Farmer Aggregation and Access to Finance

10 September 2013

OUR MISSION
Our mission is to mobilize effective responses to the world’s most pressing issues and to raise living standards in developing countries.

OUR APPROACH
Our approach combines rigorous business analytics with on-the-ground experience to help governments, foundations, international agencies, NGOs and corporations.

OUR SERVICES
Our services include:
(i) developing innovative strategies, approaches and market mechanisms,
(ii) reforming internal organizational processes and structures,
(iii) analyzing global markets and developing market-entry strategies, and
(iv) coordinating and facilitating large, multi-stakeholder initiatives.
Why all the discussion about smallholder farmers?

Why is farmer aggregation important?

What is the opportunity in farmer aggregation?

The agriculture industry is growing, particularly in developing countries

- Total Capital in Agribusiness-focused Funds in Africa (2009, USD billions)
  - Fundraising: $2.0B
  - Capital Under Management: $0.5B

World Population (2000-2020, billions)

- World Population (2000-2020, billions)
- CAGR 2000-2020


- Note: Categories not exhaustive (e.g., does not include sugars)

- Wheat
- Coarse Grains
- Rice
- Oilseeds
- Vegetable oils
- Beef
- Pork
- Poultry
- Dairy

* Mid-point taken if target fund size is a range

Source: UN Department of Economic and Social Affairs, Population Division; FAO, “How to Feed the World in 2050”; Fund manager websites; fund manager documentation; sector literature and press; Dalberg analysis
Smallholders have become a core part of business strategy

Drivers of Buyers’ Engagement

- Defensive Play
- Sustainability Branding
- Protecting and Building the Core Business

CSR, License to Operate
Consumer Demand, Branding, and Sustainability Culture
Sourcing Needs, Diversification, Value Chain Traceability

A key lever to meeting production demand is aggregation of farmers

Benefits of Producer Organizations

- Access to Finance
- Improved production and processing
- Decreased transaction costs and increased economies of scale
- Access to markets
- Policy advocacy

Increased Income and Production
Aggregation makes it easier to facilitate value chain finance

Impact Driven Smallholder Agricultural Lender Theory of Change

1. Grants & TA
2. Lending
3. Lending

Smallholder farmers
Producer organizations
Buyer contract
Buyer
Local Bank

Source: Interviews with social lenders, Dalberg analysis

Farmers are better off with access to financing

Hypothetical Peruvian Coffee Farmer P&L (USD per year)

Illustrative

<table>
<thead>
<tr>
<th>Premium (with financing)</th>
<th>Base (without financing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>Harvest cost</td>
</tr>
<tr>
<td>$8,000</td>
<td>$5,800</td>
</tr>
<tr>
<td>$4,400</td>
<td>$3,500</td>
</tr>
<tr>
<td>$3,600</td>
<td>$1,000</td>
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</tbody>
</table>

* Depreciation expense relates to the rehabilitation cost for coffee trees
Note: P&L is based on interviews with value chain experts in Peru; see the full report for a list of key assumptions used to construct the P&L
Source: Interviews with technical assistance providers, social lenders and buyers; Dalberg analysis
But lenders have only scratched the surface

Comparison of Smallholder Relevant Capital Flows
Billion USD

(Total demand = $300 billion)

$0.4 billion $9 billion $6 billion $2.30 billion $1.200 billion

Impact Driven
Local Bank
Agricultural
Lending to
Smallholders
Agricultural
ODA
Agricultural
Sector Lending
Agricultural
GDP

Note: Figures include South and Southeast Asia, Latin America, and Sub-Saharan Africa; China is not included.

Source: (1) "Catalyzing Smallholder Agriculture Finance", Dalberg, 2013 (figures adjusted to account for geographic focus); (2) Dalberg smallholder financing bank database; (3) OECD.StatExtracts; (4) Central banks, Dalberg analysis; (5) World Bank

Many of the key barriers to smallholder financing can be addressed through producer organizations

Demand Side Financing Constraints

Organization

"If farmers were organized into structured markets, then banks would be willing to come in."
- Opportunity Bank in Malawi

Financial Literacy

"The top barrier we face is low financial skills among farmers. [Many farmers are unable] to account for the revenues they are producing."
- ZANACO in Zambia

Collateral

"One obstacle we see with smallholders is a lack of basic production skills. Technical assistance is needed."
- Standard Bank

Productivity

Source: Interviews with smallholder bankers
Very few smallholder farmers are members of producer organizations

![Bar chart showing farmer participation in producer organizations (POs)]

<table>
<thead>
<tr>
<th>Non-participation in POs</th>
<th>Participation in POs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>91%</td>
</tr>
<tr>
<td>France</td>
<td>90%</td>
</tr>
<tr>
<td>Ethiopian Smallholders</td>
<td>91%</td>
</tr>
<tr>
<td>Smallholder coffee farmers in Peru</td>
<td>80%</td>
</tr>
</tbody>
</table>

Source: 1) ILO “Cooperative out of Poverty” 2008; 2) Interviews with cooperatives and buyers in Peru, Cámara Peruana del Café y Cacao (CPC).

Farmers don’t participate for various historic reasons

**Historic Problems with Producer Organizations**

- **State intervened** in producer organizations for political gain
- Producer organizations provided **poor services** due to low internal capacity
- **Smallholder farmers and women excluded** from producer organizations
- **Weak governance and leadership**
- Insufficient access to resources
**What is the opportunity?**

1. Support donors, public agencies, and corporations to more effectively partner with farmer organizations
2. Enable farmer organizations to better meet market-oriented needs of members
3. Ensure feedback mechanisms to identify best practices and incorporate views of farmers
4. Integrate incentives for farmer organizations to incorporate women and smallholders
5. Remove regulatory hurdles and ensure effective oversight