WIEF JAKARTA ROUNDTABLE 2017

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DRIVING INVESTMENT IN GREEN FINANCE
SunCulture’s Business Model:

- Environmentally Focused & Socially Inclusive
- Solar and IoT technology Driven
- Integrated Services – Financing & Agriculture Support
- Technology is applicable globally – extremely adaptable to different topographies, water sources, farm shapes.
Market opportunity (1/2):
2.5bn people rely on agricultural production for their livelihoods. They represent the largest client segment by livelihood of those living on less than $2 a day (CGAP)

The smallholder farmer product ladder: how to increase farmer incomes

- Irrigation
- Cold storage
- Small post-harvest processing
- Well drilling
- Low-cost machinery
- Large post-harvest processing

Irrigation is the first step in the smallholder farmer product ladder.

Irrigation increases yields by 2-5x and requires little behavior change.

Without increased food production, farmers do not have much need for additional products.

More irrigation = higher average income
Market opportunity (2/2):
Africa is a huge opportunity for SunCulture and for the world’s growing food needs.

The UN estimates that the world needs to increase its food production by 70% in 2050 to meet the food needs of its population.

Africa offers the best opportunity to meet this need because:

- 65% of Africa’s workforce is in Agriculture
- 65% of the world’s unused arable land is in Africa
- 50% there is room for improvement – African smallholder farmer yields trail world averages by 50%.

Despite this massive opportunity, most smallholder farmers in Africa don’t irrigate despite having access to sufficient groundwater.

This results in Africa spending $35.8b importing food and contributing to <15% of global agricultural output each year.
### Traditional lenders struggle to invest in the SHF opportunity

**Agricultural borrowers often:**

- Operate in remote, sparsely populated regions
- Have limited or no banking track record
- Face seasonal cash flows as dairy and eggs
- Present crop risk from weather, pests, etc.
- Often lack formal ownership of land
- Rarely have a business track record
- Work in complex and unstructured supply chains

**...which means banks must:**

- Provide more bank branches and more innovative distribution models such as MFS and MFIs have
- Reduce high collateral requirements
- Seek credit guarantees
- Provide flexible repayment to coincide with harvest
- Focus on cash crops and non-seasonal produce such as dairy and eggs
- Extend short dated loan tenors
- Provide crop insurance
- Expect other formal collateral (property, machinery, stocks, savings) or guarantees from existing customers
- Require significant asset/cash collateral requirements
- Charge high interest rates of ~18-34%
- Work in complex and unstructured supply chains
- Focus only on structured supply chains (tea & dairy)
- Limit supply chain finance
- Base lending on assets

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Source: OCA Consultation for IFC 2030 Water Resources Group

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**Traditional farmers’ value chain** is inefficient and disconnected...

- Agronomy support
- On-site delivery & installation
- Training
- Agronomy servicing
- On-site delivery & installation

...making it difficult for farmers to get the support needed to succeed.
Externalities need to be Integrated

Investors need to compare apples to apples – we cannot only focus on positive impact metrics plus a financial return.

We must start to push “mainstream” or “traditional” investors to measure the negative impact metrics and economic value that accompanies (subsidizes) their financial returns.
Agriculture is an Opportunity for...

- Social Inclusion
- Positive Environmental Impact
  - Solar Energy replacing Carbon sources
  - Water Efficiencies
  - Soil
  - Biodiversity & Pollinator Health
- Increase Food Security
- Increase Incomes for World’s Poorest, Hungriest People
Agricultural Production is RISKY.

Investors tend to prefer to finance the supply chain after the agricultural products are produced – ie. I don’t want to finance the working capital to grow apples – I prefer to finance the bottler making juices from the apples!

Disproportionate Risk taken by the most important, most vulnerable part of the supply chain...

FARMERS

Current supply chain does not allow SHFs to negotiate a return commensurate with the risk they are taking.
SunCulture’s Financing Aims

The smallholder farmer product ladder: how to increase farmer incomes

- Enable Farmers to Access Financing for Productive Assets
- Learn their legal rights and obligations in contracts so they can negotiate on their own behalf.
- Utilize Climate Change adaptation and mitigation technology and best practices to improve their incomes and lower their risks.
- Decrease their vulnerability and increase their ability to receive compensation commensurate with the risk they are taking and the benefits they are bringing to the world.
Agriculture is Predictably Unpredictable

Investors need to get comfortable with a new risk paradigm stemming from:

- Cultural Nuances
- Fluctuating Cash Flows associated with the Sector
- Risks associated with Agriculture

Investors cannot copy and paste risk metrics from other industries – a new normal for counterparty assessment and portfolio risk metrics needs to be developed.
Non-Bank Financial Institutions

Who is really best positioned to:
1. Assess Counterparty Risk?
2. Monitor Counterparties?
3. Enable ROI for productive asset investment?
4. Educate Counterparties?
5. Encourage (Enforce?) Environmental Best Practices?
6. Innovate new financial & insurance products?
Effective Eco-System: Agricultural Finance

Source: Moving the Needle: Critical Success Factors for Scaling Innovation in Asset Finance for Small and Growing Agribusinesses
SunCulture’s Business Model: Agricultural Finance

- Investors
-Capacity Developers
- Financial Service Providers
- SME in Agribusiness
- Smallholder Farmers
- DFI, Donors, Foundations
- Technology Companies
THANK YOU!