



## Brussels Development Briefing n.35

### Revolutionising finance for agri-value chains

5 March 2014

<http://brusselsbriefings.net>

Value Chain Finance and the  
Importance of Understanding the Value  
Chain.

Hans BOGAARD, *Rabobank*.



# Value Chain Finance

*... and the importance of understanding the value chain*

Value Chain Financing Conference  
Brussels

Hans Bogaard - **Rabo Development**



**Rabobank**

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## Rabobank & Agriculture - background

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**Rabobank**

# Rabobank – Cooperative bank with agricultural roots



## History

- Cooperative founded in 1898 to provide Dutch farmers access to financial provider

## Today

Financial services provider based on a cooperative organisation principle (136 member banks in NL)

- 10 million customers around the world (excl. customers of partner banks)
- Operating in 47 countries
- NL: all finance, all markets (Retail, wholesale banking, asset management, leasing and real estate),
- Internationally: F&A
- Proposition throughout the supply chain.

Farming



Collection/ logistics



Trade and distribution



processing



Retail



# Rabobank Development and partner banks

## Instruments

- Rabo Development's mission is: to **improve financial** services in **rural areas** in **developing countries**
- Minority participations in local banks
  - Currently 8 partner banks of which 5 in Africa, 1 in Brazil, 1 in Paraguay and 1 in China
- Besides partner banks, strategic relationships in following countries:
  - Ethiopia, Kenya, Cameroon, Nigeria, Botswana, India, China and Peru

## Short overview

- Capital investments
- Management and advisory services (RIAS):
  - To the partner banks
  - To external parties, incl. Rabobank F&A clients
- Topics:
  - e.g. rural banking, cooperative development, agricultural value chain development, warehouse receipt financing...

## Partner bank countries





# Results in agri financing African partner banks (mid-2013)

## *Zambia - Zanaco*

- Voted "Best bank of Zambia" by Euromoney (2012)
- Market leader in F&A corporate financing
- Financing some 70 "emerging farmers"
- Financing 10,000+ smallholders via 39 District Associations
- Financing of +/- 500 dairy farmers via 4 milk cooperatives

## *Tanzania - NMB*

- Voted "Best bank of Tanzania" by Euromoney and the Banker (2013)
- One of the leaders in F&A corporate financing (traders and processors)
- Financing of +/- 300,000 smallholders (500 coops) via "contract farming" and Warehouse Receipts Financing (rice, barley, tea, coffee, cashew, etc.)
- Financing large group of Agro Dealers
- Developing financing to "emerging farmers" in beans, dairy, rice, seeds, etc

## *Mozambique - Banco Terra*

- Financing +/- 1000 sugar cane farmers via 4 sugar associations (Maragra)
- A growing presence in the agro corporate sector

## *Rwanda – Banque Populaire du Rwanda (BPR)*

- Voted "best agribusiness bank 2013" by Ministry of Agriculture
- Implementation World Bank program by RIAS: in 2 years USD 18 mln of new farmer loans booked reaching +/- 30,000 small farmers
- Reducing of credit turnaround times for farmers via credit score card system
- Various capacity building projects focused on cooperatives in rice, tea, coffee, dairy etc
- A growing presence in the corporate sector

## *Uganda – DFCU*

- Top 5 bank of Uganda
- Ambitious growth plans in agri sector

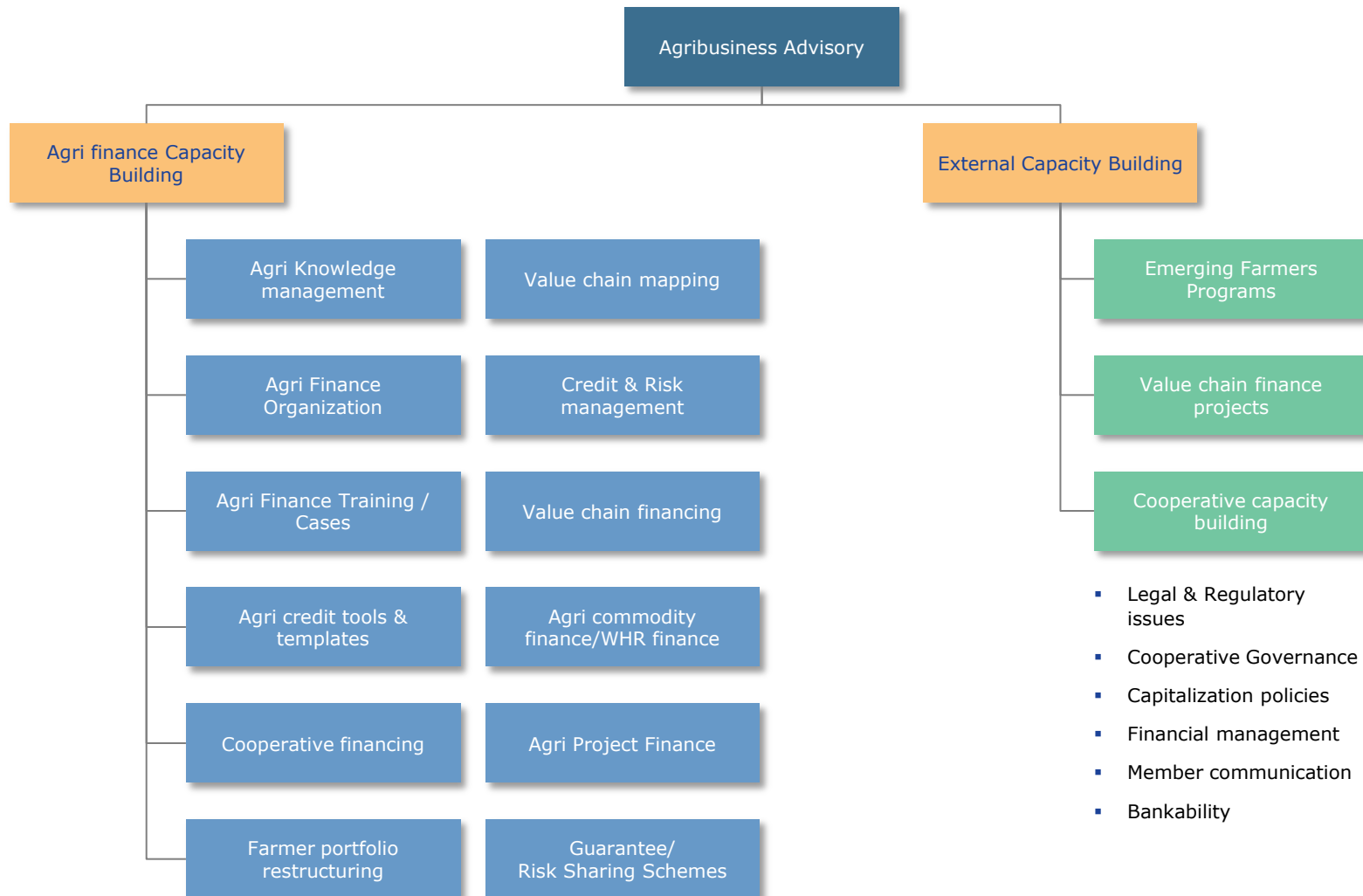


# BPR, voted as “Best Agri Bank of Rwanda 2013”





# Agribusiness Advisory Services



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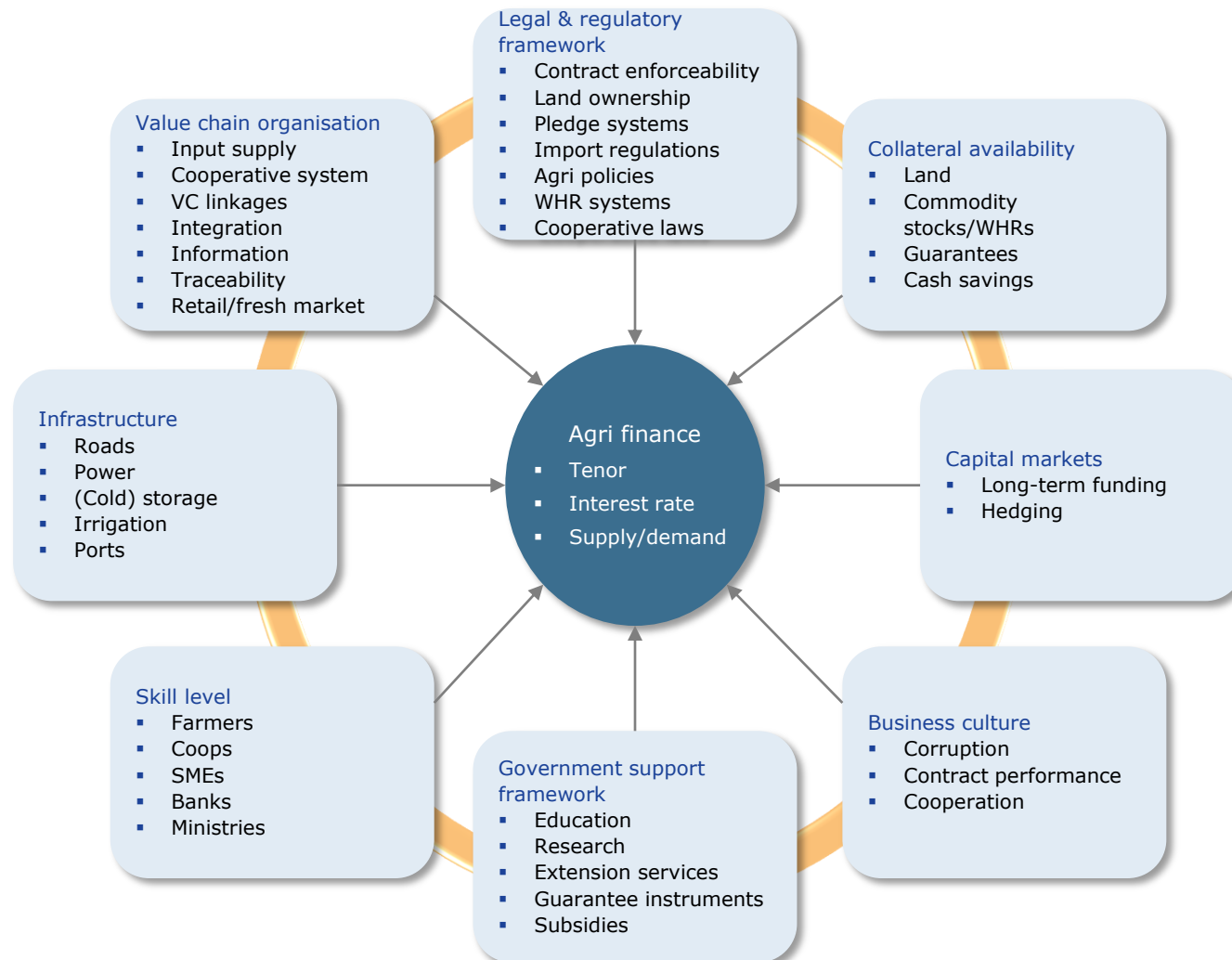
## Agri Finance Issues

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# Agri Finance enabling environment



# Main obstacles for access to finance in agriculture

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## *Farm level*

- Lack of economies of scale
- Rain fed, vulnerable to weather risk
- Infrastructure/transport
- Lack of affordable inputs
- Low penetration of machinery
- Low prices post-harvest
- Lack of collateral/land title/capital
- Lack of financial documentation
- Lack of skills
- Lack of understanding bank requirements
- Weak cooperatives

## *Institutional level*

- Unpredictable government policies
- Political intervention in agri markets
- Lack of supporting legislation (e.g. warehouse receipt laws, contract enforcement)

## *Bank level*

- Lack of understanding of agriculture markets
- Large distance between bank branch and farmers
- Mismatch in financial products and sector needs
- High perceived risk in financing agriculture
- Lack of long-term funding

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## Agri Finance Approach

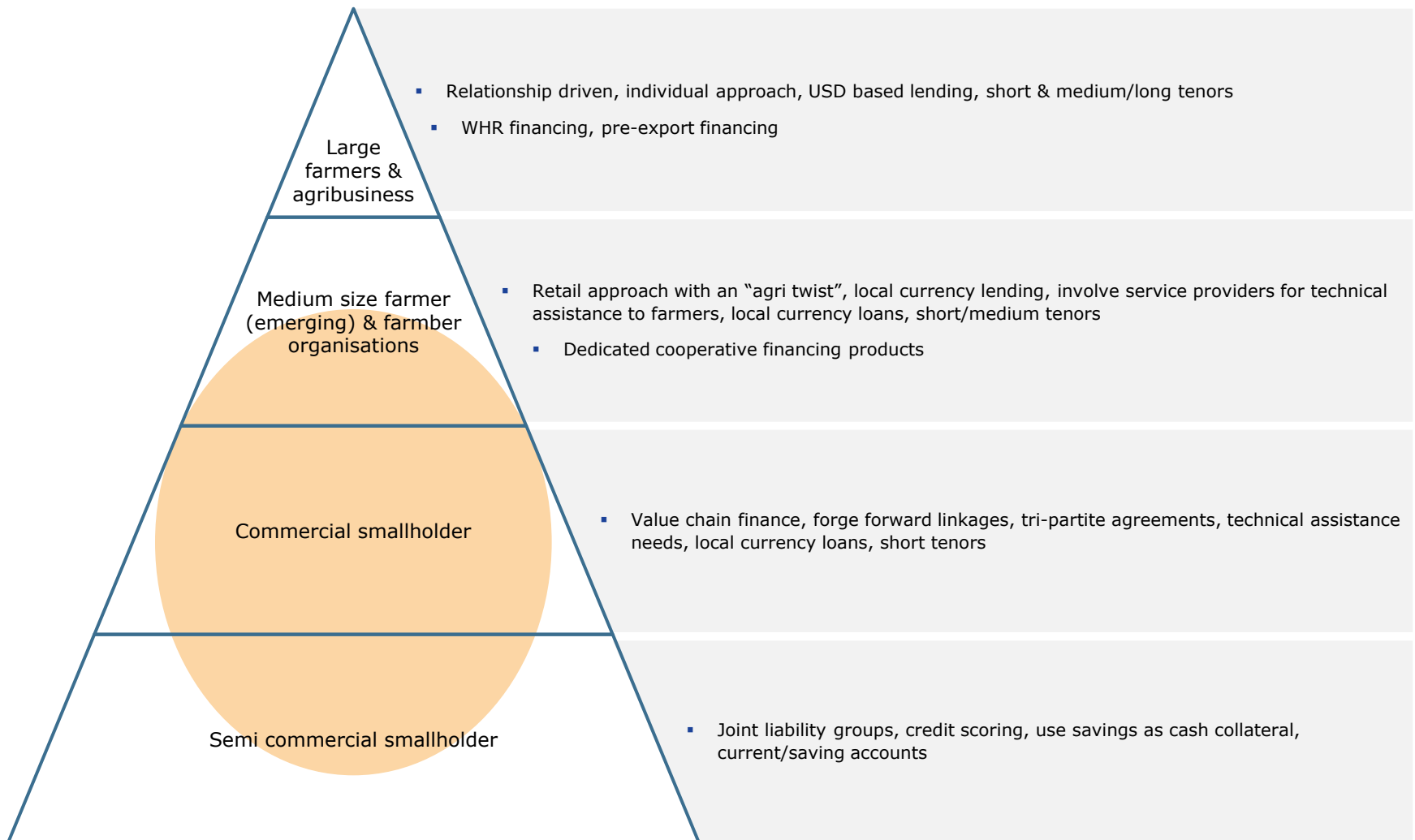
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# Different financing approach for different agri segments



# Lessons learned in agri financing

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- Approach agriculture as a **business** and not as a social sector
- Knowledge is key so invest in agri sector knowledge and systems
- Segment the market in sectors and customer segments and adjust your financing approach accordingly
- Focus on **payment capacity**, collateral and guarantees comes second
- State owned Agri banks don't work (too many debt write-offs & recapitalisation)
- Commercial banks with rural stakeholders seem appropriate model
- Be close to your customer, e.g. via rural branch network
- Be careful with going down market (e.g. smallholders) too fast
- Capacity building (e.g. of coops) can enhance the bank's risk management
- Work closely with traders and processors since they know the reliable suppliers



## Align products with the risks and needs in the VC

|       |  |   |  |   |
|-------|--|---|--|---|
| Risks | <ul style="list-style-type: none"><li>• Lack of collateral</li><li>• Price risk</li><li>• Skills</li></ul> | <ul style="list-style-type: none"><li>• Lack of scale</li><li>• Lack of skills</li><li>• Lack of collateral/title</li><li>• Drought/floods</li><li>• Cash crops: side selling</li><li>• Food crops: government interference</li></ul> | <ul style="list-style-type: none"><li>• Lack of scale</li><li>• Lack of skills/management</li><li>• Lack of capitalization</li><li>• Corporate governance</li><li>• Post-harvest handling</li><li>• Lack of WHR system</li><li>• Side selling</li><li>• Price risk</li></ul> | <ul style="list-style-type: none"><li>• Price risk</li><li>• Lack of commodity exchange</li><li>• Logistics/storage</li><li>• Performance risk</li><li>• Skills</li><li>• Raw material supply</li><li>• Access to markets</li><li>• Government export/import bans</li></ul> |
|       |  |   |  |   |



|                 |   |  |  |   |
|-----------------|---|--|--|---|
| Credit Products | <ul style="list-style-type: none"><li>• Agro dealer schemes</li></ul> | <ul style="list-style-type: none"><li>• Outgrower schemes</li><li>• Input financing</li><li>• Save-for-loan schemes</li><li>• Investment finance</li><li>• Farmer credit score cards</li></ul> | <ul style="list-style-type: none"><li>• WHR financing</li><li>• Collection finance</li><li>• Input finance</li><li>• Pre-export finance</li><li>• Investment finance</li></ul> | <ul style="list-style-type: none"><li>• Pre-export finance</li><li>• Pre-import finance</li><li>• Collection finance</li><li>• WHR finance</li><li>• Investment finance</li></ul> |
|                 |   |  |  |   |

*Saving products, payment solutions, distribution (physical and virtual -> mobile)*

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## *Value Chain Finance Concepts*

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## Value Chain Financing (VCF)

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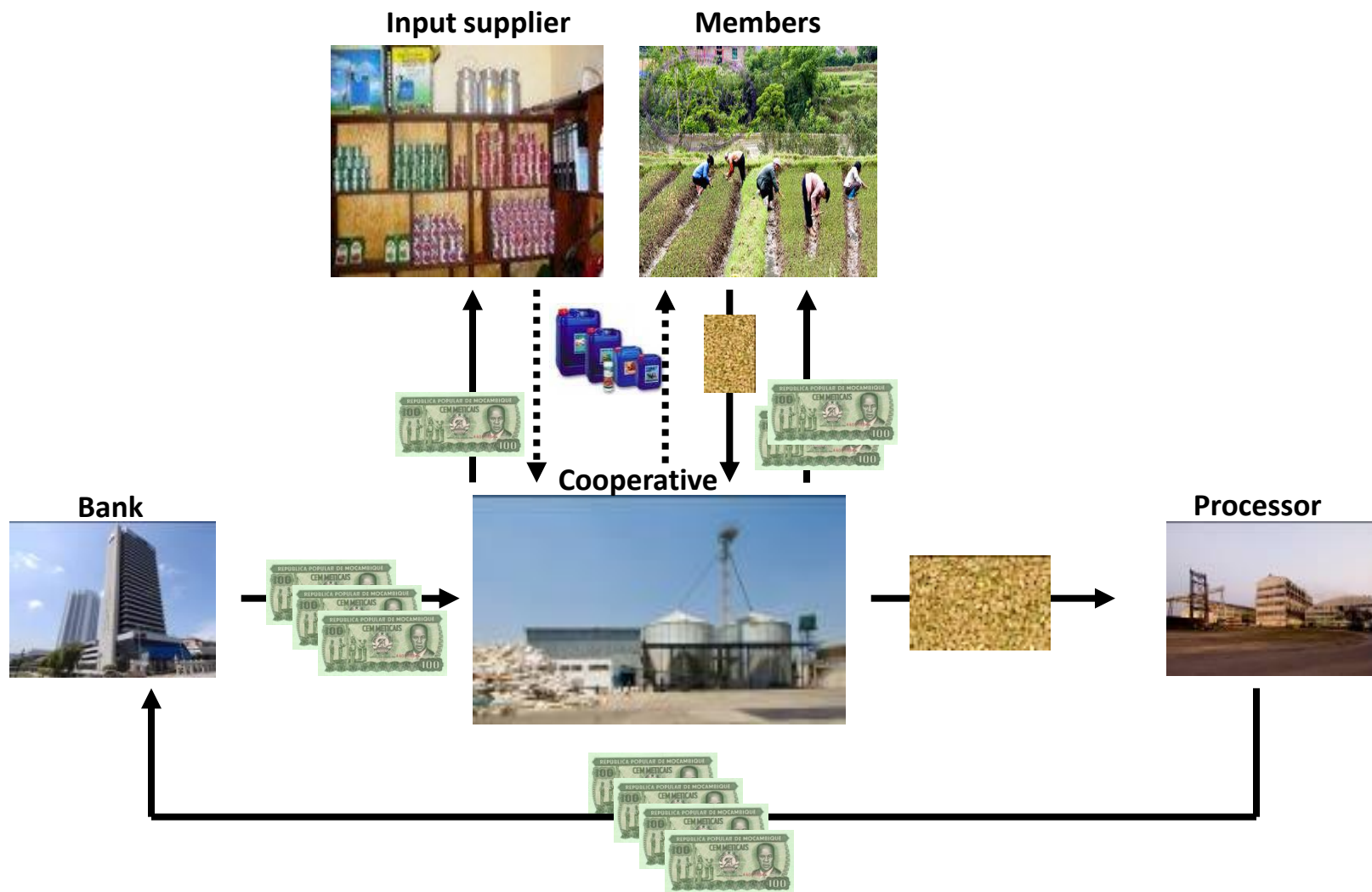
- VCF – finance models based on transaction streams and relationships in the supply chain
- VCF assesses the payment capacity of the farmer/coop by looking at his delivery record rather than his credit record
- Collateral is still important but could be lower if performance record is strong, contracts exist
- Tri-partite agreement is basis for VCF structure
- VCF creates a win-win for the farmer, the processor and the bank





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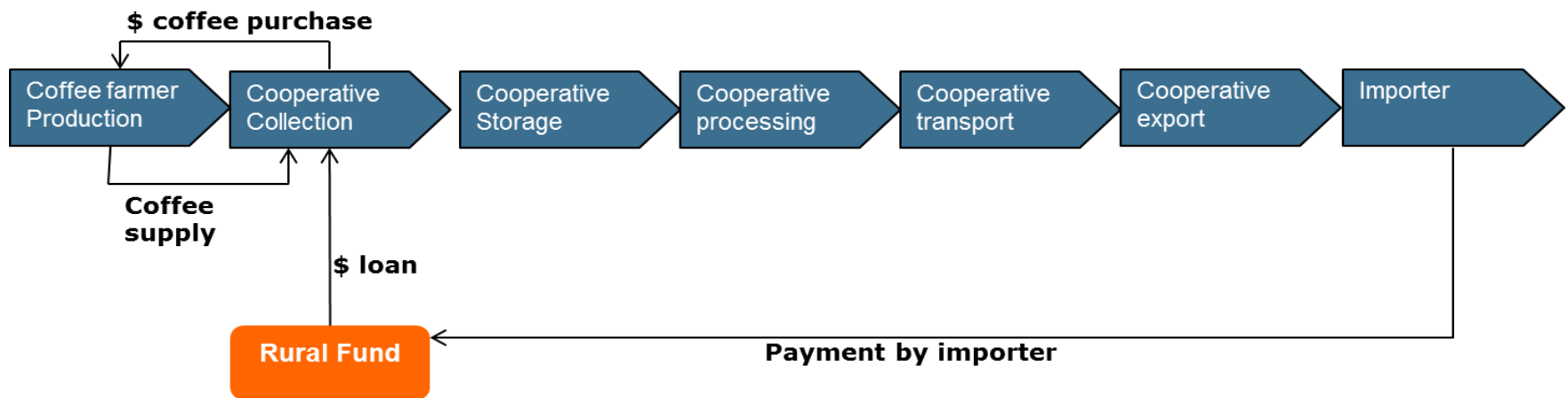
## An example of input finance via a VCF model



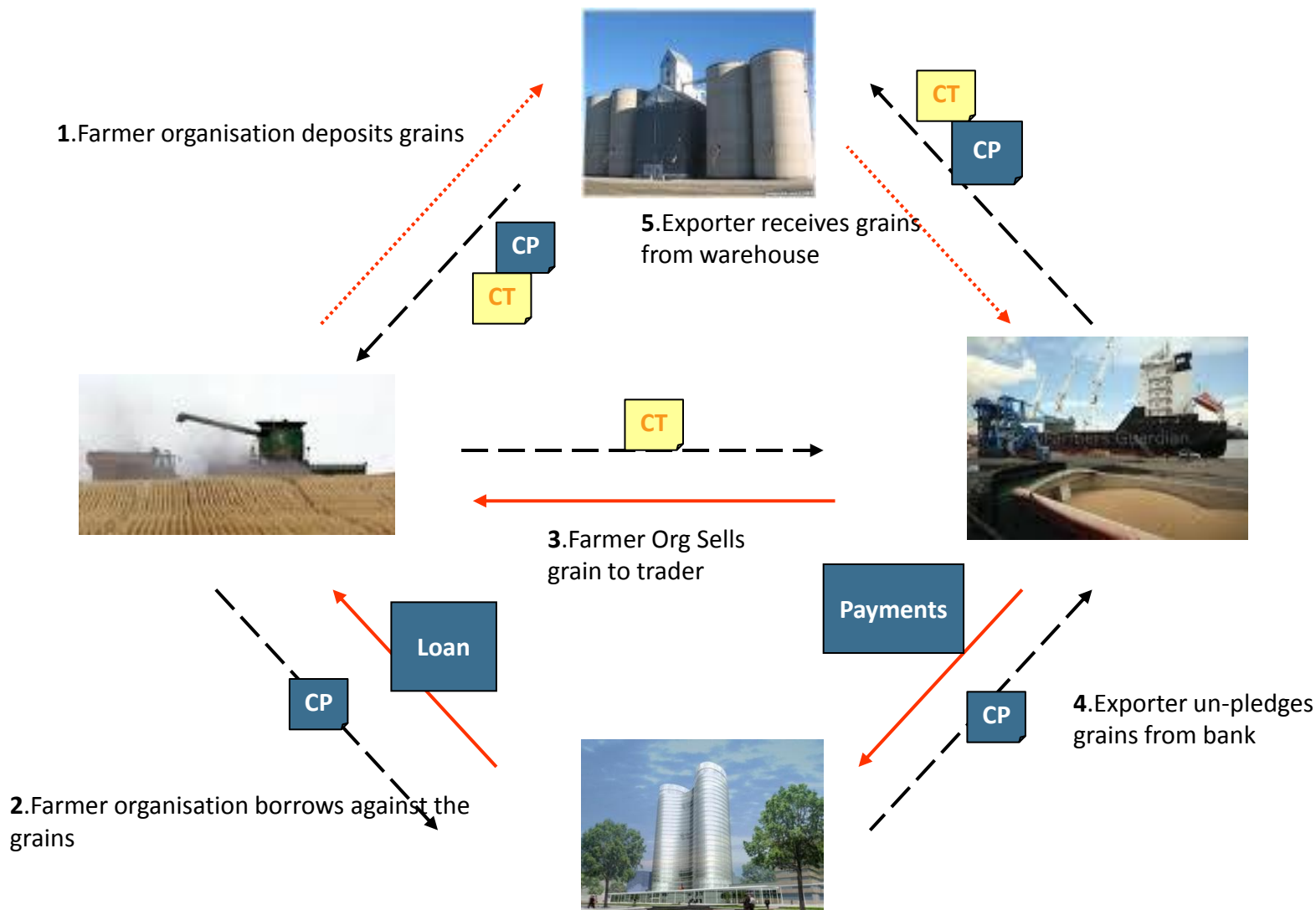
## An example of pre-export finance by using the linkages in the VC

Another form of value chain financing whereby:

- export contracts can be pledged to banks whereby the foreign buyer pays directly in the bank's account
- Social lenders (e.g. Rabobank Rural Fund and Root Capital) are specialized in PXF



# WHR financing: how it works



## Lessons learned Value Chain Financing

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Value chain finance concepts can be a good option to increase bankability of smallholders and chain development:

- It is also a buzz word used by everyone which only few banks really understand;
- VCF mainly works for working capital and the more integrated the sectors
- Reliable off-takers acceptable for banks are needed, even then, it can go wrong mainly due to operational risks;
- Banks may lack the knowledge to develop & monitor financial schemes and to evaluate the risks;
- Decision making in the banks can often take a long time not taking into account the seasonality of the produce (timely action is required in agri finance);
- Only few banks accept forward linkages as collateral substitute, most take fixed collateral as well
- Models where farmers own a minority part of the processor gives commitment and extra income and can be successful

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Cases

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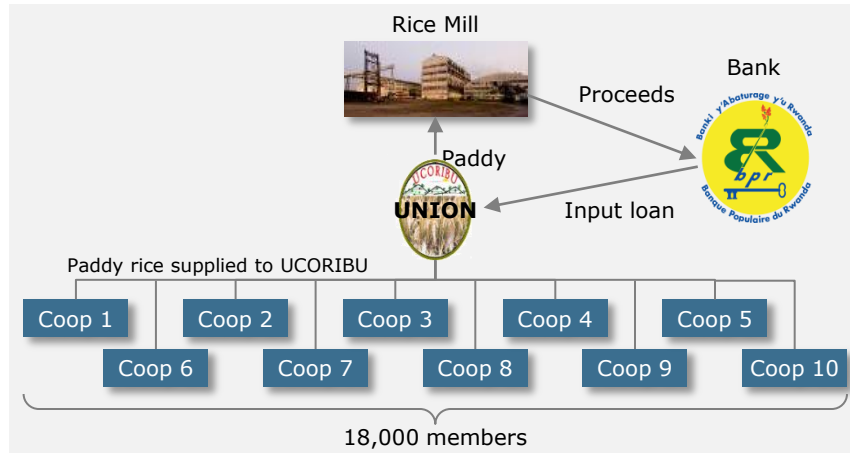


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# Value chain project example I – Rice Rwanda

## Project structure



## Key stakeholders & roles

- 1. ICM (Australian Agribusiness):** off-take guarantee, agronomic assistance
- 2. UCORIBU:** the largest rice Union in Rwanda representing 10 rice coops with 18,000 members, organising logistics, marketing and inputs
- 3. BPR:** financing the coops, the farmers and the ICM rice mills + local TA coordination
- 4. USAID:** providing support under the Post Harvest and Handling Project
- 5. Rabo International Advisory Services (RIAS):** chairing the Steering Committee, providing cooperative advisory services, design of value chain financing structure and coordination the TA project
- 6. Rabobank Foundation:** sponsoring the TA program and risk sharing the rice financing with BPR

## Project objectives

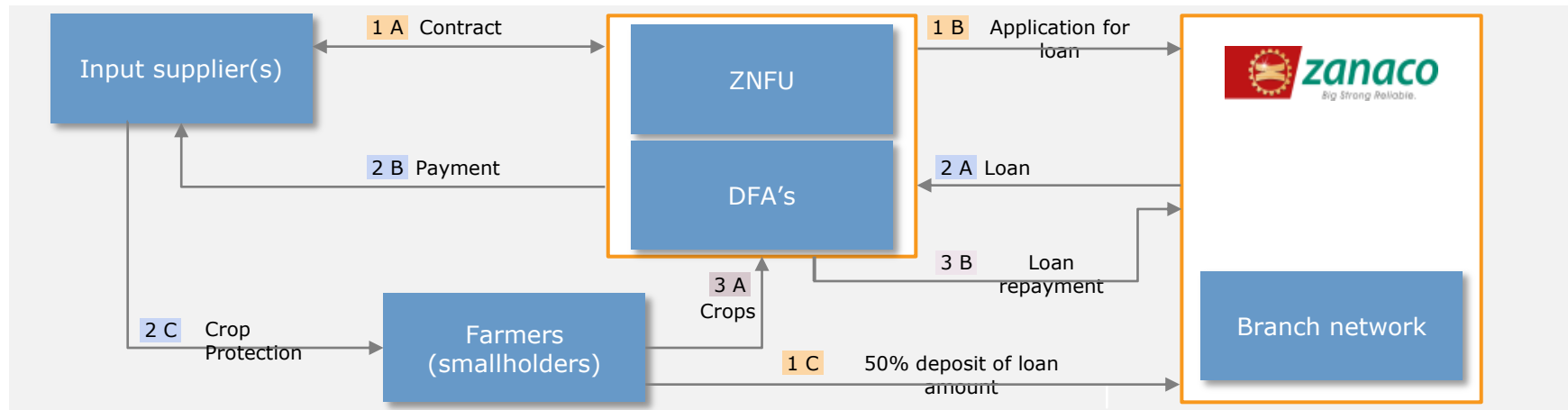
- 1. Better farming practices** leading to improved soil fertility and crop protection strategies that would in turn lead to higher yields, better quality, more diversified farms, and higher net producer incomes.
- 2. Better management of growers organizations,** enabling more transparent value chains and improved accounting and financial literacy, leading to better service to growers, better terms of trade and better marketing to discerning, responsible buyers.
- 3. Link to markets** with traceability systems, certification and experimentation with other marketing linkages
- 4. Value chain financing,** design of value chain finance structure between the rice coops, the rice mill and BPR
- 5. Post harvest handling and storage,** USAID advises the coops to improve post harvest handling and storage and contributes to investment funding

## Results UCORIBU rice project

- Investments in rehabilitation of buildings have been realised in phase I: 13 drying floors, 8 hangars and 4 warehouses have been completely rebuilt
- Production volume delivered to the mill increased by 45% since 2009 (Season A only)
- Meaning a more efficient use of water per kg rice
- Quality (dry matter) of rice has improved
- Individual farmers and production groups received loans from BPR for a total amount of Rwf 71 million (€ 80.000)
- The unions received loans from BPR for a total amount of Rwf 210 million (€ 230.000), mainly for buying fertilizers for their members
- ICM has received a Working Capital loan from BPR to finance the rice stocks at the mills (some USD 2 mln)

# Value chain project example II – Maize Zambia

## The LIMA scheme



## Roles for Rabobank

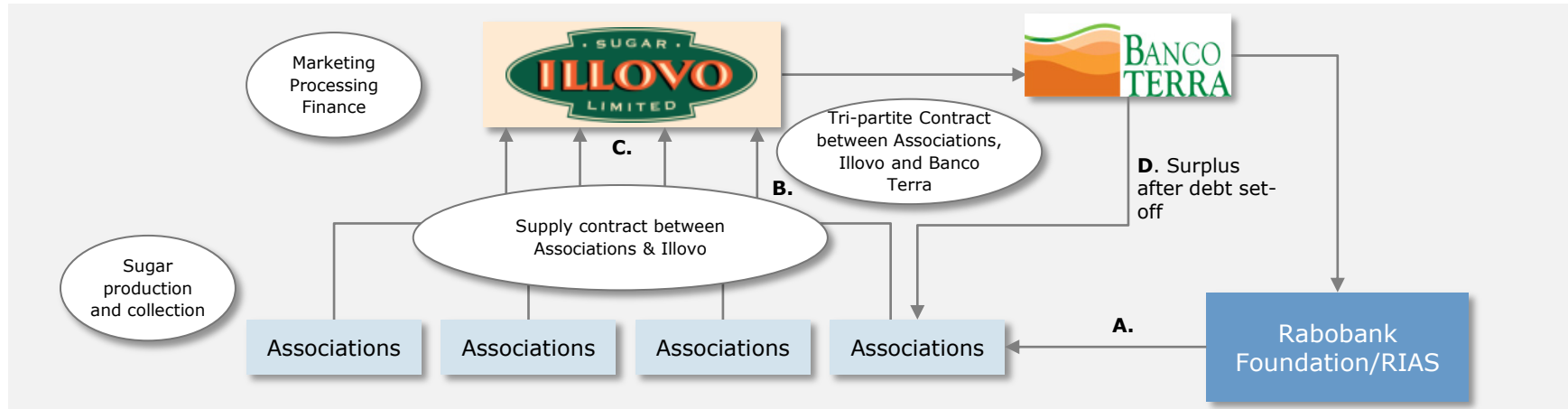
- Zanco (45.6% Rabobank owned)
  - Evaluates and approves application
  - Disburses based on invoices, but only when 50 % of loan amount is in saving account
  - Crop assurance at 4% of loan amount to cover weather risks
- Rabobank Development / RIAS
  - Credit training for Zanco, DFA-staff, and ZNFU-staff
  - Internal credit process streamlining Zanco
- Rabobank Foundation: Risk share with Zanco of 50% of the uncovered risk

## What the program entails

- Together with **Zambian National Farmers Union (ZNFU)** developed a **business-based-alternative** for the Governmental Input Supply Program that is based on subsidies
- Goal is to give **smallholders** access to finance to enable a more sustainable production, leading to more income and development of their business
- Smallholders are a member of **District Farmers Associations (DFA's)** that are regional ZNFU offices. Crucial since individual financing will not be possible for Zanco
- Smallholders cannot offer good **collateral**, therefore this was to be found in **savings**
- Crop insurance in place to mitigate the weather risks
- **Good cooperation between partners in this value chain is crucial**
- FRA provides **guaranteed off-take** of maize

# Value chain project example III – Sugar Mozambique

## Outgrower scheme



## How the outgrower scheme model works

- A. RIAS (Advisory arm of RD)** provides technical assistance to associations and designs supply chain finance structure. **Rabobank Foundation** sponsors technical assistance provided by RIAS
- B. Illovo and Associations sign supply contracts**, Illovo, Associations and Banco Terra sign 3-partite contract allowing Banco Terra to use sugar proceeds for direct set-off against Associations debt and interest
- C. Associations** supply cane to Illovo, Illovo pays into the Association accounts with Banco Terra
- D. Banco Terra** deducts debt and interest from sales proceeds, any surplus is transferred to the Associations

## Financing

- Rabo Foundation
  - **Donation** for technical assistance: salary of person who started the 4 associations, much technical administration work
  - **Donation** for infrastructure (irrigation)
  - **Funded guarantee** to Banco Terra
  - Paying for cost of RIAS
- Banco Terra
  - **Long term loan** for drainage system (7 year loan)
  - **Working capital** (to finance planting of sugar & labour cost)



Thank you for your  
kind attention