



Loans and Guarantees
Investing in the Poor

Colophon

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Jacob Winter

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Copies of this brochure can be obtained at the Cordaid

Servicedesk:

t +31 70 3136 333

info@cordaid.nl

Together with Memisa, Mensen in Nood (Caritas Netherlands), Vastenactie (Dutch Lenten Campaign) and Kinderstem, Cordaid forms one of the largest international development organisations in the world. Cordaid is supported by half a million people in the Netherlands and works with more than a thousand counterpart organisations worldwide to ensure a dignified existence for the poor and those who are deprived of their rights.

Cordaid

Loans and Guarantees

P.O. Box 16440

2500 BK The Hague

The Netherlands

LandG@cordaid.nl

Visiting address:

Lutherse Burgwal 10

2512 CB The Hague

t +31 70 3136 300

f +31 70 3136 692

www.cordaid.nl

www.cordaidpartners.com (as from January 1st 2007)

Loans and Guarantees

About us

Cordaid

Cordaid is a non-governmental organisation (NGO) with a catholic tradition. Our inspiration springs from the Catholic Social Teaching.

Cordaid and her partners are jointly working for social justice. Everyone has the right to a decent human life without poverty. For Cordaid, every single person counts. We support the poor and their organisations, regardless of age, sex, disposition, race, religion, or political conviction.

Cordaid is one of the leading development organisations in the Netherlands with an annual budget of around € 150 million, of which non-grant financing amounts to around € 15 million a year. Cordaid's vision about development cooperation envisages building on the poor people's own strength for improving their livelihoods. Therefore non-grant financing is an integral part of Cordaid's approach to development financing.

Cordaid Loans and Guarantees

In 1996, Cordaid started its Loans and Guarantees activities on the basis of the knowledge that non-grant financing can be a powerful tool in support of programmes in developing countries that improve the economic perspectives of the poor. Specialised staff in Cordaid's sector Entrepreneurship evaluate financing proposals from organisations in developing countries that work with the vulnerable poor engaged in economic activities and offer financial services to these organisations.

Cordaid has approved a total of € 100 million in Loans and Guarantees, spread over 25 countries in the period 1996-2006. This portfolio is to a large extent financed by funds from the 'co-financing programme' of the Government of the Netherlands.

What we finance

We finance different types of economic initiatives aiming at poverty reduction, provided that these initiatives have the potential to become financially sustainable.

Cordaid is most active in the following areas:

- **Emerging Micro Finance Institutions (MFI)**

These are - sometimes small - savings and/or credit operations which are developing into organisations that have their appropriate governance, management and personnel structure and promise high potential for sustainability. These organisations aim explicitly at providing financial services to micro-enterprises of the poor.

- **Trade finance**

Cordaid extends loans or facilitates bank guarantees to enable producers' organisations to attract credit from local banks for the marketing of agricultural products for the local and international markets. For example coffee, bananas and other fruits.



- **Cooperation with private companies**

Cordaid also cooperates with private processing companies, both small and medium-size enterprises, in developing countries. This is done in schemes where poor producers and their producers' organisations develop into suppliers of quality products to the private company. In this way they open up new market opportunities for them.

- **Innovative approaches**

Cordaid is open to innovative approaches to poverty reduction. For example in areas such as housing and micro insurance. We are open to develop other innovative financial constructs including specialised Fund organisations, though always under the condition that financial services from Cordaid are facilitative and temporary in nature. They are not a substitute for tapping of local financial resources.

Plant seedlings ready for shipment to Europe (VASSO Agroventures, Tanzania)

Peru

Better living conditions for small coffee farmers through trade finance

In the inhospitable Andes area in the north of Peru a lot of small farmers are dependent on coffee for their incomes. On the world market, coffee prices have fluctuated considerably. As a result, the coffee farmers and their families are living in a constant state of uncertainty. They often earn too little to provide for even their most basic needs.

The farmers can raise their incomes by improving the quality of their crops. Another improvement is certification of their farms as organisations producing organic coffee. Organic coffee prices are higher and more stable than those of regular coffee.

A number of groups of coffee farmers have set up Promotora de la Agricultura Sustentable (PROASSA). This organisation is working to improve coffee storage and processing. The stable high quality of the coffee means the farmers are able to access new export markets. PROASSA is helping the farmers to arrange certification of their companies so that the coffee can be designated as 'organic'.

Cordaid has issued a loan to PROASSA. The coffee farmers receive pre-financing until their coffee is sold. This means the farmers are able to make the necessary investments in quality and certification. Moreover, investments are being made in the coffee processing practices. The farmers' incomes are improving considerably and the loan from Cordaid can be paid back using the higher coffee revenues.

Woman farmer growing mango in Northern Ghana (ITFC)





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Tanzania

Better incomes for farmers through the export of plant seedlings for European horticulture

Tanzanian company Vasso Agroventures Ltd., in cooperation with Kibosho Central Rural Cooperative Society, Match Maker Associates Ltd. and Dutch MAPATO BV, have developed a project that has as its main objective to let small farmers produce flower seeds and planting material for pot and garden plants in a way that generates income for them and to export the produce to the Dutch market.

Production will be organised on the cooperative's land on the slopes of Mount Kilimanjaro in the Northeast of the country. 320 farmers have been selected for this project. Vasso Agroventures' shareholders, through their company Multiflower Ltd., established in 1996, did already prove that it is possible to subcontract small farmers to grow planting material that can successfully be sold on the Dutch market. For the farmers, who originally were coffee growers, this is a good alternative, given the uncertainties of the international coffee market. In order to capitalise on the experience with subcontracting on a much larger scale and to make the relationship between the company and the small farmers even more professional, Cordaid extended a loan to finance the necessary investments by the small farmers. The loan is used for constructing simple greenhouses and soil improvement and for prefinancing inputs.

In addition, a grant to the farmers' cooperative is used for the first years of a technical assistance programme for the farmers; later this programme will be funded from the profits of the project. Match Maker Associates Ltd. which has much experience in different types of linkages between small farmers and private companies, will provide part of the technical assistance.

Smallholder farmers growing plant seedlings for the European market in collaboration with VASSO Agroventures (Tanzania)

Our products

Cordaid's sector Entrepreneurship offers the following products in close cooperation with Cordaid's strategic partners:

- Short and medium term loans with either fixed or semi-fixed interest rates. In either Euros, US Dollars or local currency. The principal loan must be repaid and interest must be paid semi-annually. Collateral requirements depend on the situation and type of initiative.
- Bank guarantees for a limited period in countries with a well-functioning financial system. With the aim to stimulate lending and sharing of risks by local commercial parties to organisations engaged in sustainable development of the poor.
- In exceptional cases: matchmaking in attracting equity capital from other financiers.
- Seed capital for emerging MFIs.
- Additionally advisory services, at times funding for technical assistance and capacity building, may be offered.

Our conditions

• For loans:

- Rates of interest comparable to market rates.
- For loans in local currency an interest rate will be charged that takes into account both the base interest rate charged on Euro loans and the prevailing rates of inflation.

- Grace periods for repayment of the principal are negotiable and as a rule, a grace period of up to one year can be considered.
- Duration of loans will be tailored to cash-flow projections ranging from 1 to 6 years.

• For guarantees:

- We charge an annual guarantee fee.
- In addition local bank charges when arranging the guarantee will be passed on to the beneficiary.
- As a rule, guarantee given by Cordaid assumes and expects that there is a perspective that commercial banks take over part of the risks in the longer run.

Interest rates and fees are available on request.

Cordaid operates in:

Africa

Burundi*
Cameroon
Congo*
Chad
Ethiopia
Ghana
Kenya*
Malawi
Nigeria*
Uganda
Sierra Leone
South Africa*
Sudan*
Tanzania
Zambia

Asia

Afghanistan*
India
Indonesia
Philippines
Vietnam

Latin America

Bolivia
Brazil
Colombia*
Dominican Republic
Haïti*
Honduras
Peru
Surinam*

** In these countries, loans or guarantees are only extended for specific purposes.*

Some of the organisations financed by Cordaid Loans and Guarantees are:

| | |
|--------------------------------------|------------------------|
| Fondecó, Naturaleza, PYMECAPITAL | <i>(Bolivia)</i> |
| PROASSA, Cajas Rurales | <i>(Peru)</i> |
| Bancentro | <i>(Nicaragua)</i> |
| Café Feminino/OPTCO | <i>(Latin America)</i> |
| Bandhan, Asmitha, Ankuram | <i>(India)</i> |
| Bina Swadaya | <i>(Indonesia)</i> |
| CARD | <i>(Philippines)</i> |
| Microfinance Asia Fund | <i>(Asia)</i> |
| Cheetah Malawi | <i>(Malawi)</i> |
| ITFC | <i>(Ghana)</i> |
| Equity for Africa, SEF, WEDAC, VASSO | <i>(Tanzania)</i> |
| Wasasa | <i>(Ethiopia)</i> |
| Finance Salone | <i>(Sierra Leone)</i> |



Post harvest activities in Bolivia (Naturaleza)

How to apply

Eligible are organisations that provide economic services to the poor, both women and men, including companies cooperating locally with such organisations.

Applicants will be screened on their potential and aspiration to operate as viable professional institutional actors and their potential for financially sustainable growth in terms of outreach. Applicant organisations are expected to meet the requirements of socially responsible entrepreneurship and explicitly strive towards improving gender relations.

Procedure


- Application forms are available from our website www.cordaidpartners.com (as from February 2007) and from LandG@cordaid.nl.
- Applications need to be completed and accompanied by
 - a business plan and investment proposal outlining financing needs and their economic justification.
 - audited financial statements of the last two years and performance data on the activities carried out.

Screening

- There is an initial screening in terms of the sector, target group, theme and country policy framework of Cordaid. Information needed for further processing is identified.
- In many cases we seek an external opinion in terms of an institutional diagnosis and/or financial assessment. As well as medium-term financial sustainability or commercial viability.
- Internal approval procedures in the final stage check on development relevance of the proposal. Financial and risk aspects are evaluated by Cordaid's External Credit Committee.
- After final approval we send a financing offer to the applicant.
- After acceptance of the offer a contract is drawn up that spells out binding agreements for repayment of principal and interest. This contract will include, wherever applicable, the arrangements on collaterals agreed upon, a disbursement and repayment schedule plus reporting guidelines.

From the first disbursement onwards Cordaid will monitor the organisation during the contract period, both for development impact and for financial performance.





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