



Value chain financing and small holder structures

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Lian Heinhuis, Food and Agribusiness Research and Advisory
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Rabobank

Rabobank: global leading food & agribusiness financial services group



Formed in 1898 based on the Raiffeisen cooperative banking model



Belongs to the top 25 largest bank groups worldwide, >700 billion EUR in assets

AA+ rated – among the most capitalized and safest privately owned bank groups

Focused on the F&A sector - active in 52 countries; and most key food producing regions

Rabobank is the leading global bank to the aquaculture and fisheries industry

Europe



North America



Asia and Oceania



Latin America



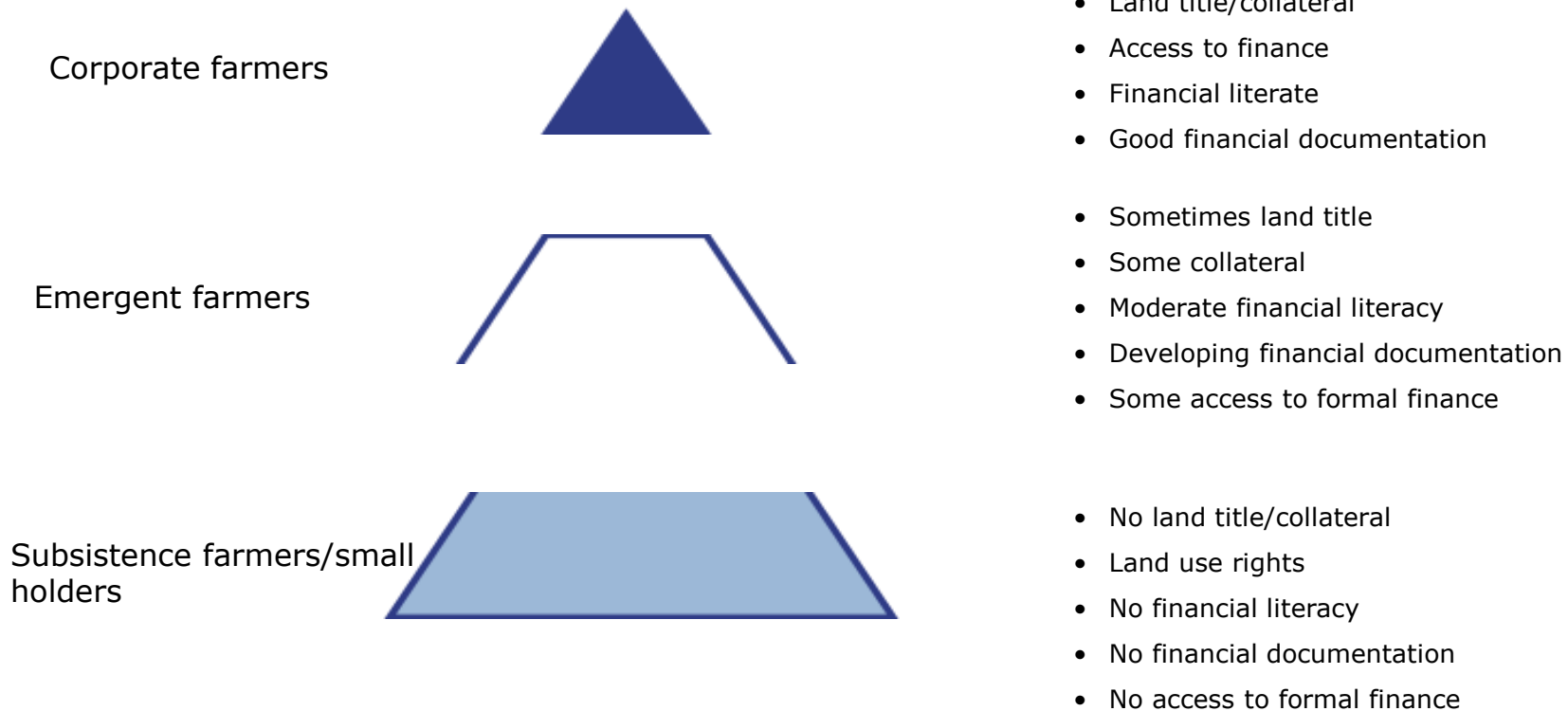
Value chain financing

Part 1

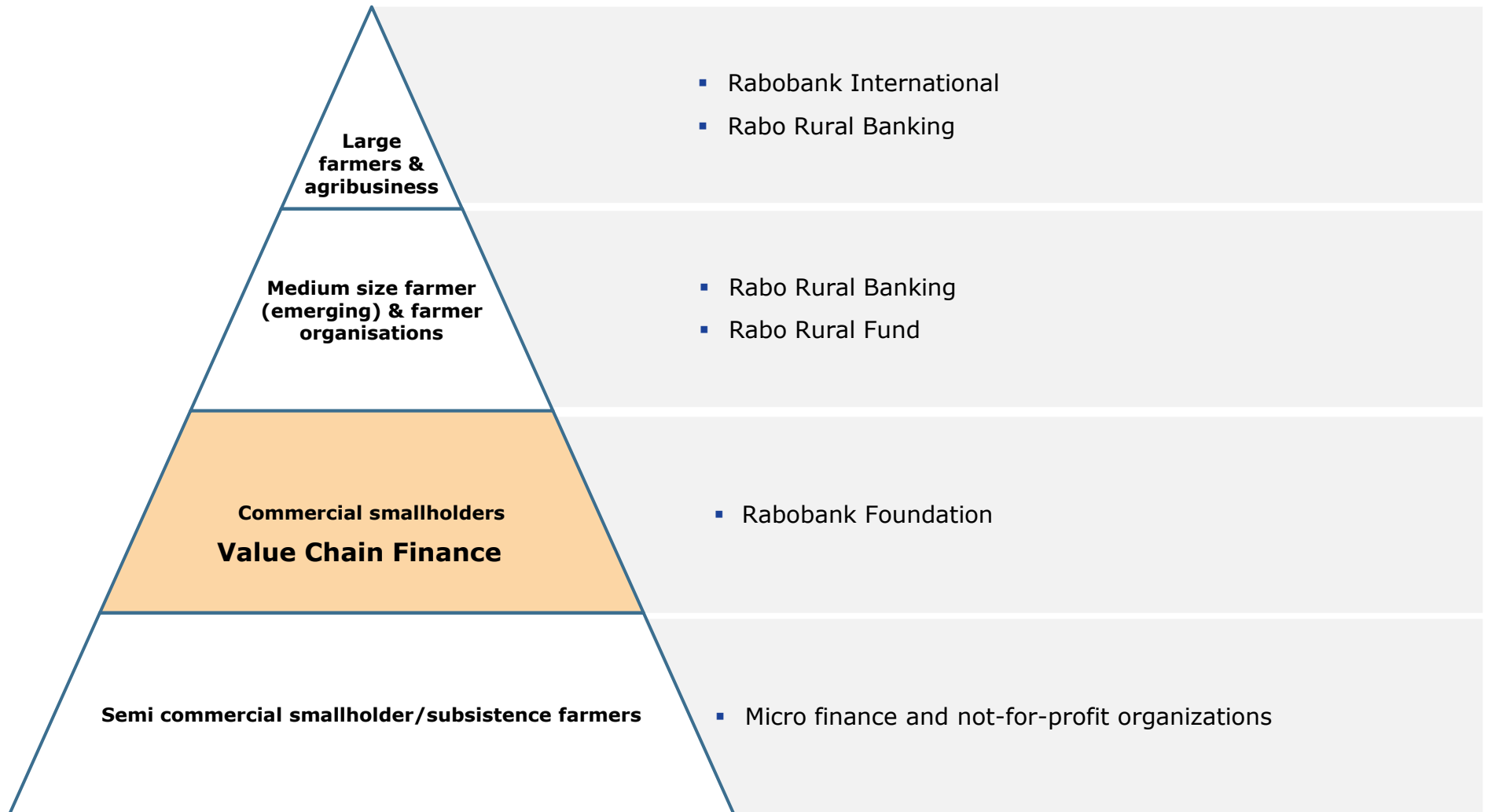


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Farming is a diverse industry globally



Rabobank Entities according to farmer type

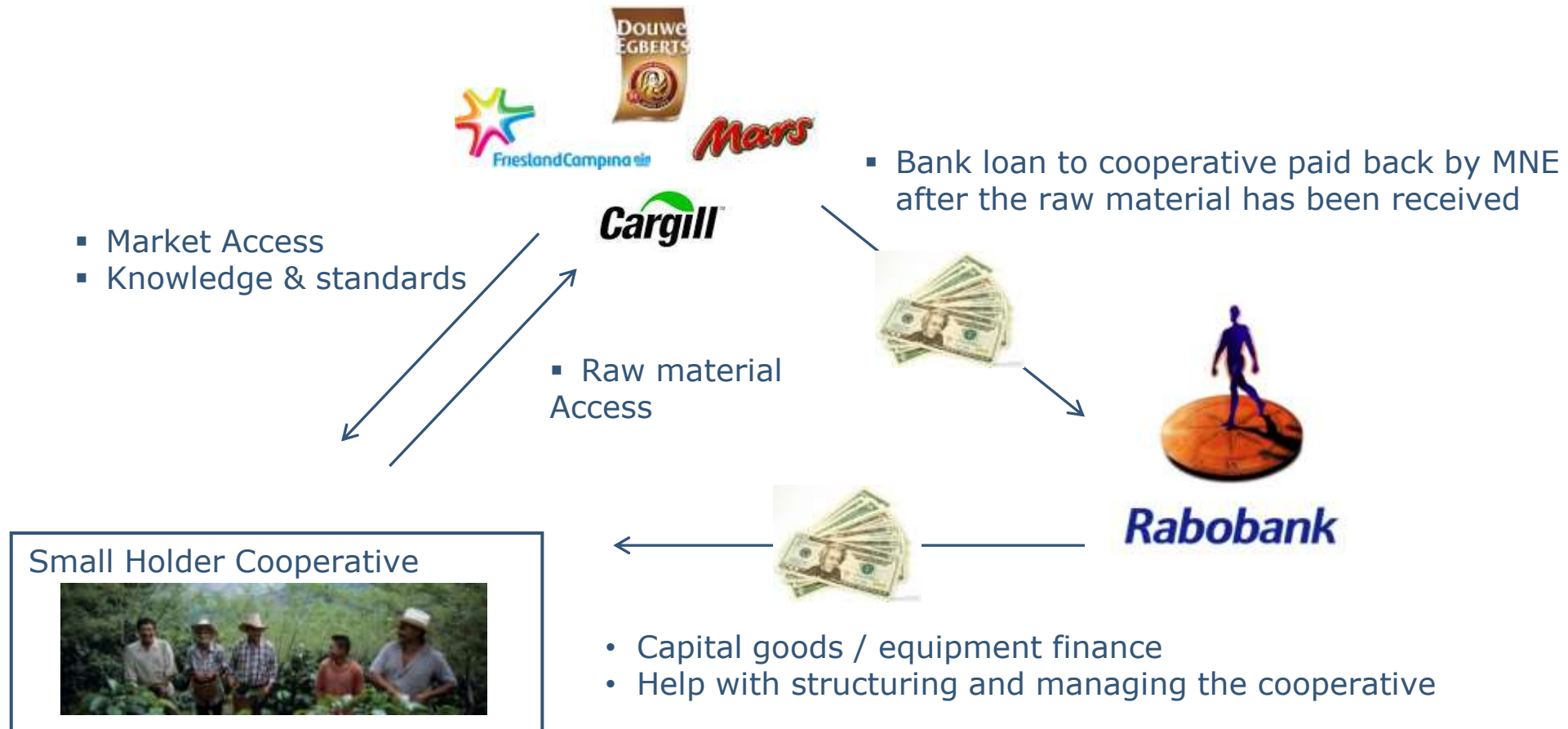


Value Chain Financing (VCF)

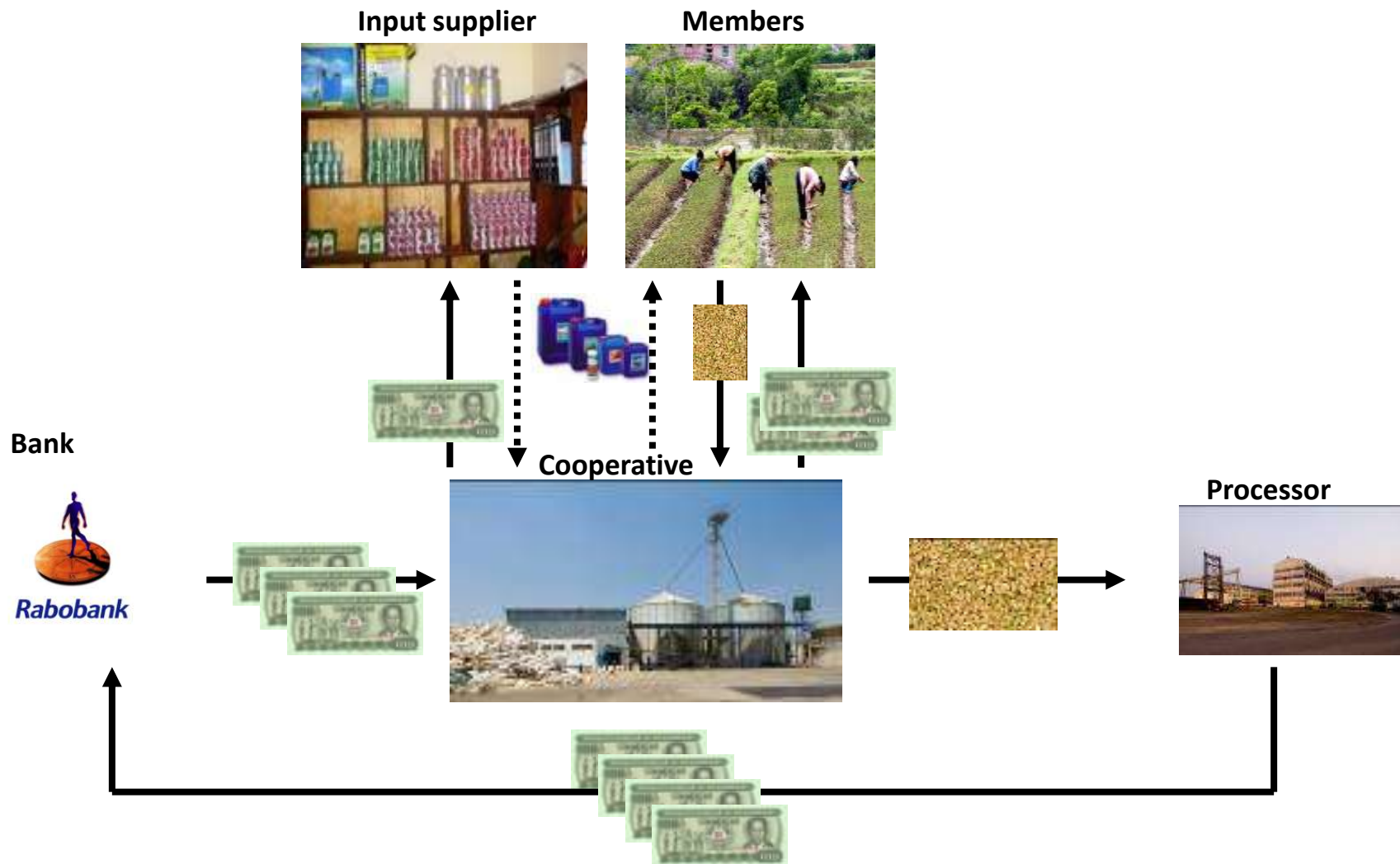


- VCF – finance models based on transaction streams and relationships in the supply chain
- VCF assesses the payment capacity of the farmer/coop by looking at his delivery record rather than his credit record
- Collateral is still important but could be lower if performance record is strong, contracts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

Rabo Foundation / Rural Fund – Value Chain Financing (VCF) Models



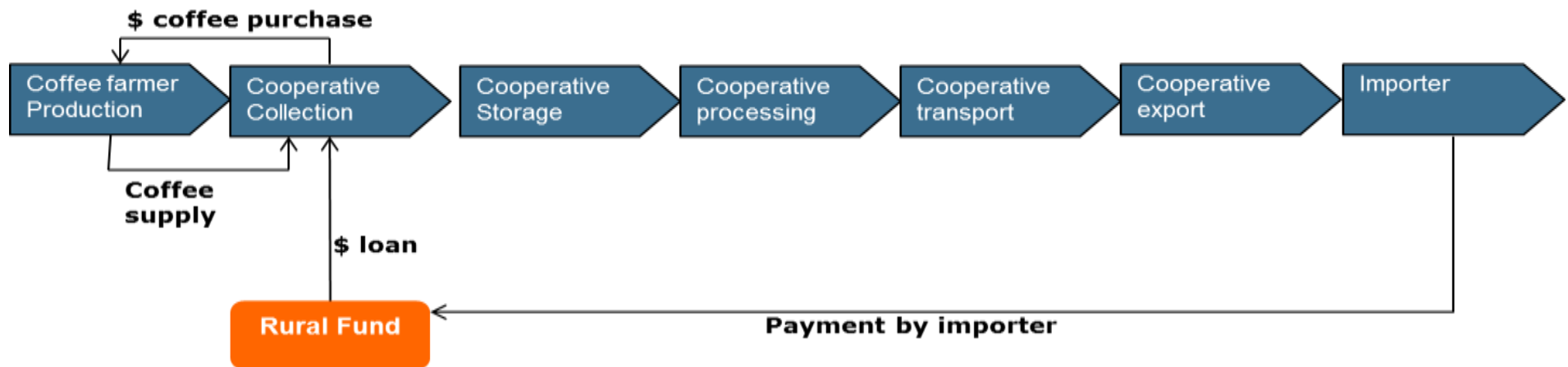
Input financing with Value Chain Financing (VCF) Models



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) are specialized in PXF (working capital for purchasing from the small holders, processing, trading / exporting, based on signed sales contracts)



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

Dedicated value chains

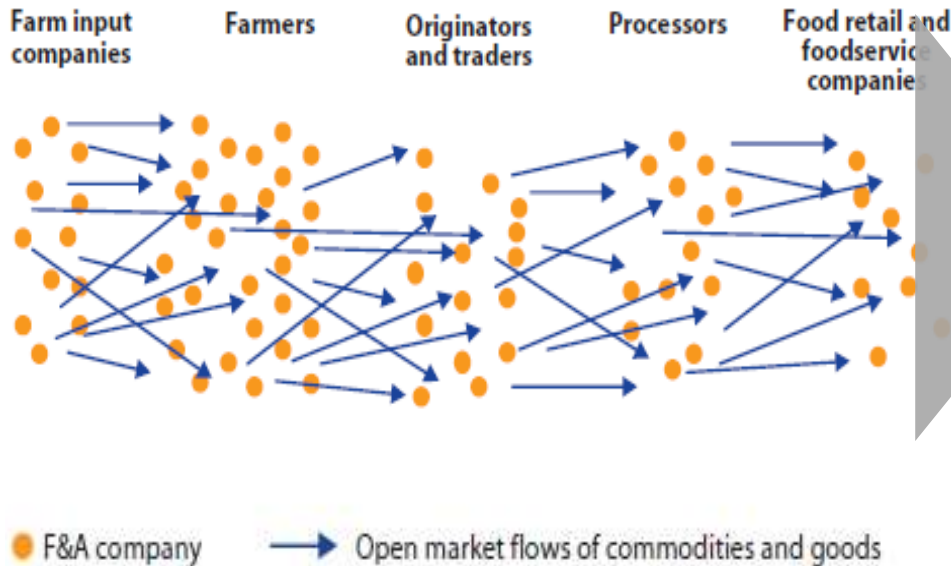
Part 2



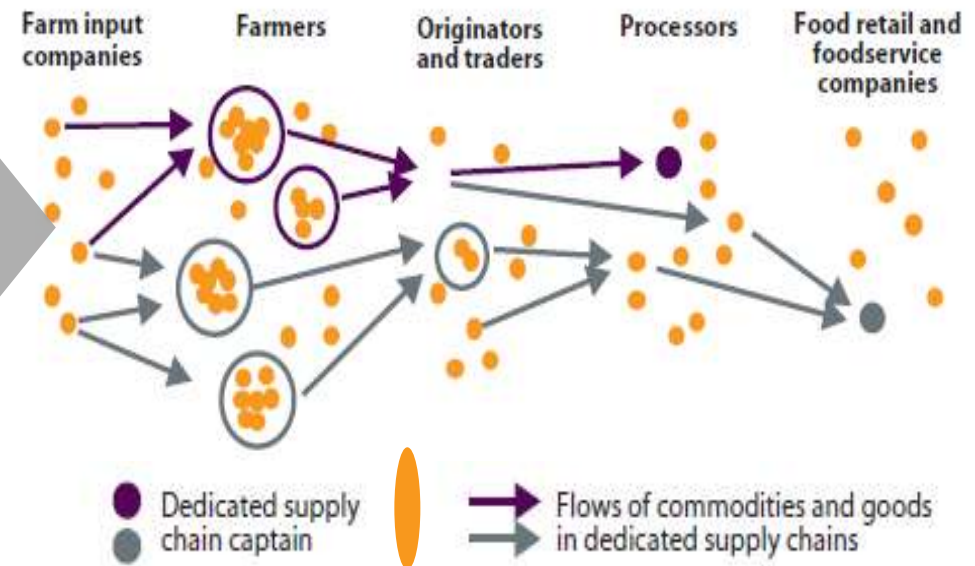
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Dedicated supply chains: one model for strengthening supply chains

Open market sourcing approach



Dedicated supply chain model



Key premise:

- Focus on formalised cooperation, supply agreements and less on spot market supply
- Chain captain (e.g. a retailer or major processor) takes the lead
- Farmers are grouped (e.g. in cooperatives) and commit to the long term supply relationship and cooperation

The key to strengthening supply chains is to focus on adding value rather than chasing price



Reduce risk

- Reduce exposure to market price volatility through multi-year, more stable pricing arrangements
- Improve resilience to market shocks

Improve productivity

- Optimise production through more certainty on flows
- Improve process innovation through better insights into chain needs

Improve access to capital

- Improve investment opportunities through more stable cash flow and longer-term supply agreements
- Access new models that provide leverage from partners

Access new markets

- Improve product innovation – work with chain partners to secure supply to meet downstream opportunities

Enhance reputation and brand

- Work with chain partners to deliver on other required product attributes, such as safety and sustainability

Rabobank Group Entities

Part 3



Rabobank

Customer base of RI

- Serving wholesale clients of Rabobank Group globally
- Typical F&A client is at least \$100 million in sales; average is much higher (some clients have sales of over \$100bln)
- Includes F&A in a broad sense – retailers, food service, large food groups, animal pharma, agri-chemicals, food packaging
- Also close links with institutional investors, PEs, VCs, Asset Managers investing in the F&A space etc

Diverse and specialized products range

- Full investment banking products portfolio, many financing options, M&A, Leveraged/ Acquisition Finance, Trade and Commodity finance, Project Finance, DLL (Leasing), Equity Research and Equities Trading
- Specialized Food and Agribusiness Research
- Brokerage on selected agricultural equities

Rabobank Rural Banking – branches only in selected countries (Netherlands, Australia, Brazil, Chile, California, etc)

- Targeting large farmers and mid size agro-companies \$10 -100 million in sales
- E.g. large plantations (e.g. soy, sugar, dairy), large cattle ranchers
- Also small specialists in rural area, for instance wine makers, but also small fishing and aquaculture companies (salmon farming in Chile and rock lobster fishing in Australia)

Rabobank Foundation

- Active both in the Netherlands and abroad
- **Objective:**
“To support disadvantaged groups in society to improve their economic and social position”
- Using the **strengths** of the bank:
 - Banking expertise
 - Cooperative expertise
 - Expertise in F&A financing

Rabobank Foundation's support for sustainable value chains



Farm inputs



Farming



Trade & distribution



Processing



Food retail & service



- Mainly aimed at:
 - Capacity building of the farmers' organisation
 - Access to finance
 - Access to markets
 - Diversification of sources of income

Rabobank Foundation

- Two main **themes**:
 - Support for savings and credit cooperatives (Microfinance institutions)
 - Support for producer organisations
- **Target group**: member based organisations;
Criteria
 - formal authority/ voting of members
 - Profit: beneficial to members (not 1 large shareholder)
 - Active in **rural** areas
 - Active in **25 focus countries**



Rabobank Foundation

- **Philosophy:** Business model not charity:
self sustainability on short to medium term (3 – 5 years)
 - Sustainable access to finance
 - Sustainable use of means
 - Sustainable knowledge and expertise



Rabobank Foundation products

Financing

- Loans in USD/Euro/local currency
- Funded and unfunded guarantees
- Special Fund for Trade Finance: **Rural Fund**

Grants (small amounts)

- Capacity building (salaries, management info systems (MIS), etc)
- Infrastructure

Technical assistance

- Local experts
- Rabobank experts (F&A research, Commodities Research, Economic Research.....)

Rabobank Foundation's support for sustainable value chains and cooperation with clients RI



- **Cooperation** with RI clients
 - Off takers of the product
 - Knowledge sharing on technical matters
- **Issues** to pay attention to:
 - Clients contribute at least 50% of the costs of a project
 - Position of the smallholders – is there a clear win-win?
 - Not all clients have an interest in organizing smallholders – more strong bargaining position

Rabobank Rural Fund

Rural Fund goals

- Similar social goals as Rabo Foundation
- Rabo Foundation and RI are one of the owners of Rabo Rural Fund, but there are also other owners

Products

- Mostly focuses on Trade and Commodity Finance (TCF) and Value Chain Financing (VCF)
- Can finance TCF deals of \$300k – 1,8 million
- Risk sharing instruments (guarantees & portfolio guarantees)
- Longer term Finance (equipment & machinery)
- Needs collateral (physical goods collateral, accounts receivable, sales documents)
- Short term loans: up to 70% of the value of the sales contracts
- Close cooperation with RI on credit risk evaluation

Philosophy

- Also like RF needs a socioeconomic benefit
- Important to link with Food MNEs



Thank you for your attention



“The financial link in the global food chain”™