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Present

Transforming Agriculture through Blended Finance: **Building Climate Resilient Ecosystems**

INDIA BLENDED FINANCE COLLABORATIVE
CATALYZING INNOVATIVE FINANCE FOR INDIA

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The Increasing Importance of Agriculture Financing

One of the key factors fostering growth in any sector is the ease of access to credit across its value chain. The agricultural financing landscape of India over decades has seen an increased focus with formal institutions providing credit through a wider range of loan products as well as the emergence of new age lending solutions focussed on mobilizing credit across the agri value chain. This in itself is a transformational step to increase access to credit.
The agriculture segment has also seen increasing innovative solutions coming up to build greater technical and technological efficiency and productivity for farms as well as helping farmers be better prepared to address the impacts on climate change on their farm yields.

These nature of transformations merit the requirement for greater mobilization of agri finance as well as increased impetus to new age solutions looking to transform and build greater capacity across the supply chain.

There is a requirement for more credit to both end users such as farmers and Farmer Producer Organisations (FPOs) as well as new-age enterprises leveraging technologies to provide agri solutions. The increasing impact of climate change on the agriculture segment also necessitates a holistic approach that helps build a climate-resilient and sustainable agriculture ecosystem.

The government has played an active role to boost farmers' access to institutional finance through various initiatives and has been actively mobilizing the supply side of financing. However, there exists great untapped potential in building and strengthening the demand side of agriculture financing. Interventions that could bolster partnerships across the ecosystem between capital providers, civil society organizations as well as industry could greatly amplify the impact of agri interventions on ground, and enhance the livelihood of farmers. Such initiatives at an institutional level will also build the resilience of farmers

This diverse and wide range of requirements as well as the huge scale of operations indicates an increased requirement for affordable and accessible credit to different users as well as building stronger interventions and collaborations between entities across the ecosystem.

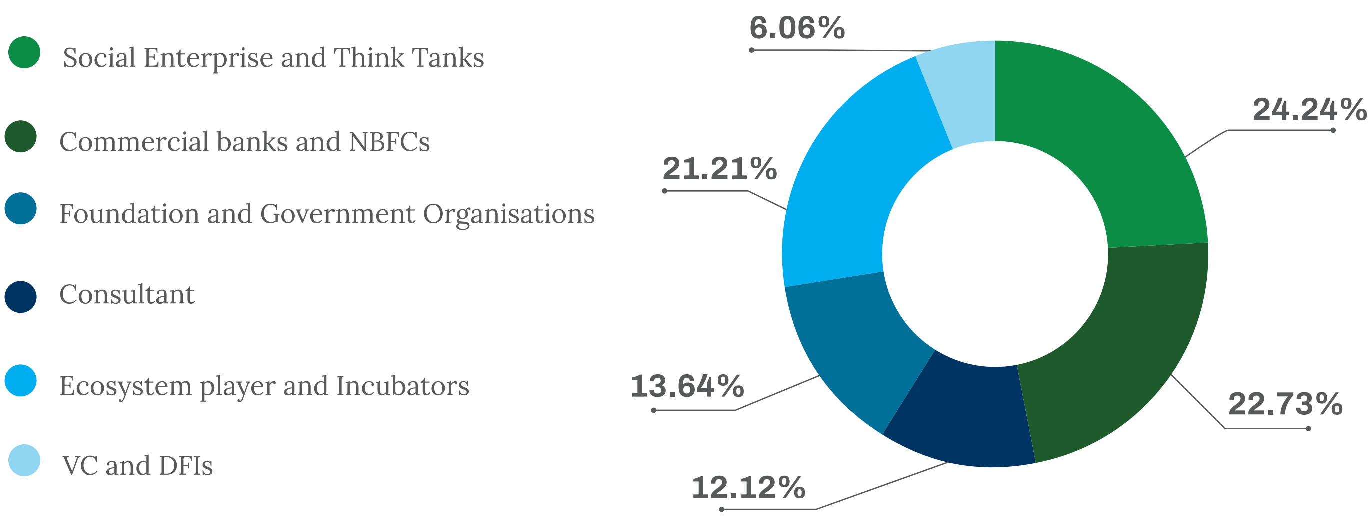
Therefore, mobilizing blended finance is an imperative to scale up the agriculture sector- both in terms of financial support as well as fostering greater cooperation between different interventions to build technical capacity across the agri value chain.

To build on such collaborations and develop holistic perspectives across the stakeholders, **The India Blended Finance Collaborative (an initiative of the Impact Investors Council, supported by USAID), hosted an invite-only in-person workshop, "Leveraging Blended Finance: Building Climate Resilience for the Agriculture Value Chain" in partnership with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.**

The workshop was aimed at demonstrating the potential and importance of blended finance structures for agriculture to empower it with financial and technical capital and in turn help build its resilience to the impact of climate change.

The workshop was structured to arrive at a constructive and action-oriented dialogue between key stakeholders across the agriculture ecosystem for more innovative financial structures that could blend commercial and concessional capital for creating on-ground impact.

Proportion of Attendees at the event



The workshop engaged a diverse range of stakeholders, including government agencies, commercial banks, NBFCs, philanthropic capital providers, foundations, incubators, think tanks, DFIs, social enterprises, and other ecosystem players.

With vast and diverse expertise in agriculture financing, representatives from different financing organizations shared their learnings and experiences from working on the ground and making credit accessible to farmers, Agri solution providers, and ecosystem players and promoting climate-resilient practices on the farm.

The collaborative efforts between financial institutions, development organizations, and foundations showcased the crucial role they play in making organized credit more accessible to farmers as well as to innovative enterprises coming up with innovative solutions to address challenges across the agri value chain.

The discussions led during the course of the event pointed to the fact that blended finance structures have been emerging within the agriculture sector however, there lay a significant potential for blended finance to be mainstreamed and made sustainable and scalable.

The insights and suggestions shared by the event attendees pointed towards actionable interventions that could scale up such collaborations for blended finance for agri financing and help build an ecosystem that has strengthened resilience towards climate change.

The subsequent section provides an overview of the key points of discussion through the event as well as the interventions proposed by the stakeholders

Evolution of Agriculture financing in India: Wider Scope of Agri Borrowers

India's agriculture sector is by far one of the largest employers in the country with more than 50% of the working population associated with agriculture in some form or the other[1]. The high dependence on agriculture for employment, food security, economic growth, and changing needs has highlighted the necessity for agriculture finance to become more organized and formal in nature, as compared to its traditional practice of depending on non-institutional sources.

Agriculture also stands out as a sector that plays a dual role with respect to its impact in the global climate change scenario. **It is both a significant contributor to climate change as well as highly vulnerable to its adverse impacts, thus placing farmers at considerable risk.** It is therefore imperative for the agriculture value chain to be made more resilient both in terms of its adaptation to climate change as well as to build greater financial sustainability.

The scope of agriculture financing has thus broadened, in both - the nature of impact that financing solutions can achieve as well as the nature of agri borrowers.

Financing solutions have a multifold impact across the

1. https://www.ibef.org/industry/agriculture-india

value chain, right from livelihood enhancement to increasing financing solutions to meet the variable and seasonal requirements of the sector. These include financing solutions across the pre-harvest, harvest and post harvest stages.

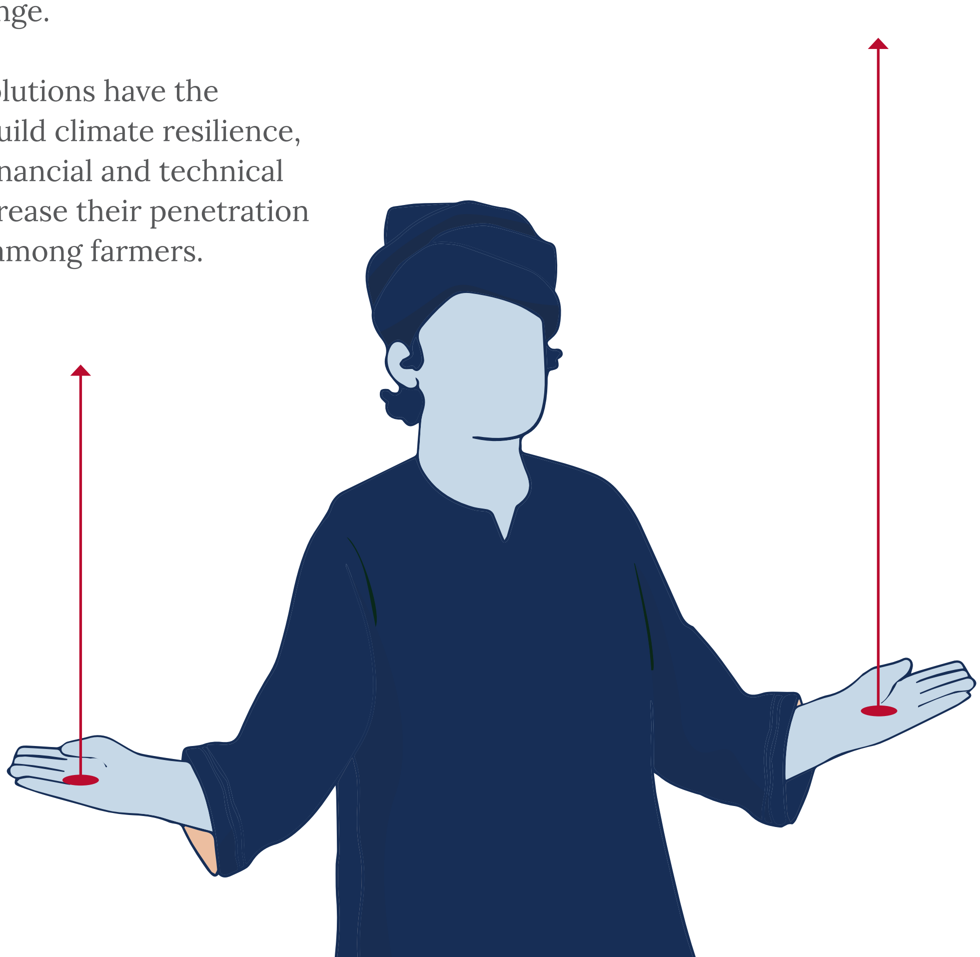
The scope of agriculture financing also now encompasses not only support for individual farmers but also includes funding for intermediaries that are playing a strong role in enabling access to finance at the last mile. These intermediaries can be viewed in the following lens:

Intermediaries that enable access to Technology (AgTechs)

- The last few years have seen the emergence of enterprises that leverage technology to provide solutions across the agriculture value chain right from pre harvest, harvest to post harvest stages.
- These solutions build the overall efficiency and productivity of farmers and farms, enhance their incomes, improve market linkages and also help manage the impact of climate change.
- While these solutions have the capability to build climate resilience, they require financial and technical support to increase their penetration and adoption among farmers.

Intermediaries that enable access to Finance (Agri Focussed NBFCs)

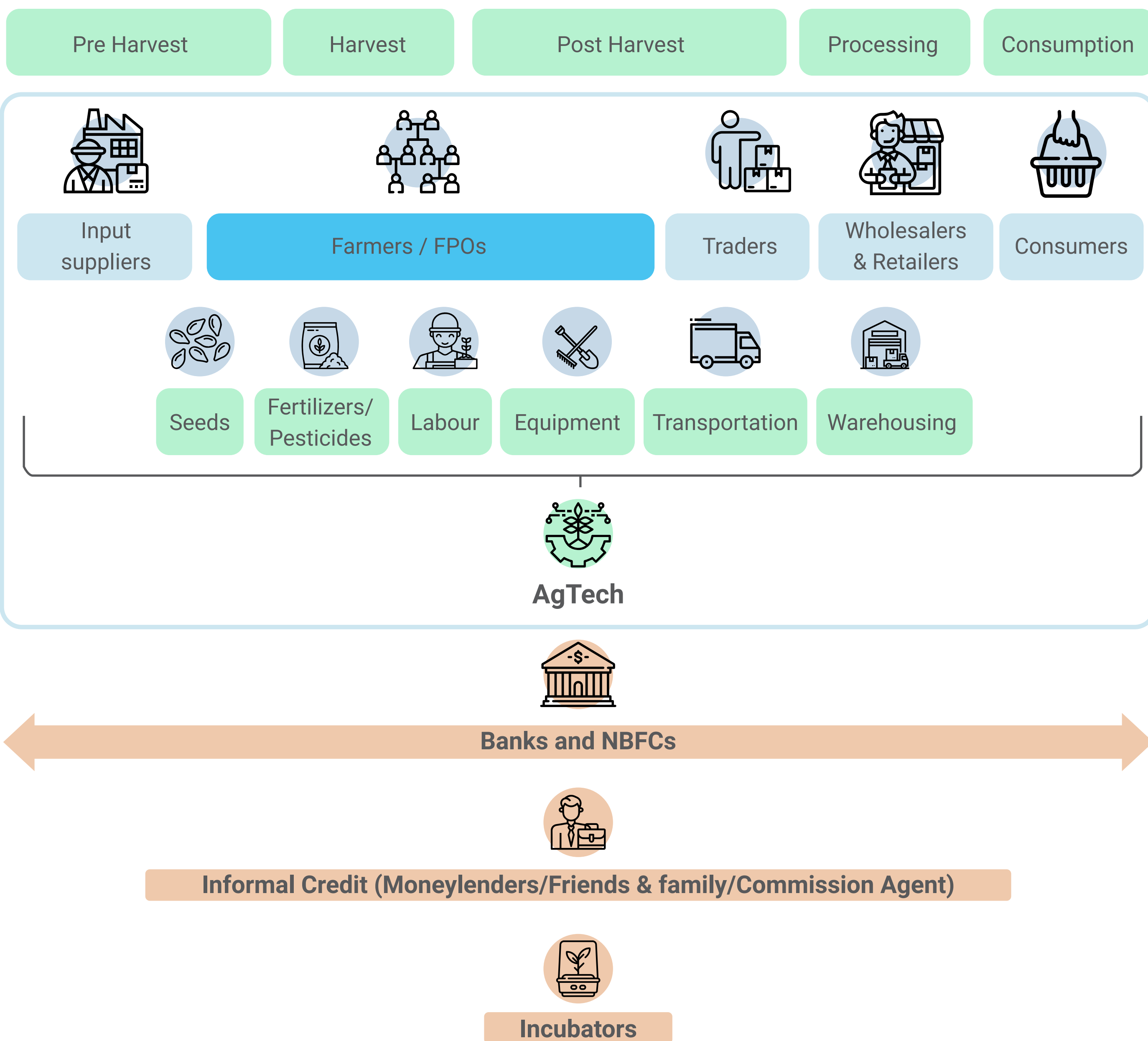
- These enterprises are emerging to be a key player in enabling access to finance at the last mile given their focus on the agricultural sector. They provide financial solutions and services to both enterprises as well as to direct farmers and Farmer Producer Organisations (FPOs).



These NBFCs have the ability to enhance the access to finance across the value chain by addressing specific financing requirements such as agri equipment finance, working capital finance, warehousing finance and supply chain financing. In addition, they also help build the financial acumen and resilience of borrowers by extending financial advisory services.

These NBFCs therefore require greater financing support to be able to build scale in their operations and reach the last mile.

Agriculture Value Chain



This evolving nature of the agricultural sector with multiple stakeholders creating impact brings to light the requirement for financing solutions to also evolve across debt, equity and other innovative financing models.

The Evolving nature of Debt Financing: Potential for Innovation

Traditional and new age financing providers have been extending financing support to the sector via debt financing, equity investments as well as innovative financing solutions and collaborations.

Commercial Banks and Regional Rural Banks have been extending credit to agri borrowers, through debt financing in the form of working capital funding as well as asset backed financing across the value chain. This includes loan products such as the Kisan Credit Card[2] , Farm Mechanisation Loan, tractor loan etc.

Given the large size of the agriculture sector and the fact, that more than 85% of the total farmers in the country are small and marginal in nature, it results in traditional financing solutions facing challenges in reaching the last mile.

One of the major deterrents of commercial financing institutions to lending to smallholder farmers is the perceived high-credit and operational risk associated with lending to smallholder farmers and agri-technology enterprises. Given the unique nature of the agriculture segment and its players, traditional underwriting mechanisms find themselves challenged by issues such as:

- Limited visibility of farm and farmer level data
- Seasonal and inconsistent cash flows resulting in poor credit repayment capacity
- Limited established credit history of small and marginal farmers
- Challenges in monitoring seasonality in cash flow
- Limited mechanisms to assess the creditworthiness of small and marginal farmers
- Orienting conventional underwriting and legacy systems to finance agriculture requirements
- High operational cost of servicing small ticket size loans

2. https://www.forbes.com/advisor/in/business-loan/kisan-credit-card/

In order to mitigate these challenges, commercial banks with the strong intent among banks to enable better access to financing, for small and marginal farmers, are now seen entering into collaboration and partnerships that help reach the last mile of farmers in an efficient manner. We observe an increase in co-lending and Business Correspondent (BC) models between banks and NBFCs. These unique models promote financial inclusion by enabling farmers in remote areas to access affordable financing. Such arrangements allow banks to reach last-mile farmers by leveraging the presence and network of NBFCs at the farm level. On the other hand, NBFCs can also access vast resources and capital available with larger banking institutions.

Recent Co-lending arrangements

SBI

Samunnati

Key Features of this arrangement

1. Increased Liquidity and Credit Penetration for FPOs
2. Risk sharing mechanism making extending loans to farmers easier.
3. Operational synergies leveraging SBI's resources and Samunnati's FPO network & financial product designing capabilities.

These new age collaborations showcase the immense potential that fostering ecosystem partnerships can bring with it, in improving the penetration of organized credit to small and marginal farmers. It also showcases the potential to scale up investments in enterprises providing agri solutions that build the climate resilience of the agricultural sector.

Innovative forms of Debt financing by Agri Focussed NBFCs/ AgFintechs

Agri Focussed NBFCs/ AgFintechs	Solutions
Jai Kisan	Loans for the purchase of farming equipment to individual farmers and farming enterprises
Whrrl (Sustaining Lifeblocks), arya.ag	Warehousing facilities close to the farm to store the produce and provide working capital loans against the stored produce for small & marginal farmers.
Samunnati	Working capital loans, bill discounting loans, short-term loans for a period of less than one year, and long-term five-year loans to help farmers and agri-businesses purchase farming equipment or other infrastructure
Hesa (Connecting Bharat Phygitally)	A digital platform connecting banks, NGOs, corporates, and government with last-mile rural consumers and farmers to enable access to financing and other services.

Increasing Role of Equity Investments: Leveraging the Potential of 'AgTechs' in Mobilising Agri Financing

AgTechs have demonstrated the potential for climate linked technological innovations to help mitigate climate risks as well as adapt to climate change. Through these solutions, they also have the capability to build greater organization in the value chain thereby empowering farmers with greater agency.

These enterprises are leveraging technology to come up with innovative underwriting models that help build a faster pace, better efficiency and scale in lending to agri borrowers.

These new age mechanisms showcase the scope that exists for ecosystem partnerships to develop which could leverage technology and digitize the agricultural value chain thereby reducing the existing information asymmetry. A reliable AgriStack platform digitizing the land records and real-time monitoring of farm using artificial intelligence and IoT could potentially enable banks to reduce the high operating costs of banks to lend to the agriculture sector. With constraints on setting up infrastructure and collecting on-ground data in remote areas, commercial banks seek to greatly benefit from such technology interventions that enhance their capacity to lend to small and marginal farmers.

These AgTechs therefore hold the potential to permeate finance across the value chain by building greater transparency, accountability and efficiency in agri translations, thereby enabling a better and more organized cash flow to small and marginal farmers. By addressing challenges at different points in the value chain, they hold the potential to empower farmers with the wherewithal to build better cash flows.

The emerging AgTech Landscape: A Snapshot of Solutions

Agri Value chain	Present constraint	Agtech Solutions		
Pre Harvest	Limited awareness of input materials like seeds and fertilisers	Agri-Input Marketplaces	Enhanced access to suitable inputs	Gramophone DeHaat Seeds to Market AgroStar
	Low bargaining power of farmers with input suppliers	Farm management and data analytics	Technical support and training to optimize yield	
Harvest	Lack of technical guidance and support for best farming methods.	Farm management and data analytics Agri equipment and Farm Mechanisation	Precision agriculture to optimise farm efficiency	Tartan Sense Fasal fyllo
	Instant credit required for unplanned farm expenses	Ag fintech	Instant credit by leveraging technology.	Jai Kisan Samunnati FarMart
Post Harvest	Low bargaining power with retail and wholesale buyers, inadequate access to storage	Warehousing and storage	Accessible warehousing facility and warehouse receipt financing	Origo arya.ag ergos
Consumption	High number of intermediaries	Market Linkage	Market linkage between farmers and end consumers	waycool ninjacart

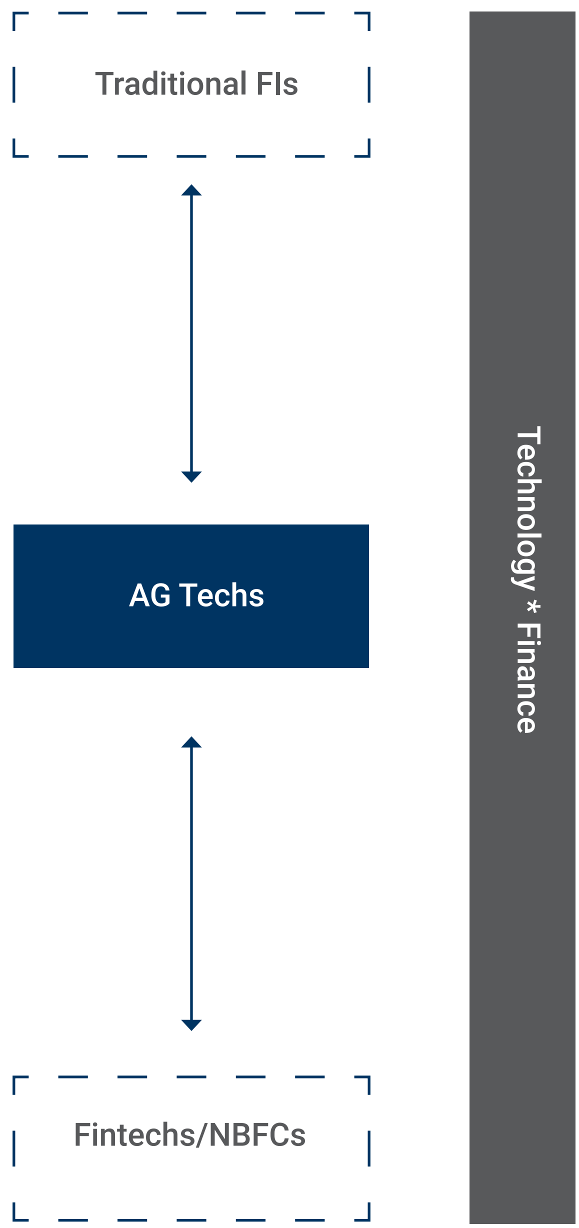
As can be seen from the above table, these solutions hold the potential to bring in greater financial resilience at different stages across the value chain by:

- Improving market linkages
- Access to quick and timely credit
- Enabling access to climate smart inputs and solutions to farmers, thereby improving their farm productivity
- Minimising farm losses and improving income
- Enabling access to farm and farmer level data thus building greater transparency for monitoring of cash flows.

These solutions demonstrate the potential that farm and farmer level data has for being factored into while making lending decisions. Traditional credit providers seek to benefit immensely by leveraging these new age solutions that equip them with data insights from on ground which can greatly support financial institutions with a better visibility of the borrower activity.

This highlights the necessity for increasing financing support to such solutions both at their early stage as well as for them to scale up their operations.

Over the last decade, equity investors have actively supported AgTech startups. However, with more such enterprises coming up with more technology innovations to build climate resilience, there is a greater requirement for increasing capital support as well as capacity building support to these enterprises to enhance their reach and impact.



Evolving Financing Requirements:
Blended finance as a catalyst

The evolution of the agriculture ecosystem has demonstrated that in order to make the value chain resilient and scalable in a sustainable manner, it would require capacity building both in terms of financial support for farmers and FPOs as well as strengthening agri-intermediaries that hold the potential to permeate finance down to the last mile.

The sector is characterized by seasonal variations in cash flows of farmers and farmer collectives, resulting in a high gestation period for investments made in new-age agricultural solutions.

It is therefore imperative for patient capital to step in, which can increase the capital flow and support innovative solutions and business models that could bring in better climate preparedness and enhanced income generation for farmers.

This nature of requirement requires the blending of efforts and expertise of different stakeholders. Blended Finance, therefore, holds the potential to act as a major catalyst in building the resilience of the agricultural ecosystem.

These innovative structures of financing have the potential to capitalize on the strengths and expertise of each stakeholder to improve the Technical, Technological, and Financial capacity of the agricultural ecosystems as well as create widespread on-ground impact by improving the livelihoods of smallholder farmers and building climate resilience.

Technical

1. Holistic development of the agri value chain infrastructure
2. Increasing on-ground knowledge and capacity building of small farmers and early stage FPOs
3. Improving market linkages

Technological

1. Increasing support to emerging innovative agri technologies
2. Focus on climate smart agri technologies -> reduce vulnerabilities to climate
3. One-ground implementation support to pilot emerging technologies to farmers
4. Increasing collaboration between stakeholders for on-ground implementation

Financial

1. Access to finance at affordable rates for small and marginal farmers
2. Transaction based supply chain finance in place of collateral based lending
3. Increasing access and understanding of digital payments for farmers
4. Focus on financing solutions targeting at value chain
5. Innovative solutions for addressing crop insurance
6. Increased collaboration between FIs

Learnings from the successful blended finance transactions

Over the years the industry has witnessed blended finance transactions addressing different requirements across the value chain. However, these transactions still hold immense potential in being scaled up and made sustainable by the increased participation of mainstream players in such transactions.

The event showcased via case studies, the impact that such innovative transactions have created in the past and the untapped potential they hold, in building scale and resilience in agri financing.

Considering the impact of the agricultural sector on livelihoods and climate change, the learning from these case studies presents relevant insights to practitioners looking to design and participate in blended finance structures and replicate them at scale.

Three case studies were showcased during the event that demonstrated the depth and scope that such innovative structures possess, in catalyzing agri financing

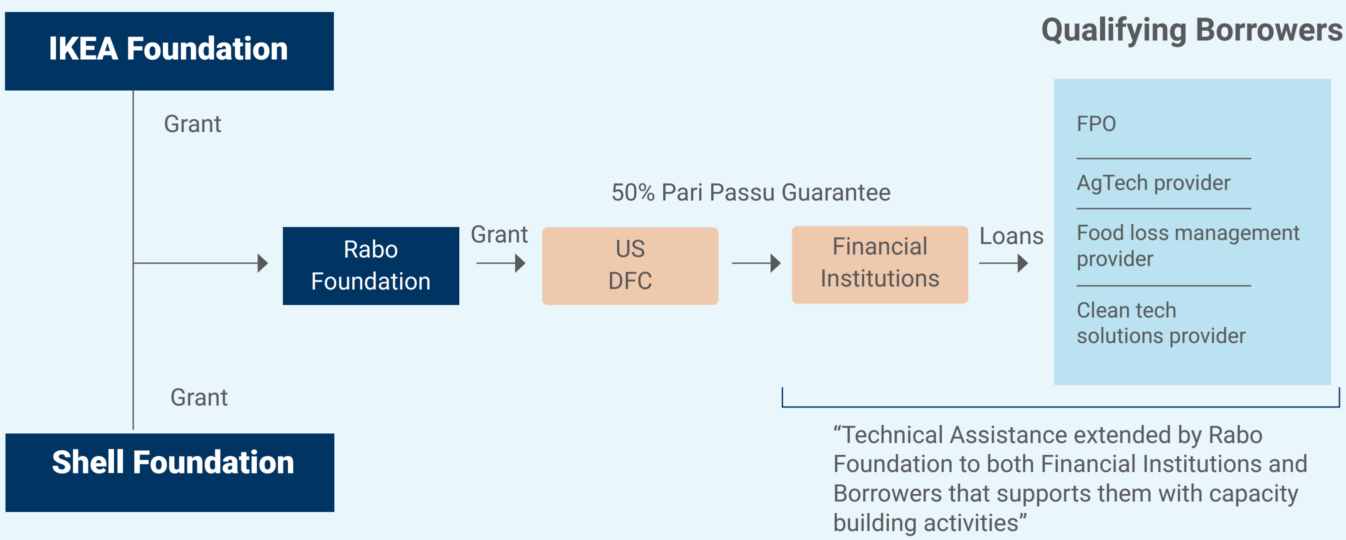
The key learnings from these case studies are captured below.

1. Multilateral partnerships capitalizing on the strengths of multiple partners in a blended structure are the most effective in leveraging capital and creating on-farm impact. It is imperative to foster mutual trust in order to align interests and build upon the individual strengths of each partner.
2. Designing and Implementing a robust yet flexible Monitoring and Evaluation Framework to assess on ground impact by leveraging partnerships with Monitoring and Evaluation Organisations.
3. Enabling access to knowledge and network resources as well as operational support to enterprises and well as farmers and farmer collectives, thus aiding them in building capacity.
4. Partnerships between financial institutions and Ag-fintech leveraging technology can mainstream financing towards smallholder farmers and the transition to climate-resilient agriculture.
5. Creating a ‘Leverage Effect’ by supporting commercial capital providers with catalytic capital and credit enhancement and risk sharing mechanisms.
6. Developing a strategic approach to Pipeline Creation for commercial lenders to extend finance to early stage agri-focussed enterprises, thereby aligning strategic initiatives and financing strategies to early stage innovative solutions.
7. Designing Working Capital Facilities in line with the cash flow requirements and cycle of the borrower.

Rabo Foundation

Case Study I:
India COVID Response Program for Agriculture Transition

Objective: To address the economic impact of COVID-19 through loans to FPO, ag-tech companies, and companies engaged in food loss solution and clean energy solution in agri sector



Rabo Foundation

Case Study II:
USAID Guarantee for Agroforestry and Sustainable Landscape Sector

Objective: **To support local financing for agro-forestry, sustainable forest management and low emission agriculture**

Rabo Foundation

Partial First Loss Guarantee

50% Pari Passu Guarantee

USAID

Fund Size:
USD 15 Mn

Tenure:
10 Years

FPOs, Agri Enterprises:
Non Revolving Loans

NBFCs

Loans

Agri-Enterprises including FPOs operating in Sustainable Landscape-related business

Projects that practice low-emission land-use and land management

caspian debt

Case Study III:
Rabo-Caspian Agtech Financing Fund

Objective: **Provide loans to early stage ag-tech startups, early stage agri-finTech start-ups, agri businesses that focus on smallholder farmer and/or sustainability**

Rabo Foundation

Partial FLDG

Impact Debt Fund Size:
USD 1.22 Mn

Guarantee ceiling:
USD 0.18Mn

Time Period:
6 years

Caspian Impact Investments Pvt. Ltd.

Support via Debt Financing
Enhancing the reach of ag-tech start-ups to larger no. of smallholder farmers which result in increase in income through improved efficiency, market linkages and other benefits

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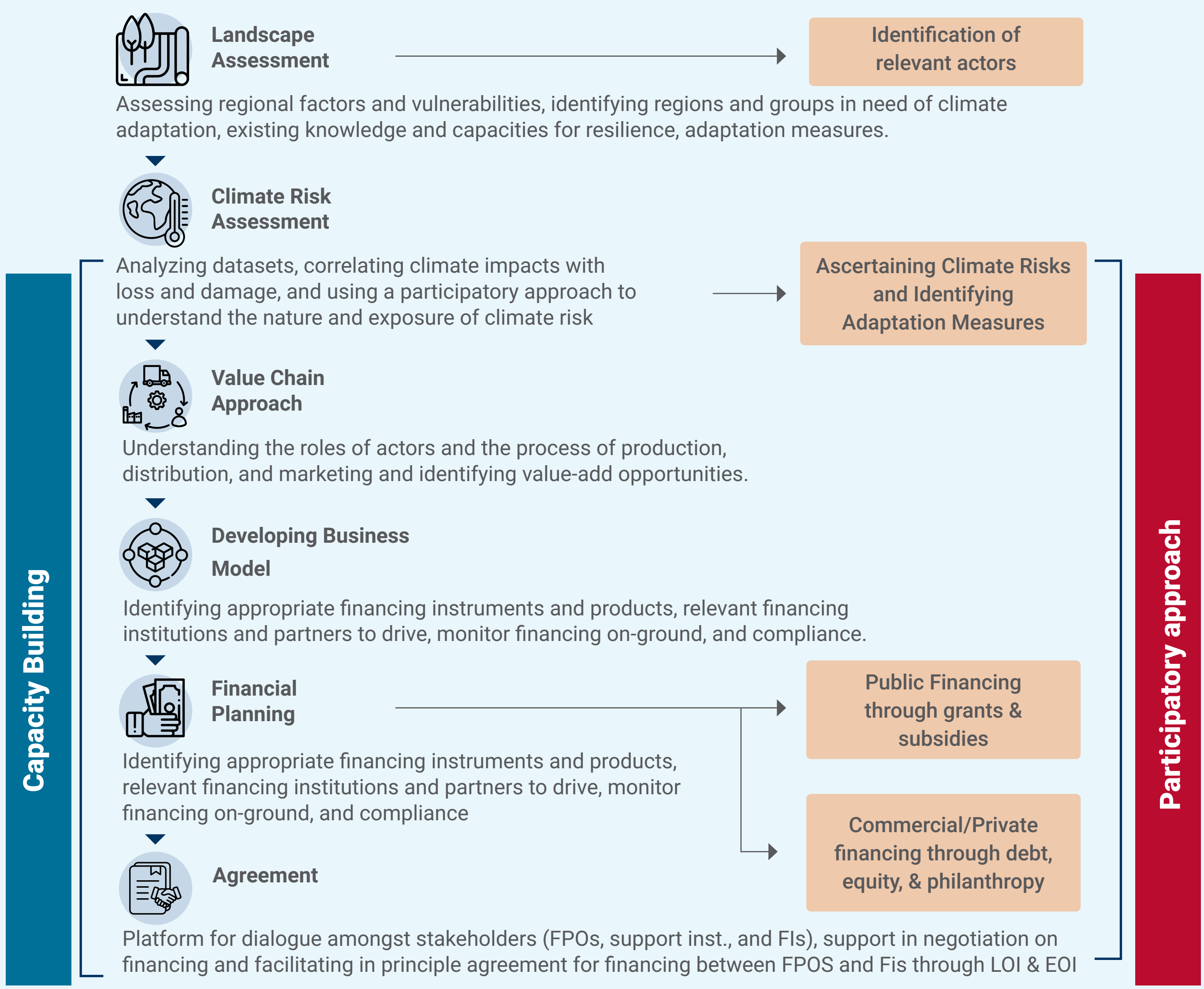
Implemented by giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Case Study IV: The case of Mandala

Objective: **Enabling access to finance for FPO/Farmers to adopt climate smart practises to increase their incomes and improve their livelihoods and build resilience of smallholder**



The learnings from the different case studies showcased by Blended Finance practitioners highlights the immense potential that such innovative structures have to catalyze agriculture financing. However they also highlight that in order to mainstream blended finance at scale, there are certain aspects to be mindful of while designing for a scalable and sustainable blended finance intervention.

Blended Finance at Scale: Recommendations

The challenges faced by agriculture financing interventions and the inherently complex nature of the industry highlights the requirement for a Blended Finance intervention that can address constraints across the value chain in a comprehensive manner.

Collaborations and partnerships across the agricultural ecosystem, supported by a blended finance approach, play a vital role in addressing the agri financing gap, mitigating lending risks, capitalizing upon the expertise of stakeholders, promoting sustainable development, and fostering scalable models for percolating finance. Considering the sector's impact on livelihoods and climate change, it was agreed by the attendees that there is a need to institutionalize successful blended finance structures and replicate them at scale.

Practitioners agreed that while the contours of a Blended Finance structure and the broader boundary around the end use and utilization of funds would have to be defined, the design would also need to account for flexibility in certain parameters, during the course of implementation. Given the small and fragmented nature of last mile borrowers and the high level of innovation applied in agri technology providers, it is observed that certain business models of agri solutions may take a longer time to mature. This necessitates the ability to factor in flexibility at the time of design, to build a robust and scalable intervention.

Attendees of the workshop participated in a focussed round table discussion, to deliberate upon and arrive at tangible recommendations for interventions that could scale up blended finance structures and leverage them to mitigate the climate impact on the agri value chain. The focus group includes representatives from across the agri value chain thereby covering a holistic perspective for designing a blended finance intervention at scale.

The key recommendations from the stakeholders of the Agri-financing ecosystem to institutionalize blended finance structures can be viewed in terms of the following key aspects:

Fostering a Conducive EcoSystem

Building Technical Capacity across the Value Chain

Designing Innovative Financial Solutions

1 Fostering a Conducive EcoSystem

Interventions that strengthen the agriculture value chain and build a conducive environment for the implementation and scale-up of Blended Finance interventions. These interventions would support the ecosystem through enablers that foster partnerships, build trust and build effectiveness in scaling up innovative financial structures on ground for developing resilience to climate.

2 Building Technical Capacity:

Interventions that augment the technical capacity of different stakeholders across the ecosystem by developing and strengthening technological acumen, supporting adoption and transition to new and innovative solutions and enhancing the scope for development and deployment of climate resilient solutions

3 Designing Innovative Financial Solutions

Interventions that are designed in accordance with the requirements of agri borrowers, and that leverage catalytic capital to mitigate credit risk associated with agriculture lending, and in turn support credit enhancement.

The specific suggestions that were shared by the attendees of the workshop, are documented in next page:

Fostering a Conducive EcoSystem

01. Recommendation

Building a unified taxonomy for green investments

Intervention

Investments would be strongly aided by the development and recognition of a taxonomy for green investments, and also reduce the risks of greenwashing.

Impact

A unified taxonomy will help in lending clarity and directionality in green financing strategies to commercial lenders as well as reducing the risk of greenwashing.

02. Recommendation

Facilitation of ecosystem partnerships

Intervention

While Blended Finance structures have been taking place, it is required for an institutionalized intervention that assumes the responsibility for facilitating ecosystem partnerships.

These would require a common forum through which both government departments, financial intermediaries as well as civil society organizations could align and partner.

Impact

- Reduced operational overhead for blended finance practitioners in identifying appropriate partners.
- Fostering mutual trust and symbiotic engagements
- Holistic approach to financial structuring
- Effective deployment of funds
- On-ground operational support.

03. Recommendation

Defining the scope of climate smart agriculture (CSA) solutions

Intervention

The absence of a clear and consistent understanding of climate smart solutions, in the context of agriculture may lead to inconsistency and lack of alignment between different stakeholders. It was suggested for a clear definition of CSA solutions be scoped out that is applicable and accepted across the ecosystem.

Impact

Helping organizations forge stronger and mission aligned partnerships, designing agri financing solutions that also factor in climate impact and effectively assess the impact on ground.

04. Recommendation

Enable data sharing across the ecosystem

Intervention

Ecosystem players are constrained by a common and easily accessible data repository that enables access to credible insights on farm and farmer level data.

High information asymmetry among financial institutions and end users of finance on climate-smart and resilient agricultural practices and its induced risks, damages, and loss on the end farmer and the environment.

It was suggested for a formal, institutionalized technological platform to be developed, that would ease data sharing across the ecosystem and build better transparency.

Impact

- Reduction of information asymmetry in farmers, improved data visibility and understanding for designing credit underwriting models providing pricing transparency to farmers
- Ability to incorporate climate impact in agri financing decisions through better visibility of climate data on farm level
- Enhance trust and increase collaboration among stakeholders

Building Technical Capacity across the Value Chain

01. Recommendation

Institutional support to build scalable climate-smart agriculture models

Intervention

The diverse topography of India makes it challenging for a one-size solution to fit the varying requirements of Indian agriculture.

Early stage enterprises are constrained by limited guidance on developing and strengthening their business models. It was suggested for an institutionalized mechanism that could extend technical capacity building and support with project preparedness of emerging enterprises especially innovating in climate solutions.

Impact

- Improved technical competence and sustainability of startup enterprises
- Business models aligned and focussed to the value chain requirements

02. Recommendation

Capacity building for deployment of innovative financing models

Intervention

It was suggested to encourage and extend capacity building support to pilots of innovative financing solutions. These solutions have the potential to identify on ground challenges and incorporate learnings which could go into developing a climate aligned financing intervention.

Impact

- Establishing scale and mainstreaming of blended finance through small scale pilots bringing together ecosystem players
- Mitigation and controlling of deployment risks
- Increased knowledge sharing between stakeholders

03. Recommendation

Institutionalized mechanism to Strengthen capacity building for FPOs

Intervention

FPOs hold the potential to permeate finance and technical capacity down to the last mile. However, given the fact that FPOs in India are at a nascent stage, it was suggested to set up an institutionalized intervention that could extend capacity building for FPOs, by leveraging the strength of various stakeholders.

Impact

- Foster growth and ecosystem linkages for FPOs
- Increased scope for deployment and adoption of technological interventions, at the last mile
- Increased confidence in extending finance by lending institutions

04. Recommendation

Capacity building of on ground civil society organizations (CSOs)

Intervention

Civil society organizations possess the intuitive understanding of on ground mechanisms and farmer level activity, which holds the potential to add greater depth and clarity in designing financial solutions and deploy them effectively. However CSOs are constrained by availability of funds and resources to scale up their operations.

It was recommended to innovate with program interventions focussed on building their capacity, awareness and knowledge for reaching the last mile with financial and technology innovations.

Impact

- Improve accessibility to knowledge and resources for farmers.
- Improved understanding and access to organized finance, by leveraging CSOs as intermediaries.
- Scope to innovate with lending models that could be scaled up leveraging CSOs
- Ease of operations and monitoring for lenders thereby reducing their operational costs
- Improved access to markers for farmers
- Fostering an environment that enables better on ground monitoring of data

Designing Innovative Financial Solutions

01. Recommendation

Developing alternative credit scoring models

Intervention

Conventional lending and assessment practices are limited in the nuance required to factor in the characteristics of the agri value chain.

It was recommended to develop alternative lending models (example: scorecard based frameworks) that are adapted to the borrower and sector profile.

Impact

- Develop a agri focussed approached in lending
- Financial solutions tailored to the sector making it easier to monitor utilization of funds and portfolio performance
- Widened scope for increased partnerships between industry players leveraging technology and lending institutions
- Develop a better understanding of the borrower profile and financing requirements

02. Recommendation

Empowering Agri focussed NBFCs with low landing cost of capital

Intervention

The fragmented nature of the agriculture space demonstrates the importance of financial intermediaries, such as agri-focused NBFCs and FinTechs. These players have focused efforts to lend to underserved borrowers such as small and marginal farmers, Farmer Producer Organisations (FPOs) as well as innovative

Impact

- Reduced onward cost of lending to borrowers
- Increased scale of operations of NBFCs
- Build an ecosystem approach for lending to small and marginal farmers

startup enterprises. They also possess the know-how and experience to strengthen the value chain through their interventions such as financial advisory and capacity building initiatives.

Currently, the majority of the funding towards NBFCs is through commercial banks. The high-risk perspective associated with lending to NBFCs leads to a higher cost of capital, which in turn reduces the affordability of loans for smallholder farmers with limited financial capacity.

It was recommended to encourage commercial banks to develop a programmatic approach in extending funding to agri NBFCs, thus equipping them with lower cost of capital.

03. Recommendation

Designing for Climate linked Financing solutions

Intervention

Given the limited availability of weather based financial solutions, it was suggested to design for innovative financial structures that incorporate climate impact, by factoring long term climate impact into lending decisions.

Impact

- Build greater climate resilience across the value chain
- Factoring geographical variations in lending

04. Recommendation

Fostering an environment that enables Commercial Banks, leverage credit guarantee support for agri financing portfolios

Intervention

While partial risk guarantee structures have been extended by Philanthropic and Development Capital to NBFCs, Commercial Banks are yet to have participated in such a structure.

Enabling credit risk mitigation structures such as guarantee programs at the portfolio level for banks, could help them achieve a better balance between risk and return profiles. This approach would facilitate the increased disbursement of credit to small-scale farmers and agri solution providers.

It was recommended to ease the regulations and norms through which commercial banks can receive and invoke guarantee support. Introducing a nodal agency for facilitating the implementation of credit guarantee structures for banks and ease of complexities was suggested.

Impact

- Mainstreaming of philanthropic capital into agri financing,
- Enabling Commercial Banks in designing lending solutions tailored to agri borrowers, with extended credit enhancement support
- Reduction in overall borrowing cost extended to agri borrowers, by leveraging the philanthropic capital

05. Recommendation

Increased focus on cash flow based lending

Intervention

Small and marginal farmers are constrained by the absence of collateral for availing organized credit.

Given the seasonal nature of cash flows, it was recommended to increase cash flow based lending to farmers that holds the potential for effective development and utilization of funds.

Impact

- Better monitoring of utilization of funds
- Reduced risk of fund diversion
- Improved ability to access and utilize organized credit in place of informal credit

06. Recommendation

Capacity building of on ground civil society organizations (CSOs)

Intervention

Civil society organizations possess the intuitive understanding of on ground mechanisms and farmer level activity, which holds the potential to add greater depth and clarity in designing financial solutions and deploy them effectively. However CSOs are constrained by availability of funds and resources to scale up their operations.

Impact

- Improve accessibility to knowledge and resources for farmers.
- Improved understanding and access to organized finance, by leveraging CSOs as intermediaries.
- Scope to innovate with lending models that could be scaled up leveraging CSOs
- Ease of operations and monitoring for lenders thereby reducing their operational costs
- Improved access to markers for farmers
- Fostering an environment that enables better on ground monitoring of data

07. Recommendation

Building effective monitoring and evaluation framework for Blended Finance interventions

Intervention

In order to encourage the participation of more catalytic capital in agri financing, it was suggested to design a monitoring and evaluation framework that helps assess the ground impact of Blended finance interventions. This would help define the outcomes of such transactions, thereby building a robust and flexible framework. It would also help design for outcomes that enhance financial capacity of farmers as well as tie into their skill and livelihood enhancement.

Impact

- Encouraging strong compliance and governance standards in early stage enterprises
- Effective monitoring of on ground impact
- Better visibility of application of funding
- Increased trust of capital providers, commercial finance to gain
- Livelihood enhancement of small and marginal farmers
- Attracting greater capital

Unifying the Ecosystem for Agriculture

Attendees agreed in unison that a holistic value chain approach for understanding and solving the on-ground and financing challenges of smallholder farmers will help them adapt to climate-smart practices and build resilience to climate change.

The need for an institutionalized framework that could facilitate and scale up ecosystem partnerships would greatly enhance the participation of different stakeholders and capital providers in addressing on ground challenges and building a climate resilient approach in deployment of solutions as well as implementing innovative financial structures.

The need and relevance of Blended Finance was acknowledged by all stakeholders who also expressed their intent, interest and capability to participate in such structures given support through a unified and institutionalized intervention.

Policy interventions, evolving industry mechanisms and technology development have demonstrated the potential for innovative solutions in building the financial and technical capacity across the agri value chain.

Following a similar path, a structural intervention would enable greater access and understanding of organized credit, facilitate increased capital flow, and effectively measure the on-ground impact of improving farmers' livelihoods while mitigating the effects of agriculture on climate change.

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