Notice of Request for Information (RFI)

DEPARTMENT OF AGRICULTURE [Docket No. USDA–2021–001]

Solicitation of Input from Stakeholders on Financing Innovations for Small and Medium Agricultural-Related Enterprises

AGENCY: Foreign Agricultural Service, USDA.

ACTION: Request for Information.

DUE DATE**:** Written comments must be received by 5:00 pm EST on June 30, 2021 to be assured of consideration.

SUMMARY:

The U.S. Department of Agriculture (USDA), Foreign Agricultural Service (FAS), Office of Global Programs, Food for Progress branch requests comments from the public to inform its future programming. This Request for Information (RFI) offers the opportunity for interested parties to identify financial risks and barriers and propose solutions to improve longevity and efficiency in financing agriculture Small and Medium Enterprises (SMEs) across cash crop value chains. Responses should include as much detailed data, research, and suggestions as possible to facilitate and bring to scale transformative breakthroughs in financing innovations for SMEs. **This is not a notice of funding opportunity or a request for proposals.**

BACKGROUND:

Food for Progress (FFPr) was originally authorized by the Food Security Act of 1985 and supports developing countries and emerging democracies to modernize and strengthen the agricultural sector, improve production, and increase trade in agricultural products. With reauthorization through subsequent Farm Bills and annual funds apportioned by Congress, U.S. agricultural commodities are awarded to partner organizations, sold on local and/or regional markets, and the proceeds used by USDA implementing partners to support agricultural productivity and/or trade development programs. Information regarding SME finance across the value chains of cocoa,

coffee, spices, and cashews are of particular interest. USDA also welcomes information related to other value chains such as animal feed, and complementary examples of SME agriculture finance.

SUPPLEMENTARY INFORMATION

SMEs play a major role in the global market, representing about 90 percent of all businesses and more than 50 percent of employment[1]; this sector is particularly important in the economies of developing nations. Conversely, the agriculture sector as a whole can make up over 25 percent of GDP in developing nations.[2] The United States is a major importer of foreign agriculture products and the rate of demand and demand for diverse sets of products will continue to increase.

Even as domestic demand rises, the agricultural SME sector struggles to remain viable due to difficulties in accessing finance. The International Finance Corporation (IFC) estimates that 65 million firms, or 40 percent of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion every year. This is equivalent to 1.4 times the current level of global MSME lending.[3] This is, in part, related to heavy financial costs and risks associated with accessing rural communities, inaccurately assessing risks (in production and elsewhere), and allocating funds in an effective and sustainable manner.

Recently, there have been efforts to support initiatives aimed at improving the sustainability of lending to high-impact sectors through the use of hybrid financing instruments and other support mechanisms, thereby closing the financing gap for agricultural SMEs that serve small farmers. There has been increased attraction to agricultural SME loans through cash flow and asset-backed financing and the involvement of fund management processes such as cloud-based software.[4] Still, these sectors continue to face challenges in accessing capital across the value chain and require solutions that break away from the traditional lens. Obstacles of price volatility, limited investment, climate change, operating costs, lack of technological resources, low value added along the value chain, inadequate soil fertility, uncertain weather, and socioeconomic issues still present major challenges.[5]

USDA understands a gap exists between the demand and supply of finance to agricultural SMEs in developing nations and seeks information to help quantify and qualify this obstacle. USDA requests information to help identify current constraints and opportunities in the agricultural and finance sectors to better support global actors to collaborate and to support the long-term availability of efficient financing models and sustainability of priority value chains.

---

[1] https://www.worldbank.org/en/topic/smefinance

[2] https://www.worldbank.org/en/topic/agriculture/overview

[3] https://www.worldbank.org/en/topic/smefinance

[4] https://iixfoundation.org/wp-content/uploads/2011/08/OXFAM-SME-Report-November-2014_FINAL.pdf

[5] https://www.agrilinks.org/post/agricultural-sme-finance-challenge

QUESTIONS FOR STAKEHOLDERS:

USDA/FAS seeks public responses to any or all of the following questions with which stakeholders have had experience or have insight, whether it be based on concrete successes, lessons learned, or envisioned concepts. Please identify whether a response applies to a specific crop, commodity, or demographic, and provide additional information you consider relevant to questions posed. Please note that the U.S. Government will not pay for response preparation or for the use of any information contained in the response. For greater clarity, the questions are grouped into sections on:

1) Financing Environment
2) Types of Finance
3) Program Design

1) **Financing Environment**
   a) What challenges do you foresee having the greatest impact on financing for the agriculture sector in developing countries? How can FFPr take steps to address these challenges?
   b) Which segments of agriculture value chains (production, processing, aggregation, packaging, etc.) have greater access to capital and are able to manage capital? Which are the most difficult to finance and why?
   c) a) Is there a way to subsidize this step and/or mitigate the risks associated?
   d) b What role may a guarantor (e.g. Development Finance Corporation) play in this process?
   e) Are SMEs able to receive funding from financial institutions within their region?
      i) If so, what characteristics do the SMEs receiving this support typically have?
      ii) If not, what are the key barriers to funding and how can that be alleviated?

2) **Types of Finance**
   a) What types of finance (e.g. debt/equity, working capital, capex), are in the highest demand for agricultural SMEs (with estimated number of SMEs and amounts of financing if possible)?
   b) What types of finance are you providing or do you typically witness being provided to SMEs?
   c) Who is providing the existing finance currently (e.g. local banks, non-bank institutions, international funds)?
   d) Are there complementary non-financial support services (e.g. technical assistance), which -- when coupled with financial products -- have been or can be beneficial?
      i. What would the benefits and risks be in the use of equity-based / equity-like vehicles in comparison to debt-based?
   e) What stage in agriculture value chains would equity investments be most beneficial?

f) What is the availability of equity-based finance you have witnessed in the SME agriculture development sector?

3) Program Design

a) Are there specific opportunities or gaps you have witnessed in access to finance for SMEs in agriculture development projects that USDA should target? Should USDA establish programs in more financially developed regions or where the finance need is greatest, i.e. because the region is less financially developed?

b) How do you define a successful project?
   i. What systems do you use for tracking the financial and social return on your investments?
   ii. What specific indicators are most important to track the sustainability of a project after USDA funding ends?

c) Estimate how much capital would be needed to develop a ground-up program to finance agriculture SMEs in a FFPr priority value chain (cocoa, coffee, cashews, spices and feed processing) within a well-targeted country. What would be the ideal breakdown of capital for lending/investing, technical assistance, and operational costs?
   i. Would it be most beneficial to scale a new facility locally, regionally, or internationally, or to partner with existing finance providers?
   ii. What factors (including scale and blending) could contribute to driving down operating costs and costs to the borrowers (for debt) or investees (for equity)?

SUBMISSION ADDRESS:

Respondents should submit their comments to PPDED@fas.usda.gov.

ADMINISTRATIVE GUIDELINES:

Submissions should be limited to 8 pages, using 12-point font and 1-inch margins. We welcome supplementary materials which can help support feedback in the submissions. Please do not include information of a confidential nature such as sensitive personal data or proprietary information. Responses to this notice are not offers and cannot be accepted by the Federal Government to form a binding contract or issue a grant. Information obtained as a result of this notice may be used by the Federal Government for program planning on a non-attribution basis. Please be aware that your comments may be posted online. A follow-up meeting may be held with those who respond to the RFI.

FOR FURTHER INFORMATION:

Kevin Alonzo, 202–720–0313, Kevin.Alonzo@usda.gov. Done in Washington, DC, this 11th day of June.