GrowAsia: Smallholder farming intervention Landscape in South East Asia

Final report

26 July 2016
<table>
<thead>
<tr>
<th>Acronyms</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>BTPN</td>
<td>Bank Tabungan Pensiunan Nasional</td>
</tr>
<tr>
<td>CACIC</td>
<td>Cambodia Agriculture Cooperative Insurance Company</td>
</tr>
<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>IFC</td>
<td>International Financial Corporation</td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>KT&amp;S</td>
<td>Knowledge, Training and Support</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>PALD</td>
<td>Poverty Alleviation through Livestock Development</td>
</tr>
<tr>
<td>READ</td>
<td>Rural Empowerment and Agricultural Development Program</td>
</tr>
<tr>
<td>SADC</td>
<td>Swiss Agency for Development Cooperation</td>
</tr>
<tr>
<td>VBARD</td>
<td>Vietnam Bank of Agriculture and Rural Development</td>
</tr>
<tr>
<td>VBSP</td>
<td>Vietnam Bank of Social Policies</td>
</tr>
<tr>
<td>WCF</td>
<td>Working Capital Financing</td>
</tr>
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</table>
About this study (1/2)

Context and objectives of this study

- The smallholder financing market is underdeveloped, fragmented, and underfinanced – current estimates peg the financing gap at ~USD 450 billion. Smallholder financing models can be seen as a solution to help farmers scale their businesses, and buyers, diversify their sources and supply of sustainably sourced inputs.

- Within South East Asia, various actors including governments, commercial banks, multilateral agencies, philanthropic foundations, and private investors have been involved in extending financing support to smallholder farmers. However, a consolidated repository of the ongoing efforts is not readily available, making it hard to assess the landscape of ongoing interventions.

- In this context, GrowAsia commissioned Dalberg to conduct a financing landscape assessment through extensive secondary research, incorporating information from a wide range of sources including international development organizations, global and local NGOS, development and other financial institutions, government sources, private sector research.

- The key objective of this exercise is to map the landscape of interventions that support the financing needs of smallholder farmers. This research will be made publicly available, and will serve as a one-stop shop for stakeholders interested in understanding ongoing efforts/active stakeholders in Vietnam, Cambodia, Myanmar, Indonesia, and the Philippines.

Brief note on the contents of this report

- The current report highlights the “big trends” in smallholder financing models across the five focus countries included in the scope of the study.

- A comprehensive database of case studies covered by the study is included as a separate file. This includes a short project blurb, an overview of the program/intervention, as well as publicly available sources/documentation.
About this study (2/2)

Our approach and methodology

- This study was designed as a rapid desk research exercise, and did not include any primary research (for example, interviews with sector experts). The findings of this study are limited to information available in public domain, and from previous Dalberg project experience.

- The project team completed its research across the five countries over a period of 4 weeks, and categorized identified cases across parameters included in the accompanying database.

- The findings/results presented are solely based on the information compiled through 148 case studies put together for the purpose of this study.

How to/not to use this report

- Readers should not consider this report as an exhaustive landscape assessment of smallholder financing initiatives in ASEAN countries – this report should be used as a starting point to better understand top initiatives, and should be supplemented through additional primary/secondary research, as needed.

- For each of the identified financing need, the report includes a page on “key highlights” – readers should consider these pages as an interesting fact/trend about the market in the country, rather than as a summary of the overall market landscape.

- Readers should not use this report as a tool to understand the adequacy of ongoing initiatives in meeting the financing needs of smallholder farmers in the five countries as it does not include a needs assessment component.
Executive summary

1. We identified 3 major types of financing needs i.e., Capital investments, working capital and risk management, within which working capital being addressed the most. Additionally, we found facilitating of financial access a major form of intervention in smallholder finance.

2. Working capital consists of general short term (GST) products and farming input (FI) related products. A major challenge with GST is the perceived risk of smallholder farmers as borrowers. However, revolving credit funds and off – take agreements are emerging solutions in this regard. In FI, there is a lack of targeted credit products. Organisations are working towards both individual i.e., access as part of contract agreement and community level solutions e.g., seed banks.

3. Capital investment consists of access to machinery, livestock, land and irrigation. In machinery we found few products tailored to smallholder farmers. Lease financing and co – financing are some emerging solutions in response. In Livestock, we found an absence of specific products. Proximity Designs’ Duck loans for fodder is one possible response. Land and irrigation remained largely unexplored due to lack of significant activity.

4. Facilitating financial access consists of providing Knowledge, training and skills (KT&S) as well as integration to formal value chains (IFVC). In KT&S, we observed the absence of government actors a major challenge. However, other actors are filing this gap by either training trainers or directly working with contract farmers. In IFVC, corporates play a major role, however this concentrates interventions towards cash crops. An emerging solution to this was improving capacities of proximate actors in the rice value chain e.g., rice mills, to source from a large pool of suppliers.

5. Risk management consists of crop and life insurance. Efforts are either nascent or have failed in the past. In response, organisations, specifically governments, are working towards widening access to indexed insurance products. Additionally, we observed a corporate reinsure government insurance companies to incentivise greater penetration.
Overview of smallholder farmer financing needs

- **Input purchase**
- **Production**
- **Market access & price realisation**

**Capital investment** includes access to *machinery, livestock, irrigation and land*

**Working capital** includes access to *generic short term credit* as well as *access to farming inputs*

**Facilitating financial access** refers to *knowledge, training and skills* as well as *market access related interventions* that serve as avenues to bolster access to formal finance

**Risk management** refers to *crop insurance* i.e., services that protect farmer incomes in case of extreme weather events and *livestock insurance* i.e., pay-outs in case of death of livestock
Our study suggests that working capital makes up a majority of financing needs addressed across all 5 countries.

Types of smallholder financing currently being addressed

Number of needs addressed by cases covered, n = 198

<table>
<thead>
<tr>
<th>Country</th>
<th>Working Capital</th>
<th>General</th>
<th>Investment Capital</th>
<th>Risk management</th>
</tr>
</thead>
<tbody>
<tr>
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<td>86</td>
<td>50</td>
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<td>Philippines</td>
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<td>7</td>
<td>1</td>
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<tr>
<td>Vietnam</td>
<td>18</td>
<td>13</td>
<td>8</td>
<td>1</td>
</tr>
</tbody>
</table>

This presents an opportunity to increase the size of the sector by creating tailored financial products suited to the unique needs of smallholder farmers.

Note (1) Working capital pertain to short term (less than a year) general finance products with a small ticket size (2) General pertains to funding that is not meeting any specific need (3) Capital investment refers to investment in Livestock, Machinery, Irrigation and Land; (4) The total number of cases on this chart exceeds the total number of cases covered as programs/ initiatives often address multiple farmer needs.

Source: Dalberg research; Dalberg analysis.
Working Capital: i) General Short Term Loans

**Overview:** A major challenge with GST is the perceived risk of smallholder farmers as borrowers. However, revolving credit funds and off-take agreements are emerging solutions in this regard.

**Definition:** Short-term credit i.e., less than a year or for a single crop cycle.

**Challenges**

- **Smallholder farmers are perceived as risky.** MFIs and commercial banks (ACLEDA Bank in Cambodia) are focusing their efforts on small enterprises, given their lower risk profile. Consequently, private financial institutions have a small portion of their portfolio dedicated to smallholders and/or few targeted products to meet smallholder farmer needs.

**Emerging solutions**

- **Facilitating basic access through credit groups.** Increasingly organizations are facilitating basic access by creating and seeding revolving credit groups that lend to members; these groups act a springboard for access to formal finance.

- **Corporate lending (as proximate actors).** This is limited to their contract farmers, consequently, their concentration is limited to regions and crops where this form of farming is common e.g., cash crops in Indonesia.

- **Off-take agreements to reduce default risk.** Given the high perceived risk of lending to smallholder farmers, rural banks and MFIs in Philippines occasionally partner with either (i) in-house crop aggregators e.g., First Valley Bank or (ii) large buyers e.g., ASKI with San Miguel to reduce the default risk through off-take agreements.

**Major interventions observed in**

- Cambodia
- Indonesia
- Myanmar
- Philippines
- Vietnam

**Leading actors**

- Gov’t
- MFI
- DFI
- Corporate
- Bank

Source: Dalberg analysis
Working Capital: ii) Farming inputs

Overview: There is a lack of targeted credit products. Organisations are working towards both individual i.e., access as part of contract agreement and community level solutions e.g., seed banks

Definition: Access to high quality seeds and fertilisers that improve soil fertility and consequently, enhance quality/quantity of crop produced

Challenges

• Few targeted products for input purchase. Loans provided for input purchase are largely working capital loans which given their short ticket size may not fulfil the needs of farmers.

• Limited access to quality inputs. Our literature survey suggests, that access to quality fertilizers and seeds to smallholders is limited. Often, local input suppliers are unaware of quality.

Emerging solutions

• Targeted loans for input purchase. Few examples of loans were observed that were tied to either purchase or access to fertilizers and seeds.

• Corporates facilitate access under contract agreements. Given the quality and quantity requirements for global markets, corporates supply high yielding variety of seeds, often free of cost (Unilever, Wilmar, Bayer).

• Community owned seed banks. Ensuring self-sufficiency in seed access can reduce financing requirements of farmers. Both DFIs

Major interventions observed in

Cambodia  Indonesia  Myanmar  Philippines  Vietnam

Leading actors

Gov’t  MFI  DFI  Corporate  NGO

Source: Dalberg analysis
Capital Investment: i) Machinery

Overview: In machinery we found few products tailored to smallholder farmers; lease financing and co – financing are some emerging solutions in response

Definition: Support for farm mechanization i.e., moving away from manual labour for tilling, harvesting or for post-production value addition activities

Challenges

- **Financing tailored to smallholder farmers.** Credit for equipment purchase have strict collateral requirements e.g., Myanmar Agricultural and Rural Development Bank demands land, equipment and often group assurance in financing equipment purchase

- **Absence of corporate involvement.** Even in countries where contract farming is ubiquitous i.e., Philippines and Indonesia, asset financing efforts from corporates are limited

Emerging solutions

- **Lease financing to improve access to smallholder farmers.** Nascent efforts from manufacturers (Yanmar in Philippines, Kubota in Cambodia) partnering with financing organisations (Ropali, GL Finance) to facilitate access to affordable equipment financing for smallholders farmers

- **Generic loan products don’t support equipment financing.** MFIs can often support long term credit for farmers but uptake tends to be low e.g., MFIs can offer ticket sizes of up to $4000 but their average ticket size would often be below $300

- **Low cost tools can often pay for themselves.** Proximity Designs’ equipment loans often witness repayment through additional earning from the equipment itself

Major interventions observed in

Cambodia  Indonesia  Myanmar  Philippines  Vietnam

Leading actors

Gov’t

Source: Dalberg analysis
Capital Investment: ii) Livestock

**Overview:** In Livestock, we found an absence of specific products. Proximity Designs’ Duck loans for fodder is one possible response

**Definition:** Finance that facilitates access to animals as labour for farm operations or as additional sources of income through diversification into non-farm activities

**Challenges**
- **No targeted credit products.** Even in countries where governments are prioritizing livestock in agricultural financing e.g., Philippines, credit is extended through subsidized agricultural loan products
- **Corporate involvement in livestock is limited.** Our study observed involvement in the case of livestock insurance. Very few cases of financing were witnessed

**Emerging solutions**
- **Livestock as non-farm diversifiers.** DFIs and governments are focused on producers of staple crops as target beneficiaries and to that end, there is an attempt in providing livestock as assets e.g., PADEE & EFAD in Vietnam
- **Loans for livestock upkeep.** Loans targeting not just the purchase but the upkeep of livestock can be a key income generator e.g., proximity designs provides $25 loans to duck farmers to purchase high quality fodder

**Major interventions observed in**
- Cambodia
- Indonesia
- Vietnam

**Leading actors**
- Gov’t
- DFI

Source: Dalberg analysis
## Capital Investment: iii) Irrigation & iv) Land

<table>
<thead>
<tr>
<th>Interventions observed</th>
<th>Challenges</th>
<th>Emerging solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Irrigation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Asset financing</em> for low cost irrigation pumps</td>
<td><em>In general, very few credit programs</em> target irrigation products for smallholders</td>
<td><em>Facilitating access</em> to low cost solutions e.g., Proximity Designs in Myanmar</td>
</tr>
<tr>
<td><em>Community owned</em>, built and managed tarpaulin ponds</td>
<td></td>
<td><em>Supporting management</em> of public works e.g., World Bank in Vietnam</td>
</tr>
<tr>
<td><em>Improvement of existing public works</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Land** | | |
| *Providing access to land and land titles* to landless or land poor farmers | *Land ownership and titles can unlock access to finance from formal institutions, however, while *subsistence farmers* often lack ownership, smallholders lack the titles* | *Supporting governments in land transfer* e.g., World Bank in Cambodia |
| *Reclaiming bad land* | | |

Source: Dalberg analysis
Facilitating financial access: i) Knowledge, Training & Skills

**Overview:** In KT&S, we observed the absence of government actors a major challenge. However, other actors are filing this gap by either training trainers or directly working with contract farmers.

**Definition:** Farmer training in agricultural best practices either related to farming techniques or efficient use of resources. Within this study, it also includes financial literacy and business management.

**Challenges**
- **Absence of government led interventions.** Our research suggests, that KT&S interventions are largely led by corporates, non profits or DFIs. In countries where corporate involvement is high e.g., Philippines, KT&S is limited to cash crops, creating a gap for quality services to producers of traditional crops.

**Emerging solutions**
- **Supporting government extension workers.** DFI involvement in training of government workers was observed which can catalyze KT&S services at scale.
- **Credible anchor supporting smallholders.** Bank Rikyat Indonesia provides loans to corn farmers, incentivizing corporates e.g., Monsanto and Cargill, to provide production and post harvest support and purchase high quality produce with low risk.

**Major interventions observed in**
- Cambodia
- Indonesia
- Myanmar
- Philippines
- Vietnam

**Leading actors**
- DFI
- Corporate
- NGO
Facilitating financial access: ii) Integration to formal value chains

**Overview:** Corporates play a major role, which concentrates interventions towards cash crops. An emerging solution is capacity improvement of proximate actors in the rice value chain e.g., rice mills, to source from a large pool of suppliers.

**Definition:** Connecting smallholder farmers to large scale buyers who provide stable demand and consequently, stable and predictable cash flow.

**Challenges**

- **Limited to certain regions and certain crops.** Contract farming was observed largely in Indonesia and Philippines with a clear focus towards cash crops.

- **Social enterprises work at a small scale.** While efforts often supported a variety of farmer needs, in majority of cases their scale was observed to be below 2000 farmers.

**Emerging solutions**

- **Supporting agribusinesses in improving capacity.** Government institutions e.g., Rural Development Bank of Cambodia and DFIs e.g., IFAD, provide assistance to rice farmers, through demand side interventions i.e., by supporting rice mills.

- **Organizations with a strong farmer can anchor interventions at scale.** Organizations such as VECO in Vietnam or ASKI in Philippines have brought together corporates for off-take and agriculture experts for technical assistance to ensure that farmers can honor quality and quantity standards of agreements in the long term.

**Major interventions observed in**

- Cambodia
- Indonesia
- Myanmar
- Philippines
- Vietnam

**Leading actors**

- Gov’t
- MFI
- DFI
- Corporate
- NGO

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Source: Dalberg analysis
**Overview:** Efforts are either nascent or have failed in the past. In response, organisations, specifically governments, are working towards widening access to indexed insurance products.

**Definition:** Services that protect farmer incomes in case of extreme weather events or death, illness and accidents to livestock.

**Challenges**

- **Poor economic viability of traditional insurance.** Previous attempts in establishing conventional crop insurance were limited by a lack of viability e.g., in Vietnam.

- **Efforts are nascent in the region.** In Cambodia, the first pilot for crop insurance targeting rice farmers was initiated in 2015 and is likely to go on till 2017.

**Emerging solutions**

- **Indexed insurance products bring more viability.** Both government (Bao Minh in Vietnam) and private actors (MicroEnsure in Philippines) are implementing at insurance products indexed to an objective metric e.g., rainfall, wind speed etc., which allows greater predictability and nullifies the cost of damage assessment.

- **Products that protect farmer incomes.** An important low cost innovation introduced by MicroEnsure insures cost of fertilizers in case of extreme weather event, protecting farmer incomes at the time of income shock or asset loss.

- **Corporate guarantees can widen access.** Support through reinsurance agreements to mitigate default risk (SwissRe in Vietnam) can incentivize insurance providers to increase penetration.

**Major interventions observed in**

- Indonesia
- Philippines
- Vietnam

**Leading actors**

- Gov’t
- Corporate
- Bank

Source: Dalberg analysis
Contents

- Introduction to the study
- Executive summary
- Overview of smallholder farmer financing needs
- Our detailed research findings
- Annex
Of the 148 initiatives we studied, ~30-50% are led by multilateral and government institutions.

Types of organisations leading smallholder finance initiatives

![Diagram showing types of organisations leading smallholder finance initiatives]

- Government
- DFI
- MFI
- NGO
- Corporate
- Bank
- Others

Note (1): Others represent impact investors, social enterprises, trade associations and farmer cooperatives

Source: Dalberg research; Dalberg analysis
Working capital finance (WCF): Although multiple actors provide WCF, only MFIs are present, in varying degrees, across all countries.

<table>
<thead>
<tr>
<th>Types of organisation types serving working capital(^1) needs of smallholders</th>
<th>Number of cases, (n = 46)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>11</td>
</tr>
<tr>
<td>Indonesia</td>
<td>12</td>
</tr>
<tr>
<td>Myanmar</td>
<td>8</td>
</tr>
<tr>
<td>Cambodia</td>
<td>7</td>
</tr>
<tr>
<td>Vietnam</td>
<td>8</td>
</tr>
</tbody>
</table>

WCF lending by corporates (as proximate actors) is limited to their contract farmers, and is geared towards certain regions e.g., Indonesia and crops i.e., cash crops.

Note (1) Farmer organisations, NGOs, social enterprises and impact investors

Source: Dalberg research; Dalberg analysis
Farming inputs: **Actors such as social enterprises and corporates are increasingly supporting smallholder farmers with farming inputs**

Types of organisations serving smallholder farmers’ financing needs for farming inputs  
*Number of cases, n = 40*

<table>
<thead>
<tr>
<th>Country</th>
<th>Government</th>
<th>DFI</th>
<th>Corporate</th>
<th>NGO</th>
<th>Social Enterprise</th>
<th>Other¹</th>
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<td>2</td>
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<td>Indonesia</td>
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<td>Myanmar</td>
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<td>Philippines</td>
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<tr>
<td>Vietnam</td>
<td>11</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
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</tr>
</tbody>
</table>

*Corporates make high quality seeds/fertilisers available to a limited number of farmers through contract agreements, while DFIs widen access considerably through community level initiatives (for example, seed banks)*

Note (1) MFIs, Banks and Cooperatives  
Source: Dalberg research; Dalberg analysis
Knowledge, Training & Skills (KT&S): In the absence of government KT&S programs, corporates and DFIs tend to be more active

Types of organisations providing knowledge and skills to smallholder farmers

*Number of cases, n = 51*

Investment into advocacy efforts to activate gov’t. institutions may be an important investment to make to trigger multiplier effects on the ongoing KT&S efforts

Note (1) Gov’t, MFIs, Banks and Farmer organisations

Source: Dalberg research; Dalberg analysis
Equipment finance: **Government institutions typically play a major role in 3 out of the 5 countries assessed**

*Source: Dalberg research; Dalberg analysis*

### Types of organisations providing equipment financing to smallholder farmers

*Number of cases, n = 19*

Even in countries where contract farming is ubiquitous i.e., Philippines and Indonesia, asset financing efforts from corporates are limited.

<table>
<thead>
<tr>
<th></th>
<th>Cambodia</th>
<th>Indonesia</th>
<th>Myanmar</th>
<th>Philippines</th>
<th>Vietnam</th>
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<tbody>
<tr>
<td>Government</td>
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</tr>
</tbody>
</table>

Source: Dalberg research; Dalberg analysis
Livestock: Primarily, DFIs and government institutions are active in this space with some regional variation across countries.

Types of organisations providing livestock finance to smallholder farmers

*Number of cases, n = 19*

Corporate involvement was observed only in Indonesia, and remains limited to livestock insurance.

<table>
<thead>
<tr>
<th>Country</th>
<th>Government</th>
<th>DFI</th>
<th>MFI</th>
<th>Corporate</th>
<th>Farmer organisation</th>
</tr>
</thead>
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<td>Indonesia</td>
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<tr>
<td>Myanmar</td>
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<td>Philippines</td>
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<td>Vietnam</td>
<td>8</td>
<td>4</td>
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<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Dalberg research; Dalberg analysis
Risk management: The nascent markets are led by the gov’t., while Philippines, a relatively mature market, has a variety of actors.

Types of organisations providing risk management products to smallholder farmers

<table>
<thead>
<tr>
<th>Country</th>
<th>Government</th>
<th>MFI</th>
<th>Corporate</th>
<th>Bank</th>
<th>Social enterprise</th>
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</thead>
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<td>3</td>
</tr>
</tbody>
</table>

There remains immense potential across the region to boost corporate engagement in providing micro-insurance products to smallholder farmers.

Source: Dalberg research; Dalberg analysis
Integration into formal value chains: A variety of actors support market access, however, they are most active in Philippines and Indonesia

Types of organisations supporting farmers’ integration to formal value chains

Number of cases, \( n = 43 \)

- Corporates play a major role through off-take agreements but their focus remains restricted to cash crops

<table>
<thead>
<tr>
<th>Country</th>
<th>Government</th>
<th>DFI</th>
<th>Corporate</th>
<th>NGO</th>
<th>Social enterprise</th>
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Note: (1) Banks, MFIs and Farmer organisations

Source: Dalberg research; Dalberg analysis