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## **Effective Stakeholder Involvement at the Base of the Pyramid: The Case of Rabobank**

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### **Abstract**

In this essay, we explore the role of Rabobank in dealing with the wicked problem of food security in general and of smallholder inclusion into food value chains in particular. In the first part of the essay, we focus on the (social) expectations of stakeholders with regard to Rabobank's role in BoP management, the way stakeholder expectations are managed and the way Rabobank collaborates with multiple stakeholders in the value chains in order to achieve their economic and social goals. In the second part, we explore how Rabobank Foundation, an independent non-profit organization which is funded by the Rabobank Group, contributes to the achievement of these goals at the BoP; by a unique collaboration between the for-profit and not-for-profit activities of the Rabobank, together with their customers and other stakeholders, Rabobank is able to achieve both its economic and social goals at the BoP.

**Keywords:** stakeholder involvement, base of the pyramid, banking, smallholder inclusion, wicked problems

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## **Introduction**

Rabobank was founded nearly 110 years ago by Dutch farmers and consists today of 138 independent local co-operative Rabobanks. As a co-operative bank, Rabobank has no shareholders but stakeholders (members, employers and customers) and a unique governance structure. With 1.9 million members and serving 10 million customers in 47 countries of the world, Rabobank is nowadays the second largest bank of the Netherlands and ranks 26th of the top 100 World banks.

Internationally, Rabobank's ambition is to be a leading food and agribusiness (F&A) bank by providing wholesale financial services to large companies as well as retail banking services in various developed economies. Besides, Rabobank is building an extensive network of partner banks in developing and emerging economies. The general approach is to collaborate with these partner banks as a minority shareholder and as hands-on board member, providing long term capital and technical assistance for large scale F&A projects.

For Rabobank, developing and emerging economies do not only represent business opportunities to expand their business. The bank is clearly aware of the vulnerability of F&A to high-risk trends, such as the increasing scarcity of natural resources and the negative impacts of climate change. Following the New Vision for Agriculture of the World Economic Forum (WEF 2011), Rabobank's ambition is therefore to play an important role in connecting the bottom with the top of the pyramid in food value chains in order to stimulate food security, sustainable production and economic growth. In Rabobank's vision, global food security is virtually impossible without tapping into the underused agricultural production potentials of small-scale farms at the BoP (Rabobank 2012). The development of the entrepreneurial potential of smallholders is seen as a business development opportunity which can help to eradicate poverty at the same time (cf. Karnani 2006).

The stimulation of food security (Hamann et al. 2011) in general and of smallholder inclusion in particular can be seen as a wicked problem (Foresight 2011; Torero 2011; Atoma et al. 2011), i.e. as a problem which "defies resolution because of the enormous interdependencies, uncertainties, circularities, and conflicting stakeholders implicated by any effort to develop a solution" (Lazarus 2008: 1160). In this essay, we explore the role of Rabobank in dealing with the wicked problem of smallholder inclusion into food value chains. In the first part of the essay, we focus on the (social) expectations of stakeholders with regard to Rabobank's role in BoP management. In the second part, we explore how Rabobank contributes to social and economic goals at the BoP.

This essay is the product of 'embedded' research at Rabobank, including desk research and interviews with Bas Rüter, CSR director of Rabobank Group and Pierre van Hedel, director of Rabobank Foundation.

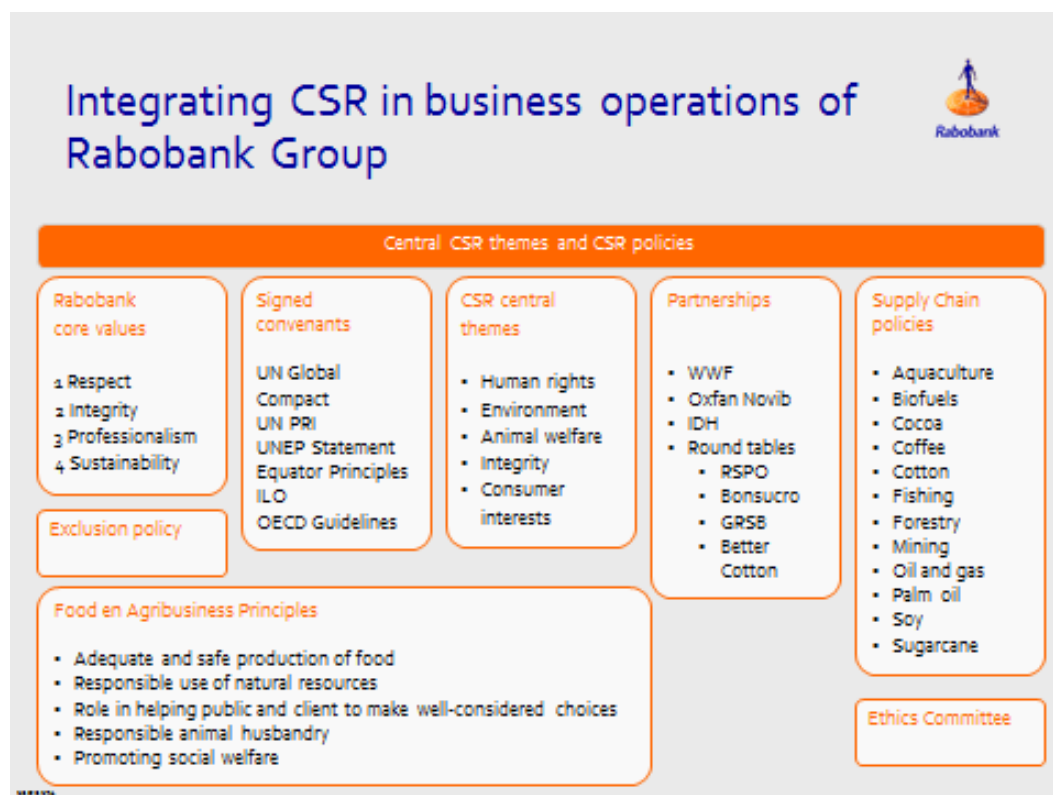
## **Managing Stakeholder Expectations**

The promotion of sustainability and economical independency of small-scale farmers is highly complex. Small-scale farming faces major disadvantages such as low productivity, low volumes of products to sell, variable quality, high transaction costs and poor access to inputs and markets. For Rabobank, it is clear that a supply chain perspective is insufficient to solve problems related to smallholder inclusion. Macro-economic trends like the feminization of agriculture in many Asian and African countries and the need to increase farm size in order to take advantage of economies of scale, must also be taken into account in the development of small-scale farming. The wickedness of problems related to smallholder inclusion becomes clear if we realize that they are rooted in a history of exploitation and distorted social relations, the absence of an organizing principle like a reliable government with transparent laws and regulations under which entrepreneurs can start and grow their business, a tradition of well-intended aid of donors who don't encourage to unleash the entrepreneurial potential at the BoP but cultivate dependency etc. The complexity of smallholder inclusion is also represented by the various available strategies to solve these problems; we can start with providing access to food, health care, education, infrastructure, finance etc. According to Rabobank, it is likely that only a combination of interventions by various stakeholders – governmental organizations, NGO's and the for profit sector – can solve problems related to smallholder inclusion and stimulate food security in an effective way.

Rabobank is convinced that the involvement of multiple stakeholders is a necessary condition to promote sustainability and economically independency of small-scale farmers, and that profit enterprises have a leading role to play to connect them to markets and to integrate them into value chains. For this reason, the active collaboration with F&A companies, NGOs and governmental organizations is an important part of Rabobank's international F&A strategy.

By its extensive network and engagement in local and international sustainability alliances and partnerships, Rabobank remains continuously aware of the challenges in the food sector. The CSR department of Rabobank is continuously involved in the monitoring and evaluation of relevant sustainable issues. They frequently communicate with their local and global stakeholders in the food sector and based on their assessments, they provide support and advice to the operational and business research departments of the bank. In their international F&A strategy, Rabobank applies a set of F&A principles (see Figure 1), which are monitored by the corporate CSR department. They support the development of internal guidelines for sustainable lending, asset management and client engagements. In case of strategic ethical issues an Ethics Committee, chaired by the CEO of Rabobank, gives advice.

Via Rabobank Foundation, an independent non-profit organization which is funded by the Rabobank Group, the bank provides financial and technical support in order to promote social inclusion, and sustainable development at the BoP. Market oriented small-scale farmers are stimulated to become economically self-propelling. Rabobank Foundation collaborates intensively with various external stakeholders in the value chains in order to achieve these goals.



**Figure 1.** Central CSR themes and CSR policies

Because of the leading role of Rabobank in financing BoP F&As, many stakeholders have high financial, but also social and non-market expectations with regard to their performance. The bank is held responsible for the unsustainable behavior of its clients, such as bad labor conditions, corruption, environmental pollution and the maltreatment of animals. In the same way, with regard to BoP, stakeholders expect that Rabobank is not involved in unsustainable businesses like land grabbing and squeezing smallholders. Furthermore, stakeholders expect them to (financially) contribute to the development of food-, illiteracy-, HIV/AIDS programs etc.

As a co-operative bank, responsiveness to the demands of stakeholders is important. Stakeholders represent the societies in which Rabobank operates and therefore, they grant their license to operate. The bank applies a set of principles, codes and communication tools to manage its operations sustainably and to prevent involvement in unsustainable business practices (see figure 1). At the same time, it is clear that Rabobank is a for-profit enterprise and that the added social value should be related to its core activities. While Rabobank Foundation can purely act according to its mission to promote sustainability and economically independency of small-scale farmers, the commercial divisions of Rabobank have to make the connection with the supply chains and business operations of their clients. They primarily support F&A companies in their efforts to achieve sustainability goals. In order to manage stakeholder expectations, Rabobank invests a lot in the communication of their vision on a sustainable F&A sector, the role of the bank in smallholder inclusion and the transparency of its business operations. In the next section, it will become clear how the activities of Rabobank Foundation are connected to Rabobank's international F&A strategy.

## Effective Collaborations for Smallholder Inclusion

An increasing amount of large F&A clients of Rabobank start to invest in the sourcing of cocoa, coffee, cotton, fruits, vegetables etc. from smallholders in developing countries. In many cases, Rabobank cooperates with its clients to set-up sustainable smallholder production. Rabobank Foundation helps market oriented smallholders with the development of local cooperatives and provides technical support in order to increase the quantity and quality of the production at the BoP. As soon as these farmers reach the stage of self-sustaining businesses, Rabobank Development, the for-profit division of Rabobank, will provide them with sophisticated financial services and technical assistance via local partner banks. In this way, Rabobank Foundation and Rabobank Development are complementary to each other in their efforts to connect small-scale farmers to markets and integrate them into value chains.

An example is the collaboration with ECOM, a respected client of Rabobank and one of the large coffee, cocoa, and cotton traders in the world. In 2009, they sought cooperation with Rabobank Foundation in order to improve the livelihood of smallholder farmers in Ivory Coast. Rabobank Foundation started a project to train farmer cooperatives and provide technical and financial services. Rabobank Development joined the project, providing technical assistance. Within this project, Rabobank Development was responsible for the development of solid cooperatives, addressing challenges such as capitalization, creditworthiness, bankability, governance and organizational structure. Rabobank Foundation also funded the development of training curricula and the execution of the training programs. Furthermore, they supported the implementation of an Internal Control System which enabled cooperatives to control the quality and quantity of the production. ECOM was responsible for the coordination of the project and provided in-time quality input supply.

The collaboration proved to be successful. During the first three years of the collaboration between ECOM and Rabobank, the number of certified farmer cooperatives doubled and the number of certified smallholder farmers tripled to 9.000. The yearly production increased from 5.000 MT to 10.950 MT in three years' time. At this stage, MARS, one of the largest cocoa processors and also an important client of Rabobank, joined the project. MARS made its knowledge and expertise available for the project, for instance for a new fertilizer pilot, and provided financial support. Together with ECOM and MARS, Rabobank continues this project in order to secure sustainable cocoa production and to improve the livelihood of farmers at the BoP in Ivory Coast. By this unique collaboration between the for-profit and not-for-profit activities of the Rabobank, together with their customers and other stakeholders, Rabobank is able to achieve both its economic and social goals at the BoP.

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