WORLD AQUACULTURE Society

Aquaculture

Center of the Plate

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Value chain financing and small holder structures

Rabobank International

AQUACULTURE WITHOUT FRONTIERS

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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

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Value chain financing

Part 1

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Farming is a diverse industry globally

Corporate farmers

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

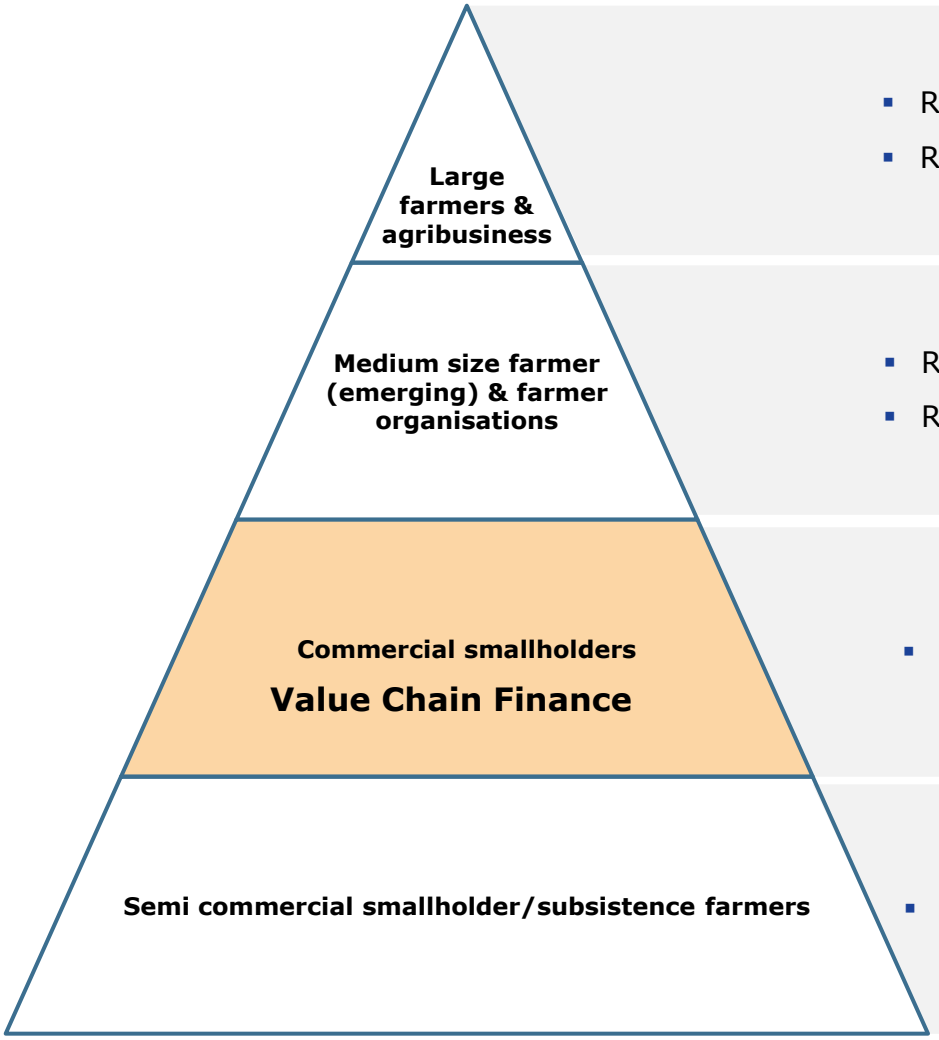
Emergent farmers

- 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



- Rabobank International
- Rabo Rural Banking

- Rabo Rural Banking
- Rabo Rural Fund

- Rabobank Foundation

- Micro finance and not-for-profit organizations

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

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

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- Market Access
- Knowledge & standards

- Raw material Access

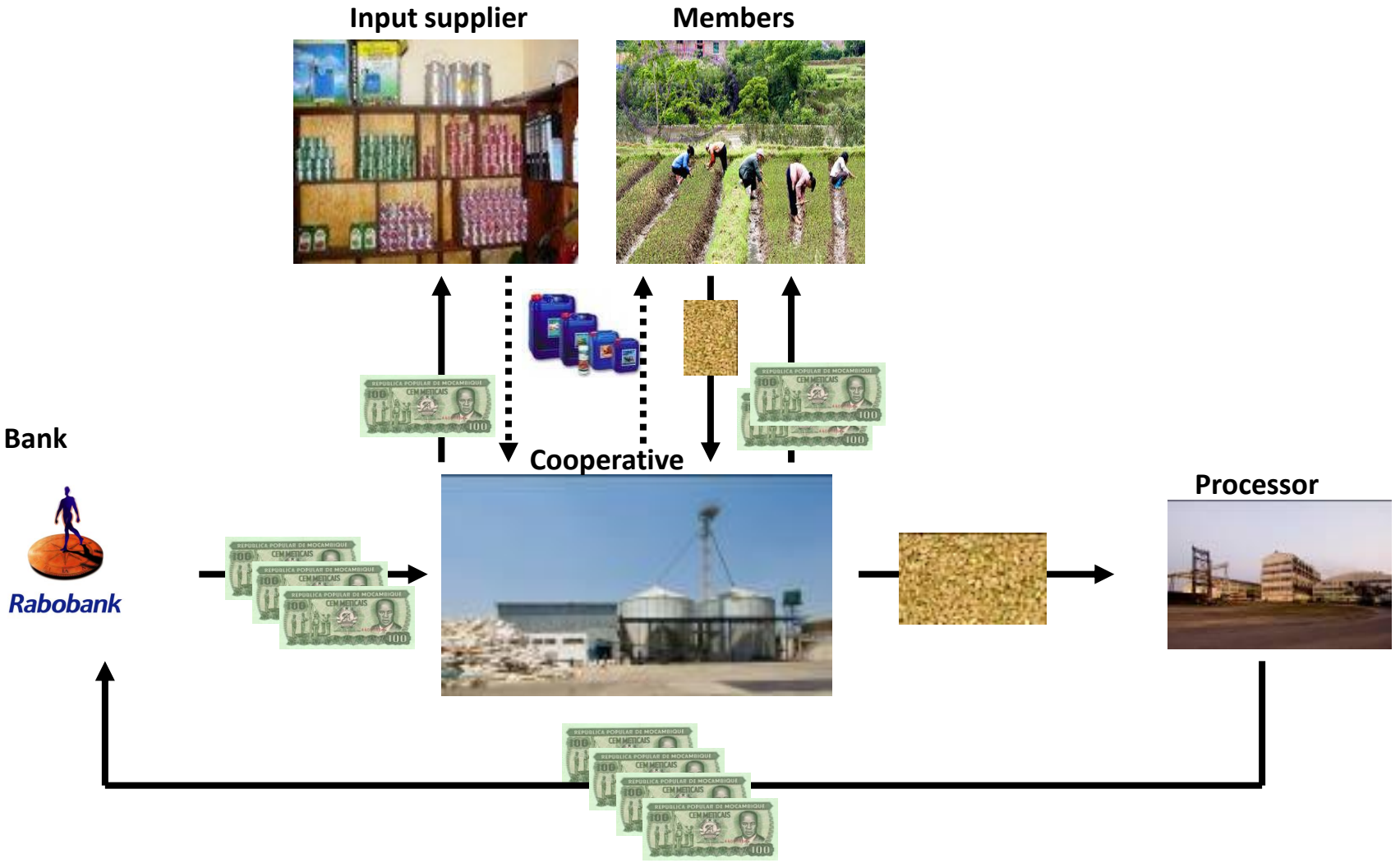
- Bank loan to cooperative paid back by MNE after the raw material has been received

Small Holder Cooperative

- Capital goods / equipment finance
- Help with structuring and managing the cooperative

Source: Rabobank 2014

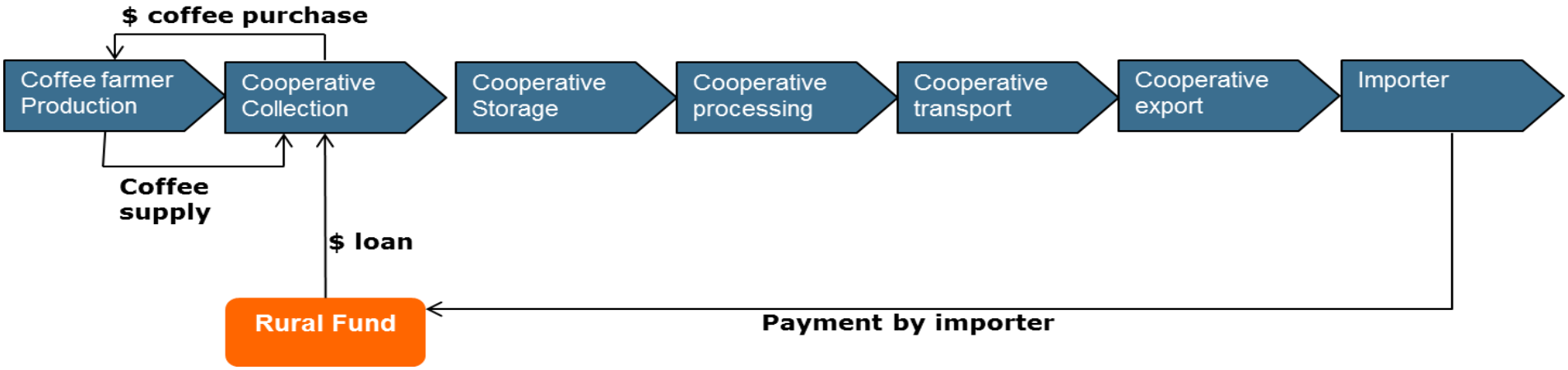
Input financing with Value Chain Financing (VCF) Models



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)



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 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

Part 2

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Dedicated supply chains: one model for strengthening supply chains

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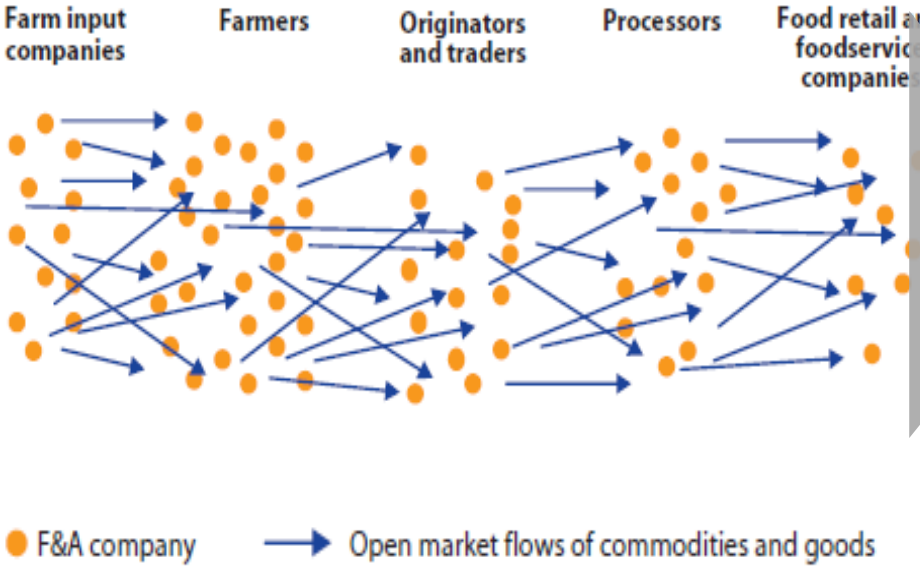
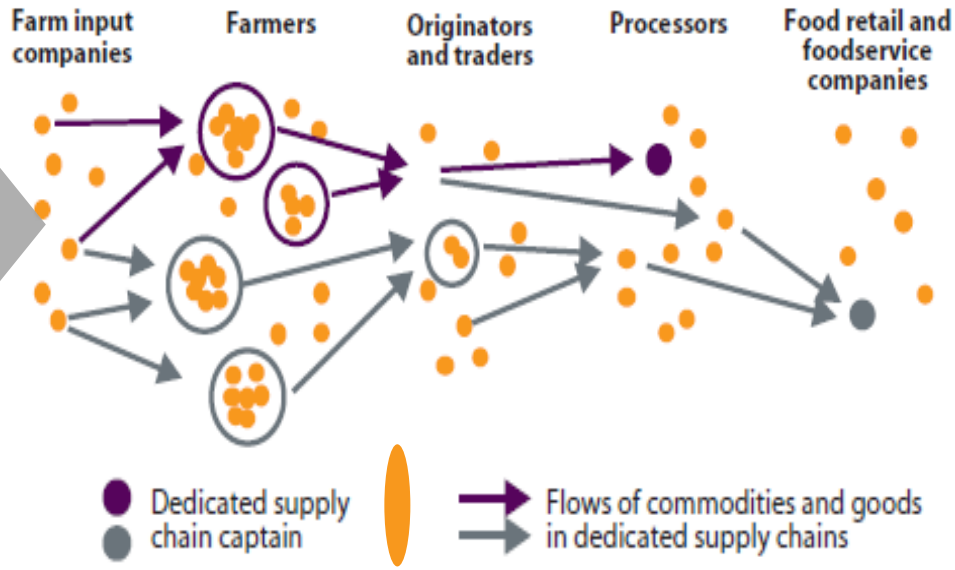
Open market sourcing approach



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

Source: Rabobank, 2013

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

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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

Source: Rabobank, 2013

Rabobank Group Entities

Part 3

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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

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"™