

# Eradication of Poverty

An agricultural finance perspective

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## Rabo Development perspective

# Rabobank Group

Assets	€ 568 billion
Equity	€ 32 billion
Staff	60,000
Countries	43
World ranking	20 (Tier-I capital) 20 (total assets)
Credit rating	AAA (S&P, Moody's, DBRS)



# Cooperative Bank

- Rabobank does not have shareholders; the capital of the bank is in a 'dead hand'. Not maximizing profitability is being pursued, but the delivery of 'customer value'.
- Members of the local Rabobank appoint their local board; local Rabobanks are represented in a quarterly meeting with the executive board of Rabobank Nederland in order to decide on the major issues 'Rabobank parliament'.



# World-wide Agri Bank

- Rabobank's international market niche is food- & agri business
- Customer Network: many of the global food companies
- Expertise: dedicated research team (80 professionals)
- Agri products: weather derivatives, price hedging instruments
- Rural retail banks in various countries



# Roots and Mission

Rabobank was founded 110 years ago by small farmers who did not have access to financial services

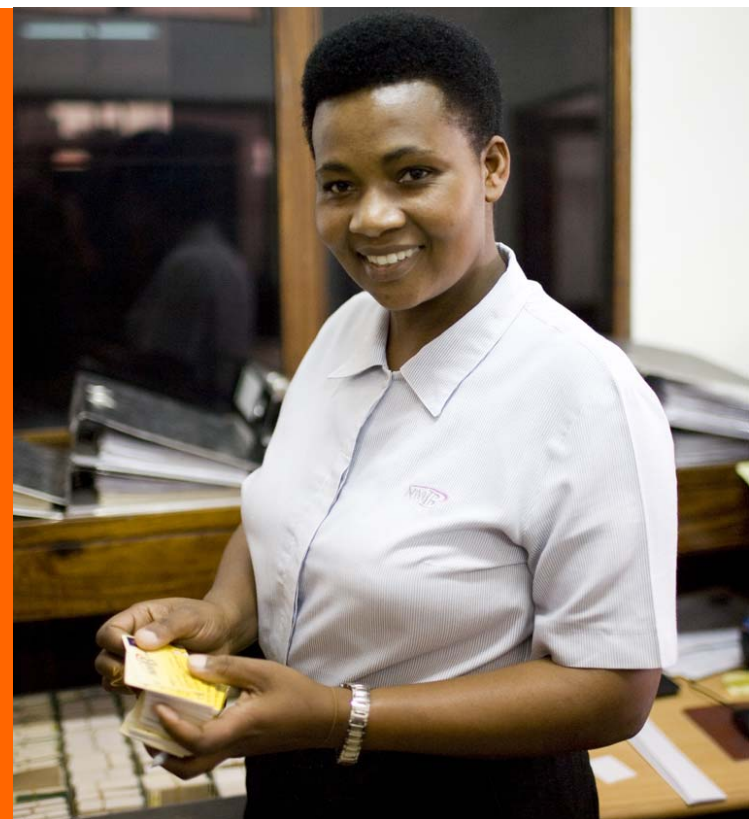
Today, more than 4 billion people worldwide do not have access to financial services

It is our mission to support financial sector development in developing economies



# Ambition Rabo Development

To replicate the success of Rabobank in Netherlands, meaning that through providing financial services a substantial contribution will be made to the economic development of, in particular, the rural areas in selected developing countries





# Partnership Proposition

- Equity participation (minority position) in a bank that remains local
- Board will be strengthened by Rabobank professionals
- Rabobank will provide managers for Executive Board to complement local managers
- A comprehensive technical assistance programme will be executed through the deployment of Rabobank banking specialist

*For Rabobank this is a long term commitment, in which the development into a leading rural bank prevails over short term profitability*





# Leading Rural Bank

- All market segments are being serviced, incl. agriculture and MFI's
- Urban areas are being covered, but a special focus on rural areas
- The product range will be extended continually

This resembles the growth concept used by Rabobank itself, based on economies of scale (efficiency) and expertise on various market and product areas (quality)

# Banks

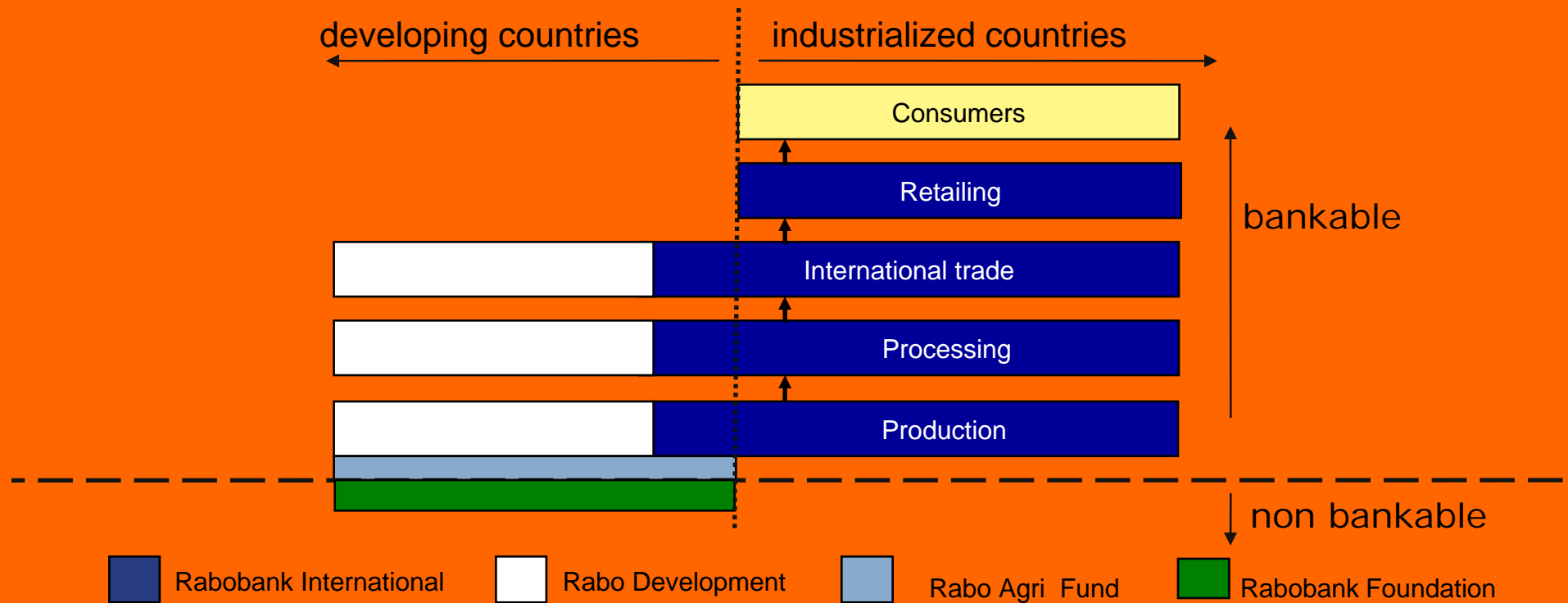
Bank	Country	Stake (%)	Branches	Staff	Assets (\$ million)	Customers
NMB	Tanzania	35	120	1,948	900	1.000.000
URCB	China	10	128	1,417	5,800	980.000
ZNCB	Zambia	49	53	998	500	200.000
Banco Terra (start up)	Mozambique	30	2	53	10	1.000
Banco Regional	Paraguay	40	23	323	500	12.000
BPR	Rwanda	35	128	1,422	150	600.000

# The difference Rabobank makes

- Bank remains local (foreign support, but not foreign control)
- Long term development orientation / increasing outreach (profitability is instrumental, not leading)
- Special focus on rural areas and agriculture (using Rabobank knowledge, network, products)



# Rabobank in agri supply chain







# Agriculture and Poverty Reduction





# World agri production and markets

World demand for food will grow substantially by increasing population, rising incomes and changing consumer preferences

World food markets require good quality and low cost supply

This poses a challenge to almost all of the developing countries, where:

- production suffers from low productivity per unit
- most farmers are not professional
- infrastructure is lacking (transport, markets, institutions)

In particular this applies to Sub Sahara Africa



# Agri key to development/ Sub Sahara Africa

Agri contributes 17 % to GDP; 40% to exports and employs 60 % of people

But,

- African agricultural production per capita decreased since 1970
- Agricultural GDP same as in Thailand and a quarter of Brazil
- Participation in international agri trade only 4 %
- 7 out of 10 African countries are net food importers

Whereas,

- Only quarter of arable land is under cultivation
- 1% increase in agricultural yields lifts 2million people out of extreme poverty



# Requirements for agri to eradicate poverty

- Better quality and higher productivity, those require agri technology, technical assistance and finance to farmers
- Better infrastructure (physical, markets, institutions), this requires investments and capacity building



## Role of Cooperatives







# Essence of a cooperative

Create a balance in economic power between oligopsonistic demand side (e.g. few off-takers agri commodities) and many suppliers (farmers);  
By creating countervailing power through organizing farmers.

Most cooperatives are active in agriculture ( predominantly primary agri) and in (rural) banking, both in industrialized and in developing countries.



# Significance of a cooperative

## **In industrialized countries**

- In the European Union farmers cooperatives account for 60 % of processing and marketing and for 50 % of input supply (including banking)
- In the Netherlands a farmer is a member of 4 cooperatives on an average

## **And in developing countries**

- The International Cooperative Alliance consists of 221 cooperatives from 88 countries, representing 800 million members. But there are many more.
- Cooperatives provide 100 million jobs around the world (more than multinational enterprises)





# Shortcomings coops in developing countries

- Many cooperatives depend financially (e.g. tax exemption) or regulatory very much on government support and restricting regulation. Often this translates into using cooperatives as an instrument for government policy and undermines (business) objectives and (financial) solidity
- Governance and management not appropriate and not of good quality. Capacity building is required to solve this problem
- Ideological approach of cooperatives by donors and governments. Cooperatives are businesses in order to serve the interests of its members





# Credit Cooperatives





# Grass root organizations

Credit cooperatives in developing countries serve groups of small farmers in developing countries that have no direct access to banks. They are community based and use social control as an instrument for repayment, and therefore they can serve the informal economy well.

However, when the financial industry is consolidating, they will not survive:

- hardly economics of scale and therefore relatively high interest rates
- concentration of credit risk (same crops, weather, disease)
- their best (most profitable) customers will go to (better equipped) banks
- lack professional management (too expensive)





# Opportunities in the long run

- Create a cooperative banking group  
(apex bank -- cross default guarantee system – merger into one legal entity to exploit economies of scale)
- Amalgamate with a (rural) bank  
(cooperative identity ceases to exist, focus on most profitable customers)
- Create partnership with a (rural) bank availing of its expertise, products, network, systems, et cetera  
(in the long run cooperative bank will loose its independency and the cooperative identity will cease to exist)

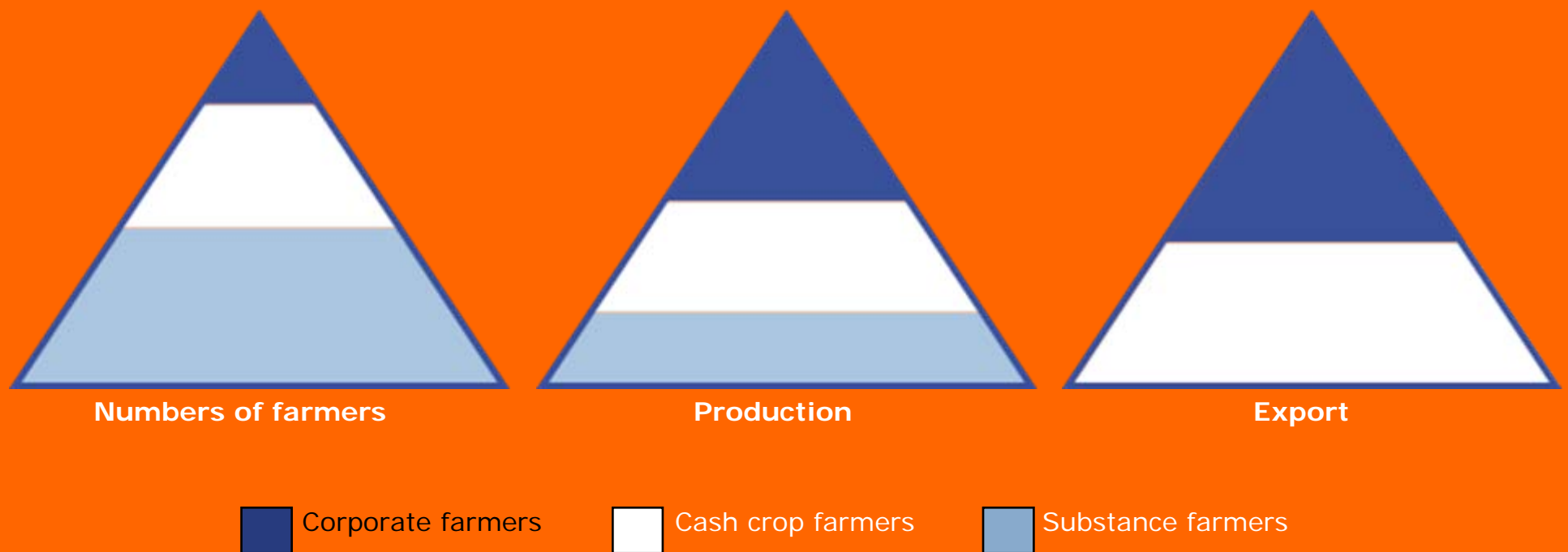


# Supply Chain Structures



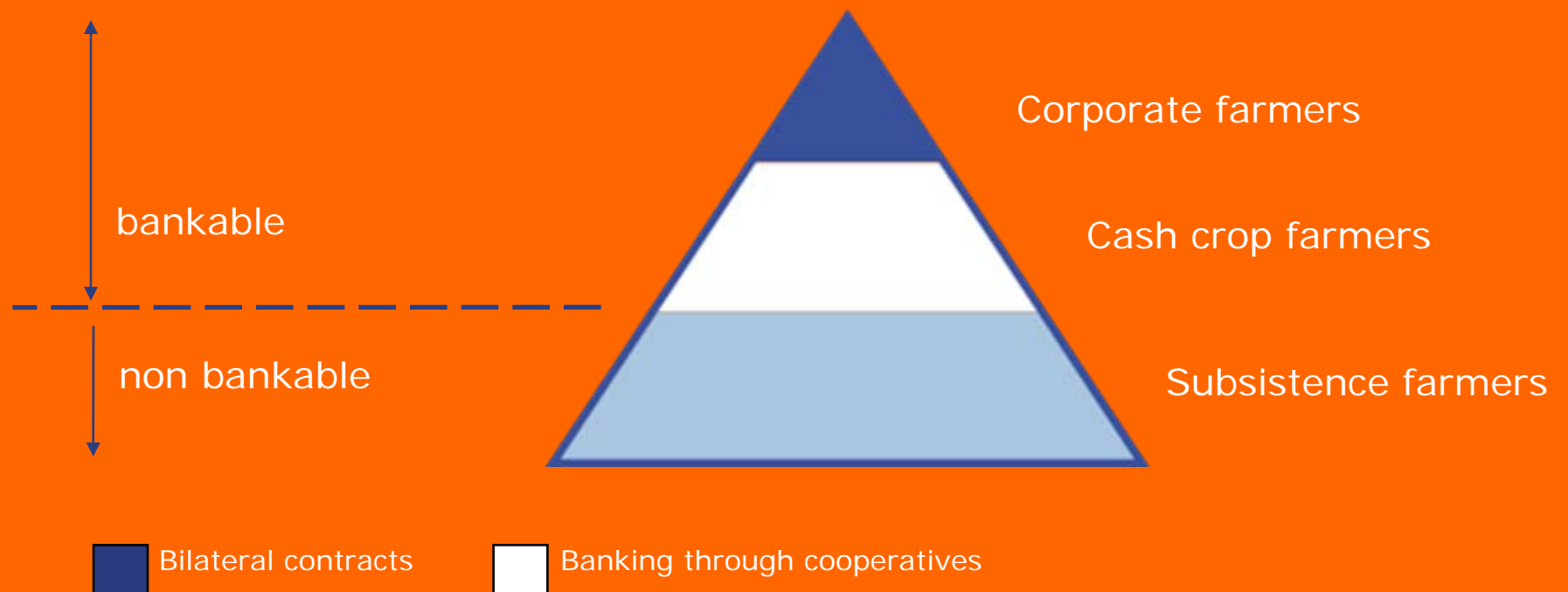


# Agri production Developing Countries





# Bancable production





# Banking through cooperatives

- Warehouse receipts
- Guaranteed (government) programs
- Supply chain structures





# Supply chain structures

- Coherent group of farmers with same crop in same region
- Good governance and capitalization of cooperative
- Off take agreement and delivery duty
- Bank finances farmers through cooperative
- Credit risk mitigation
- Technical assistance for farmers (quantity and quality)
- Certification (if needed)
- Additional risk mitigation possible





# Improvement economic position farmers

- Access to world market (guaranteed)
- Less exposed to world market volatility (fixed price)
- Access to finance
- Benefit of technical assistance
- Certification possible (food safety, CSR issues)
- Position in supply chain improved, resulting in higher product prices



# Access to world agri markets

World food markets require good quality and low cost supply

This poses a challenge to almost all of the developing countries, where

- production suffers from low productivity per unit
- farmers are not very professional
- infrastructure (physical, markets, institutions) is lacking

Supply chain structuring is mitigating those obstacles



## Current Financial Crisis



A photograph of two women standing in a rural, hilly landscape. The woman on the left is wearing a white headwrap and a white top, and the woman on the right is wearing a blue headwrap and a blue top. They are both looking towards the camera. The background shows a dry, hilly landscape with some trees and a clear sky.

# Lack of capital, liquidity and trust in banks

- Most (local) banks in developing countries hardly affected directly (assets and capital)
- Interbank lending system within developing countries hardly damaged
- International banks have cut down banking lines limiting local banks financing capacity (to some degree)

But also,

- International off-takers of agri commodities translate their restricted banking lines into referring 'their' farmers to local banks
- Local banks experience additional demand for agri credit because of increased input prices



A photograph of two women standing in a rural, hilly landscape. The woman on the left is wearing a white headwrap and a white shawl, while the woman on the right is wearing a blue headwrap and a blue shawl. They are both looking towards the camera. The background shows a dry, hilly landscape with some sparse vegetation under a clear sky.

# Consequences

## **Short term:**

Central banks have to facilitate additional demand for credit (letting grow money supply) in order for the farmers to be able to have a new crop for next season (decreasing commodity prices give less room to inflation).

## **Long term:**

Increased costs for banks (regulation/ supervision and funding), together with more awareness to charge risks commensurately, will increase borrowing costs. International banks might be less willing to work and take risk in developing countries. Development banks should be alert to 'fill in the gaps'.



# Recommendations





# Recommendations

- Support developing countries in establishing appropriate agri infrastructure (transport, markets, institutions), including
  - centers of agri expertise dedicated to practical applications and training
  - centers of expertise in cooperative governance (with business orientation)
- Convince governments to privatize their land (collateral, wealth growth, social stability)
- Encourage international companies to invest in developing countries (like Rabobank) and convince governments from industrialized and developing countries to facilitate their undertakings (rather than being in the lead)

