

## VCF Model

Value chain finance refers to financial products and services that flow to or through any point in a value chain, enabling investments that increase the growth and competitiveness of the chain. Value chain finance can be used to share risk and return among different actors in the value chain, such as a large buyer and small producer. Since 2017, the Initiative has visited a total of 120 different producer associations to determine the viability of their participating in VCF pilots. Out of this number, RFI determined that 76 of them are not viable due to lack of capacity or lack of markets. The remaining 44 viable associations were paired with the partner FI that best fits their financial needs and other selection criteria: FI presence in the pilot area, and client history between the association and the potential FI. Since 2017, the Initiative started implementing initial VCF activities with 13 associations, where all of them have been awarded VCF loans by FIs thanks to RFI technical assistance, and three additional associations have their loans approved and are pending disbursement. Additionally, this quarter three associations (COOPOMIEL, Café Macizo, and COMCACAOT) were notified that their second loan had also been approved. Similarly, some of these associations (Café Macizo, COMCACAOT, and ASOTBILBAO) have also benefited by the fact that FIs are already working directly with their members by offering them individual loans.

As of Q1, 28 applications are being reviewed by FIs. Figures 1 and 2 below show a breakdown of associations by region and VCF pilot status as of Q1. During Q1, RFI shared with many partner FIs the revised VCF model developed in 2017 and either incorporated VCF activities into the entity's Phase II Work Plan or begun implementing those activities. Specific VCF activities carried out with partner FIs in Q1 are noted under each partner in the following section on Financial Intermediaries.

**Figure 1. Identified Associations for VCF Pilots**

| Corridor                                     | Associations Visited | Viable    | Non – viable | Loans Disbursed | Approved, Pending Disbursement | Under Review |
|--|----------------------|-----------|--------------|-----------------|--------------------------------|--------------|
| Montes de Maria                              | 10                   | 3         | 7            | 2               | -                              | 1            |
| Bajo Cauca<br>Antioqueño – Sur de<br>Córdoba | 20                   | 12        | 8            | 1               | 2                              | 9            |
| Sur del Tolima                               | 27                   | 11        | 16           | 6               | -                              | 5            |
| Valle del Cauca –<br>Cauca                   | 10                   | 3         | 7            | 2               | 1                              | -            |
| Caquetá                                      | 42                   | 11        | 31           | 1               | -                              | 10           |
| Meta   | 7                    | 3         | 4            | -               | -                              | 3            |
| Tumaco                                       | 4                    | 1         | 3            | 1               | -                              | -            |
| <b>TOTAL</b>                                 | <b>120</b>           | <b>44</b> | <b>76</b>    | <b>13</b>       | <b>3</b>                       | <b>28</b>    |

Source: RFI

**Figure 2. Initial VCF Activities**

| Corridor |  | Municipality                   | Association                        | Number of Members in Association | Product | Financial Intermediary | Value of Requested Loan (COP) | Status    | Value of II Approved Loan (COP) | Number of Individual Loans to Members |
|----------|--|--------------------------------|------------------------------------|----------------------------------|---------|------------------------|-------------------------------|-----------|---------------------------------|---------------------------------------|
| 1        | Montes de Maria                        | El Carmen de Bolívar (Bolívar) | COOAPOMIEL                         | 40                               | Honey   | Opportunity            | 30.000.000 (US\$ 10,140)      | Disbursed | 40.000.000 (US\$13.300)         |                                       |
| 2        | Sur del Tolima                         | Planadas (Tolima)              | Café Macizo                        | 111                              | Coffee  | Banco Agrario          | 45.000.000 (US\$ 15,224)      |           | 11.750.000 (US\$3.900)          | 13                                    |
| 3        | Tumaco                                 | Tumaco (Tumaco)                | COMCACAOT                          | 1500                             | Cocoa   | Banco Agrario          | 50.000.000 (US\$ 16,915)      |           | 50.000.000 (US\$ 16,915)        | 374                                   |
| 4        | Caquetá                                | Paujil (Caquetá)               | Lácteos Santa Rosa                 | 500                              | Dairy   | Banco de Bogotá        | 200.000.000 (US\$ 67,662)     |           |                                 |                                       |
| 5        | Valle del Cauca – Cauca                | Santander de Quilichao (Cauca) | Asociación de Mujeres La Esperanza | 26                               | Coffee  | Banco de Bogotá        | 7.000.000 (US\$ 2,368)        |           |                                 |                                       |
| 6        | Sur del Tolima                         | Planadas (Tolima)              | ASOTBILBAO                         | 37                               | Coffee  | Banco de Bogotá        | 30.000.000 (US\$ 10,140)      |           |                                 | 7                                     |
| 7        | Bajo Cauca Antioqueño – Sur de Córdoba | Anorí (Antioquia)              | ASPROQUEMA                         | 164                              | Dairy   | Banco Agrario          | 20.000.000 (US\$ 6,766)       |           |                                 |                                       |
| 8        | Sur del Tolima                         | Planadas (Tolima)              | ACEDGA                             | 71                               | Coffee  | Banco Agrario          | 30.000.000 (US\$ 10,140)      |           |                                 | 9                                     |

| Corridor |  | Municipality                | Association               | Number of Members in Association | Product  | Financial Intermediary | Value of Requested Loan (COP) | Status   | Value of II Approved Loan (COP) | Number of Individual Loans to Members |
|----------|--|-----------------------------|---------------------------|----------------------------------|----------|------------------------|-------------------------------|----------|---------------------------------|---------------------------------------|
| 9        | Sur del Tolima                         | Planadas (Tolima)           | ASOPAP                    | 46                               | Coffee   | Coofisam               | 20.000.000 (US\$ 6,766)       |          |                                 |                                       |
| 10       | Sur del Tolima                         | Planadas (Tolima)           | AGPROCEM                  | 60                               | Coffee   | Banco Agrario          | 30.000.000 (US\$ 10,140)      |          |                                 |                                       |
| 11       | Sur del Tolima                         | Rioblanco (Tolima)          | ASOCEAS                   | 60                               | Coffee   | Banco Agrario          | 9.600.000 (US\$3.200)         |          |                                 |                                       |
| 12       | Valle del Cauca – Cauca                | Popayán (Cauca)             | Federación Campesina F.C. | 650                              | Coffee   | Banco Agrario          | 250.000.000 (US\$ 84,577)     |          |                                 |                                       |
| 13       | Montes de Maria                        | Carmen de Bolivar (Bolivar) | COOPIMARES                | 30                               | Honey    | Opportunity            | 20.000.000 (US\$6.600)        |          |                                 |                                       |
| 14       | Bajo Cauca Antioqueño – Sur de Córdoba | Apartado (Antioquia)        | CORBANACOL                |                                  | Plantane | Interactuar            |                               |          |                                 | 70                                    |
| 1        | Bajo Cauca Antioqueño – Sur de Córdoba | Montelibano (Córdoba)       | AFAPUL                    | 49                               | Cocoa    | Bancompartir           | 10.000.000                    | Approved |                                 |                                       |

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|----------|--|--------------------------------|----------------------------------|------------|------------------------|-------------------------------|--------|---------------------------------|---------------------------------------|
| 2        | Bajo Cauca Antioqueño – Sur de Córdoba | Santa Rosa de Osos (Antioquia) |                                  | Dairy      | Banco de Bogotá        | 2.500.000.000 (US\$ 845,771)  |        |                                 |                                       |
| 3        | Valle del Cauca – Cauca                | Santander de Quilichao (Cauca) | 42                               | Pineapples | Davivienda             | 35.000.000 (US\$ 11,841)      |        |                                 |                                       |

Source: RFI

Taking into consideration previous VCF activities and recommendations provided by international consultants RFI engaged in 2016-2017, the current RFI VCF model, adjusted during this quarter consists of: i) *provide TA to participating FIs to enable producer associations from accessing financial services*; and ii) *develop a business strategy as a complement to the provision of financial services*.

*1. Provide TA to enable producer association from accessing financial services*

To allow associations gain access to financial services, the Initiative has included the implementation of VCF pilots within the tailored made Work Plans of some of its partner allies including: Bancamia, Banco de Bogotá, Banco Davivienda, Bancompartir, Congente, Crezcamos, Interactuar, Microempresas de Colombia, and Opportunity. This quarter, and after implementing initial VCF activities during 2017, both Banco Agrario and Coofisam decided not to continue implementing this innovative financial approach to deliver financial services.

In order to properly transfer the suggested model with interested partners, the Initiative is providing training sessions aimed for different departments within each FI, in order to define, promote coordination, and gain buy-in, which sets the stage for testing the new VCF model throughout 2018. (See Figure 3 below for details).

**Figure 3. VCF transfer status with interested FIs**

| FIs  | Status                        |
|--|-------------------------------|
| Interactuar and Opportunity                                    | Completed in Q1               |
| Bancamia, Bancompartir, Congente and Microempresas de Colombia | Expected to be complete in Q2 |
| Banco Davivienda, Banco de Bogotá, Crezcamos and Contactar     | Expected to be complete in Q3 |

Source: RFI

To successfully implement pilots with the VCF, these are the Initiative's suggested steps:

- a. *Design the model to allow financing value chains.* To deliver financial services, it is necessary to start by reviewing each FI and know its products, processes, procedures, and policies to address value chains. The purpose of this initial review is not to change the FI's structure nor its existing processes, but rather to identify the available tools that can be used for the pilot's implementation.

This process also allows to detect exceptions that each FI will need to incur in order to serve potential associations in rural areas. For example, FIs have in general provided services in urban areas where people are aware of the requirements to access financial services. However, when FIs decide to expand their coverage to rural areas, they face a new situation where people do not have the required information to access financial services since it could be the first time they have presence of an FI in their municipality and want to access financial services for their first time. This situation makes it necessary for existing policies within each FI to be adjusted or authorized for the implementation of the pilots.

This diagnosis to detect necessary changes or exceptions is jointly done by both the Initiative and each interested FI. This assessment focuses in studying key areas that are required to be involved for the implementation of the pilots: credit, risk, and commercial areas. It is imperative to have all these areas involved since the begging of the process to avoid future inconveniences and disagreements between them. To these areas, the key message delivered by RFI is: be willing to accept recommendations and exceptions to the traditional mechanisms used while taking into consideration existing products, processes, procedures, and policies that can be used to implement VCF pilots.

*b. Prepare pilot test and training.* After the initial assessment is finalized with the purpose of identifying existing tools, the Initiative sets to implement the innovative VCF model at the interior of each intermediary. The suggested model consists of a three-step methodology that works as a toolbox to teach interested FIs how to effectively reach out to rural organizations:

- i) Identification of value chains: Identify and retain anchor organizations, associations, producer organizations and determine what they know what to do in order to limit financial alternatives to this activity since it is their main source of income. FIs target to finance what these associations are good at as well as finance only existing plantings.
- ii) Analysis of value chain information: FI study gathered information, which needs to be either truthful information or no available information at all rather than rely on subjective information. When financial intermediaries lend resources to actors in the rural area using the traditional financial model, this included a mandatory field-visit to supervise the farm and its crops. This innovative methodology seeks to work hand by hand with the associations, who will be responsible for providing reliable information about themselves and their members. Therefore, by making associations their single point of information, FIs can reduce their interest rates because they now have less origination costs: they will no longer have to perform these supervision visits since they will rely on the information provided by the associations, allowing to save transportation costs and time of their loan advisors.
- iii) Value offer: After analyzing the gather information, intermediaries determine if the association's request is accepted or rejected.

After FIs introduce this simple methodology, it can be complemented with their own products, and procedures to deliver financial services to potential clients in rural areas. FIs are who decide which steps and parts of the methodology fit best and which are easier to use under their own procedures. This methodology allows FIs to identify possible sources of information to efficiently detect potential clients. After implementing these procedures at their core, FIS will be able to train their staff to

determine which teams are responsible for the collecting and studying the associations' information.

- c. *Implementation of the pilots.* Interested FIs determine in which RFI municipality they want to start implementing the VCF model. As discussed above, the Initiative has detected viable associations to participate in these pilots, where they are later invited to participate in an initial meeting with FIs for them to explain their financial needs and learn about possible financing solutions. The Initiative's role within the implementation of these pilots is to ensure that interested FIs are properly implementing the suggested VCF methodology and by making sure they are adequately using the elaborated tools as an alternative mechanism to serve rural populations.
- d. *Pilot evaluation review.* Both RFI and the participating FIs review if by using the suggested VCF model, intermediaries had a positive impact in rural communities. RFI will consider the implementation of these pilots a total success if participating FIs appreciate this innovative methodology and want to include VCF within their portfolio of services. The Initiative will provide additional necessary assistance for required adjustments for FIs to incorporate this methodology within their core prior replicating VCF operations in other regions.

## II. *Develop a business strategy as a complement to the provision of financial services*

To have a complete VCF model, the Initiative considers of utmost importance the development of a business strategy to complement the provision of financial services. As abovementioned, while implementing initial VCF activities during 2017, RFI detected weakness in rural associations that impede them from accessing financial services. To better define solutions, this topic was also included in the aforesaid international consultancy, which provided the following activities as necessary topics to be included within a business strategy:

- a. *Organizational strengthening:* Associations have a weak internal organization that need to be improved as prerequisite to be able to comply with FIs' requirements. Assistance should be focused to: improve governance and business management to become better leaders; define legal status since many are still not formalized; ameliorate managerial skills to increase customers; among others.
- b. *Business strengthening:* Associations have a weak accounting system and financial management. Assistance should be focused to: highlight the importance of having have an accountant within their key staff personnel since they are responsible for having organized cost structures, updated strategic plans, as well as financial statements, income statements and ledgers in order.

- c. Technical strengthening: Associations are not aware of their production potential. Assistance should focus in improving production levels to increase selling volumes as well as refining their products' quality.
- d. Market strengthening: Associations do not have proper market strategies. Assistance should focus in expanding current business lines to find new customers.

During 2018, the Initiative anticipates working with different partners like Nacional de Chocolates, as well as Contactar, Interactuar and Microempresas de Colombia in the preparation of viable business strategies that could complement the VCF model. In particular, these partners could provide required TA to improve associations conditions through their corporate social responsibility programs (Nacional de Chocolates) or through the reinforcement programs offered by their cooperative nature (Congente, Contactar, and Interactuar).

#### *New and Existing VCF Actors*

While implementing VCF activities with participating FIs, the Initiative has found other potential allies to allow for deeper impact than only working with FIs. During Q1, RFI identified a promising new partner in Contactar to develop joint VCF activities. Furthermore, this quarter the Initiative decided not to pursue activities with either the Cauca region cooperative COMFANDI, the multinational beverage corporation Unilever, and the Colombian rice growers' association Fedearroz, since the Initiative was not able to come to agreement on common goals with them.

- *Contactar*. This quarter, the Corporación Nariño Empresa y Futuro Contactar reached out to RFI and expressed its desire to develop joint VCF activities. To this end, a MoU was signed in December 2017. In Q2, the Initiative expects to elaborate a Work Plan and define the implementation of VCF activities with its new partner.