



**EUROPEAN
MICROFINANCE WEEK 2014**
DEVELOPING BETTER MARKETS



SERVING AGRICULTURAL MARKETS: HOW TO HELP FINANCIAL INSTITUTIONS TAKE UP THE CHALLENGE



Agricultural credit from financial institutions' perspective

From FIs' perspective, serving agriculture is a challenge:

- ▶ Higher risk compared with other sectors':
 - Risks affecting the production (climate, ...)
 - Market risk: price fluctuations, etc..

- ▶ Complex:
 - Seasonal patterns, agricultural techniques, etc.

- ▶ Difficult to make it profitable:
 - Higher transaction costs : specific approaches required (organization, products, ...)

=> FIs need support to take up the challenge



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Agricultural credit from financial institutions' perspective

Different contexts Different models

Examples:

- **Value chain approach:** a model involving different stakeholders, with a **risk sharing mechanism** and **technical support** at different levels
 - Allows FIs to limit costs and risks, while serving large numbers of farmers.
 - Example: Cocoa Livelihood Program at Advans Côte d'Ivoire

- **Support to FI:** creating capacities within the FIs to address agricultural markets' various needs.
 - Allows the FIs to control their risk, while offering services adapted to the diverse needs of agricultural clients.
 - Example: Agrifin Programme at BNDA (Mali)



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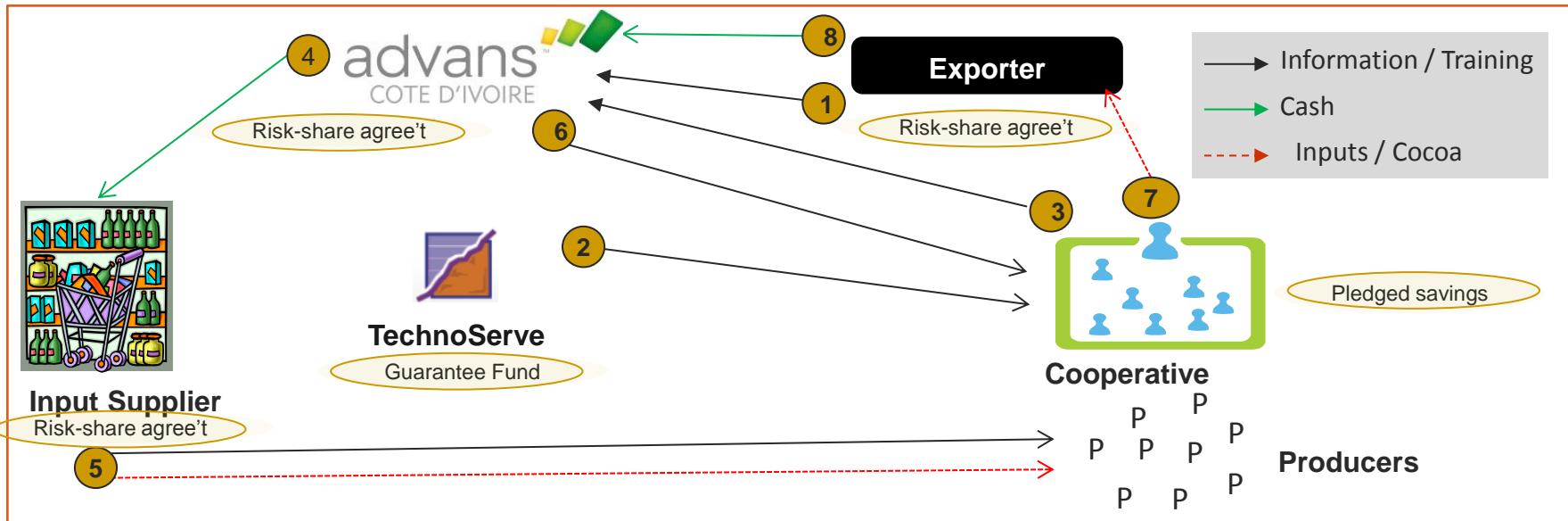
Advans Cote d'Ivoire small farmers cocoa credit program

Context and objectives

- In 2012, Advans CI decided to **become the financial partner of the CLP project** , funded by PROPARCO and IDH and to provide input credit (phytosanitary treatments and fertilizers) to farmers through their cooperatives.
- **Advans CI considers the cocoa sector as strategic in the future :**
 - Sector's **size and number of potential beneficiaries** (625,000 small cocoa farmers in Côte d'Ivoire, most of them living with less than 2\$ per day)
 - **Significant need for input credit** (lack of fertilizer access)
 - Significant demand for **other financial products** (deposit products, equipment credit)
 - Possible extension to other crops / other countries (Advans network)

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Advans Cote d'Ivoire small farmers cocoa credit program



- An integrated mechanism involving the whole VC → control flows & risks
 - Technical partner: selection of input suppliers, GF, overall project management
 - Cooperatives: selection of the producers, management of individual loans
 - Financial institution: due diligence, credit disbursement to the suppliers, training on credit management for the cooperatives
 - Input Supplier: input delivery to cooperatives (negotiated price), training on the proper use of input
 - Exporter: selection of cooperatives, direct loan repayment to FI from cocoa payment
- Evolutive risk sharing mechanism involving all partners



Advans Cote d'Ivoire small farmers cocoa credit program

Results and lessons learnt

■ Results:

- Since 2012, 9,000 farmers funded, € 900,000 credit thru 60 cooperatives
- Repayment rate: 100% at cooperative level, 96% at farmer level
- Negotiations with input supplier → cost of input on credit with training and follow-up equal to cost of input bought cash

■ Lessons learnt

- Importance of evolutive risk-sharing mechanism involving all parties
- External funding needed for the different partners
- Difficulty: risks associated with cash payments & lack of banking infrastructure
- Branchless banking project (CGAP) to capture payment flows from cooperatives to producers → producers' personal bank accounts
 - increase the bank's knowledge of its final customers
 - diversify range of products offered to producers
- VC finance proved a good entry point to cater to the small cocoa farmers' diversified needs

Context and objectives

- Serving agriculture : BNDA's mission.
 - Historical focus on farmers' organizations / cotton value chain,
 - Cotton crisis => need to review the approach.

- BNDA received support from the Agrifin Program (funded by the Bill & Melinda Gates Foundation and managed by the World Bank)

- Objective: build capacities within BNDA to serve agricultural SMEs



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Mali- Agrifin Program at BNDA

Project description

- Development of agricultural credit products, and dedicated tools and methods :
 - Individual loan approach:
 - Taking into account farms' multiple activities and needs, and based on a thorough analysis of the farm
 - Working capital & investments
 - Specific tools to analyze risks:
 - Loan appraisal forms adapted to different types of activities (vegetal crops / animals)
 - Simplified risk scoring system (expert system – used as an analysis and decision support tool)
 - Activity cards
- Training and coaching for management and staff
- Integration in the bank's existing organization



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Mali- Agrifin Program at BNDA

■ Results

○ Pilot

- 56 loans, EUR 460k disbursed (68% for investment loans)

○ Last quarter 2014: roll-out in BNDA's branch network

- Loan Officers trained on the new methodologies and tools in all branches
- All branch managers will also receive training
- Agri-loans included in the Bank's budget and in staff's performance assessment

■ Lessons learnt

○ Key success factor: **strong motivation**, from the top management to branch staff

- Management has to be ready to invest, allocate required HR and financial resources
- Define targets, as part of the budget / business plan
- Include specific indicators in the staff evaluation system

○ Ensure adoption at all levels:

- Need to adapt tools and methods to local context (taking into account existing practices & tools at the financial institution, and target clients' capacities)
- Importance of coaching staff in the field



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Thank you

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