



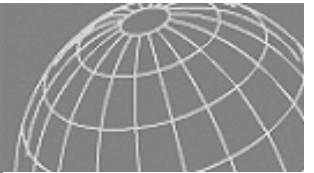
Strategic & Practical Value-Chain Financing Project Approach

Thailand Case

Reuben Jessop

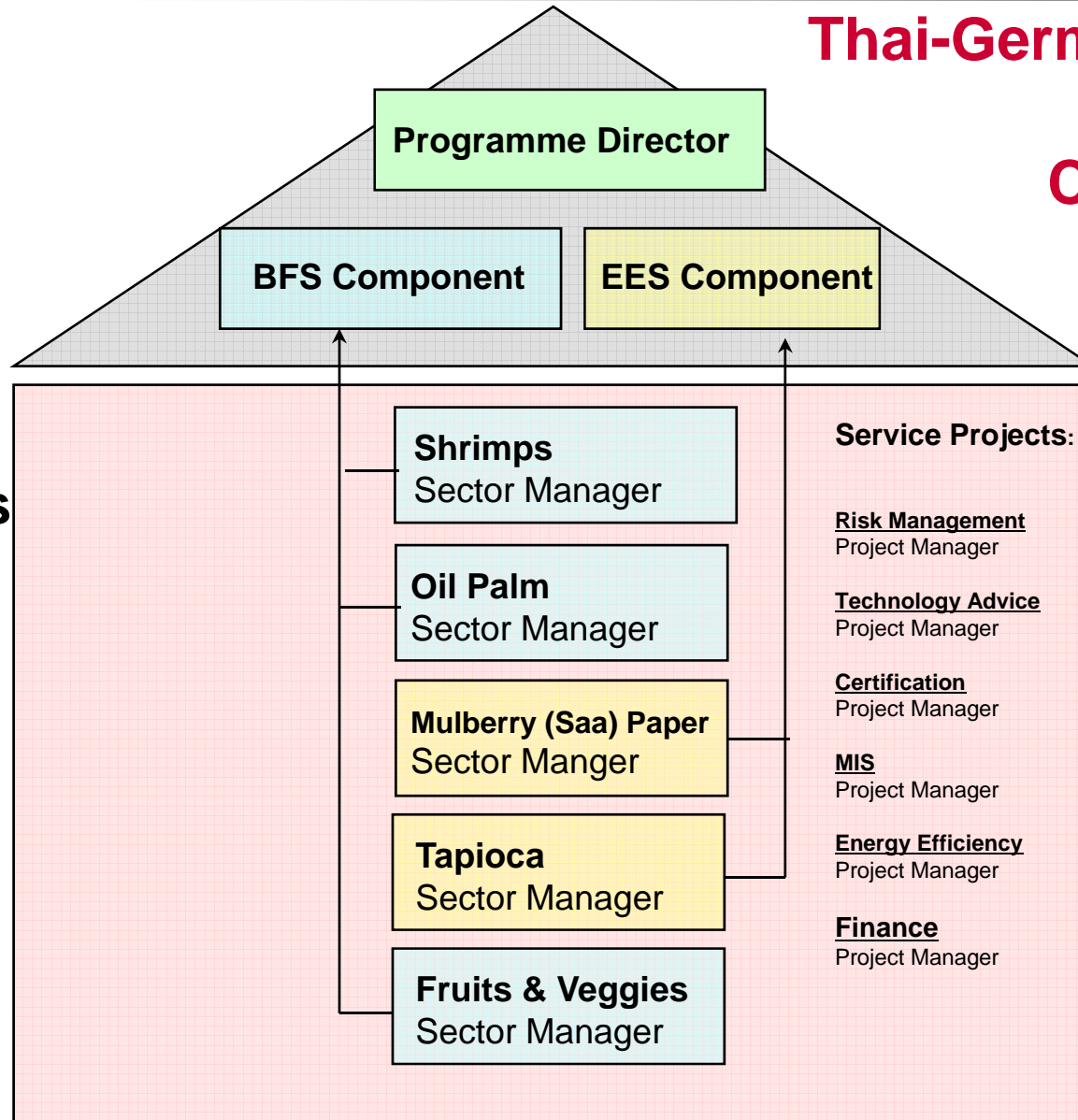
ICON Institute GmbH, Private Sector

GTZ Thailand



Pro-Poor Sector Choice Based on Largest Number SMEs/Farmers and Geographical Spread

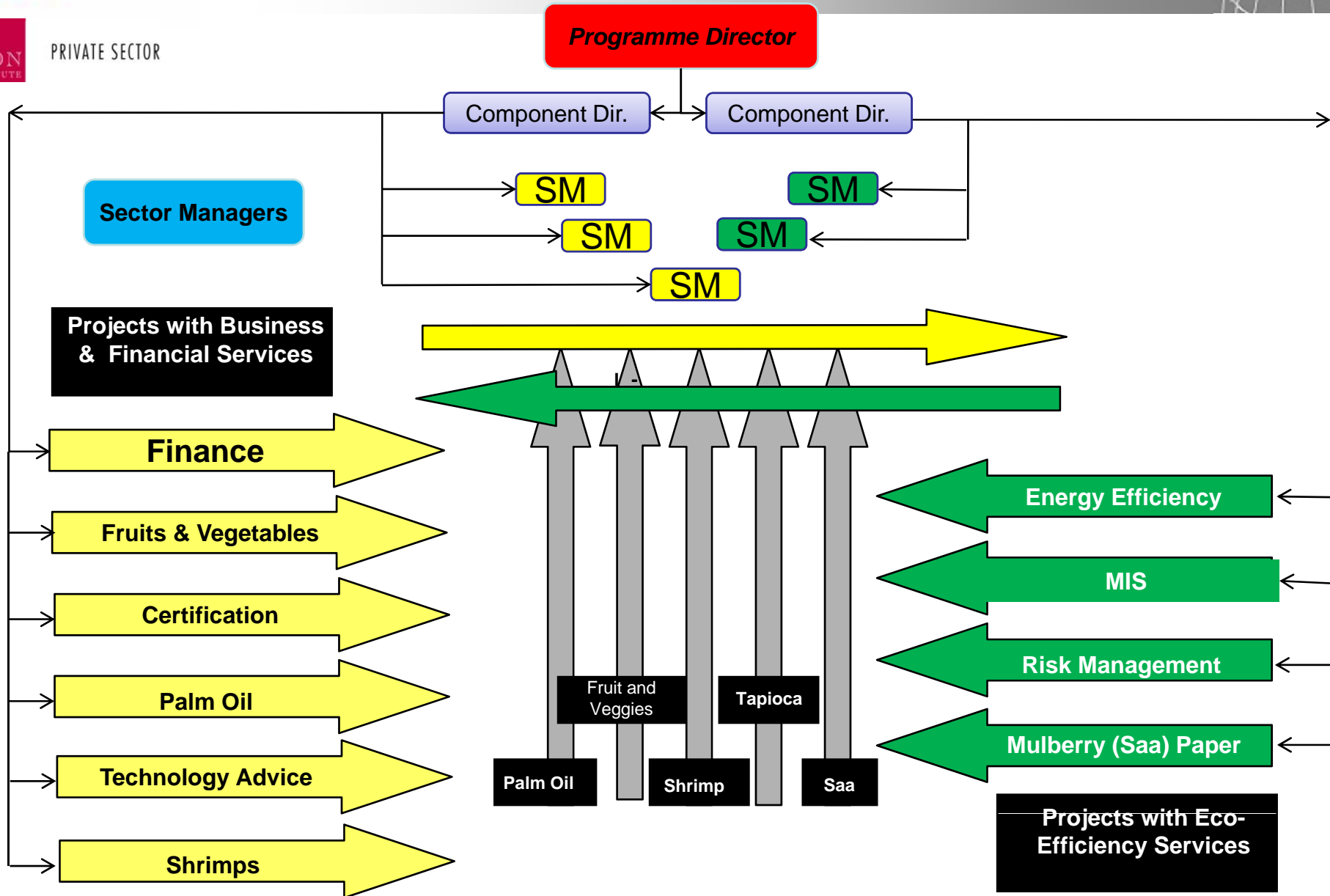
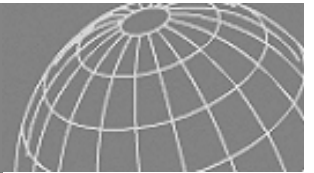
VC Finance is Not a Stand-Alone Project but Integrated

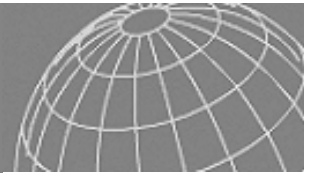


Thai-German Programme for Enterprise Competitiveness

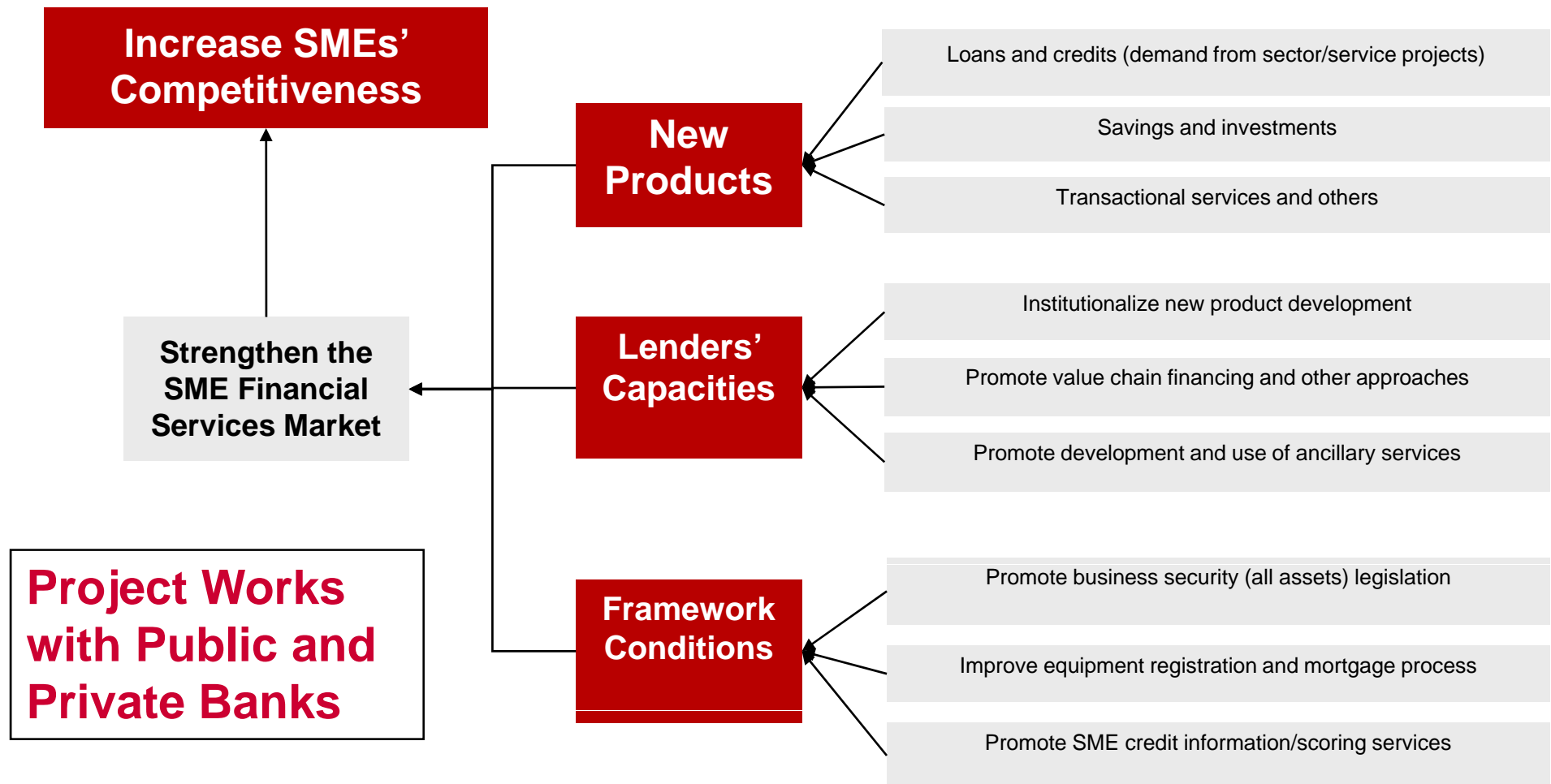
Value-Chain Approach (Analysis, Constraints, Service Solutions, Interventions)

Cross-Cutting Service Market Development Methodology





Services for Improving Financial Access (SIFA) Project Logic





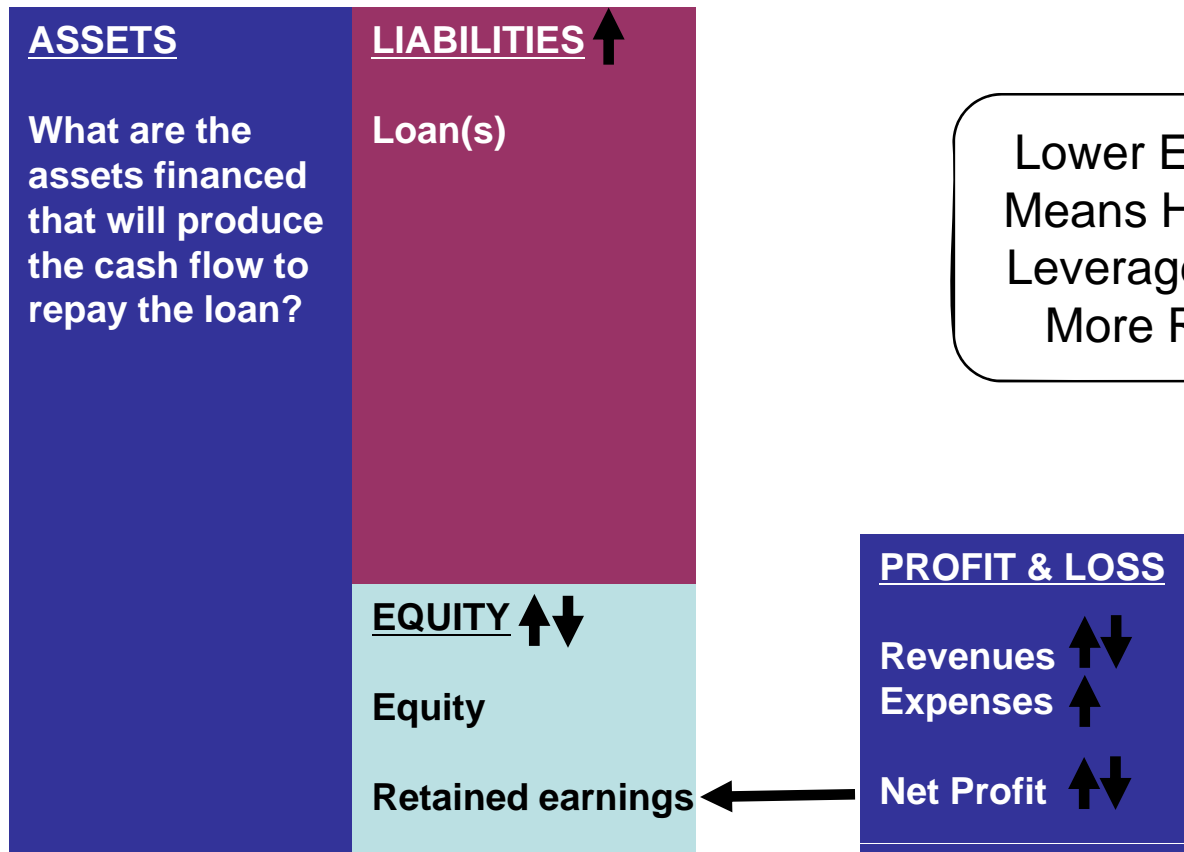
Financing Primary Producers/Farmers

If Subsistence Farmers with Necessary Additional Income Activities, then a **Microfinance Approach** Appropriate.

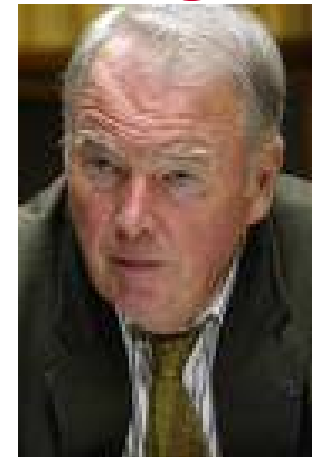
If Smaller to Medium-Size Farmers without Subsistence Need for Additional Income Activities, then a **Value-Chain Financing Approach** is Needed.



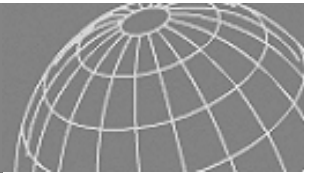
Financing Value-Chain SME/Processors – A Financiers’ View Is An Accounting View



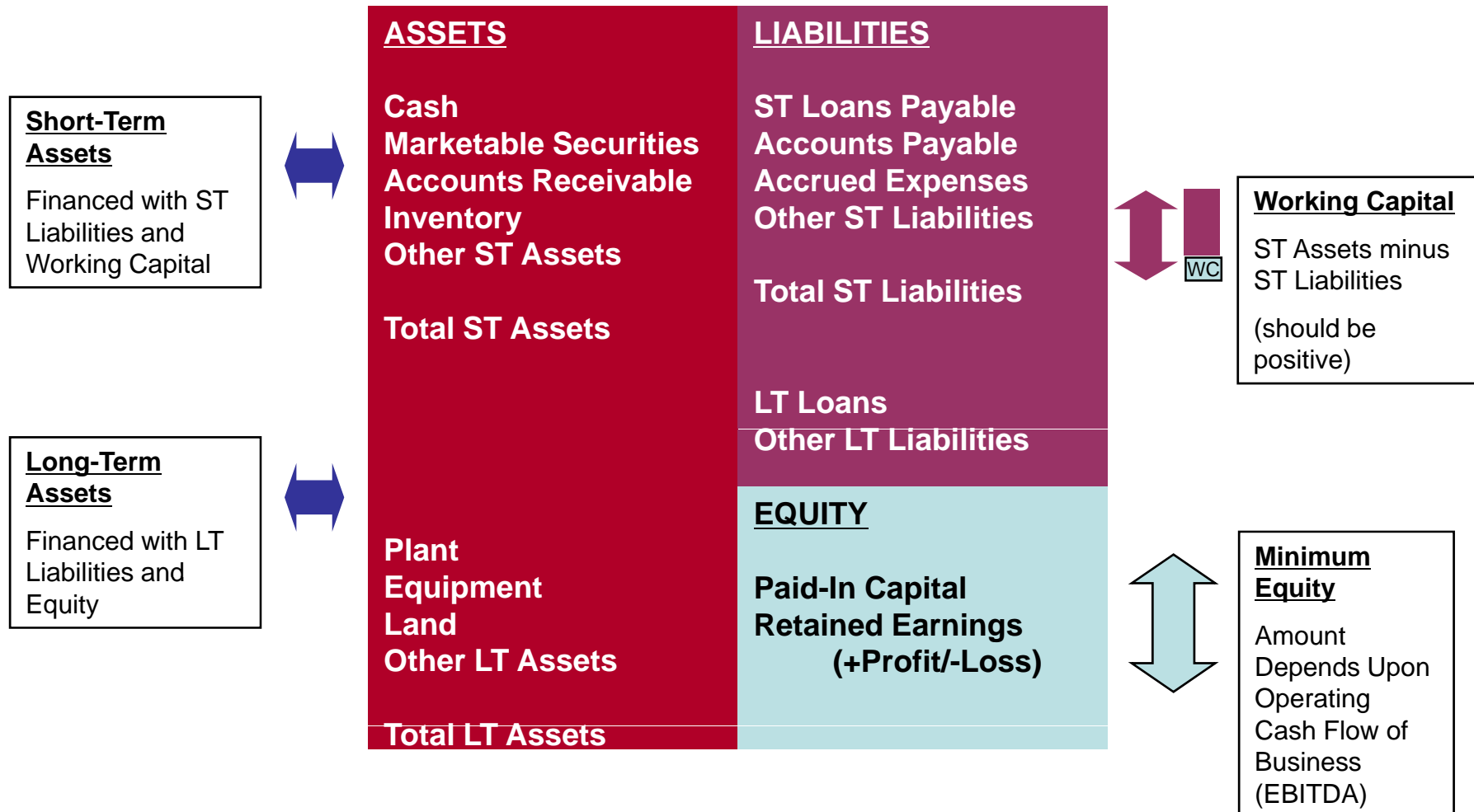
Lower Equity Means Higher Leverage and More Risk

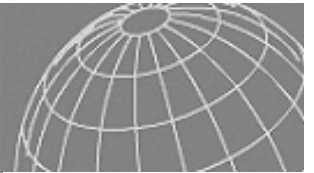


Financial institutions will finance **enterprises** with several asset classes providing consistent cash flows. Low-risk, low-return bankers are cautious toward higher-risk, uncertain and low cash flow businesses.



Typical Enterprise Capital Structure – Liabilities and Equity Fund Assets





Typical Business Value Chain Transactions – No Financial Institutions

Supplier

ASSETS	LIABILITIES
Cash	ST Loans Payable
Marketable Securities	Accounts Payable
Accounts Receivable	Accrued Expenses
Inventory	Other ST Liabilities
Other ST Assets	Total ST Liabilities
Total ST Assets	
	LT Loans
	Other LT Liabilities
	Total LT Liabilities
	EQUITY
Plant	Paid-In Capital
Equipment	Retained Earnings
Land	• +Profit/-Loss
Other LT Assets	
Total LT Assets	

Supplier sells to Grower on Credit

Grower

ASSETS	LIABILITIES
Cash	ST Loans Payable
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Grower sells to Buyer on Credit

Buyer

ASSETS	LIABILITIES
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Accounts Receivable	Accrued Expenses
Inventory	Other ST Liabilities
Other ST Assets	Total ST Liabilities
Total ST Assets	
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	EQUITY
Plant	Paid-In Capital
Equipment	Retained Earnings
Land	• +Profit/-Loss
Other LT Assets	
Total LT Assets	

Buyer sells or Consumes



Possible Collateral Types for Third-Party Financial Institution

Supplier

Grower

Buyer

(Wants Sales)
 (Maybe Willing to Give Off-Balance Sheet Guarantee or Advance Financing)

(Needs Financing)
 (Other Assets Available to Pledge as Collateral)

(Needs Input Supplies)
 (Maybe Willing to Give Off-Balance Sheet Guarantee or Advance Financing)

ASSETS	LIABILITIES
Cash	ST Loans Payable
Marketable Securities	Accounts Payable
Accounts Receivable	Accrued Expenses
Grower Loan	Other ST Liabilities
Inventory	Total ST Liabilities
Other ST Assets	
Total ST Assets	
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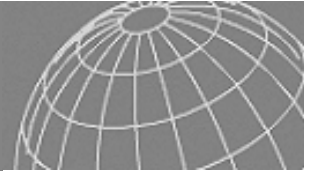
Possible Collateral Assets and Advance Rates

<u>ASSETS</u>	<u>LIABILITIES</u>
Cash/Deposits (90%) Accounts Receivable (60%) Inventory (40%) <ul style="list-style-type: none"> • Seeds • Fertilizers • Pesticides • Crops Other ST Assets (10%) Total ST Assets	ST Loans Payable (secured by ST Assets) Accounts Payable Accrued Expenses Other ST Liabilities Total ST Liabilities LT Loans Other LT Liabilities Total LT Liabilities
Plant Equipment Land (already mortgaged) Other LT Assets Total LT Assets	<u>EQUITY</u> Paid-In Capital Retained Earnings <ul style="list-style-type: none"> • +Profit/-Loss

and/or

Off Balance Sheet Guarantees – Company & Individual

or Other Innovative Collateral Arrangements

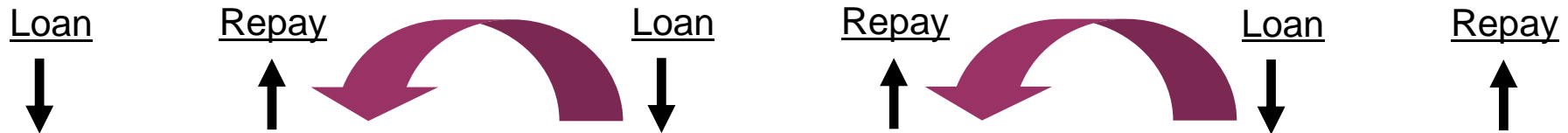


Value Chain “Group” Borrowing – Joint and Several Guarantees

Supplier

Grower

Buyer

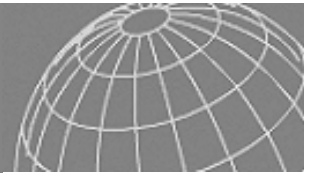


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Equipment	Paid-In Capital
Land	Retained Earnings
Other LT Assets	• +Profit/-Loss
Total LT Assets	

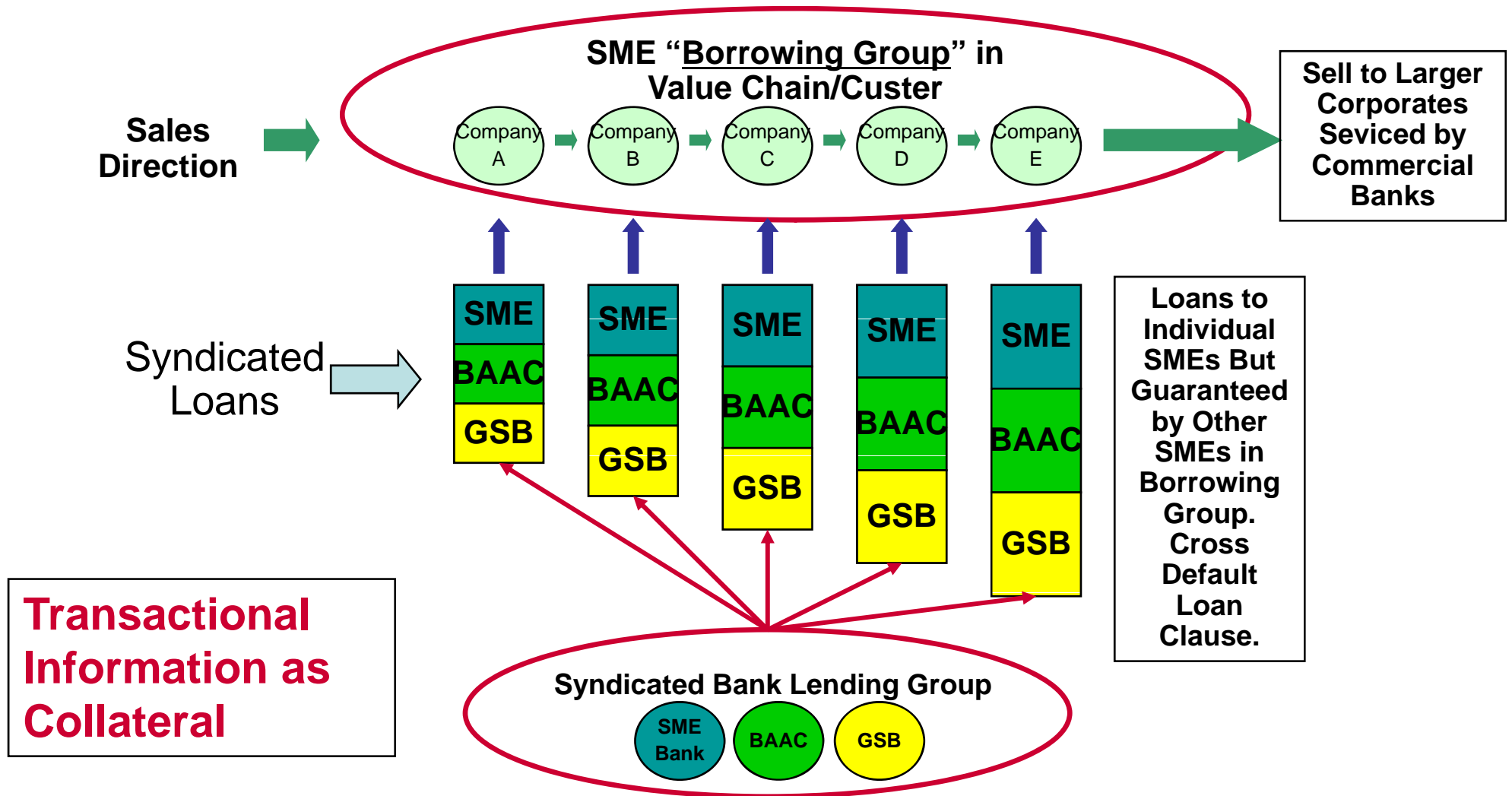
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Three Borrowers But Credit Risk Is Not Sum of All Three

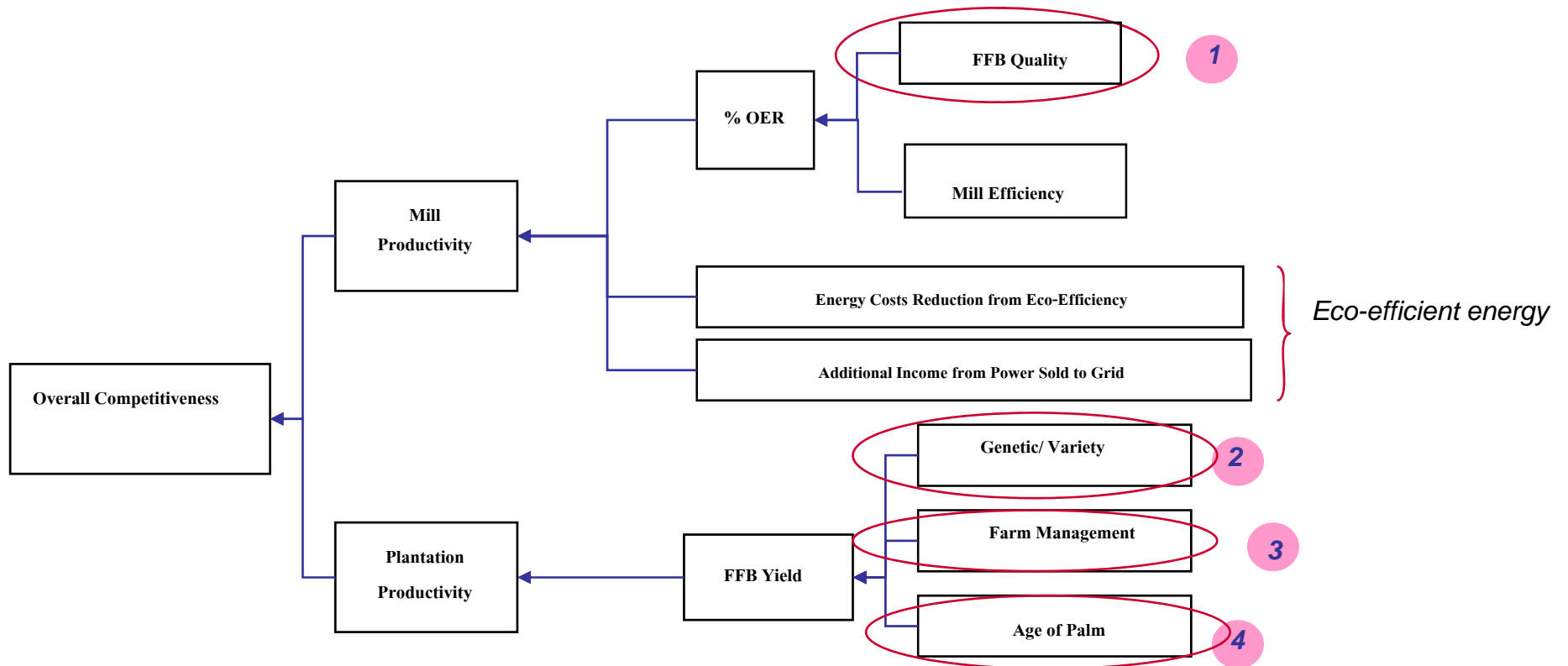


Public-Sector Bank VC Financing Model





Oil Palm Replanting Enhances Sector Competitiveness

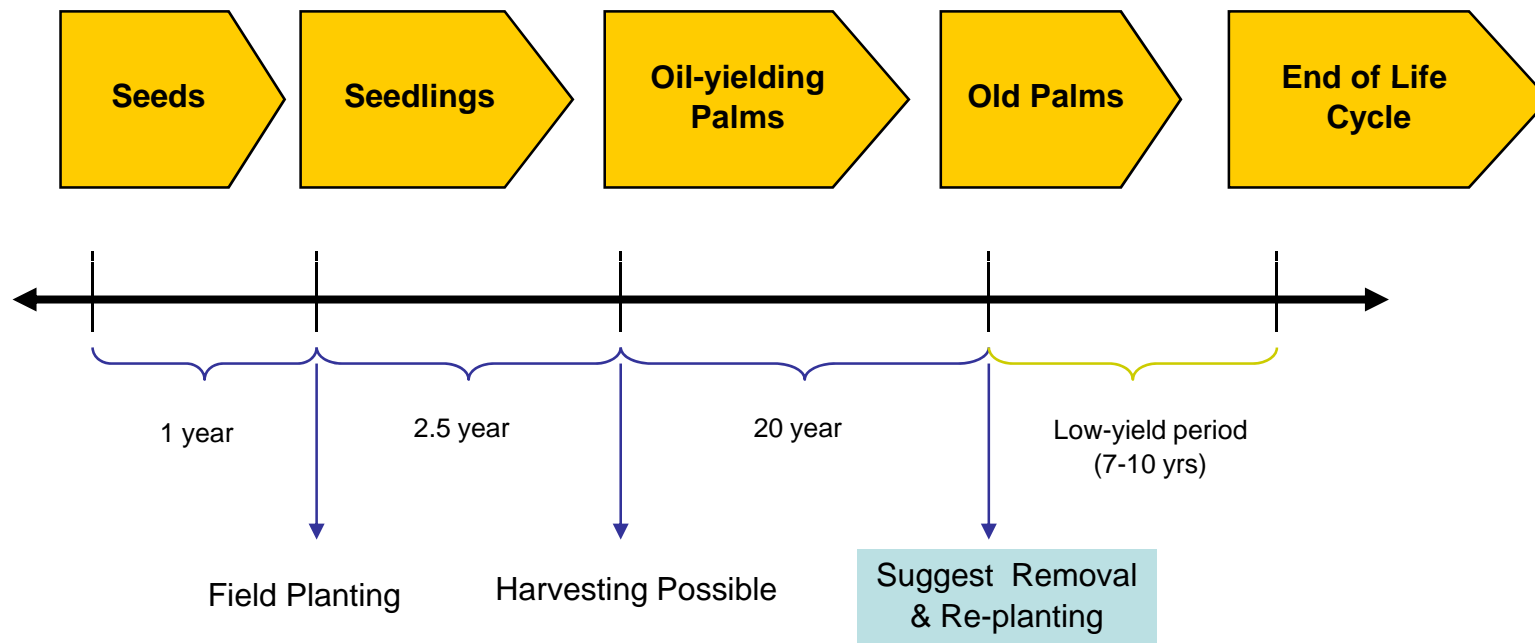


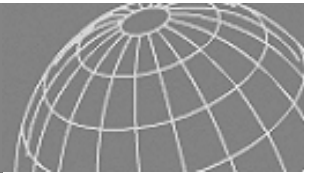
Opportunities for enhancing competitiveness to the palm oil sub-sector in the following dimensions:

- 1) **FFB Quality** - Replacing new oil palm seedlings which yield better quality of FFB, also embedded the post-harvesting practice
- 2) **Genetic** - Replacing new seedlings with genuine genetic/ variety
- 3) **Farm Management** - Embedding the best practices in farm management from land preparation, irrigation, fertilizer application together with soil & frond analyses
- 4) **Ageing** - Removal 'old' palm tree with the 'new' – higher FFB-yielding trees



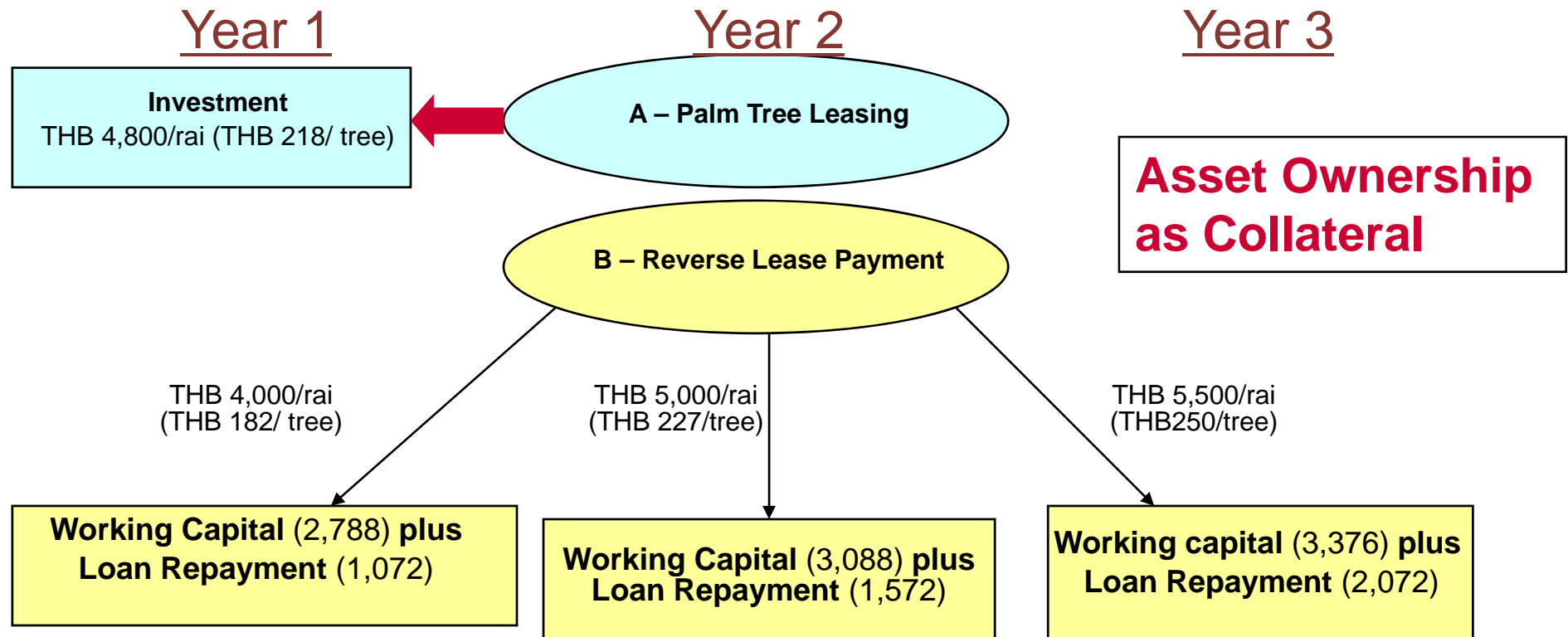
An Overview of the Oil Palm's Production Life Cycle

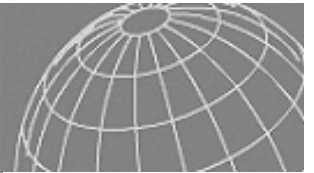




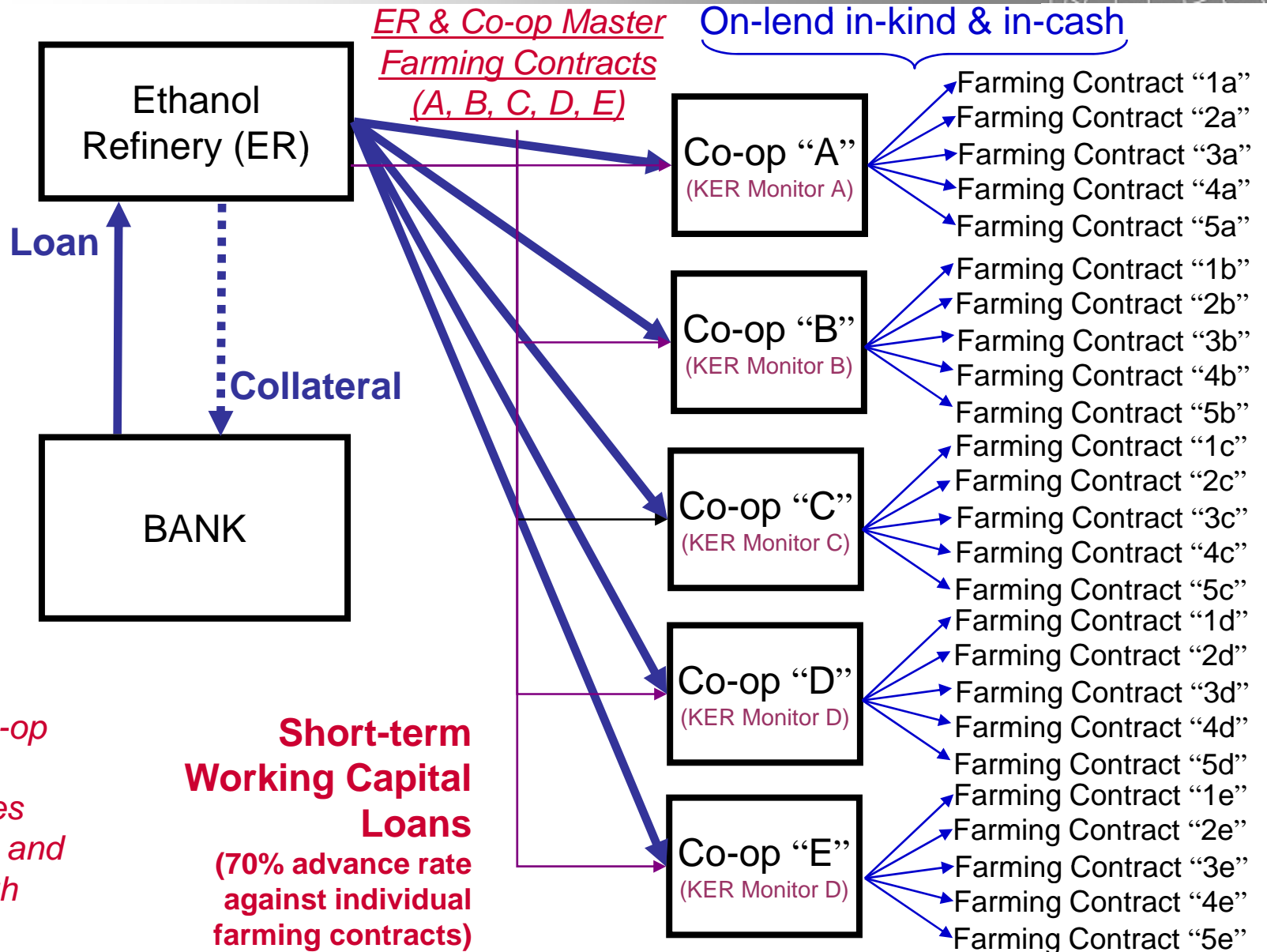
Financial Package for Oil Palm Replanting Program:

Tranche A - Palm Tree Leasing
Tranche B - Reverse Lease Payment





Pricing of Farming Contracts is based on "Starch+" at Delivery



ER Monitor is ER Employee sitting at Co-op who monitors contract compliance, coordinates tapioca delivery to ER, and provides advice through soil testing

Short-term Working Capital Loans
(70% advance rate against individual farming contracts)



Thank You for Your Attention