

## Finance Business Unit

# Colophon

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A meeting of coffee farmers in Peru

## To order

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## Cordaid

Cordaid is the driving force behind Memisa, Mensen in Nood and Vastenactie and is one of the largest international development organisations. Supported by half a million people in the Netherlands, Cordaid is working with more than a thousand partners worldwide for an existence with dignity for poor people and those who are deprived of their rights.

## Finance Business Unit

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# Finance Business Unit

## About us

Finance Business Unit is a specialised unit within the Dutch development organisation Cordaid, that offers financial services to the vulnerable poor engaged in economic activities in developing countries. Finance Business Unit started in 2000 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.

## The world belongs to everyone

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 devotes its heart and soul to the poorest and those who are deprived of their rights throughout the world and to social and economic justice. We support them and their organisations, regardless of age, sex, disposition, race, religion, or political conviction. Everyone has the right to a decent human life without poverty.

Cordaid is a non-governmental organisation (NGO) with a catholic tradition. Our inspiration springs from the Catholic Social Teaching. For Cordaid, every single person counts. 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.

Finance Business Unit has approved a total of € 60 million in loans and guarantees, spread over 25 countries in the period 2000-2004. 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.

Finance Business Unit 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 having their appropriate governance, management and personnel structure which is financially self-sustainable. These organisations aim explicitly at providing financial services to micro-enterprises of the poor.
- **Trade finance**  
Finance Business Unit 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**  
Finance Business Unit 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**  
Finance Business Unit 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, 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.

Farmers participating in a paprika project

## 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 farms 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.

Technical assistance to farmers in Malawi





## Uganda

### Better incomes for farmers through the export of okra, chillies and vanilla

In the Kasese region in Uganda, small farmers cultivate crops such as okra and chillies and vanilla plants also thrive. The farmers can only sell limited quantities of these products on the home market and have to search for ways of acquiring access to the export markets to overcome their poverty.

“Vanilla is a refined flavouring that is used widely in the West in all manner of sweet dishes. Immigrants to the West eat okra and chillies and even Westerners are becoming more and more open to exotic products from overseas,” explains Jacob Winter, head of the Cordaid Finance Business Unit.

The small farmers have united in the Mubuku Growers Association (MGA) and a number of vanilla farmer associations. They cooperate with Highlow BV, a company trading in exotic vegetables, which has excellent sales channels for the farmers’ products in the Netherlands and in England. Cordaid’s Finance Business Unit issues a loan as working capital and for use as an investment in the small farms. Highlow BV helps the farmers to improve logistics and supplies high-quality sowing seed and fertiliser. Staff from the counterpart organisation Fintrac train the farmers with regard to export market production, the administration of a credit system, the combination of individual crops, the correct processing of export products and the professional management of the logistics infrastructure. As soon as the loan has been repaid and the farmers have been trained by Fintrac, ownership and management of the infrastructure is transferred to the farmers’ organisations. In this way, the farmers are eventually able to operate independently.

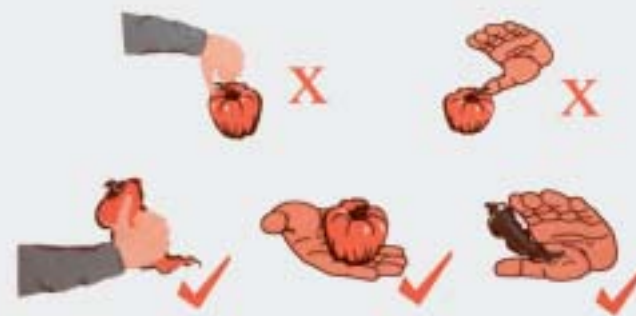
*The Mubuku Growers Association in Uganda*

## Our products

Finance Business Unit offers the following products in close cooperation with Cordaid’s regional departments and its strategic partners:

- Short and medium term loans with either fixed or variable 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 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.

DO NOT HOLD FRUIT STEM WHEN PICKING OR HANDLING PEPPERS. IT CAUSES THE STEM TO GO BLACK AND LOWERS QUALITY



- In exceptional cases: matchmaking in attracting equity capital from other financiers.
- Advisory services, at times funding for technical assistance and capacity building. The latter through the regional departments of Cordaid.

## 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 one to six 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 Finance Business Unit assumes and expects that there is a perspective that commercial banks assume part of the risks in the longer run

Interest rates and fees are available on request.

**Cordaid operates in:**

**Africa**

Angola  
Burundi  
Cameroon\*  
Chad  
Democratic Republic of Congo  
Ethiopia\*  
Ghana\*  
Kenya\*  
Liberia  
Malawi\*  
Mali\*  
Nigeria  
Rwanda\*  
Uganda\*  
Sierra Leone  
South Africa\*  
Sudan  
Tanzania\*  
Zambia

**Middle-East and Central-  
and Eastern Europe**

Afghanistan  
Albania  
Georgia\*  
Moldova  
Palestine territories

**Asia**

Bangladesh\*  
India\*  
Indonesia\*  
Papua New Guinea  
Philippines\*  
Sri Lanka  
Vietnam

**Latin America**

Bolivia\*  
Brazil\*  
Colombia\*  
Dominican Republic\*  
Guatemala\*  
Haiti  
Honduras\*  
Nicaragua\*  
Peru\*  
Surinam

*N.B. \* Countries where Finance Business Unit  
has extended loans/guarantees.*

**Some of the organisations supported by  
Finance Business Unit are:**

FIE (*Bolivia*)  
PROASSA, Caja Rural San Martín (*Perú*)  
CCCH, FINCA (*Honduras*)  
Bancentro (*Nicaragua*)  
Twelve emerging MFIs under  
ASA Partnership Programme (*Bangladesh*)  
BASIX, Asmitha (*India*)  
Bina Swadaya (*Indonesia*)  
CARD (*Philippines*)  
Cheetah Malawi (*Malawi*)  
Mubuku Growers' Association (*Uganda*)  
Microfinance Partners Ltd (*Kenya*)



## 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.cordaid.com](http://www.cordaid.com) and from the address in the first page of this brochure.
- 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 Finance Business Unit will monitor the organisation during the contract period, both for development impact and for financial performance.

