



# Rural Finance, Cooperatives and Food Security

Albert Boogaard

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# This presentation :

- Cooperatives / Microfinance / Rural Finance and contribution to Food security
- Challenges and opportunities for 4 different organisations
  - Savings and Credit Cooperatives
  - Producer Cooperatives
  - Formal banks
  - Private enterprises
- Selection of lessons learned and experience of Rabobank Foundation

# Introduction : microfinance crisis and food security

- Food (in)security : relationship with political stability
- Food Security and Nutrition
- Food crops and/or cash crops ?
- Acces to (rural) Finance : often presented as bottleneck

Perhaps also a result of missing enabling environment ?



# Rabobank Foundation

Not for profit entity funded by Rabobank Group

Active in 25 countries, c.250 partners

Producer + Savings and Credit cooperatives

In line with cooperative background and experience in agri-sector and banking

Important role of branch and client networks

# Rabobank Foundation

- Small grants
- Technical Assistance
- Main activity : Loans / Guarantees / risk sharing mechanisms
- Focus on financial sustainability of partner and exit scenario of support
- Emphasis on starting organisations



## Food Security : why cooperatives will play a role:

- Majority of farmers are smallholders
- Low productivity of farming is main issue
- Also loss of income due to:
  - Inefficient marketing
  - Product losses
  - High organisational costs
  - Lack of negotiation power farmer
- Caused by many factors:
  - Training / knowledge of farmers
  - Access to farm inputs
  - Access to finance
  - Lack of organisation



# Challenges of agricultural cooperatives

- Governance
- Weak commitment of members vs. weak services towards members:
  - Payment of member capital
  - Delivery duty and side selling
- Inadequate capitalisation policy / bankability
- Lack of business plans and financial information

## Support of Rabobank Foundation

- Catalyst, not “core business” for cooperative
- Look at cooperatives as economic organisation
- Capacity building of cooperatives:
  - Rights and duties of members, management and supervisors
  - Market linkages
  - Capitalisation policy
- Agronomic training of member farmers:
  - Low productivity, low income, low capitalisation capacity
  - Increase production and capacity to reserve
- Loans / Guarantee scheme to local banks; temporary and track record building



# SACCO's

- + rural commitment, intimate knowledge of clients , costs ?
- - governance, diversification of credit risk and funding
- RF : long term funding, investment in productive assets, income, savings and internal funding

Where do SACCO's contribute :

- Pre harvest finance (inputs, seeds) and small assets for individuals
- Aggregate farmers when producer cooperative is absent
- Often interesting way to incubate / finance small PO's indirectly
- Can play interesting role to facilitate whole chain
- Product development can mitigate risks eg. Warrantage
- Not : large amounts for collection and processing

# Producer cooperatives

- Based on common economically viable activity. Only this can be the basis
- Allows centralized selling : scale and negotiating power. Higher income for farmers
- Reduce losses and costs in the chain
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- Other services such as training, insurance, food cultivation etc.)
- PC's usually need financing that goes far beyond MFI's capacity : banks / private investors needed.

# Private enterprises / outgrowers

- Acces to Inputs
- Agricultural knowledge
- Access to finance
- Market and processing knowledge
- Employment
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- What are the main criteria / conditions ? Right incentives important (justify local presence, labour, fair distribution of value added).
- Combination shareholder / manager important
- External support should not be the basis of the business case.

# Banks

- More funding available compared to MFI's to finance producer organisations
- Diversification risks and funding sources
- Payment services, ATM, savings accounts
  
- Often : Lack of rural orientation or interest
- Capacity building needed
- Risks perceived as too high

# Cooperation with banks by Rabobank Foundation

## **Experiences :**

- TA for cooperatives → bankable, capitalization, business planning etc.
- Guarantees → build up track record
- Local support staff

## Example 2 : complementary products

### **Integration of products : Bank, Farmer Group, Rabobank Foundation, Local Foundation**

- Input finance for weak farmers association.
- Every farmer individual savings account
- Save 1/3 of input costs at harvest on blocked savings account with interest
- Obtain loan for 2/3 investment 5 months later
- Partial guarantee for remaining bank exposure
- Side selling usually main issue. Mitigated by :
- Input loan linked to warehouse receipt finance program of bank. More attractive selling price through central sales.
- Farmers selected based on willingness and ability to save
- Nature of market prevents side selling. Also true for perishables (dairy, vegetables) and niche markets such as FT/Org.

## Conclusion :

- Rural Finance is a necessary part of the solution but not the only one
- Microfinance can be part of rural finance options and can contribute as well
- Savings (ind.) and capitalisation (coop) not to be underestimated as source of funding in difficult environment
- Other parties (banks, equity, hybrid capital) are also needed
- Different financing concepts for variety of local conditions.