



THE LATIN AMERICAN AGRIBUSINESS DEVELOPMENT CORPORATION (LAAD)

A case study of the development impact on rural enterprises in Latin America

This case study demonstrates the effectiveness of providing funding to a specialized financial institution in reaching rural enterprises and in creating economic opportunities in rural areas.



IMPACT ON THE GROUND

FLORECOT – ECUADOR

In 1994, Florecot (Flores del Cotacachi S.A.) decided to embark on a project to produce summer flowers for export, and turned to three local banks for financing. Unlike seasonal flowers, summer flowers are used as fillers and must be produced all year round, which requires permanent and longer term financing. After being turned down by the local banks, Florecot's young shareholders approached LAAD, and after careful review, LAAD was able to extend a \$200,000 loan to the company designed with a flexible interest and principal repayment schedule fit to fund its start-up project.

Since then, and with LAAD's continued support, Florecot has grown to become one of Ecuador's largest summer flower producers. Production area expanded from four hectares of Gypsophila flowers and ten employees in 1994 to over 47 hectares that yield 50 varieties of 12 different types of flowers, 700 field workers, and estimated annual revenue of \$8 million in 2008. Florecot exports its flowers directly to the U.S., Canada, The Netherlands, Italy, France, England, Russia, Chile, Venezuela, the Dominican Republic, and Kuwait.

Florecot has excellent labor relations and permanently invests in its employees' standard of living by providing good working conditions, constant training, good meals, transportation and health insurance.

The Latin American Agribusiness Development Corporation

The Latin American Agribusiness Development Corporation S.A. ("LAAD" or the "Company") is a financial intermediary founded in 1969 by a group of leading international agribusiness and financial companies to finance small and medium-sized, export-oriented, agribusiness enterprises ("SMEs") in Latin America and the Caribbean. LAAD has built a successful track record of financing mostly family owned agribusiness SMEs across 15 Latin American countries.

Agribusiness SMEs is typically considered to be a difficult market, often underserved by established local financial institutions. Commercial lenders perceive the sector to be risky especially in the current market conditions of tight liquidity and volatility of agricultural commodity prices. LAAD provides loans of less than \$3 million to small and medium-sized farmers to help modernize and expand their operations. The company operates entirely under market conditions, lending on a secured basis at prevailing market rates.

Countries of LAAD Operations (from largest to smallest portfolio)

Brazil, Ecuador, Dominican Republic, Chile, Honduras, Bolivia, Costa Rica, Guatemala, Peru, Uruguay, Colombia, Nicaragua, Venezuela, Belize, and El Salvador.

IFC's Support for LAAD

LAAD has been an IFC client since 2002, when IFC provided a \$20 million loan for on-lending to agribusiness SMEs. In 2006 IFC extended another loan to LAAD for \$30 million. By providing LAAD with long term financial resources that are not always available from commercial banks, IFC aimed at allowing the Company to safely scale up its business and expand its reach to

an increased number of countries. In 2009 IFC provided an additional loan of \$16.5 million and became one of the 12 shareholders of LAAD to further support the growth of the company's lending operations.

While LAAD had access to commercial bank financing, IFC's financing with longer maturities allows LAAD to scale up its investment volume and extend the tenor of its loans when appropriate. Without IFC's participation, LAAD would have limited its growth rate and would have had to offer loans with shorter maturities. Also, IFC provided a framework to strengthen environment and social management, which LAAD developed and now applies to its entire loan portfolio.

IFC's support for LAAD fits well with IFC's strategy in Latin America to support SMEs, particularly in countries that have strong competitive advantages in agribusiness. It also fits with IFC's agribusiness strategy to increase access to financing for small and medium-sized agribusiness enterprises. Through its partnership with LAAD IFC reaches a new class of clients that it could not easily serve from its existing platforms.

Financing LAAD: A Case Study in Development Outcomes

This article looks at one of IFC's projects with LAAD, a \$30 million loan extended in 2006, to illustrate the development impact of the company's operations with IFC's support.

IFC expected LAAD to maintain its successful financial track record and generate a satisfactory return on equity for its shareholders, while expanding its reach to new territories and additional clients. This would support the growth and development of SMEs in rural areas, which would in turn result in a multiplier effect with further benefits for local companies supplying goods and services to these SMEs, and employment creation. Given the prevalence of rural poverty in Latin America (in the 10 countries with the highest LAAD disbursements in 2008, an average of 63% of the rural population lives below the poverty line), the expectation was that the generation of economic opportunities in rural areas would indirectly result in poverty alleviation in the areas of influence.

Financial performance. Over the 2005-2008 period, LAAD substantially increased its lending. Disbursements in 2008 were \$99 million, well above the 2005 figure of \$72 million, growing at a Compounded Annual Growth Rate (CAGR) of 11%. Its disbursed portfolio rose from \$185 million to \$265 million, at a CAGR of 13%. LAAD's financial performance as measured by its Return on Average Equity (ROE) was satisfactory as well: over the same period, the ROE varied in a range of 9.5% to 11.2%, with an average of 10.4%. This is higher than the IFC-estimated required ROE of 7.1%. This performance was achieved while maintaining a high quality of the portfolio, with non-performing loans averaging less than 4% of disbursed portfolio.

The growth of disbursed loans was not linear, however. This will always depend on local and global economic conditions, as well as country specific events impacting the investment climate. Political turmoil in several countries forced LAAD to reassess its risks and reduce new business, to focus on supporting existing clients. 2006 was a case in point, where due to the uncertain political situation in Bolivia, LAAD limited its operations there, concentrating on improving portfolio quality through problem-loan work-out operations. LAAD had a remarkable performance in 2007 and 2008, given the historically challenging situation that combined very high commodity price volatility, a global credit crunch and a global recession. The Company managed nevertheless to grow its lending by 23 and 15% respectively. This was partly explained by the strength of global agricultural prices until mid-2008 and the strong demand for term financing from its clients, many of whom began to encounter difficulties obtaining funding from their traditional sources.

Projected Employment Generation: 3,940 new full time jobs and 6,178 seasonal jobs

Actual Employment Generation: 24,000 new full time jobs and 23,000 seasonal jobs between 2005 and 2008.

Economic performance. LAAD's economic performance has been substantial. In spite of the significant headwinds in the global economy, the Company managed to increase its services from 124 companies financed in 2005 to 152 in 2008, thus providing critical assistance to SMEs at a time when most commercial banks were reducing their exposure. LAAD's assistance resulted in better outcomes for the recipient companies but also local populations. Almost 60% of LAAD's portfolio is concentrated on horticulture products (fruits, vegetables, flowers), a sector which by nature is labor-intensive. The Company estimates that in 2008, the projects it financed resulted in the creation of 16,200 jobs, mostly in rural areas. Over the 2005-2008 period, more than 24,000 jobs were created. In addition, about 23,000 part-time jobs were provided. This compares very favorably to expected outcomes of 3,940 new full time jobs and 6,178 seasonal jobs.

Because its primary focus is on export-oriented agribusiness SMEs, LAAD's investments made a significant contribution to the countries' foreign exchange earnings. In 2008, the Company estimates incremental exports worth US\$120 million. Over the 2005-08 period, foreign exchange earnings were increased by more than US\$290 million.

Environmental and social performance. IFC worked with LAAD to strengthen its environmental and social review procedures in its lending operations. As a result, LAAD

has been undertaking a review of each new subproject it financed to ensure that were carried out and operated in compliance with applicable environmental, health and safety (EHS) requirements of host countries as well as IFC's EHS Guidelines for Pesticide Handling and Application.

Under the new 2009 IFC loan LAAD has enhanced and continues to enhance its Social and Environmental Management System ("SEMS") to accommodate IFC's Performance Standards.

Private sector development. Agribusiness development in rural areas has been an effective path out of poverty by stimulating economic activity in rural areas where the majority of the poor live in developing countries. Most of the SMEs financed by LAAD would typically purchase goods (agricultural inputs, agricultural products, packaging material, etc.) and services (transportation, warehousing, distribution, specialized technical services, veterinary, etc.) from other SMEs, individual enterprises or farmers. Their growth would therefore have a multiplier impact on the local economy. Current information collected by LAAD does not, however, permit an adequate quantification of this impact. LAAD and IFC are exploring how to collect additional data going forward to further document LAAD's developmental impact and its projects' multiplication effect.

"LAAD has an excellent track record of more than 35 years in the market of financing agribusiness SMEs. Through our long-term partnership with the company, IFC is helping expand access to financing essential to the growth and increased competitiveness of these enterprises."

Oscar Chemerinski, IFC Director for Global Agribusiness



IMPACT ON THE GROUND

AGROPECUARIA SARA, BOLIVIA

Agropecuaria Sara was established in Santa Cruz, Bolivia in 1993 by the Virreira family to produce soybeans on a 250-hectare farm. By the year 2000, the company had expanded soybean production to 3,420 hectares.

In early 2001, LAAD extended a US\$500,000 loan to the company to purchase farm machinery. Since then, LAAD has made over \$2 million in loans to fund expansion and increases in permanent working capital needs.

The company currently plants over 9,000 hectares of grain crops and 800 hectares of sugarcane, manages a 620-hectare forestry operation, and owns 700 heads of cattle. With LAAD's long-term funding support, annual revenues have grown from \$1.1 million in 2001 to over \$2 million in 2008, and the company has become one of the largest farming operations in Santa Cruz. But perhaps more important is the fact that Agropecuaria Sara currently employs 70 full-time and 180 part-time workers.