



**Strengthening the Caribbean agri-food private sector:  
competing in a globalised world to foster rural development**  
18-19 October 2010, Grenada  
<http://brusselsbriefings.net>

**Using alternative financing tools to improve agribusiness finance**

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**Summary**

Agriculture is an important contributor to economic growth and sustainable development of CARICOM member countries. However, over the last two decades, agriculture's share of GDP has experienced a significant decline. The development of agriculture is facing many challenges both at national and international levels. To reinforce the role of agriculture in employment creation, food security and poverty reduction, it is crucial to increase agricultural investment and finance.

The Jagdeo Initiative has identified *limited financing and inadequate new investments* as one of the key binding constraints to agriculture development in the region. Small producers and SME in agribusiness are confronted with many difficulties in accessing finance: lack of sufficient eligible collateral, high financing costs, lack of tailor-made financial products to meet specific needs of agricultural borrowers, inadequate access to information on available financing schemes and lack of support to build bankable projects.

Since its introduction in the early 1990s, structured commodity finance has been developed to address the financing needs of main operators of commodity supply chain in developing markets. Compared with traditional balance-sheet based financing which focuses on the flow of funds and the creditworthiness of borrowers, the structured commodity finance is based on transactions and focuses on the flow of goods and the performance capacity of borrowers. In recent years, some domestic financial institutions in developing countries have combined traditional financing with structured commodity financing techniques to develop appropriate financing instruments and mechanisms to satisfy the agribusiness financing needs, in particular that of small producers and SMEs. These financing tools include warehouse receipt financing and inventory credit, financing under outgrower schemes, receivables discounting and guarantee fund. In the Caribbean region, the traditional approach of providing lines of credit through development banks still works. However, there has been an increasing demand, in recent years, for the development of suitable financing instruments to promote agricultural development. These instruments would reduce risk at farmers' level and facilitate trade both locally, in particular hotel/farmer linkages, and in support of intra-regional trade.

Under the EU-funded All ACP Agricultural Commodities Programme (AAACP), UNCTAD, in partnership with the Caribbean Development Bank, is supporting the development of factoring and invoice discounting as a financing technique to improve farmers' access to finance. Indeed, strengthening the linkages between the agricultural sector and the tourist industry provides an opportunity for farmers to access a lucrative market and increase incomes. However, when supplying to hotels and supermarkets, farmers often face delayed payments by buyers which can go to 90 and 180 days after the delivery of produce. Trade finance instruments such as factoring and invoice discounting can be used to alleviate this constraint and improve farmers' cash flows. Factoring appears to be an attractive financing tool as it focuses on buyer's creditworthiness to secure the pre-payment and does not require the seller to provide any additional collateral.