
GUARANTEE FUND: A FINANCIAL TOOL FOR AGRICULTURE IN LATIN AMERICA



Wilfredo Necochea
President of FOGAL
sosf@amauta.rcp.net.pe

GUARANTEE FUND

Encourage banks and/or financial institutions to grant loans either directly or through intermediaries to sectors of the population experiencing difficulties in accessing credit because:

- a) Their activities are high risk
- b) They lack real guarantees



THE NEED FOR GUARANTEES IN THE AGRICULTURE SECTOR

- a) Agricultural organisations such as cooperatives, rural associations and communities need significant funds for harvesting crops and for carrying out shared marketing activities.
 - b) Microfinance institutions that grant loans to small producers and vendors in rural areas.
-

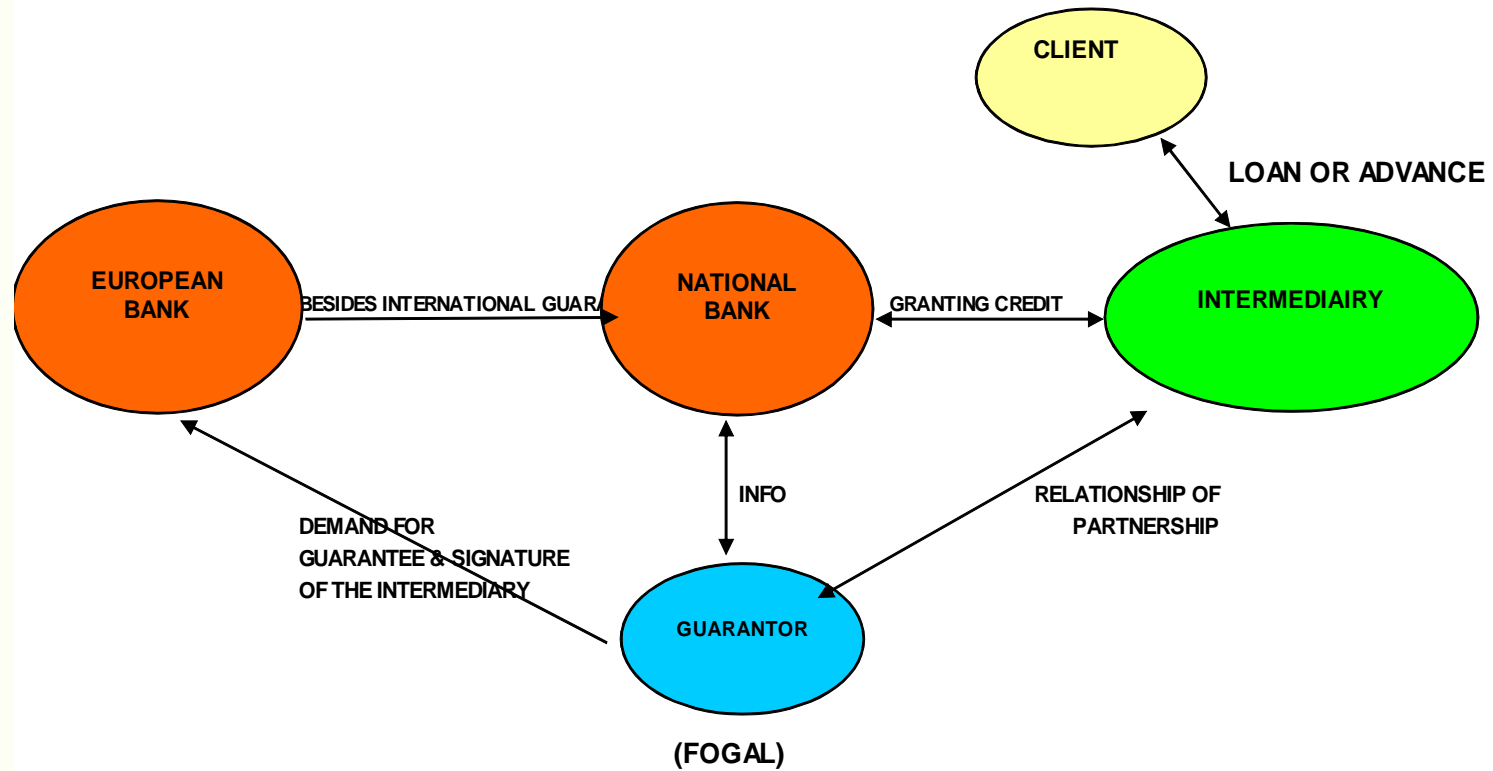
PROPOSITION TO RESPOND TO NEEDS: FOGAL

FOGAL (Latin American guarantee fund) is an organisation specialising in granting guarantees to coffee, cacao, banana, and quinoa cooperatives etc. and to rural microfinance institutions so that they can access loans from private banks and from the State and/or international organisations (many of which are European) that grant loans.



MODEL USED BY FOGAL

Intermediary model



DIRECT EFFECTS OF GUARANTEES ON AGRICULTURAL ORGANISATIONS

On operations:

- 1) Increase in funds
- 2) Improved conditions for obtaining finance
- 3) Better interest rates on loans
- 4) Longer term contracts
- 5) Increase in received amount of credit on the guaranteed amount



DIRECT EFFECTS OF GUARANTEES ON AGRICULTURAL ORGANISATIONS

On the strategy:

- Creation of formal/commercial relationships with banks and other financial organisations (often for the first time) with a view to a long term financial strategy.
- Diversification of the sources of funds, improvement of risk profile (no longer depend on one source of finance), key to sustainability.
- Better profitability due to reduced risk of the agricultural organisation and reduced financial costs.
- Institutional development: better profitability - an effective scale and security favouring consolidation.



INCENTIVES FOR FINANCIAL INSTITUTIONS

1. **Reduced risk**
2. **Reduction of provisions**
3. **Better use of collateral**
4. **Diversification of market and type of clients**
5. **Decreased costs for monitoring and evaluation.**



LIMITATIONS OF GUARANTEE SYSTEM

- Banks do not share risks
- Low credit multipliers
- They are not capitalisation instruments of agricultural organisations
- High cost of loans



INNOVATIVE APPLICATIONS OF GUARANTEES IN THE AGRICULTURE SECTOR

- **FOGAL grants institutional and non-individual guarantees** of relatively significant amounts - 10.000 USD\$ to 200.000 USD\$ (agricultural organisations and MFIs)
- **Not one guarantee but a combination.**
Agricultural organisations can gauge annual harvests. They also possess land and buildings that can be mortgaged. Combined with the guarantees granted by FOGAL, they constitute a portfolio of guarantees that favour better negotiation with banks (interest rate and multiplier).
- **Guarantees granted to the agricultural organisation and not necessarily to an economic activity.** The logic and the opportunity of using credit is the exclusive faculty of an agricultural organisation. Responsibility for payment should be based on the organisation rather than the activity.

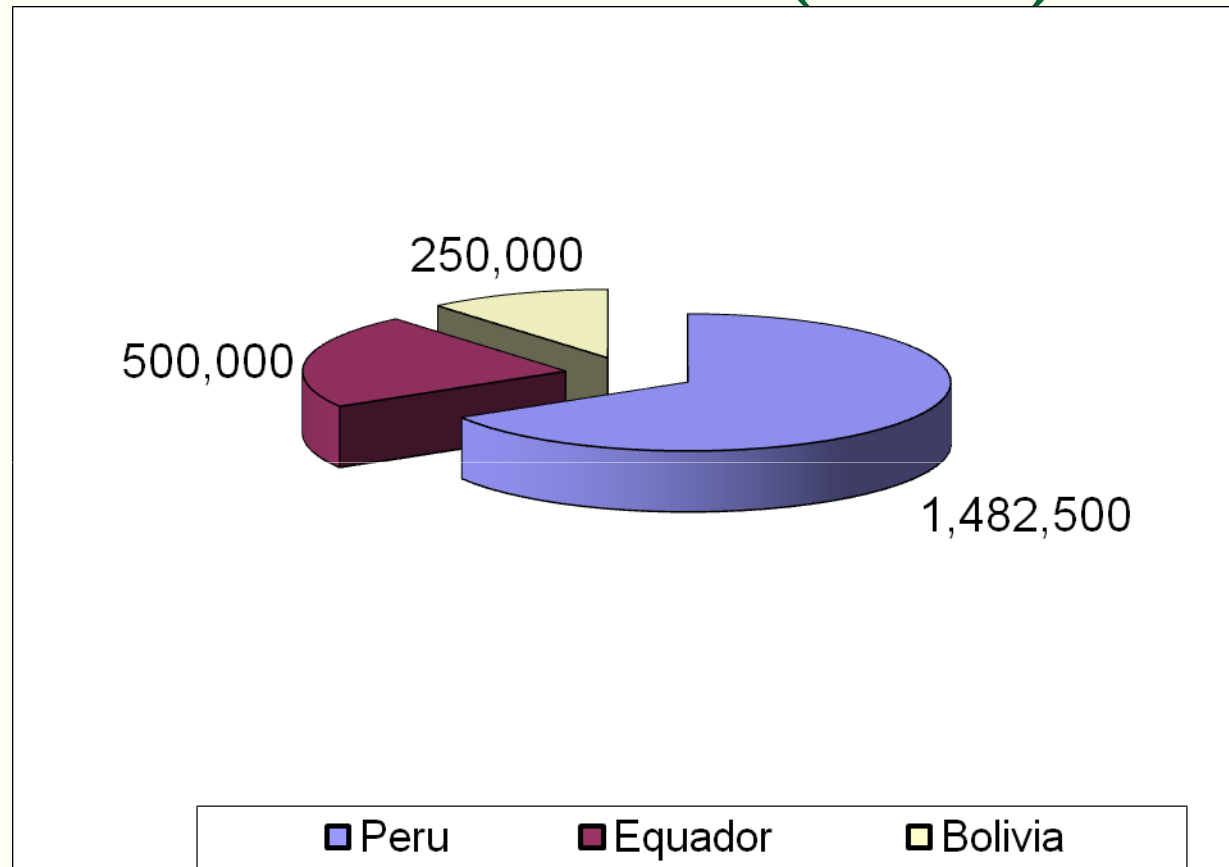


INNOVATIVE APPLICATIONS OF GUARANTEES IN THE AGRICULTURE SECTOR

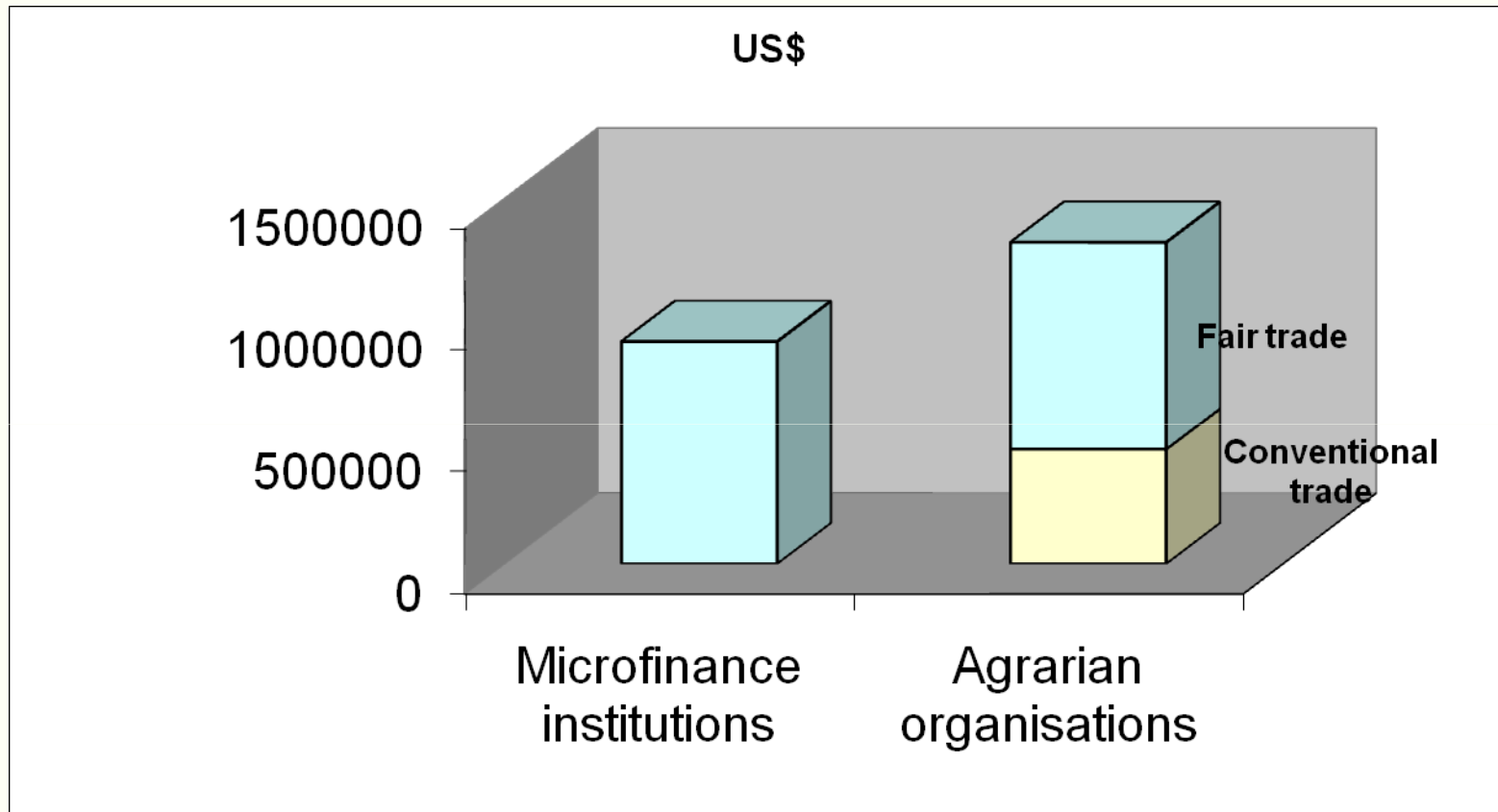
- Working with guarantees in the agricultural sector gives banks a basis with which to better and more precisely estimate the risk of agricultural business. There is a certain “prejudice” in banks concerning risk in the agrarian sector.
- In the evaluation of new clients, FOGAL gives more importance to analysing the management and governance factors of the organisation. These recommendations were put forward:
 - 1) Clear organisational structures
 - 2) Identification of members with the organisation.
 - 3) Transparency in representation, governance and management.
- Economic activities can be annual but the relationship should be long term.



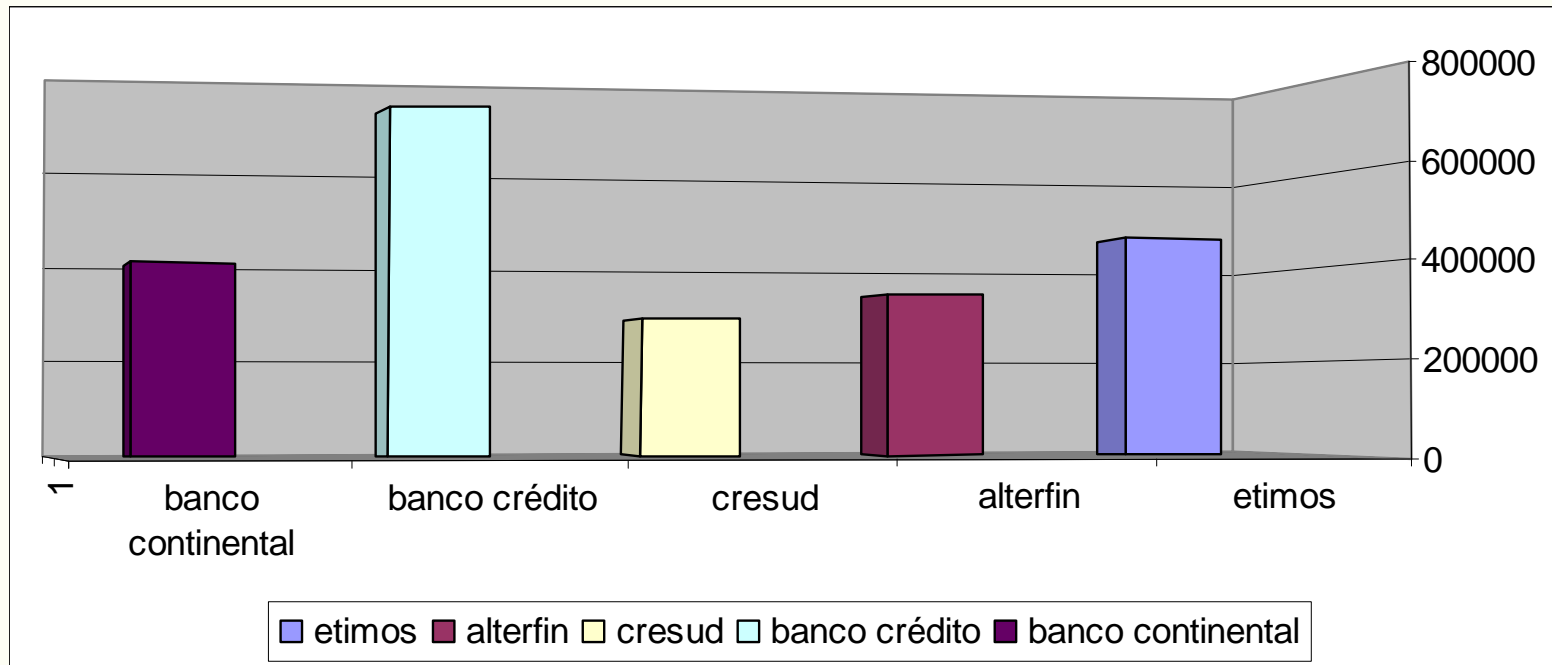
DESTINATION OF GUARANTEES BY COUNTRY (USD\$)



DESTINATION OF GUARANTEES BY STAKEHOLDER



BENEFICIARY ORGANISATIONS OF GUARANTEES



PERFORMANCE HISTORY OVER 10 YEARS (USD\$)



Thank you

