



3rd EUROPEAN MICROFINANCE AWARD

Value Chain Finance

EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH





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Convinced that microfinance is an important tool for poverty alleviation, the Luxembourg Ministry of Foreign Affairs - Development Cooperation announced the creation of the European Microfinance Award during the closing of the European Microfinance Week in Luxembourg on 19th October 2005. The European Microfinance Award was first presented in 2006 to the Moroccan Zakoura Foundation, for an innovative programme on rural tourism. The objective of the first edition of the award was to highlight and stimulate microfinance initiatives that represented breakthroughs in deepening or broadening rural outreach.

In November 2007, the topic of "Ethics in Microfinance and Social Responsibility" was identified by the participants of European Microfinance Week as a major issue for the microfinance sector. The 2nd European Microfinance Award 2008, focused on initiatives contributing

to enhance ethical practices and socially responsible management initiatives. Buusaa Gonofaa in Ethiopia won the award for developing a client assessment and monitoring system or "social ledger".

The 3rd European Microfinance Award in "Value Chain Finance" focuses on stimulating and promoting inclusive financial schemes that contribute to the evolution of value chains in developing countries. A value chain is a vertical alliance between a number of independent enterprises, collaborating to achieve a more rewarding position in the market. Coordination of these supplying, producing, processing, trading and related functions by the various enterprises in the value chain ensures an efficient product flow that meets the requirements of a specific market segment. It implies that enterprises invest in establishing longer term business relationships, focusing on chain optimisation and adding value. Enterprises in a value chain are interdependent and share necessary business information.

Development agencies have embraced value chain development as an effective tool to stimulate economic growth and to ensure that the "economically disadvantaged" can participate and benefit. Interventions often focus on facilitating enterprises, including micro entrepreneurs and small holders, to form vertical alliances, improve access to new markets and improve productivity and efficiency along the chain. Even so, financial services in rural areas are scarce. Financial institutions face high transaction costs for reasons such as dispersed clients, many of whom have no track record, are not registered with an appropriate legal status and lack physical collateral. Covariant risks are high because many clients are active in the same agricultural sub-sector. Most financial institutions have limited understanding of the agricultural sector. Conventional due diligence tools restrict lending and solidarity group based lending is not the most suitable instrument for agricultural production. Nonetheless, access to suitable financial products is required.



Value chain finance in relation to microfinance

Value chain finance makes use of the business relationship between the value chain enterprises that are interdependent and share business information, thus reducing operational, market and credit risks. Value chain finance in the scope of the microfinance industry, is about creating access to finance for actors developing value chains that will grow to include and develop promising productive structures stimulating sustainable economic growth. If access to finance cannot be facilitated, development of the chain will often not succeed. Smallholders just like micro-enterprises need access to all kinds of financial services to operate and develop their business. By leveraging relationships with their suppliers and buyers, smallholders can increase their access and credibility towards financial institutions. This can lead to development of new financial services matched with the needs of millions of smallholders and micro-enterprises within a value chain.

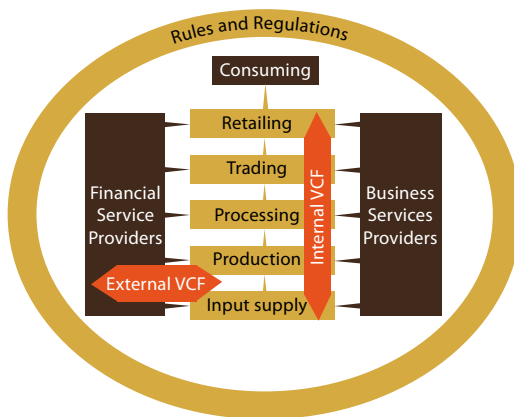
Value chain finance in the light of microfinance addresses three crucial elements:

- A focus on competitive agricultural subsectors that can boost rural economies
- Real increase in incomes of poor farmers, by tapping into more attractive markets
- A focus on agricultural lending, and remedies for the problems experienced in a specific agricultural subsector



Source : EIB Photolibrary

Value Chain Finance Framework

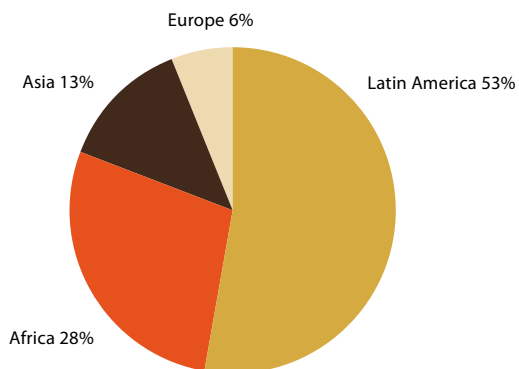


Source: HPC at www.hposthumus.nl



Selection Process

32 applications from 20 countries were received for the 3rd European Microfinance Award. Most of the initiatives presented were from Latin America and Africa, especially from countries such as Bolivia, Peru and Ethiopia. Initiatives were very diverse, from leasing, to contract farming and triangular arrangements between value chain enterprises and MFI's. Moreover, special interest was reflected on financing organic agricultural value chains.



Each application went through a rigorous evaluation procedure and selection was based on a transparent range of indicators (institutional and financial viability, social performance, relevance of the initiative for the value chain, up-scaling potential, replicability and potential involvement of a European partner). e-MFP was responsible for the pre-selection of the first 10 applications, from which the Luxembourg Round Table on Microfinance nominated the three finalists.

The High Jury composed of Philippe Maystadt (President European Investment Bank), Claude Kremer (President ALFI), Kenneth Hay, (Chairman of LuxFLAG), Pierre Ahlborn (Chief Executive Officer Banque de Luxembourg), David Morrison (Executive Secretary UNCDF), Axel de Ville (Chairman e-MFP), Kimanthi Mutua (Founder K-Rep Bank), Roshaneh Zafar (Founder and Managing Director of Kashf Foundation) and Teshome Dayesso (Chief Executive Buusaa Gonofaa), had the difficult task of selecting a winner from these three finalists.



The 3rd European Microfinance Award was presented on 30th November 2010 in the premises of the European Investment Bank (EIB), Luxembourg by Her Royal Highness The Grand Duchess of Luxembourg.

After a warm welcome by Mr. Phillipe Maystadt, President of the European Investment Bank, a short documentary on the 2008 European Microfinance Award winner, Buusaa Gonofaa was shown. In his video address, Andris Piebalgs, European Commissioner for Development, proud of the development of the microfinance sector in the past years, expressed his views on the subject of the 3rd European Microfinance Award and offered his gratitude to the finalists for their valuable projects. He said, value chain interventions reflect the importance of a multi-stakeholder approach and further insight into best practices is necessary. Her Royal Highness The Grand Duchess spoke afterwards and reiterated her commitment to microfinance as a useful tool for economic development.



The 3rd European Microfinance Award of €100,000 was given to the Ethiopian Microfinance Institution [MFI] Harbu, represented by its General Manager, Mr. Tesfaye Befekadu for an initiative financing a soybean value chain, starting with farmers and involving farmer marketing organizations as well as women's associations in response to the market demand generated by the shortage of cow milk in Jimma City zone of Oromia regional state. Ms. Roshaneh Zafar also presented certificates to the two other finalists; IDEPRO Microfinance Institution from Bolivia and Partner Microcredit Foundation from Bosnia & Herzegovina.

e-MFP is pleased to present the initiatives of the three finalists as a contribution to highlighting the issue of value chain finance in the microfinance sector.



HARBU MICROFINANCE INSTITUTION ETHIOPIA

Financing the soybean value chain

Harbu Microfinance Institution was established in February 2005 and serves both rural and urban areas of Ethiopia. Its mission is to take part and play an important role in the struggle against poverty and food insecurity in order to bring about sustainable economic development throughout the country by providing financial services that stimulate individual initiatives for self-reliance and fair economic development.

Key information (Mix Market 31/12/2009)

Nb. of active clients	12514
Nb. of savers	14216
Nb. of personnel	50
Non-Bank Financial Institution	
Regulated	
Established in 2005 and it is affiliated to Facilitator for Change (NGO)	
Type of products	loans, savings, insurance and lease financing
Nb. of women clients	8152
Gross loan portfolio	811,492 USD
Average loan balance per borrower	65
Savings	439,129 USD
OSS	137%
ROA	0.6%
ROE	1.5%
PAR 30	3.6%
Main European funders and partners Terrafina Microfinance, SOS Faim	



Source : EIB Photolibrary

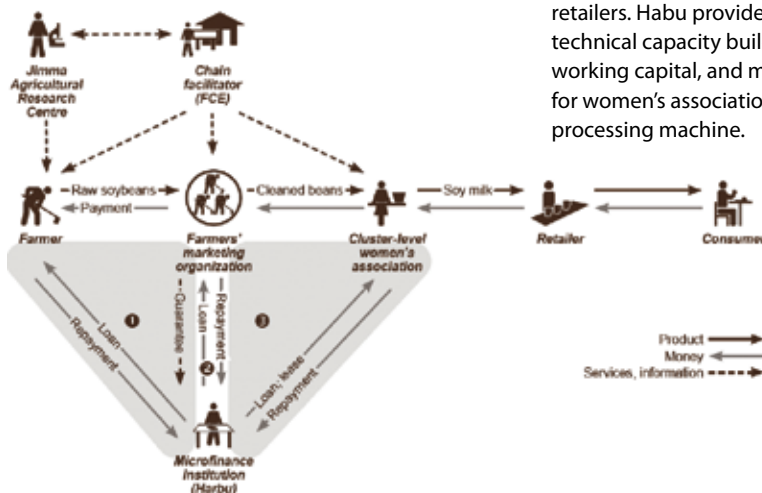
In 2006, Facilitator for Change (FCE), an Ethiopian NGO established in 1998 working with disadvantaged communities to overcome poverty, decided to join forces with the Jima Agricultural Research Center to promote the benefits of soybean. The value chain initiative started with smallholder farmers with the aim of boosting production and productivity and thereby ensuring food security. FCE took a facilitator role linking women's groups with farmers' groups to establish the soybean value chain formed by farmers, farmers' marketing organizations and cluster-level women's associations. The actors across the chain are the main beneficiaries of the value chain finance initiative which won the 3rd European Microfinance Award.

Why finance a soybean value chain?

Farmers gradually adopted and began to consume soybean. Market studies showed the product had a promising market in the city as well as among processing plants in Addis Ababa. It soon became clear that in addition to local consumption, soybean could further be processed into soymilk and could be supplied to the residents living in Jimma city who were facing milk shortage in the city - the viability of financing the soybean value chain was clear.

How does it work?

Harbu MFI provides financial services for working capital and agricultural loans for smallholder farmers to purchase agricultural inputs. The MFI provides financial services for most of the chain actors across the chain starting from the individual producers to retailers. Harbu provides seed capital, material support, technical capacity building, loans for investment and working capital, and more importantly lease financing for women's associations for the purchase of a soymilk processing machine.





To qualify for a loan, a farmer has to be a member of a farmers' marketing organization, and the organization must have been operational for more than a year. If an individual borrower fails to repay a loan, the entire group and the farmers' marketing organization are responsible for repaying it. This financial arrangement is shown as the first triangle in the chain.

Many of the farmers' marketing organizations have savings accounts with Harbu. But they need capital so they can buy beans from their members. Harbu loans them money based on their financial statements, warehouses and inventories. Harbu gives similar working capital loans to the women's association so it can buy soybeans from the marketing organizations and packaging materials from suppliers.



How does it help Harbu MFI?

Harbu has increased its portfolio of products and its clientele base by 20%. It has lowered the risk of default by working with several actors in the chain rather than with individual players. By doing business with groups rather than individual borrowers, it lowers its risks and its transaction costs by at least 50%.

Before this initiative, the soy milk value chain did not exist. Consumers in Jimma have now a substitute for cow's milk: a reliable supply of fresh, nutritious soy milk at an affordable price. The linkages between rural areas and the town of Jimma have been strengthened. The chain has helped lower poverty, improve nutrition, and empower women and smallholder farmers. It has contributed to development of agro-processing enterprises and increased industrial development in the area.



IDEPRO MICROFINANCE INSTITUTION BOLIVIA

Financing inclusive business in the quinoa chain in the Bolivian southern highlands

IDEPRO – “Desarrollo Empresarial”, began operations as a development finance institution in 1991. Its mission is to improve the productivity and competitiveness of small producers, micro, small and medium companies in rural and urban areas by the means of specialised and comprehensive financial and non-financial services.

Key information (Mix Market 30/09/2010)

Nb. of active clients	5864
Nb. of savers	NA
Nb. of personnel	126
NGO	
Non regulated	
Established in 1991	
Type of products loans	
Nb. of women clients	2228
Gross loan portfolio	18,536,713 USD
Average loan balance per borrower	3161
Savings	NA
OSS	110.77%
ROA	1.78%
ROE	6.80%
PAR 30	0.71%
Main European funders and partners Consorzio Etimos, FINRURAL Network, ICCO and Oikocredit	



IDEPRO's value chain finance initiative involves the financing of quinoa chain businesses in the southern highlands of Bolivia. Specifically, in the departments of Oruro and Potosi, where at least 15,000 Bolivian families are involved in the production of this Andean grain, renowned for its high protein value, with growing demand in local and international markets.

Why finance business development services associated with quinoa production?

The areas of greater poverty and population migration are located in the departments of Oruro and Potosi, both in the southern highlands of Bolivia. Despite the high levels of rural poverty in these areas, there are economic activities whose market potential can be converted into local alternatives to migration. Having initiated operations in microfinance and business development services in 1991, in 2003



IDEPRO decided to specialize some of its services in seven production sectors, including quinoa. In 2007 the Board approved a strategic action plan for this particular sector, which included the focus of environmental responsibility and chain development, based on an analysis of the weaknesses and potential of the business relationship between chain actors. Between 2007 and 2008 a pilot operation was launched to strengthen equitable and sustainable trade relations of small farmers with their customers (processing companies). While small producers can guarantee the production of quality quinoa grain, the processing companies can meet the expectations of export markets in Europe and the United States. Between 2008 and 2010 the strategy was operated regularly. Tripartite agreements between farmers, micro and small processing companies, and IDEPRO facilitated the production of quality organic quinoa and ensured the inclusion of small producers in the value chain.

How does it work?

Four quinoa primary processing companies base their activities on the collection of quinoa from producers; they then process it and sell the pearl quinoa. The processing tasks include storing, sorting, removing the pebbles, washing, spinning, drying, grain color selection, quality control, packaging and distribution. 271 producers are tied to these 4 processing companies. They produce under conventional methods, even though they have the potential to produce organic quinoa. Agricultural producers sell their product to middlemen and/or micro and small entrepreneurs are engaged in the primary processing of the product.



IDEPRO directs credits for working capital to the processing companies. These loans are subject to the cash purchase of quinoa. The amortization is negotiated depending on the mortgage guarantee, the number of producers involved in the purchase and the volume of quinoa to be bought from them. A comprehensive assessment facilitates quantifying the amount of the credit and identifying technical weaknesses in production (with emphasis on certified organic production conditions) and/or administrative proceedings. It also assists the establishment of an improvement plan agreed with the processing companies involved, in order to increase productivity and the ability to buy raw materials from quinoa producers, and optimize processing volumes under organic certification standards. Quinoa producers receive immediate payment for the sale of quinoa. IDEPRO follows-up the purchase from processing companies to producers and ensures the agreed conditions are applied. It also facilitates the implementation of the "Improvement Plan" for both value chain actors. If business development services going beyond IDEPRO's supply capacity are identified, agreements are made with specialized suppliers. Once the processor companies sell the quinoa to local and export markets, they pay back IDEPRO's initial working capital loan and the cycle of the value chain finance operation is concluded and can start again.



How does it help IDEPRO?

Having started the regular operation of the initiative in 2008, in just over two years of operation 501,500 USD have been placed, as of August 31, 2010. The initiative represents a portfolio of more than 205,000 USD with 0 arrears and 18 operations with micro-collectors and processing businesses, tied to 271 farmers. Thanks to these achievements, IDEPRO has the capacity to operate with other credit models in the quinoa chain, which in return will strengthen the initiative.

This initiative has managed to generate sustainable businesses for all actors in the quinoa value chain. It builds on existing local capacities in the territory and mobilizes territorial development agents, such as specialized suppliers of technical services for organic production. The following factors that strengthen the ties between small farmers and private micro and small companies are important characteristics of success: a guaranteed purchase and clear rules; access to financial and non-financial services; strengthening of the social capital by building partnerships; cooperation and mutual trust, economic benefits to both parties and the introduction of organic production practices.



PARTNER MICROCREDIT FOUNDATION BOSNIA & HERZEGOVINA

The Rural Employment Generation Activity
Initiative, (REGA)

Partner provides finance services to economically active populations with either difficult or no access to commercial sources of funding, for start up and development of business, as well as improvement of quality of life. Partner supports micro-entrepreneurs, promotes the participation of women in business and offers easier access to finance services in rural areas.

In the territory of the entire Bosnia and Herzegovina, through door-to-door services, Partner provides quality loan products and technical support, helps increase living standards and increases employment by encouraging the transition to a market economy.

Key information (Mix Market 30/09/2010)

Nb. of active clients	43045
Nb. of savers	NA
Nb. of personnel	261
Non-Bank Financial Institution	
Regulated	
Established in 1997	
Type of products loans for business start up and improvement, housing loans and loans for improvement of living standards. Partner also provides commodity loans for agriculture.	
Nb. of women clients	NA
Gross loan portfolio	72,295,489 USD
Average loan balance per borrower	-
Savings	NA
OSS	-
ROA	2,52%
ROE	8,77%
PAR 30	3.79%
Main European funders and partners Blue Orchard Bold, Triple Jump, GMF Cyrano, UNDP, EBRD, Triodos, EFSE, DMW Securativations S.A., ICCO	



Source : EIB Photolibrary

"The Rural Employment Generation Activity Initiative", REGA, builds public-private partnerships to promote the development and expansion of the fruit sector. REGA is a continuation of the "Linking Agricultural Markets to Producers" project carried out by Partner MCF and funded by USAID. It started on December 2008 and will end in December 2013.

Why continue financing the REGA initiative?

The following needs have been identified to create a sustainable quality-oriented soft fruit sector: Improving access to financial services for farmers to support and increase agricultural development; increasing income and employment in rural households and strengthening the relationships among all participants in the fruit value chain. One of the major strengths of the REGA project has been the development of market linkages which ensures that produced fruits have a final market and that producers as well as processors are mutually satisfied with contractual agreements. The REGA project has also considered environmental aspects in micro-lending. Partner conducts environmental screening as part of the internal micro-lending procedure. As part of the loan review and approval process, farmers are also obliged to sign an environmental compliance agreement. All participating farmers attend training in Good Agricultural Practices (GAP) and safe pesticide use conducted by the project staff. These training programmes help clients to understand the importance of production which is in compliance with EU standards. In cooperation with USAID and Agriculture Faculty from Sarajevo, Partner provides its clients with education on soft fruit production and protection of already planted seedlings.



The topics covered are: technology of growing raspberries, technology of growing blackberries, diseases and protection of berry fruits, fruit and vegetable post-harvest treatment and trends in soft fruit production in the world, Spring pruning etc. In addition, within the implementation of REGA project, Partner offers financial education to its clients - users of loan product "Vočko". A monitoring and evaluation system has been put in place to measure GAP implementation.

How does it work?

The project provides financial services through commodity loans with technical assistance and liaises with farmers, cooperatives and other market participants in charge of finding the market for product placement.

Training and technical assistance forms a major part of the REGA project to ensure high farm productivity, product quality and mitigation of any adverse environmental impacts. In that regard Partner had employed four full-time technical consultants specialized in agriculture. Partner is providing training for all the farmers within the project, which is a combination of classroom and field training and technical assistance incorporates field monitoring and advice on-site. Within the REGA project Partner has taken the role of intermediary between the donor (USAID), agricultural equipment and seedlings suppliers, individual farmers, farm cooperatives and finally soft fruit buyers and processors. As part of this project Partner signed nine cooperative agreements with suppliers and buyers and 248 (as of December 31st 372) individual contracts with soft fruit producers, users of this type of loan, "The Fruity Loan". Partner selected several farmer groups to be part of the REGA project. Most of these cooperatives/farmer groups are located in north-



eastern Bosnia and a couple in central Bosnia. Some of the criteria (see Table 1) used may be waived to cooperate with some farmer groups in Srebrenica/Bratunac region (e.g. women returnee groups) to help achieve the project's objectives in the inclusion of women and social benefits.

Table 1 - Criteria for selection of cooperatives (or other form of farmer organization) to be part of the REGA project

- The cooperative is functioning for more than a year
- Cooperative audit has or will be undertaken
- The cooperative has been involved in the production and buy-off of berry fruits in the past
- The cooperative has human resources available to assist farmers and monitor production of raspberries
- The cooperative has mechanisms to ensure that all involved farmers attend educational seminars, adopt new technologies and best production practices in post-harvest handling
- The cooperative has mechanisms to insist that production methods follow GAP
- The cooperative accepts to source and use only those pesticides in accordance with Integrated Pest Management (IPM) principles
- There is no legal action against the cooperative
- The cooperative will take the responsibility for storage, transport to processor or marketing of berry products on the market.



How does it help Partner?

Partner has gained a lot of experience and skills in conducting this initiative. The REGA project was initially started in only two regions, and with little further investment in Partner's staff and market research it was easily expanded to the whole B&H. The expansion was followed with hiring two additional technical advisors for agriculture in order to be more efficient and present in the field. Partner so far disbursed 248 loans (As of December 31st disbursed 372 loans) in total amount of 357,944.49 EUR (As of December 31st 539,763.742 EUR), with an average loan size of 1443 EUR (December 31st 1,450.98 EUR) and on the average loan term of 40 months (December 31st 41 months). During the total project period Partner will disburse total amount of 569,194.64 EUR. The planned income in the amount of 507,707.40 EUR for the five-year period was based on loan disbursement from the initial fund, but also from the planned disbursement of new loans from the returned assets in years 2011, 2012 and 2013. Out of a total 240 (As of December 31st 351) currently active loans, only three (December 31st two) loans are in PAR over 30 days, which makes the PAR of 1.25% (December 31st 1.14%) out of the active loan portfolio.

Table 2- Financial sustainability of the value chain

Project costs	Total for the project period (in EUR)
Gross salaries for 3 technical advisers	140.442
Gross salaries for accountant	2.341
Gross salaries for 10 loan officers	85.497
International audit	8.803
Promotional activities	25.000
Administrative cost	55.000
Financial education	32.568
Total costs	349.651
Project income	Total for the project period (in EUR)
Project income from interest rate	507.707
Total income	507.707
Total profit (to be returned to loan portfolio for the same purpose)	158.056



EUROPEAN MICROFINANCE PLATFORM

The European Microfinance Platform [e-MFP] was founded formally in 2006. e-MFP is a growing network of over 130 organisations and individuals active in the area of microfinance. Its principal objective is to promote co-operation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information. It is a multi-stakeholder organisation representative of the European microfinance community. e-MFP members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities.

e-MFP's vision is to become the microfinance focal point in Europe linking with the South through its members.

Executive Secretariat

Christoph Pausch, Executive Secretary
Niamh Watters, Information Officer
Juana Ramírez, Microfinance Expert

European Microfinance Platform (e-MFP)
2 rue Sainte Zithe
L-2763 Luxembourg
contact@e-mfp.eu
www.e-mfp.eu



www.e-mfp.eu

The European Microfinance Award is organised jointly by the Luxembourg Ministry of Foreign Affairs - Directorate for Development Cooperation, the Luxembourg Round Table on Microfinance and the European Microfinance Platform (e-MFP) to promote microfinance initiatives and highlight their contribution to the development of the sector.



GRAND DUCHY OF LUXEMBOURG
Ministry of Foreign Affairs

Directorate for Development Cooperation



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