



MICROFINANZAS EN LA
**MULTIACTIVIDAD
AGROPECUARIA**
¿Cómo llegar a este segmento?

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ADVERTENCIA

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AGENDA

I. Asuntos estructurales de las Finanzas Rurales

- Finanzas Rurales \neq Finanzas Agrícolas
- Diferencias geográficas entre las Finanzas Rurales de Asia y América Latina

II. Experiencia de MicroVest en Finanzas Rurales

- ¿Qué es MicroVest?
- Ejemplos
- Lecciones aprendidas

III. Conclusiones y reflexiones

I. STRUCTURAL ISSUES WITH RURAL FINANCE

Geographic Constraints

- Low population density in Latin America
- Poorly connected to weak infrastructure
- Security issues
- Historical land ownership and land title issues
- Lack of digital technology to reduce costs
- Lower rural financial literacy



I. STRUCTURAL ISSUES WITH RURAL FINANCE

Agricultural Credit Risks

- Seasonal cash flows of crop lending
 - Side selling
- Dangers of livestock lending
- Agricultural climatic risk concentration
 - Crop insurance



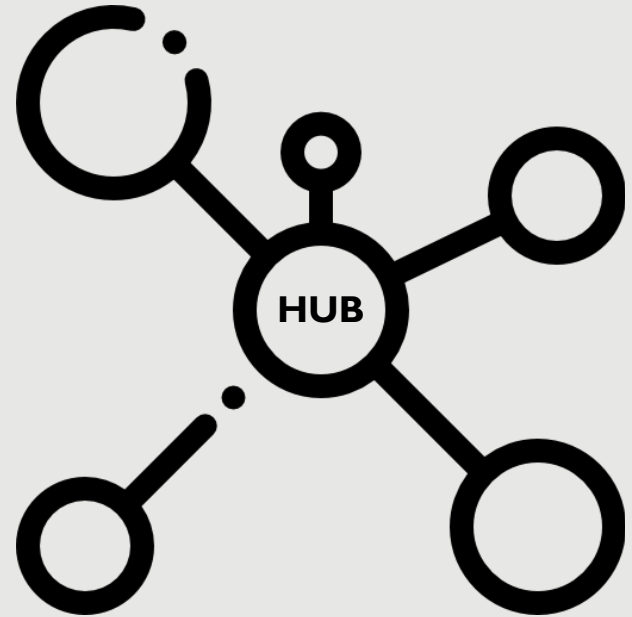
MITIGANTS TO STRUCTURAL ISSUES REDUCE OPERATING COSTS

Strong Core Commitment to Rural Finance

- Strong client focus
- Long-term strategy

Role of Associations

- Issues with financing cooperatives
- Hub and Spoke

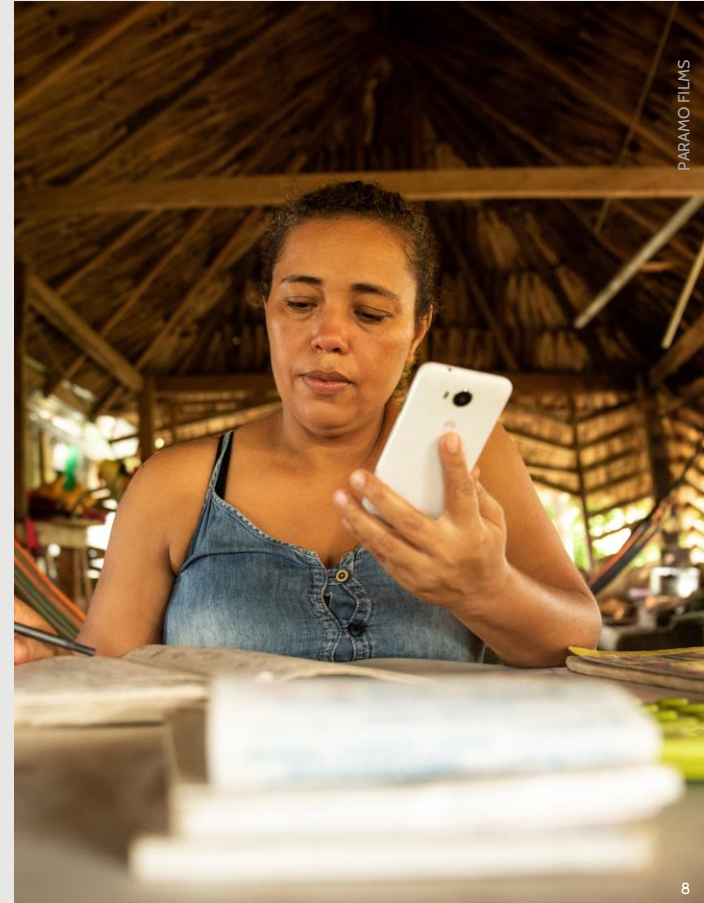


MITIGANTS TO STRUCTURAL ISSUES

REDUCE OPERATING COSTS

Digitization of Rural Smallholders

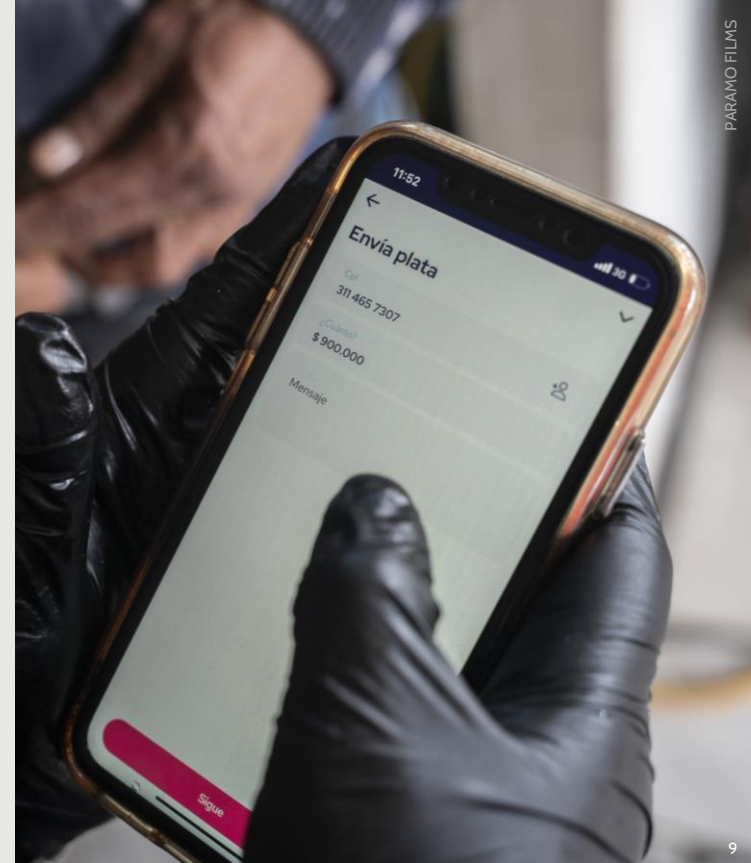
- 500 M smallholders – only 7% tightly connected to value chains
- Formal financial service providers lack:
 - Credit histories
 - Production records
 - Reliable storage facilities – warehouse receipts
- Informal value chain operators (traders and processors)
- Don't offer savings, insurance or payment services



MITIGANTS TO STRUCTURAL ISSUES REDUCE OPERATING COSTS

Digitization

- Integrate digital systems in all aspects of rural centric financial institutions
- Importance of:
 - Human touch points
 - “Cash In/Cash Out” (CICO) Agents
 - National digital identification system to support:
 - Credit bureau efficiency
 - Lowers credit risk
- Supports:
 - Efficient distribution of rural insurance proceeds, remittances and government to person payments (G2P)
 - Reduces need for buyer to deliver cash
 - Credit analysis - deep data
 - KYC
- Benefits should be equitably shared between smallholders, traders and processors

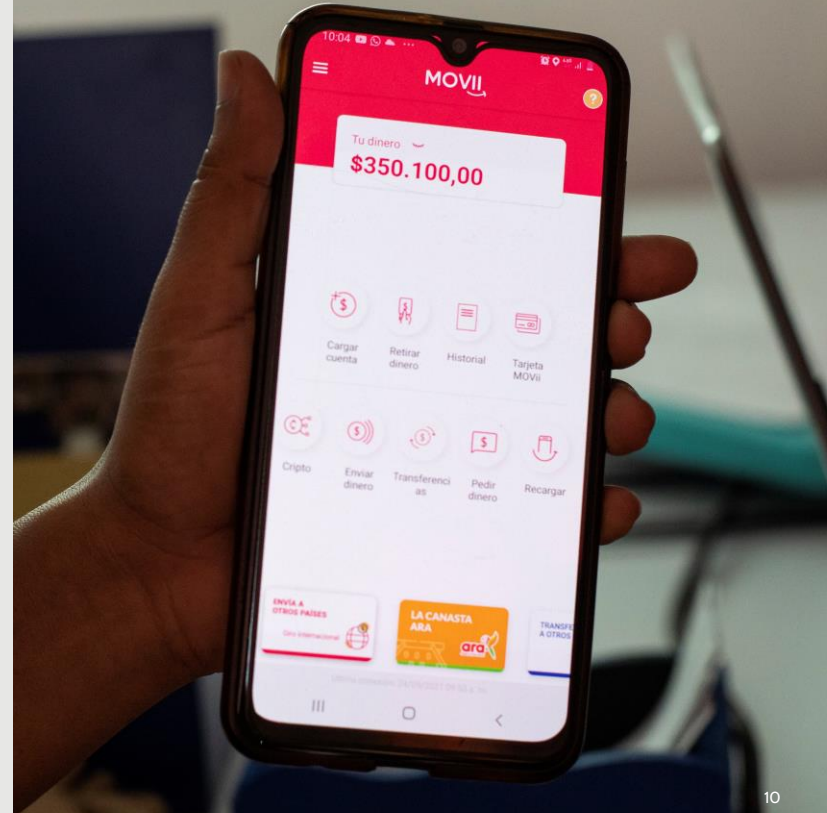


DIGITIZATION

COLOMBIAN EXAMPLES

Colombian Decree 1491 - 2015

- MoviiRed
 - Offers the same over the *counter transactions* via the mobile money service
- DaviPlata
 - Colombian bank Davivienda is increasing its efforts to provide for unbanked users by extending its reach into rural regions
- Agromovil
 - Partnership between Movistar, and rural bank Banco Agrario



MITIGANTS TO STRUCTURAL ISSUES REDUCE CREDIT LOSSES

Focus underwriting on entities with multiple cash flow

- Farming “plus”
- Remittances

Insurance

- Inclusive insurance vs.
 - Mono-crop
 - Moral hazard and cost of claims settlement

Guarantees

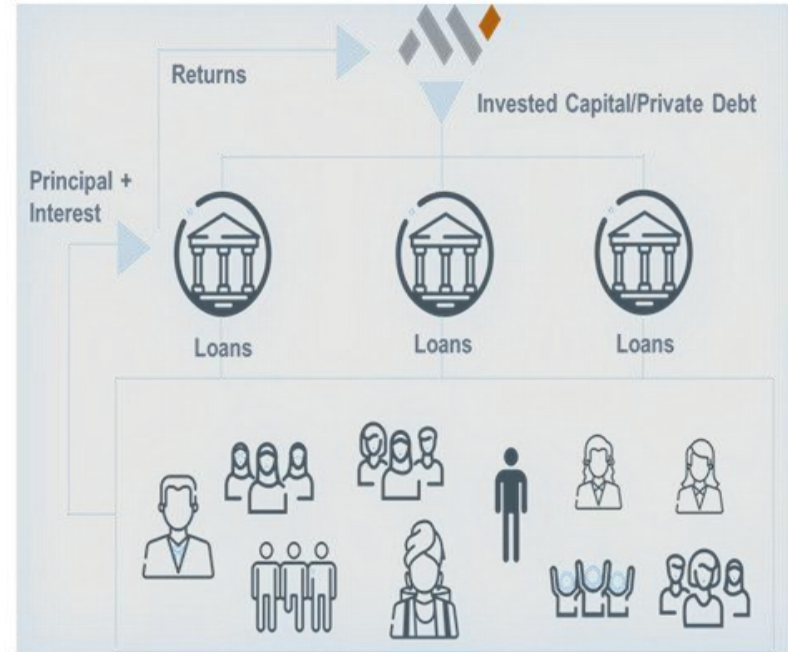
- Past lessons
 - % coverage
 - Usage
 - Adverse selection
 - Administrative costs for Financial Institutions



II. MICROVEST'S EXPERIENCE

WHAT'S MICROVEST?

- A registered investment adviser and B Corporation
- Impact asset manager that specializes in:
 - Allocating private **debt capital** to Responsible Finance Institutions (RFIs)
 - Serving the **unbanked** in emerging markets
- Founded in 2003, was acquired by DAI in 2021, and is now its affiliate
- Headquartered in the Washington, DC Metro Area
- 20 Experienced employees



II. MICROVEST'S EXPERIENCE IN RURAL FINANCE

Asia initial rural finance through solidarity groups

- BRAC and Grameen – Bangladesh
- Credit Access Grameen – India
- Most Microfinance Institutions (MFIs) - Cambodian

Latin America

- Vision Banco – Paraguay
- Early Movers 1990's
 - Prodem MFI – Bolivia – Used Tech
 - Compartamos – Mexico

Specialty Commodity Financial Institutions

- Barak – Trade Finance – Africa
- Root Capital – US based Sub-Saharan Africa (SSA) and Latin American Non-Profit



II. MICROVEST'S EXPERIENCE

EXAMPLES - INDIA

Indian Enabling Environment

- Dense rural population
- Good regulatory environment
 - Credit bureaus
 - Rapid adoption of digital identification
- Strong institutional learning from “Bangladesh’s 1980’s pro-poor rural model”

Lessons Learned

- Importance of insurance
 - Loan insurance and life insurance
- Focus on rural productive assets but not agricultural lending

Potential *Impediments* to Replicating in Latin America



II. MICROVEST'S EXPERIENCE EXAMPLES - PARAGUAY



Core Bank Strategy

- Early IDB/microfinance training
- Commitment to rural strategy
- Customer-focused strategy

Invested in:

- Extensive branch network
- Technology
 - Core banking system
 - Broad and flexible products
 - Cell phone and WhatsApp

Enabling Environment

- Large farms
- Strong export value chains
- Relatively easy road access



II. MICROVEST'S EXPERIENCE

LESSONS LEARNED

- **Underwriting focused on multiple rural cash flows** ✓
 - Beef herds and mono-crops very difficult without intermediary associations ✗
- **Role of associations and aggregations of farmers** ✓
 - Governance and lack of sources of equity ✗
- **Role of loan insurance, life insurance, and health insurance** ✓
 - Crop and inclusive insurance ✗
- **Guarantees**
 - Often administratively complicated ✗

III. CONCLUSIONS & REFLECTIONS (The 4 Actors)

1. Financial Institutions

- Full commitment – Rural finance **core business**
- Focus on **operating costs** and **credit risk**
- Explore the use of **digital solutions** to overcome hurdles
- Invest in CICO networks

2. Governments and Regulators

- Facilitate **digital highway**
 - Facilitate digital identification
 - Deep credit bureau penetration
- Maintain strong governance **oversight**
 - Facilitate appropriate **regulations**
 - Encourage rural insurance industry
- Remove regulatory **barriers to innovation** while remaining focused on **client protection**



III. CONCLUSIONS & REFLECTIONS (The 4 Actors)

3. Impact Investors

- Support **local currency** funding
- Evaluate **quasi-equity** instruments for rural finance-focused financial institutions
- Reasonable *impact data* collection

4. Donors

- Support expansion of CICO networks in rural areas
- Disseminate *best practices* aligned with local constraints
- Support research of financial lives of smallholder and data analytics to generate improved rural products
- Support innovative **regulatory** reviews
- Explore successful ethical **Hub and Spoke** models



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