SUMMARY OF THE PROJECT IN DESIGN * (*)

Agrolend – Financing small and medium farmers who feed the world

PITCH ELIGIBILITY DATE	COUNTRY(IES)
09/12/2022	Brazil

ALIGNED WITH COUNTRY STRATEGY?

Yes

PARTNER(S)

Agrolend

PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT

FI-2 (**)

TOTAL BUDGET	IDB Lab	LOCAL COUNTERPART AND COFINANCING
	US 2,000,000	

DESCRIPTION

The problem: The Food and Agriculture Organization (FAO) estimates the global population will reach more than 9 billion people by 2050, requiring an increase of ~70% in food production. In addition to this challenge, the COVID 19 pandemic context and most currently the Russia/Ukraine war has had major impacts on the sector's distribution supply chains, leading to rapidly increases in agricultural input[1] and food prices[2]. Also, volatility in production coupled with climate change effect are jeopardizing food security worldwide. Brazil plays a major role in food security and global food supply as the current largest exporter of meat (beef and chicken meat), soybean, sugar, orange juice and coffee. According to USDA research, the country should be responsible for 41% of the increase needed in food production over the next 5 years, as it is currently one of the few countries[3] with high potential capacity (i.e., land, water, resources) to increase food production in a sustainable way. Brazilian farmers have extensive available land[4], the proper know-how and capacity to increase food output. However, given the rapid increase in prices of agricultural inputs (such as fertilizers, seeds, machinery, among others), additional working capital credit is needed to sustain and further expand crops. Nevertheless, the incremental capital availability is very low and there are no well positioned players addressing the needed growth in the sector. Banco do Brasil, the major capital provider to Brazilian Farmers (~70% market share), who depends on subsidized capital from the Brazilian Federal Government, is unable to keep the growth of their credit lines to farmers given the deterioration of the fiscal situation of the Brazilian economy. The largest farmers of Brazil are well served by the big private Brazilian banks. Nonetheless, the smaller and medium sized farmers, who are considerably more dependent on Banco do Brasil, face the risk of not being able to fund their crops. In Brazil, the financing gap for working capital for small and medium sized farmers is estimated to be ~US$ 25B[5] vs US$ 15B for large holders in the next 5 years.

[1] Russia and Ukraine combined account for more than 30% of global wheat exports, 20% of world corn exports, 14% of barley production, ~50% of sunflower oil. Both countries are also major suppliers of agricultural inputs like fertilizers and minerals. In April 2022, global fertilizer market registered record high of 30% increase since January 2022. [2] The Russia-Ukraine War and Global Food Security: A Seven-Week Assessment, and the Way Forward for Policymakers | Center for Strategic and International Studies (csis.org) [3] Other large food producer countries/regions such as the USA, Europe, China and India lack the proper conditions and the easiness to increase food production when comparing to Brazil. [4] Areas to be converted into more efficient grain production [5] Source: Banco Central do Brasil and information from the company.

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**The IDB categorizes all projects into one of six E/S impact categories. Category A projects are those with the most significant and mostly permanent E/S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, FI-1 (high risk) Financial Intermediary (FI)'s portfolio includes exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented, FI-2 (medium risk) FI's portfolio consists of business activities that have potential limited adverse environmental or social risks or impacts, FI-3 (low risk) FI's portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.

The solution: Agrolend is a leading ag-fintech with a B2B2F (Business to Business to Farmer) 100% digital financial solution that provides working capital loans to the missing middle: small and medium-sized Brazilian farmers. It is currently present in 14 states in Brazil, mainly in regions underserved by the traditional credit providers.

Agrolend addresses the farmers' biggest pain point, working capital financing, through a friendly, transparent, competitive, and frictionless experience. The company finances the acquisition of seeds, fertilizers, crop protection, additives, machinery, etc. for farmers at the point of sale of those products. The capital itself is wired to the local ag-input supplier, who gives the farmer the products required for his crop. At harvest time, the farmer pays Agrolend back and applies for new credit for the next crop. A traditional loan process for farmers takes about 45 days between bank application, notary process and disbursement. With Agrolend, the farmer takes only 90 seconds to fill out a digital form using his mobile phone and get their credit approved in 1 day and disbursements in 5 days. The loan is signed digitally through WhatsApp. Everything is automated, paperless and therefore very scalable.

Agrolend's credit analysis is deep and scalable given its technology is completely cloud based and API native connected with KYC, digital score, credit bureaus, regulatory systems, signatures, environmental and bank debt analysis databases. Agrolend leverages on a network of +220 partners (local ag-input retailers) that sell products directly to farmers. These partners are critical for Agrolend in reaching their end clients since these retailers know, sell, and have the trust of local farmers. Through these partners Agrolend, in the last 18 months, has developed a network with a high capillarity without having to build themselves a single brick. Ag-input retailers, mainly small and medium sized SMEs, benefit from this partnership because they can dedicate their efforts and limited capital to their core business which is selling agricultural inputs and not financing credit lines to farmers. Those partners also provide at least a 50% risk sharing agreement (guarantee for the loans) with Agrolend each loan they originate.

The beneficiaries: Small and medium sized farmers: Agrolend is providing access to working capital financing for small and medium sized farmers from rural areas that are not accessing financial services in a sufficient manner for their production needs.The company expects to serve 50,000 farmers in the next 8 years and provide US$ 2 billion in total credit to help them achieve their maximum potential.

The partner: Agrolend, Ag-Fintech located in Brazil.

The IDB Lab's contribution: IDB Lab's financial contribution is expected to be of up to US$ 2M in the form of a loan.

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