



AGRF 2016 – SIDE EVENT REPORT

Day 1 - Monday, September 5

14:30- 17:30

Innovare Lease Finance for African Agriculture – Innovare

SESSION BRIEF

Context: “Leave the hoe behind, it belongs in the museum” is how Her Excellency Rhoda Peace Tumusiime, Commissioner of Rural Economy and Agriculture of the African Union Commission announced that mechanization must be an important component in transforming African agriculture. A key constraint to smallholders and SME agribusinesses gaining access to productive equipment is the lack of affordable finance.

Session objectives: This session focused on enabling partners to share experiences on expanding access to finance for agriculture. Specifically, the session focused on a “lease to own” initiative for agricultural equipment from the perspective of the smallholder (tractor leasing, harvesting, etc.) farmers, SME processors, manufacturers/vendors/dealers and investors. The session featured the L3 Consortium for Agriculture Mechanization (Innovare, Post-Harvest Technologies and EcoDev) and Innovare’s joint venture partner, VAELL, the largest leasing company in East Africa.

Key Issues/ Questions: What is the difference between lending and leasing? What are the differences in credit considerations for ‘on-farm’ vs SME corporate end users? In addition, what support is required for a successful lease-to-own facility?

Outcome Desired: Attendees were introduced to lease financing as an alternative asset financing methodology for the purchase of agriculture related equipment. Further, the audience will understand the basic requirements for implementing lease-to-own contracts: covering risk mitigation (including credit concerns about the applicants), rental payments, application processes and more.

Organizer(s): Innovare, hosted by John Riggan, CEO Partner



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Ms. Mary Jane Potter, Chief Investment Officer, Partner, Innovare,

Role: Moderator



Ms. Potter noted in her opening remarks that a key issue is that large companies have access to finance by using banks, while SMMEs and smallholder farmers struggle in this regard.

For them, finance is out of range and/ or interest rates are usually very high.

Lease finance is not necessarily new, but it is a relatively new class of finance in the African agribusiness sector. At Innovare, her firm, she explained that they are using a model called lease to finance.

Innovare sources capital, and then uses the money to help manufacturers sell equipment to customers who otherwise could not afford to buy it. The lessor continues to own the asset while the customer uses it.

Customers pay 25% of the value of equipment as down payment, and Innovare finances the 75%. Setting up fees is involved as administrative fees, and interest is charged.

An example of the process would be as follows: Instapro (Manufacturer) would sell equipment to Vaell (leasing company), Vaell would co-sign with the customer, the customer would pay Vaell 25% and then have use of the equipment while repaying instalments of the 75% plus the interest.

The advantage is that the lessor continues to own the equipment, so no legal battles or going to court trying to seize assets due to non- payment occurs.

From the farmers, she stated that they seek confirmation from the principal and their spouse, to act as witness to the lease agreement. They also have 3rd party guarantors in the African Development Bank developed African Guarantee Fund, who are willing to provide a guarantee on a partial amount, however Innovare is looking to have impact investors as well.

Innovare in essence, replaces the bank and at the same time



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		<p>helps the vendor and tractor companies sell the equipment.</p> <p>Lease to own: pay 25% as down payment and they finance the 75%, admin cost and interest, over a 3 year/ 36 months payment period.</p>
<p>Dr. Richard Jones, Chief of Party, Scaling Seeds and Technologies Partnership in Africa (SSTP), AGRA</p> <p>Role: Moderator</p>		<p>Second Panel: The development of L3 came after seeing many tractors that had died and not been used efficiently - and seeing many tractor graveyards. It seeks to answer 3 questions.</p> <ul style="list-style-type: none"> • What type of equipment is used? • What training is required, or is training required? • What type of financing is required to finance purchase? <p>L3 seeks to identify the right equipment for the right seed, and training on use of equipment. It also identifies the right financing to work together. Lastly, it seeks to identify a team that will work to screen the right type of farmers for the structure. Leases are commercial business so there is a need to mitigate against the risk. There is risk of equipment being mis-used and abused. There is a desire to have a mix of public and private money. L3 works with the entrepreneur and remains an open public finance, to attract private sector.</p>
<p>Panelists</p>		
<p>Mr. John Riggan, CEO, Innovare</p>		<p>Mr. Riggan began his remarks by noting that there is a need to increase mechanization in agriculture. Today in Africa, there is also a need for new equipment, knowledge and financing around agriculture. The big bottleneck in mechanization is financing and service models for smallholder farmers.</p> <p>There are many machines for small scale and large scale processing. Technologies are available across Africa but the big bottleneck is financing. Innovare has decided to take up the challenge and set up an institution to offer leasing facilities that will make mechanization possible in the African Continent.</p> <p>Panel Discussion</p>

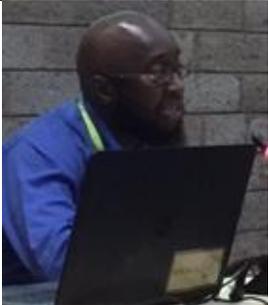
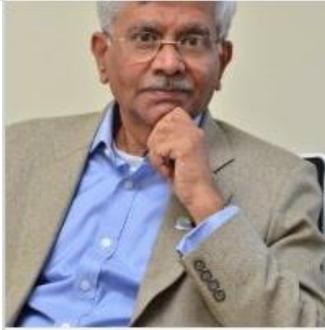


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		<p>Issue: the duration of harvest took too long lasting 10 days and resulting in a 40% post-harvest loss.</p> <p>Using thrashing machines, which then reduced harvest time to 2 days, there was a noticeable improvement of the quality of the harvest and fewer post-harvest losses were experienced.</p> <p>The aim is to reduce post-harvest losses, and storage spoils. Post-harvest management was then introduced, including pilot thrashers and dryers.</p> <p>Under the Innovare program, they identify the youth, provide the equipment and training and then further train them on how to best service their neighboring counterparts. This will yield result in reduced time, reduced losses, higher productivity and higher quality harvests. Not all leasing is investable. We seek to find optimal solutions and not just try to sell leases (L3).</p>
<p>Mr. David Resnik, CFO/COO, Innovare Advisors</p>		<p>Mr. Resnik explained that Innovare’s capital is sourced from private capital markets, e.g. institutional funds. Investors are looking for high returns at the same time want to have an impact in the world. The partnership with vendors helps mitigate against the risk. What happens if the customer does not pay? What happens if business fails?</p> <p>This is why customers do not own the equipment until it is paid for, so in a case of default, the equipment is seized with the support of the vendor and then they seek to find new customers for that equipment. This gives the investors ease.</p> <p>The equipment is portable and has a life span of 20 years; it can be leased to new customers in case of default.</p> <p>Partnerships with established leasing companies make it a safe package and investment worthy as customers must be able to make a deposit and have a sound business plan.</p> <p>As additional income, farmers also use equipment for rentals to</p>



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		<p>their neighbors. This is encouraged and further training is provided on the use of equipment. This also helps companies to not have to source funding from bank. Yet, the customer does need to be creditworthy to hold up the lease.</p> <p>In sourcing funds from private and institutional funds, Innovare looks principally to the impact investing space. They seek to harness that investor base.</p>
<p>Mr. Kinoti Kaburu, Start Up Technician & Regional Manager (EA.), InstaPro International</p>		<p>Mr. Kaburu spoke next and shared with the delegates the fact that his company, InstaPro, focuses on oil seed technologies for extrusion. Set up in 1969 with a first 350Kg extruder focusing on soybean processing for animal feeds. Today they have a presence in 100 countries. Their headquarters are in Iowa in the US. They are manufacturers and need to sell. However, they need clients to have finance to buy. Equipment starts at \$50,000-500,000.</p> <p>The challenge is that there is scarcity of collateral or capital. Manufacturers are in the manufacturing business so they are 100% risk averse and do not provide lending or give credit on equipment. Therefore, the partnership with Innovare has opened new doors, which is now offered to customers. Typical clients are usually family business based. They have saved up money but they do not want to use the money, so they seek finance to cover against potential losses. The businesses have good business plans but are not credit worthy.</p>
<p>Dr. Raj Dravid, Principal Advisor, EcoDev</p>		<p>Dr. Dravid was the first presenter in the Second Panel of the Session. How do we make Agriculture attractive and help elevate poverty as well? EcoDev is a consulting and advisory firm with focus on rural yields.</p> <p>The core challenge that EcoDev seeks to address is the phenomenon of youth migrating to metros/ cities for there is a scarcity of jobs in rural areas. EcoDev seeks to promote skills development, alleviate poverty and create employment opportunities. EcoDev provides training in 4 areas:</p> <ul style="list-style-type: none"> • Agriculture value chains; • Natural resource management;



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		<ul style="list-style-type: none"> • Nutrition; and • Hydro Sanitation <p>EcoDev has developed psychometric tools to identify 3 types of youth: Champions= require no technical assistance Masters= Require very little technical assistance Rookie= Require the most technical assistance</p> <p>Mechanization has made agriculture attractive and has brought back the youth into participating.</p> <p>EcoDev has successfully trained 250,000 youths thus far. Moreover, they have recently undertaken the mandate of seeking to answer, how do we make smart villages?</p>
<p>Mr. Paul Njeru, Structured Leasing, Vaell</p>		<p>Although it is a growing area of focus, Mr. Njeru pointed out that leasing in the agriculture sector is a struggle as partners who support Vaell find it too risky.</p> <p>They had to look at the cycle of money, and the harvesting times of farmers (prospective customers). The company determined that if you follow the food chain, agriculture is not too risky. While primary production at farmer levels can still be risky, at the processing level and up the value chain, it is less risky. In some cases, supermarkets can support farmers who are part of their supply chains. Thus, Vaell has put farmers and manufacturers together.</p> <p>Typical finance leasing has not worked well in East Africa as farmers aim to own the equipment and are not used to using it and returning it at a later period. Therefore, with Innovare’s help Vaell has been able to promote new methods of doing business and to mitigate risk. They are also better able to support participants in the agriculture chain who are less creditworthy. In smallholder farming communities, profitability is shaky and there are scant accounting records available. Banking is also not consistent.</p> <p>Therefore, Vaell now goes to farmers to understand what</p>



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		happens on the ground and does the same with manufacturers, seeking to be part of the process, in order to assist against potential risks and protect their investment.
Questions	Jason AFAP (comment)	The African Fertilizer and Agribusiness Partnership are now involved with Innovare.
		How do you find placement once seizure of equipment is affected?
		What is the size or target size of equipment?
		What are your interest rates in different countries, and local currencies?
		Does the mechanization not bring in potential losses of jobs for laborers?
		What constitutes a financeable customer?
Responses		<p>Innovare Response</p> <p>For the 25% down payment, there is a 90-day timeframe to give customers an opportunity to pay, through partnerships with leasing companies, who then find customers for equipment. The life span of equipment allows for this process.</p> <p>Vaell Response:</p> <p>In the leasing industry there is many requests to which some are denied, there is always a queue, so we can find new customers relatively easy for discounted equipment, though we find our vetting processes are stringent and provide for fewer defaults.</p>
		<p>Innovare Response:</p> <p>The low range of equipment financed would start from \$17000, and go to a high range of \$ 1 million.</p>
		<p>Innovare Response:</p> <p>All leases are in US dollars but the company is looking for solutions for hedging, due to local currency interest fluctuations, which may render a dollar obligation out of reach for customers.</p>
		<p>Ecodev Response:</p>



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		<p>We have found that the training on uses of tractors provides a potential of 8 new jobs, the servicing of tractors carried out locally leads to a reduction in time, from getting a technician from metros.</p>
		<p>Innovare Response:</p> <p>A financeable customer will be one that can make a deposit. Instapro sells equipment to SMMEs; credit analysis carried out to determine the feasibility of the SMMEs. Do they have 6-8 months of working capital? Do they have customers? Do they have a business plan? In addition should have about 15-20 acres of land.</p>
<p>Summary</p> <p>The discussion focused on the partnership of all entities in the value chain to provide one package that will mitigate against the risk of agriculture. Starting from Innovare sourcing capital, to leasing companies doing the vetting, and working with manufacturers so all were all involved. By linking the value chain, it would be easier for farmer and partners to find a way forward and the best deal possible.</p> <p>The 25% down payment is paid to manufacturers and shared with leasing firm (Vaell), the 75% is financed by Innovare and then paid to manufacturers, so they still receive payment upfront. The partnerships with Ecodev, helps identify potential customers, as vetting process further seeks to train farmers, to reduce misuse of equipment and to derive potential revenue from rentals, during off seasons, where tractors may be transported to other areas for harvesting, this is done by farmers or leasing firms.</p> <p>There is potential growth and upscaling from now, not only working with smallholder farmers but large cooperatives as well.</p>		