# *Rabo Development*

*Cooperative financing*

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Rabobank

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Rabobank


# 1. Rabobank background

# Rabobank’s roots

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**1895 Cooperative banks**
1898 Foundation of the Cooperatieve Centrale Boerenleenbank (Eindhoven) and the Vereniging van Raiffeisenbanken en Landbouwverenigingen (Utrecht)

- **Rural bank for farmers and rural SMEs (no private individuals)**

**Retail banking in NL**
1960 Start serving private individuals (a.o. savings & mortgages)
1969 Establishment of DLL (Leasing Company)
1972 Merger of the Raiffeisen and Boerenleenbank into Rabobank

- **Mature retail bank**
- **Start of salary payment through bank accounts in the Netherlands:**
  - **new segments -> private individuals**
  - **also in urban areas**

**All Finance banking in Netherlands**
1981 Opening of first international branch in New York
1988 Triple A credit rating
1990 Merger with Interpolis (Insurance) and strategic alliance with Robeco (investment)
1994 Acquisition of PIBA Bank (Australia)
1996 Rabobank Group acquires the venture capital company Gilde Investment Management
2001 Robeco becomes a 100% subsidiary of the Rabobank Group
2002 Obvion is established, a joint venture of Rabobank and ABP, aimed at selling mortgages via intermediaries
2003 Rabobank acquires FGH Bank
2004 Partnership with Eureko (Achmea)
2005 Merger Interpolis and Eureko. Rabobank acquires a 38% share.
2012 Acquisition of Friesland Bank

- **International activities**
- **All finance banking**

# Rabobank Group strategy

- ✓ Predominantly Dutch bank
- ✓ Strong cooperative identity
- ✓ All-finance leadership position in the Netherlands
- ✓ Global position as the number 1 food & agri bank in selected number of countries
- ✓ Highest creditworthiness of private banks
- ✓ Strong focus on CSR

# Rabobank organisation structure

10 million clients

1.9 million members

136 local cooperative Rabobanks

Ownership & Cross Guarantee

Rabobank Nederland

Specialized subsidiaries

- 1.9 million members of local Rabobank cooperatives
- Non-financial membership: no entry fee, no dividend
- Members buy 4 products on average, compared to 2.5 by non-member clients
- Limited say on business strategy of local Rabobank via Members Council
- Exclusive right to buy Member Certificates

# Profile Rabobank Group

## International financial services provider based on a cooperative organisation principle

- Retail banking, wholesale banking, asset management, leasing and real estate
- Operating in 47 countries
- 10 million customers around the world
- 766 offices outside the Netherlands
- 61,103 FTEs (total Rabobank Group)

## Local Rabobanks in the Netherlands

- 136 independent local banks in the Netherlands
- 7,6 million customers (of which 6.8 mln retail clients)
- 1,9 million members
- 853 offices
- 27,272 FTEs
- 2,898 ATMs

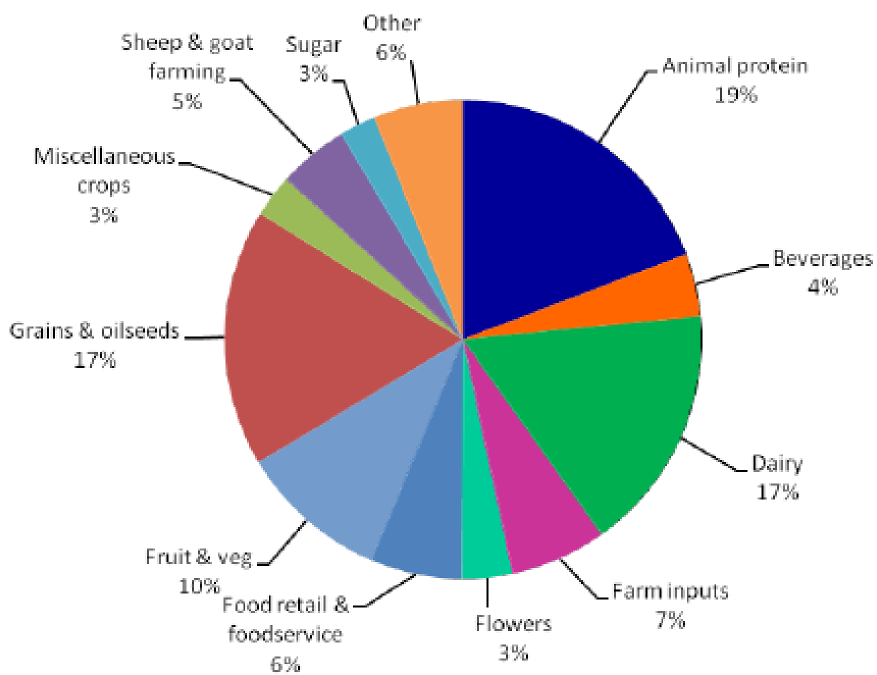
## High credit rating by S&P, Moody's and DBRS

# Key figures Rabobank Group

| (in EUR billions) | 2012 (end year) | 2011 (year end) | 2010 (year end) |
|---|---|---|---|
| Net profit | 2.1 | 2.6 | 2.8 |
| Total assets | 752 | 732 | 652 |
| Total equity | 45 | 45 | 41 |
| Current & Deposit accounts | 334 | 330 | 299 |
| Private sector loans | 458 | 448 | 436 |
| Core tier 1 ratio (%) | 13.2 | 12.7 | 12.6 |
| Efficiency ratio (%) | 65.7 | 65.2 | 64.5 |

# A well diversified F&A portfolio

**Breakdown F&A portfolio Group total EUR 92 bn**




- Portfolio EUR 92bn (+5%)
- Well diversified
- 20% of group portfolio
- Domestic market share 85%

# Rabo Development: operating model

Rabobank

Equity
Advisory Services
Management
Services

Financial Services

Access to financial services

Sharing international and cooperative banking knowledge and experience

Policy Dialogue
Financial Instruments

Enabling Environment

Government

NGOs

Multilaterals

# Rabo Development partner banks and advisory projects 2012

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**Partner banks**

**Advisory projects**

# Segmentation drives financing approach

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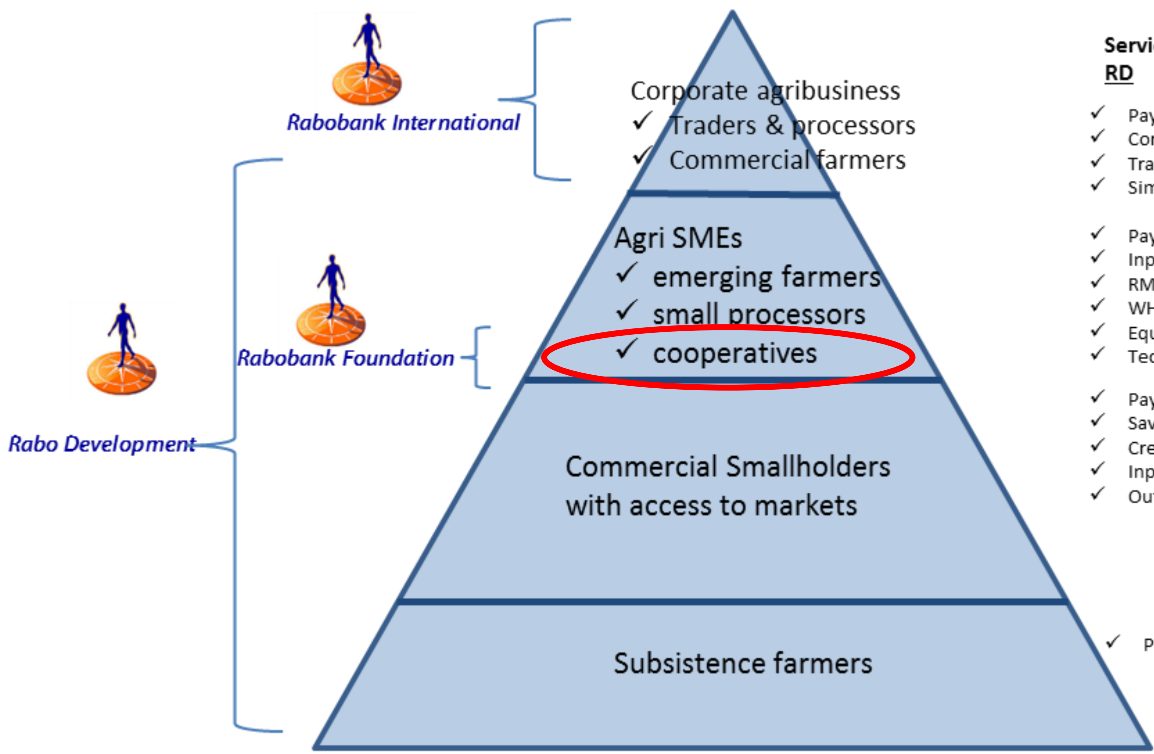


**Services provided by:**

**RD**

- ✓ Payment services
- ✓ Corporate lending (incl USD)
- ✓ Trade finance/WHR finance
- ✓ Simple treasury products

- ✓ Payment services
- ✓ Input finance
- ✓ RMCF
- ✓ WHR finance
- ✓ Equipment finance
- ✓ Technical Assistance*

- ✓ Payment services
- ✓ Save-for-loans
- ✓ Credit Scoring
- ✓ Input financing
- ✓ Outgrower schemes

- ✓ Payment services

**RF**

- ✓ Working capital
- ✓ Equipment finance
- ✓ Guarantees
- ✓ TA sponsoring

**RI**

- ✓ Corporate lending (incl USD)
- ✓ Trade finance/WHR finance
- ✓ Project finance
- ✓ Asset finance/vendor leasing
- ✓ Treasury /Capital markets
- ✓ Advisory/M&A
- ✓ Capital markets

*) Technical Assistance is organised by RD partner banks but implementation is outsourced to experts such as RIAS

# 2. Background cooperatives

# Primary Objective

*The primary objective of a cooperative is to **maximize the benefits , which members derive from their business transactions with the co-operative**.*

*(International Cooperative Alliance (ICA)*

# Cooperative Model for a Producer Cooperative

- ✓ bridge the gap between the individual small farmer and the big market
- ✓ Set up according to the requirements of industrial organization:
  - maximize the market revenues for members and minimize cost of production for the members.
  - be efficient and well-organized

**Necessary**:

- ✓ farmer members have to understand the cooperative and to comply with its business policy.

# Cooperative structure

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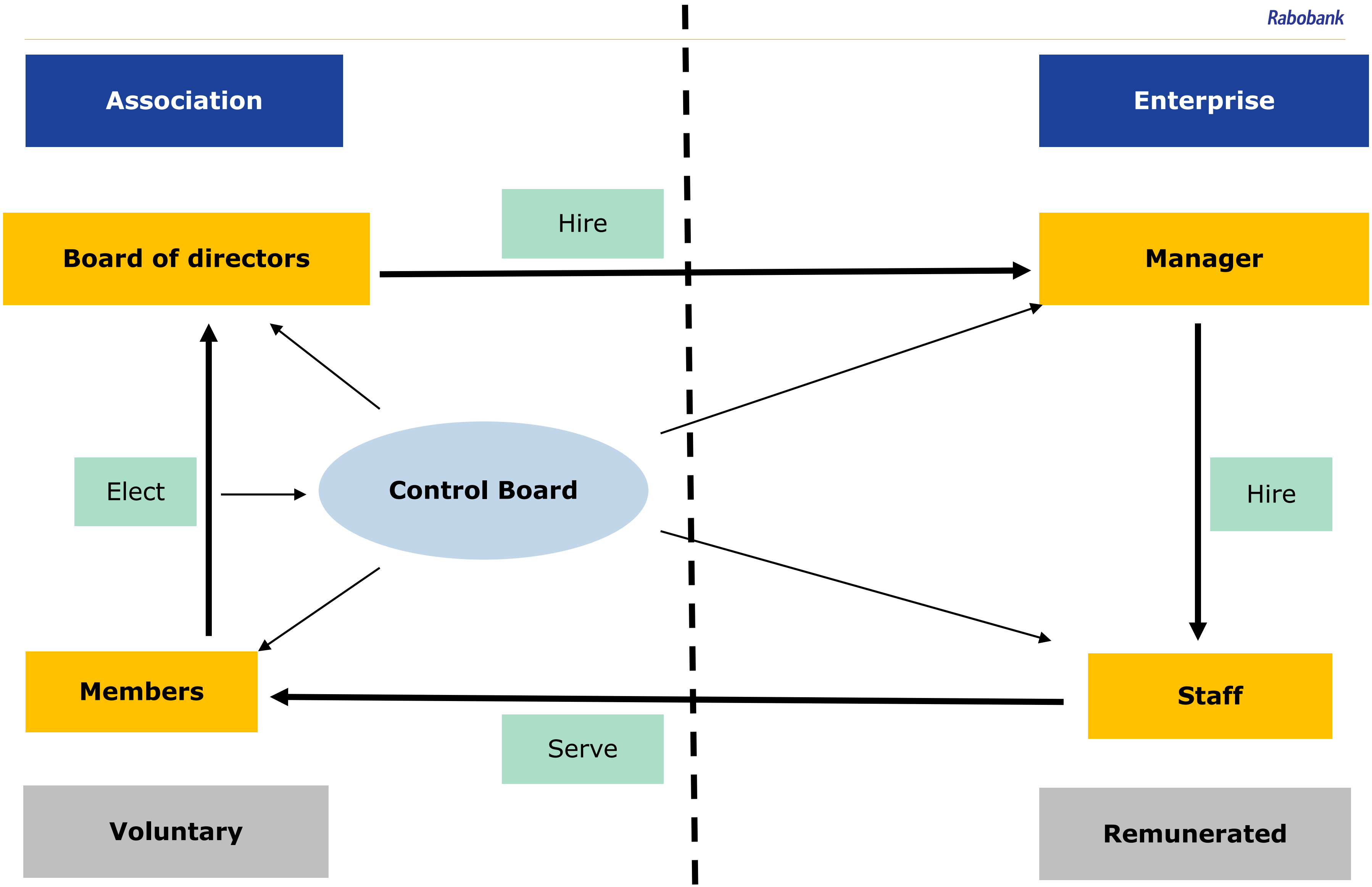

# KSFs for Cooperative Development

- ✓ Stick to economic and business-like principles
- ✓ Adequate governance structure
- ✓ Consistent business discipline (zero-loss & capitalization policies)
- ✓ Do not mix up governance and management
- ✓ Communication with members
- ✓ Clear and businesslike legislation

# Three Economic Principles(Rabobank)

*To guarantee the success and sustainable development of a cooperative, the cooperative Rabobank - Netherlands has particularly focused on three following economic principles, which the cooperative should always respect*

1. Serve at cost
2. Proportional principle
3. Principle of self – financing

# The 1st Economic  Principle

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## ***SERVE AT COST***

- ✓ The cooperative does not create an independent profit but it performs at minimum cost (price) to its members. The cooperative is “a margin organiser” for its members.
- ✓ However, the cooperative should make a surplus for reservation and expansion.
- ✓ Non-members and clients / customers are subject to profit maximisation.

## *PROPORTIONAL PRINCIPLE*

- ✓ The cooperative will allocate the returns and costs proportional with the members’ turnover.
- ✓ Proportionality will be also stated in members’ rights and duties, including liabilities and voting rights (plural voting);
- ✓ Proportionality will also be applied in reservation according to members’ turnover.

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## *PRINCIPLE OF SELF – FINANCING*

- ✓ The cooperative cannot, for its main business objective, attract risk bearing capital from external investors, because this would conflict fundamentally with the members' interests.
- ✓ Members have to provide themselves the risk bearing capital.
- ✓ For secondary operations, external participation is possible (joint ventures etc.).
- ✓ The self - financing principle is realised through liabilities, annual reservations, members' accounts etc.

## Leading to the following business practises

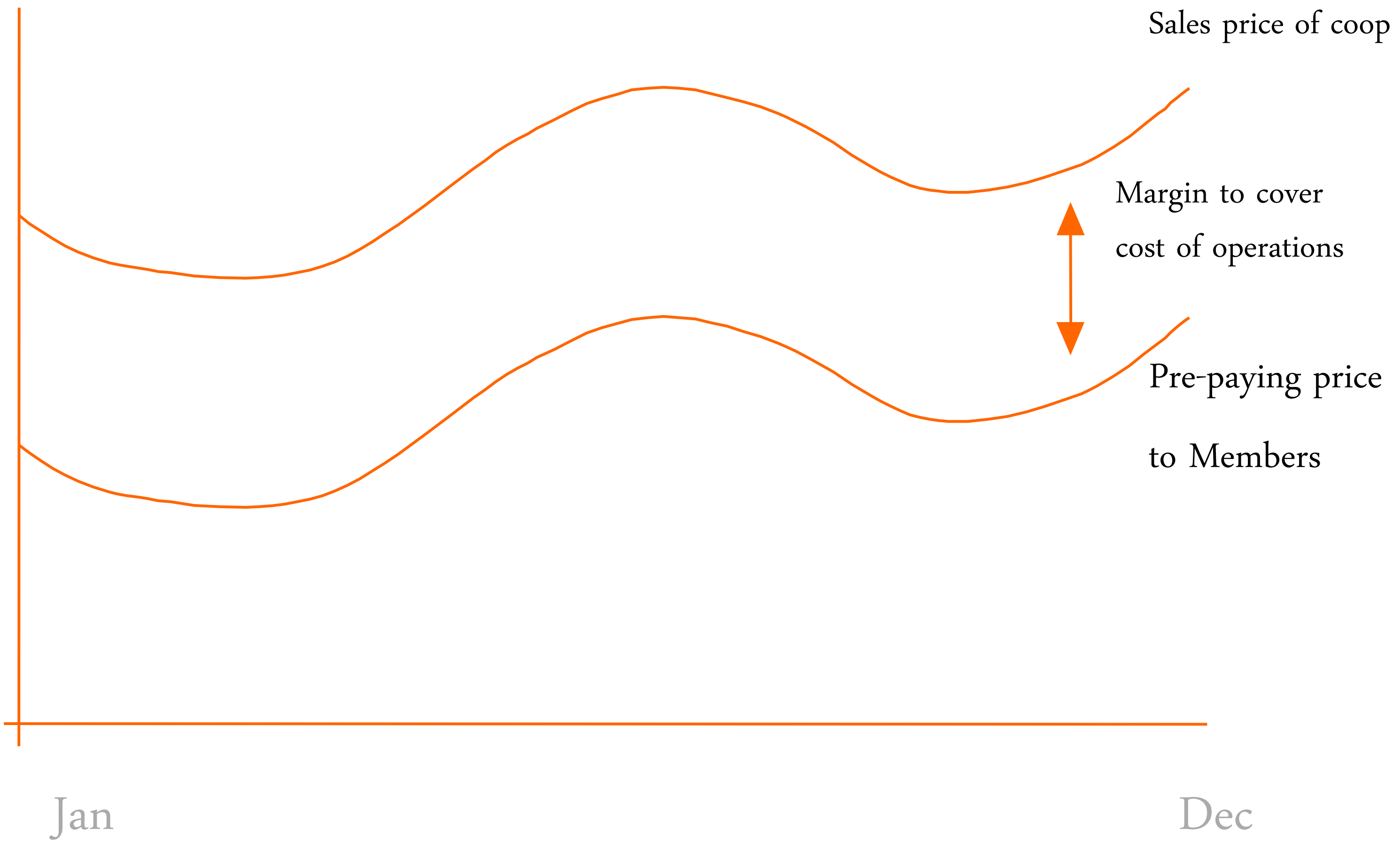
In line with these business principles, the cooperative and its members will logically apply the following business practices:

1) Prices (prepaid-prices, after payments) and conditions are uniform for all members. So the cooperative does not negotiate with its individual members about a price;

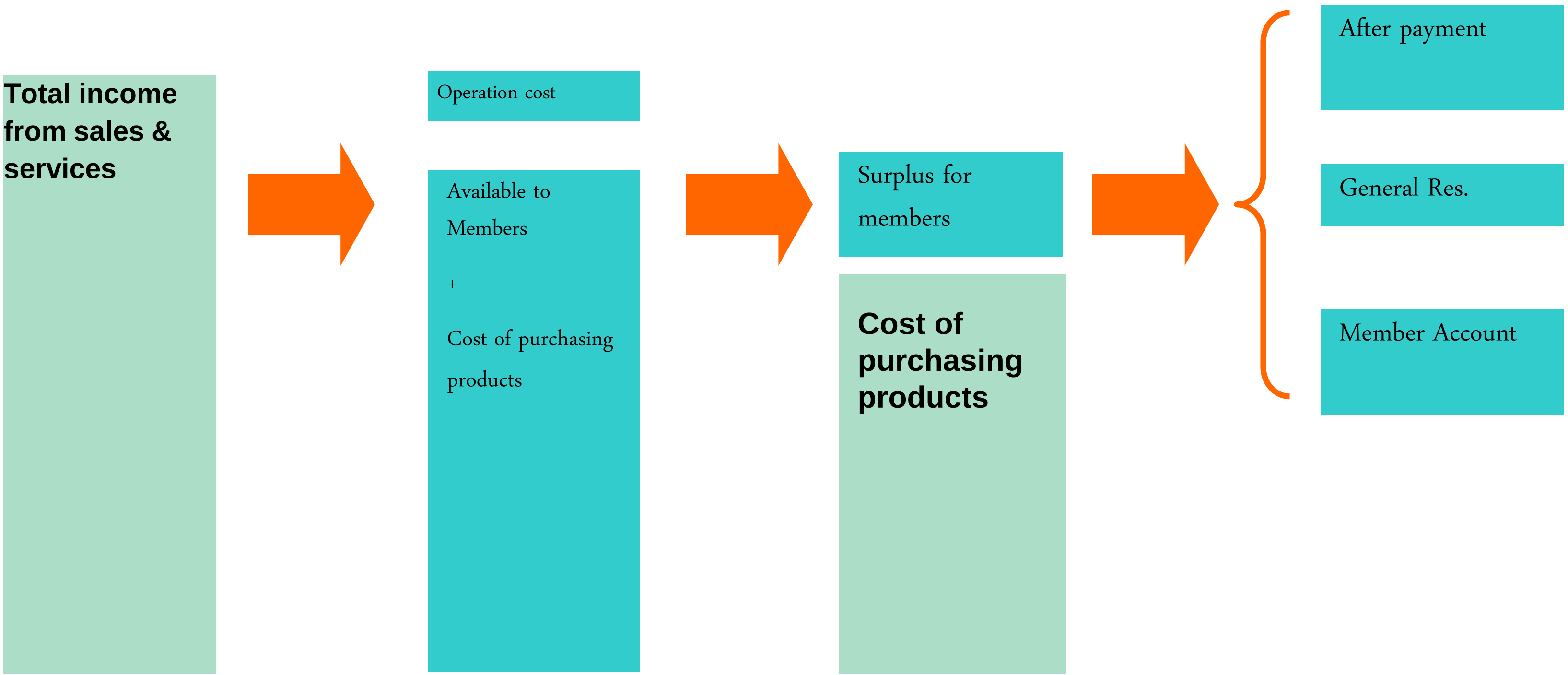
2) All appointments about operational matters, like collection and transport, sorting and grading, packaging, timing of supply etc., are determined by the members through a "Product Regulation" to be concluded/altered by the General Meeting;

3) In marketing cooperatives a 100% delivery duty of the members' product is an absolute condition to be(come) a cooperative with real market impact, because of the following reasons:
   - A marketing cooperative is more capital-intensive than other cooperatives such as input supply cooperatives due to the fact that the harvesting and sales season are not exactly the same and stock financing is also needed;
   - Subsequently, a large capitalization is necessary to cover the fixed costs and to become profitable for the members;
   - Side-selling undermines the price-process of the product and causes under-utilizations both of assets and professional staff.

# Surplus generation (Zero Loss Policy)



# Capitalisation requires a consistent reservation policy



# Example of captialization of Lam Vien Vietnam

*Without implementing a capitalization strategy the owner equity would only increase from VND 459 million (i.e. the paid in capital) to VND 689 million being 3.6 % of total resources. The increase of capital in this case is mainly due to new members entering the cooperative and paying their entrance fee.*
*However, with a capitalization structure in place the "owner equity" is projected to increase from VND 414 million to VND 6.247 million 32.9% of total resources. It is clear that without a proper capitalisation capacity this cooperative will not have any chance of attracting a bank loan.*

## BALANCE SHEET (million VND)

| ASSETS | the end of year | | | | | |
|---|---|---|---|---|---|---|
| | 2.010 | 2.011 | 2.012 | 2.013 | 2.014 | 2.015 |
| **CURRENT ASSETS& SHORT TERM INVESTMENT** | 860 | 13.934 | 15.227 | 15.687 | 17.122 | 18.819 |
| **Cash** | 860 | **4.003** | **4.043** | **4.033** | **4.240** | **4.649** |
| **Accounts receivable** | | **9.931** | **11.184** | **11.654** | **12.881** | **14.171** |
| **Fixed assets** | 300 | 241 | 182 | 124 | 173 | 114 |
| original value | 115 | 115 | 115 | 115 | 115 | 115 |
| Accumulated depreciation | | (23) | (46) | (69) | (92) | (115) |
| Long term prepaide expenses | 185 | 149 | 113 | 78 | 150 | 114 |
| **TOTAL ASSETS** | **1.160** | **14.175** | **15.409** | **15.811** | **17.294** | **18.933** |

| RESOURCES | | | | | | |
|---|---|---|---|---|---|---|
| **LIABILITIES** | 746 | 13.754 | 13.800 | 12.985 | 12.947 | 12.686 |
| Accounts payables-trade (other services) | | - | - | - | - | - |
| Payable to loans | 746 | 13.754 | 13.800 | 12.985 | 12.947 | 12.686 |
| **OWNER EQUITY** | 414 | 421 | 1.609 | 2.826 | 4.348 | 6.247 |
| Paid in Capital | 459 | 505 | 551 | 597 | 643 | 689 |
| Retained earnings | (45) | (84) | 1.058 | 2.229 | 3.705 | 5.558 |
| **TOTAL RESOURCES** | **1.160** | **14.175** | **15.409** | **15.811** | **17.294** | **18.933** |

# 3. Financing Mature Cooperatives

# What makes coops different from private companies I?

**1. Solvency & Member liability**

- ✓ In some coops members jointly guarantee the debt
- ✓ This may be off-balance, and not be recognized by Risk Rating Systems
- ✓ Key question is if the members are able to pay-up if needed

**2. Member linkages & obligations**

- ✓ Members have (exclusive) supply duty & unlimited supply rights
- ✓ Means that Coop has guaranteed supply of raw material
- ✓ Strong member linkages improves the risk profile of the cooperative
- ✓ Benchmark: As long as members are responsible for 2/3rd of turnover and alternatives are scarce
- ✓ This is not recognised by general Risk Rating Systems

**3. Profitability**

- ✓ A Coop maximises profit for members, hence typically has lower profit than private peers
- ✓ Either by higher cash payment and/or by second payment post-season
- ✓ Risk Rating Systems do not correct for difference
- ✓ One could re-calculate profitability by correcting for higher (after) payment

# What makes coops different from private companies II?

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**4. Member self-financing**

- ✓ Member Capital on member-accounts is paid-out after retirement but can still be considered as equity because 1) it can be used to set-off against losses, 2) it can be used to repay loans in case of liquidation and 3) it does not carry a remuneration
- ✓ Member Debt on member-accounts are part of long-term debt and often subordinated to other debt.
- ✓ Member Debt increases by 1) retention of fixed portion of member turnover, 2) retention of annual surplus at the expense of cash pay out to members
- ✓ Refinancing risk is usually low because it is automatically replenished each year
- ✓ Defacto one can consider this as risk bearing capital (but Risk Rating Sytems do not recognise this)

**5. Corporate Governance**

- ✓ Members have indirect influence on governance and strategy since they are represented in the Board/Supervisory Boards
- ✓ If this leads to too much focus on member interests this could go at the expense of the cooperative
- ✓ It could also lead to lack of professional skills and market knowledge (inside focus)
- ✓ Risk Rating Models do not recognise risk of the Board and Governance sufficiently

# Checklist Cooperatives

| Characteristics Cooperative | Rating correction |
|---|---|
| **Member liability**<br>- Do members have limited liability?<br>- Can members deliver under liability in case of liquidation?<br>- Can the bank enforce member liability? | |
| **Member linkages and obligations**<br>- Are members responsible for > 2/3rd of supply?<br>- Are alternative off-takers limited?<br>- Does member linkages contribute to risk profile of cooperative? | |
| **Profitability**<br>- Are members responsible for > 2/3rd of supply?<br>- Is part of cost directly linked to profit maximisation of members?<br>- Is profit influenced above or below EBIT level? | |
| **Financing**<br>- How stable is subordinated member debt, i.e. how large is refinancing risk?<br>- Is tenor at least 7 years?<br>- How "sticky" is membership? | |
| **Cooperative governance**<br>- Is there sufficient external knowledge available and professionality?<br>- In case of a financially weak cooperative, will the member interest prevail or the interest of the Cooperative? | |

# 4. Financing developing Cooperatives

# Value chain approach should be leading

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**Asset Finance**

Farmers → Coops → Processors → Traders

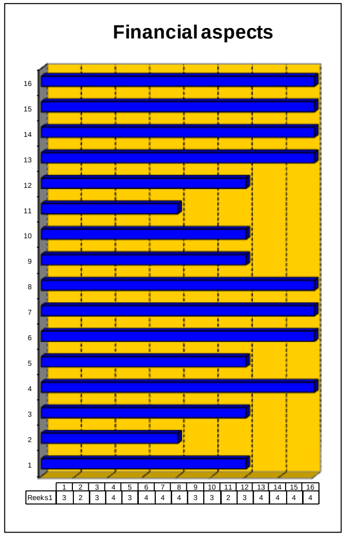
**Farmers**
- Save For Loan
- Credit score cards
- Outgrower schemes
- Emerging farmer programs

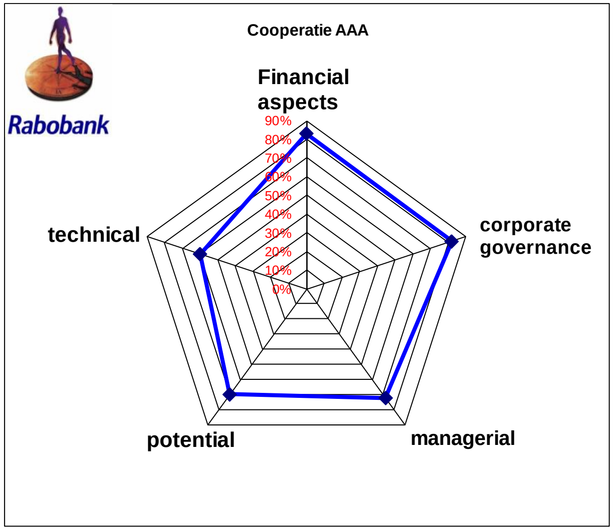
**Coops**
- Input financing
- Raw Material Collection Financing
- WHR financing
- Cooperative capacity building

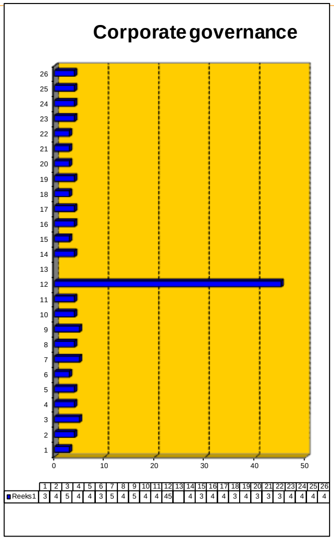
**Processors**
- Working Capital
- WHR financing
- Trade & Commodity Finanance

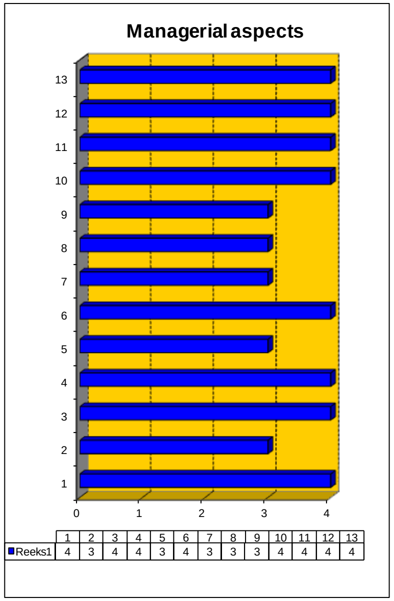
**Working capital**

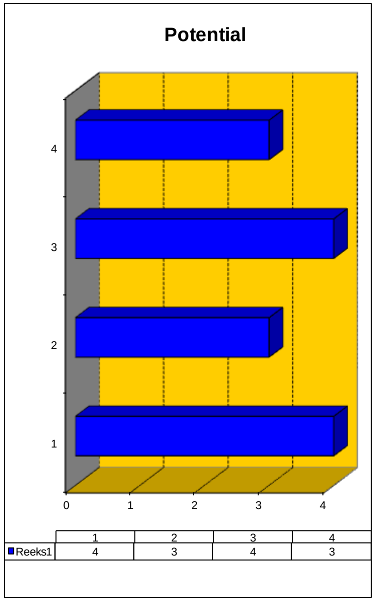
# Coop Score Card

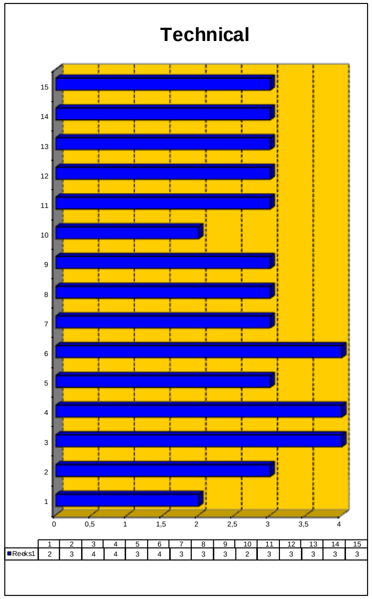


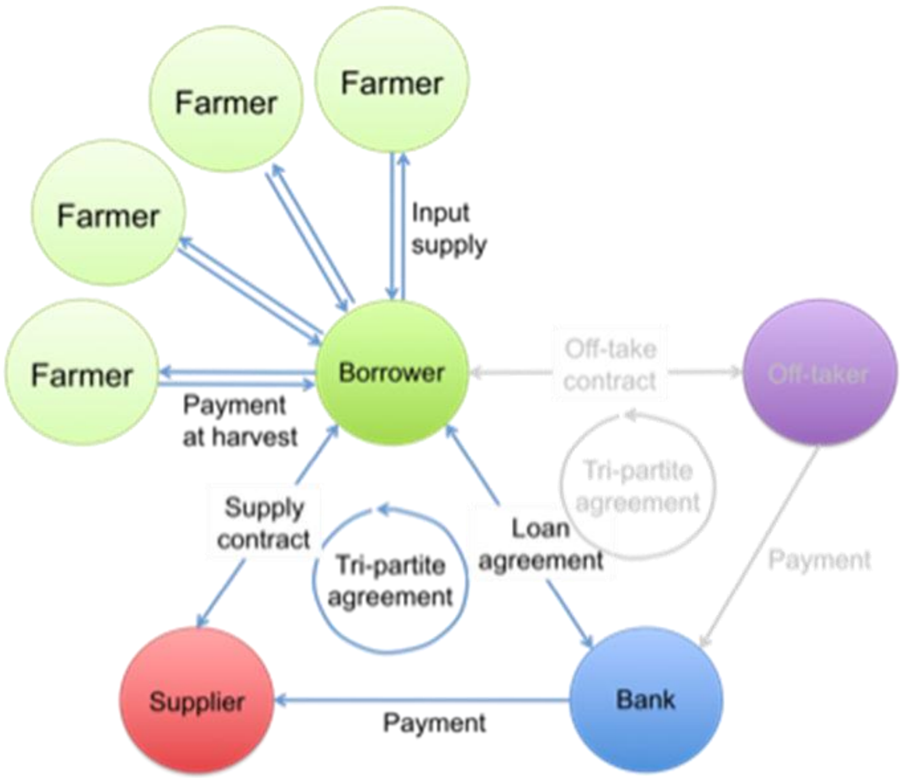



# Coop Score Card

| | | *Checklist  Score Card Cooperatives* | *(bad/no) 0-1-2-3-4-5(excellent/yes)* | *max score* | *percentage of maximum* |
|---|---|---|---|---|---|
| 1 | | **Financial aspects** | | | |
| | **1** | Quality of cash flow management | 3 | | |
| | **2** | Quality of record keeping and book keeping | 2 | | |
| | **3** | how developed owners equity of the cooperative during past 3 years | 3 | | |
| | **4** | Level of seasonality of the business | 4 | | |
| | **5** | Is the cooperative able to prepare cash flow statements, forward planning and monthly cash flow reviews | 3 | | |
| | **6** | Does the cooperative have an operational/administrative manual and monitoring system (budget vs reality) | 4 | | |
| | **7** | How is surplus divided (based on turn-over with cooperative) | 4 | | |
| | **8** | Does the cooperative budget for its activities | 4 | | |
| | **9** | Are payments to members done through bank accounts | 3 | | |
| | **10** | Go payments of Input and sales  through bank accounts | 3 | | |
| | **11** | % of members with bank account | 2 | | |
| | **12** | Track record of banking activities | 3 | | |
| | **13** | Needs for working capital | 4 | | |
| | **14** | Needs for investment finance | 4 | | |
| | **15** | Is there a need for financial training | 4 | | |
| | **13** | Access to banking | 4 | | |
| | **100%** | **overall score** | **54** | **65** | **83%** |

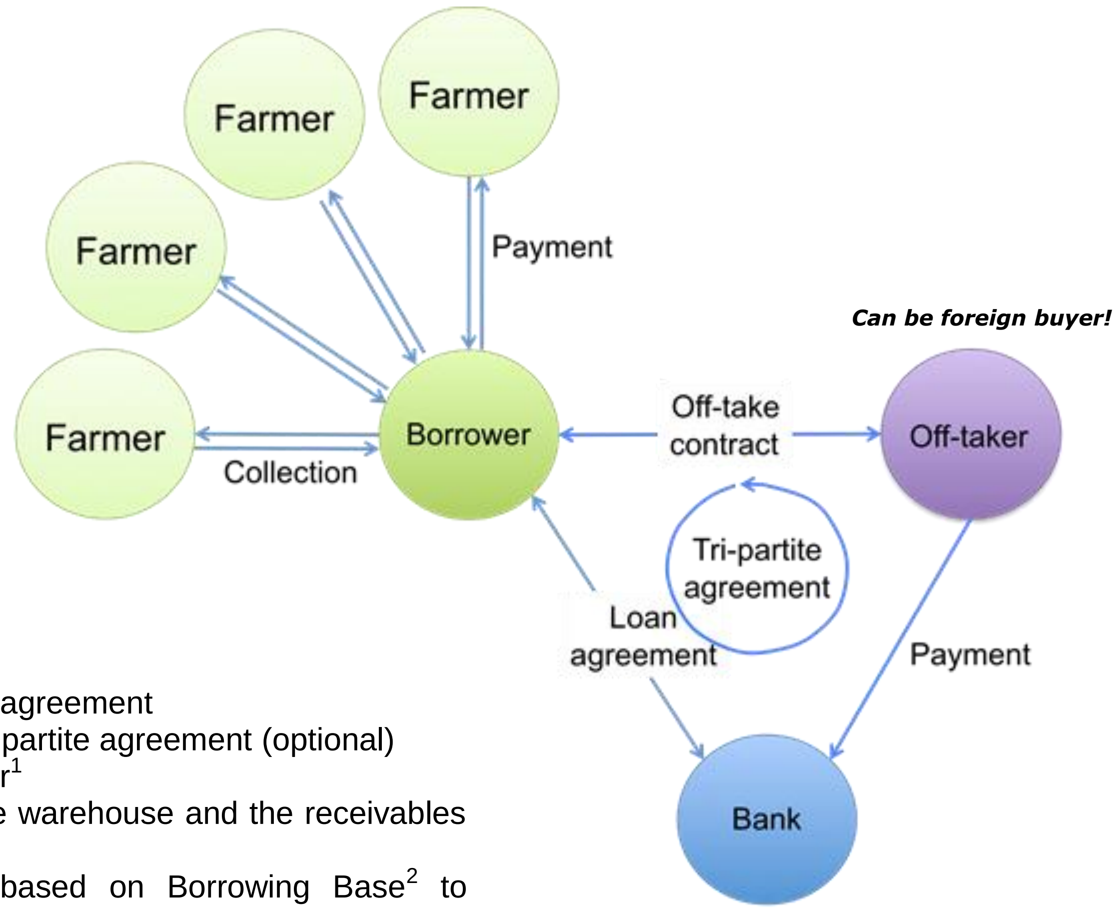
# Input Finance




**Key steps**

1. Borrower, Input Supplier and Bank sign 3-partite agreement
2. Supplier delivers inputs to Borrower and presents invoice to Bank
3. Bank pays directly to Supplier
4. Borrower distributes inputs among members
5. At harvest members deliver to Borrower
6. Borrower deducts input cost from sales proceeds
7. Borrower repays to Bank

# Raw Material Collection Finance

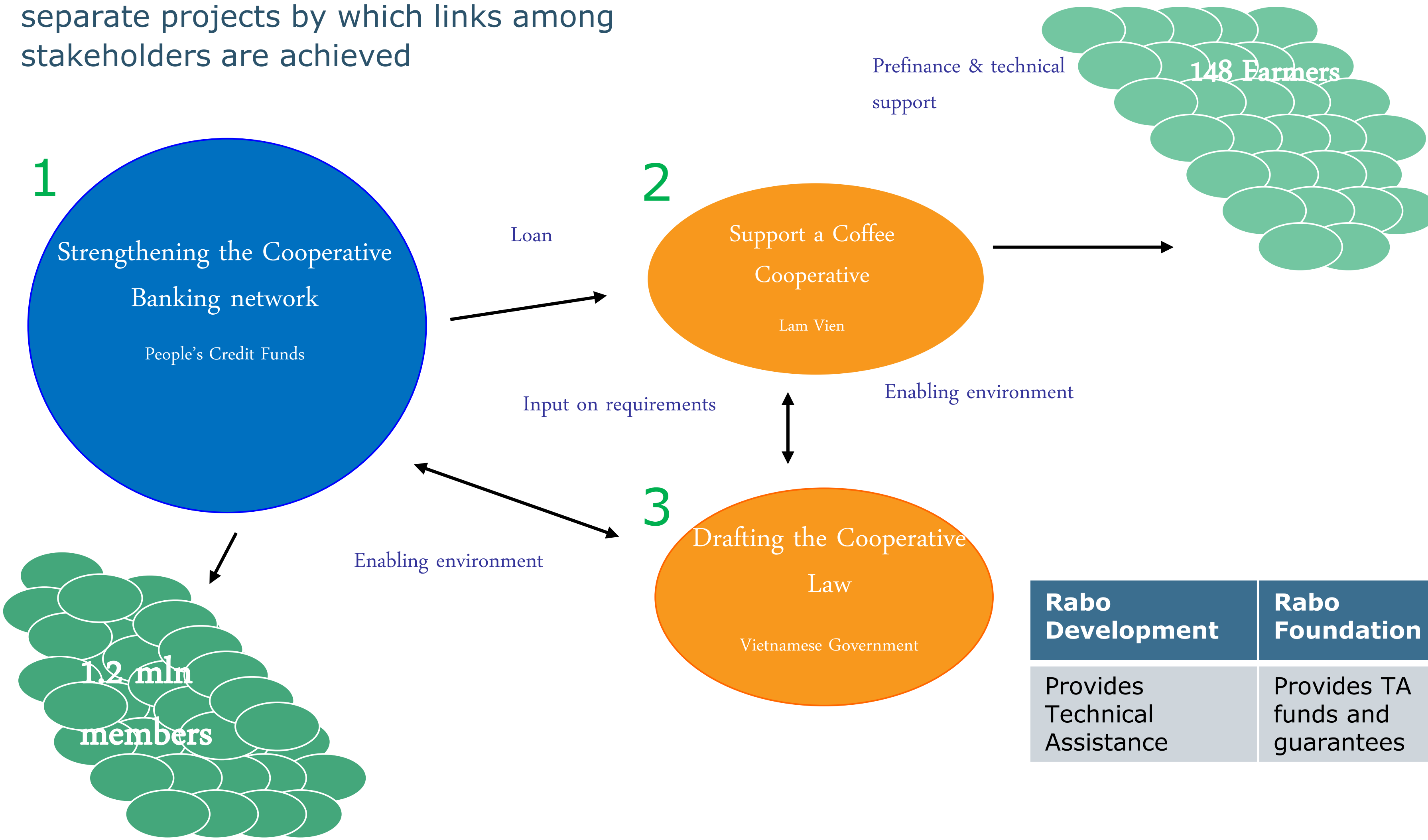



**Key steps**

1) Borrower and Off-taker enter into off-take agreement
2) Borrower, Off-taker and Bank enter into tripartite agreement (optional)
3) Borrower collects raw material from farmer[1]
4) Borrower submits update on stocks in the warehouse and the receivables position vis-à-vis the off-taker to the Bank
5) Bank disburses agreed advance (%) based on Borrowing Base[2] to Borrower
6) Borrower pays advance rate to Farmer
7) Off-taker pays off-take purchase through Bank[3]
8) Borrower delivers raw material to Off-taker

# Example Vietnam – Coop Capacity Building & Finance

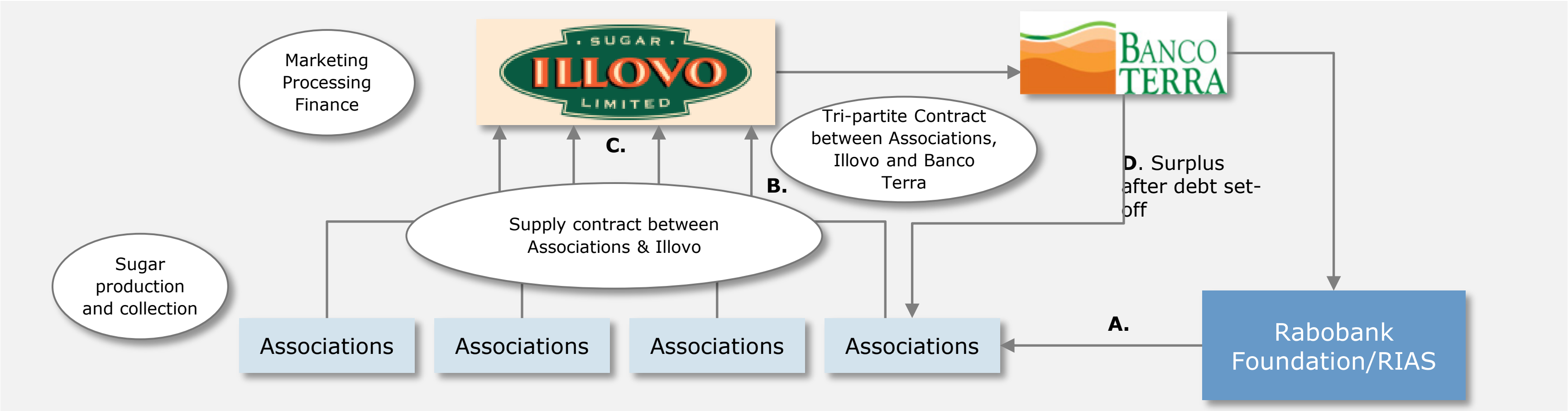
Together with Rabo Foundation involved in 3 separate projects by which links among stakeholders are achieved




| Rabo Development | Rabo Foundation |
|---|---|
| Provides Technical Assistance | Provides TA funds and guarantees |

# Rabo Development financing – Illovo case

*Outgrower scheme*




### *How the outgrower scheme model works*

**A.** **RIAS (Advisory arm of RD)** provides technical assistance to associations and designs supply chain finance structure. **Rabobank Foundation** sponsors technical assistance provided by RIAS

**B.** **Illovo and Associations sign supply contracts,** Illovo, Associations and Banco Terra sign 3-partite contract allowing Banco Terra to use sugar proceeds for direct set-off against Associations debt and interest

**C.** **Associations** supply cane to Illovo, Illovo pays into the Association accounts with Banco Terra

**D.** **Banco Terra** deducts debt and interest from sales proceeds, any surplus is transferred to the Associations

### *Financing*

- Rabo Foundation
  - **Donation** for technical assistance: salary of person who started the 4 associations, much technical administration work
  - **Donation** for infrastructure (irrigation)
  - **Funded guarantee** to Banco Terra
  - Paying for cost of RIAS
- Banco Terra
  - **Long term loan** for drainage system (7 year loan)
  - **Working capital** (to finance planting of sugar & labour cost)

# 4.Conclusions

# Conclusions

- ✓ Cooperatives can be ideal vehicle for farmers to increase bargaining power and add value to their raw material
- ✓ But they need to stick to business principles otherwise they will fail
- ✓ In developed markets some 60% of F&A business is dominated by Coops
- ✓ These are often multinationals but still distinguish due to 5 key differentiators
- ✓ Banks need to be aware of these differences to come to a balanced risk assessment
- ✓ In developing countries, cooperatives often stay weak due to lack of capitalization strategy, weak management and lack of scale
- ✓ Score cards can guide bankers in risk assessment
- ✓ The value chain approach should be leading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