



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.

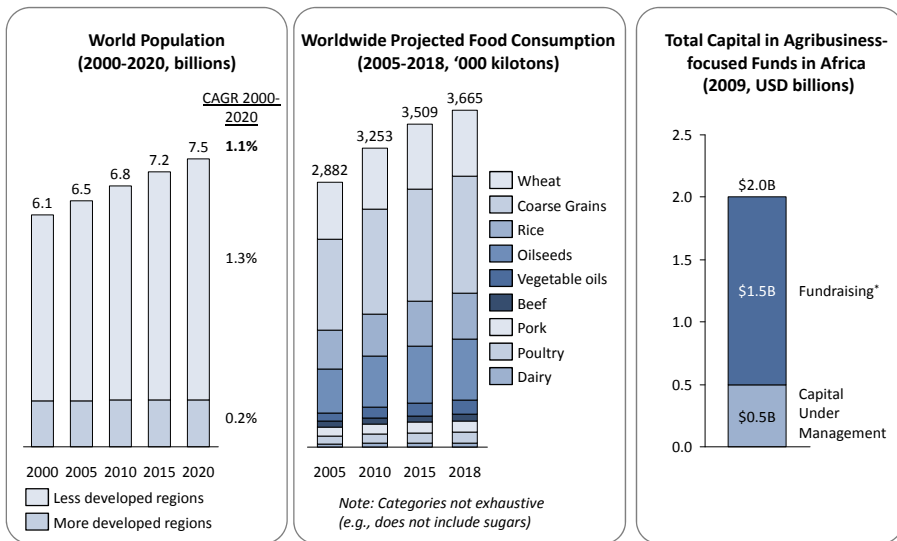
Why all the discussion about smallholder farmers?

Why is farmer aggregation important?

What is the opportunity in farmer aggregation?



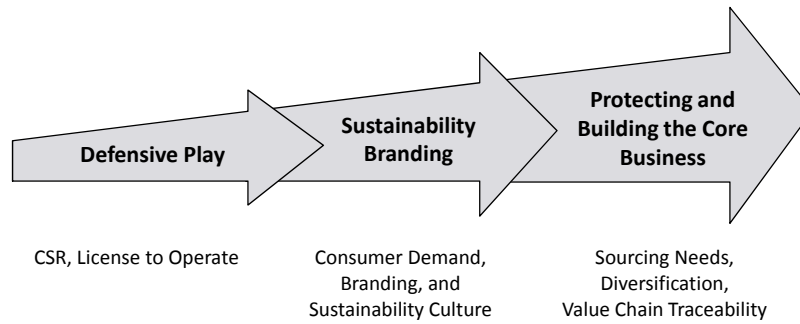
The agriculture industry is growing, particularly in developing countries



* 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



Dalberg 5

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

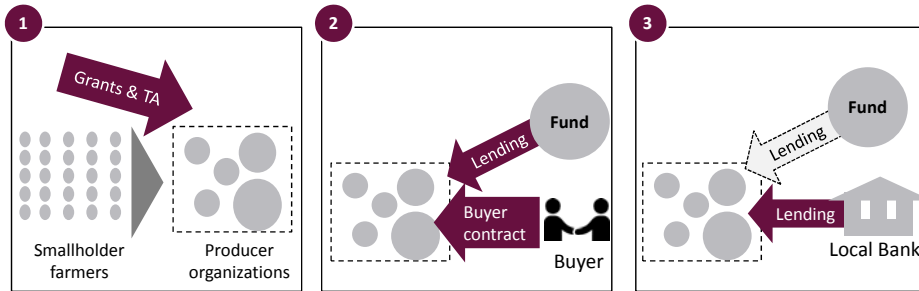


Increased Income and Production

Dalberg 6

Aggregation makes it easier to facilitate value chain finance

Impact Driven Smallholder Agricultural Lender Theory of Change



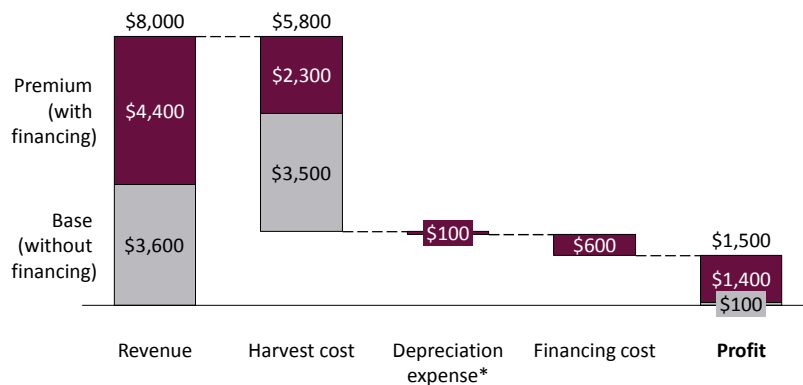
Source: Interviews with social lenders, Dalberg analysis

Dalberg 7

Farmers are better off with access to financing

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

Illustrative



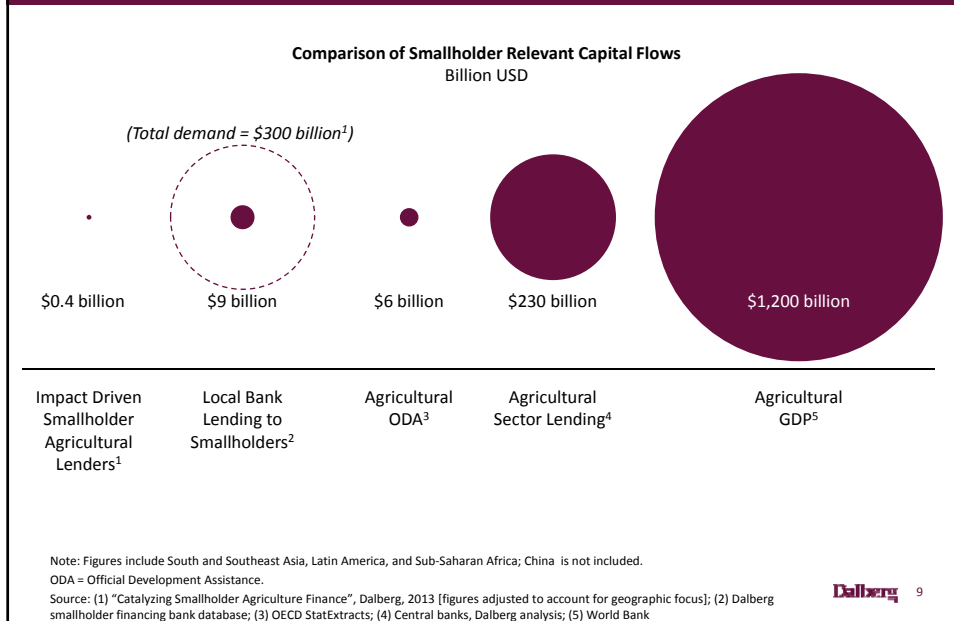
* Depreciation expense relates to the rehabilitation cost for coffee trees

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

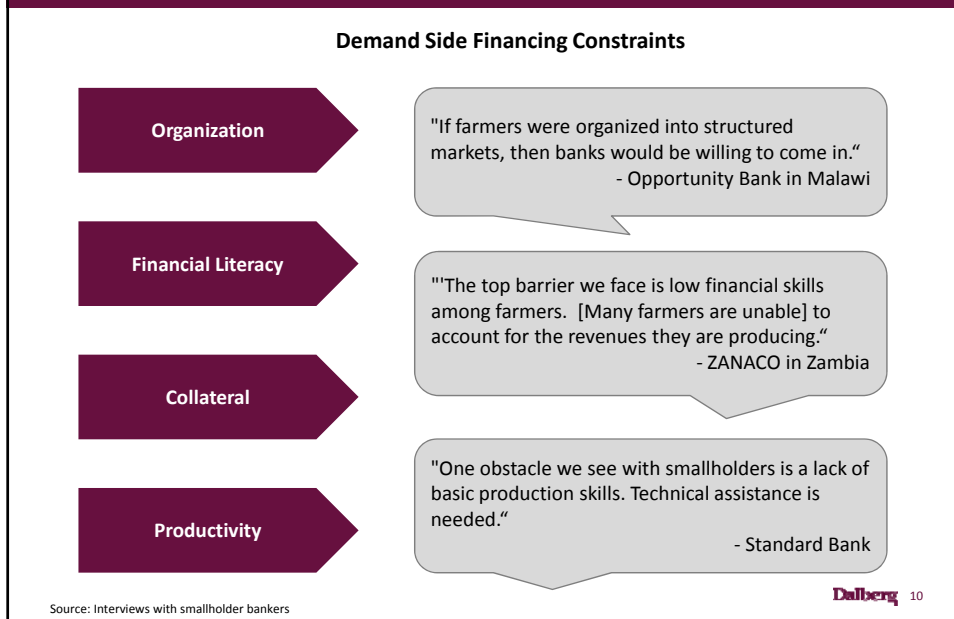
Source: Interviews with technical assistance providers, social lenders and buyers; Dalberg analysis

Dalberg 8

But lenders have only scratched the surface

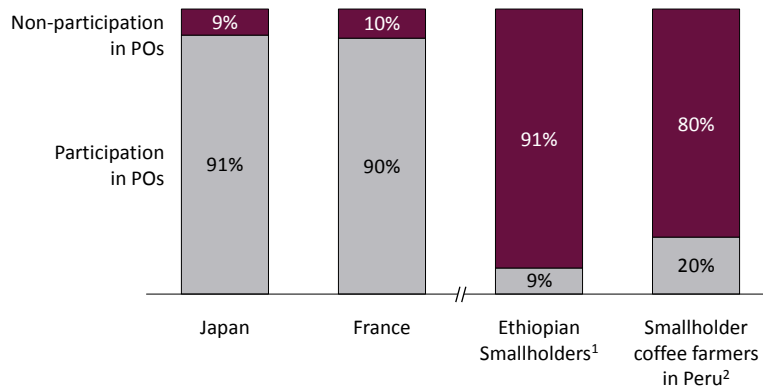


Many of the key barriers to smallholder financing can be addressed through producer organizations



Very few smallholder farmers are members of producer organizations

Farmer participation in producer organizations (POs)



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

Dalberg 11

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

Dalberg 12

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