Value chain financing and small holder structures

Rabobank

Lian Heinhuis, Food and Agribusiness Research and Advisory
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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.
Farming is a diverse industry globally

- **Corporate farmers**
  - Land title/collateral
  - Access to finance
  - Financial literate
  - Good financial documentation

- **Emergent farmers**
  - Sometimes land title
  - Some collateral
  - Moderate financial literacy
  - Developing financial documentation
  - Some access to formal finance

- **Subsistence farmers/small holders**
  - No land title/collateral
  - Land use rights
  - No financial literacy
  - No financial documentation
  - No access to formal finance
Rabobank Entities according to farmer type

- Large farmers & agribusiness
  - Rabobank International
  - Rabo Rural Banking

- Medium size farmer (emerging) & farmer organisations
  - Rabo Rural Banking
  - Rabo Rural Fund

- Commercial smallholders
  - Rabobank Foundation
  - Value Chain Finance

- Semi commercial smallholder/subsistence farmers
  - Micro finance and not-for-profit organizations
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

- Market Access
- Knowledge & standards
- Raw material Access
- Capital goods / equipment finance
- Help with structuring and managing the cooperative

Small Holder Cooperative

• Bank loan to cooperative paid back by MNE after the raw material has been received

Source: Rabobank 2014
Input financing with Value Chain Financing (VCF) Models
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)
Lessons learned Value Chain Financing

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 than, 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
Dedicated supply chains:
one model for strengthening supply chains

**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

Source: Rabobank, 2013
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 International

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

- 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”™