EUROPEAN DIALOGUE

3rd European Microfinance Award
Value Chain Finance

Prepared by Joost de la Rive Box in collaboration with the e-MFP Rural Outreach and Innovation Action Group

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NETWORKING WITH THE SOUTH

3rd European Microfinance Award Value Chain Finance

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INTRODUCTION

Convinced that microfinance is an important tool for poverty alleviation, the Ministry of Foreign Affairs – Directorate for Development Cooperation, announced the creation of the European Microfinance Award in 2005 in order to highlight and stimulate breakthroughs in the field of microfinance. The Award is given every two years and each time focuses on a different innovative topic.

The 3rd European Microfinance Award on “value chain finance” focuses on stimulating and promoting inclusive financial schemes that contribute to the evolution of value chains in developing countries. The idea is to support project development from the initial inputs through to the commercial outputs, enhancing the livelihoods of people at all levels of the value chain.

Value chain finance is described as “any or all of the financial services, products and support services flowing to and/or through a value chain to address the needs and constraints of those involved in that chain, be it a need to access finance, secure sales, procure products, reduce risk and improve efficiency within the chain”[1]. Finance is a vital component of value chain development as often in the early stages primary producers, processors and even commercial traders, find it hard to access credit. If access cannot be facilitated, the chain will not be effective or would not scale up.

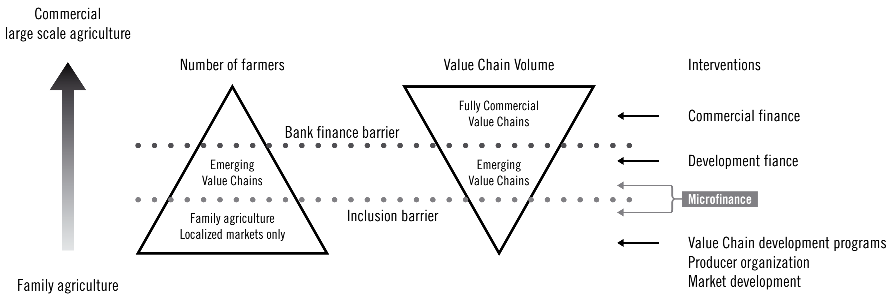
It is helpful when value chain development (VCD) is at least conceptually distinguished from value chain finance (VCF), to highlight the non-financial interventions leading to development in the chain - such as setting up farmer’s organisations, extension work, certification etc. These kinds of interventions are focused in the first frontier of microfinance; at the domain where value chain development programmes aim to ensure inclusion of primary producers in the chain. These interventions often require government or donor support.

The second microfinance frontier of value chain finance interventions is the one distinguishing development finance from commercial finance. These kinds of interventions are used to create access to finance for actors in emerging value chains. Emerging value chains typically have poor access to commercial finance. Microfinance

1 Value Chain Finance, Tools and Lessons – Calvin Miller and Linda Jones – FAO 2010.

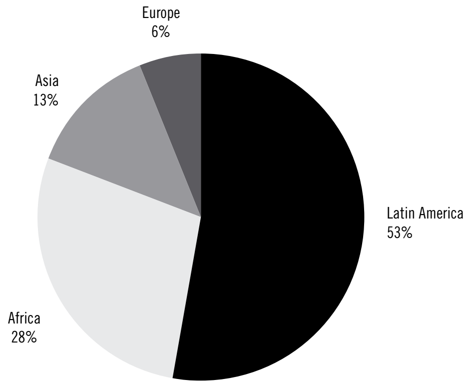
interventions in this segment are conceived to make the transition to a sustainable commercial process as fast and as efficiently as possible. If managed well, value chain finance within this segment provides tremendous potential for unleashing capital, up scaling and long lasting chain prospects. It is this “missing middle” that is the target for most value chain finance initiatives lead by microfinance actors. Aiming lower is ineffective because these producers are not yet linked to a commercial value chain. Aiming higher is not relevant because the formal financial sector can offer appropriate services.

Frontier areas in Value Chain Finance



The European Microfinance Award was established by the Grand Duchy of Luxembourg to promote microfinance as an important tool for poverty alleviation. Consequently, the 3rd European Microfinance Award focused on value chain finance to encourage microfinance actor’s interventions aiming to ensure inclusion of primary producers in the value chains of developing countries and to facilitate finance from the formal financial sector to emerging value chains; which are considered important productive structures for job creation. Ensuring that established relationships within the chain are fair to primary producers is also considered an important factor as is the chain’s ability to respect the environment.

Geographical spread of applicants



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 MFIs. Moreover, special interest was focused 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, whether it can be replicated and the potential involvement of a European partner). Applicant's contributions to essential elements of Value Chain Finance were evaluated taking into consideration the following questions:

1. Is the initiative effectively linking successive actors in a value chain? (farmers, processors, traders, exporters).
2. Is the initiative appropriately combining financial services (FS) and non-financial services (NFS) needed to make producers meet the requirements and standards of the chain (including certification)?
3. Does the initiative contribute to risk mitigation in the chain for all stakeholders, including the FS providers?

4. Does the initiative contribute to poverty alleviation by moving the "inclusion barrier" for poor producers? (i.e. creating access to markets with better prices and higher value added).
5. Does the initiative create access to finance for those chain actors who did not have it? (i.e. moving the access barrier).
6. Is the initiative original? (Innovation, moving a microfinance frontier).
7. Is it replicable for other organisations in other countries - is it an interesting example for the microfinance community?

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 of the European Investment Bank), Claude Kremer (President of 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. At the ceremony, 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, expressed pride in the development of the microfinance sector in the past years, along with his views on the subject of the 3rd European Microfinance Award. He further offered his gratitude to the finalists for their valuable projects and said that although value chain interventions reflect the importance of a multi-stakeholder approach, further insight into best practices is still necessary. Her Royal Highness The Grand Duchess of Luxembourg 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 that funds a soybean value chain. The initiative starts with farmers and involves farmer marketing organisations as well as women's associations and is a response to the market demand generated by the shortage of cow's milk in Jimma City, zone of the Oromia region. Ms. Roshaneh Zafar, Chairwoman of the High Jury also presented certificates to the two other finalists; IDEPRO Microfinance Institution from Bolivia and Partner Microcredit Foundation from Bosnia & Herzegovina.

In addition to the winners, e-MFP wants to further disseminate the experiences of institutions from the south that designed successful value chain finance schemes. In this issue we present the three finalists for the 3rd European Microfinance Award and the seven institutions selected as examples of value chain finance interventions.

Cases were selected based on their innovative nature. Many others could have been presented here – the Dialogue is open! We hope this issue will inspire MFIs, their networks and their partners to find creative ways to promote value chain finance in developing countries.

HARBU MFI, ETHIOPIA

Harbu Microfinance Institution was established in February 2005 by a development NGO, Facilitators for Change, and serves both rural and urban areas of Ethiopia. Its mission is to take part 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.

Harbu Financial Products

- ***Loan products:*** This product includes rural and urban agricultural loans and micro and small business loan products that are provided to the diverse clientele of Harbu MFI.
- ***Saving products:*** Harbu provides various saving products among which compulsory savings, voluntary savings, fixed duration savings and saving through agents are the major ones.
- ***Insurance products:*** In the case of the natural death of a client, the loan from Harbu MFI is insured through 1% of the loan paid as insurance premium upon loan disbursement. This protects the client from a possible collateral claim by Harbu MFI of the deceased's asset and allows living family members to retain ownership.
- ***Lease financing:*** Harbu provided lease financing for the purchase of the soymilk processing machine. The repayment takes relatively longer periods and Harbu MFI retains ownership of the property.

Harbu's Story

In 2006, Facilitator for Change (FC), an Ethiopian NGO established in 1998 working with disadvantaged communities to overcome poverty, decided to join forces with the Jimma Agricultural Research Centre to promote the benefits of soybean. The value chain initiative started with smallholder farmers whose aim was to boost production and productivity and thereby insure food security. FC took a facilitator role linking women groups with farmer groups to establish the soybean value chain formed by farmers, farmers' marketing organisations and cluster-level women's associations.

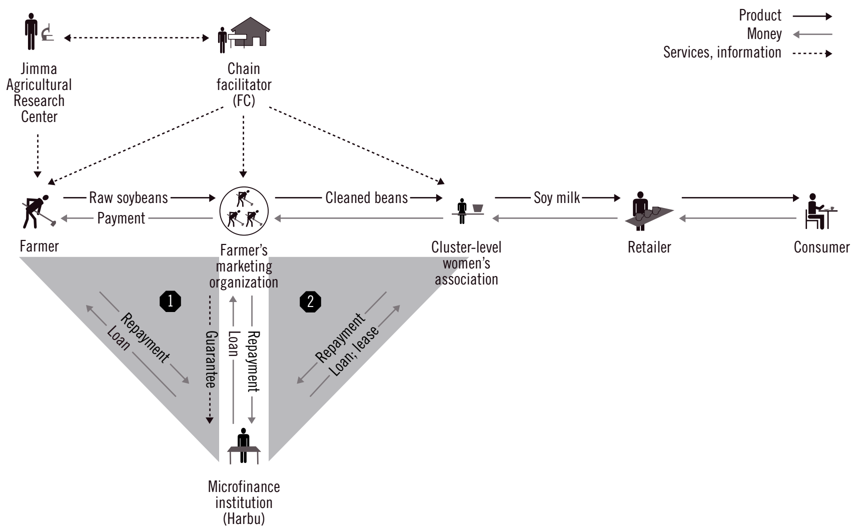
Harbu in a nutshell	
Nb. of active clients	12,541
Nb. of beneficiaries	
Nb. of savers	13,119
Nb. of personnel	50
Gross Loan Portfolio	US $ 811,000
Average Loan Balance per Borrower	US$ 65
Type of products: loans, savings, insurance and lease financing	
OSS	137%
ROA	0.6%
ROE	1.5%
PAR 30	3.6%
Funders and partners: Terrafina Microfinance, SOS Faim	

Source: Harbu data 2009

The initiative involves the financing of a soybean value chain which includes the farmers (240), the Farmer Marketing Organisations (taking care of storage and selling), women's associations (210 women involved in its processing) to produce soymilk and retailers for the final product. It also facilitated the provision of NFS for the actors involved by its partner NGO (Facilitators for Change). Some 450 credit clients are involved in the initiative (representing 3% of total clients).

Why finance a soybean value chain? Farmers gradually adopted and began to consume soybeans. 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 shortages. The importance 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 starting with the individual producers all the way through to the 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.



Financial services: To qualify for a loan, a farmer has to be a member of a farmer's marketing organisation, and that organisation must have been operational for more than a year. If an individual borrower defaults on a loan, the entire group and the farmer's marketing organisation are responsible for repaying it. This financial arrangement is depicted as the first triangle in the chain. Many of the farmer's marketing organisations have savings accounts with Harbu. But they need capital so they can buy beans from their members. Harbu lends 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 organisations and packaging materials from suppliers.

Non-financial services: The smallholder farmers in the area were trapped with the mono-cropping of maize and low value crop production over a period of many years. The result was serious soil infertility, low productivity and malnutrition of the community, especially the children. Farmers were incurring high fertilizer costs every year which, especially for the poorer farmers, was unaffordable. There was no sustainable and regular market which fetched farmers a fair price for their produce.

Understanding this, FC has linked these farmers with Jimma Agricultural Research Centre that had already developed different varieties of high value crops like soybean but kept them on shelf. After several joint discussions, FC in collaboration with Jimma Agricultural Research Centre introduced soybean into the area as the main remedy to the aforementioned serious problems. Farmers have accepted the product and produced it on a wider scale. The consumption aspect was also vigorously planned out by providing training on soybean food preparation for women. Once the soybean's nutritional value was accepted by the community, the marketing aspect of the product was focused on and worked out. Here, a joint effort from all relevant actors (Harbu MFI, research centres and government bureaus) was exerted and the soybean value chain that links the rural smallholder soybean producers and urban poor women with meagre incomes (less than one dollar a day) was established. FC established womens groups in urban areas of Jimma who are now active participants and leaders of the value chain. The raw soybean is processed into soymilk and other by-products.

Results

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

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers* (***horizontal linkages***)? Farmers face the problem that at the time of harvest supply is abundant and prices drop. Harbu's mother NGO (FC) has been active in creating Farmer Marketing Organisations (FMO), with the aim of storing the produce so as to sell it at a later time in the year when prices are good.

b. *Is the initiative effectively linking successive actors in a value chain* (***vertical linkages***)? The graph illustrates how FC has created marketing linkages and how Harbu is financing the first three levels of actors in the chain (farmers, FMOs, soymilk processing)

c. *Is the initiative appropriately **building capacity** required to make producers meet the needs and standards of the chain*? Harbu's main shareholder, FC, has been responsible for all value chain development activities, while Harbu focused on funding the various actors in the chain. The close relationship between the two organisations helped to closely coordinate their activities, while clearly separating the finance component from the developmental activities (based upon grant funding). A risk factor in this project is the management of the soymilk processing unit by the women groups. As the women groups are both in charge of governance and providing the workforce, conflicts of interest may arise.

d. *Does the initiative contribute to **risk mitigation** in the chain for all stakeholders, including the FS providers?*

- ***Production risks:*** The organisation of farmers in the FMOs ensures a solid supply channel. A production risk in the soymilk processing arises from the current organisation structure of the processing unit. It is expected that the current arrangement with women groups will graduate towards a more independent commercial entity.
- ***Supply risk:*** The risk of side selling is well managed through the farmer owned FMOs and the fact that soymilk processing unit is new in Ethiopia.
- ***Finance risk:*** Through the tripartite agreements of Harbu with farmers, FMOs and the processing unit, together with the close ties between Harbu and the VCD facilitator (FC), the financing risks are effectively mitigated. Through the lease agreement for the processing equipment, Harbu has a solid collateral for the larger loans on this level.
- ***Marketing risk:*** FC and Harbu have succeeded to effectively open up markets for soymilk with urban buyers (supermarkets).

e. *Does the initiative contribute to poverty alleviation by moving the "**inclusion barrier**" for poor producers*? The initiative created a new product for Ethiopia and established a good urban market for it. Both farmers and women groups were given access to a new market.

- Soybean farmers get better prices and enjoy constant demand due to the processing of the product into soymilk.
- Women collaborating in soymilk processing were not in any value chain.
- The soymilk value chain is new in Ethiopia.

f. *Does the initiative **create access to finance** for those chain actors who did not have it?* (i.e. moving the access barrier) For the womens groups, the access to finance is new. For the farmers, access is facilitated because risks are reduced and hence credit can more easily be expanded.

g. *Is the initiative **innovative**?* The initiative is original and innovative in three ways:

- Before the initiative the soymilk value chain did not exist.
- The production technique and equipment for soymilk processing is new in Ethiopia.
- The finance instruments: using leasing finance for a group of women that together own and run the processing plant, in addition to investment loans and working capital loans for other actors.

h. *Is the initiative r**eplicable**?* It benefits very poor farmers in a manner that can easily be replicated by other organisations in other parts of the country. The potential for up-scaling is good as over 5,000 farmers are involved in soybean production in Harbu's region of operation. The same approach can also be applied to other product chains with potential for local processing.

PARTNER MICROCREDIT FOUNDATION, BOSNIA & HERZEGOVINA

Partner is a non-profit and multi ethnical microcredit foundation established in 1997. It works throughout the territory of Bosnia and Herzegovina where it provides loan products and technical support through door-to-door services. It aims to increase living standards and employment by encouraging the transition to a market economy.

Partner's Story

The Rural Employment Generation Activity (REGA) facilitates farmers to grow soft fruits (cherries, raspberries and blackberries) and sell them through food processors and cooperatives to EU markets. The project involves the provision of financial services through commodity loans which are accompanied by technical assistance. It involves close cooperation with farmers, cooperatives and other market participants to match production potential with market opportunities. In cooperation with a donor (USAID), Partner created a new agricultural loan product to fund the cultivation of soft fruits (cherries, sour cherries, raspberries and blackberries).

Partner in a nutshell	
Nb. of active clients	43,045
Nb. of savers	NA
Nb. of personnel	261
Nb. of women clients	NA
Gross Loan Portfolio	US$72,2 m.
Average Loan Balance per Borrower	-
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.	
OSS	108%
ROA	2.52%
ROE	8.77%
PAR 30	3.79%
Funders and partners: Mercy Corps, USAID, Blue Orchard Bold, Triple Jump, GMF Cyrano, UNDP, EBRD, Triodos, EFSE, DMW Securatizations S.A., ICCO	

Source: Mix Market 30/09/2010

So far, it has disbursed 248 loans out of 368,000 (with an average loan size of EUR 1443). It plans to disburse 445 loans amounting to EUR 569,000. The benefits for farmers are: favourable interest rates, finding market outlets for their products, linking farmers with buyers, processors and farm cooperatives, technical assistance during the implementation of the project (including soil analyses, extension and trainings) and testing of seedlings. All these activities are aimed at preparing and enabling individual beneficiaries to export fruit to the EU and to raise the production to a quality level in order to qualify for EU food certificates in accordance with good agriculture practices (GAP standards).

The projected OSS of the initiative is 145%, indicating that it is financially viable. The non-financial services are subsidised for 5 years (until 2013) but the aspect of long term sustainability has been taken into account and the initiative should be profitable at the end of the project.

Financial services: Partner uses individual lending methodology with emphasis on loans for business purposes. Out of the total number of disbursed loans, 76, 16% were given to rural clients. It also implements a maximum income criterion for participants to be eligible for the project. For the REGA project, Partner developed a special commodity loan called “Voćko” for farmers. It caters for farm inputs such as seedlings, farm equipment and working capital. It offers the “Fruity Loan” with only a personal guarantee. Out of a total of 241 active loans, only 3have a PAR over 30 days which means that the PAR of the active loan portfolio is 1.4%

Partner also offers financial services to other actors in the value chain to complement the farm-loans:

- Loans for business tools and equipment, based on cooperation agreements with local suppliers.
- Loans for irrigation development and equipment.
- Loans with Life Insurance Policy (where clients can use the insurance policy as collateral).

Client selection is done based upon the following criteria:

LAND

1. Farmers must allocate family-owned land to berry production.
2. Land allocated for berry production, under this project, must be a minimum of 1 dunam and a maximum of 10 dunams.
3. Must undertake a soil analysis which must indicate that the land is suitable for berry production.

TECHNICAL CAPACITY

4. Must have experience in growing fruit.
5. Must have sufficient labour for growing fruit.
6. An irrigation system can be installed and the farmer is willing to do it.

PRODUCTION METHODS AND STANDARDS

7. Must be willing to participate in technical training in berry production, harvesting and standards and follow such advice.
8. Must be willing to work according to Global GAP standards – in particular, meet the standard dealing with seedling selection, fertilization, irrigation, pest management, worker and consumer safety and environmental protection.

Partner exclusively provides loans and cannot provide any other financial services, due to constrain in the current law governing microcredit organisations.

Non-financial services: 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 4 full-time technical consultants specialised 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), the agricultural equipment and seedlings suppliers, the individual farmers, the farm cooperatives and finally the soft fruit buyers and processors. As part of this project, Partner signed nine cooperative agreements with suppliers and buyers and 248 (372 as at December 31st) individual contracts with soft fruit producers, users of this type of loan, “The Fruity Loan”. Partner selected several farm 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 used may be waived to cooperate with some farmer groups in the Srebrenica/Bratunac region (e.g. women returnee groups) to help achieve the project’s objectives in the inclusion of women and increased social benefits.

One of the major strengths of the REGA project has been the development of market linkages which ensures that produced fruit have a final market and that producers as well as processors are mutually satisfied with contractual agreements. The REGA project has also screened the environmental aspects of micro-lending. As part of the loan review and approval process, farmers are 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 in compliance with EU standards. In cooperation with USAID and the Agriculture Faculty of Sarajevo, Partner provides its clients with education on soft fruit production and protection of planted seedlings. The topics covered are: technology of growing raspberries or blackberries, diseases and protection of berry fruits, spring pruning, fruit and vegetable post-harvest treatment and trends in soft fruit production around the world. In addition, within the implementation of REGA project. A monitoring and evaluation system has been put in place to measure GAP implementation.

Story of the client Tomislav Simikic - Lopare

Tomislav Simikic lives in Lopare and worked in a private internet club. Two years ago, Tomislav attended a promotional seminar given by Partner Microcredit Foundation. The purpose of the seminar was to explain the technology of growing and potential profitability of planting soft fruit. Tomislav then decided to engage in soft fruit production in order to increase his household budget.

He was very cheerful and he welcomed Partner's officers during their first visit because he had already decided that he would grow 3 dunums of raspberries using the land next to the family house.

Although Tomislav did not have any experience in agricultural business, thanks to the agricultural technical assistance provided by Partner, the hardworking and honest Tomislav prepared the soil and planted the seedlings by himself. This summer, Tomislav expects the first harvest and the income will cover expenses that he has incurred so far. Several of Tomislav's neighbours and friends joined the project of soft fruit planting. He further received full support from the professional Department of Lopare Municipality.

Source: Partner website: http://www.partner.ba

Results

- The gross income generated per year amounts to €3,817 per farmer. Apparently this constitutes an attractive income supplement for participating farmers.
- Partner supported improvement and promotion of quantitative and qualitative agriculture production in order to increase employment, decrease imports and strengthen competitive advantage of agriculture sector in Bosnia &Herzegovina.
- Good social performance: Awarded a silver medal for good SPM reporting from a regional SPM programme and their 1st social rating was done in 2010.

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers* (***horizontal linkages***)? 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 a part of this project Partner signed 9 cooperative agreements with suppliers and buyers and 248 individual contracts with soft fruit producers, users of the "Fruity Loan". Partner has not facilitated the formation of new producer organisations.

b. *Is the initiative effectively linking successive actors in a value chain* (***vertical linkages***)? The REGA project has facilitated not only market linkages with soft fruit buyers and processors, but also the more practical measures required for trade deals (tripartite agreements, information flows etc).

c. *Is the initiative appropriately* ***building capacity*** *required to make producers meet the requirements and standards of the chain?* The REGA project provided technical assistance and training to meet Good Agricultural Practice standards. Partner has attracted 3 staff for technical assistance (TA), farmer training and extension work. Also, Partner made a short movie which highlights the success of their active clients, users of the "Fruity Loan", and their good practices. In addition to that, Partner prepared, printed and distributed a brochure which contains all necessary information on how to start soft fruit production, including data on the profitability of this business.

d. *Does the initiative contribute to* ***risk mitigation*** *in the chain for all stakeholders, including the FS providers?*

  - ***Production risks:*** Through the extension services both productivity and quality standards increased. A continuing risk is the import and offer of seedling material on the black market, which is poor quality, uncontrolled (has not passed all necessary sanitary tests) and cheap, mostly from neighbouring countries.

- ***Finance risk:*** Through finance agreements with several actors in the soft fruit value chain, the risk of one of them not having access to finance was mitigated. There is a risk of over-indebtedness of potential clients as a result of the crisis, which increases the fear of farmers to take a loan and to cultivate new plantations.
- ***Marketing risk:*** By meeting EU standards, a wide array of market opportunities was opened.
- ***Price risk:*** In view of the widening of the sales outlets to various EU buyers, local price fluctuations can partly be circumvented.

e. *Does the initiative contribute to poverty alleviation by moving the "**inclusion barrier**" for poor producers (i.e. creating access to markets with better prices and higher value added)*? The project resulted in an annual income increase of €3,800 per farmer.

f. *Does the initiative **create access to finance** for those chain actors who did not have it? (i.e. moving the access barrier)* Partner consistently adopted a value chain approach, introducing new farm products to a target group of farmers that had never before supplied export markets. It further involved an otherwise excluded target group in order to create a soft fruit sector.

g. *Is the initiative **innovative** – i.e. moving a microfinance frontier?* The case shows how an MFI, through collaboration with a development organisation (in this case USAID) can make a tangible contribution to rural development and create a new financial product for the agricultural sector without undue increase of its risk exposure.

h. *Is the initiative **replicable**?* Partner sees good up-scaling potential, in view of the still under-utilized production potential, and the vastness of the EU market. The potential for involvement of microfinance investors and more commercial partners from the EU seems very good, once the viability of export to the EU is demonstrated. The value chain already attracts interest from investors and banks. This product has a very good prospective in rural development. Each financial institution would need to have agricultural experts to advise clients during the process. Significant contacts have already been made with several European companies.

IDEPRO, BOLIVIA

IDEPRO – "Desarrollo Empresarial", began operations as a development finance institution for the Southern Highlands of Bolivia in 1991. Its mission is to improve the productivity and competitiveness of small producers (farmers), micro, small and medium enterprises by means of specialised and comprehensive financial and non-financial services.

IDEPRO's Story

The VCF Initiative involves the financing of businesses in the Quinoa Chain in the Southern Highlands of Bolivia. Quinoa is an Andean grain, renowned for its high protein value and growing demand in the local and international market. Having initiated operations in microfinance and business development services in 1991, in 2003 IDEPRO decided to specialise some of its services in 7 production sectors, including Quinoa. The farmers used to sell conventional Quinoa to local market middlemen who controlled the price and paid a much lower rate than it sold for in the final market. These middlemen would then pay for the product with a delay of two to three months due to a lack of working capital. This significantly harmed the farmer's economy and

IDEPRO in a nutshell	
Nb. of active clients	5,864
Nb. of women - clients	2,228
Nb. of savers	n.a.
Nb. of personnel	n.a.
Gross Loan portfolio	US$ 18, 5 m.
Average Loan Balance per Borrower	US$ 3,161
Type of products:	
OSS	110.7%
ROA	1.8%
ROE	6.8%
PAR 30	0.71%
Funders and partners: Consorzio Etimos, FINRURAL Network, ICCO and Oikocredit	

Source: IDEPRO data Aug. 2010

their ability to plan and manage for the following year. In 2007, the Board approved a strategic action plan for this particular sector, which included the focus on chain development, based on an analysis of the weaknesses and potential of the business relationships 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. 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.

Financial services: In just over two years of operation, US$ 501,500 has been disbursed and the Quinoa initiative currently has an outstanding portfolio of US$ 205,000 and 18 operations in 4 Quinoa micro-collection centres and processing businesses, tied to 271 farmers. Characteristics of the financial products offered by IDEPRO are as follows:

- Oriented to working capital for farmers and processors (conditioned to cash payments for farmers upon delivery).
- Finance applying a discount rate (4% to 8% flat) with mortgage guarantee.
- Amounts from US$ 30,000 to US$ 90,000.
- Diagnosis and improvement plan for the producer and the buyer focusing on certified organic production.
- Single repayment at the end of the credit (bullet loans). Deadlines according to business cycle - 3 months to 1 year.

The credit clients are the Quinoa primary processing companies (4 companies in 18 operations). The initiative represents a healthy portfolio with no arrears. 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. Total results of IDEPRO interventions in the Quinoa chain (data as at August 31, 2010): Current portfolio: US$ 1,163,544, index of arrears: 0%, regional administrative efficiency: 6.08%, regional self-sufficiency = 128.06%. Since the third year of operations, they have succeeded in generating sufficient surpluses so that that the intervention in the Quinoa chain is operational and financially sustainable.

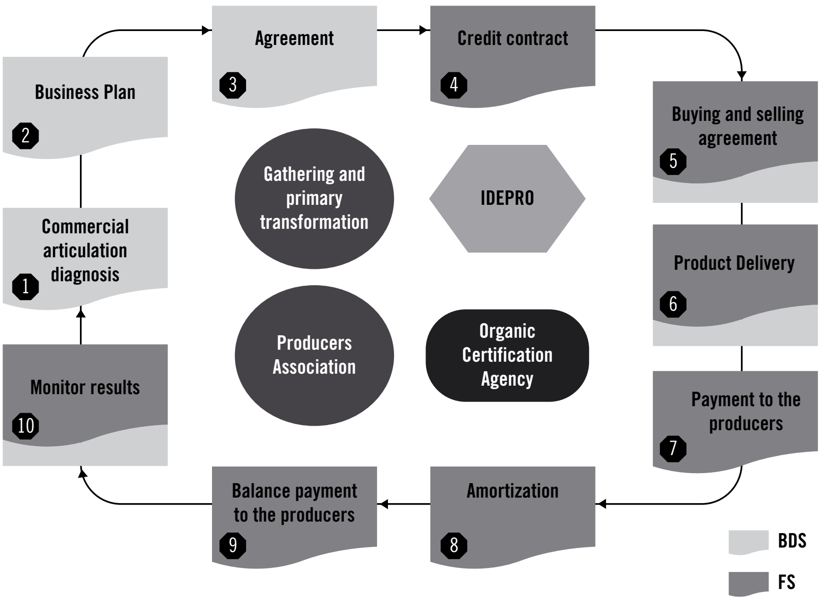
Non-financial services: IDEPRO assists its clients also through activities geared towards development of the value chain and its commercial actors. This includes:

- Thorough value chain analysis
- Market analysis and market linkages
- Facilitation of certification (organic farming)
- Strengthening producer organisations

It builds on existing local capacities in the territory and mobilises territorial development agents, such as specialised suppliers of technical services for organic production.

The complementary role of financial and non-financial services is demonstrated in the IDEPRO intervention model.

Intervention Model



Four Quinoa primary processing companies base their activities on the collection of Quinoa from producers for processing and selling. The processing tasks include storing, sorting, removing the pebbles, washing, spinning, drying, grain colour selection, quality control, packaging and distribution. The 271 producers are linked by IDEPRO to these 4 processing companies. They produce under conventional methods and some are still in the process of certification for organic Quinoa. Agricultural producers sell their product to middlemen and/or micro and small entrepreneurs 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 delivered. A comprehensive assessment facilitates quantifying the amount of the credit and identifying technical weaknesses in production (with emphasis on certified organic production condition) 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 specialised 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 a new cycle can start again.

Results

- The initiative has managed to generate sustainable businesses for all actors in the Quinoa value chain.
- 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.
- The initiative is attractive to clients: Revenue went up in 2 years of credit by 94% to US$2,229 per farmer per month. Total sales reached US$ 501,500 within the same time frame.

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers (horizontal linkages)?* IDEPRO has used existing producer associations and strengthened them.

b. *Is the initiative effectively linking successive actors in a value chain (vertical linkages)?* All that IDEPRO needed to do was link the small farmers to the processors.

c. *Is the initiative appropriately building capacity required to make producers meet the requirements and standards of the chain?* The processing enterprises used to receive conventional Quinoa of poor quality. IDEPRO conducts diagnostics with producers to improve quality and meet organic standards.

d. *Does the initiative contribute to risk mitigation in the chain for all stakeholders, including the FS providers?*

- ***Production risks:*** Through extension and training of farmers, production risks may have been reduced.
- ***Supply risks:*** The risk of side selling is limited by working with producer associations and by tripartite contracts.
- ***Finance risk:*** The loan repayment amount due by the farmers is deducted by the processing firms upon delivery of the product and payment of the farmer. Likewise, the working capital loan to the processing unit is repaid once the Quinoa pearls are sold (bonded stock). This way the finance risk is well managed.
- ***Marketing risk:*** As IDEPRO is informed about the (export) sales contracts of the processing units, the marketing risk is mitigated.
- ***Price risk:*** Through pre-established contracts, the selling prices are known as are the prices paid to farmers.
- ***Quality risks:*** Through certification for organic Quinoa, the standards are very well defined and farmers earn less when they fail to comply.
- ***Sustainability risk:*** It is noted that IDEPRO provides both financial and non-financial services. This is possible only through external support and cross subsidisation by the financial services department. For long-term sustainability it would be desirable that the chain actors (i.e. the processing companies) take over responsibility for payment of the BDS to the farmers.

e. *Does the initiative contribute to poverty alleviation by moving the "**inclusion barrier**" for poor producers?* The farmers benefit as the higher prices for export trickle down the chain to the farmers. Revenue went up in 2 years of credit by 94% to US$2,229 per farmer. The initiative has created access to markets with better prices and higher value added.

f. *Does the initiative* ***create access to finance*** *for those chain actors who did not have it? (i.e. moving the access barrier)* Through the contractual arrangements, financing of the small farmers has become a viable undertaking for IDEPRO, opening the door for replication with other farmers and growth of portfolio in the agricultural sector.

g. *Is the initiative* ***innovative*** *- moving a microfinance frontier?* The main innovation is the new linkage to export niche markets for organic Quinoa. But the scheme is also a good example of how, through a value chain finance approach, agricultural lending can be done without increased risk exposure.

h. *Is the initiative* ***replicable****?* Replication by IDEPRO is foreseen (a) in other areas and (b) in other value chains (wood, chestnut, grapes, tourism and textiles). VCF requires the ability to provide larger loans to processors and it is possible to replicate as long as the organisation has an integral focus and will work with a value chain. Extending replication to other commodities is totally possible (and exists).

CENTRAL PIRUANA ASSOCIATIONS OF SMALL PRODUCERS OF ORGANIC BANANAS (CEPIBO)[2], PERU

Banana farmers in Northern Peru organised in a cooperative take up pre-export processing and fair trade certification. Whereas historically they supplied large multinationals, they now do the quality control, washing, packaging and exports by themselves, thus almost doubling farm incomes.

CEPIBO's Story

CEPIBO's initiative in a nutshell	
Nb. of active clients	623
Nb. of beneficiaries	1,500
Nb. of savers	n.a.
Nb. of personnel	n.a.
Gross Loan Portfolio	US$ 700,000
Average Loan Balance per Borrower	US$1,120
Type of products: Working capital credit	
OSS	104%
ROA	n.a.
ROE	n.a.
PAR 30	0%
Funders and partners: Rabobank Foundation	

Source: Consultant's estimates based upon CEPIBO data 2009

CEPIBO is a union of small producers of organic bananas in northern Peru, established in 2007. It represents 1,500 small producers of bananas with an average of approximately one hectare each. It is responsible for marketing of organic products (both locally and exports) and it has the organisational and technological capacities that allow them to promote fair trade throughout the commercial chain and diversify the productive system in a sustainable manner.

Within only 3 years of economic activity, CEPIBO has multiplied its turnover and assets. In 2008, 203,000 boxes were exported. In 2009, this increased to 431,000 and for the first 6 months of 2010 exports already amounted to 320,000 boxes. This

2 Central Piruana de Asociaciones de Pequeños Productores de Banano Orgánico.

increased income from a mere US$10,000 in 2007 to US$500,000 in 2009 and US$ 1 million in 2010 (estimate). At the beginning of 2007, equity capital did not even reach US$3,000 but today exceeds half a million dollars. Likewise, assets now reach a million dollars, while liabilities have not yet reached half of that amount, which signifies the rapid growth of internally generated capital. For every dollar invested by CEPIBO in 2007, in the third year six dollars in equity was generated. The initiative has strengthened the food security and improved the social, economic, cultural and environmental situation of its members and of the community in general.

CEPIBO's success is based upon a number of new elements introduced in the local supply chain of bananas. The introduction of well coordinated schedules for planting and harvesting has created a steady supply source, which is attractive for importers and traders. The adoption and certification of organic production opened an attractive niche market resulting in a price premium for all farmers. Finally, by allowing pre-export processing in the local stations, farmers also directly benefit from the value added in these steps. The combination of these measures has proven effective, as it has almost doubled the incomes of participating farmers.

By the horizontal and vertical linkages created in the supply chain, and by meeting demand specifications of customers abroad, CEPIBO is effectively turning an existing local supply chain into an international value chain. In the process it has been breaking down the 'exclusion' barrier that for long kept its farmers cut off from the benefits of economic development.

Results

- ***Clients:*** The productive credit has been very important for the customers of CEPIBO, due to increased sales and therefore the premium of US$1.00 per box exported increased their profits by more than 50 % compared to the previous year.
- ***Financial sustainability*** of the initiative: performance indicators such as OSS and portfolio at risk demonstrate the viability of the operation.
- ***Profitability:*** The initiative, after a year of creation, reached a 10% return on sales.

Peru: Cepibo ended 2010 exporting to US and EU

"The Peruvian central of Small Producers of Organic banana Associations, closed the year 2010 with the export of US$ 1 million of organic bananas to the European markets and US, and this year will extend their sales to China and Japan".

- ***Portfolio:*** CEPIBO has no arrears, due to the system of direct discount of the amounts due from partners and producers.

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers (**horizontal linkages**)?* CEPIBO has organised 1,500 farmers into 12 associations, and each producer group has around 125 members that share group solidarity and exchange experiences. Through the establishment of onsite workstations for each of the associations, the pre-export processing is kept to a minimum to the benefit of all the farmers involved. Through their work in the stations, farmers are also developing activities in the next stage of the value chain. The advantage of a producer organisation taking the lead in value chain development and finance, is that the horizontal linkages and cohesion between farmers are already 'built in', forming a solid basis for all other interventions.

b. *Is the initiative effectively linking successive actors in a value chain (**vertical linkages**)?* While some of its members were already producing for the banana supply chain, the activity of CEPIBO has achieved three essential improvements;

   - It has ***vertically integrated*** a number of successive functions of the supply chain (washing, packaging, quality control, export trade) within the cooperative, thus making the value added in those activities available to the member-producers. In other words, it not only facilitated effective vertical linkages in the chain, it manages and controls them as well.
   - It has ***turned a supply chain into a value chain***; by adjusting the mode of production to the requirements of ultimate consumers in the export markets (organic, fair trade niches).
   - It helped producers to switch to organic farming and organised the necessary tracking and tracing measures (including certification) needed to realise the ***"trade premium"*** available for organic/fair trade products to its member-producers. Now, all participating farmers, through CEPIBO, are certified as producers under the "organic/biological" and "fair trade" labels. This renders a price premium of US$1,00 per box of exported bananas, increasing farm incomes by more than 50%.

   For the implementation of responsibilities there are ***tripartite agreements*** between (a) the basic associations bringing together small producers, (b) CEPIBO, responsible for the financial and non-financial services and marketing and (c) the importer who buys the product. The existence of tripartite agreements and their effective enforcement is the hallmark of solid vertical linkages in the value chain, which, in turn, is a precondition for successful value chain finance.

c. *Is the initiative appropriately **building capacity** required to make producers meet the requirements and standards of the chain?* The nature of a producer organisation is that non-financial services are not separated from the trading activities, although it seeks support wherever possible from local NGOs and governmental institutions. In 2007, the farmers called for the assistance of VSF-CICDA, a French NGO, to assist in the design and implementation of the new initiative. CEPIBO has approached the capacity building of chain actors in two ways;

- As a producer organisation, CEPIBO helps to strengthen the management skills and commercial production of small-scale organic producers, so as to enhance their ability to compete and to ensure their products meet quality standards required for the international fair trade markets. It does so through training on technical-production and field advisory services.
- As a chain actor, CEPIBO is managing the intermediary functions of quality control, pre-export processing and packaging, as well as export management.

One of the challenges in chain management was the logistical organisation (timely transport and storage) and the administration. Also, farmers had to be trained how to design their planting schedules, so as to secure year-round harvesting and supply. Initially mobile packaging stations were used but by now most associations have their own station for packaging. Here the bananas are washed; cleaned, sorted, quality tested, and packed in the well-known brown boxes. On the spot export containers are prepared for transport and shipment. Packing stations also serve as training centres, thus preparing farmers for quality improvement and commercialisation. During the first full year of operations an external manager was employed to start up the CEPIBO operations, financed from an external donation. After a year, a local person has successfully taken over this position. This illustrates that the capacity building approach is sustainable and does not depend upon perpetual grant aid.

d. *Does the initiative contribute to **risk mitigation** in the chain for all stakeholders, including the FS providers?* Value chain finance is deemed effective and sustainable when it goes hand in hand with measures to reduce risks in the chain. The case of CEPIBO offers a good illustration on how this is achieved:

- ***Production risks***: The combination of capacity building for the producers and their organisations is crucial to ensure year round supply in adequate qualities.
- **Finance risk**: By being the financial service provider and the trading partner of the farmers, the risk of non-availability of finance is reduced and the risk of non-performing loans is minimised. In case of crop failure the loans by CEPIBO to farmers can be extended for one year, with CEPIBO meeting its debt obligations from its internally generated equity capital.

- ***Marketing risk***: The promotion of bananas, in fairs and business tours helped the growth of demand for CEPIBO products, resulting in a rapid growth of sales. Fixed contracts were established with fair-trade importers in Germany (Port International), Belgium (Pronature) and Italy (SIFE Spa), and CEPIBO continues to look for more marketing channels (e.g. through Echange Equitable in France). In the local market it has almost limitless sales opportunities, be it at lower prices (Biocosta, Grupo Hualtaco, Agroindustrias Malakasi etc.). Thus, an unexpected drop in demand from importing partners can be absorbed without threatening the sustainability of CEPIBO.
- ***Price risk***: Through direct contacts with importers abroad, CEPIBO has reduced the risk of price fluctuation due to influences at intermediary stages. Despite the inevitable volatility of world-market prices, the "Fair Trade" label helps to secure fair and relatively stable prices for its members.
- ***Quality risks***: Improved quality control allows for product segmentation (top quality at higher prices for export, lower quality at lower prices for local markets), thus reducing the risk of bulk rejection of export assignments.
- ***Health risks for farmers***; the move to organic farming has been strongly motivated by health concerns. Part of the mission of CEPIBO is to reduce the diseases contracted by farmers and farm workers related to extensive use of pesticides. These past working conditions have been linked to frequently observed diseases such as infertility, lung cancer, skin cancer, and birth defects.

While agricultural finance in general is often considered high risk and therefore non-accessible, a consistent value chain approach manages to mitigate risks to a level that make the chain 'credit worthy', even when individual actors (small farmers) are not.

e. *Does the initiative contribute to poverty alleviation by moving the **"inclusion barrier"** for poor producers (i.e. creating access to markets with better prices and higher value added)?* On the basis of the information mentioned above this question can be answered positively.

f. *Does the initiative **create access to finance** for those chain actors who did not have it? (i.e. moving the access barrier)* None of the local Peruvian banks were prepared to finance this initiative, as they perceived it a high risk. Through CSF-CICDA, CEPIBO contacted Rabobank Foundation, which proposed initially to provide a guarantee to local banks. When it turned out that even this proposal was rejected, Rabobank Foundation decided to turn to direct funding with a loan in local currency. It finances CEPIBO up to 70% of the value of the export contracts, which in view of historic price fluctuations (up to 5% per harvest cycle) is considered prudent from the point of view of both borrower and lender.

Based upon these arrangements, CEPIBO facilitates finance on two levels:

1. ***Farm level***: Some 600 individual farmers received working capital loans for land preparation and seed materials through their associations. Moreover, loans are made available for transport, packaging stations and packaging materials, as well as deep wells. Unfortunately these loans are not easy to find in the financial market or the microfinance sector. That is why CEPIBO had to develop these financial services internally. Until now portfolio quality is good (no default).
2. ***Union level***: In order to pay farmers upon delivery and to pre-finance costs related to export (harbour fees, shipment etc.), CEPIBO needed additional funding. In 2008, it received a loan of US$100,000 from Rabobank Foundation (at 8% interest) and in 2009 this was increased to US$ 250,000. This allowed CEPIBO to improve its production process in harvesting and packing by about 20%, whilst maintaining sufficient working capital to operate without constraints.

The productive credit has been very important for the members of CEPIBO, as demonstrated by the greatly increased production and sales. External finance for larger investments such as deep wells is currently still insufficient, but in view the success of the production expansion programme and the rapid increase CEPIBO's capital, suggest that in the future these investments can also be financed either by internally generated funds or through external debt finance.

g. *Is the initiative **innovative**?* CEPIBO's success is based upon a number of new elements introduced in the local supply chain of bananas, such as:

- The introduction of well coordinated schedules for planting and harvesting to create a steady supply source, which is attractive for importers and traders.
- The adoption and certification of organic production, opening an attractive niche market resulting in a price premium for all farmers.
- Pre-export processing in the local stations, allowing farmers to directly benefit from the value added in these steps.

The combination of these measures has proven effective, as it has almost doubled the incomes of participating farmers.

h. *Is the initiative **replicable**?* Based on the principle of solidarity and common good, CEPIBO wants its experience to be replicated by similar organisations producing bananas, mangoes, lemons and coffee. It seems this could easily be done provided they have a cohesive organisational system, a strategic alliance with a financial service provider (like Rabobank Foundation in this case) with affordable interest rates and good contacts in the markets concerned. It is observed that a large unsatisfied demand for fair trade / organic bananas exists in the international market, creating good prospects for scaling up by CEPIBO, or similar activities by other actors.

It is envisaged that through the demonstration of success, eventually local banks and investors may also be convinced that these types of agricultural investments provide attractive finance opportunities.

NETWORK OF VILLAGE SAVINGS AND CREDIT ASSOCIATIONS (FECECAV)[3], TOGO

FECECAV is an umbrella organisation of local savings and credit associations in Togo. It took the initiative to finance the production of red oil by the oil processing cooperatives with support of a development NGO.

> "Our **mission** is to satisfy the financial needs of the population of Togo that have no access to the regular financial system, through the promotion of Village Savings and Credit Associations (CECAV) with the aim of reducing poverty in the region."

Aims

- Awareness creation among rural and urban people on ways and means to improve living standards
- Promotion and creation of Village Savings and Credit Associations (CECAVs)
- Maintaining a central fund for refinancing its members
- Promoting collaboration between members

Functions of FECECAV as an apex institution:

- TA on governance, accounting and staff development (training)
- Exercising administrative, technical and financial supervision
- Defining prudential standards applicable for the CECAVs

FECECAV's Story

In 2000, FECECAV started to collaborate with ADIL, a local NGO to improve rural development, for support to women groups in the Fiokpo region. FECECAV provided finance for the establishment and operation of a new processing cooperative (CTHF) mainly for the processing of red palm oil, but also for processing and storage of other agricultural products such as cassava. The initiative involved the organisation of 231 women in 25 womens groups, on the basis of mutual trust and group solidarity.

3 Faîtière des Entités des Caisses d'Epargne et Crédit des Associations Villageoises

FECECAV in a nutshell	
Nb. of active clients	3,220
Nb. of beneficiaries of the VCF project	231
Nb. of savers	3,220
Nb. of personnel	56
Gross Loan Portfolio	€966,193
Average Loan Balance per Borrower	€300
Type of products: Several savings, credit and money transfer products	
OSS	101%
ROA	0.96
ROE	12.9%
PAR 30	5.8%
Funders and partners: BRÛCKE – LE PONT CIDR	

Source: FECECAV data 2009

The women were organised in a cooperative for the processing of their produce.

FECECAV assists with finance, capacity building, processing, and commercialisation. The financial products include:

- o Savings: current saving accounts, tontine, school fee savings, time deposits
- o Credit products: tontine, regular credit, agricultural loans, microenterprise loans, commercial loans and
- o Money transfer (Western Union and Moneytrans)

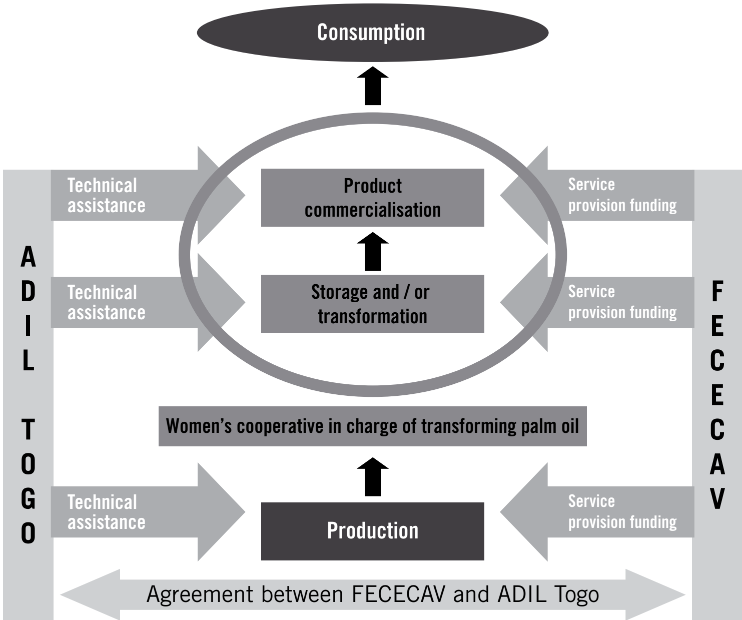
The processing involves production of red palm-oil, soap and cassava milling. FECECAV organised group meetings to explain the financial aspects (savings and credit) and the proper management of their activities. This also helped to safeguard proper loan repayment.

ADIL Togo focused on capacity building, especially for proper governance of the joint activities in the cooperative, financial needs assessment, management of loan repayment and market research. To that end, an agreement was signed between FECECAV and ADIL with respect to the type of technical assistance to be provided by ADIL and the financial services to be provided by FECECAV. This collaboration was and is considered vital for the successful implementation of the value chain finance project.

Results

It is estimated that the profit margin on the cooperative's products amounts to some 25%. For FECECAV, the portfolio risks are manageable due to solid agreements safeguarding both horizontal and vertical collaboration. The women's savings have increased consistently over the past 10 years of the project due to their improved incomes. The members are satisfied with the financial services, as it allows them to increase the purchase of raw materials from primary producers and to increase value added through processing by the cooperative.

Diagram of funding flows and service provision from FECECAV and ADIL Togo



Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers (**horizontal linkages**)?* With the help of ADIL Togo, 25 women groups were organised and trained. The system has now operated satisfactorily for 10 years.

b. *Is the initiative effectively linking successive actors in a value chain (**vertical linkages**)?* Through the creation of a processing plant and cooperative value added is created. As these actors are closely linked, it amounts to a degree of vertical integration.

c. *Is the initiative appropriately **building capacity** required to make producers meet the requirements and standards of the chain?* Through solid agreements with the NGO ADIL Togo all necessary non-financial services are provided. This institutional separation from the financial services ensures that FECECAV's viability is not affected by the necessary investments in capacity building and market research.

d. *Does the initiative contribute to* ***risk mitigation*** *in the chain for all stakeholders, including the FS providers?* FECECAV has been able to at least manage part of the risks through a value chain approach:

- ***Production risks:*** ADIL provided sufficient guidance to the womens groups to secure adequate input of raw materials for the cooperative processing plant.
- ***Supply risks:*** The risk of side selling is limited by working with producer cooperatives and using tripartite contracts.
- ***Finance risk:*** With PAR at 5.8%, although relatively high, FECECAV is able to handle this mode of agricultural microfinance.
- ***Marketing risk:*** Through the non-financial services geared towards market research and market linkages, the risks for all participating actors are reduced.

e. *Does the initiative contribute to poverty alleviation by moving the "****inclusion barrier****" for poor producers?* The intervention created a gross profit margin on the palm oil products of 25% in average, which significantly increased incomes of participating women, which is further demonstrated by the consistent growth in savings.

f. *Does the initiative* ***create access to finance*** *for those chain actors who did not have it?* (i.e. moving the access barrier). Through the initiative, the women graduated from mutual finance (tontine) to external finance from FECECAV resources.

g. *Is the initiative* ***innovative*** *- moving a microfinance frontier?* FECECAV demonstrates that though the cooperation with an NGO providing non-financial services, a financial institution can facilitate sustained economic growth for its clients by linkage to a value chain.

h. *Is the initiative replicable?* The fact that after 10 years only 0,5% of members participate in this project indicate that the up scaling potential is limited. This is not surprising given the fact that traditional soaps are a local product that may not find its way to supermarkets and urban vendors. FECECAV is working however on the replication of the value chain finance approach for several other crops with different partners. It is working with CED (Centre Ecologique pour le Développement) for the promotion of vegetable value chains (cabbage) and with ETD (Entreprise territoire et développement) on the development of rice value chains.

KOMPANION, KYRGYZSTAN

Kompanion was formed in 2004 through the consolidation of five Mercy Corps affiliated micro-credit agencies throughout Kyrgyzstan. It is represented in all oblasts (provinces) and regions of Kyrgyzstan providing services to over 120,300 customers and is the largest financial institution in Kyrgyzstan in terms of the number of customers. Kompanion has 94 offices in major cities, rural towns and villages in all regions of Kyrgyzstan. Currently, the company's primary products are solidarity group loans and secured and unsecured small business loans.

Mission

Kompanion's mission is to be the leading community development financial institution in Kyrgyzstan. Kompanion supports the strengthening and growth of communities by offering development products and services to entrepreneurs and individuals. It aims to be the leader in delivering financial and development products and services for underserved markets through technology and efficient operations.

Products and Services

- Solidarity Group Loans (over 99% of the customer base): Rural micro-entrepreneurs may obtain micro loans via solidarity groups consisting of at least four members. 85% of these loans are given to women.
- Secured Individual Loans (about 0.7% of loan portfolio): Small, growing businesses may obtain collateralised loans for working capital and fixed asset investments.
- Unsecured Individual Loans (less than 1% of portfolio): Clients eligible for this loan product must complete seven cycles of group lending and have no delinquencies.
- Development Services: Kompanion agronomists, veterinarians, real estate and land management specialists provide technical assistance on how to take advantage of low external input technologies that lead to increased incomes, higher yields and productivity, and food security.

Kompanion's Story

Kompanion's initiative in a nutshell	
Nb. of active clients	117,210
Nb. of personnel	926
Gross Loan Portfolio	US$ 38,9 m.
Average Loan Balance per Borrower	US$ 332
Type of credit products: Solidarity groups, SME, individual	
OSS	118.9%
ROA	24.7%
ROE	5.72%
PAR 30	2.94%
Funders and partners: BlueOrchard, Deutsche Bank, EBRD, Incofin, Oikocredit and Symbiotics	

Source: Data 2009 provided by Kompanion

Starting in 2005, three projects were undertaken, now collectively known as Kompanion's Horticultural Development Initiative (HDI):

- The Apple Project was launched in 2005 involving 200 households in 2 villages.
- Gardens and Plastics project in 2007-2009 expanded programming to 1,300 households in eight villages with the goal of creating a regional reputation for high quality organic fruit.
- Eco-Garden project in 2009-2010 expanded programming to reach over 3,000 households in 35 villages, with an increased focus on rural waste management to maintain the ecological integrity of home gardens.

The HDI was primarily focused on apples as the main commodity, because they are grown by a majority of smallholder farmers and is a high value product. Later, the project was broadened to address the waste management to ensure the ecological sustainability of the communities.

Kompanion's resources have been targeted at combining (a) high-impact value chain development with (b) improved access to financial services. This combination has the best potential to ensure farmers' access to investment capital and other financial services, increased productivity, and improved competitive agricultural food chains.

The Apple Project was created to address the major constraints of apple producers and buyers:

1. Improve horticultural practices so that villagers produce higher quality apples
2. Provide microcredit that can be used to improve apple production and invest in future yields
3. Mobilise and organise villagers so that jointly they are better able to market and ensure a higher price for their apples
4. Improve infrastructure to help facilitate the sale of apples
5. Market apples and introduce potential buyers.

The Apple Project was implemented on the southern shore of Lake Issyk-Kul, a UNESCO Biosphere Reserve, and served the two neighbouring villages of Tamga and Tosor. Tamga has approximately 650 households with home gardens and Tosor has over 350 home gardens. Home gardens are small-scale agro-forestry systems in the area surrounding a household maintained and managed by those in the household. Nearly 100% of households in the Issyk-Kul region have home gardens and receive income from the sale of the production. These gardens territories are relatively small averaging less than 0.1 hectares (0.25 acres) in size, but highly productive and earn households, on average, 15% of their total revenue.

Financial Services

Kompanion developed a new credit product and repayment schedule that coincides with income from the sales of agricultural products following harvest periods. Project participants were four times more likely to take a loan than the general village population which demonstrated that people can overcome their fear of credit by having regular contact with Kompanion development and credit specialists. All HDI activities are conducted by Kompanion's Development Department. Kompanion received a small grant that covered a portion of the costs for the project but, as a self-sustaining microfinance institution, Kompanion funds all costs related to HDI through internally generated profits from its loan portfolio.

Results

THE APPLE PROJECT (TAP)

- Over 4,000 new seedlings planted
- Average household income from the sale of apples increased by 30% for project participants between 2005 and 2006 from KGS 5,973 (US$ 151.06) to KGS 7,777 (US$ 204.12) per household
- 41.2 tons of top quality apples and 77.5 tons of apples for processing were sold
- Two Community Initiative Groups (CIGs) formed to address the community needs
- 12 training seminars designed and 209 training sessions conducted
- Community-based Annual Apple Festival and "Ecological Garden" school competition organised
- Renovation of abandoned storage facilities initiated.

GARDEN AND PLASTICS PROJECT (GAP)

- 10,000 seedlings are planted
- 17% total household income increase for participants and a -2% for non-participants
- 24% increase in income from the sales of apples

- 78% increase in income from sales of apples for non-participants (market chain linkages helping overall).

ECO-GARDEN PROJECT

- Nearly 13,000 new seedlings planted
- Over 40% of participant households thinned and grafted their fruit trees
  There was a 12% increase among participants (compared to only 1% increase among non-participants) in the keeping of apple sales records
- 1,269 clients made investments worth KGS 26 million (US$578,000) in their gardens.

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers (**horizontal linkages**)?*
The TAP project resulted in the establishment of 2 Community Initiative Groups and the creation of the Nur-Omur Association later on as well as 14 Community Initiative Groups being formed between 2009-2010. The group approach used both in the credit and technical provision elements cemented the farmer's relationships with each other to further enhance the effects of learning. These provided a better foundation for group marketing and general support for project participants as well as social and financial transparency.

b. *Is the initiative effectively linking successive actors in a value chain (**vertical linkages**)?* Sales were facilitated through the local Fruit Growers Association aiming at creation of networks within the communities and promotion of improved agri-food chains. Moreover, connections to facilitate entry into a new sector – fruit processing – for growers were made. Prior to TAP and its successor HDI projects, very few households sold their low quality production to the fruit processing sector.

c. *Is the initiative appropriately **building capacity** required to make producers meet the requirements and standards of the chain?* Through the projects, extension services are provided to participating farmers including various trainings and seminars addressing a vast variety of agricultural, business and ecological issues. Farmers were provided with value chain development and with agricultural information to help them make the most of their investment and improved market linkages to facilitate better end prices.

d. *Does the initiative contribute to **risk mitigation** in the chain for all stakeholders, including the FS providers?*

- ***Production risks:*** Limited through agricultural extension services.
- ***Finance risk:*** Small loan size and close client relations resulted in no delinquency.
- ***Marketing risk:*** Communities mobilised to scale their marketing efforts.
- ***Price risk:*** Better quality ensures a higher market price.
- ***Quality risks:*** Apples that do not meet 'top quality' standard are processed.

e. *Does the initiative contribute to poverty alleviation by moving the "**inclusion barrier**" for poor producers?* The initiative has created access to markets with good prices and higher added value, with supporting services for production expansion. Also, the capacity of the involved villages to act and sell together was improved offering open access to financial services and providing contact and information resources that communities could apply to their home orchards. As a result, average household incomes increased by 30% for the Apple Project participant.

f. *Does the initiative **create access to finance** for those chain actors who did not have it? (i.e. moving the access barrier)* The institutionalised collaboration between the value chain development promoter and the MFI established full access to finance for all participating smallholder farmers. This led to an increase in income levels of participating households thanks to better management of their lands and gardens due to improved horticultural skills.

g. *Is the initiative **innovative**?* The initiative is innovative for the Kyrgyz market since there was no such product offered by any other MFIs. Thus, TAP project was the first initiative to improve horticultural practices and effectively market its products. The strength of the initiative is its focus on both value chain development and provision of access to financial services. The Kompanion case is a good example of how collaboration between an MFI and a value chain development can lead to a healthy portfolio in the agricultural sector. It shows that a value chain finance approach helps to make agricultural lending sustainable.

h. *Is the initiative **replicable**?* Building on their success and experience of their Horticultural Development Initiative which has been focused primarily in 2 of Kyrgyzstan's 7 oblasts (provinces), Kompanion is now in the process of rolling out similar programmes across the country.

LA FLORIDA , PERU

La Florida is a cooperative organisation of small coffee farmers founded in 1966 with 50 members. It was established with the purpose of improving the system of commercialisation and shortening the chain of intermediation in the local and national markets. At present La Florida has 1,200 coffee members, distributed over 36 communal groups, integrating immigrants of the Andean region and natives of the Peruvian forest.

Mission: To obtain the integral development of its associates, families and communities, through a shared strategy for strengthening the efficiency of production and commercialisation of coffee, the efficient handling of the technical and credit attendance, as well as an effective and social management oriented to improve the quality of the life of its associates members.

La Florida's Story

The initiative among the farmers was a response to several problems faced:

- The return on coffee was low and due to monoculture, the risks were high.
- Trade intermediaries took most of the trade margin and offered farmers low prices.
- Infrastructure improvements are too costly for individual farmers.

La Florida's in a nutshell (data Crediflorida)	
Nb. of active clients	15,21
Nb. of savers	1,901
Gross Loan Portfolio	€2.76 m.
Average Loan Balance per Borrower	€1,812
Type of products: Individual loans / production loans / savings products	
OSS	133%
ROA	5.7%
ROE	19.3%
PAR 30	0.0%
Funders and partners: SOS Faim, Alterfin, Rabobank, Oikocredit, ResponsAbility, EU	

Source: Data provided by La Florida and partners for 2009

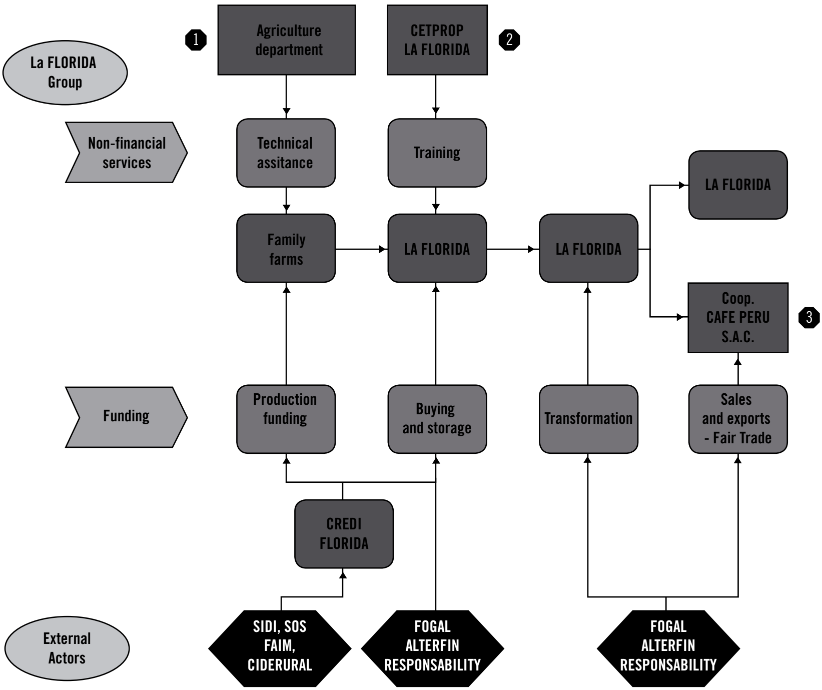
- No knowledge about the market and lack of connections

This led in 1966 to the creation of a cooperative of coffee farmers (La Florida) and in 2003 to a separate savings and credit cooperative called Crediflorida.

Through these 2 organisations the farmers in the Chanchamayo area are provided with the necessary support services, which include;

- Credit to producers
- Technical assistance, extension services
- Setting standards and certification for organic coffee
- Buying of producers collectively at 70% of spot value
- Setting up a structure for collective treatment and processing of coffee
- Commercialisation – linkage to export markets

Currently the production consists of 70% organic coffee and 30% traditional coffee.



Results

The benefits for the farmers are reflected in the increase in sales of coffee plus the increase in farm-prices paid to producers, which rose by more than 250% due to exports. Also the producer cooperative La Florida and the financial institution Crediflorida have been doing very well, as testified by their financial ratios. In 2009/10 the cooperative had an exceptional loss for having to increase prices to farmers (due to the presence of competing foreign buyers). This worked out at the expense of their margins, as selling prices were fixed by existing export contracts. However this event has not threatened the solvency and viability of La Florida. It shows rather the importance of a producer cooperative with strong capital reserves, to overcome the inevitable ups and downs of the agricultural markets.

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers (**horizontal linkages**)?* The Farmer organisation is institutionalised in the 2 cooperatives and operates effectively.

b. *Is the initiative effectively linking successive actors in a value chain (**vertical linkages**)?* The establishment of processing capacity together with the establishment of direct linkages with foreign buyers is a step towards vertical integration and coordination, which has effectively linked small farmers to export markets.

c. *Is the initiative appropriately **building capacity** required to make producers meet the requirements and standards of the chain?* La Florida provides all necessary non-financial services to its members through its Agriculture department. La Florida's "Centre for technical and productive education" (CETPROP) trains young people as agricultural technicians to strengthen the provision of technical assistance to the cooperative members. This facilitates production improvements and compliance with certification standards for organic coffee.

d. *Does the initiative contribute to **risk mitigation** in the chain for all stakeholders, including the FS providers?*

- ***Production risks:*** Due to the extension services, quality control, and loyalty of producers to their cooperative (all but eliminating the risk of side-selling) the supply risks have been greatly reduced.
- ***Finance risk:*** The absence of a significant portfolio at risk shows that the financing of these agricultural activities has been manageable for Crediflorida. This is attributed partly to the risk-mitigation in production and marketing, and partly due to the loyalty of the members towards "their" financial institution.

- ***Marketing risk:*** Through direct contracts with foreign buyers, and through forward contracting, the marketing risks have been greatly reduced.
- ***Price risk:*** Forward contracting eliminates unexpected price fluctuations for farmers. The downside is that farmers may feel disadvantaged in a situation of rapidly increasing prices, as happened in 2009. However, due to strong capital reserves La Florida could cope with this situation without side selling and loss of membership. This shows the strength of the cooperative model to secure long-term interest of farmers, even when in the short run the risk mitigation strategy may seem to work against them.
- ***Quality risks:*** Extension work and certification have assisted the farmers to meet the standards of foreign markets. Quality control and supervision has been institutionalised in the processing plant.

e. *Does the initiative contribute to poverty alleviation by moving the "**inclusion barrier**" for poor producers?* The establishment of the cooperative allowed the transition from local traders on local spot markets towards export markets serving specific niches (organic) with forward contracts. The price increase of 250% for farmers shows that the initiative created access to markets with better prices and higher value added.

f. *Does the initiative **create access to finance** for those chain actors who did not have it? (i.e. moving the access barrier)* Access to finance has been institutionalised through the establishment of Crediflorida. The institutional separation from La Florida is very wise, as it reduces the probability of role conflicts. Crediflorida is currently in the process of becoming independent from the members of La Florida. For a financial institution, portfolio diversification is essential for its risk management strategy. The fact that Crediflorida still allocates 94% of its portfolio to agriculture indicates that mission drift has been avoided.

g. *Is the initiative **innovative** - moving a microfinance frontier?* While Crediflorida is providing regular financial products (pre-harvest production credits to farmers, post harvest working capital finance to the processing plant, as well as investment term finance), the fact that it does so viably and with very low portfolio at risk signifies the importance of a VCF approach to agricultural finance.

h. *Is the initiative **replicable**?* As sales are export related, activities can be scaled up to the extent that production capacity allows. Commercial financiers are expected to become interested to complement the social investors that are currently on board (SOS Faim, Alterfin, Oikocredit, ResponsAbility, Rabobank).

COOPERATIVA DE AHORRO Y CRÉDITO "NORANDINO", PERU

Norandino is a savings and credit cooperative in the north of Peru that offers services for credit, savings, technical support and cooperative education to their members in rural areas, who are predominantly small farmers without access to formal banking. It consistently uses a value chain approach in which it attempts to link member-producers to agro-export centres with well defined demand markets, mainly in Europe and Canada. This creates more value added and ends the problem of intermediation taking a large part of the revenue margin.

Mission: Be a leading financial institution in rural microfinance in northern Peru, facilitating increased access of agricultural micro entrepreneurs to highly competitive markets through appropriate financial services and complementary technical support.

NORANDINO's Story

In 2006, officials from three agricultural organisations dreamed about a financial institution that could address the financing needs of local farmers. They turned to several financial institutions in search of alliances so that farmers could be included in the formal financial system. As this did not succeed, NORANDINO MFI was established. It targets farmers in 4,000 groups of small producers in the north and northeast of Peru. These are residents in small communities

NORANDINO in a nutshell	
Nb. of active clients	3,074
Nb. of beneficiaries	7,388
Gross Loan Portfolio	US$804,617
Loan Balance per Borrower	US$261
Type of products: Savings and credit	
OSS	125%
ROA	12.8%
ROE	3.8%
PAR 30	1.37%
Funders and partners: Alterfin, Rabobank, Oikocredit	

Source: Data provided by Norandino for 2009 that predominantly farm coffee or sugar cane at higher altitudes, ranging from 1,200 to 2,000 meters above sea level. Some are native communities with their own dialect, others are fluent in Spanish. As 54% of the population in this area is living below the poverty line, in addition to financial services a comprehensive package of training and extension was required. To this end NORANDINO has been active in mobilising non-financial services through strategic partners such as Exporters' Unions, CEPICAFE in the north, CENFROCAFE in the northeast and ORO VERDE in the jungle. With the help of these partners, the market opportunities were explored with the aim to create a direct link between the producers in the field and the end consumer. This way the cooperative ensured the quality standards required by the market and competitiveness combined with a fair price for farmers.

Non financial services to member-farmers include:

- Commercialisation of coffee and granulated sugar (ecological sugar)
- Training support according to the producer's needs
- Cooperative training
- Certification of production (organic, UTZ Kapeh, Fair Trade, etc.)
- Marketing for alternative markets like organic products, bird-friendly / shaded coffee, Fair Trade
- Technical support throughout the production and marketing chain

The targeted families sell their products through associated unions of exporters instead of following the whole normal chain, making it possible to arrange contracts in bulk at better prices to the target markets directly. Credit is tied to products sold to agro centres. Through this initiative, farmers now gather their production in the agro-

Santiago Paz López, Manager of CEPICAFE: "*From the total sales of the NORANDINO cooperatives, 30% of profits come from the Fair Trade Market and 70% of the proceeds come from the conventional market. The better sales conditions offered by the Fair Trade Market are translated into higher prices for producer families. "This explains why producer families have fortified and established new business alternatives to increase their income and require credit to extend their production of coffee and panela*".

The conventional financial entities in Peru offer access to credit on an individual basis but only on the basis of real guarantees, mortgages and endorsement. For the specific case of agriculture, an activity considered high-risk, there is no access to credit. In addition, the interest rates on foreign currencies (dollars) are on average around 25% and 29% per year for the Rural and Municipal Saving Banks respectively, the only ones that offer credit to producers on the Peruvian coast.

Thus, the Cooperative NORANDINO addresses the needs of 500,000 coffee producing families of the Piura region to obtain credits. In order to be associated with the organisation, they only need to contribute 100 Nuevos Soles (less than US$30). The entity offers an interest rate of 21.6% annually.

"*We are hopeful that through this union, we small producers are going to achieve a solid financial entity able to give credit to the small coffee growers and with interests according to their means*", explains Jorge Carrillo Enríquez, President of the Council of Administration of the NORANDINO Cooperative and producer associated to Cenfrocafé.

"*Now we feel like owners of our own bank. The Cooperative opened the doors for me to obtain a credit. Before I had to go with my husband and if he did not want to, I could not get a credit. Now I am a direct partner of the Cooperative and can obtain my credit directly*", explains Benita Facundo, producer of CEPICAFE.

export centres (Norandino’s partners), that market the produce on the basis of future contracts with exporters and foreign buyers in Europe (The Netherlands, Belgium, Germany), Canada and the US.

Results

Net revenues for farmers increased from US$19,700 in 2007 to US$206,550 in 2010. This resulted in a major improvement of livelihood, as farmer-members generally belonged to the poor, often with incomplete primary education and high presence of illiteracy.

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers (**horizontal linkages**)?* NORANDINO provided credit to over 7,300 farmers that have been sufficiently organised to meet the strict specifications of the market and certification institutions. This would not have been possible without effective producer organisations. The cooperative structure seems very effective for this purpose.

b. *Is the initiative effectively linking successive actors in a value chain (**vertical linkages**)?* NORANDINO carefully selected strategic partners that facilitated linkages higher up in the value chain, i.e. exporters and foreign buyers.

c. *Is the initiative appropriately **building capacity** required to make producers meet the requirements and standards of the chain?* NORANDINO secured technical assistance and other non-financial services through the Exporters’ Unions, CEPICAFE, CENFROCAFE and ORO VERDE. This way it could avoid a situation whereby it would become responsible for the non-financial services.

d. *Does the initiative contribute to **risk mitigation** in the chain for all stakeholders, including the FS providers?*

- ***Production risks:*** Reduced through effective extension services to farmers
- ***Finance risk:*** Through tripartite agreements between farmers, buyers and NORANDINO the credit is secured by trade flow and repayment is arranged directly through the buyers.
- ***Marketing risk:*** The combination of certification and forward contracting all but eliminates the marketing risk.
- ***Price risk:*** Forward contracting allows farmers to know prices in advance. What remains is the risk of side selling in a situation with rapidly increasing production, which is mitigated through effective producer organisations.

- ***Quality risks:*** Certification procedures established objective standards for quality, thus reducing the risk that consignments are rejected by buyers on the grounds of poor quality.

e. *Does the initiative contribute to poverty alleviation by moving the "**inclusion barrier**" for poor producers (i.e. creating access to markets with better prices and higher value added)?* NORANDINO has been effective in creating linkages to new commercial markets through their strategic partners. This has created good will on the side of the farmers towards the institution which helps to maintain a healthy credit culture (resulting in a low PAR of 1.37%).

f. *Does the initiative **create access to finance** for those chain actors who did not have it (i.e. moving the access barrier)?* As the financier has been an active party in facilitating value chain development, the access to finance was "built in".

g. *Is the initiative **innovative** - moving a microfinance frontier?* MFIs usually shy away from agricultural finance as it is considered too risky. The NORANDINO case illustrates that agricultural finance can be done at low risk, in the context of a value chain finance approach, as in this way much of the risks involved can be mitigated and better be managed.

h. *Is the initiative **replicable**?* In view of the foreign markets, a good scope for expansion exists. The method used by NORANDINO is a good example to other financial institutions that aim to increase agricultural lending.

SARTAWI, BOLIVIA

Fundación Sartawi is a Bolivian MFI, financing small farmers and rural micro-entrepreneurs. It is locally known as "Sembrar Sartawi". Established in 1990 with a strong focus on rural clients (60%), the MFI came to experience the risks associated with agricultural lending. In 2006 it started to work on value chain finance which enabled it to overcome a difficult period in its existence.

Mission: Providing financial services with a holistic approach to the rural population with a capacity for generating marketable surpluses, by facilitating non-financial services and linkages to profitable agricultural chains.

Sartawi's Story

In a recent publication[4] a description of the Sartawi started with the words: "This is a story of how a technically bankrupt microfinance institution managed to get back in business by restructuring its portfolio towards value chain finance."

After an institutional crisis as a result of high loan delinquency in 2005, Sartawi decided to adopt a comprehensive risk mitigation strategy in its rural lending through a value chain finance approach to the dairy sector. Within three years its defaults were down to just 3%. How did that happen?

Sartawi in a nutshell	
Nb. of active clients	6,605
Nb. of personnel	115
Gross Loan Portfolio	US$8.5 MM
Average Loan Balance per Borrower	US$1.287
Type of products: Loans, Microinsurance, Fund Transfer Services,	
OSS	73.3%
ROA	-11%
ROE	-59%
PAR 30	2.3%
Funders and partners: IADB/MIF, Incofin, Oikocredit, ICCO, Fundacion PROFIN, Finrural	

Source: Data provided by Sartawi for 2010

4 Value Chain Finance - Beyond microfinance for rural entrepreneurs, Royal Tropical Institute and IIRR, 2010.

In 2006, Fundación Sartawi together with Save the Children developed a joint strategy for the highland farming clients, with financing and technical assistance going hand in hand. Sartawi began to provide credit and insurance to dairy producers in the highlands. For its part, Save the Children provided technical assistance services. They met with the executives of several dairy companies to see if they were willing to buy from small-scale producers. In 2006, Save the Children helped a group of 60 farmers from 12 communities in Sica, some 115 km from La Paz, form the "Association of Milk Producers from the Carmen Altiplano" (Aplec). In nearby Patacamaya there was already a group of 30 farmers from 4 communities which was also incorporated into the project. Some of the farmers agreed to supply Pil Andina whilst others agreed to deliver milk to the dairy company, Delizia. The technicians of Save the Children initiated "farmer field sessions" to teach the farmers about animal hygiene, health, nutrition, breeds, head management, milk collection and delivery, and business management. Both institutions were closely coordinating their work.

In 2008, a delivery arrangement was worked out with Delizia, to ensure milk purchase on favourable terms (price and quantity). Delizia was authorised to discount payment to the clients in order to honour their credit repayment obligations with Sartawi. In 2009 Save the Children concluded its work in the area, delegating the technical support to Delizia. This way all necessary technical services became embedded in the chain thus financing them on a sustainable basis from the margins earned within the chain. Following the success of the intervention in the dairy chain, the Fundacion PROFIN (a second tier financier), granted a loan of US$ 100,000 to Sartawi to expand its portfolio. In 2010, livestock insurance was improved and the division of work between the chain actors was changed slightly to perfect the credit recovery system. Sartawi now pays the dairy producers on behalf of Delizia and introduced new loan products for the acquisition of computers and irrigation equipment. It further facilitates discounts for the producer from the suppliers of this equipment.

Products: In addition to individual credit awarded, the financing of Sartawi includes: tripartite agreements with the producers and the middlemen, livestock micro-insurance, life insurance, payment services to the producer by the dairy company and the appropriate discount for payment of debt, access with credit to input supplies and adequate equipment from allied suppliers.

Results

The farmers obtained a new source of revenue (milk rather than cheese) which diversified their risks. The average daily income per farmer increased from US$ 0.30 to US$ 3.00 a day. This tenfold increase resulted from a 60% rise in productivity and an increase in the average herd size from three to five. The 2010 data show that Sartawi, as a financial institution, has not fully recovered profitability yet as it still needs to bring its portfolio volume back to the pre-crisis level to reach break-even. However, the strategic collaboration created a win-win situation for all parties, as it not only helped the processor to expand production and satisfy unmet demand, it further allowed Sartawi to increase its agricultural lending at much reduced risk thus developing a promising microfinance product.

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers (**horizontal linkages**)?* The work of the NGO, Save the Children, has been vital in organising farmers in such a way that they became reliable suppliers for the dairy processing firms in terms of quantity, quality and timeliness.

b. *Is the initiative effectively linking successive actors in a value chain (**vertical linkages**)?* The negotiations of the NGO with the dairy processing firms have resulted in solid contracts with the farmers at attractive terms. This opened the opportunity for farmers to expand the scale of production (more farmers, more cows per farmer) and their productivity (through extension work by the NGO and the processing plants).

c. *Is the initiative appropriately **building capacity** required to make producers meet the requirements and standards of the chain?* The farmers have learnt about milk production and financial management, gaining knowledge and skills that lead to higher yields and competitiveness. With these skills, they were able to carry on without Save the Children's support and the technicians of Delizia took over.

d. *Does the initiative contribute to **risk mitigation** in the chain for all stakeholders, including the FS providers?*

   - ***Production risks:*** The NGO and the processing firm provided information and TA on disease control for dairy cows, on the right inputs, on measures to increase productivity etc. The processing firm is also extending its network of cooling tanks in the area, thus reducing the risk of unsold or rejected supply. These factors combined have greatly reduced production risks for the farmers and their financier.

- ***Finance risk:*** The arrangement in which the MFI pays the farmers for supplying the processing plant all but eliminated the risk of loan delinquency. The risk of side selling is reduced by tripartite agreements and by awareness of farmers that the arrangement works to their advantage (attractive terms with the buyer, facilitation of cheaper inputs etc). The risk of death of the borrower is covered by micro-insurance.
- ***Marketing risk:*** The purchase of planned supply is well secured through existing delivery contracts. If, in the event of production growth the main processor (Delizia) cannot absorb the increased supply, an alternative exists with another firm (Pil Andina).
- ***Price risk:*** The price for farmers is negotiated annually and fixed by delivery contracts thus eliminating unexpected fluctuations. In the long run, it will be important however for farmers to organise themselves independently of the processing firm so as to strengthen their negotiating position. Otherwise dependency upon the processing firm might erode the terms of trade with the risk of losing farmer allegiance and subsequent side selling.
- ***Quality risks:*** The initial training by the NGO followed up by the instructions and information given by the processor have proved adequate to ensure compliance with quality standards. The discipline created through the standards delivery contracts with all farmers have helped to create quality awareness.
- ***Currency risks:*** As Sartawi debt is denominated in US$, currency risk for farmers does exist. This risk may be eliminated in the future when Sartawi is able to fully finance its portfolio in local currency.

e. *Does the initiative contribute to poverty alleviation by moving the "**inclusion barrier**" for poor producers?* The initiative allowed local farmers to switch from homemade cheese production sold at the village market, to quality milk for the commercial market.

f. *Does the initiative **create access to finance** for those chain actors who did not have it?* (i.e. moving the access barrier) The involvement of Sartawi right from the start of the initiative meant that is was designed in a way that greatly reduced risks which lead to effective access to credit for both working capital and investments.

g. *Is the initiative **innovative**?* Agricultural finance is often perceived as a problem portfolio for financial institutions. The initiative illustrates that with a consistent value chain finance approach it can be part of the solution to microfinance troubled by loan delinquency in its rural lending.

h. *Is the initiative **replicable**?* Sartawi aims to expand the programme with priority for market research to expand the coverage of the model to other regions (tropical and valley) that produce milk and that do not necessarily have the same productive characteristics. Dissemination and promotion of the model of intervention to key players of the supply chains is undertaken to increase the benefits for clients, including staff training on productivity issues and other matters related to integrated risk management through the value chains.

ASOCIACIÓN PUEBLOS EN ACCIÓN COMUNITARIA (PAC), NICARAGUA

PAC is a service institution (association) for farmers in the north of Nicaragua, an area characterised by extreme poverty and overdependence of farmers on just one crop. PAC has developed several value chains in coffee, roots and tubers which include items such as Malanga coco, yucca, Malanga lila, ginger, cocoa and basic grains. PAC combines a development approach with a strong commercial orientation. It is a marketing agent (trading and selling), a value chain facilitator and it acts as a financial service provider for various actors in the chain.

PAC's Story

The ***Malanga coco initiative*** was the result of PAC's vision of permanent agricultural diversification and the creation of new business opportunities for producers. The small coffee producers depended solely on this economic activity to survive but it covers no more than 4 months of the year. The remaining 8 months lacked business, pushing the workforce to emigrate from the area and neglect the estates. Additionally, the fall in coffee prices in 2000 financially crippled many producers, clearly exposing the need to diversify.

PAC in a nutshell	
Nb. of active clients	2,500
Nb. of beneficiaries	6,000
Nb. of savers	-
Nb. of personnel	103
Gross Loan Portfolio	US$ 5.6 million
Average Loan Balance per Borrower	US$ 14,000
Type of products: Working capital	
OSS	100.4%
ROA	1.4%
ROE	n.a.
PAR 30	4.2%
Funders and partners: Rabobank, Oikocredit, Woord&Daad, Local banks, World Relief	

Source: PAC June 2010

Knowing the Market Opportunity. In Nicaragua, Malanga coco grows rampantly around the streams and ponds and its main use, apart from local consumption, was to feed pigs. A bag of one quintal (100 pounds) used to be sold for US$ 3. In 2006, PAC organised business tours, visiting establishments and trade fairs in the United States in order to determine the demands and existing niches in the US market. There, the potential of the Malanga coco as a consumer product for the Asian and Caribbean market was discovered. PAC acquired resources and assistance to shape its Market Intelligence Unit enabling it to diversify into the market as well as manage relations directly with buyers. PAC has become the facilitator of the initiative where all the participants invested resources in its business.

Developing a Consistent Supply (2007-2008). PAC focused on developing an exportable supply batch of sufficient size and quality. For this purpose experimentation farms were established by PAC in the resource areas. Once the crop was tested in the market, PAC facilitated the integration of a group of new producers in the project. PAC gave them credit to cover the establishment costs for the new crop and guidance through the demonstration farms. At the same time PAC facilitated investors to create a processing plant that would allow the product to be launched on the US markets.

Scaling up Production (2008-2009). With larger production and processing capacity established, exports could be scaled up. Processes with respect to product quality were fine-tuned. Rural SMEs were included to offer services in a chain such as crop management, collection, transportation, processing and marketing services. US buyers were diversifying and starting to export to more states (Florida, New York and California). PAC positioned itself as the largest exporter of Malanga coco in the country with the best product on the market.

Results

400 small producers of Malanga coco were financially supported and 25 service companies (SMEs) were involved in the various links in the chain for export to the USA. All in all, this generated some 2,600 jobs throughout the chain. Coffee is now also exported to Europe. Through the initiative, the Malanga coco, which used to be fodder for pigs, was turned into high value crop. A quintal of Malanga is now sold by producers for US$ 25 (up from US$ 3 in the local market).

Assessment of the initiative from a Value Chain Finance point of view

a. *Is the initiative effectively organising primary producers (**horizontal linkages**)?* While PAC operates as a private company, it has been able to facilitate the organisation of 400 farmers. The main reason for their loyalty is the fact that PAC has consistently focused on agricultural diversification, thus raising farm income and reducing risks.

b. *Is the initiative effectively linking successive actors in a value chain (**vertical linkages**)?* PAC has been effective in creating vertical linkages, partly by facilitating the establishment of processing plants by financing different actors in the chain and partly by establishing marketing contacts and contracts in the US and EU.

c. *Is the initiative appropriately **building capacity** required to make producers meet the requirements and standards of the chain?* PAC has learned that to achieve development and consolidation of the value chains, it should; include all of the area's natural economic agents; organising them rather than replacing them; train and educate them in ethical business and thus create reliable business environments, both for themselves and for investors. The establishment of demonstration farms may have been crucial to achieve this as thereafter farmers were able to meet the market requirements.

d. *Does the initiative contribute to **risk mitigation** in the chain for all stakeholders, including the FS providers?*

- ***Production risks:*** PAC provided effective extension service to farmers, without jeopardizing its own profitability.
- ***Finance risk:*** With PAR at 4%, PAC demonstrated that agricultural microfinance is manageable within the context of a VCF approach.
- ***Marketing risk:*** Well reduced by forward contracting and diversification of marketing channels.
- ***Price risk:*** Seen as farm income has increased, it can be said that the investment in the identification of a niche market has paid off.

- **Quality risks:** Repeat orders from US prove that quality is respected by PAC and its processing SMEs.

e. *Does the initiative contribute to poverty alleviation by moving the "**inclusion barrier**" for poor producers?* PAC was able to turn a supply chain of pig food into a value chain for export. This established the market link and made small farmers participants in an international market.

f. *Does the initiative **create access to finance** for those chain actors who did not have it?* (i.e. moving the access barrier). PAC has funded all participants, from producers to rural service providers: input distribution under BPA, collection and pre-processing companies, transport companies and companies that offer technical support for the crop.

g. *Is the initiative **innovative** - moving a microfinance frontier?* The PAC case is non-conventional in the sense that one organisation is in charge of both the financial and non-financial services. While there may be strong argument against such a combination of roles, PAC has been able to break-even over the past 3 years (and projects OSS of over 112% in the coming years). In 2009/10, from free on board (FOB) sales of US$ 1 million annually, US$ 735,000 was contributed to the local economy and between 1,508 and 2,612 jobs were created. The value sharing of producers in the FOB sales increased from 53% to 75%. These figures speak for themselves.

h. *Is it **replicable** (interesting example for the microfinance community)?* PAC's story shows that microfinance is not dependent upon MFIs only. It demonstrates that a cooperative model can be effective in agriculture (even though it is registered as an association). PAC's strategy is to attract more foreign investors by creating a climate of confidence and controlled risk. This is the purpose of the creation of EXPANSA, a new trading company in joint venture with Oikocredit. PAC has contributed to the design of a business development model with a Dutch NGO called "Woord & Daad" which in turn has partners in Africa, Asia and Latin America. Also PAC has had visits from African organisation partners of World Relief. PAC is in the process of patenting its model and together with Woord & Daad is studying its replication elsewhere.

THE EUROPEAN MICROFINANCE AWARD

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.

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

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EUROPEAN MICROFINANCE PLATFORM
2 rue Sainte Zithe
L-2763 Luxembourg
Tel: +352 2627 1355
contact@e-mfp.eu
www.e-mfp.eu

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123concept, Luxembourg