



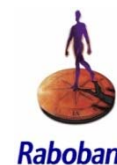
## From seed to feed: How to finance agri business from small holder producers to consumers?

Solutions of fighting scarcity of financial resources

Frankfurt July 04, 2014

Michaël de Groot

Rabo Rural Fund



# The financing proposition throughout the supply chain



**Farming**

Rabo Foundation,  
Rural Fund,  
Partner banks,  
local R&R banks,  
WCI Brazil,  
LAAD



**Collection/ logistics**

Rabo Foundation,  
Rural Fund,  
Partner banks,  
local R&R banks,  
TCF,  
LAAD



**Trade and distribution**

member banks,  
TCF,  
Project Finance,  
Rabo Shipping,  
local R&R banks



member banks,  
TCF,  
Wholesale clients,  
local R&R banks



**processing**

member banks,  
Wholesale clients,  
local R&R banks



**Retail**

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| • Section 2: | Challenges & obstacles to access to finance |
| • Section 3: | Value chain financing approach              |
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# 1. Global F&A trends



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## More with less

Population to grow  
from 7 to 9 billion  
people

Economic growth  
drives switch in  
diets in emerging  
economies

Land expansion no  
more than some  
10%; less water,  
less fertiliser

Productivity growth  
is crucial

# Remarks on supply

- 85% - 90% of volume increase to be realised through productivity increases
- Production growth of raw materials predominantly in South America, potentially Russia and Africa.
- Africa: lacking enabling environment poses major challenge

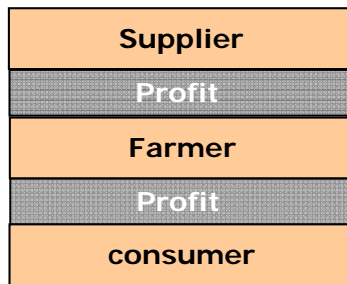
## 2. Challenges and obstacles



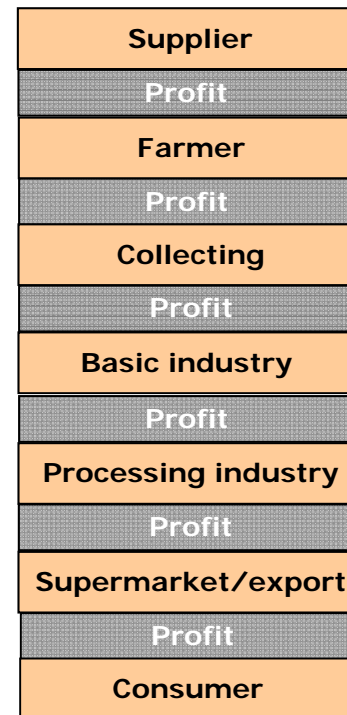
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# Agricultural value chains

## Traditional Value Chains



## Modern Value Chains





# How can farmers reduce risks?

## **More different products**

- Less price risk
- Less weather risk
- Intelligent combinations
- Less concentration Risk

## **Specialisation**

- More knowledge of the process
- Lower indirect costs
- Higher quantity price reduction
- Higher quantity (prices)
- Better quality products

# Characteristics and risks of the F&A chain

- Dependence on natural conditions (fluctuation output and prices)
- Seasonality (sometimes warehousing facilities)
- Perishable products (warehouse, food processing)
- Quality of management (comparison with colleagues)
- Reputation of the entrepreneur (know your client principle, closed network)
- Administration and business planning (consultants)

## Characteristics and risks of the F&A chain (2)

- Quality of contracts (cooperatives, associations, forums)
- Functioning of the agri chain (cooperatives, associations, forums)
- Supportive associations in F&A chain (consultants, education, research, role of the government)
- Sector reference data (collecting in database)
- Knowledge/trust bank of the sector (specialist department)
  - long term or short term

# Reluctance to give credit

Why?

- Insufficient knowledge in banks of rural sector
- Insufficient financial administration of rural entrepreneurs
- Insufficient collateral
- Concentration of bank branches in the urban area
- Higher complexity of investment loans compared to short term loans.

### 3. Agri finance solutions

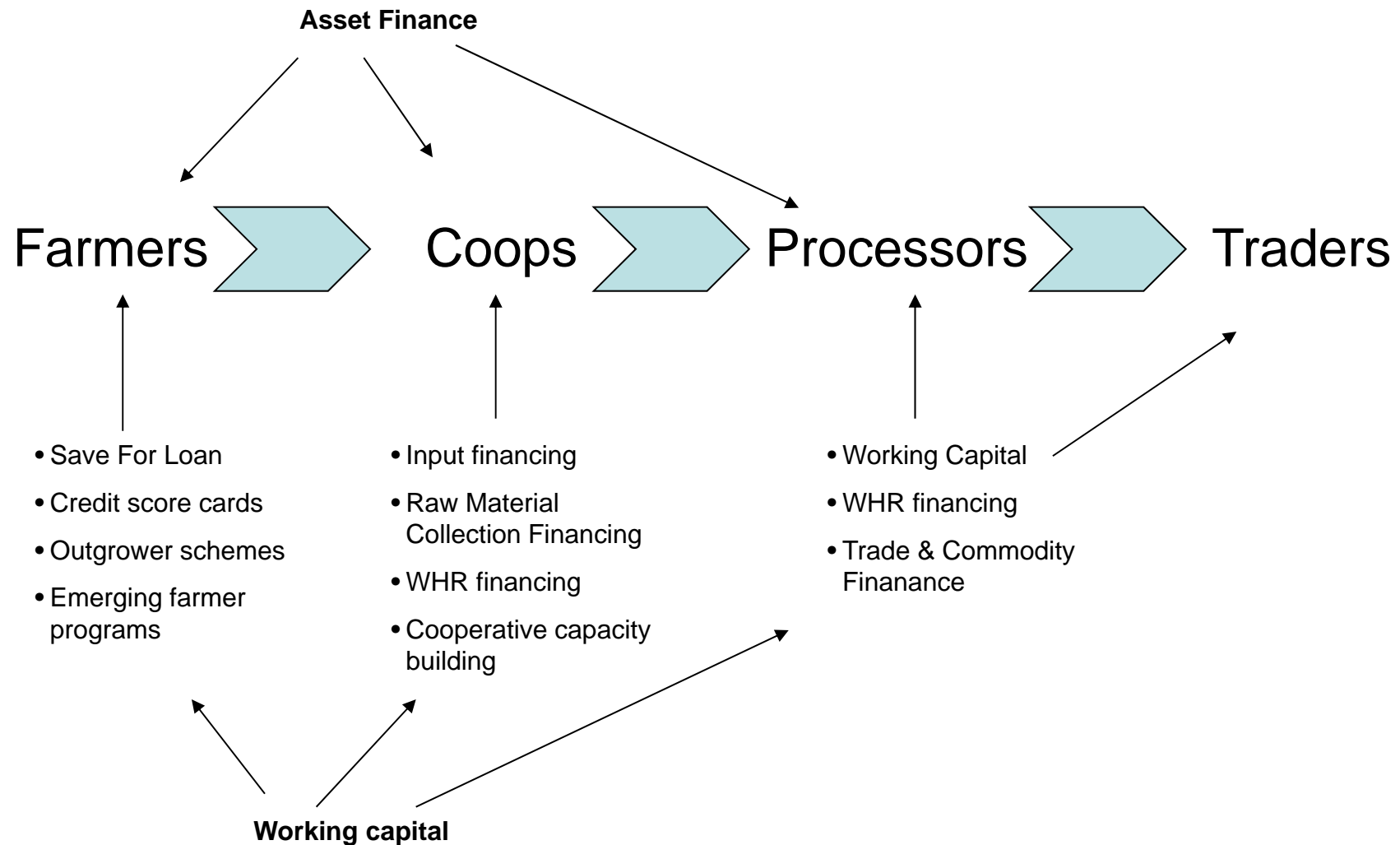


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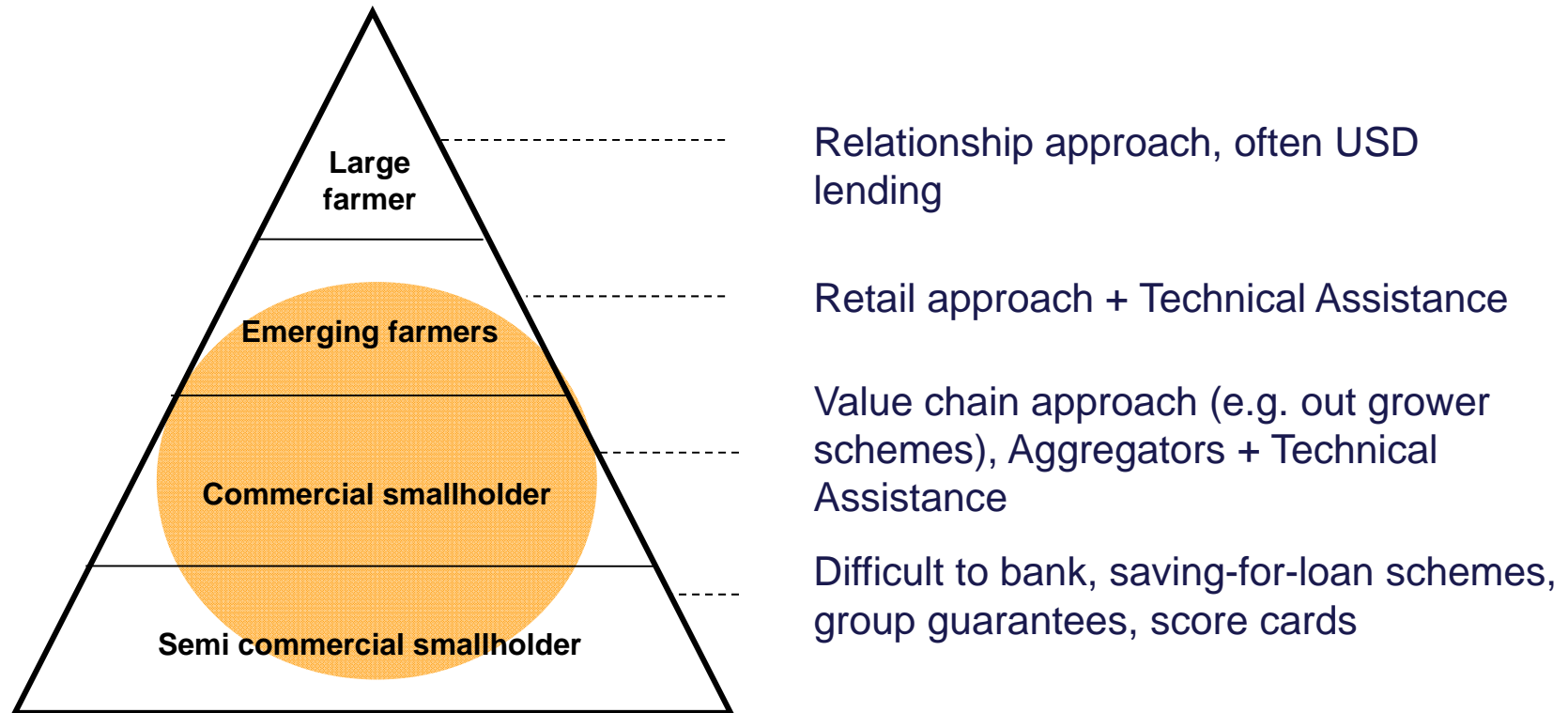
# Agri financing principles

- Agriculture is different from other sectors due to specific risks
- Hence banks need to build-up specialist agri knowledge
- Value chain approach should be leading
- Client segmentation drives financing approach
- Focus on payment capacity, collateral should come second
- Transaction cost of small loans are too high, need for aggregations
- Farmers/coops need to understand bank requirements and vice-versa

# Value chain approach should be leading

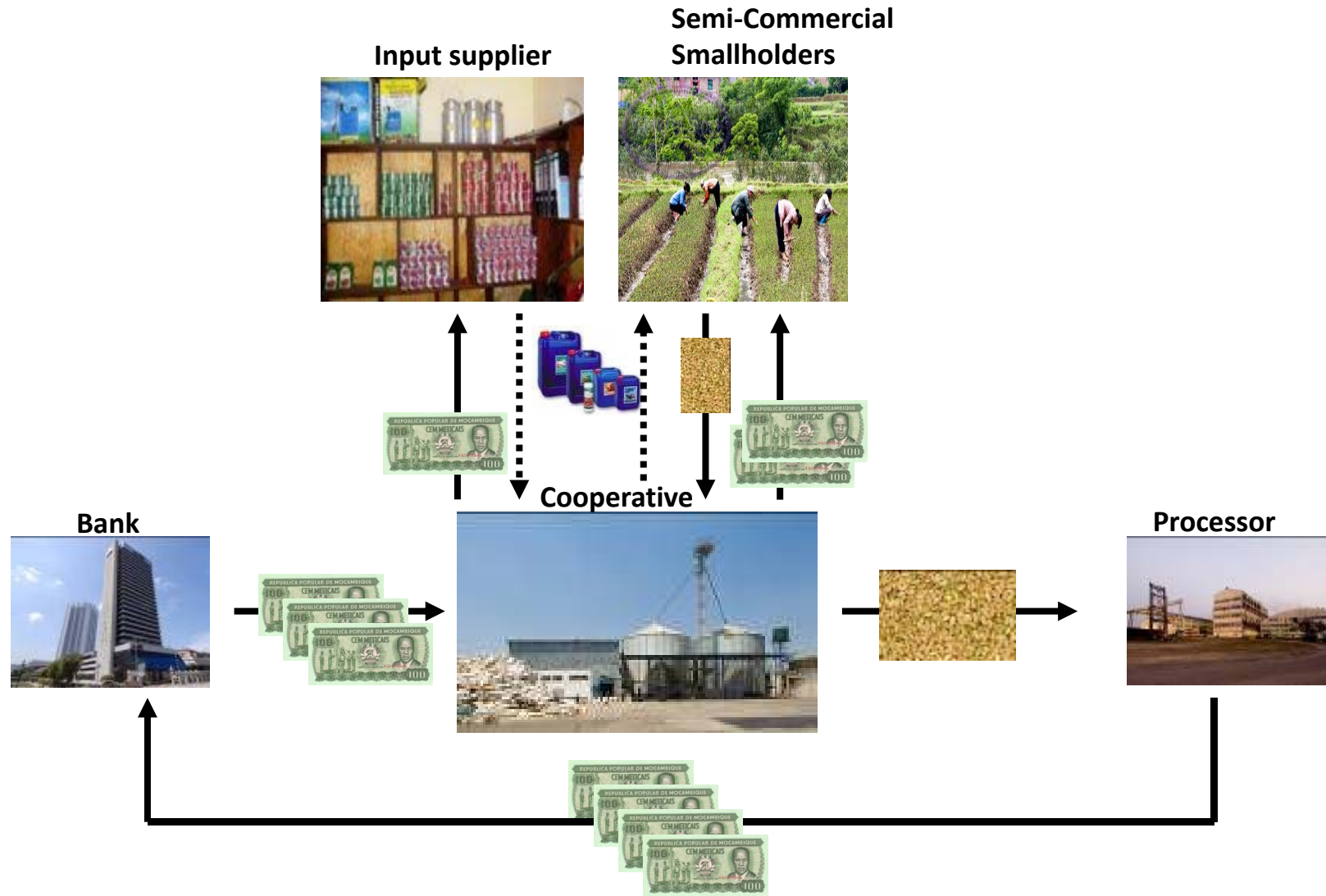


# Segmentation drives financing approach

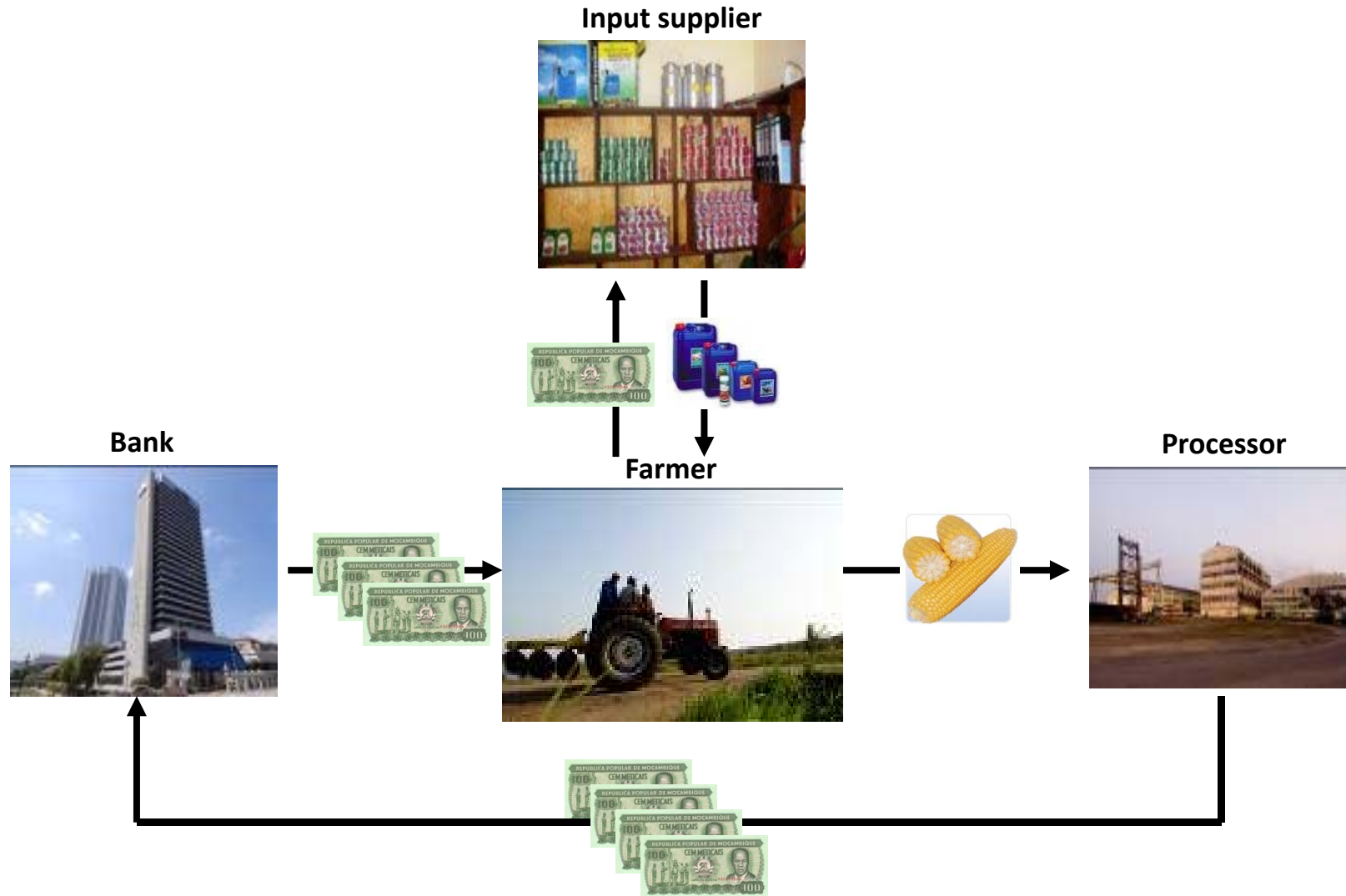




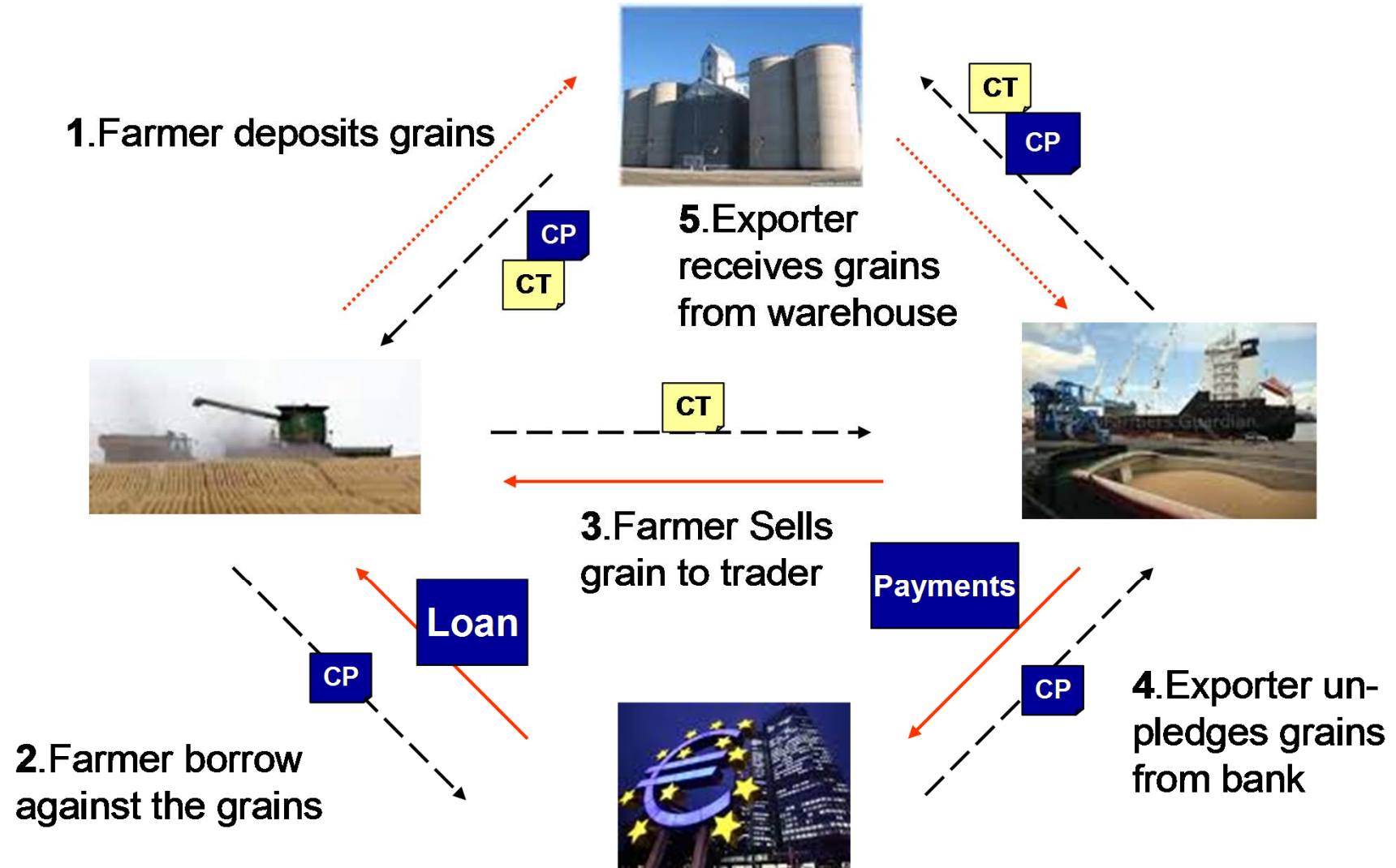
# Value chain financing for (semi) commercial small holders using aggregators



# Value chain financing for commercial small holders



# Warehouse receipts financing



## 4. Cases



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# Case 1: Example of cooperation ECOM, RD, RF (cocoa Ivory Coast)

## Objectives

- Improve sustainability of cocoa supply chain Ivory Coast
- Improve “bankability” ECOM’s preferred cocoa cooperatives
- Improve supply of certified cocoa to ECOM

## How?

- Train 20 cocoa cooperatives on financial management, corporate governance and capitalization policies
- Implement capitalization scheme (incl adjustment of statutes)
- One coop expert of RD stationed for 2 years in IC

## Win-win

- Increased certified cocoa supply to ECOM
- Stronger cooperatives / access to finance
- Higher farm incomes
- Stronger client intimacy with ECOM



# Case 2: Example of cooperation RD, ICM, USAID, BPR, RF (rice Rwanda)

## Objectives

- Improve sustainability of rice supply chain
- Improve supply of quality paddy to ICM
- Improve access to finance to UCORIBU (18,000 members, 10 coops)

## How?

- Team up with USAID/ICM/UCORIBU/RF in value chain project
- Capacity building program for UCORIBU coops
- ICM to provide agronomic assistance (seeds, fertilizers)
- USAID to support post-harvest handling infrastructure
- BPR to implement input financing structure

## Win-win

- Increased paddy supply to ICM
- Increased financing volume to BPR
- Better yields for rice farmers
- Stronger coops & access to finance



# Case 3: Example of cooperation Parmalat, Zanaco, RD (dairy Zambia)

## Objectives

- Improve quality milk supply to dairy processors
- Improve access to finance of dairy cooperatives

## How?

- Scan 10 dairy cooperatives
- Select 5 for value chain finance (cows & inputs) via Zanaco
- Implement technical assistance program to strengthen financial management

## Win-win

- Increased raw milk supply to Parmalat
- Access to finance for dairy cooperatives
- Additional financing volumes Zanaco



# Case 4: RF, RRF a local bank & CEPIBO (bananas, Peru)

## Objectives

- Improve volume (production) and quality of bananas for very competitive international markets
- Improve access to finance for medium term lending (investments)

## How?

- A new company off-spin from the coop: Agrosol- to invest
- Select new varieties from Honduras , implement new technologies
- technical assistance program to improve production and include thousands of small farmers

## Win-win

- Increased regular supply to Fyffes
- Access to finance for cooperatives
- Additional earning income





# Case 5: pilot crowd-funding in coffee : consumer-roaster-financier- cooperative

## Objectives

- Improve volume (production) renewal small plantations
- Using crowd funding for medium term lending (investments)

## How?

- Scan the best coffee cooperatives
- Select for crowd funding finance via local roasters and coffee shops in Canada & US. Rabo Rural Fund is acting as financial intermediary and guarantor
- Implement technical assistance program to renew plantations: first case PANGOA Peru

## Win-win

- Secure future of thousands of families
- Access to alternative LT finance
- Direct link consumer- producer
- Personal coffee (“*grow your own cup*”)



## 5. Conclusions



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# Conclusions

- Agri finance should be part of the bank's long-term strategy
- Sector & Segmentation based approach is key
- Prepare tailored products/concepts for different farmer segments
- Branch network with local agri expertise is key
- Combining access to finance with technical assistance
- Financing smallholders has high transaction cost
- Try to make use of aggregators (e.g. Cooperatives)
- Emerging farmers are key to modernization of agriculture
- Banks need to focus on payment capacity, less on collateral
- Support of public sector is key to making it happen!





Thank you for your  
kind attention