

Facilitating Factors / Challenges

Facilitating factors:

- Overall farmer enthusiasm for the program has been a big push to help program roll out. Farmers expressed that the program addresses a specific need to help them increase incomes.
- Existence of certain better managed farmer cooperatives have helped Kennemer/Agronomika organize farmers easier and facilitated the roll out of the program.
- Availability of wholesale funding, allowing Agronomika to operate. Agronomika got its start through a loan facility provided by FMO of the Netherlands, who in turn received a 50% portfolio guarantee from the Dutch gov't through IDH.

Challenges

- In general there is a lack of rural professional organizations or farmer groups that are well organized. Most cooperatives have weak capacities and in their current set up are not able to leverage the Kennemer Agronomika program. This makes scaling the program more difficult.
- Lack of know how at farmer level- the training need at farmer level is much higher than initially anticipated. This covers both the need for farmer level training for new crops, such as cacao, but also the need to train on basics of soil management, farm business skills, financial literacy etc.
- Other challenges remain: (i) Issues around fractured land ownership and titles; (ii) Lack of payment systems in remote areas, heavy reliance still on cash transactions; (iii) Lack of mobile data availability and limited physical infrastructure.

Lessons Learned

- Joint collaboration between agricultural buyer and finance sector needs to be managed tightly. The missing link is the extension service, if no clear partner is 'in charge' of extension and monitoring it will be difficult to ensure results.
- There is a need for innovative financing solutions in the absence of traditional collateral, (only possible if private sector / agri biz / KFI takes part in the risk management)
- There is a need to focus financing solution on total farm cash flows (farm centric) rather than solely on the new crop (crop centric)

Recommendations

- For donors - to look at effective collaboration with market partners to ensure alignment and ensure long-term support after the programs have been completed.
- For governments - to focus on infrastructure (physical, payment, data support), to link extension support to farmers who are taking out private financing
- For finance companies - that agri-finance requires focus and flexibility to make it work, and the establishment of partnerships.
- For Agri-business - that there is a need for them to understand the risks involved with agri-finance and a responsibility to actively participate in managing such risks.

Agri-Finance as catalyst for value chain integration of smallholder farmers

The Philippines



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Synopsis

The Philippines-based cacao contract grower Kennemer Foods has established a close partnership with rural finance company Agronomika Finance Corporation in order to provide smallholder farmers with long-term farm establishment financing.

In the Philippines, the small holder farmers (SHF) have land holdings between 1 and 5ha. While they earn their main income through agricultural activities, most are not integrated in organized and sustainable value chains and are often dependent on local markets and traders with volatile prices and off-take capacities

The case shows how Kenner Foods and Agronomika Finance Corporation helped increase the resilience of small holder farmers by increasing their income and diversifying their income sources through multi-cropping. Farmers benefitted from fairer and shorter value chains as well as improved farming technology for different crops through Kenner and accessed affordable financing for their farms through Agronomika and other local providers (e.g. the Cooperative).

Background

The cacao industry in the Asia Pacific region is faced with rising demand in China and India alongside shortfalls in cocoa bean production in Indonesia, which produces more than 80% of the region's cocoa and is in a multi-year decline. Cacao has great potential in the Philippines as the agronomic conditions are ideal and is a good intercrop into agroforestry and coconut farming systems. Furthermore, being a high-value and long-term crop, a farmer can, by intercropping cacao into an existing coconut farm, increase his/her income by up to 300%.

In the Philippines, most of the agricultural lands are owned by small holder farmers (SHFs) with about 60% of farms at less than 2 hectares and another 33% of farms between 2 and 5 hectares. One of the crops that globally relies on SHFs is cacao, where more than 90% of production comes from farmers with less than 5 hectares of land. However, these SHFs are faced with the following:

- Lack of Farmer Organization: SHFs often are not organized effectively which makes it challenging for them to access markets, technologies, inputs and finance as well as other benefits needed for them to increase their productivity.
- Lack of Knowledge and Extension Services: Many local governments lack the personnel and the financial and technical capacity to provide effective extension support.
- Big Need for Rural Capital / Limited Agri-loans: The small scale of farms and their low productivity, insecure land rights, limited access to and availability of land titles for collateral all serve to increase the risk of providing financing to SHFs. However, capital is essential for farmers to begin planting, improve productivity, shift to high-value crops, and move up the value chain.

Kenner Foods International (KFI) - Kenner operates an inclusive business model as a way to promote the planting and production of cacao through SHFs. Kenner started with 200 farmers in 2012, and has now engaged more than 15,000 farmers in 30 provinces and planted 15 million cacao trees across the Philippines. Since 2012, Kenner has operated a multi-crop smallholder grower program providing end-to-end support to SHFs with access to financing, good quality inputs, technical assistance and a guaranteed market.

Agronomika Finance Corporation (AFC) - In 2016 Kenner established Agronomika Finance Corporation (AFC) which focuses on providing agri value chain financing more adapted to local needs. It also provides more flexibility in terms of locations and in loan design.

Innovations / Good Practices

Farmer financing approach is based on tight integration of activities between KFI and AFC. Integration of financing into the Value Chain Approach:

1. Joint Product Development:

- Loan amount: The loan amount is determined through a Farm Plan and Budget as per KFI protocol; out of this AFC finances around 70% while the rest remains equity in form of labor by the farmer; disbursement over 2 years during gestation period upon farm needs.

- Collateral: AFC and KFI approach combines joint liabilities among farmer groups with professional farm management services provided by Kenner to ensure farms become productive and loan can be repaid;
- Implementation through Cooperatives / Aggregators: Coops help in origination and aggregation but also play an important role in ensuring joint liability among farmers (through social network and social capital in the community)

2. Lending Processes integrated into value chain

- Joint origination/ farmer selection: Kenner validates the agronomic conditions of the proposed farm. Agronomika will then conduct credit investigation activities for each account
- Disbursement: The complete lending process is directly integrated into the value chain, which also means that proceeds of the loans are delivered to the farmer in kind and only as needed in order to avoid misuse of funds intended for farm development.
- Monitoring & risk management system: Kenner's technician visit farms to coach farmers; provide feedback to Agronomika as early warning system for farm production status; regular stakeholder meetings to discuss operational aspects and growth /repayment status; additionally, access to crop insurance
- Collections: Collections are made through automatic retention of a certain % of the sales through Kenner upon harvesting.

Outcomes/Impact

The joint Agronomika and Kenner program has so far financed 660 farmers with approximately 1,200 hectares planted covering a total of 1 million new trees. Twenty percent of these farmers live below the poverty line. Initial results based on the Acumen Lean Data Study of the Kenner-Agronomika program:

- 95% of farmers say they could not easily find a good alternative to Agronomika or Kenner, suggesting that the project is providing a scarce service.
- High loyalty among farmers to Kenner and Agronomika who provide them with much needed services (97% sees themselves working with KFI and AFC in the future)
- Farmers with loans from Agronomika show a very high satisfaction mostly due to the reason that all services are integrated into the value chain and Agronomika and Kenner work hand-in-hand; high appreciation for a financing partner who understands farmers and shows the willingness to help them with customized products and processes
- Farmers highly value the support system of Kenner through training and extension services which increases their knowledge about farming/ cacao
- More than 50% of farmers who have completed at least one harvest season already acknowledge an improvement in the quality of their lives

Future benefits being monitored: (i) income increases; (2) predictable cash flow; (iii) agri-enterprise development; (iv) better climate resilience; (v) improved gender balance; (vi) job generation; (iv) other well-being indicators: better education for children, better quality food, increase investments in their SHFs farms and houses