"Good Practice" Agricultural Value Chain Financing

Savings and Credit Forum

in collaboration with SDC Global Programme Food Security

Friday, 18th November 2011

The objective of the Savings and Credit Forum of 18 November 2011 was to provide a conceptual framework and practical examples on Agricultural Value Chain Finance (AVCF). The forum was opened by Peter Bieler, head of SDC's Global Programme on Food Security. He stressed the fact that access to financial services is a bottleneck encountered throughout SDC's efforts in agricultural development and food security. Hans Ramm, responsible for Financial Sector Development within SDC, presented the speakers, the programme and moderated the discussions during the day.

The **thematic introduction** of the forum was prepared by Calvin Miller from FAO with a presentation on **Good Practices in Agricultural Value Chain Financing (VCF)**. He presented the VCF concept highlighting that farmers and agro-businesses access finance from a wide array of sources other than financial institutions, turning to those they buy from, sell to, or otherwise conduct business with. Financial institutions can learn from value chain players in order to move from supply-driven, "how do we lend?" to client-driven provision, "how can we structure finance to address client needs and risks?". There are various AVCF business models and financial instruments, including product financing, receivable financing, physical asset collateralization, risk mitigation products, financial enhancements. These models and instruments have to be structured in order to fit the value chain. Therefore, it is important to have a comprehensive understanding of the value chain, make use of insider knowledge and be aware of the weakest link. The enabling environment requirements should also be considered.

The Q&A after the presentation focused on the role of MFIs in AVCF. Although there are examples of MFIs engaged in AVCF, it is a big step to enter this market and it is key is to partner with banks. Small MFIs only have the capacity to link with producers, they should not try to do everything. In general, financial institutions need sspecialized staff to structure financial instruments for effective VCF.

The second presentation was given by Renée Chao-Béroff from Pamiga. She presented a case study on **Paprika Value Chain Financing in Tanzania by PRIDE**, a nationwide established MFI. A tripartite arrangement was set up in Iringa Region between PRIDE's Rural Finance Window, established Paprika farmer groups and Tanzania Spice, a company supplying the Spanish company EVESA. PRIDE provided loans for inputs and labor to individual farmers, with joint liability of the group and a second level guarantee provided by Tanzania Spices. The company provided high quality seeds and technical assistance. PRIDE found this VCF to be a promising model and has expanded the Rural Finance Windows in nine more branches in various parts of Tanzania. However, there were also challenges encountered in the case. First, the producers eventually decided to stop collaborating with Tanzania Spice and grow sunflower instead of Paprika. PRIDE was confronted with the problematic choice of supporting either the producers or the company in this conflict, and finally decided to continue working with the producers. A second point raised was that VCF targets only one segment of the rural market, usually comprised by entrepreneurial actors. Livelihood finance is needed to address the needs of the lower end segment and achieve inclusive rural finance.

HELVETAS Swiss Intercooperation
Maulbeerstrasse 10 - CH 3001 Bern
☏ +41 31 385 10 61 🖷 +41 31 385 10 09
✉ jeannine.caspar@helvetas.org

Thierry Pleines, from Brücke - Le Pont presented the second case study on **Poultry, Red Oil and Rice Value Chain Financing by FECECAV in Togo**. FECECAV is a Union of 13 Savings and Credit Cooperatives (SACCO's) and among the four leading rural MFIs. In order to develop better adapted financial products, a „triangle for innovation" was facilitated between FECECAV, the value chain actors (producers, processors) and NGOs for technical support (advisory services, organizational training). The type of loan taker varies according to the value chain: cooperative of oil producers, individual chicken keepers and rice processing company. Clients find that the loans are well adapted for input purchases and the conditions are better compared to competitors. However, they would still wish for lower amounts of compulsory savings (collateral), bigger loans and lower interest rate. Lessons for Brücke – Le Pont are to do more macroeconomic analysis because purchasing power is the major limit for better food, to have MFI-staff with solid agricultural knowledge and to enhance risk-sharing by smart subsidies to foster innovation.

Points of **discussion** after the case study presentations were, first, in how far the behaviour of PRIDE in the context of conflict encouraged default by the producers. Second, what are the opportunities and risks of engaging in VCF for one specific product (like in the first case) or several products (like in the second case). Although focusing on a specific value chian makes VCF easier, it does not reflect the reality of diversification in farm production and has the risk of locking farmers into one product. Third, the importance of not muddling together financial and technical support by the same institution was highlighted. Nevertheless, technical support can be considered as collateral by financial institutions and thus ease the decision to provide loans and lower the interest rate, as was the case in Togo.

The third case study was about **responsAbility social investment's Fair Trade Finance of the SOPACDI Coffee Cooperative in DR Congo** presented by Michael Fiebig. responsAbility sees fair trade as one possible solution to poverty reduction in the agricultural sector. Their assessment of the coffee cooperative revealed many unmet financing needs, e.g. purchase of inputs, fertilizers, harvest, replacement of equipment, etc. responsAbility decided to focus on Pre-export finance, i.e. providing pre-harvest finance to pay farmers up-front. It's the smallest investment in terms of loan size they have ever done; but responsAbility decided to engage because there is no other provider. MFIs work at producers' level only, local banks and fair trade companies have only limited capacity, there are only a few other international social lenders. ResponsAbility has risk mitigation measures at various levels (due diligence with cooperatives, importers, country risk assessment, etc.). Technical assistance by importer (e.g. Oxfam) is not necessary but facilitates their investment decision.

The case study presentations were followed by a **panel discussion** with all speakers that focused on the roles of different actors/facilitators. For governments, it is important to first better understand the concept of VCF and then provide an enabling business environment. NGOs can build the capacity of financial institutions and help in innovation and social performance. For MFIs it is important to understand the financial needs of the clients and tailor AVCF accordingly. Social investors need a strong commitment - since the AVCF product line is often not profitable from the beginning - while also keeping a clear commercial mind and say "no" if risks cannot be assessed.

Hans Ramm concluded the forum with a **summary of the day**, highlighting that VCF is a comprehensive concept with four main elements: 1) Develop a good understanding of the concerned value chain by tapping insider knowledge, especially on what is already there in terms of finance and if scale is possible, 2) Identify the weakest link in the value chain that is holding back the sustainable growth, 3) Strive for efficient financing by assessing which type of financial institution is best placed, 4) Enhance risk mitigation, not only micro-insurance and financial instruments, but also capacity building, building up of enabling infrastructure (storage, transport) and business environment ("non financial support"). Finally, good practice entails specialisation on what each actor can do best. That also means developing more partnerships.

HELVETAS Swiss Intercooperation
Maulbeerstrasse 10 - CH 3001 Bern
☏ +41 31 385 10 61 🖷 +41 31 385 10 09
✉ jeannine.caspar@helvetas.org