



Terms of Reference | Innovative Financing Instruments for Smallholder Farmers, Producers, and Agri-Businesses Participating in Supplier Development Programmes in SADC with a special focus on Botswana, Eswatini and Lesotho.

Conduct a review of existing financing instruments available to smallholder farmers, producers, and agri-businesses and design a contextual innovative financing model (drawn from international best practices) to support improved access to finance for the study's target group.

RFP ID: SCOPINGAND DESIGN_INNOVATIVEFINANCE2020
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Prepared by FinMark Trust

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1. About FinMark Trust

FinMark Trust (FMT) is an independent trust whose purpose is to make financial markets work for the poor by promoting financial inclusion and regional financial integration. FMT does this by conducting research to identify the systemic constraints that prevents consumers from accessing financial markets, and by advocating for change based on research findings. Thus, FMT has a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.

2. Background and Contextual Information

Agriculture continues to be the backbone of many countries, especially given that 75% of the world's poor are still contingent on agriculture. In the SADC region, agriculture continues to play a vital role in the economy, contributing between 4% and 27% towards the Gross Domestic Product (GDP). The agricultural sector constitutes approximately 66% of the intra-regional trade value and an average of 13% of the overall export income for several countries in the region. Moreover, 61% of the SADC populace rely on agriculture as the basic source of income, subsistence and employment.

Various countries within SADC have identified agriculture and agro-processing as a key priority sector in their economic growth strategies. Botswana's government has identified the agriculture sector as key to its diversification efforts. Livestock production accounts for more than 80% of income from agriculture, whilst crops account for the remaining 20%. Meat and meat products are the only agricultural sector outputs that contribute significantly to exports. Development of agro-processing activities is identified as high priority for economic diversification, and a key route to increasing agriculture's contribution to export earnings. Value addition activities do take place but are limited and tend to be on a small scale. A key challenge facing the sector as a whole is lack of access to financial products and services. This particularly affects less advantaged groups, including communities (i.e., traditional & smallholder producers), women and youth, as well as agricultural SMEs and remote firms.

Eswatini's National Development Strategy has prioritised agriculture, manufacturing and services sectors as its key drivers of economic growth. In turn, the Department of Industry in the Ministry of Commerce, Industry and Trade (MCIT) has prioritised agro-processing in high economic impact agro-value chains i.e., those that have high export potential and are drivers for job creation people, have potential for import substitution; product and market diversification; increased competitiveness in production and on market; social inclusion of all people of all genders; and environmental sustainability. MSME's are noted as being critical to this effort. MSME's participating in Eswatini's agriculture sector, are the second largest sector to wholesale or retail, but contribute the highest monthly turn-over at E134 million (US\$10.3 million). Access to finance is the biggest challenge in the effort to promote the commercialisation and growth of the smallholder farmers. Access to finance for the

smallholder farmers continues to be a major constraining factor for the development of the sector.

In Lesotho, agriculture is a small and diminishing contributor to GDP. It contributed approximately 80% of GDP in the 1960s however, in 2018/2019 it contributed no more than 4.38%. Productivity in Lesotho agriculture is low by almost any comparison, with the value added per worker averaging only about \$400 p.a.²⁰. Despite this, almost 40% of the economically active population were still employed in agriculture in 2010. 57% of those economically active in agriculture are women. Women therefore make up a disproportionately large percentage of the poorest economically active group in the country. The estimated annual turnover of these SMEs was M39.5 million (US\$2.7 million) in 2016. Access to finance was the most widely reported obstacle to development, with 'business being too small' being by far the most significant barrier to banking.

3. Problem Statement

Despite the significance of the agriculture sector, the potential of SMEs (in this regard, specifically smallholder farmers, producers and agri-businesses) participating in this sector is oftentimes undermined. SMEs operating in this sector face challenges with accessing finance and accessing markets. For example, in Botswana quality performance is relatively weak within Botswana's SMEs, highlighting this as a significant challenge for agricultural exporters. This is affirmed by the finding that in Botswana, enforcement and adherence of standards were more popular in the services sector and less common in the agricultural sector. This differs from many other countries where certification is more popular among agricultural companies.

SMEs struggle to gain access to markets due to a combination of factors related to low production and vulnerability to climate impacts, as well as limited access to finance. Fewer smallholders have the capacity, without targeted support, to participate in supply chains. Some of the challenges are linked to adherence to quality and quantity standards, including prescribed packaging, grading, labelling and traceability and transport requirements. As a result of these risks across the formal value chain, smallholder farmers are often forced to distribute their products in low-value informal markets limiting their ability to be included in the mainstream of the economy.

The need for access to finance (be it credit for annual production costs or loans for longer term needs) is a widespread, though not a universal challenge for SMEs in the region. Access to appropriate finance is critical to improving the productivity and capability of SMEs to access markets. It also improves the capacity of SMEs to produce at the required scale and specifications. All of which better position SMEs, for example, to secure and sustain the commercial supply contracts needed to access finance from commercial sources – chiefly off-takers, banks, and development finance institutions (DFIs). Generally, SMEs are able to

access to access traditional or alternative financing. Oftentimes, traditional financing is risk-averse factoring, therefore interest rates are comparatively higher. Loan decisions are based on credit history, cashflow, collateral, projected earnings etc. Whereas alternative financing is more accommodative of SMEs with unconventional collateral, is able to leverage alternative credit scoring mechanisms and record keeping sources; this allows SMEs to access loans that match their specific financing needs.

The information gathered through FMT's Agriculture Finance Scoping study details the vast array of financing needs SMEs encounter, highlighting the need to consider alternative financing instruments specifically for SMEs that have benefitted for supplier development programmes. For example, in Malawi's vegetables value chain, the installation of infrastructure for irrigation is the main constraint, it is not easy for off-takers to play the role of credit provider. Infrastructure calls for multi-year loans, while off-takers seldom provide more than single-year revolving credit. As commercial banks, and even development finance institutions, are generally reluctant to lend to smallholders, in the absence of external investors, the most likely source of finance for infrastructure is grants from international donor/development partner programmes.

Many smallholders are unable to provide personal surety and lack land or other fixed collateral, making it difficult to develop their farms in order to operate on a more commercial basis. Cattle are rarely accepted as collateral at present, though they are the primary asset of many rural households. Proper identification and traceability is one of the requirements for supplying formal markets on a regular basis. This requirement is now being widely met through Botswana Animal Information and Traceability System (BAITS), though the system is not without its challenges. BAITS may offer a route to improved access to finance for smallholders if some of these challenges can be overcome and lenders perceive BAITS registration as sufficient for accepting livestock as collateral.

FinMark Trust has developed an Enterprise and Supplier Development (ESD) programmatic focus area. Our overarching programme objective for ESD is to deepen financial inclusion and to further inclusive growth within SADC countries. We set out to target the SME and smallholder supplier segments and buyers to achieve positive outcomes for these stakeholders through facilitating and supporting the supply value chain through access to markets. FinMark Trust's goal is to ensure appropriate access to finance for the SMEs and smallholders to ensure growth of their businesses, scalability, improved livelihoods and inclusive economic growth.

4. Objective and Scope of Work

In view of the above, and in support of FMT's wider ESD focus area, FMT requires an individual consultant to conduct a review of existing financing instruments available to smallholder farmers, producers, and agri-businesses and design a contextual innovative financing model (drawn from international best practices) to support improved access to

finance for this target group. This should consider alternative financial instruments that can leverage the supplier development process as well as the array of stakeholders involved. The key activities should include:

- International best practice and models (relevant/applicable to the focus countries) for improving access to finance for the target group
- Review and analysis of tools/apps/innovations have been developed to improve access to finance for the target groups and the extent of their success/failure as well as related causes.
- Proposal on adjustments that could be made to traditional financing instruments targeted at agriculture enterprises in order to improve access to finance for the target group
- Proposal on value chain financing models that could be adopted by stakeholders leading in supplier development programmes
- Design of a contextual innovative financing instrument to support, producers, agri-businesses who would not necessarily qualify for traditional financing model.
- An implementation strategy detailing how FMT and its supplier development project partners can establish the innovative financing instrument for the study's target group

5. **Approach**

This research work will entail the use of primary and secondary research sources which will be primarily desktop in nature; however, if there is a rationale for one, the consultant should motivate for it in the proposal.

6. **Outputs**

The output envisaged for this study comprise:

- Database and Review of financing instruments (of their success, hurdles, etc.) available to smallholder farmers, producers, and agri-businesses in Botswana, Eswatini and Lesotho. This should include, inter alia, requirements, uptake, value and volume of loans and investments disbursed to agribusinesses in the aforementioned countries.
- Report and case studies of relevant international best practice financing instruments and models which have been used to finance smallholder agriculture and SME's that have been unable to access mainstream finance.
- Innovative financing instrument with an implementation strategy to support, smallholders, producers, and agri-businesses who would not necessarily qualify for traditional financing model.

7. **Proposal content**

Individuals should submit a detailed technical and financial proposal. The technical proposal is expected to be clear and concise and should be a maximum of 10 pages. It should include:

- Methodology: the approach to be implemented in conducting the scoping exercise;
- A detailed overview of key stakeholders who will be approached for engagements;
- Timeline: a detailed timeline for executing all project activities;
- Risk management: a comprehensive list of anticipated project risks and contingency plans;
- Skills and qualifications: evidence of technical capacity to undertake this study highlighting evidence of innovation in solutions mapping for development, including examples of similar work previously undertaken;
- Name and qualifications of individuals responsible (i) for overseeing the work; (ii) for undertaking the work;
- Output: outline and structure of the comprehensive research report, and
- Financial proposal: detailed costing for each activity, broken down by professional fees and expenses.

8. Required skills and qualifications

Applications from interested individuals must provide evidence of the technical capacity to undertake this exercise. This includes capacity to deliver the results in the timeframe provided, as well as some indication of prior experience in coordinating large projects and supporting stakeholder engagement within the financial services, agriculture and SME sector. Individuals' CVs must be included, as well as a description of any further resources that may be required. Required skills / qualifications include the following:

- College or University degree in Economics, Agriculture Finance, Development Finance, International Development or other relevant fields;
- A minimum of five to ten years of relevant experience in the SME, development or agriculture financing, is advantageous;
- An innovation and solutions mapping orientation. Experience in solutions mapping to address development challenges particularly for poor and rural communities will be advantageous;
- Demonstrated capacity to apply gender analytical frameworks;
- Experience in project management is required with an excellent understanding of development finance;
- Excellent computer literacy, including research and report writing skills;
- Personal commitment to pro-poor development, efficiency and flexibility, teamwork spirit with the ability to work independently or under minimum supervision; and
- Excellent communication, written and verbal skills both **in English is essential.**

9. Selection criteria

Contract selection criteria and award will be made on the basis of the following scoring mechanism:

	Criteria	Weighting
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	Criteria	Weighting
1	Competence and previous experience	30%
2	Knowledge of the local financial services market, agriculture &/or SME Sector	30%
3	Local capacity	10%
4	Budget	30%
	Maximum score	100%

10. Submission

Proposals: Proposals for the project should be submitted by close of business on 06 September 2021 at 17:00 (SAST) by email to Mr. Damola Owolade (DamolaO@finmark.org.za). The successful bidder will be notified by 10 September 2021. It is envisaged that the project duration will be eight weeks from the date of notification of appointment.

The selected consultant must be prepared to meet with FMT on a date to be announced, for a briefing. Once the selection process has been completed, FMT will issue a contract confirming the appointment of the consultant. Any queries relating to the preparation of the application should be referred to Mr. Damola Owolade by email: DamolaO@finmark.org.za

In line with FMT's policy of transparency, answers to queries from one candidate will be circulated to all who indicated their intention to submit a proposal.

11. Safeguarding

The selected service provider has the responsibility to consider and be aware of potential safeguarding issues in the Terms of Reference and be able to demonstrate due diligence in relation to the protection and safeguarding of children and vulnerable groups as per agreed set of actions and strategies designed to support and manage ongoing risk and abuse, exploitation or neglect of participants in this research project.

12. COVID-19

The selected service provider and FinMark trust recognize the need to minimize the spread of the Corona Virus and the parties will agree on appropriate non face to face methods of communications and completion of required tasks to ensure that work on the project is able to continue effectively. The situation however will be closely monitored by both parties on an ongoing basis.

Guidance notes to bidders

FinMark Trust reserves the absolute right to use its discretion in the interpretation of these award criteria. The following notes are intended to provide broad guidance only on how proposals will be evaluated. Bidders may be required to clarify their proposals by way of a telephone call or presentation.

“Relevant, demonstrated competence of firm(s) in this area” - you should aim to demonstrate how the firm’s collective past experience can be applied (or adapted) to address the specific brief set out in the terms of reference. You are welcome to describe the firm’s general experience of financial sector development issues (e.g. in other geographies or topical areas) but the evaluation will focus particularly on the application of that experience for the specific task at hand.

“Demonstrated expertise of key individuals to be involved in this project” – the evaluation places considerable emphasis on the role and demonstrated expertise (i.e. track record) of the key individuals to be involved on the project rather than on the expertise of the firm itself.

“Use of local professional capacity (consulting, analysis, coordination etc.)” – FinMark Trust wishes to ensure that local capacity is used and developed. International firms are therefore encouraged to partner with local organisations.

“Content, quality and originality of proposal” – proposals should address the brief set out in the terms of reference in a comprehensive manner. Bidders should aim for innovation as well as professional presentation. Whilst similar, relevant experience in other markets will be an advantage for a bidder, each market is different and so proposals need to reflect the particular characteristics of that market, as well as the challenge set by the terms of reference.

“Fee basis” – value for money, as well as absolute cost, will be taken into account.

13. Important to note

If no communication has been received from FMT after 1 month of your submission, please consider yourself as unsuccessful.