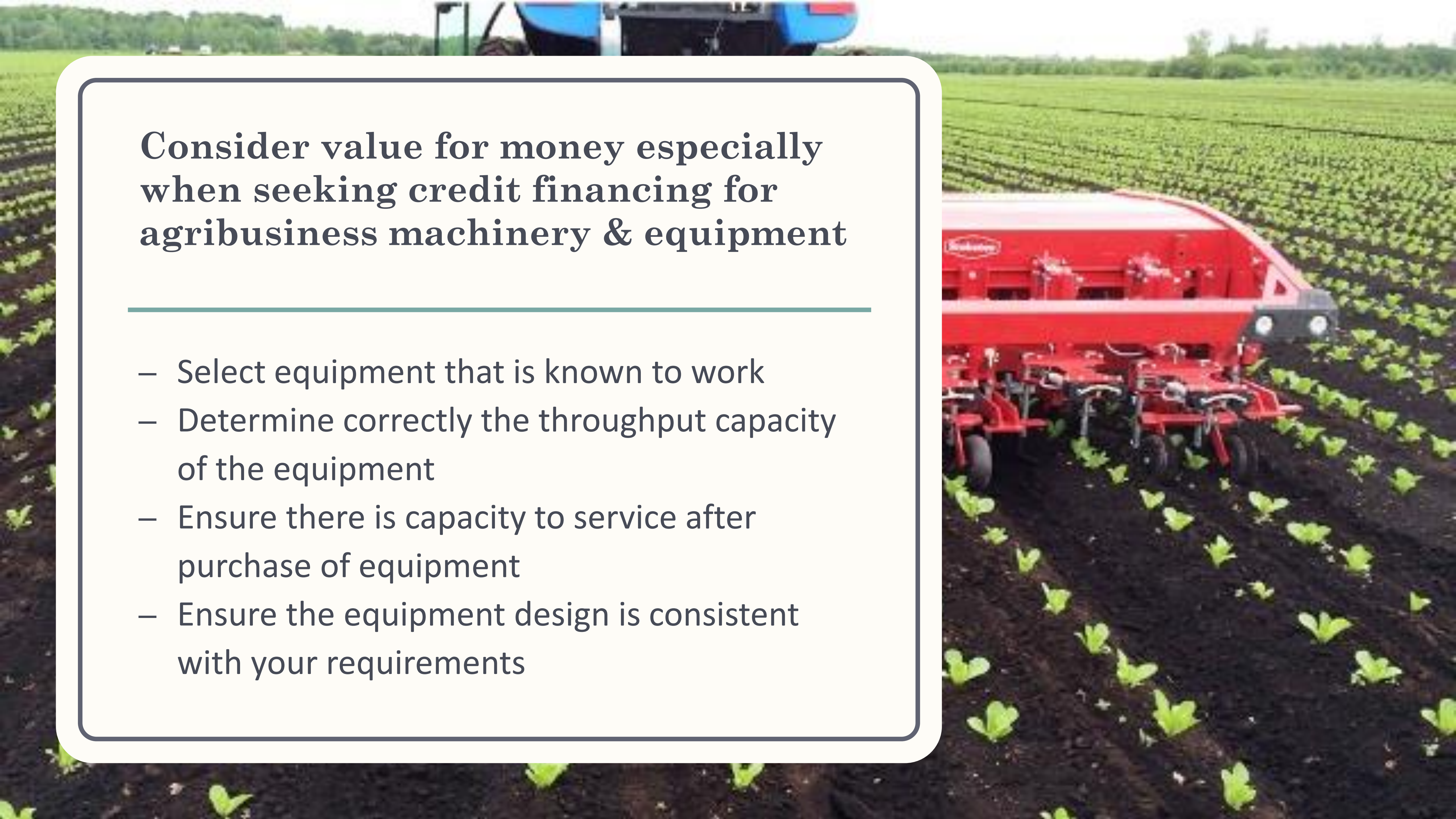
6 DEVELOPING AN AGRIBUSINESS CREDIT FINANCING PROPOSAL

Ask yourself the hard questions
To Frame the Right Proposal

Do I really need this facility?

What are the positive & negative short to medium term

impacts of this facility?



Consider value for money especially when seeking credit financing for agribusiness machinery & equipment

– Select equipment that is known to work
– Determine correctly the throughput capacity of the equipment
– Ensure there is capacity to service after purchase of equipment
– Ensure the equipment design is consistent with your requirements

6. What your agribusiness proposal should entail contd...

Responding to all regulatory requirements

Health – medical testing results of staff – (food processing industry)

Factory certifications

EPA certifications

6.1 What your agribusiness proposal should entail

Main Proposal

Purpose of the application	The amount requested	Financial ratios	Discussion of any technical aspects of the agribusiness	Risk analysis and mitigation
Clarity is key	**Assumptions underlying the request**	**Historical & Projected cash flow and balance sheet statements** Demonstrate clearly ability to pay the loan over a period	**Historical and future What is being done right…** Production – agronomy factor Processing – food safety issues Warehousing – hygiene	**Listing all the possible risks and how they have been, and they will be managed**

Conclusion

Own equity is always the best source of financing any venture

Getting financing from your suppliers or buyers gives the best returns.

Own equity or other equity from partners should be the first preference

Remember, character is the key bet in the cheaper financing of your business

We set up our business with equity and grow it with debt

Debt will always be paid for don't take too much of it

Debt once taken should be paid

QUESTIONS?

Send your enquiries to
applications@agrominds.org

Or visit
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