



Factoring/Receivable Discounting: a financing tool for agriculture sector development

CONCEPT NOTE

Organized by:

United Nations Conference on Trade and Development (UNCTAD)

and

Caribbean Development Bank (CDB)

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ALL ACP Agricultural Commodities Programme



Background

UNCTAD is one of the five international organizations responsible for implementing the EU-funded All ACP Agricultural Commodities Program (AAACP). UNCTAD activities involve four areas: supply chain finance, market information services, commodity exchanges and sustainability claims portal.

Based on the results of the Regional Kick-off Workshop which was held in Jamaica in April 2008, UNCTAD has identified two supply chain finance projects in the Caribbean of which stems *the regional capacity building activity on agricultural supply chain finance to be organized in collaboration with the Caribbean Development Bank (CDB)*. This training activity aims to raise awareness of financial institutions and relevant stakeholders in the region on selected financing mechanisms and financial instruments which will contribute to the improvement of supply chain finance for some agricultural commodities in the Caribbean. As an important component of the UNCTAD work plan for the Caribbean region, this project was approved by the Steering Committee of the AAACP in November 2008.

An UNCTAD mission visited Barbados and Grenada on 19-27 May 2009 to identify the specific capacity building needs in agricultural finance in the Caribbean and establish linkages with potential partners. The mission had various meetings with representatives of regional bodies, financial institutions, farmers' associations, government officers, agribusiness and other relevant stakeholders. Based on the outcome of the discussions, Factoring mechanism, which a flexible source of working capital finance based on the sale of invoices, was identified as main focus of the regional capacity building workshop.

Factoring is a trade finance instrument, which involves the handing over a seller's invoices or other receivables to a factor (usually a bank) which then discounts the receivables mainly on a non recourse basis to a level of up to 85% of the face value of the invoice and takes over the responsibility for collecting all payments from the customers' buyers. Upon payment of the invoice the balance in excess of the finance cost is remitted to the seller. As one form of receivable discounting, factoring is more appropriate for short-term day-to-day sales.

The Caribbean countries highly depend on the tourism industry for their economic development. Strengthening the linkages between the agricultural sectors and tourism is regarded as an opportunity to provide a lucrative market for farmers and a means of rural development and wealth creation. When supplying agricultural commodities such as fruit and vegetable to the main players of the tourism industry such as hotels, restaurants and supermarkets, one of the constraints faced by farmers is access to finance on the one side and the delays in payments by buyers. For example, in Barbados, farmers usually can only get paid within 30-90 days after the delivery of their produce. The delay in payment not only deteriorates farmers' cash-flow situation but also discourages the sale of agricultural production to the tourism industry. The trade finance instrument such as factoring can be used to alleviate this constraint and improve farmers' cash flow situation.

There is currently one scheme similar to factoring/receivable discounting, the Agricultural Guarantee Payment Fund, under preparation in Barbados. The Fund is

being established to reduce the cash flow burden experienced by some farmers who have to wait for lengthy periods to be paid after supplying produce to supermarkets, hotels, restaurants and other accredited institutions. The Fund will be managed by the Barbados Agricultural Development and Marketing Corporation (BADMC) in association with the Barbados Agricultural Society (BAS) and Enterprise Growth Fund Limited (EGFL). The BADMC and the BAS will be responsible for ensuring that the farmers in the scheme are bona fide operators and that their farming practice is of the required standards. The EGFL will be responsible for ensuring that farmers are paid in a timely manner under the scheme and that buyers who benefit from the scheme repay the funds disbursed on their behalf in the agreed time frame. Though the framework of the scheme has been established, more technical support is needed in particular with regard to the substantive issues of factoring such as concrete procedures, legal consultation and risk management.

As strategic framework on agricultural development in the Caribbean, the Jagdeo Initiative has identified ten key constraints affecting agriculture in the region among which the *limited financing and inadequate new investments* as one critical binding constraint. During recent years, there is wide acceptance throughout the Caribbean region of the need to develop financial instruments in support of the agricultural development. While the traditional approach of providing lines of credit through development banks still works, there is an increasing demand for suitable financing instruments that would reduce risk at farmers' level and facilitate trade both locally, in particular hotel/farmer linkages, and in support of intra regional trade. UNCTAD work on supply chain finance, more specifically, the regional capacity building workshop on factoring/receivable discounting will improve small farmers' access to finance through the development of appropriate financing instruments and contribute to alleviating the financing constraints in the region.

Objective

The objective of the workshop is to raise awareness on factoring and receivable discounting, and encouraging participants to adopt factoring as a financing tool for agricultural development. The focus will be on using factoring to integrate farmers in tourism industry supply chains. One of the main impediments to dynamic linkages between the two sectors has been the delayed payment of buyers. If properly structured, trade finance instruments, such as factoring, can contribute to addressing this constraint, thereby improving farmers' cash flows. For the tourism industry, there could be the prospect of enhanced financing terms under the right set of conditions of factoring schemes.

Expected outcomes

- Participants will increase knowledge and enhance their capacity in developing factoring/receivable discounting in their respective country context through the presentation of technical issues, documentation and good practice and examples on factoring/receivable discounting as well as group work and discussions.
- Follow-up activities are to be identified and defined based on the requests and consultations with participants. The activities may include among others, the organization of country-level training activity on factoring/receivable discounting and technical support to early take-off projects or country-level initiatives.

Participants

In considering the regional scope of the Workshop as well as budget constraint, targeted countries will be 10 out of the 15 Caribbean ACP countries. The priority will be given to those countries that meet the following criteria:

- The linkage between agriculture sector /farmers and tourism sector is strong;
- access to agricultural credit (namely to small scale producers) provided by financial institutions is limited or costly;
- Local stakeholders and financial institutions already taking initiatives or showing strong interest in developing the factoring/receivable discounting scheme.

Each targeted country will select three representatives mainly from farmers' associations, the tourism industry (e.g. hotels, restaurants and supermarkets) and financial institutions (e.g. private-sector financial institutions, government-tied/supported finance programs) to participate in the Workshop. Caribbean regional bodies (e.g. CARICOM, CARDI, CaFAN), relevant government ministries and international organizations (e.g. UNDP) interested in this Workshop will also be invited. The total number of participants will be around 50. Professional fluency in English is required as it will be language of the workshop. The CDB will co-finance the event and assist in identifying the participants through various channels such as the marketing boards and chambers of commerce in the Caribbean countries.

The allocation of the number of participants is listed below:

- Sponsored participants from 9 Caribbean ACP countries: 31
- Participants from Barbados: 5 (including Ministry of Agriculture of Barbados)
- Sponsored participants from regional bodies: 4 (CARDI, CaFAN, CARICOM, WIFA)
- Participants from regional bodies/representatives and international organizations: 4 (UNDP, FAO, EC delegation in Barbados, etc)
- UNCTAD Staff and Resource persons:5
- CDB: 2

Venue

The Workshop will be held in Savannah hotel, Christ Church, Barbados.

Budget estimate

This capacity building activity will be a two-day event.

The total budget of this workshop is around USD 80,000 which will cover the items listed below:

- Financing local participants (travel and DSA)
- International resource persons and UNCTAD staff (travel and DSA)
- Rental of workshop facilities
- Coffee breaks
- Cocktail or reception
- Training materials production and reproduction
- Administrative supplies and stationary
- Telephone/Email charges and other miscellaneous costs