Can small be beautiful in agriculture?

Cooperation needed to meet opportunities and challenges.

Pierre Schonenberg - 21 September 2015
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Rabobank background

**Cooperative**
- Started by farmers in 1898
- All finance bank
- Leading market shares in the Netherlands
- 108 local banks, 520 offices
- 2 mln members, 8.8 mln clients

**Food & Agri**
- Banking for Food
- Finance, knowledge & network
- Global leader F&A financing
- EUR 97 bio exposure in F&A

**Sustainability**
- Active involvement in sustainability initiatives
- Roundtable sustainable palm oil, soy, Bonsucro, Better Cotton, WWF partnership
- Sustainability is also about access to finance
Rabo Development within the Rabobank Group

Rabobank Foundation
- Development of cooperatives, microfinance and sustainable agri value chains in rural communities of developing countries
- Project based through grants, guarantees, (soft) loans

Rabo Development / RIAS
- Create access to financial services in developing countries with F&A potential through rural retail banks
- Advisory services on supply chain development, agri banking and cooperatives

Rabobank Group
- Rabo International
  - F&A Banking
  - Local Member Banks
  - Retail banking
  - Group entities
  - Leasing, insurance, etc.

Sustainable cooperative banking with involvement in the F&A value chain
Agribusiness Advisory (RIAS): focus areas

**Agri finance**
- Agri strategy development
- Agri Credit & Risk management & tools
- Value chain financing
- Agri commodity finance/WHR finance
- Cooperative financing
- Risk Sharing & Guarantee Instruments

**Cooperative Capacity building**
- Financial management
- Cooperative scoring
- Cooperative governance
- Member communication
- Bankability
- Capitalization Policies

**Supply chain Development**
- Streamlining value chains
- Develop value chain finance solutions
- Studies for IDH, IFC, WB, etc.

- Coffee
- Cocoa
- Grains
- Rice
- Oilseeds
- Cotton
- Sesame
- Sugar
- Dairy
- Poultry
- Horticulture
Context of Rabo Development’s activities

Rabobank

Equity
Technical Assistance
Management Services

Financial Services

Access to financial services

Policy Dialogue
Financial Instruments

Enabling Environment

Government

NGOs

Multilaterals

Sharing international and cooperative banking knowledge and experience
Agribusiness Advisory: F&A project partners
Rabo Development partnerbanks and advisory projects
Development Partner bank relationship

Commercial links
- Trade & Commodity Finance
- Corporate F&A clients
- Introduction of Dutch SMEs
Mega trends
What the world needs in 2050

Source: FAO, 2012; Rabobank, 2014
What needs to change? More land, better yields

**Frontier regions can be brought into production**

<table>
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<th>Million hectares</th>
<th>Currently cultivated</th>
<th>Potential additional land</th>
</tr>
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<tr>
<td>S America and Caribbean</td>
<td>162</td>
<td>123</td>
</tr>
<tr>
<td>E Europe and C Asia</td>
<td>252</td>
<td>52</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>210</td>
<td>202</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>878</td>
<td>68</td>
</tr>
<tr>
<td><strong>World total</strong></td>
<td><strong>1,502</strong></td>
<td><strong>445</strong></td>
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**Average yields can improve**

Source: World Bank, 2011

Global African import flows

Client presence:

Source: Comtrade (2011), Rabobank (2014)

World total:
- Wheat: 48,756
- Rice: 18,487
- Sugar: 36,634
- Maize: 34,243

(*) Only trade flows greater than USD 700m are displayed
Global African export flows

Client presence:

Source: Comtrade (2011), Rabobank (2014)
3 Opportunities and challenges
What needs to change? Improve system stability

F20 survey – what is needed to enhance food system stability?
Many solutions but one common theme – strengthen supply chains

Solutions to enhance stability

- Remove imbalance of market power in the supply chain
- Greater horizontal and vertical integration along the supply chain
- Bridge the consumer/farmer knowledge gap and engage with the supply chain
- Facilitate information flows along the supply chain
- Widespread adaptation to climate smart agriculture
- Implement suitable land tenure arrangements
- Foster industry leadership
- Encourage implementation of farm succession plans
- Improve risk management products for farmers
- Invest in commercial storages
Enabling environment is critical

- **Competitive agriculture**
  - Legal & regulatory framework
    - Contract enforceability
    - Land ownership systems
    - Pledge systems
    - WHR systems
  - Collateral availability
    - Land
    - Commodity stocks/WHRs
    - Guarantees
    - Cash savings
  - Capital & Commodity markets
    - Access to long-term funding
    - Hedging instruments
    - Commodity Exchange
  - Business culture
    - Corruption
    - Contract performance
    - Cooperation
  - Government support framework
    - Education
    - Research
    - Extension services
    - Guarantee instruments
    - Subsidies
  - Skill level
    - Farmers
    - Cooperatives
    - SMEs
    - Banks
    - Ministries
  - Infrastructure
    - Roads
    - Power
    - (Cold) storage
    - Irrigation
    - Ports
  - Value chain organisation
    - Access to inputs
    - Farmer organization
    - Level of integration
    - Information flow
    - Traceability
    - Formal/fresh market
This is what creates success for global F&A companies in Africa

**Keys to success**

**Adopt an inclusive approach**
- Base approach on mutual respect and establishing trust.
- Be inclusive of local smallholders and their economy, and the many companies that participate in the relevant supply chains.

**Establish supply chain partnerships**
- Align the interests of companies involved along the chain.
- Formalise alignment through multi-year supply agreements.
- Combine local and global approaches and expertise.

**Bring unique capabilities**
- Bring more than just capital, which can easily disappear.
- Bring capabilities—unique access to technology, expertise, markets, customers, brands and leadership—so global companies are ‘needed’ rather than ‘used’.

**Reduce risk and secure finance**
- Reduce risk in the supply chain to improve the prospects for commercial finance being made available to local and regional F&A companies.

**Make a commitment**
- Make this extend over the longer term.
- Co-invest in infrastructure and to support local market development.

Source: Rabobank, 2013
Different segments need different financing approach

Traditionally bankable

Stronger supply chains can push this line down

Traditionally unbankable

Financing approaches:

- Relationship banking approach, often USD loans
- Retail/SME approach with 'agri twist'
- Scheme-based approach, e.g. outgrower schemes
- Savings-based loan schemes/ scorecards

Source: Rabobank, 2015
4 Promising VC examples
Smallholder financing concepts

- Digital payment systems, agency banking
- Warehouse receipts financing systems Tanzania, Ethiopia, Kenya
- Nucleus farming systems (e.g. Mozambique, Ethiopia)
- Cooperative value chain structures (e.g. coffee, tea, maize, dairy, sugar, rice, etc)
- National smallholder programs (e.g. LIMA Zambia, FNC Colombia, IHCAFE Honduras)
- Emerging farmer programs (e.g. Zambia, South Africa)
- Save-for-loan schemes
What could make small beautiful in agriculture
Stimulate farming as a business

Primary Production level:
✓ Farmer segmentation & selection (high input models)
✓ Economies of scale (aggregation points, e.g. Mars cocoa doctors)
✓ Access to price info, better inputs, improved seeds, mechanization
✓ Access to extension services, training on GAP, R&R
✓ Digital payments to smoothen payments (non-cash)
✓ Mobile banking creates financial track-record for future lending

Post harvest handling & market access:
✓ Value chain integration (shorter chains, traceability, direct sourcing)
✓ Agri logistics, rural infrastructure

Regulatory framework
✓ Targeted & consistent agri policies
✓ Warehouse receipts systems
✓ National Agri Guarantee Funds & LT funding lines
✓ Land ownership systems, land consolidation (governed by clear laws)
✓ PPPs can work but keep them simple and targeted
✓ Involve research to boost progress
PPP dairy project Zambia
Dairy sector in Zambia

- The dairy value chain is in place
- Dairy farmers mostly organized in cooperatives
- Respectable number of emerging dairy farmers (> 20 cows)
- Strong needs for new heifers, good quality feed, AI, etc
- Access to finance is limited, what hampers development

An Important, promising sector with potential

- Zanaco, the leading food and agri bank in Zambia introduces

LOAN-A-COW-scheme
Ready, or just the beginning?

Challenges to overcome:
• How to find good quality dairy cooperatives
• How to support these cooperatives to be the successful borrower on behalf of their milk producing members
• How to support the benefitting farmers to receive, maintain and milk the (new) cows properly
• How to secure the milkflow to market via the dairy cooperatives
• How to secure the cash flow in order to get the bank repaid.
Dairy project chart

**Project structure**

- Heifer supplier
- Zambia National Farmers Union
- Dairy Association Zambia (DAZ)
- Dairy Cooperatives
- Milk collection centers (MCCs)
- Bank
- Parmalat

**Project objectives**

1. Better farming practices leading to improved herd quality and feed management which result in increased milk production of better quality and higher net producer incomes.
2. Better business management skills of farmers enabling farmers to manage their farms in a business-like manner, prepare business plans and take better investment decisions.
3. Better management of the dairy cooperatives, enabling more transparent value chains and improved accounting and financial literacy, leading to better service to farmers, better terms of trade and better marketing.
4. Link to markets with traceability and quality payment systems and possibly even certification.
5. Value chain financing design of value chain finance structures between the dairy coops / emerging farmers, processors and Zanaco.

**Key stakeholders & roles**

- Parmalat & Zambeef Plc: provide market and extension services by buying the produce for good price (quality based payment system), off take contracts (up to 5 years) and possible participation in financing schemes.
- ZNFU/DAZ: co-select dairy cooperatives and emerging farmers to support their development. Support the Zambian dairy sector to develop simultaneously.
- Dairy Cooperatives: organizing logistics, marketing and inputs for small holders.
- Input providers: deliver quality inputs for good prices and arrange the logistics. Offer suitable extension services, possible participation in financing schemes.
- Local Consultants: technical assistance to farmers and board of cooperatives. Support in implementation and change.
- Zanaco / Rabo International Advisory Services (RIAS): develop financing schemes for dairy farmers, provide financial training. Assess dairy coops and develop and conduct dedicated support programmes. RIAS supports Zanaco to optimize the financing process to provide working capital / investment loans to dairy cooperatives and emerging farmers.

**Results (target)**

- 7 coops financed (+ 7 new coops by end of 2016)
- Target financing of USD 6 mln for w/c and investment to facilitate production capacity expansion by 2017
- besides Parmalat and Zambeef Plc, other processors become interested to participate in similar scheme with other dairy cooperatives.

**RIAS B.V. example case – value chain finance project – dairy - Zambia**
Our role:

**Rabo Development’s mission:**
Drawing on Rabobank’s cooperative heritage and banking knowledge in the Netherlands, Rabo Development/RIAS aims to increase access to financial services in developing countries that have substantial potential in the food and agri sector.

- We present ‘ingredients’ and start to co-produce a ‘menu’. But the (local) client will always be the ‘chef-cook’

- In most developing countries, this is the ‘quick win’ and a sustainable foundation for further development development for food and agri clients, now having access to the financial system
It is (only) a push, a tool, a facilitator, but....

the sector also has to embrace the opportunities and take it further
Topics for research

• Regional or national market studies and identify/prioritise needs in promising sectors.

• Agronomic aspects like seeds/genetics, feed improvement, management tools, marketing, impact measurement, …..

• Initiate and support the ‘golden triangle-approach’ in developing sectors;

• Regional climate change impact related to important agri activities

• What is the good moment to participate in projects?
Thank you very much

Any questions?