

Banco Terra

A rural bank in Mozambique

“It is the ambition of the partners that through credits and financial services clients in rural areas and peri-urban areas will gradually move out of the present poverty and become independent entrepreneurs, farmers, salesmen, shop owners and artisans.” (*website of Banco Terra, 2010*)

How to enhance food production if agriculture is dominated by small farmers without seed capital of loans? This is the double-edged solution: create an accessible bank with knowledge of the agribusiness, and assist small producers to become creditworthy. In Mozambique this solution is taking shape, in a combination of aid and commerce. It is a complex initiative, involving many parties, but it looks promising.

“We want to be a broad-based retail bank with a real impact on developing agriculture, at the same time establishing an inclusive financial system. Even though it will take years for the bank to become profitable, we are committed to successfully achieving this goal. It is certain to be a good investment in the long run. We are dedicated to our co-operative mission and to replicating it to other countries,” says David Gerbrands, who is Project Manager at Rabo Development. Since 2006 he has been involved in founding Banco Terra, a bank that has been eagerly awaited.

As long as the main producers – millions of small farmers – are lacking credit facilities, the huge agricultural potential of Mozambique will remain idle. However, banks are reluctant to grant loans for a hazardous business like agriculture. Crop failures, caused by droughts or floods, are always looming. Products decay before reaching the market, due to bad roads and too little storage capacity. And the market itself is flawed, malfunctioning or unfair. Thus arises the vicious circle of an agricultural sector that is not able to professionalize by lack of capital, and is not able to attract capital by lack of professionalism.

Banco Terra can breach this vicious circle. But in order to survive, the bank needs creditworthy clients. Hence, the bank is cushioned by a sophisticated network of governments, financial development institutions and non-governmental organisations. This network envisions making producers fit for the market, preparing the market for a larger production, and deploying that larger production for poverty reduction.

Agriculture in Mozambique

- The majority of Mozambicans, 70% of 21.5 million, is settled in rural areas. About 70% of the rural population live below the poverty line.
- The past ten years the share of agriculture in the gross national product has been 19-25%, although about 80% of the population finds a living in this sector.
- Over 95% of agriculture consists of small-scale farming by 3.2 million households. Cultivation is mainly for own consumption; a mere 15-20% is commercialized.
- Only 5% of agricultural produce comes from commercial enterprises, employing some 400 farmers.
- Main products are rice, cotton, cashew, sugarcane, tea, cassava, corn, coconut, potato, sunflower and fruit; also cattle and poultry.
- The government of Mozambique seeks poverty reduction by means of increased and value-added agricultural produce.

Source: *CIA The World Factbook*, www.cia.gov/library/publications/the-world-factbook/geos/mz.html (consulted in January 2010), *Plano nacional de desenvolvimento económico distrital*, Government of Mozambique, preliminary version September 2009, *Poverty Reduction Strategy Paper*, Government of Mozambique, 2006.

A bank with a long preamble

Fifteen years of civil war left Mozambique devastated. Roads, companies, schools, hospitals, water and sewage, everything was in need of reconstruction when peace finally dawned in 1992. Oxfam Novib has a long bond with Mozambican organisations, fighting rural poverty. With the introduction of the Land Law in 1997, which recognizes customary rights and supplements them with cadastral registration, an important condition for intensifying agriculture had been met. However, states Leo Stolk, Program Officer of Oxfam Novib, explains that “everyone was farming individually, and the chain between producer and market was not developed. In the lowest segment of the chain, the level of the buyers, the farmers were at the mercy of a few monopolies and cartels. Furthermore, things like financial services, information or high-quality seeds were totally absent. Around 1999, research of the Mozambican non-governmental organization ORAM pointed at possible solutions through cooperative enterprises and a cooperative bank for the agribusiness, preferably owned by the clients.”

The founding of cooperative enterprises started rather soon, but it lasted until 2003 for tangible plans for an agricultural cooperative bank to arise. GAPI, a Mozambican public-private financial development institution that stimulates small- and medium-sized enterprises, was looking for a serious partner to seek further growth for its financial services and loan portfolio into a commercial bank. At that time, GAPI and Oxfam Novib already partnered up in a agricultural trade company in Nampula, and together they approached the Rabobank. Rabobank was an obvious choice, thanks to its long history and expertise in the field of agriculture co-operatives. Rabo Development consultants had been involved in research in Mozambique for many years, and were well informed about both the agricultural and the financial sector. Founding a new bank from scratch in a sparsely populated developing country is not only a hell of a job, but also a huge risk. In 2004 the Dutch Ministry of Foreign Affairs issued subsidies for Public-Private Partnerships (PPP). This opened a window of opportunity for the parties involved in the conceived new

bank. In 2006 a subsidy was granted for three years, as a contribution to start up the bank. The idea was to generate well-functioning trade chains, financial products for the agribusiness and eventually a higher agricultural produce.

The public and private partners

For the Royal Dutch Embassy in Maputo, the PPP attuned perfectly with its own strategy for growth and equity, which has three priorities: access to land, to markets and to finance. Christine Pirenne, Program Officer macro-economics of the embassy, “The technical assistance of the donors - the Netherlands, Norway and Germany - was exactly the back-up the shareholders needed to start a new bank. The intrinsic risks are high, so to bear non-recoverable costs on top of that would make the start-up a gigantic step. The coming years Banco Terra will have to prove that doing business in agriculture can be profitable.”

David Gerbrands says that the participation of a public partner was indispensable for Rabobank. “The Dutch embassy initiated the process. It gave the kick-start and funding, which made other donors willing to contribute. I am highly in favour of continuing the PPP, because all parties are stakeholders of the bank, which gives us a suitable forum to discuss the mission and future of Banco Terra.”

The third participant in the PPP is GAPI, second largest shareholder of Banco Terra. GAPI serves exactly the segment between microcredit and formal banks, and combines financial services with entrepreneurial development. In short, GAPI assists small enterprises in becoming creditworthy for large banks. Half of the enterprises in GAPI’s portfolio are active in agriculture.

At the start of Banco Terra the shareholders agreed that GAPI would transfer part of its loan portfolio to the new bank. Antonio Souto, Managing Director of GAPI and Vice-President of the Board of Banco Terra, says “GAPI’s mission is to create new clients and deliver seed capital. GAPI focuses on clients with a lower level of creditworthiness. Those who have become bankable are transferred to Banco Terra. GAPI removes some of the risks for Banco Terra and thus provides more comfort. Combining both institutions improves the outreach of Banco Terra.”

Banco Terra

- Banco Terra was officially founded in December 2007, opened its head quarters in Maputo in early 2008, and disposed of eight provincial branches by the end of 2009.
- Shareholders are Rabobank (30.4%), the Mozambican financial institution GAPI (29.6%) and the German and Norwegian development banks KfW and Norad (each 20%).
- Banco Terra started with about USD 7 million; at the end of 2009 deposits amounted to USD 27 million.
- The bank has received a three-year subsidy (in total EUR 3 million) from a Public-Private Partnership in which the Netherlands Ministry of Foreign Affairs, the Mozambican company GAPI and Rabobank participate.
- Norway and KfW each contribute an additional EUR 1 million for technical assistance.
- Banco Terra envisages in 2013 a loan portfolio of USD 67 million, comprised mainly of customer deposits.
- Banco Terra will deliver the following financial products: standardized credit products for agriculture and small- and medium-sized enterprises, short- and medium-term investment loans, salary loans, deposit products, foreign exchange operations, and payment services.

Source: *Memorandum of Understanding for the PPP*, Maputo September 2006, 'GAPI Bank' *Business plan 2006-2010*, Rabo Development, May 2006.

Meanwhile in the countryside...

“What is the use of irrigation, if farmers don’t have a market,” says irrigation engineer Jan de Moor, former Director and since 2008 Advisor to APAC (Associação de Promoção de Agricultura Comercial), one of Oxfam Novib’s partners, developing cooperative farmers and trade enterprises. Presently APAC is involved in setting up thirteen cooperatives in corn, rice, cashew and peanuts.

Jan de Moor says, “The country shows a tremendous lag in development, and has a traumatic legacy of the socialist era, when farmers had to work in a kind of kolchoze that wasn’t even successful. As a consequence, farmers are wary of cooperatives. That is why we don’t collectivize the production but the market. If you make this quite clear to farmers, they are willing to cooperate. We start with a meeting of about one hundred people, and explain the functioning of the market chain and their position in it. It is a matter of trust building. Soon a new law will become effective that turns cooperatives into an extension of the market. The law also gives farmers a stronger voice, and obliges them to put in their own money. These are three conditions for success.”

Thus, farmers produce individually, but join their products in a ‘primary cooperative’. A couple of primary cooperatives constitute a secondary cooperative, which processes the products. Secondary cooperatives are necessary to create large volumes. In contrast with small farmers, they are large enough to borrow money from the bank. It may sound simple, but it is a sustained process. Jan de Moor, “One needs to start a business, acquire seed capital, appoint management, et cetera. The rice sector is now moving forward, but it is the only one. Other sectors suffer from lack of seed money. In corn we are still in the process of building granaries. Rice, however, faces imports from Thailand. We can ask the government to interfere with imports, but only if we produce larger quantities ourselves. That will take another fifteen years, I guess.”

Several organisations like APAC are active in Mozambique. Partners of Oxfam Novib are developing value chains in rice, corn, cashew, sesame and peanuts in five provinces. They have everything going for them. Globally there is a growing focus on increasing food production, which means that donors such as the European Union, the Netherlands and Oxfam Novib are willing to contribute financially. Besides, the government of Mozambique wants to spend ten percent of its national budget on agriculture by the end of 2010. Nevertheless, the big challenge lies in acquiring seed capital and credit. Small enterprises in other (promising) sectors, like timber, tourism and manufacturing, are facing the same challenge.

Financial services in rural areas

- 5% of the population in Mozambique has access to financial services, 2% has access to credit.
- The portfolio of micro-finance institutions holds only 1% of all credit supplied by commercial banks.
- Micro-finance institutions focus on the lower segments of the market and provide loans up to USD 500, with a short-term and high rate of interest. They serve mainly small traders.
- Mozambique has about ten commercial banks, mainly Portuguese-owned, which serve the higher market segments in the city. These banks furnish a mere 7-8% of the needs of small- and medium-sized enterprises.
- The gap between micro-finance and loans from commercial banks impedes the growth of small and medium enterprises, especially in rural areas.
- The government wants to stimulate access to financial services, especially for women.

Source: 'GAPI Bank' Business plan 2006-2010, RIAS May 2006.

Meanwhile at the bank...

Banco Terra aims to stimulate agribusiness – from production up until value-added chains. This requires developing financial services for farmers, suppliers, manufacturers, traders and exporters. Besides, the bank focuses on small- and medium-sized enterprises from other sectors and on standard services for savings, payments and credit for the general public. Banco Terra is envisaged to become a fully Mozambican bank, owned by the clients.

However, the growth of the bank is not quite as foreseen. Cultivation of the market appeared to be ponderous, and the bank has experienced management problems. Of the originally foreseen 25 branches currently only nine are operational. Instead of investing in more branches, Banco Terra now investigates possibilities of mobile banking to become more accessible for rural clients.

David Gerbrands explains the challenges that lie ahead for Banco Terra. 'It is very difficult to put up a good distribution system in a country like Mozambique. It also is not easy to align all shareholders, which was something we discovered when making a comparative assessment of commercial aims and an extensive network of branches in the rural areas. While our shareholder GAPI is the party that enters new market segments, it is challenging to provide services to the lowest segments in a commercially viable manner. Another challenge is attracting good local employees. Staff need a lot of training, both in banking

and in management capacities. People are attracted by success, but as Banco Terra is not yet profitable, few specialists are prepared to move to the countryside.”

In hindsight, Dutch embassy Officer Christine Pirenne, member of the Advisory Committee of Banco Terra, thinks the bank has been pulled apart by two lines of reasoning. “The bank, supported by the Board and the donors, planned to open rural branches, but the start-up phase took longer than expected. Branches consume a lot of money, and shareholders get nervous if capital is burnt and income is nowhere to be seen. It also takes time to align the diverting professional and personal expectations of the shareholders. GAPI and Banco Terra now share the same office in Maputo. Hopefully this strengthens the ties.”

There remains great reason for optimism

Oxfam Novib is optimistic about the rural bank, and is planning to extend the cooperation with Rabobank to other African countries. Leo Stolk, “It is a smart job, establishing a rural bank. Now savings are growing, and the Board is passionate to make things work. But Banco Terra should make rapid progress and should be dedicated to developing products for agribusiness; not only savings and payments, but also revolving credit. Maybe a lot of time has been spent on the start-up phase, but the result is a quite solid bank with a relevant role.”

Jan de Moor, the ‘constructor of cooperatives’, is pleased with a bank “that thinks along with the farmers. That can be done without branches in the vicinity, but in the long run those branches have importance for delivering input and for cashing savings from farmers. For us, the bank presently has enough financial products, such as short-term working capital and long-term investment capital, although 20% interest is quite high. We would like to see Banco Terra develop into a real cooperative bank, with cooperatives as shareholders.”

The embassy notices that the bank’s strength is its focus on agribusiness. Christine Pirenne, “The donors are still convinced of the necessity to support a bank in a risky line of business, in order to get things moving. Besides, the circumstances are favourable now. The government of Mozambique pays more attention to the private sector, and donors are also focusing more on the productive sector. Mozambique is a stable country with a large potential for people to earn their own income. This is the very moment to stimulate cooperatives and small- and medium-sized enterprises. One has to be patient. It might take ten years before the bank does exactly what it was founded for.”

Antonio Souto, Managing Director of GAPI, one of the shareholders in the bank, is simply enthusiastic: “Banco Terra is very useful, and plays a central role. Not because it is a large bank, but because it carries knowledge of agribusiness in its genes. This kind of partnership makes Banco Terra more innovative in the market.”

And how about Rabobank, the largest shareholder? David Gerbrands explains, “There is a market, in the short term especially for the larger deals. We now have sufficient market to acquire the next USD 20, 30 million. But we want to enter the next phase, financing the supporting segment or small- and medium-

sized enterprises. We will make a profit with a loan portfolio of approximately USD 70 million. While our goal is to reach this point by the end of 2010, it could take another year. Nobody will be rich three years from now, but that also is not what we are striving for. Rabobank has no exit strategy.”

Karolien Bais