

— *IEP Instituto de Estudios Peruanos*

# **Agricultural Development Banks: Latin American experiences**

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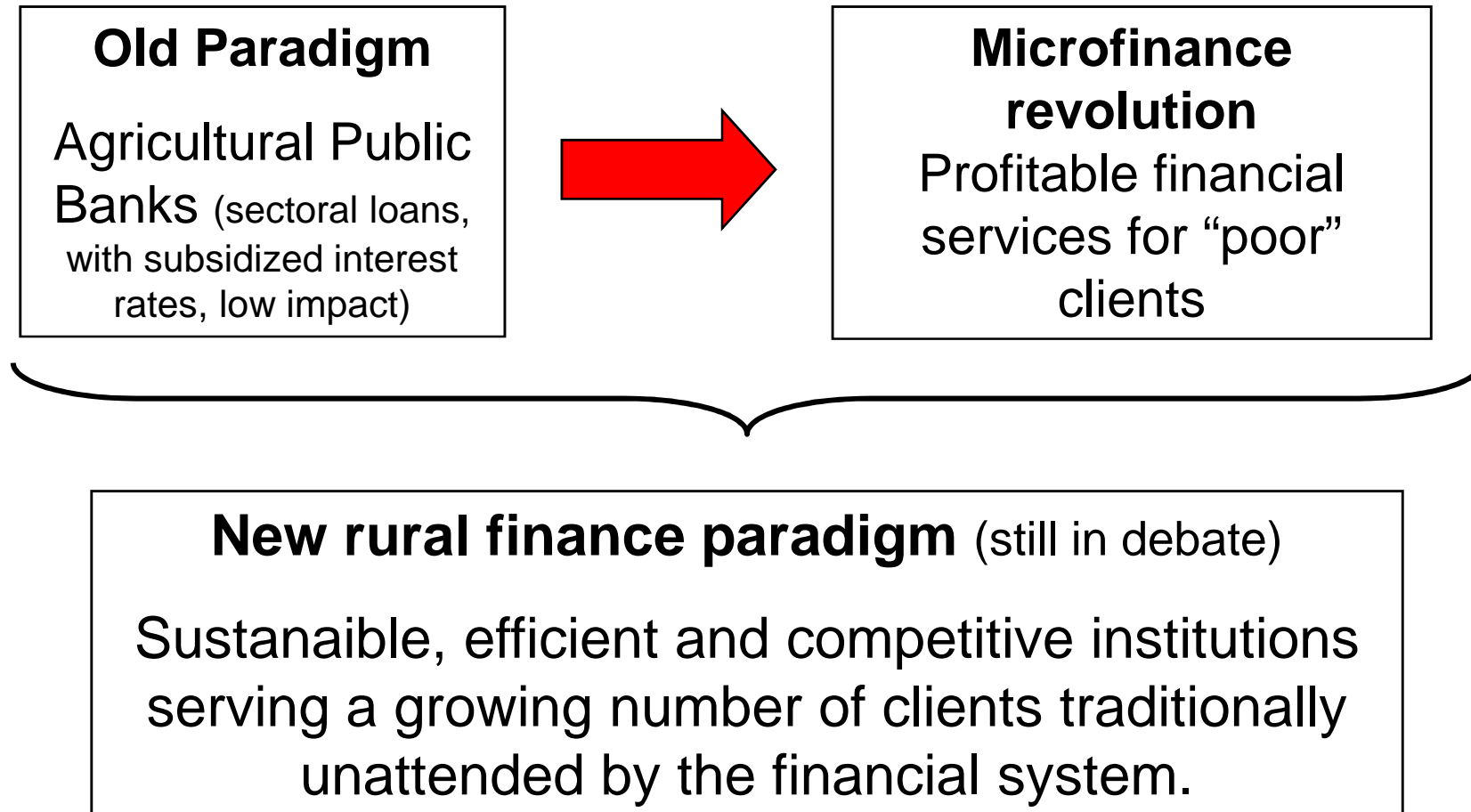
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# I. Context

# Conceptual Framework

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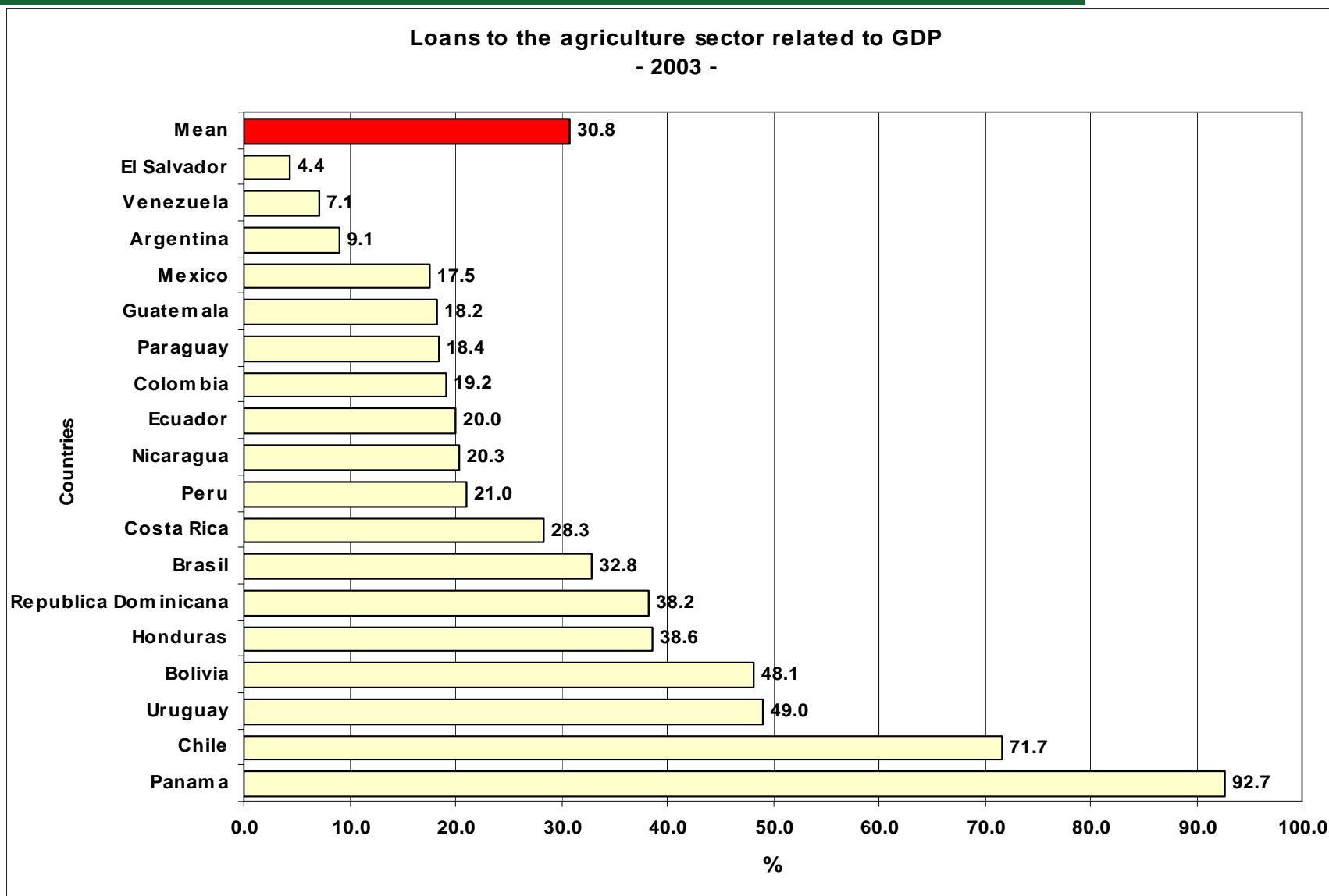


# Regional Context and Rural Finance

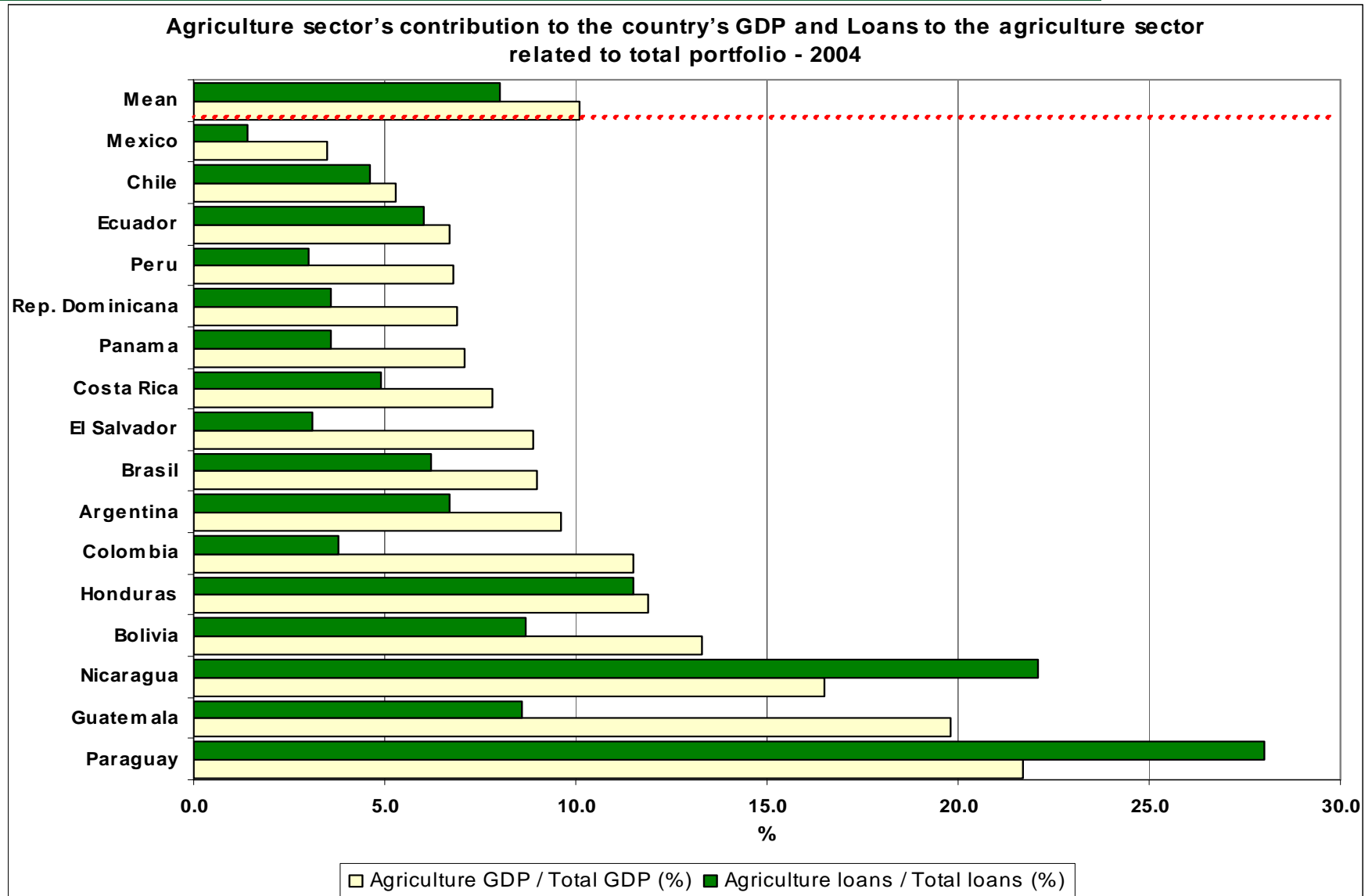
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- Latin America is an heterogeneous region → rural financial markets development and depth difficult to generalize.
- Total credit to the private sector is in average near 31% of the GDP.
- In almost all countries, the financial system places a small percentage in agriculture (less than the agricultural sector's contribution to the country's GDP).
- Loans to the agricultural sector are a small fraction of the total credit portfolio.
- Development institutions are more important (as credit providers) in rural finances than in other sectors.

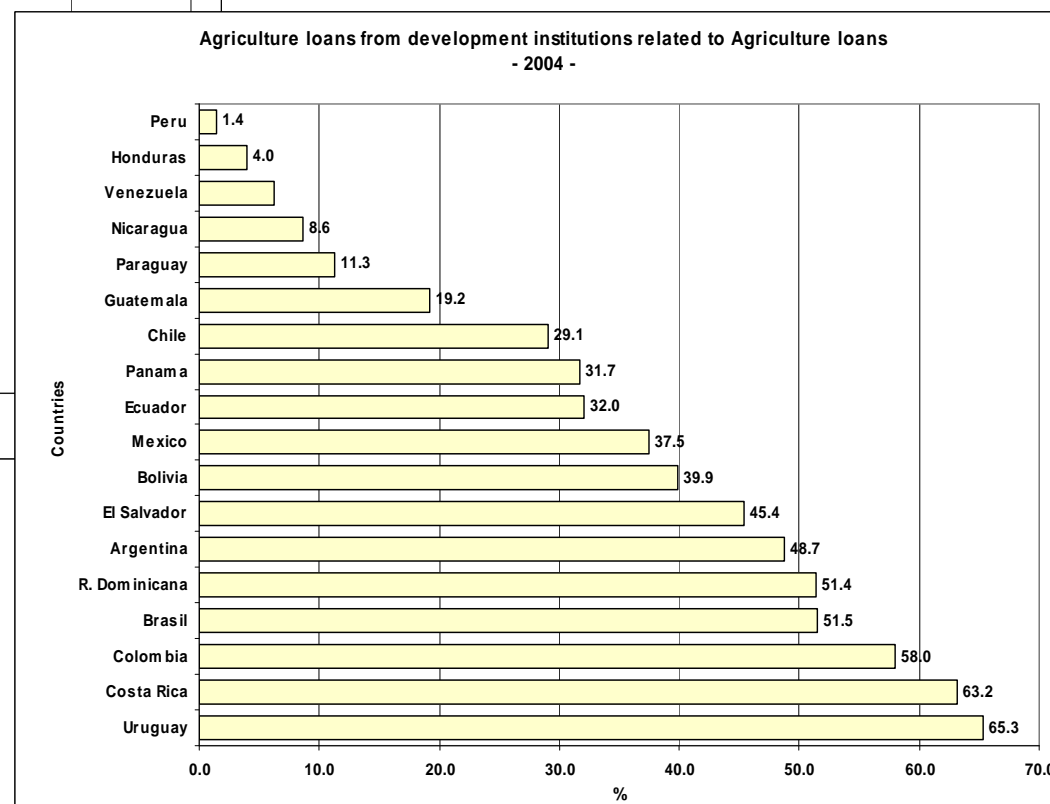
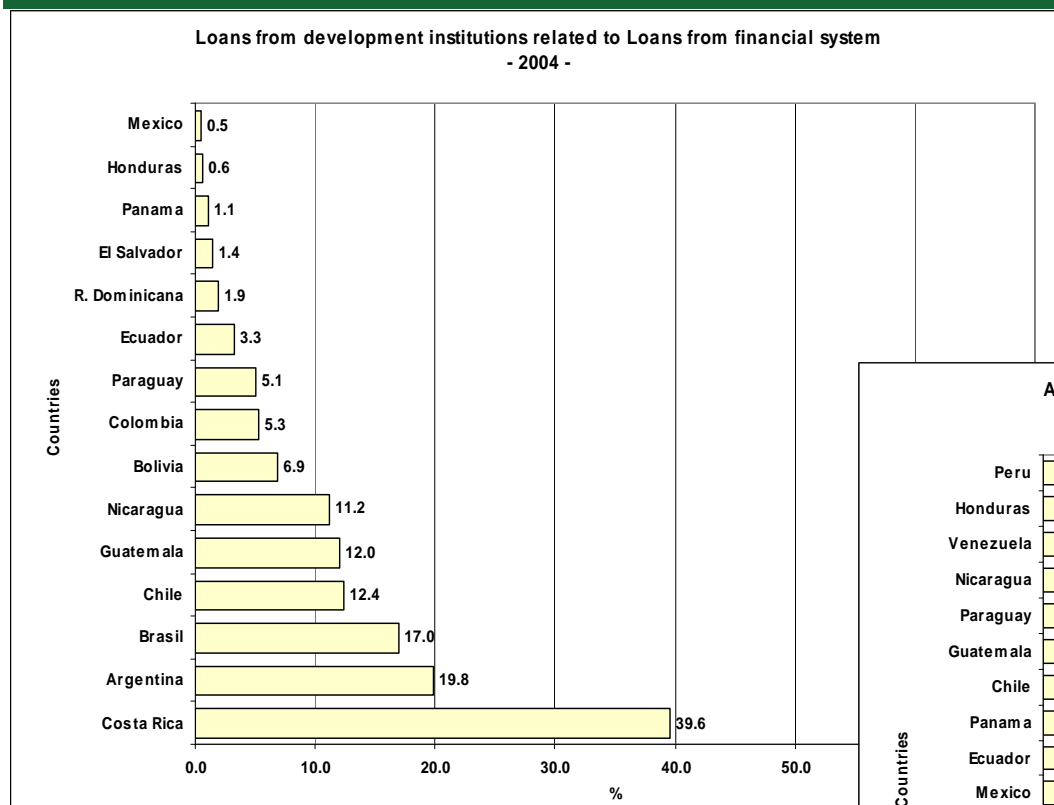
# Regional Context and Rural Finance



# Regional Context and Rural Finance



# Regional Context and Rural Finance



# Development Finance Institutions in Latin America

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- In Latin America there are 108 development finance institutions (DFI's).
- 32 of them offer rural and/or agricultural credit:
  - ✓ 10 are specialized.
  - ✓ 11 lend less than 30% to the agricultural sector (in average, 11.5% from their portfolio's total).
  - ✓ 11 lend 51% to agricultural sector.



# Development Finance Institutions in Latin America

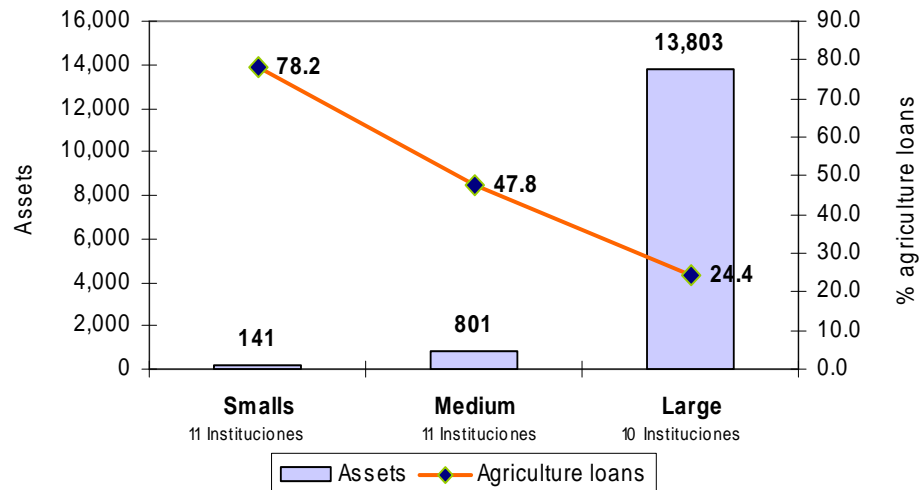
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- These institutions have different scales (assets):
  - ✓ 11 are small.
  - ✓ 11 are medium size.
  - ✓ 10 are large.
- The large institutions have better operational efficiency, higher ROA, lower delinquency rate and lower administrative and personnel costs in relation with their [profitability](#).

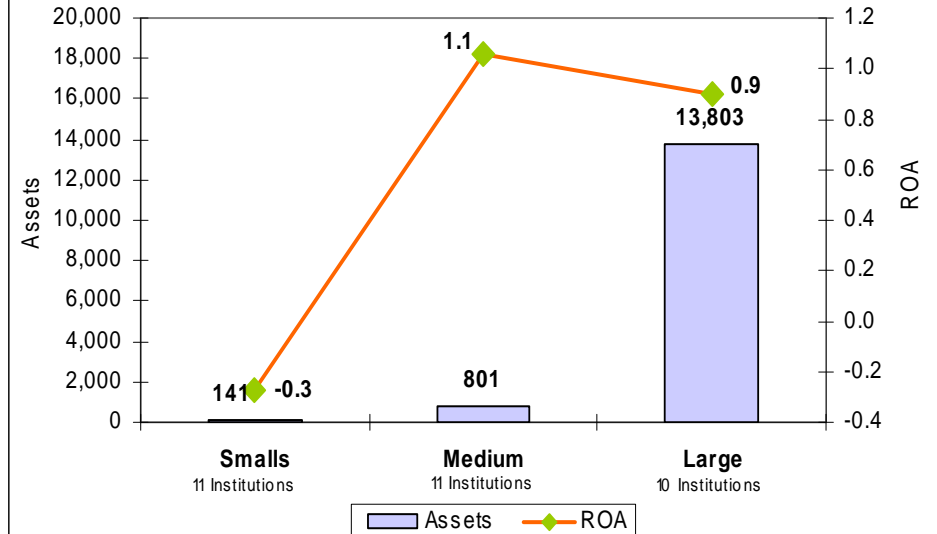
**....larger, multi-sectoral institutions, with less agricultural sector loans seem to do better, as do second-tier institutions...**

# Development Finance Institutions in Latin America

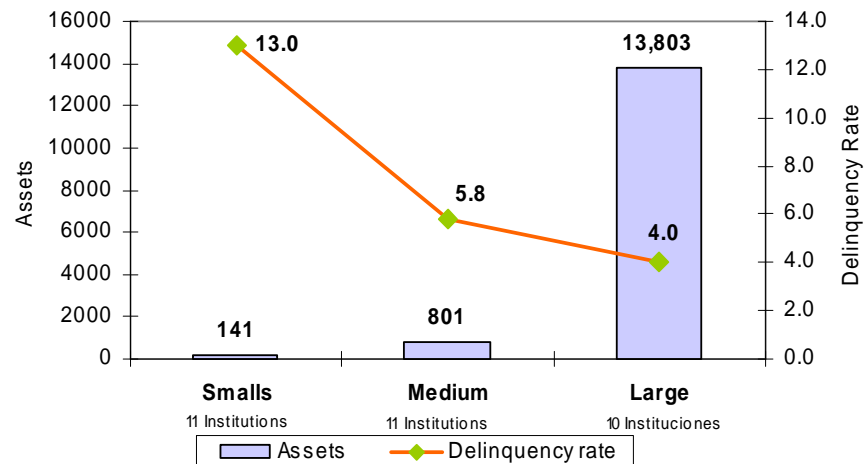
Asset scale and Average loan allocations in agriculture sector



Average assets scale versus average ROA



Average assets scale versus Average delinquency rates



# The second-tier option

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- In theory, second tier options are attractive...
- 8 of the 32 DFIs lending to the agricultural sector work exclusively under the second-tier modality (but they have only the 6.6% of the assets).

**Number of public development financial institutions with an agriculture portfolio**

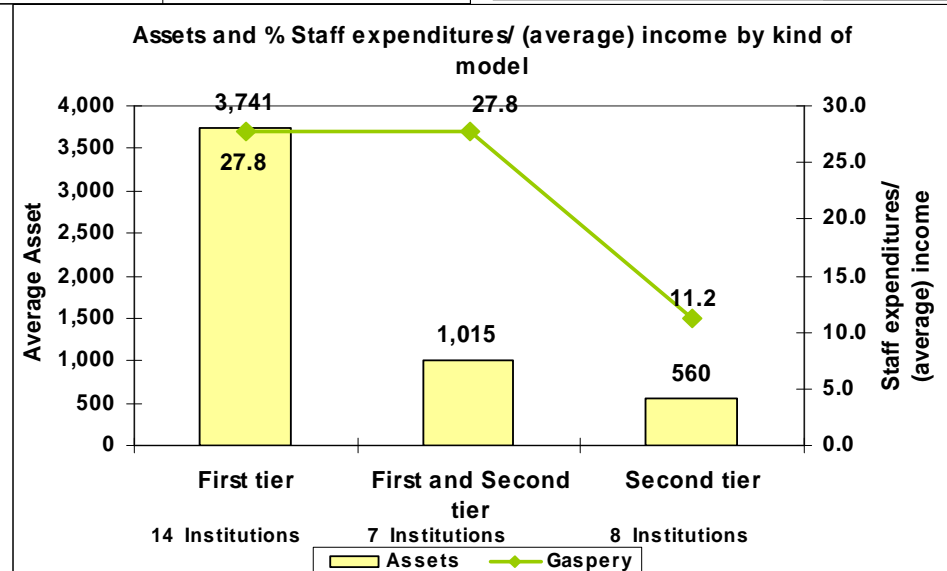
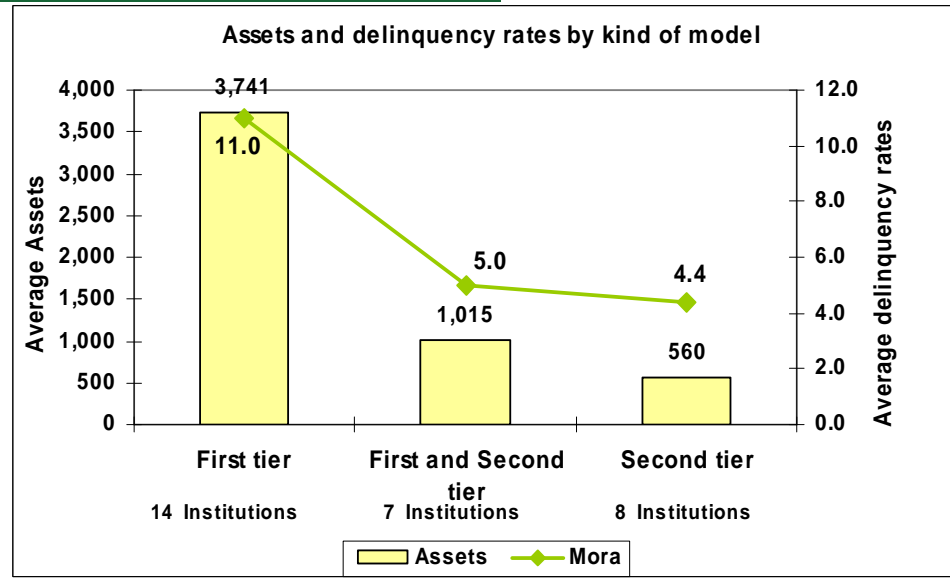
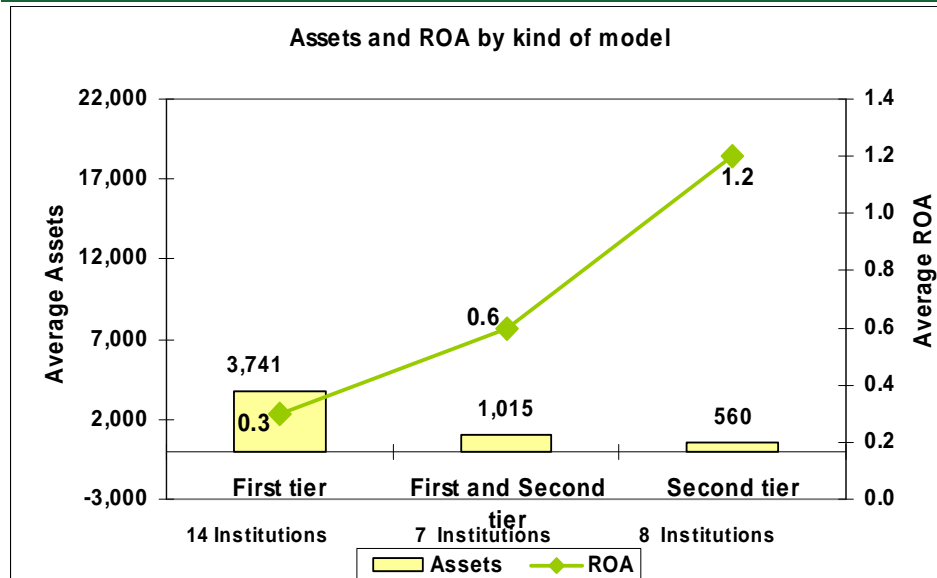
	<b>First tier banks</b>	<b>Second tier banks</b>	<b>First and Second tier banks</b>	<b>Total DFIs banks<sup>1/</sup></b>
80's decade	22	4	1	27
90's decade	19	10	1	30
00's decade	15	9	8	32

1/ Represents the number of institutions working in 19 Latin America Countries

Source: Public Banks web sites & ALIDE

- These 8 entities do better than the [rest...](#)

# The Second-tier option



# Development Finance Institutions in Latin America

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**So, these agricultural development institutions are a relevant group, as well as, important (regarding portfolios, number of clients and outreach) they are , also, here to stay. Of course, they face a number of problems and critics.**

**The question is, how to help them to carry out better work and lead (promote) developments in rural finance.**

*(¿multi-sectorial, mixed ownership, larger DFIs, second-tier?)*

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## **II. Some Latin American experiences**

# Some interesting cases for discussion

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- We chose 8 cases, in 7 countries in the region
  - with different financial systems and diverse agricultures.
  - with how heterogeneous responses, each country selects an old problem to face and how to promote their rural financial market.
- These 8 cases offer valuable lessons to discuss and enrich the conceptual debate over role and potential of development banking.
- 3 central topics:
  - operation modality (1st and 2nd tier)
  - governance and independence from public sector interference, and
  - outreach in the small farmer sector.

# Some emblematic cases

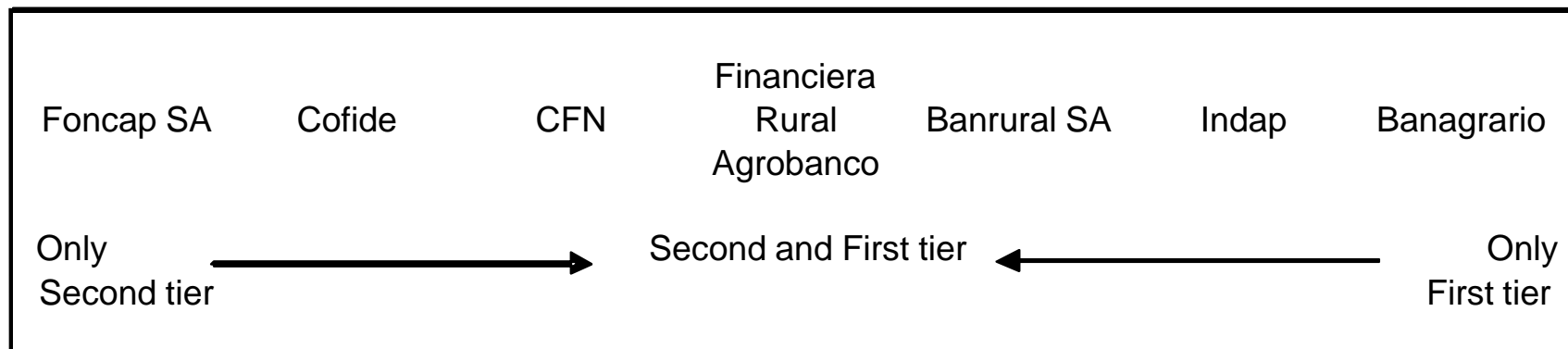
Institution	Type of entity	Directors Number	Model	Targeted Public	Capital
<b>Argentina - FONCAP SA</b>	Private with mixed capital (private-public)	Between nine and thirteen members (4 from public sector)	Second tier	Micro enterprise	Mixed
<b>Chile - INDAP</b>	Decentralized Ag. Ministry office	Doesn't have a directory	First and Second tier	Agriculture sector	Public
<b>Colombia - Banco Agrario</b>	Private with public capital	seven members	First tier	Agriculture sector	Public
<b>Ecuador - CFN</b>	Independent public financial institution	Seven members (2 from the private sector)	First and Second tier	Multi sectorial	Public
<b>Guatemala – Banrural SA</b>	Private	Ten members (7 from the private sector)	First and Second tier	Rural areas	Mixed
<b>Mexico - Financiera Rural</b>	Decentralized organism from the Federal Public administration	Fifteen members (6 from private sector)	First and Second tier	Rural areas	Public
<b>Peru - Agrobanco</b>	Private with mixed (public)	Seven, actually only have three	First and Second tier	Agriculture sector	Public (Could be mixed)
<b>Peru - COFIDE</b>	Private with mixed capital	No less than six or more than eleven (at least one is private)	Second tier	Multi sectorial	Mixed (But Public sector has the 98.2%)



# 1st and 2nd tier

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## Kind of model over the 8 cases



# Institutional Proposal

Key consensus in rural finance

	Rural orientation (or multi sectorial) and not only agricultural	Offers other financial services (rural clients) and not only loans	Operational and financial sustainability (High recovery rates (+90%), market interest rate)
Foncap SA	+++	●	+++
INDAP	●	●	++
Agrobanco	+	●	++
COFIDE-PFE	+	+	++
CFN	+++	●	++
Banagrario	++	+++	++
Banrural SA	+++	+++	+++
Financiera Rural	+	●	+++

+++ : applies completely; ++ adopted in part; + is being adopted; ● not adopted.

# Property structures and governance

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- Building shielding mechanisms to protect against the public sector intervention:
  - ✓ Private investors and presence of the private sector in governance structures (boards of directors).
  - ✓ Independence from the public budget ⇒ their own or “delegated” capital.
  - ✓ Strong oversight bodies and accountability mechanisms for their activities, outcomes and procedures.
  - ✓ Other specific recommendations like establishing no more than half or one third of the board of directors be appointed or replaced at any given time, not to coincide with the political cycle, or directors appointed by the public sector be named by both the executive branch and Congress, or by Congress based on recommendations (candidate lists) from the executive branch.







# Property structures and governance

## Progress in adopting measures to increase the independence of development finance institutions

	Majority private shareholders	Director (not shareholders) from the private sector	Own or delegated capital	Receives public funding (from national regular budget)	Control and supervision by public sector (pu), private sector (pr) and civil society (cs)
Foncap SA	+++		+++	●	pu,pr, cs
INDAP	n.a.		+	+++	pu,cs
Agrobanco	+		+++	++	pu, cs
COFIDE-PFE	●	+ (1 of the 6)	+++	●	pu
CFN	●	++ (2 of the 7)	+++	++	pu
Banagrario	●	+ (4 of the 7)	+++	+++	pu,cs
Banrural SA	+++		+++	●	pu,pr,cs
Financiera Rural	●	++ (6 of the 15)	+++	++	pu,cs

+++: applies completely; ++ adopted in part; + is being adopted; ● not adopted. N.a. Not applicable

# Serving small scale agriculture?

			Delinquency rate
Banrural SA		17% with loans less than US\$ 650 48% with loans between US\$ 650 and US\$ 2,600	1.4%
INDAP		Clients with 5 irrigated hectares (average).	11% (4% is delinquency rate, the rest non collectable)
Banagrario		90% receives less than US\$ 4,160	4.2%
Financiera Rural		90% receive less than US\$ 2,400	2.9%
Agrobanco		Loans to small farmers depend on special allocations	6.2%
Cofide PFE		6 of the 23 PFE have loans less than US\$ 10,000 (K+I) Clients with 5.15 has (average)	0.75%

# Products and services for small farmers

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- The greatest challenge is still to create **competitive mechanisms, products and services** able to respond to the financial demands of rural society and small farmers.
  - Another relevant task in need of being addressed by DFI is the promotion of mechanisms, reforms and processes to improve the operation conditions of rural financial markets.
- ➔ Policy Dialogue process
  - ➔ Information, dissemination and setting in the public agenda the rural finance challenges

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**In closing**

# 8 messages to share

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1. Development banks serving agriculture (specially public sector development banks) are relevant in Latin America and here to stay.
2. As theory recommends, development banks increasingly operate more as second tier banking institutions and under a multisectoral approach.
3. Development banking serving farmers in Latin America is heterogeneous. There is not a single model for these banks, there are instead responses to the agriculture sector contexts, financial sector contexts. Some proposals are more traditional and others, more innovative.



# Eight messages that the study should transmit

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4. There is consensus on a series of recommendations about the characteristics of a “good” development bank: operating more as second tier institutions, providing diverse financial services, becoming financially sustainable, and operating in various sectors and not only in agriculture.
5. While the cases analyzed show that development banking serves significant groups of small farmers, their main challenge is still to broaden their coverage, offering better products and services without sacrificing financial sustainability.

# Eight messages that the study should transmit

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6. One neglected area regarding development entities, most of which use public funds, is the policy dialogue that should create an environment conducive to the development of the rural financial market.
7. In most of the cases analyzed, institutions have undergone reforms or were created upon the closure of another development entity that had collapsed.
8. There are no adequate instruments for evaluating the performance of development institutions.

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A summary of the research results can be  
download (in English) at:

[www.bancosdesarrollo.org](http://www.bancosdesarrollo.org)

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