



Interagency Forum on Access to Finance for Cooperatives

Communiqué

On 29 November 2016, in the framework of the EU-funded European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), an *interagency forum* on “Access to Finance for Cooperatives” took place at the Hotels & Preference Hualing Tbilisi. The purpose of the forum was to discuss challenges and opportunities that cooperatives face with regard to access to finance. For the forum agenda, please go [here](#).

This discussion was the fourth in a series of dialogues about agriculture and rural development organized by the CARE consortium within the partnership with ISET Policy Institute, the Regional Development Association (RDA), the Georgian Farmers Association (GFA), and on this occasion, with Mercy Corps, Oxfam and People in Need consortia’s cooperation.

During the forum, we heard opinions and insights from a number of key stakeholders, including representatives from the Ministry of Agriculture, the Delegation of the European Union to Georgia, the French Development Agency, the Agricultural Cooperatives Development Agency, the Georgian Farmers Association, agricultural cooperatives, financial institutions, leasing companies, business and finance consulting groups, the ENPARD implementer consortia, and research centers, among others.

Nino Zambakhidze (Georgian Farmers Association) opened the forum and thanked the European Union, the other donors, and stakeholders, for supporting cooperatives in the country, and highlighted the importance of cooperation for Georgian agricultural and rural development. In addition, Ms. Zambakhidze stressed how vital it is to solve the problem of access to finance for cooperatives.

Cristina Casella (EU delegation to Georgia) said that the one of the challenges cooperatives face in getting credit from banks is related to the shortage or absence of collateral, among others. Thus, farmers have to take short-term loans from microfinance organizations and pay high-interest rates. Ms. Casella emphasized that increased access to finance for cooperatives is one of the key issues we all need to consider to make cooperatives more competitive. Ms. Cristina also emphasized EU assistance towards the development of cooperatives in Georgia.

Silvia Sanjuan Munoz (Care International in Caucasus) welcomed the audience and noted the importance of gathering all the stakeholders to discuss one of the most crucial issues for cooperatives. Ms. Sanjuan underlined the importance of accessibility to finance for cooperatives, and expressed that this forum and topic are part of the advocacy actions undertaken by the ENPARD consortia.

David Galegashvili (The Deputy Minister of Agriculture of Georgia) referred to the previous three years as successful ones for the agricultural cooperatives in Georgia, but added that

cooperatives are not yet strong enough to be sustainable businesses. He gave an overview of the successful programs carried out by the Ministry, and discussed future plans such as adopting storage cheques practices that will be cash equivalents for cooperative members in “Darchelis Tkili”.

Bernard Fouquet (Credit Agricole France and French Development Agency) gave a presentation regarding one of the first agricultural banks in France: Credit Agricole, founded in late 19th century to support farmers, at that time, a vulnerable group of people in the country. Before Credit Agricole France, there were some efforts to operate similar banks, but due to farmers' lack of collateral, the absence of trust between farmers and bankers, and other reasons, they were unsuccessful. This situation improved significantly only after 1884, when the farmers' union, based on the Raiffeisen model, was settled in the Jura Mountains. The union aimed to share knowledge, workload and to unite resources. An additional impetus was that the government became a guarantor for farmers while borrowing from the banks. In addition, a crops agency was established that gave away price guarantees in exchange for collected harvest, and saving accounts and credit purchase systems for farmers were introduced, etc.

According to Mr. Fouquet, in the post-WWII period, French agriculture was stagnating and the Europe Recovery Program injected vital financial resources into the sector. As a consequence, nearly 6000 farmers joined in groups, united their land plots, and boosted mechanization processes. Farmers subsequently improved the quality of their financial reporting, and started agriculture research. All in all, Credit Agricole helped to modernize French agriculture.

Mr. Fouquet also discussed the experiences of successful Dutch, German and Quebec agricultural banks, as well as the successful example of Armenian ACBA-Credit Agricole Bank, which was established in 1996 as a regional bank of Credit Agricole France. In the beginning, the ACBA-Credit Agricole Bank was providing short-term microcredits, but currently it is a bank that employs 1 257 people, serves 318 000 clients, and operates 57 branches. It holds 50% market share in agricultural loans in Armenia.

Among vital factors for agriculture banks' success, Mr. Fouquet listed the following: geographical, professional and psychological proximity to the farmers; professionalism in the agricultural economy; adequate legal and regular environments; help from the state (e.g. subsidizing loans); and adequate agricultural policy. According to Mr. Fouquet, banks approach cooperatives similarly to other enterprises and analyze aspects like ability to generate and manage income or property, etc. On the other hand, cooperatives are specific entities where managers are chosen by the farmers, who at the same time are the owners and suppliers of the co-op. Their aim is to sell their own product in most lucrative ways, while the co-op might not be able to finance this. According to Mr. Fouquet, the fact that farmers are shareholders of cooperatives ensures stability in part, but trust between them and price optimization issues need to be solved. As far as the reasons for cooperatives' failures are concerned, in most cases managers were not always following good management practices, particularly those that are important for cooperatives, or they could not manage to mobilize the necessary resources for managing the co-op. Mr. Fouquet then listed some issues of prime importance to increase the accessibility of finance for cooperatives: providing technical assistance, improving access to finance, utilizing alternative financing schemes' to support selling prices, and taking into account cultural, historical and geographic characteristics.

Eric Livny (ISET) asked Mr. Fouquet whether the adoption of the European Common Agricultural Policy (CAP) led to the success of Credit Agricole France in becoming a self-financing bank. Mr. Fouquet responded that the main factors for success were increases in bank

savings, the creation of credit unions, and the establishment of price guarantee schemes, which was initiated by CAP.

Levan Dadiani (Oxfam) wondered about what made it possible for the Armenian ACBA-Credit Agricole Bank to become as successful as its German or Dutch counterparts. He asked if the bank's success was about following international experience, or was it due to national characteristics. Mr. Fouquet answered that the success in Armenia is attributable to the strong local leader of ACBA-Credit Agricole Bank, and the creation of strong farmers' associations that were shareholders in the bank.

Juan Echanove (Care USA) delivered a presentation about the different financial needs of cooperatives, and underlined the misunderstanding among actors – MFIs provide short-term credits, while cooperatives mostly need long-term loans. Mr. Echanove discussed the Europe's experience on people's or cooperatives' banks and credit unions. According to him, commercial banks, likewise the microfinance organizations, are good source for covering operational expenses, while for capital investments, banks are the best sources. In addition, loan guarantee schemes, revolving funds, agro-leasing, contract farming, insurance and other alternative sources can also serve for investment purposes, but they all have specific advantages and disadvantages and there is no universal approach to be used for increasing the accessibility of finance for cooperatives.

Juan Echanove's presentation was followed by a discussion regarding the rationale for having an agriculture bank in Georgia. Mr. Galegashvili stated that it was important to have an agriculture bank in Georgia, given the fact that foreign banks (e.g. HSBC, Societe Generale) are leaving the country, and there are limited cheap financial sources in Georgia. Levan Dadiani mentioned that in order to make sure that established cooperatives will be sustainable in the long-run, there are some policies that need to be implemented: (1) increasing the government support programs for cooperatives and keep ACDA's grant programs, (2) replicating ENPARD-implemented schemes nationwide, and (3) increasing the involvement of women, IDPs, handicapped people, ethnic and [other] vulnerable groups in the sector.

Giorgi Glonti (Care International in the Caucasus) mentioned that we have to try all possible financial mechanisms to increase access to finances for cooperatives. Each of these mechanisms have pros and cons, and involve different risks related to different sectors of agriculture.

Konstantine Kobakhidze (Evoluxer) emphasized that cooperatives need to have fair self-judgment of their own abilities and needs; in addition, improving financial reporting standards is vital.

The last point was shared by *Buba Jafarli* (People in Need) too, who added that evaluation of financial reporting is still an issue. To Mr. Kobakhidze's point, Nino Zambakhidze commented that often it is the collateral-related issues that cause problems to access to finance, and advocating in this direction should be done without violating banks' private interests.

Konstantine Zhgenti (ABCO) added that agricultural risks are not evaluated by the banks properly and [therefore] suitable banking products are not available. On that point, Mr. Echanove stressed the importance of developing a business mentality among farmers, and Mr. Jafarli said that farmers need trainings, especially in bookkeeping. Ms. Cristina Casella answered to Mr. Jafarli that at present, with joint forces, the EU and APMA facilitate capacity building activities. Also, other related problems were stated, such as: land registration problems, biological assets not considered by financial institutions as collateral, etc.

Eric Livny (ISET) stressed that all co-ops are start-up businesses, and therefore cannot afford high interest rates. In addition, co-ops need support in every way possible, but accelerating all these processes by requesting too many documents when applying for the support programs or credits, might be dangerous for cooperative movement in the country. Juan Echanove agreed with Eric, and added that policies should be designed to support real cooperatives, which will be capable of having successful businesses in the long run.

Irakli Kochlamazashvili (ISET) delivered a presentation that started by describing the different sources of financing available for Georgian cooperatives. ENPARD has invested 11.3 million GEL, which was leveraged with 3.7 million GEL from 247 cooperatives. In addition, there are additional funds available for cooperatives, such as a preferential credit program (with a total budget of 4 million GEL, issued for 39 cooperatives), ACDA's programs, which have a total budget of 6 million GEL, etc. However, the results of the Annual Cooperative Survey conducted with ENPARD-supported cooperatives revealed the lack of access to finance for cooperatives as the number one constraint for their business development (as seen by cooperatives). Mr. Kochlamazashvili underlined that the increase of accessibility for finance for cooperatives is a critical issue in order to make the life of new-born cooperatives much easier, otherwise the cooperative movement may face the serious problems in Georgia.

Giorgi Misheladze (ACDA) pointed out that numerous factors should be taken into account to guarantee the sustainability of cooperatives. Cooperatives are eligible to participate in various governmental programs, but if they lose their status [that of agricultural cooperative] they have to return all the benefits they got from the government. According to Mr. Misheladze, agricultural cooperatives are in the initial stage of development in the country (the status of agricultural cooperative was first granted in March 2014), and their small size, poor management, and the low qualifications of farmers are the biggest problems for Georgian cooperatives. To tackle these problems, Mr. Misheladze believes that trainings are not enough, and the following issues should be taken into account: (1) farmers' involvement in theoretical and practical activities, (2) specialization, (3) creation of an information database, (4) meeting international standards, and (5) developing a business contact network. To achieve economies of scale, the Ministry of Agriculture's plan is to increase minimal requirements in their programs on a step-by-step basis. Mr. Misheladze gave an example of the minimal required number of cooperative members, which increased from 3 to 5 in mountainous regions, and from 5 to 11 in low-land areas. Mr. Misheladze added that in addition, the government is considering developing cooperative markets and bazaars to solve the problem of looking for the selling market only after agriculture products are produced by the cooperatives.

Shota Gongladze (TBC Bank) presented data on agriculture cooperatives that have been granted credit by TBC Bank, and emphasized the obstacles to cooperatives taking loans, such as: mistrust among farmers, taking disproportional or excess responsibilities toward the cooperative, having cooperative members on the "black list," and risks related to start-up businesses, among others. Mr. Gongladze said that collateral is important for a bank, insofar as it provides a psychological responsibility for the borrower [farmer] to pay the credit back. Mr. Gongladze said that TBC Bank's credit officers, who are aware of the particularities of the agricultural sector, are working with farmers to increase their awareness of finance. The bank has already met approximately 1,000 farmers across Georgia, and provided them with information regarding credit-bearing risks. As in previous years, the sector received credit to a lesser extent, but today the situation is changing, Mr. Gongladze added.

Father Peter, the representative of one of the first second-level beekeeping cooperatives in Georgia, "ORE ET LABORA," acknowledged the assistance of ENPARD and said that most

cooperatives are established because of potential grants from the government or donors, so there are still the psychological challenges for farmers in moving towards real cooperation. “We were proud that we were selected by ENPARD, and established the first second-level cooperative in Georgia, acknowledging the responsibility. But when it came to the acquiring additional financing, we faced many problems, such as start-up business, having some members on the ‘black list,’ fair evaluation of collateral, etc.”

Eric Livny (ISET) thanked father Peter for such an informative speech and mentioned that his cooperative provides hope for cooperative development in the country. He added that the government, donors and the private sector should support such kind of cooperatives, which really deserve it because of caring about the real meaning of cooperation.

Giorgi Gvelesiani, representing the agriculture cooperative “Sargo,” described a situation when his cooperative was refused the benefit of the government’s preferential credit program (subsidizing the interest rate). One week later, they were offered to take a regular loan from the same bank with a very high interest rate (about 26%), and they were asked to put a house in the city up as a collateral.

On the other hand, *Eka Iashvili*, a representative of cooperative “Natural Products of Racha,” who received preferential credit, pointed out that having proper financial documentation helps a lot while applying for credit. Nevertheless, she stressed that (1) widening the geographical coverage of financial institutions, (2) the availability of specialists in the regions, and (3) a fair evaluation of collateral (and considering biological assets in particular) will play vital roles to increase access to finance for cooperatives. Ms. Iashvili thanked the donors for their assistance and stressed that in the coming years, banks and other FIs will play a major role in meeting cooperatives’ financial needs.

Levan Beridze from the agriculture cooperative “Tsunda” informed the audience that his cooperative was also refused the opportunity to benefit from preferential credit. Instead, a member of Tsunda managed to get regular credit (with a 24% of interest rate), but they lost valuable time during the process. He complained that the government and banks do not have a unified approach toward the extension of credit to cooperatives, and this needs to be changed.

After all the meeting participants agreed that not only banks should be blamed for all the problems that cooperatives face in accessing financing, Mr. Dadiani of Oxfam pointed out the importance of having at least a 10-year-long state grand funding plan for cooperative development valued at least 100 million GEL. Although the legal framework for agriculture cooperatives is already transparent and well-defined, according to Mr. Dadiani, such plan is necessary to compensate for the high credit risk cooperatives in the start-up stage create for banks.

After the discussion regarding the requirement of high-value collateral by banks and MFIs, a representative of the “Georgian Leasing Company” announced that his company provides financing without collateral (aside from the asset purchased), and only 20% co-financing is required; however, they finance only capital assets, not working capital.

Silvia Sanjuan Munoz (Care International in the Caucasus) acquainted the audience with an alternative way of cooperative funding known as a *revolving fund*, which is well-known practice globally, but only recently started in Georgia by Care International in Caucasus, which supports cooperatives in western Georgia with this scheme. The *revolving fund* means that cooperatives are given the zero-percent loan that they should repay back in the timeline agreed upon the agreement. Ms. Sanjuan discussed the possibility of funding new cooperatives through a

revolving fund. The accumulated money through this fund might be managed via a credit union, or by the second-level cooperative that would mobilize and provide financial resources to cooperatives. Another option is to involve financial institutions to manage this fund. This issue is still open, and Care International in the Caucasus is working on these alternatives. At the end of her speech, Ms. Sanjuan highlighted the role GFA will play in these processes.

Konstantine Zhgenti (ABCO) discussed his organization's successful experience with a *loan guarantee scheme*, which Mercy Corps and ABCO tested in the period 2006-2009. In 22 cases, when a committee agreed to guarantee part of the collateral (usually, 20%-30%), the borrowers covered their credit fully and in some cases even before the deadline. The collected interest rate was used to cover the expenses of the project. Mr. Zhgenti suggested that donors and the government establish such types of funds to increase the accessibility of credit for cooperatives.

Virginie Dago (French Development Agency (AFD)) informed the audience that for financing the agriculture sector, AFD provides commercial banks with inexpensive financial resources and also shares their risks. According to Ms. Dago, AFD recently established a permanent office in Tbilisi and intends to assist FIs to increase their awareness of the agriculture sector and to support small and medium size farms. The agency defines a capped interest rate, and supports the demand as well as the supply side of the credit market. Ms. Dago informed the audience that AFD will provide loans for Georgian farmers and cooperatives with a minimum duration of three years with affordable interest rates.

Tyler Green (BFC) presented the value chain financing model, using the example of the nuts cooperative "Darchelis Tkhlili". Mr. Green discussed the warehouse voucher system which BFC will use in order to increase access to financing for cooperative members during the time when they need money to cover operational costs. Regarding this presentation, Juan Echanove commented that nuts are a specific product for Georgia, because: (1) nuts are an important exporting good, and (2) "Ferrero" operates a business in the country. Mr. Echanove added that currently farmers mainly struggle to find [good] business partners, and the represented model could help in this direction.

Eliso Tskhadaia (RDA) pointed that [banks] prefer to grant credit directly to a farmer, rather than a cooperative of which the farmer is a member. If a farmer uses this credit to finance his/her share in a cooperative, banks usually characterize this as a violation of credit terms and conditions, causing additional problems for co-ops. Consequentially, Ms. Tskhadaia believes that not only farmers need to be trained on finance, but bank employees also need training in cooperative peculiarities.

Davit Mamukelashvili (Agricultural Cooperatives Development Agency) highlighted the role of the legal framework developed by ACDA, the necessity of coordinated actions by stakeholders, and the advantages of utilizing scale effects in cooperation.

In the end of the forum, Mr. Gongladze (from TBC) added that banks are eager to cooperate with sound agricultural businesses (including cooperatives), but mistrust between banks and farmers should be resolved. Banks are working to develop special products for farmers and the cooperation of farmers and other stakeholders is very important to this process. The credit portfolio on the agricultural sector has been increasing year by year, and the trend should continue in order to increase the accessibility of financing for farmers and cooperatives.

Eric Livny summarized the "Interagency Forum on Access to Finance for Cooperatives." He compared financial service providers and farmers to the people who should meet, but one stands on the top (finance providers) and the other at the bottom (farmers) of a mountain. To meet,

either the one standing at the bottom should climb to the top of the mountain, using subsidies and other benefits, or both people should start moving towards each other and meet somewhere in the middle. According to Mr. Livny, leadership skills such as those found in Father Peter's cooperative offer a good example of the bottom-up approach. On the other hand, the top-down approach on the example of value chain financing for instance, among other factors will be vital for improving access to finance for cooperatives. When it comes to the question of limited resources of state budget, we should remember to target sustainable cooperatives, which have a better chance to be successful. In this regard, he urged everyone to remember that cooperation is efficient when farmers are cooperating on the service side, not very much in the production – this should also be considered when designing policies in the future.

Giorgi Glonti (Care International in the Caucasus) thanked everybody for their contributions in the forum discussions, and highlighted the importance of “speaking in a common language,” sharing [credit] risks proportionally among the stakeholders.

At the end of the forum, all participants agreed to move these discussion topics into more narrow sub-topics with relevant audiences, and work separately on each possible financial source to help cooperatives increase their accessibility to financing.

This Interagency Forum was organized with the assistance of the European Union’s ENPARD programme. The programme has been active in Georgia since 2013; its main goal is to reduce rural poverty in Georgia through support to rural and agriculture development.

To find out more about ENPARD, please visit: <http://enpard.ge>.

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