

# How microfinance can contribute to building more resilient food systems

October 2011



*"We can reach million of farmers. This is not an idealistic dream, it is a realistic goal. Helping poor farming families is the best way of fighting hunger and poverty and feed the growing population."*

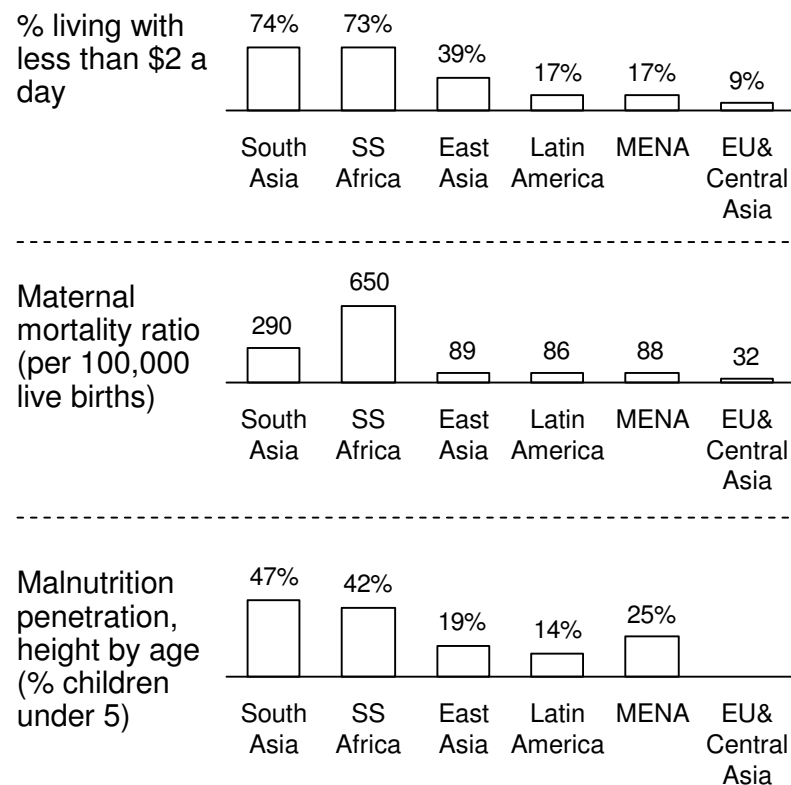
Bill Gates

# Impact Investing: the potential contribution of capital markets in facing world toughest challenges

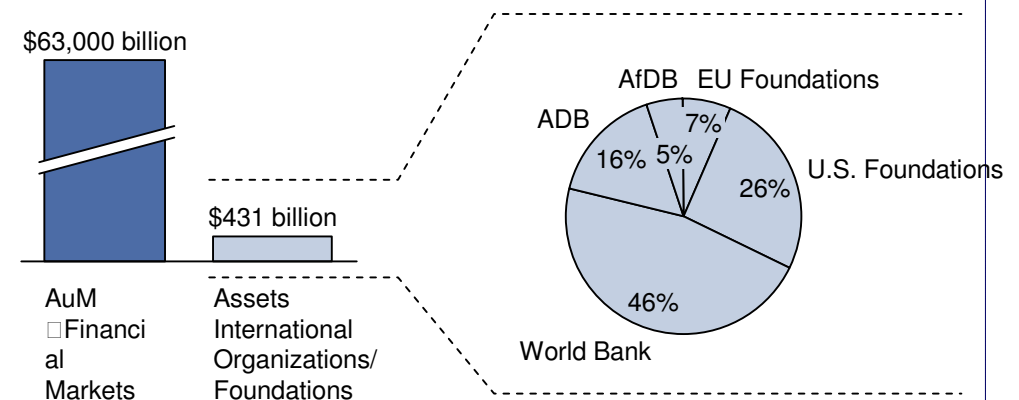
More than 3 million people at the base of the pyramid experience unfulfilled basic necessities

Donation based philanthropy can not address these challenges alone – solutions need to lever business dynamics (and capital market's) in order to allow for the economic inclusion of the poor (the new philanthropy)

Few example indicators that illustrate the type of challenges which these persons tend to face



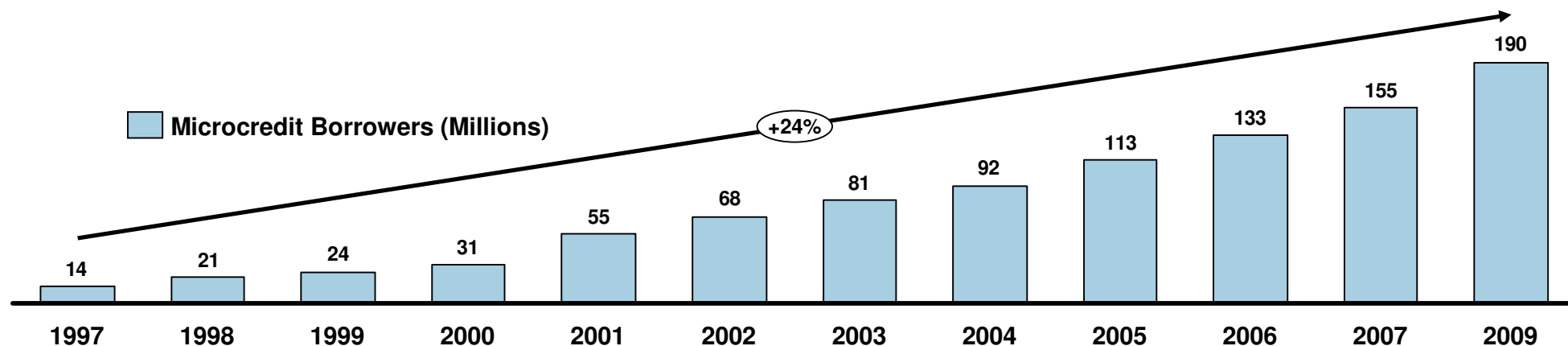
■ Depth of capital markets is ~150 times greater compared to the assets of largest International organizations and Foundations



■ Aid organizations will need the private sector to create sustainable models – e.g., sustainable access to markets, competitive capabilities

Source: [www.efc.be](http://www.efc.be); [www.foundationcenter.org](http://www.foundationcenter.org); 2010 financial statements of World bank, Adb e Afdb.

# Microfinance is a high-growth market...

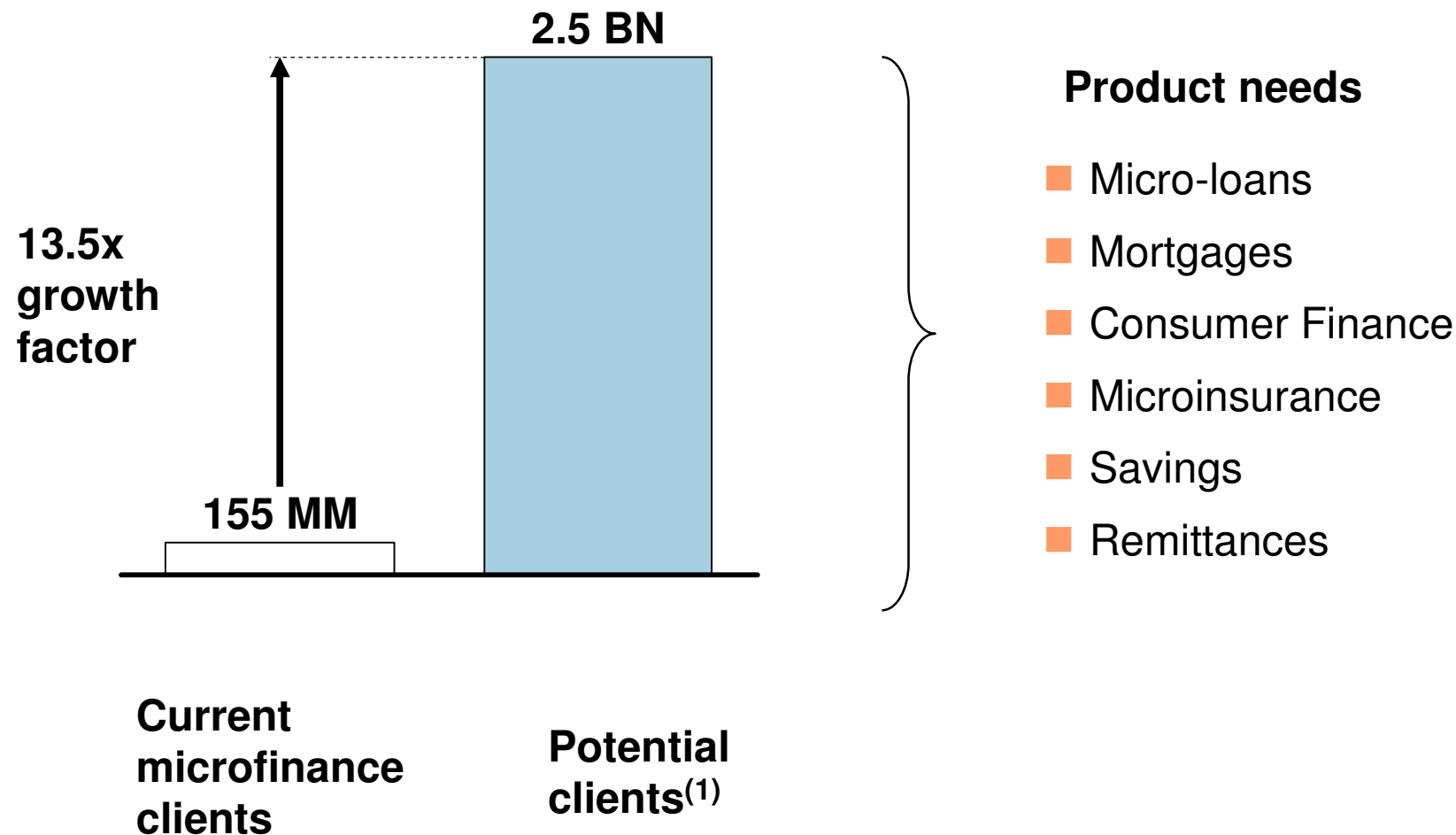


# MFIs	618	925	1065	1567	2,186	2,572	2,931	3,164	3,133	3,316	3,552
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	1980 – 2000 Charity	2001 – 2005 Expansion	2006+ Commercialization
<b>Legal Status</b>	<ul style="list-style-type: none"> <li>NGOs backed by international networks</li> </ul>	<ul style="list-style-type: none"> <li>Transformation from NGOs to Non Bank Financial Institutions</li> </ul>	<ul style="list-style-type: none"> <li>Many MFIs are banks able to accept deposits and regulated by Central Banks</li> </ul>
<b>Products</b>	<ul style="list-style-type: none"> <li>Primarily working capital loans</li> </ul>	<ul style="list-style-type: none"> <li>Diversified set of credit products</li> </ul>	<ul style="list-style-type: none"> <li>Increasingly diversified financial products (savings, microinsurance etc)</li> </ul>
<b>Lending tech.</b>	<ul style="list-style-type: none"> <li>Group lending and daily or weekly collection</li> </ul>	<ul style="list-style-type: none"> <li>Lending with monthly collection</li> </ul>	<ul style="list-style-type: none"> <li>Credit scoring</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>Foundations</li> </ul>	<ul style="list-style-type: none"> <li>Debt capital from IFIs, banks and microfinance funds</li> </ul>	<ul style="list-style-type: none"> <li>Private investors, deposits, capital market transactions</li> </ul>

Source: Microcredit Summit report, 2007 and 2009

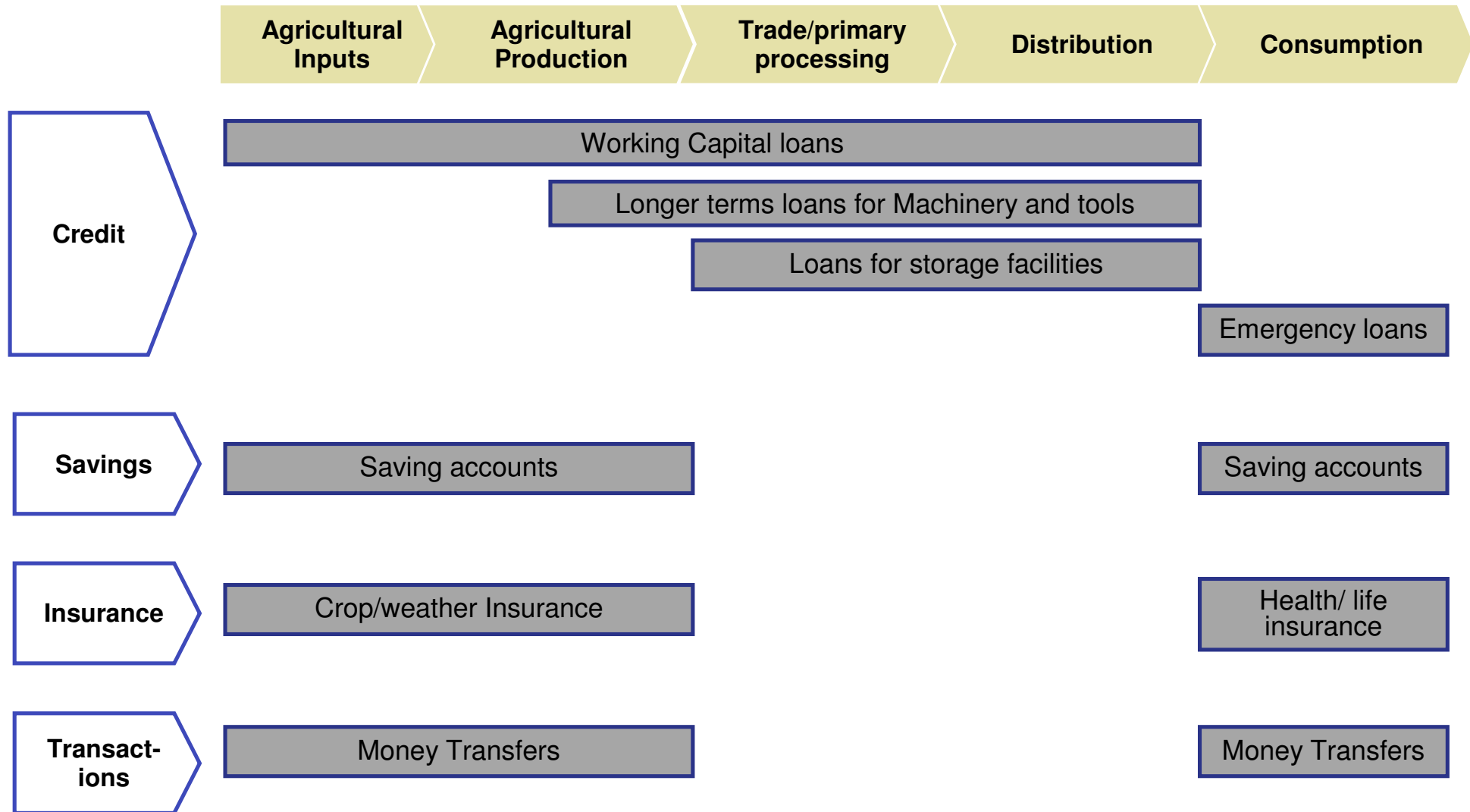
## ... but the market is still largely under-penetrated



Source: Microcredit Summit report, 2007; Financial access initiative framing note, Half the World is Unbanked, October 2009

(1) Potential clients defined as working poor in demand of microfinance services.

# Microfinance can strengthen food security by providing a diverse set of financial services in different parts of the value chain





# An example: CONTACTAR (Colombia)

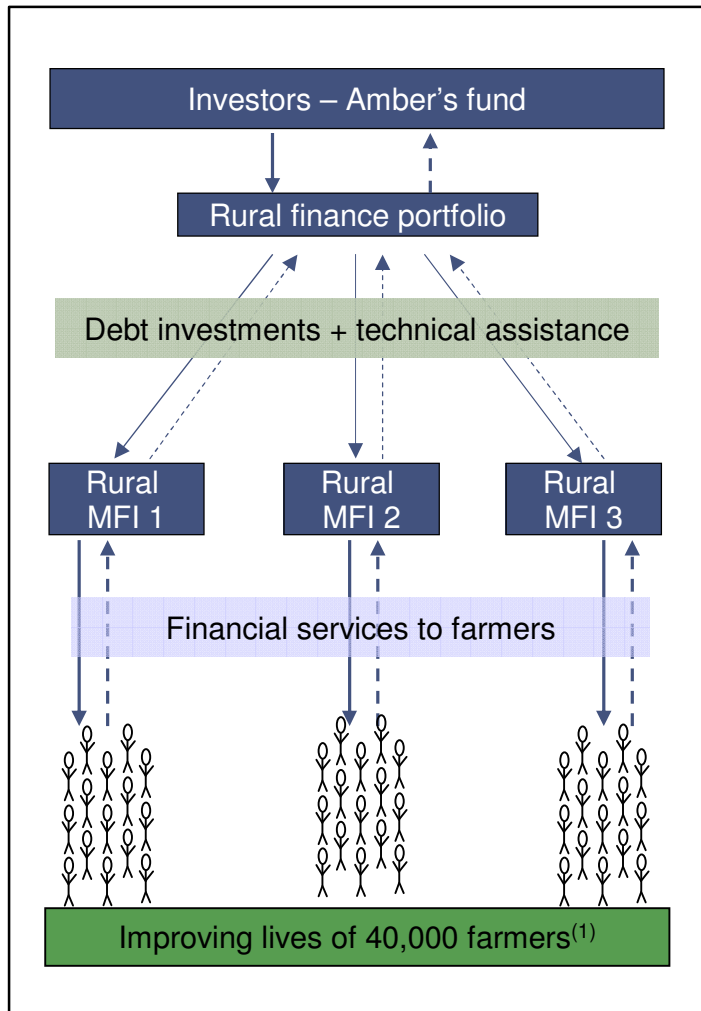


- NGO Microfinance institution based in Pasto Colombia
- About \$30 million in assets
- Very well performing – high levels of ROA and good quality portfolio
- Works in the department of Nariño a poor and rural region in the south of Colombia
- 80% of their clients are farmers
- The following products are available to clients:
  - Group and individual loans for working capital
  - Loans to small cooperative
  - Distribution of insurance
  - Compulsory saving schemes
- Contactar also provides training and technical assistance services including a project in collaboration with the for foundation to foster the growth of vegetables for family consumption



# The role of investment funds in rural microfinance

## Investment: typical flow of funds



## Rural Finance portfolio composition

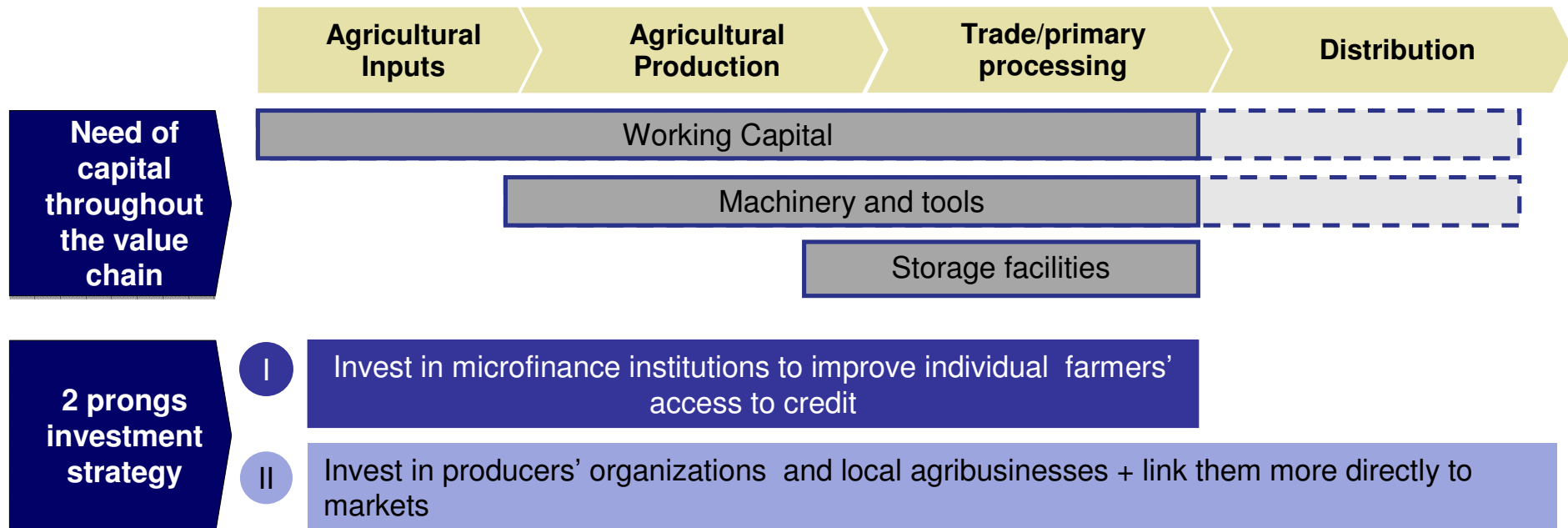
- Senior unsecured loans to microfinance institutions (“MFIs”)
  - \$500,000-3,000,000 amounts
  - 2-4 years tenure
- Characteristics of typical MFIs we expect to invest in:
  - Well established player with clear competitive advantage
  - Assets of \$5-50 million and >10,000 clients
  - Commitment to rural lending
  - Good profitability and asset quality
- MFI to receive TA to adapt product portfolio to rural markets
  - TA provided and paid through a separate grant facility

## Typical financial product offered to Farmers by MFIs

- Loans 4-24 months with repayment matching harvest
  - Working capital to buy inputs
  - Investments in fixed assets (irrigation systems, etc.)
- Savings accounts
- Life, weather or crop insurance
- Extensions: information on inputs, techniques and market prices

(1) Assumes the following (i) total fund size of 30 million Euros, (ii) average loan to farmers of 300 euros

# Our new project: Rural Fund for Africa – a fund aimed at supporting African smallholders farmers



- We expect to raise **a fund of about 20 million Euros**, of which 80% will be invested in Microfinance institutions and the rest in smallholder farmers organizations
- The project aims at benefits **more than 100,000 smallholder farmers** in 4-5 countries in Africa



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