

# AgroCapital, a Financing Support Program for Agribusinesses

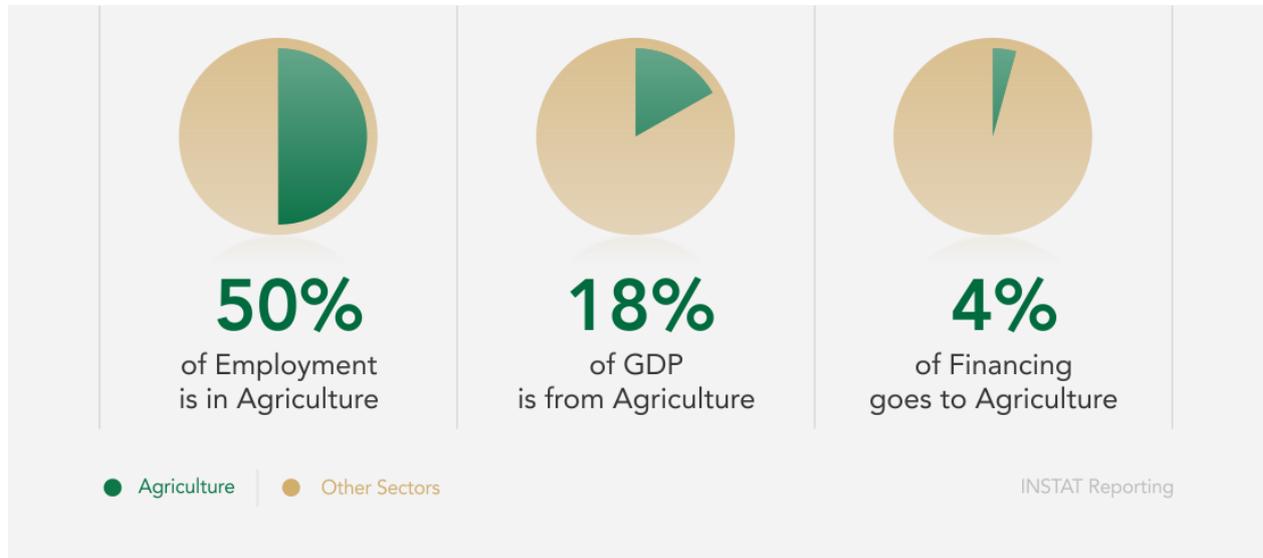
Why AgroCapital? How Lack of Capital is Preventing Growth for Albanian Agriculture

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For an economy to grow fast, it needs capital. Lots of it. It's like fuel for the car engine the economists say: without it the car will not move. Official statistics show that Agriculture sector in Albania is significantly underfinanced. A key measure of financing health for a sector is the Loan/GDP ratio. Only 4% of lending vs GDP goes to agro-related businesses compared to 40% for the rest of the economy. The contrast is staggering. As a result, the sector which employs nearly half of the Albanian workforce, contributes only 18% of country's GDP. Jobs and economic growth have been severely affected as well.

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**Agriculture Employs 50% of Working Age Population but Receives only 4% of total Financing therefore Making Contribution of only 18% of GDP, much below its potential**



**TO EASE ACCESS TO CAPITAL, USAID ANNOUNCED A PARTNERSHIP WITH CBS AWARDING A \$1.49MILL FOR IMPLEMENTATION OF AGROCAPITAL, A PROGRAM THAT FACILITATES FINANCING FOR AGRIBUSINESSES**

Reasons for such low levels of financing are closely related to both supply (banks and Financial Institutions) and demand (farmers and agribusinesses) sides of credit. Banks perceive Agriculture lending as high risk, turning away from it. Farmers and agribusinesses on the other hand lack formalized business structures, a key condition for financing. Subsidy schemes while helpful are insufficient to close the gap from the banking sector. Adding into the mix are lack of appropriate information platforms informing the community the financing opportunities. The result has been an uneasy relationship between the banks as supplier of credit and farmers/agribusinesses as customers.

Some developments are promising. At the end of 2012, USAID launched a \$15M DCA loan guarantee for Agriculture with two banks, while European Union started a €8.2M IPARD-like financing scheme as a 50% grant for qualifying agribusinesses. The National subsidy scheme program is growing and Italian Cooperation soft loan for SME's now includes agriculture as a

priority sector. Experience with IPARD and other subsidy schemes shows that agribusinesses and Financing Institutions need technical support to fully take advantage of these programs.

## What are the Program Objectives?

AgroCapital has ambitious goals. Its primary target is accelerated financing but the full impact is Economic Development for Agriculture. Greater access to capital will enable agribusinesses to expand production, upgrade equipment, grow their business and hire more employees.



Increase Agribusiness  
Investments by  
**\$18.5 million**



Increase sales of  
Agribusinesses supported  
by the program by **\$28 million**



**1,150**  
new jobs

**AgroCapital will grow Investments by \$18.5 million by facilitating a Financing of \$14.8 million. Agribusinesses supported by the program will grow their Sales by \$28 million and the activities will generate 1,150 new jobs**

The combined goals are ambitious because they would generate a total of \$46 Million of added economic value. The project team, a mix of former bankers agriculture financiers and international development professionals

is aware of the challenges. They also feel confident. The main reason for optimism they say is that program takes a holistic approach-engaging both demand (farmers and agribusinesses) and supply (banks) stakeholders simultaneously. Previous efforts to unleash capital have run into limitations because they either engaged farmers or financial institutions only. CBS will simultaneously assist banks providing more capital and better products while helping agribusinesses absorbing much higher levels of capital.

### **At AgroCapital, three closely interlinked components add synergy to the entire program**

The program strategy is designed in three parts: 1) assisting banks and FI's to improve their internal products so they better respond to market demands for agriculture finance 2) strengthening agribusinesses to absorb much higher levels of capital and 3) making available valuable information and financing opportunities to agribusinesses, experts and the market. AgroCapital will also serve as a connector between agribusinesses with banks to facilitate financing.

## **Component 1**

### **Banks to Unleash Capital**

Only banks and Financial Institutions are in the position to release sufficient capital funds and the project will work closely with them. For banks to inject capital they must fully understand the risk and dynamics of agriculture markets, develop appropriate products, lend to good customers and develop

sophisticated banking tools to manage risk portfolios.

Five brand-new Banking Products launched in market	First official Electronic Loan Referral System linking banks with Referral Agents	Innovative Agriculture Credit Scoring model for faster and accurate credit decisions
		

## The following consulting services will boost financing to agribusinesses:

### **Assisting Banks to Develop New and Improved Loan Products**

New Agro loan products will add new customers to the bank and provide new credit to farmers that wouldn't otherwise be eligible. Typical products would include Investment Loans and Working capital but with new features and improved approval conditions, such as inclusion of loan seasonality, agriculture land as collateral, irregular payments, lower pricing etc. Special products for start-up businesses and returned emigrants would widen the pool of customer's banks further.

### **Launching the first Loan Referral System so that Business Service Providers can Refer Qualified Credit to Banks**

Ability to refer quality customers to is critical to CBS operations. Banks appreciate quality loan referrals but manual referrals often get lost in the

process. For a more professional referral process, CBS will develop the first professional electronic referral system open to a network of business service providers and financial institutions. Under the system, the agent would refer loan customers to banks based on pre-determined criteria commonly agreed between the two parties. The value of the system will be to track cases, make the best demand-supply match and significantly improve speed and approval rate.

### **Developing an Agriculture Credit Scoring model so that banks can make faster and accurate credit decisions**

Credit Scoring is an advanced risk management tool in modern banking but with a few exceptions is not widely used by banks. The tool helps to make unbiased and automatic credit decisions – based on data not human judgment - lowering bank's cost while speeding up the application process. A credit scoring model dedicated to Agriculture would be first in Albania and the idea is received enthusiastically from banks. If done well, credit scoring leads to larger and higher quality credit portfolios.

### **Assisting Banks to use Alternative Financing schemes to Boost their Lending**

Financing schemes such as IPARD, National Subsidy scheme, Italian Cooperation SME program, DCA loan guarantee etc. are not beneficial just for customers but for banks as well. Financial Institutions are often unaware of these instruments or fail to fully take advantage of them, resulting in missed opportunities. With Albania's adherence into EU, capital-assistance instruments such as IPARD will only increase in size, volume and scope. To take advantage of these schemes, CBS will assist banks to adopt products and processes appealing to alternative financing schemes, attracting a higher number of customers.

### **Developing Agriculture Leasing will lower the barrier for real estate collateral and expand credit to farmers**

Collateral remain the #1 barrier for farmers to access loans and Leasing is a great financing tool because it voids the need for collateral as a form of guarantee. In a leasing agreement, the asset purchased such as a tractor etc

becomes the actual guarantee. Agriculture Leasing would offer other benefits for customers. A lease is more affordable than a loan, since the customer is not required to own the equipment. It also offers Agriculture flexible terms where income seasonality can benefit from this kind of flexibility. To expedite the process CBS will establish a vendor leasing model where the equipment is leased directly at the buyer's source.

## **Component 2**

### **Empower Agribusinesses to Absorb Higher Levels of Financing**

Banks may design perfect loan products but if they can't find strong and able clients to finance not much progress will be made. Informality, lack of collateral and inappropriate accounting practices makes most farmers and agribusinesses un-bankable.

Component 2 aims to strengthen the business capacity of farmers and agribusinesses so that they absorb much more capital to support their growth. Upgrade of business structures will lead into growing sales, more trade, increased competitiveness and more growth. The program will assist agribusinesses achieve financing through a variety of options.

#### **Directly Assisting Agribusinesses with Financing from the Banking System.**

Farmers and agribusinesses get lost into the maze of complex loan requirements and difficult paperwork. Informal state of most agribusinesses does not help. Coming up with business plans and financial statement - a requirement for most banks - appears mission impossible for farmers. The

program supports its clients directly with loan applications into the banking system so resulting in successful loans. CBS Business Advisors guide the clients through the available products in the market (collateral requirement, price, loan amount, product type etc.) so that the client makes an informed decision about the bank/product they choose. Applications referred through a formal loan referral process would secure a pre-approval offer with locked interest rate and key conditions for 30 days. CBS Business Advisors would assist clients with loan package preparation, application review, income statements, and collateral documentation leading into a successful loan approval.



500,000 USD financing for a modern greenhouse in Divjaka - a success story through AgroCapital "Agroliço sh.p.k." benefited financial support from AgroCapital project's services, for a high-tech greenhouse construction through a combined financing of EU IPARD funds and bank loan.

### **Alternative Financing such as EU IPARD funds as grants for agribusinesses**

An increasing number of alternative sources of capital are now available. IPARD, EU funds, National Agriculture subsidies, SME Italian guarantee scheme, USAID's DCA guarantee etc. are all available for agribusinesses only if someone would assist them throughout the process. These sources of capital present attractive terms (such as 50% grants etc) but complex technical requirements for agribusinesses. Clients seeking alternative financing are guided through the criteria they must meet and supported with Business Plan, grant application and documentation support for a successful grant.

### **Professional Business Plans for Growing Agribusinesses**

Business plans for investments larger than \$50,000 have become a standard requirement for loans or alternative sources of capital. Experience during IPARD, proved that the number of business service providers in the market is still insufficient to meet the FAB's demand. CBS will offer the service free of charge including the financial statement during the first year of operations.

### **Marketing Services to Increase Sales**

Albanian farmers grow quality products (i.e. fruits and vegetables) but agribusinesses often miss opportunities to promote them. Small firms do not use marketing at all while larger agro-processors invest into expensive but often ineffective campaigns. CBS offers a Strategic Marketing Plan service, tailored to a specific agribusiness. The plan is a comprehensive strategy on how to use marketing - whether outsourcing it or internally implemented – so that sales are significantly grown. The plan produces solutions for product improvements, including technical and international standards, customer needs, targeting and product distribution. The plan includes solutions how to expand the product appeal including a brand identity, new market linkages and promotional campaigns including on-line and social media marketing.

### **Provide Technology and Standard Advisory Services to Professional Agribusinesses**

EU capital funds and increasingly national subsidy schemes have explicit criteria for meeting technology standards. Albanian products are considered attractive in European markets for quality and price but exporting them requires meeting international food standards. AgroCapital would guide agribusinesses through the range of technology providers including local and regional companies. Service will include information about how to obtain certifications related to national and EU standards, ISO, ASAP, GMP, BIO etc. Info about company providers would be published through AgroCapital portal.

### **Proper record-keeping and accounting practices**

The most important management tool the farmers can use in improving their operations is simple and effective record keeping. Failure to have proper financial or bookkeeping records is the nr.2 reason why banks do not finance farmers. Despite the importance, a survey with farmers indicated that no farmer has a record keeping program in place. In coordination with AAC Lushnja a partner organization, CBS will start a pilot project demonstrating the benefits of record-keeping in farmer's profitability. The practice will aim to expand the program through the farmer's association and become a standard practice within the association.

## **Component 3**

### **An Online Web Portal as the "Information Hub" for Albanian Agriculture**

A particular business obstacle in Albania is lack of information and knowledge-sharing platforms where business community can turn for information and opportunities.

Individual sources of information exist but there is no single place where reliable information is updated constantly. Important to agribusiness community is information related to market trends, financial opportunities, new technologies and overall Agriculture news affecting their businesses. Often this information is a privilege of the few and inaccessible to most. The web portal will be a dynamic modern platform with highly relevant information to agribusiness community. Key target groups would be farmers and agribusinesses, product suppliers, expert and industry professionals, as well as traditionally excluded groups such as women and youth.

	<p>Online portal as a single source information hub for Albanian agriculture</p>
	<p>Announcing local and regional projects and opportunities for agribusinesses</p>
	<p>Detailed technological guidance - obtaining certifications, meeting products standards</p>
	<p>Easy to understand expert and trends reports</p>

The online platform would serve as a collaborative space for other projects or initiatives - local or regional - relevant to agriculture. The portal would collect, aggregate and publish news, reports, related articles, and business directory links that already exist but difficult to find as they are segregated in a variety of sources. The value proposition of these combined resources would be a single online content platform for Agriculture business community. The portal will kick-off at the end of 2014 and reach full activity throughout 2015. The informational content would serve several goals:

**Publish online opportunities that AgroCapital offers so that agribusiness without direct contact to CBS can benefit as well**

In addition to assisting clients directly, AgroCapital can provide support information and guidance through the portal. For instance, instructions about how to become qualified for alternative financing and what documentation to prepare can be useful to clients that never went to CBS offices. Examples would include instructions and links about IPARD, SME fund, AIDA grants etc. It would also provide coverage of AgroCapital

activities, explore topics such as How to get an Agro loan, Comparison pricing, Loan Calculators, etc. AgroCapital activities such as field demonstrations, instructional videos client success stories etc. would also be published here. The benefit of the services would be reaching audiences that wouldn't otherwise have direct contact with CBS offices.

### **Make local or regional development projects, initiatives and opportunities available to agribusiness community**

Whether a development project, a trade fair, an EU-funded program or another Agro project in Kosovo, the community would benefit from finding this relevant info. Summary coverage of how the opportunity would translate to Albanian markets with direct links to trade sources to promote action would be common place. The value of having all this info organized into one single place would be significant for business making across the region.

### **Reviews and provide guidance info to Agro products, equipment, certifications and industry standards**

For businesses seeking only general information or who do not have time to meet with the Business Advisor, the portal will contain list of directories, reviews of products, technologies and useful equipment providers links so that agribusinesses can contact them directly. The section would cover info about certification, inspection compliance, how to obtain national and EU standards, ISO, ASAP, GMP, BIO and similar items. The information will be updated constantly with new product offers and standard requirements.

### **Publish and explain industry trend reports, expert studies with benefits to Agriculture developments**

In coordination with other organizations, trend reports and sector reports - usually available only to experts - will be published with a simple to understand "what it means" summary for the wider community. Collecting trade reports, research papers, value chain expert studies and archiving them for future use would be an added value not only to agribusinesses but to professionals as well.

## **Local and regional news about agriculture or agribusinesses would inform a growing community**

News that affects agriculture such as a new policy, a possible storm affecting crops, national subsidy scheme or the regional commodity price trend are topics of interest to agro community. The general type news related to Agriculture would complement the technical information already available making the portal a constant likely destination for new and returned audiences.

