

Lessons learned from study on successful Renovation & Rehabilitation schemes of tree crop smallholders

AgriFin Webinar

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RIAS Agri Business

5 April 2016



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Rabobank Foundation

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



Rabo Development & RIAS

- Support F&A companies with strategic sourcing issues through value chain development and linkages with local FI's
- Create access to financial services in developing countries with F&A potential through rural retail banks
- Investment in, and development of partner banks through financial investment, delivery of management services and technical assistance



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- 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

IDH's Renovation & Rehabilitation Agenda

IDH aims to drive solutions and catalyse investments for smallholder R&R, in order to improve farmer profitability

Research

- Market review of smallholder R&R – Dalberg
- Analysis of best practices – RIAS
- Learning from blended finance for coffee renovation – Root Capital

Learning events

- R&R Innovation Forum (November 2015)
- Workshop Coffee Field Renovation East Africa (February 2016)

Current initiatives

- Tea Revitalization programme – Malawi
- Cocoa Farm & Coop Investment programme – Côte d'Ivoire
- Coffee R&R Initiative – Tanzania

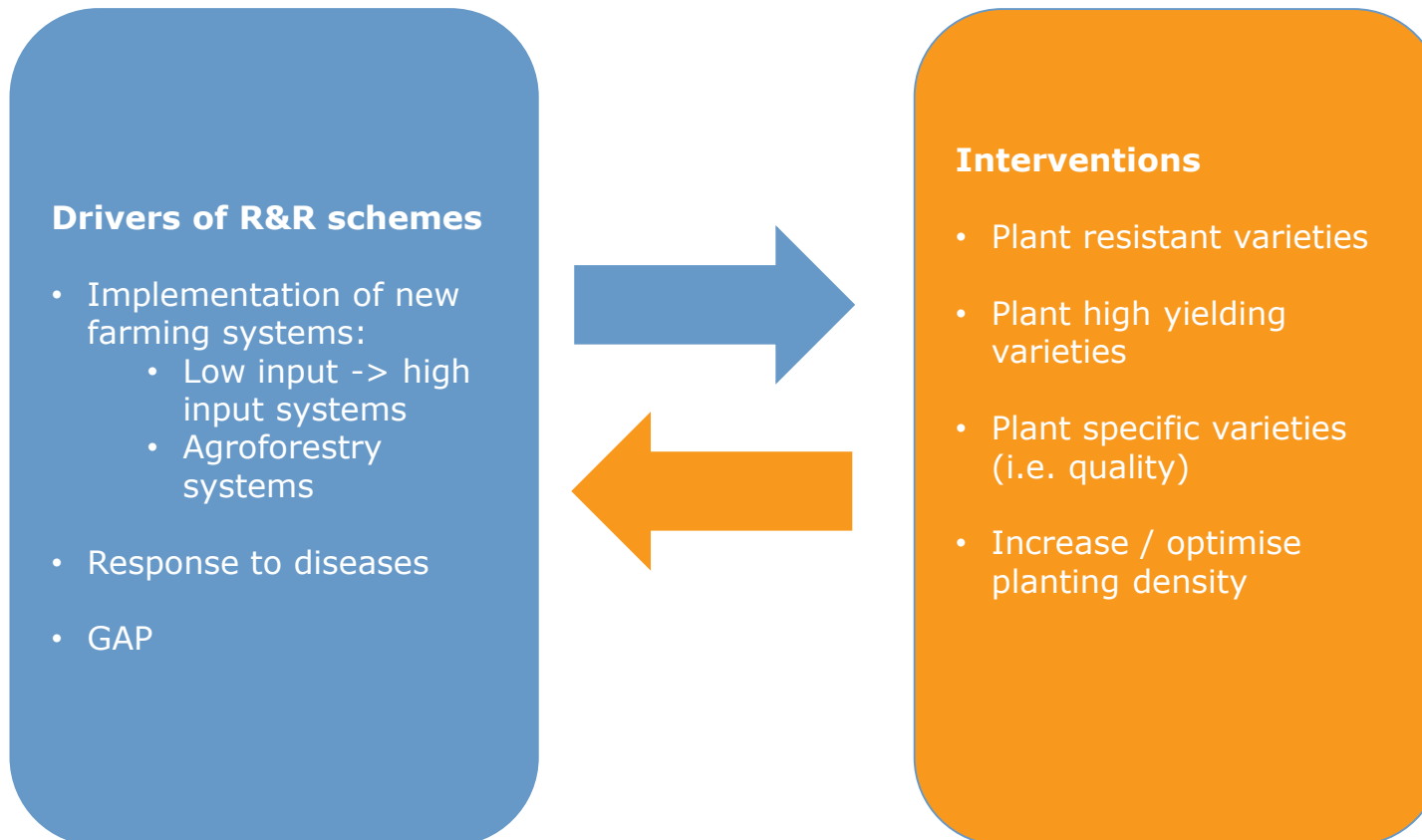
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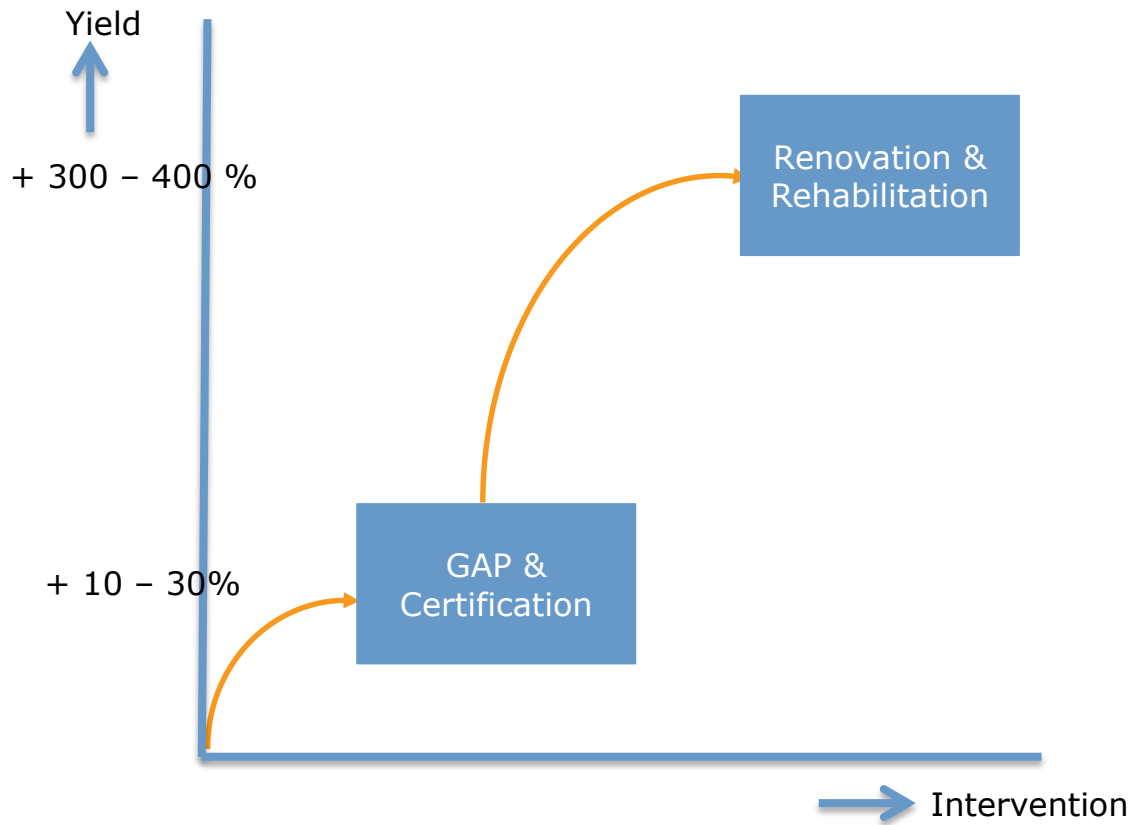
Summary of the core cases

	FNC's Permanency Sustainability and Future Program	PTPNXIII's Revitalisasi Program	MARS Triple Productivity Package + business oriented distribution system
Country	Colombia	Indonesia	Indonesia
Crop	Coffee	Oil Palm	Cocoa
Approach	Increase productivity by replanting & renovation	Revitalise and establish (new) farms by (re)planting of oil palms	Rehabilitation of low yielding cocoa farms
R&R package	Agronomic and business advise + Plant material + Finance and /or incentives + Coffee ID Card	Single Management System + Agronomical Advise + Seedlings & inputs + Finance	Planting material + Inputs (fertilisers) + GAP & High End Agronomy
Target clients	Small farmers (max 5 ha, financeable, ID card)	Smallholders, typically 2 ha	Smallholder cocoa farmers with potential to become (young) professional farmers
No of ha	184.000 ha (2008 – 2014)	5400 ha (ultimo 2014) 15.000 ha to go	50.000 ha (MARS)
Total investment	USD 600 mln	USD 75 mln (15.000 ha) (est)	USD 94 mln (est)

The main drivers for R&R schemes for smallholders are to increase productivity and respond to diseases



Smallholders of tree crops can achieve a step change in productivity through R&R of their farms



	Before	After
PSF program of FNC Coffee	Circa 400 kg/ha	Circa 1900 kg/ha
MARS Triple Productivity Package Cocoa	Circa 650 kg/ha	Circa 2500 kg/ha
PTPNXIII Revitalisasi Program Oil Palm	Declining yields due to age	Circa 26 MT/ha (maximum) and 16 MT/ha (avg)

Important note: figures are based on the financial models of FNC, MARS and financial info's of PTPNXIII of 2014 and the exchange rate per ultimo 2014. It was not possible to verify the models based on actual data at farm level.

But smallholders need to overcome both emotional and financial hurdles.....



	Approach	Investment (2014)	Period of negative cash flow	Repayment period
PSF program of FNC Coffee	100 % / one go	3400 USD / ha	Almost 2 years	3 years
MARS Triple Productivity Package Cocoa	100% / one go	2000 USD / ha	2 years	4 years
PTPNXIII Revitalisasi Program Oil Palm	100% / one go	3200 USD / ha	3 years	10 years

Important note: figures are based on the financial models of FNC, MARS and financial info's of PTPNXIII of 2014 and the exchange rate per ultimo 2014. It has not been possible to verify the models based on actual data at farm level.

A phased approach can significantly reduce the investment

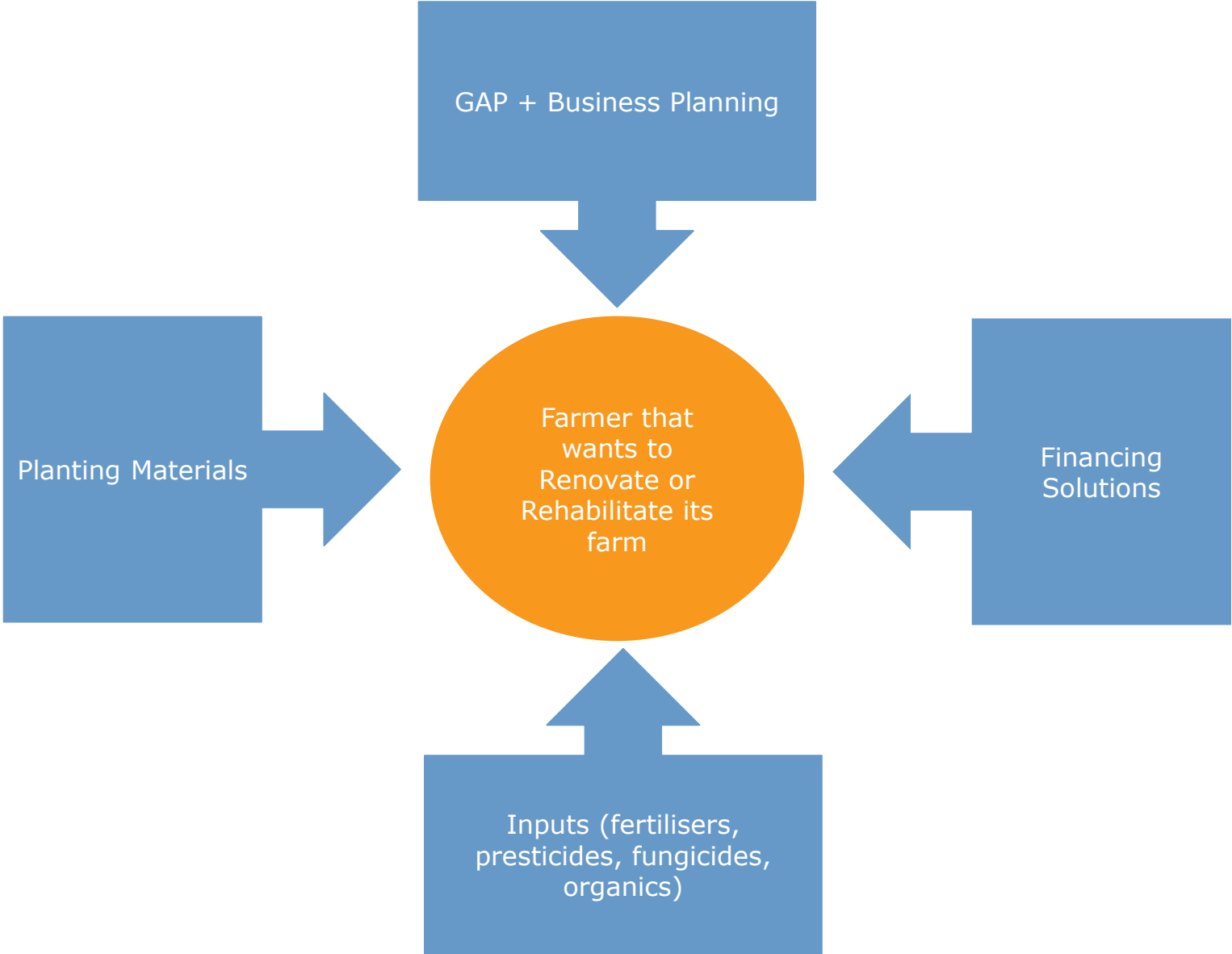
	Approach	Investment (2014)	Period of negative cash flow	Repayment period
PSF program of FNC Coffee	14% / year	950 USD / ha	Almost 3 years	5 years
MARS Triple Productivity Package Cocoa	25% / year	800 USD / ha	3 years	5 years
PTPNXIII Revitalisasi Program Oil Palm	N.A.	N.A.	N.A.	N.A.

Important note: figures are based on the financial models of FNC, MARS and financial info's of PTPNXIII of 2014 and the exchange rate per ultimo 2014. It has not been possible to verify the models based on actual data at farm level.

Successful R&R requires an integrated approach that is driven by farmer segmentation and the enabling environment.



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If farmers start out with limited own funds and/or are faced with diseases, financing schemes are a key component.....



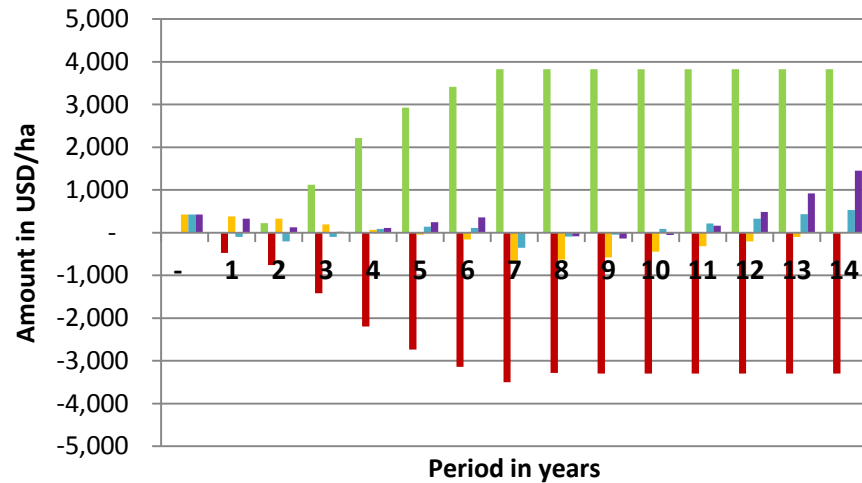
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	PSF loans (FNC/ Banco Agrario)	Credi Cafe Program (IHCAFE / Banco Contental)	Revitalisasi Program (PTPNXIII / Bank Agro)
Crop	R&R coffee	R&R coffee	Replanting oil palm
Counterparty	Individual farmer	Individual farmer	Cooperative
Notional	USD 3000 / ha	USD 2025 / ha	USD 3.200 / ha
	Seedlings, inputs, labour	Seeds and inputs (no labour)	Seedlings, inputs and labour
Tenor of loans	7 years	7 years	12 years
Grace period	2 years	3 years	3,5 years
Interest rate	DTF + max 6%	10%	7% / 12,5%
Land certificate	Endorsement (20% guarantee loan)	Pledge	Pledge
Guarantee	FinAgro (80% guarantee loan)	Fiduciary Fund	PTPNXIII

Key characteristics

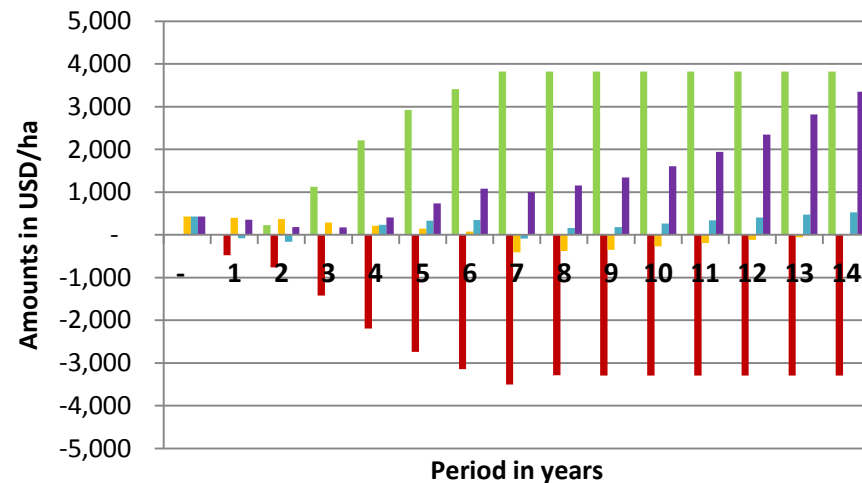
- Individual farmers or cooperative
- Long term loans
- All costs of R&R incl or excl family income
- Repayment schedule linked with the yield curve of the tree
- Interest rates (partly) subsidised
- Land certificate is pledged to the bank
- Guarantees are required (i.e. DFI, Coffee Fund, corporate)

.....and grants can significantly reduce risks at farmer level and make R&R accessible to the semi commercial smallholders.



The farmers under the PSF program of FNC can obtain an investment subsidy of 40% of the investment (ICR). Hence reducing the amount of external finance accordingly.

Especially under stressed conditions (i.e. 25% drop in revenues), this investment subsidy reduces the risks of the coffee farmers



- revenues of coffee sales
- investments + operational costs coffee production
- loan + interest + repayment (notional) (PSF loan + ICR)
- netto cash flow after finance payments (PSF loan + ICR)
- cumulative cash flow after finance payments (PSF loan + ICR)

However a minimum farm size is critical to secure long term viability of the farms.

IF

Family expenses



Cost of (external)
labour

THEN

Surplus



THEN

Buffer low
commodity prices
+ investments



Good quality plant material are a key strategic component of R&R schemes



	Plant materials & agronomic approach	Multiplication
PSF program of FNC Coffee	Cenicafé (National Coffee Research Centre)	64 contract farms (2014)
MARS Triple Productivity Package Cocoa	R&D for development of resistant and higher yielding varieties	CDC / CVC network
PTPNXIII Revitalisasi Program Oil Palm	Indonesian Palm Oil Research Institute	Nurseries in local units

To make impact at scale a central coordinator and distribution mechanisms are needed.



	Coordination	Extension	Finance
PSF program of FNC Coffee	National level Department level Sections Districts	Extension officers	Extension officers + Coffee ID card
MARS Triple Productivity Package Cocoa	MARS / Cocoa Academy (planting materials + quality of TA)	CVC's (quality advise secured by MARS)	Not applicable yet
PTPNXIII Revitalisasi Program Oil Palm	Smallholders Division Local Units	Local units -> supervisions + agronomists	Cooperative

Lessons for financial institutions that want to stimulate renovation & rehabilitation of tree crops by smallholders



- Good business case;
- Farmer segmentation;
- Farmer selection;
- Availability of good quality plant materials;
- Availability of agronomical approach & business model;
- Access to other inputs;
- Suitable financing solutions;
- Collateral;
- Distribution mechanisms.

Supporting measures by corporate partners, DFI's, governments and NGO's



- Sharing of knowledge R&R approaches;
- Research into development of good planting materials;
- Research into agronomical approaches and practices;
- Support the establishment of monitoring & evaluation systems;
- Funding for (initially high) investments to distribute agronomical knowledge on continuous basis;
- Long term partnerships between smallholders and buyers of core commodities;
- Supportive models that increase appetite of financial institutions to finance smallholders;
- Provide grant funding to convince smallholders with limited own funds to conduct R&R;
- Provide / support the provision of long term funding in countries where this is not available yet (together with local banks and DFI's);
- Provide / support the provision of guarantees to local banks in the initial stages of financing programs of R&R.

Contact Details



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