

A close-up photograph of coffee plants with vibrant red and green coffee cherries hanging from the branches. The leaves are lush green and slightly out of focus, creating a sense of depth.

## *Financing the Development of Value Chains*

*“Strategies for Eradicating Poverty to Achieve Sustainable Development Goals”*

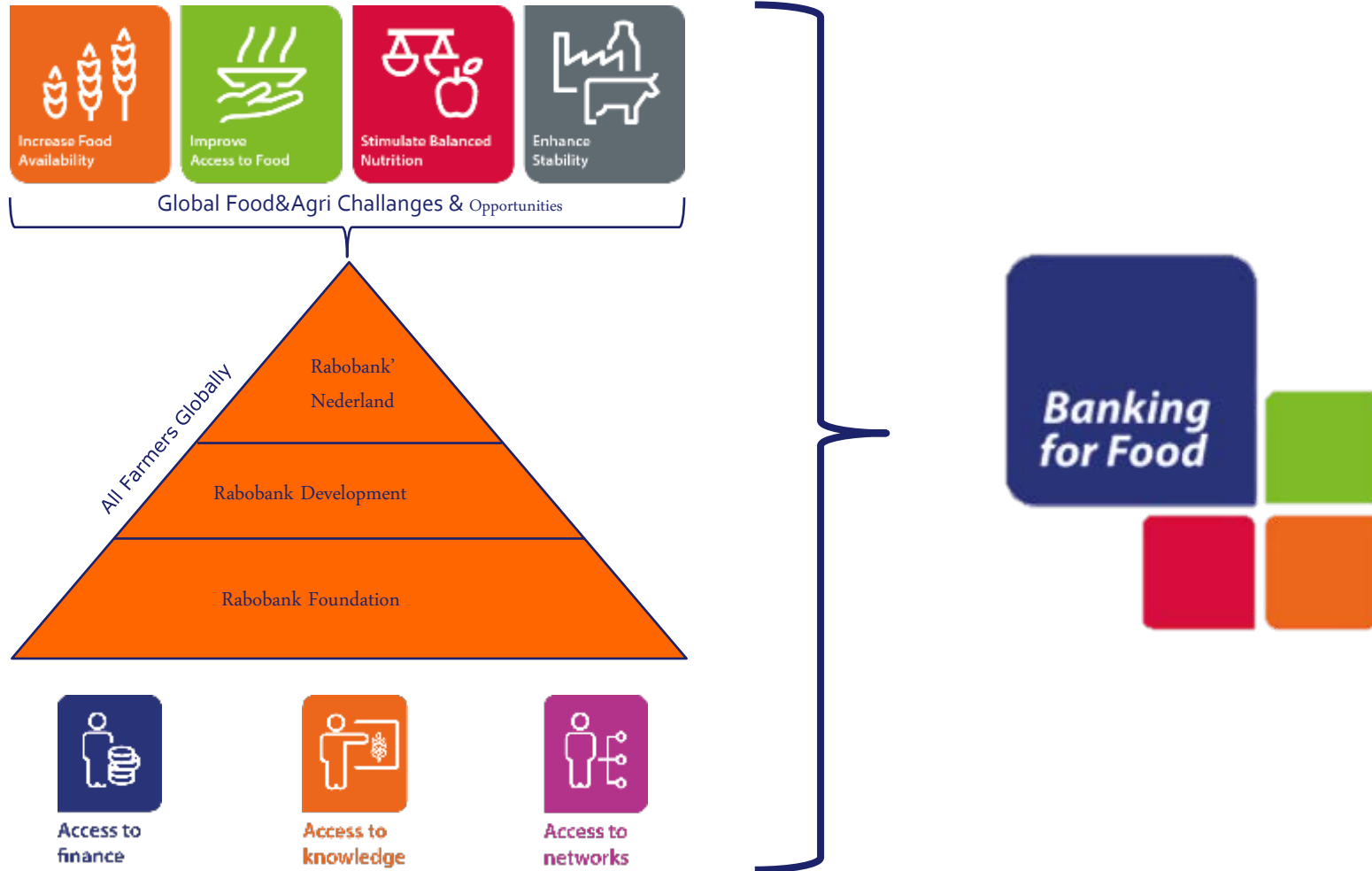
*United Nations Headquarters, New York, 1 – 3 June 2016*

*June 3, 2016*



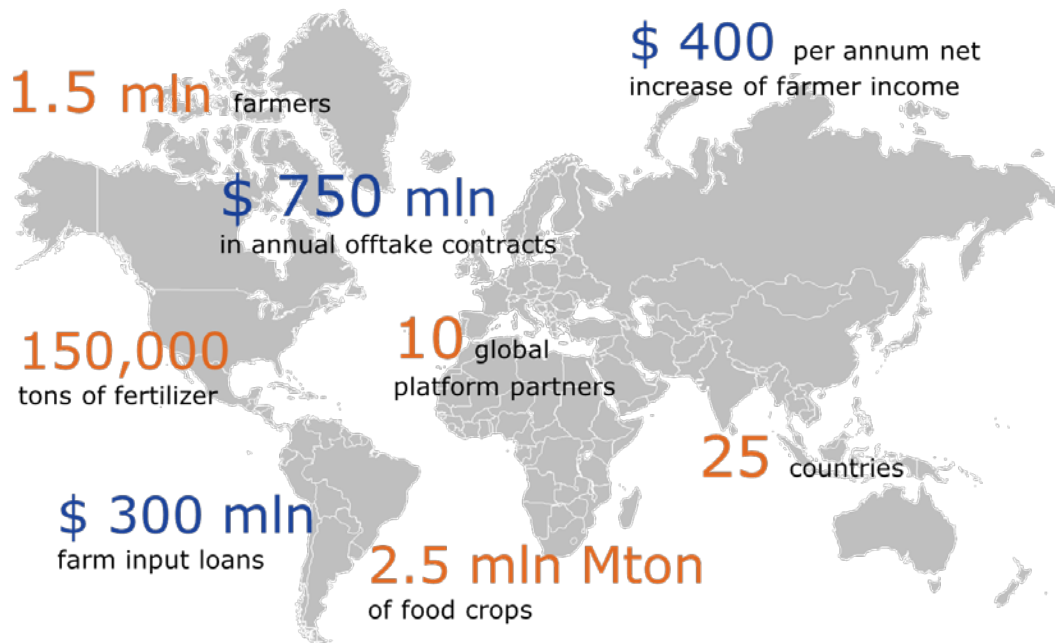
**Rabobank**

# Global food security & Rabobank's Banking for Food



# Patient Procurement Platform

The Patient Procurement Platform is a partnership with industry players working to include smallholder farmers in food supply chains on market-conform conditions that provide attractive returns for international off-takers, farmers and supply chain partners.



## Key facts

- Goal:* Provide access to markets, knowledge, and high-quality inputs for millions of farmers in developing countries while supporting global agri commodity traders in sourcing from these farmers, against market conditions, with advanced risk management tools
- Instruments:* Farm input loans (\$300 mln annually), offtake agreements (\$750 mln annually),
- Beneficiaries:* smallholders, global agri commodity traders
- Products:* Commodity crops such as maize, pigeon peas



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International Finance Corporation  
WORLD BANK GROUP

Standing stronger together. That's the strength of a cooperative. It is also the idea behind the Rabobank Foundation, the bank's social fund. Investing in people's self-sufficiency is our most important task.



## Key facts

<i>Goal:</i>	Making people self-sustainable
<i>Instruments:</i>	Grants ( <i>capacity building</i> ) ST loans (inputs, working capital ) LT loans (o.a equipment and replanting) risk-sharing (partnerbanks)
<i>Beneficiaries:</i>	smallholders, Producer organizations (cooperatives) and savings and credit cooperatives (SACCO's) in Food & Agribusiness
<i>Products:</i>	Agricultural value chains such as coffee, cacao, dairy, cotton
<i>Investment:</i>	small amounts, as from EUR equivalent 50,000 up to approx. EUR equivalent 750,000
<i>Currency:</i>	EUR, USD, local currency
<i>Max term:</i>	Depending on the need

## Rabo Rural Fund (RRF): the next step in the value chain



### Key facts

*Instruments:* Direct loans (short-term for buying, processing and exporting, long-term for o.a equipment and plant expansion) and risk-sharing instruments to intermediary local banks.

*Beneficiaries:* Producer organizations (cooperatives) and SME's (supplying from smallholders) in Food & Agribusiness

*Products:* Non-perishable products such as coffee, cocoa, cotton, honey, nuts, pepper, soy, spices, canned and dried vegetables, bananas and new, Palm Oil, Wild catch & Aquaculture.

*Investment:* USD 200,000 to USD 2mln (to be increased in coming years depending on the fund's capital)

*Currency:* USD

*Max term:* Short term: up-to one year, depending on the harvest cycle.

Long-term: up to 5 years.

*Collateral:* Short term: availability of sales contracts with reputable buyers.

Long term: a.o the fixed assets to be financed.

# Principles of Value Chain Finance

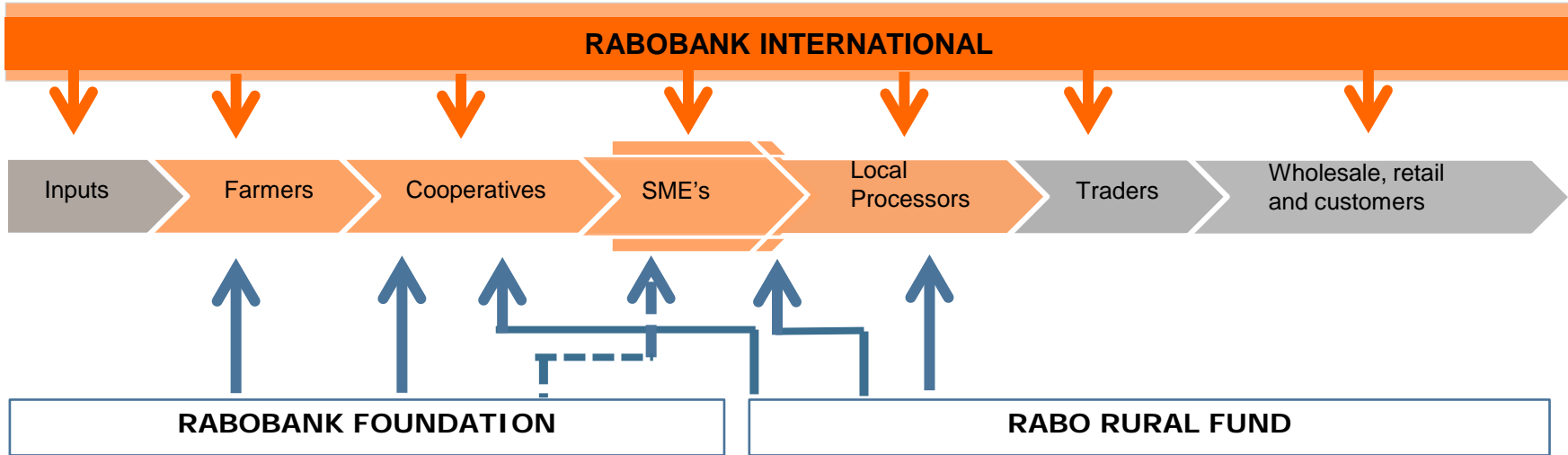


*“Value Chain Finance” leverages the inherent relationships within food value chains to secure external financing of the business activities in the chain.*

Principles for effective Value Chain Finance are:

- **Demand-driven:** stable off-take relationships and contracts stand for cash flow in the value chain, and therefore a level of confidence that finance liabilities (repayment, interest payment) can actually be met.
- **Well integrated and –linked:** value chains that are not well integrated may need to become better integrated before they qualify for supply chain financing.
- **Effective and all-encompassing risk management:** Value Chain Finance still requires proper risk management, taking into account not only typical credit risk but also market risk, production risk, political risk, operational risk, etc.
- **Strong farmer organizations:** in instances where small or medium-sized farmers are involved, farm inputs and equipment financing is often realized through these farmer organizations rather than on the individual farmer level. In those cases, the farmers organizations, be it cooperatives, outgrower schemes or any other form, need to comply to standards on cooperative governance, bankability, capitalization, etc.
- **Enabling environment:** specific value chain finance structures may be realised in legislations that allow for proper pledging of inventory, future crops, or equipment to financiers as security.
- **Multi-partite agreements:** usually, Value Chain Finance structures involve more than 2 contracting parties, e.g. bank, farmer cooperative, and off-taker. In such structures, receivables of the coop on the off-taker are either pledged to the bank, or at least payment through a bank account by which the bank can settle its advances, is agreed in the three-partite agreement.

# Together we finance the value chain



- Input / WC / Asset / Rehabilitation / Guarantees (occasionally) / Technical Assistance and grants (limited budget)

- Preferably member-based (coops)

▪ All agri products

- USD 50k - USD 750k
- USD / EUR / local currency
- Tenor dependent on the need

- ST: WC/PXF  
LT: Capex

- Producer organizations (cooperatives) and SME's (supplying from smallholders)

▪ Non-perishable (i.e. coffee / cocoa / cotton / nuts)

- USD 200k - USD 2mln
- USD
- Mainly short-term (one harvest), recently starting with LT (up to 5 years)

# Focus countries Africa



## Case: Abateraninkunga Ba Sholi Coffee Cooperative Rwanda

Rwanda



Coffee



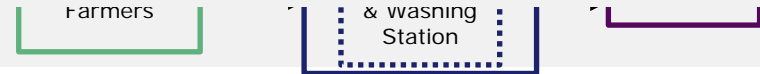
### The producer cooperative

- 382 member farmers (60% women)
- Buys coffee cherries from both members and non-members
- Sale of coffee beans to Rwanda Trading Company (2014) and Bourbon Coffee (2015, 2016)

### Rabobank Foundation

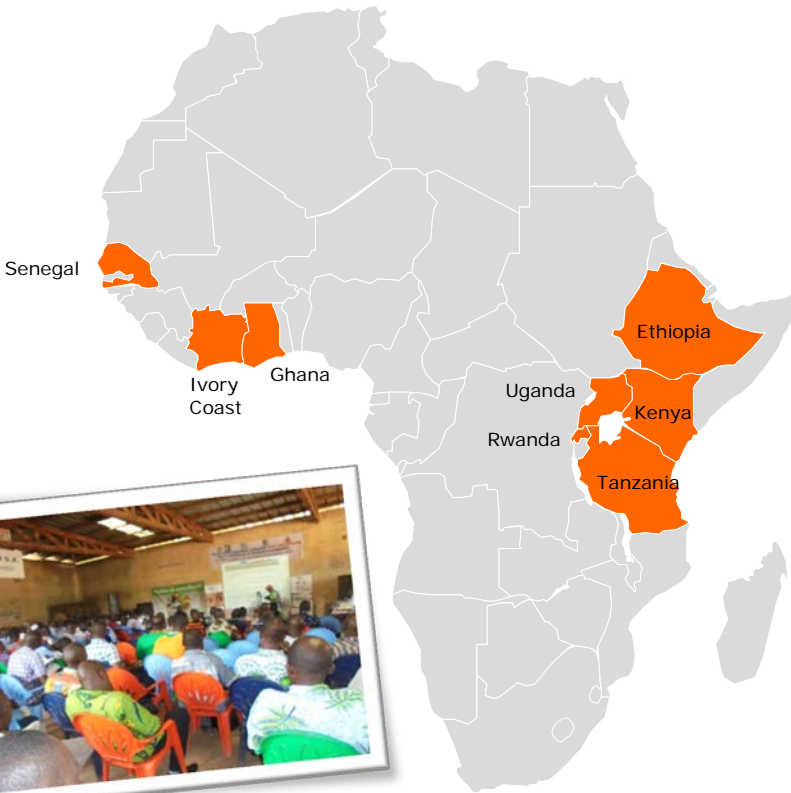
- Long term loan (3-year)
  - Investments for a washing station, the warehouse, drying racks and an office, which creates a premium to the selling price.
- Trade Finance (< 1-year)
  - Seasonal buying of coffee cherries from both members and non-members.

### Envisaged outcome





# Focus countries Africa



## Case: Cocoa Ivory Coast – Cooperative Building Capacity

Ivory Coast

Rabobank Foundation



- Sponsoring the technical assistance provided by ECOM and Rabo Development for:

Cocoa

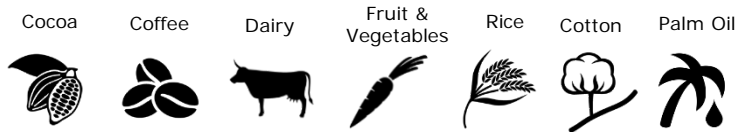


- Certification program carried out by ECOM
- Cooperative institutional capacity building program.

### Outcome

- The number of individuals and households that benefit from being organized in a cooperative grew:
  - 80% of cooperatives have proper financial management system
  - 100% of cooperatives have bank accounts
  - Best-performing cooperatives have a business plan
  - Member commitment increased substantially
  - Agri lending increased by more than 148 mln CFA
  - Internal savings increased by more than 22 mln CFA

# Focus countries Asia

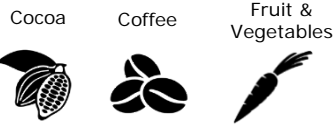


## Case: Dairy Cooperative KSU Tandangsari Indonesia

- Indonesia**
  - The producer cooperative**
    - Dairy cooperative in West Java, Indonesia
    - 2,573 member farmers with 2-3 cows
- Dairy**
  - Rabobank Foundation**
    - Farm input loan (5 year)
      - *Loan to dairy cooperative to purchase cattle and provide these to the farmers. The coop has ownership over the cattle, while the milk revenues maintain at farmer level. However the farmer has to buy new born calves from the coop.*
    - Technical assistance grant (1 year)
      - *Grant to strengthen management and internal governance as well as dairy farming techniques.*
  - Envisaged outcome**
    - Increase milk production and number of cows per farmer




# Focus countries Latin America



## Case: Norandino Cocoa Cooperative Peru

**Peru**



**The financial cooperative**

- 6,311 smallholder farmers
- North of Peru

**Rabobank Foundation**

- Long-term loan (5 years)
  - *Long term loan to a financial cooperative which provides ± 20 small producer cooperatives with working capital to buy cocoa from their members. These small cooperatives will sell the cocoa to a producer cooperative who pays back their loan and exports the cocoa.*

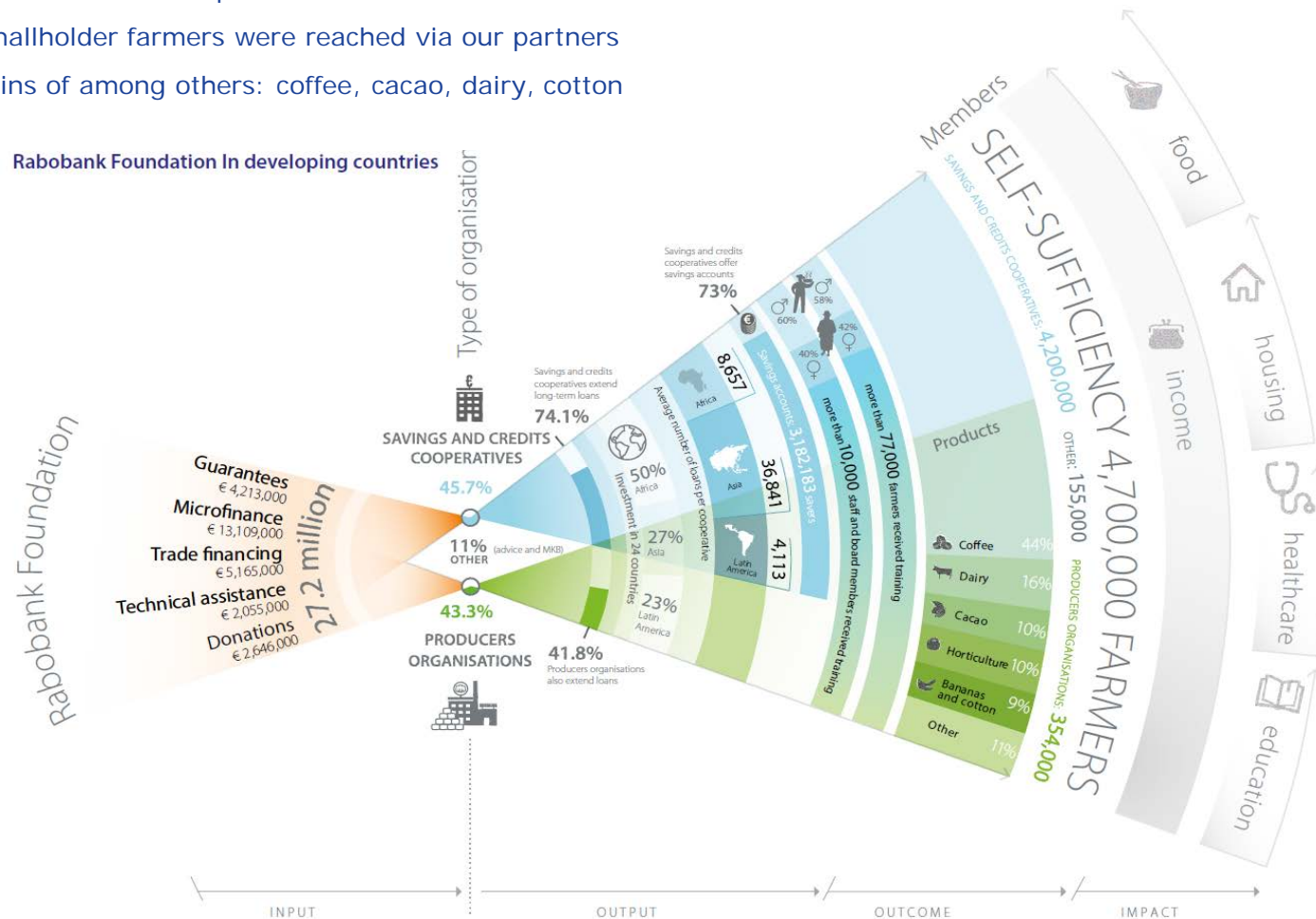
**Envisaged outcome**

- Access to finance for ± 2,000 cocoa Peruvian farmers
- Increased farmers' income because of selling to high-end value chains with fair-trade or organic premiums. For example the Rabobank Foundation chocolate bar!
- Increase in productivity and cocoa quality



# Rabobank Foundation: social impact

- Focus: 24 development countries, rural, member based
- Project types: Saving and Credit Cooperatives and Producer Cooperatives
- 264 rural organizations in our portfolio
- 4.7 million smallholder farmers were reached via our partners
- Reinforce chains of among others: coffee, cacao, dairy, cotton



## *Client Introduction*

- Glanbia Ingredients Ireland ('GII') is the largest dairy processor in Ireland processing a total of 1.6 billion liters of milk a year
- GII's customers include many of the large global food and infant formula manufacturers as well as more regionally focused players across Europe, Middle East, Africa and Asia
- Glanbia purchases milk from its farmers to later use in its dairy processing facilities

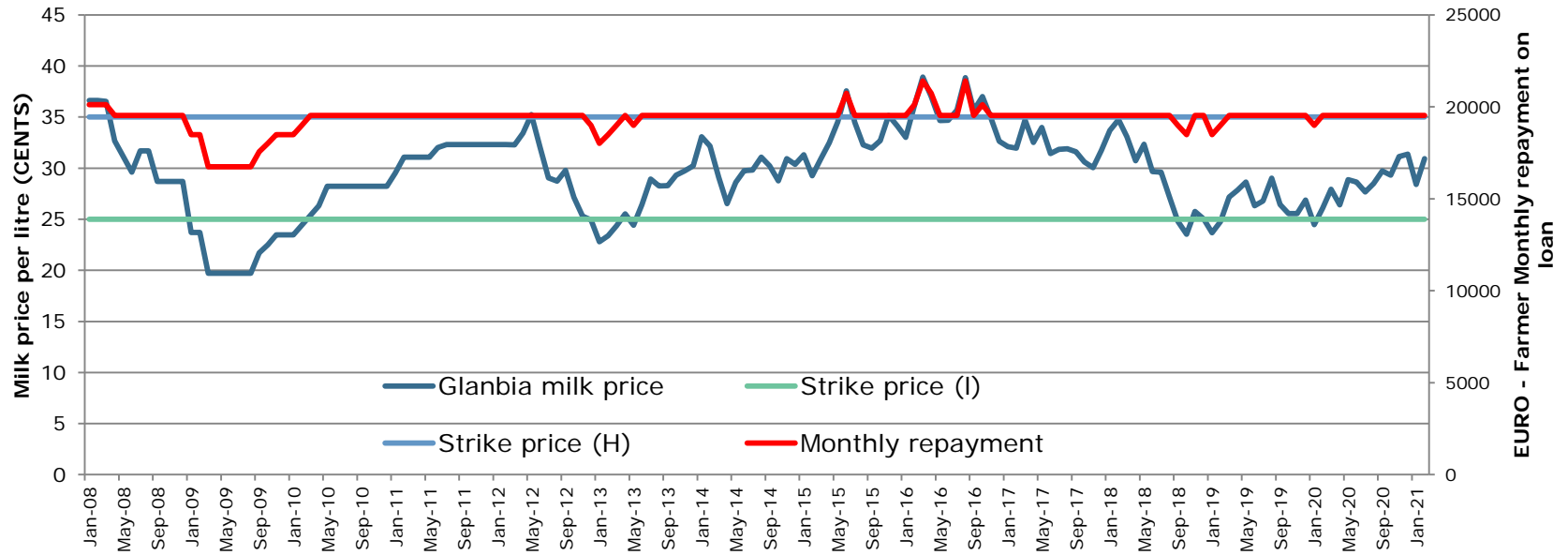
## *Client Issue*

- The European Union announces the abolition of the milk quota and GII decides to make a significant investment in new production facilities
- GII needs to incentivize its farmers to increase milk production
- GII negotiates that in exchange for increased production, it will help resolve a consistent problem of farmers: volatility in revenue despite constant costs
- How can GII offer farmers protection against cash flow / income volatility arising from industry-wide milk price movements, without assuming all of the risk and in a way that structurally facilitates increased production?

## *Proposed Solution*

- In order to match farmer revenue with costs, a financing structure was created that would include a transparent and automatic volatility hedging mechanism whereby monthly farmer loan repayments are adjustable depending upon prevailing milk prices paid by Glanbia
- The structure would be based on a fund through which farmers could access flexible loans with an efficient credit approval process based on agreed-upon criteria

# Hedging milk price volatility



*If milk prices fall below certain agreed floor prices*

Repayments will be either subject to a 50% reduction for a period of 6 months, or a 100% payment holiday for a period of 6 months. In this scenario, the MilkFlex Loan extends for a maximum of 2 years.

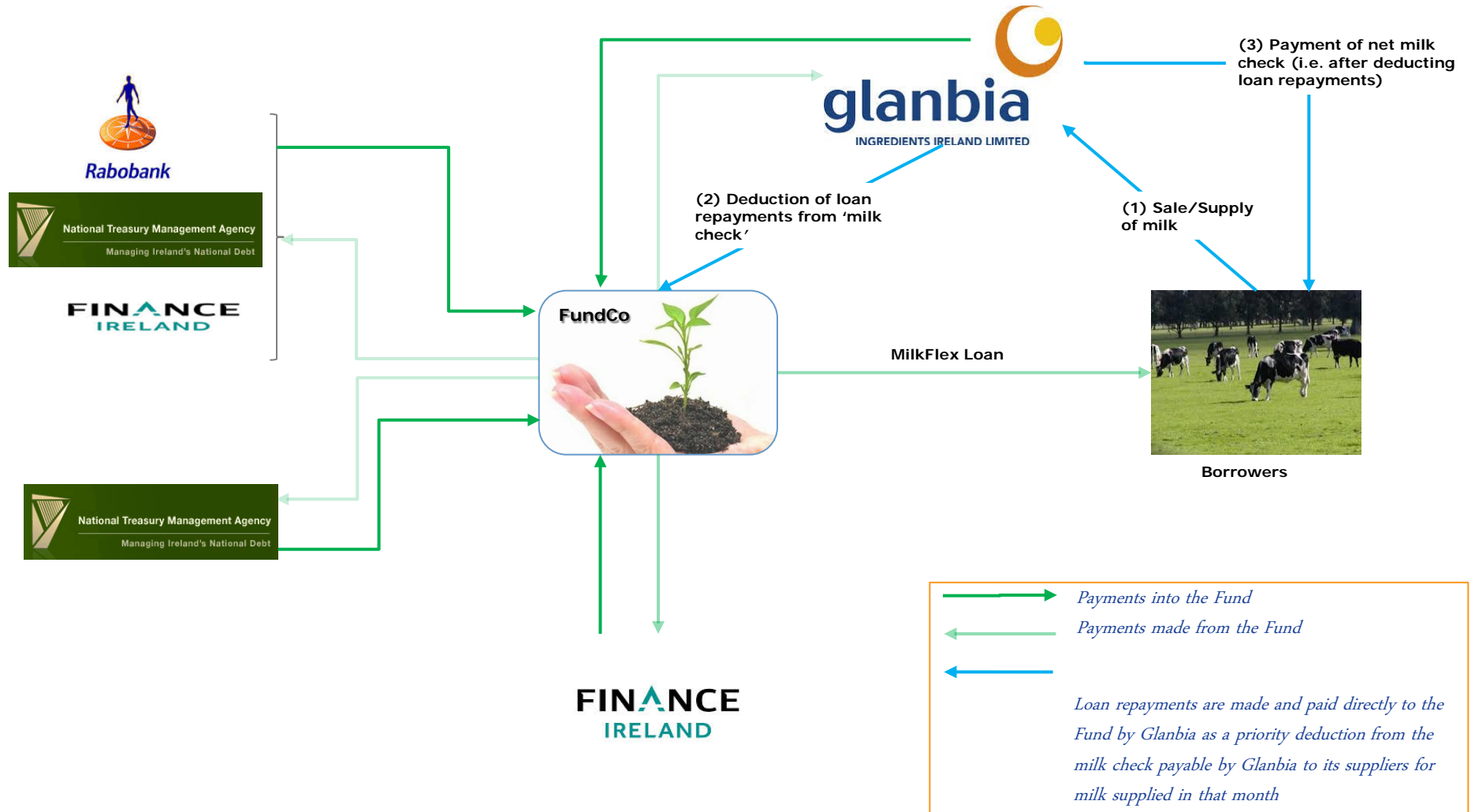
*If milk prices rise above ceiling level prices*

Repayments will increase by 25% for a period of 6 months and the MilkFlex loan amortizes faster than scheduled.

*Other conditionalities*

Repayments will decrease if a notifiable disease outbreak effects a farmer's supplier herd. Repayments are also levelled with the seasonality of milk production in Ireland – i.e. 8 month repayment plan with lower repayments on the 'shoulder' spring and autumn months of the year.

# MilkFlex Loan Fund – participants and repayments



# Vegetables supply chain



## *Client Introduction*

The Client is a globally diversified market leader in processed vegetables.

## *Client Operations*

Under the current arrangement, Client:

- purchases seeds from a group of suppliers
- enters into agreements with a selected group of growers under which (i) Client agrees to sell the seeds to the growers on deferred payment terms; and (ii) the growers, in return, agree to provide the produce to Client at a pre-agreed price and date
- harvests the produce, once it is ready, and pays the growers for the value of the produce after deducting the costs associated with the seeds

## *Client Issue*

- While the current arrangement provides a clear competitive advantage in terms of surety of supply, control of quality and management of inputs for its processed vegetables, Client has to own, fund and report the seed inventory (purchased from suppliers) and associated receivables (on sale of seeds to the growers) on its balance sheet.
- How can Client more efficiently manage its supply chain, without putting financial strain on the company, *and* still retain its competitive advantage of controlling its seed supply and harvest output?



# Rabobank solution



## Structure of the Solution

Under the Rabobank Solution:

- Rabobank buys the seeds from the same suppliers and on the same terms as Client had used
- seeds are sold to farmers on the same deferred terms as Client had offered
- upon harvest, Client deducts the amount owed to Rabobank for the seeds from the check it gives farmers for their produce

Client ceases to concern itself with financing the purchase and sell of seeds, thus becoming more efficient, while Client still maintains control over the seed quality and harvested produce. Client can allocate more resources towards its business of processing vegetables.

