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Value Chain Financing

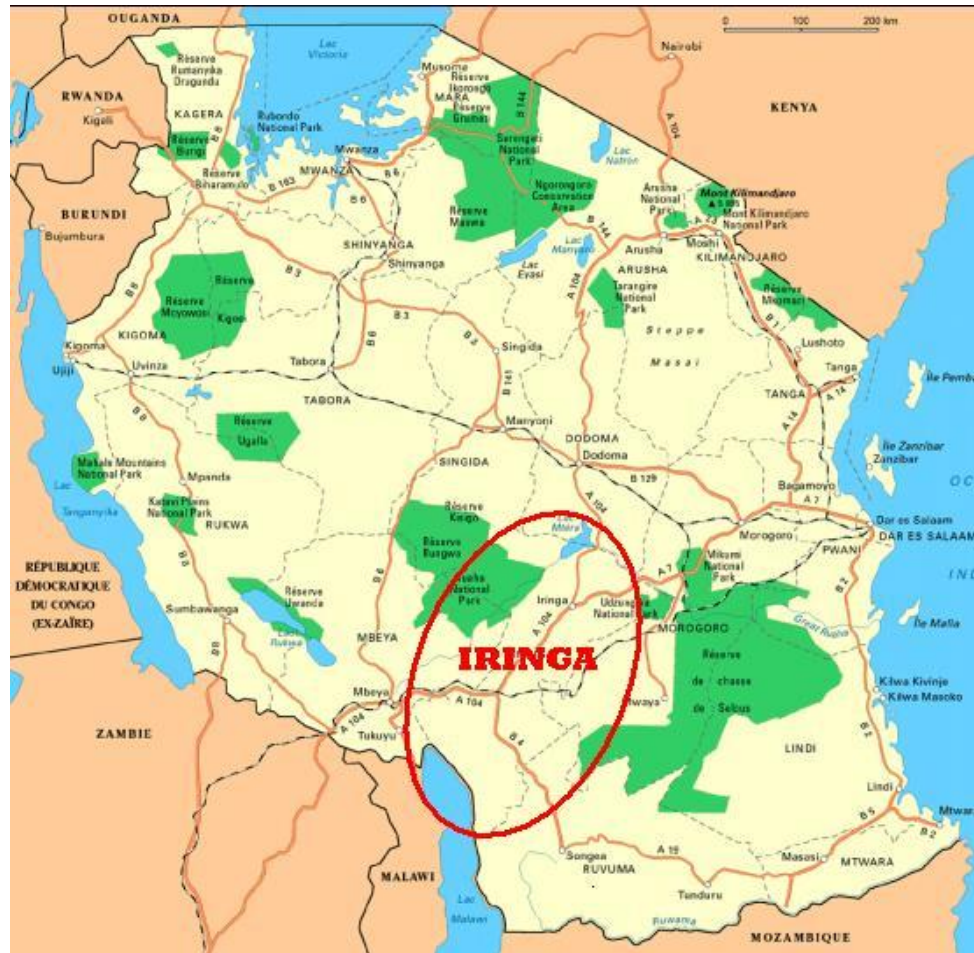
Case study on Paprika in Tanzania

Presented by Renee Chao-Beroff
Pamiga

PRIDE Tanzania

- PRIDE Tanzania is a nationwide established Tanzanian MFI created in 1993; with the largest outreach in the country.
- In 2010, it has 47 branches in all districts
- More than 100,000 clients
- Initially all the clients were urban micro - entrepreneurs, involved in small businesses
- Methodology used : group lending

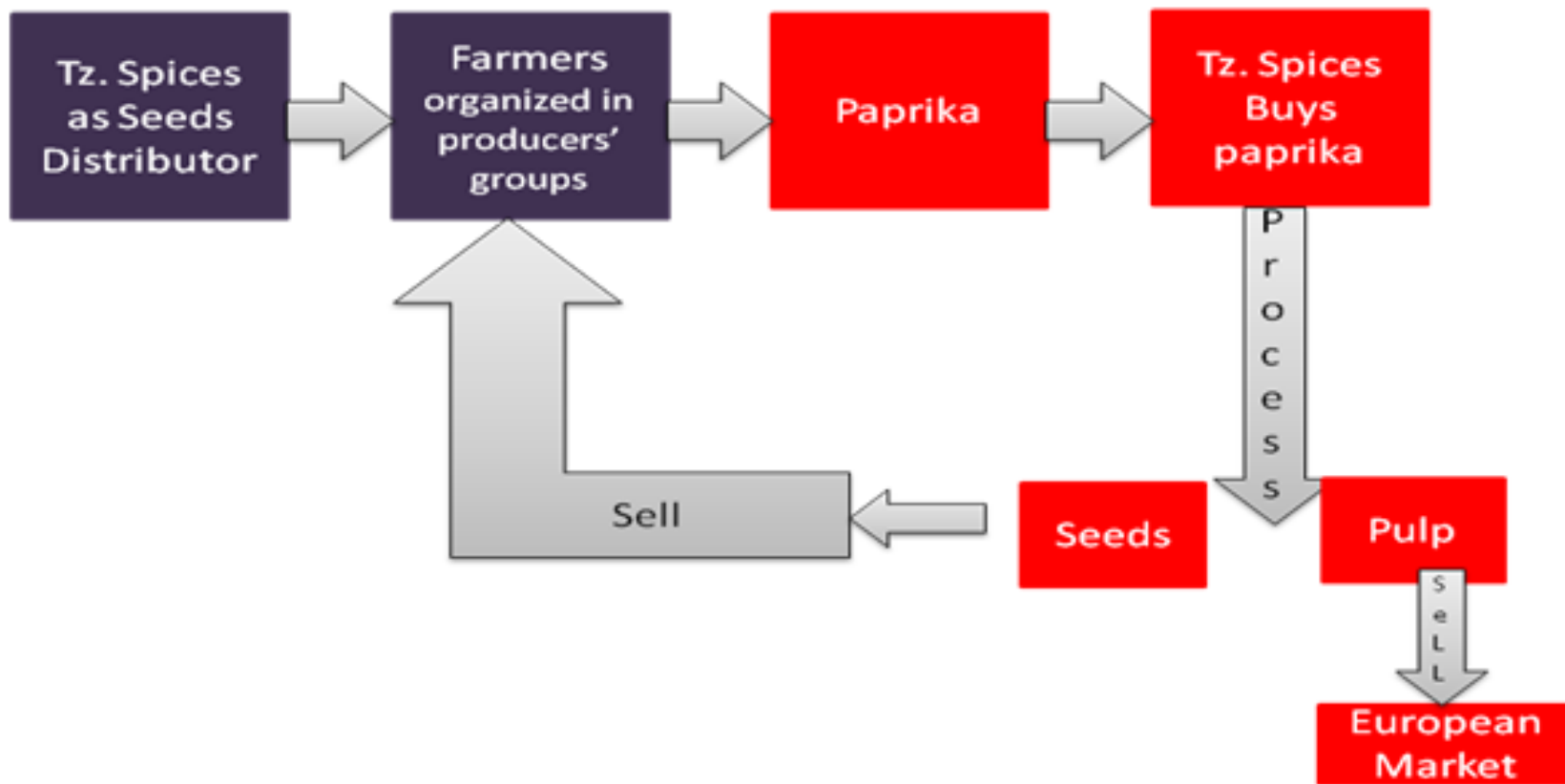
Iringa Branch



Paprika in Iringa region

- In 2001, the Spanish company, EVESA (Extractos Vegetales SA), a major producer and processor of spices, established Tanzania Spices Ltd to increase supplies of raw paprika to their factory.
- Iringa was chosen as a site to establish paprika as a cash crop for small farmers under contract farming agreements.
- Tanzania Spices set up a pressing and packaging factory with a capacity of 2,000 tons /a to export to Spain.
- Tanzania Spices provides high quality seeds and TA to farmers and is committed to buy paprika produced at a price that is set yearly, according to the quality (Grading).

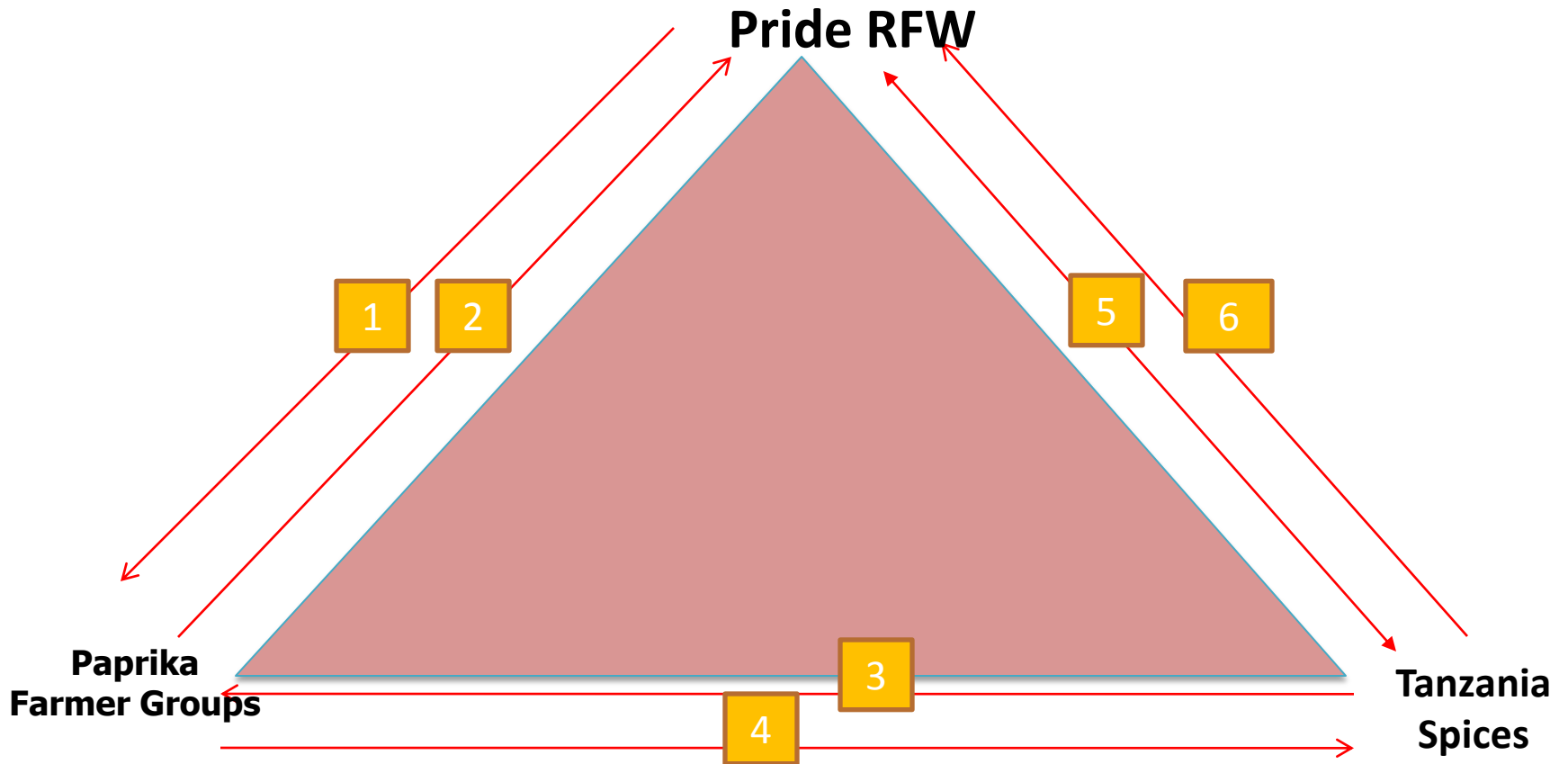
Flow Chart of Paprika Value Chain



Process in VCF development

- Surveys by RFW staff with producer's groups
 - To confirm profitability of paprika production and assess pros and cons against other cash crops
 - Assess loan needs (amounts, duration...)
 - Analyze producers' cash flow to design adequate and secured repayment modalities
 - Confirm willingness to enter a tripartite arrangement with Tanzania Spices
- Meeting with Tanzania Spices to:
 - Agree on modalities of tripartite arrangement (respective responsibilities of parties)
 - Cross check information collected from producers on loan needs

Tripartite Arrangement



Principles in Product Development

- Only experienced paprika producers organized in groups with contracts signed with Tanzania Spices
- Joint selection of groups by Pride RFW and Tanzania Spices
- Loans for intensification or extension of existing paprika farms
- Number of acres capped to focus on small farmers
- Loan disbursement in several tranches
- Repayment made in several installments, based on cash flow of borrowers (not only income from Paprika); last installment represents a maximum of 50% of the principal.
- Joint liability of the group + 25% of group cash collateral
- Second level guarantee provided by Tanzania Spices, from proceeds of sales in case of arrears
- Group leaders involved in some operational activities: screening, collection of payments and payments made to PRIDE branch, collection of death certificates for the loan insurance

Characteristics of loan product

Target	Market oriented paprika growers organized in groups with contracts with TS – groups of max 20 – exist > 2 years
Purpose	Increase and secure production
Use of loan	Inputs, labor, farm tools and equipment, rent of land
Lending methodology	Individual through group, joint liability, participation of group leaders, contract with group as borrower, but individual follow up, tripartite agreement signed
Time of disbursement	October –December
Duration	8 or 9 months
Amount	X Tsh/acre max and max 3 acres for first loan cycle, may be increased upon repayment records, approval by Group
Installments	Minimum 2, according to cash flow analysis
Interest rates	30% equally shared among installments

Organization and Human Resource

- At PRIDE RFW level: Front office: Rural Finance Officer, Agri Business Officer; Back office: branch staff + field controller
- At Tanzania Spices level: technical staff, marketing staff that are in relation with farmers' groups + management
- At farmers' group level: Group leaders, group members
- Local authorities

Main results after 3 years



Results after 3 years

- 17 groups, 573 producers financed
- Average loan size: USD 200
- PAR 90: 3.4% (compared to 4.4% African MFIs in the MIX)
- Operational efficiency: 2 agribusiness officers for 2,254 active borrowers, very high (366 as per MIX)
- Much better performance than the “community based rural finance product”

Main Findings

- Expectations did not materialized:
 - Larger loan amounts
 - Needs for MLT loans for equipment
 - Financial services to other actors along the chain
- Advantage of tripartite arrangements compared to loosely structured value chains not fully conclusive:
 - Challenge for agribusiness firms to enforce contracts
 - Relations between RFW and Tanzania Spices proven difficult when there are conflicts with producers: ex when paprika producers shifted to sunflower

Lessons learnt

- Need of a thorough analysis of the profitability and the sustainability of a Value Chain, especially assessing all the risk factors including production risks, price risks, climate risks, legal risks...
- Crucial to use all the VC mapping tools to analyze the relations between actors and assess the needs
- Analysis of the competitive markets (production shift or side selling)
- Existence of well organized farmers groups is a +

Lessons learnt

- Use cash flow analysis to tailor repayment installments
- Close on site monitoring and reactivity in facilitating dialogs among parties involved before miscommunication turns into conflicts
- Consistency between the mission of the MFI and Value Chain Financing is key when a problem arise: ex. Choose to support the producers or the Agribusiness Firm

Value Chain Financing in PRIDE RFW's policy

- Since Iringa and based on this experience, PRIDE has expanded Rural Finance Windows in 9 more branches in various parts of Tanzania where good value chains are present
- It has differentiated approaches when dealing with well-structured value chains (organic cocoa, wine grapes, sugar cane, dairy...) and loosely structured value chains (rice, sesame, sunflower...)

PRIDE's RFW policy

- It is now considering the MSME market downstream of the value chains
- It is scaling up its portfolio in rural and agricultural finance and has been successful in sourcing funding from commercial banks in Tanzania (up to a certain level)
- PRIDE RFW is now considering to transform into a deposit taking MFC

Long Term Trend for VCF

- VCF is a very promising avenue for agricultural financing with a profitable and secured approach: when the methodologies will be refined, there is a very good scope for banks and strong FIs to engage at large scale
- Investment in building strong Value Chains is very much needed
- However, VCF targets only one segment of the rural market: livelihood finance is needed to address the needs of the lower end segment and for a holistic Rural Financial Inclusion

Thank you for your attention

