REPORT ON
CARI ACCESS TO FINANCE LEARNING EVENT
24th April, 2017, ACCRA

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Background

The Competitive African Rice Initiative (CARI) is a project across sub-Saharan Africa; in Burkina Faso, Ghana, Nigeria, and Tanzania; to improve local rice productivity, production, and marketing, in order to improve the livelihoods of 120,000 smallholder rice farmers.

The aim is to work with rice processors and traders who are value chain anchors and provide the much needed market ''pull'' to stimulate smallholder rice farmers to increase their productivity and production. Secondary beneficiaries are rural service providers, such as input dealers, suppliers, and operators of agricultural machinery.

The project is designed to foster cooperation with public and private sector partners to form effective and innovative Public Private Partnerships (PPP) in the rice sub-sector, and seeks to strengthen existing sector alliances and develop new ones at national and regional levels. CARI is a four-year partnership-based development project funded by the Bill and Melinda Gates Foundation (BMGF) and the German Federal Ministry of Economic Cooperation and Development (BMZ).

The implementing agency is Deutsche Gesellschaftfür Internationale Zusammenarbeit (GIZ). In-country, GIZ is implementing the project in Burkina Faso and Nigeria, Technoserve and John A Kufor Foundation are implementing in Ghana and Kilimo Trust is the implementer in Tanzania.

CARI organised a two day learning event on 24 – 25th April, 2017 at the Mensvic Hotel, Accra. The event was aimed at sharing successes and challenge as well key lessons on Access to Finance from CARI partners/stakeholders across 4 implementing countries.

This report is a summary on CARI Access to Finance Learning Event held on 24th April 2017 at Mensvic Hotel, Accra, Ghana.

Opening Remarks

The learning event was opened by Mr. Juergen Koch, Head of GIZ CARI-Tanzania who formally welcomed participants on behalf of GIZ and CARI team.

Overview of Access to Finance

Dode Seidu, Event Facilitator

Dode Seidu, an Access to Finance Specialist and Event Facilitator, set the tone for the learning event by providing an overview of Access to Finance with an emphasis on Agricultural Value Chain Finance, the constraints faced by rice farmers in accessing finance as well as an overview of emerging trends in addressing agricultural value chain financing.

Summary of Presentation on Access to Finance by Dode Seidu

Rice has become a very important national crop across many countries in Africa because it's a staple, a cash crop, provides food security and has economic implications due to the volume of imported rice that affects countries import bill and exchange rate. Consequently rice has also received high national policy priority as many governments intend to increase domestic production and reduce imports.

Access to Finance remains a challenge for rice actors principally because of increased perception of high risk for the agricultural sector; unstructured and informal nature of the business/activities of most value chain actors; high interest rates; a lack of understanding of agribusiness operations by financial institutions and stringent collateral requirements among others.

Agricultural value chain financing, which involves finance providers and actors who aim to strengthen the overall competitiveness of the value chain by forging stronger linkages between the different segments of the value chain, was seen as the most appropriate approach to addressing the constraints of access to finance. To this end, agricultural value chain financing was seen as both an approach and a set of financial products and services.

Furthermore, agricultural value chain financing is an intersection of rural financing which includes financing for on-farm and non-farm enterprises; agricultural financing which encompasses financing for various agricultural activities; and micro, small and medium enterprise financing which includes a number of financing tools that support small business operations.

Agricultural value chain financing has both direct and indirect actors. The direct actors are the key players in the value chain from inputs, production, processing, distribution and end markets. Indirect actors include providers of mechanization services, financial services, business support services, transport and digital service providers. The key lubrication for effective interaction between direct and indirect actors are flow of information and finance within an improving business environment.

Emerging trends in agricultural value chain financing include:

- Use of Risk Mitigation Tools -partial and full credit guarantees as well as agricultural insurance
- Use of Incentives or Performance Based Contracts
- Use of Business Service Providers as major link between value chain actors and finance providers
- Capacity building for Financial Institutions including Product Development
- Combinations of different forms of financing -working capital, debt, equity
- Use of Leases for Agricultural Asset Financing
- Warehouse Receipt System

- Cash flow financing versus use of collateral
- Increased integration of smallholder farmers through anchor value chain actors or nucleus farmers are able to access credit and on-lend to smallholder farmers

What Can Value Chain Actors Do?

- Agribusinesses need to have proper legal registration and management structure with controls
- Keep proper records
- Keep close and transparent relationships with other value chain actors
- Keep close and transparent relationships with financial partners
- Value and use professional services

Access to Finance Options

Henry Djorbuah, Access to Finance Specialist, CARI Team Ghana

The presentation by Henry was to provide CARI partners an overview of existing out grower financing models. Henry explained a tripartite system of financing inputs between input service providers, farmers based organizations (FBOs) / out grower systems and financial institutions.

He emphasized the essence of a strong out grower system highly integrated with the aggregator or the rice mill. A strong out-grower system includes well-organized FBOs with an out-grower manager, extension officers and comprehensive data on the FBOs and their members. Each FBO will between 5-30 members and information such as name, verified address/location of farm, farm size and expected crop budget per season will be obtained from each farmer.

This information could then be leveraged to source for funds. When such information is presented to input service providers or financial institutions, they are able to extract vital details such as required inputs or financing, repayment capability of the out-growers, associated risk factors and mitigation measures.

The use finance persons or teams, separation of roles and functions, valuing each activities with target, having good relationship with financial institutions and evaluating business more often were some of the financing tips he offered to the participants.

Partners Presentation on Input Financing

Five CARI Partners made presentations on their successes and lessons learned in using input financing in their operations.

FYSSO Ghana,

Presented By Julius Kwadzo Ameku- Executive Director/Project Manager

Business Model: FYSSO Ghana is an aggregator; the company provides inputs to farmers for production of paddy. FYSSO in turn sells the paddy to rice mills in Ghana for processing.

FYSSO has introduced a system of input financing which involves farmers paying half of the cost of inputs before the inputs are delivered to them and the remaining amount paid in kind (paddy rice measured at prevailing market price) or cash after harvesting. Farmers are trained in two major areas: Farmer Business School to ensure increase in productivity and on access to finance with more emphasis on Savings and Loans Associations (VSLAs).

Challenges:

- Farmers did not have enough money to make half payment for inputs;
- some FBO members do not trust each other in terms of repayment;
- Farmers were unable to mobilize the half payment on time to procure inputs, weather failure sometimes resulting in some farmers not being able to pay for inputs.

Successes:

- Farmers have been encouraged to join the VSLA for regular contributions;
- Farmers are trained on best farming practices to ensure efficient productivity and trained on Access to finance with more emphasis on Savings and Loans Associations (VSLAs). FBOs have been introduced to Agricultural insurance.

Lessons Learnt:

- Farmers have difficulty in providing the half payment;
- The FBOs system is working but farmers do not trust each other; and VSLAs are making contributions towards input purchases.
- Input supplier are not too sure so the quantity to supply is an issue

SAVBAN Ghana

Presented by Joshua Toatoba, Operations Manager

Business Model: SAVBAN is an aggregator providing production credit for smallholder farmers as well as warehousing receipt services .This involves a cashless working capital financing arrangement between out-growers, SAVBAN and rural financial institutions. Key ingredients of the model include contracts, group guarantee, cashless transaction and the security of the market provided by SAVBAN.

Challenges:

- Major challenges faced include the fluctuating price of paddy and most especially the rising cost of borrowing from formal financial institutions.
- Borrowing cost is currently at 33%, excluding a 3% processing fee deducted upon approval of credit facility. This results in off takers paying high price for paddy.
- Banking policies in Ghana significantly affects the availability of funds for agricultural lending.

Successes:

- 1, 856 smallholder farmer's access credit annually without collateral through formidable FBOs with good leaders and reliable markets.
- There was an increase in the working capital secured from 2014 to 2016 (from GH¢500,000.00 in 2014 to GH¢2,000,000.00 in 2016).

Lessons Learnt:

- Securing working capital loan on time is crucial to achieving a successful out-grower business.
- Most banks still consider landed properties as the most secured form of collateral despite the increasing knowledge and understanding of most banks in value chain financing.
- The best means to securing working capital with financial institution is building trust.

BABBAN GONA, NIGERIA

Business Model: Babban Gona provides GAP and FBS training smallholder rice farmers through a train-the-trainer approach as well as provision of high quality, cost effective, inputs to smallholder rice farmers – seed, fertilizer and pesticides. Other services which farmers benefit from include mechanization services which involve implementing harvest support services such as threshing, bagging and transportation; extension support services; warehouse receipting; and marketing. These are done in collaboration with partners such as FCMB: the financier; Saro Africa: pesticide partner; Notore: fertilizer partner; Africa Rice: seed partner; and Syngenta: seed and pesticides partner.

Challenges:

- Inadequate access to high quality and pure certified seeds; limited access to locally adaptive, high yielding and culturally acceptable varieties of seed for lowland/upland rice production;
- Exchange rate; and
- Supply constraints due to natural phenomena such as floods, drought and pest attack.

Successes:

- The program benefited 561 smallholder rice farmers who were given a complete input package on credit (seed, fertilizer and pesticide) consisting of 1,800L of herbicides, and 65MT of urea in the 2016 season.
- The farmers were also trained on GAPs and FBS. Furthermore, they were provided with warehouse receipting services;
- 410MT of paddy was aggregated from members the program recorded a 99.9% loan repayment rate.

Lessons Learnt:

- The Babban Gona program will be projected as a for-profit enterprise rather than a government program to deter farmers from defaulting on their loans.
- The program will concentrate on lowland rice-producing areas; and also, shift from procuring certified seeds to multiplying foundation and breeder seeds.

RGL, Tanzania

Presented by Lazaro Mwakipesile, General Manager of Raphael Group Limited- the lead partners of SHIRCO Consortium.

Business Model: providing finance and supply of agricultural inputs to more than 2,656 farmers; providing improved business skills to partners; establishment of demo plots; providing GAPs and GPHH trainings to 6,038 farmers on rice -2510 farmers on FBS and a start-up GAP training on diversification; market search by off-taker resulting in a wider market -from 30 to 54 big customers.

These were done in partnership with Raphael Group Ltd (RGL) – Lead Partners in SHIRCO consortium, 30 Farmers Business Organization (FBOs), Yara Tanzania Ltd, Agriseed Technologies Ltd, and Rogimwa Agrochemical Company.

Challenges:

- Difficulty in obtaining all government legal documents as requested by financial institutions. This led to delays in accessing finance and failure of some FBOs.
- Uninformed export bans affected the business system as a whole.
- Delay in rainfall for the 2016/2017 season and flooding associated with the late rain affected the fields of some farmers. This resulted in early losses to some of the farmers which could delay the repayment of loans.

Successes:

- SHIRCO through Raphael Group Limited (RGL) secured financing from NMB Bank and BOA Bank for farmers to receive inputs, credits and production loans. The input finance and production loans resulted in increased productivity, from 1.8MT/Ha to 3.8MT/Ha (rain fed) and from 2.5MT/Ha to 6.0MT/Ha (irrigated) and a reduction of post-harvest losses from 30% to 15%. It also increased the supply of quality paddy from 18,000 MT in 2014 to 26,000 MT in 2016 and enhanced business relationship between RGL and big customers.

Lessons Learnt:

- Input financing enables farmers to realize their effectiveness, thus making them to prioritize training programs such as GAP trainings.
- Farmers' Business School (FBS) training is key to establishing business relationships between farmers and other stakeholders.

- Also, diversification by which farmers grow complementary crops is necessary as it enables them to generate additional incomes and improve their nutrition.

FASO MALO, BURKINA FASO

Presented by Diakite Momodou

Business Model: Faso Malo provides services to wholesalers, retailers, specialized shops selling rice from Burkina Faso, and government institutions (SONAGESS, MENA). The model involves providing rice farmers with seasonal loans for the acquisition of inputs (seeds, fertilizers) from time to increase production and also to supply the Faso Malo Rice Mill with quality paddy rice. This is done through a sustainable partnership between Faso Malo Rice Mill, Rice Producers and the First Microfinance Agency.

Challenges:

- There was no coverage of the producers of N'Dorola (2nd intervention area of the Rice factory of Faso Malo) by the services of the First Microfinance Agency;
- Difficulty in accessing fertilizers (of which price is high); and inadequate working capital for the Faso Malo Rice Mill.

Successes:

- Two groups of 695 Bama producers were financed by the First Micro-Finance Agency (PAMF) for an amount of 111,800,000 FCA. For the first time in Bama, 98% of the loans issued were recovered.
- All the cooperatives were able to sell the paddy they produced in three months (between November 2016 and January 2017) - a record for the campaign.

Lessons Learnt:

- Capacity building of farmers has led to improved marketing skills and market for the rice. The partnerships established between the various stakeholders allow the producers of Bama and N'Dorola to invest in the production of paddy that meets the demands of the market.

Working Group Discussions and Presentations

Three working groups were formed to discuss and address common challenges CARI partners face in accessing finance. The groups were formed based on topics and nationality of participants to ensure that all country perspectives and actors in the different segments were duly represented. Each group had an 'expert'-a GIZ or Technoserve staff to help steer discussions, a moderator and a note taker who reported to the plenary

Group 1: How can value chain actors co-operate with financial institutions to be able to access financing?

The terms of reference of this group was to identify the key issues that prevent value chains actors from accessing finance and how the actors could cooperate with finance providers to address these challenges.

Ways value chain actors can cooperate with financial institutions are:

- Show viability/profitability of various rice varieties to help finance providers understand the opportunities in the value chain.
- Provide market information to help finance providers understand market dynamics and influencing factors
- Develop strong market linkages through contracts and MOUs
- Improve quality of final product
- Adopt Good Agricultural Practices (GAPs) eg. Seed
- Improved business management skills
- Adopt pricing strategies that will make farming attractive to banks
- Encourage the formation of FBOs
- Be professional in keeping financial systems
- Improve national standards for rice

Group 2: What are the traditional and innovative ways of financing available and how can actors access them?

The term of reference of this group was to identify both traditional and new forms of finance available. They were to discussion how they had overcome financing challenges they faced in the past and how they overcame these challenges if any.

Group two identified two ways of financing that already exists in Ghana and suggested other ways of financing, formal and Informal.

- Formal financing avenues included; Commercial Banks, Savings and Loans, Rural Banks and Microfinance institutions.
- Informal avenues included; Aggregators, Family sources and Money lenders.
- New ways of financing as identified included
    - Sourcing from banks at a competitive rate.
    - Grants support- involving MOUs with banks, financial literacy training and business plans
    - Microfinance institutions, purchasing inputs and implements
    - Create a tight value chain to source finance
    - Suppliers credit/trade support
    - Equity finance
    - Listing on stock exchange
    - Leasing from service providers instead of buying

Group 3: What are the key risks actors face and how can these risks be addressed?
The terms of reference of this group was to identify the key risks faced by value chain actors and how they could address these challenges to give finance providers comfort in providing the needed financing.

Actors identified main risks they face in production and markets. These risk include:

- Adaptation of Certified Seeds by farmers
- Poor rainfall pattern
- Land tenure and land suitability
- Warehousing and Post-Harvest Management Issues
- Price instability
- Poor paddy quality that affects milling quality

Mitigation strategies for these risk include:

- The use of irrigation and bloc farming systems
- Establishing professional seeds and outgrowers
- Creating dedicated transporters and logistics companies
- Improving agronomic and extension support
- Using hermetic and storage infrastructure
- Well-defined forward contracts (Commodity Exchange)
- Forming member based regulatory board like COCOBOD in Ghana to set regulate market and price for rice

Financing by Worawora Rice Mills

Mr. Opoku of Worawora Rice Mill gave a presentation on the success of Worawora Rice Mill.

Business Model: Worawora rice mill provides GAP and FBS training as well as high quality and cost effective inputs to smallholder rice farmers – seed, fertilizer and pesticides. It also provides mechanization services which involves implement harvest support services such as threshing, bagging and transportation. Moreover, the company provides input financing to FBOs.

Challenges:

- Inadequate working capital due to high interest rates,
- harsh economic and climate conditions
- unwillingness of investors to lend money in competition with easier financial instruments e.g. Treasury bills.

Successes:

- Worawora Rice Mill was successful in securing equity investors who currently have75% shares of the company.
- As a result the company procured over 2000mt of paddy and a new line of milling machines that have the capacity to mill 100mt per day or 4mt an hour.
- Worawora rice mill currently employs 36 workers directly.

Lessons Learnt:

- For equity financing to be successful, the specific needs of the parties involved must be thoroughly addressed.
- Once all parties agree and understand the benefits of equity financing, the deal works well.
- Equity financing is best when the business is doing well;
- equity financing ensures, to a large extent, the perpetual existence and growth of the company and also increases the profitability of the company significantly.

Final Remarks/Conclusion

After Lisa's presentation, Mr. Juergen gave his final thought on the program. He was impressed by the richness of the different experiences from the various countries and the knowledge acquired from the similarities and differences in the various countries.

Annexes

Program Outline on Learning Event Date: 24 – 25th April 2017

Day 1: Access to Finance (A2F)

Program/Activity	Time (Duration)		Brief explanation	By Who
Participants' Arrival and Registration	08:00 - 08:30			
Participants introduction / Presentation and adoption of program	08:30 - 09:00			Moderator

Presentation on Access to Finance for rice value chain (A2F)	09:00 - 09:20	20 mins	Short presentation on A2F and how to tackle the current challenges on CARI	TBD by TNS
Presentation of Access to Finance Strategies implemented in Ghana by partners ○ Input financing ○ Working Capital ○ Equity Financing ○ VSLAs	09:20 - 09:30	10 mins	Brief introduction on these topics and how is been implemented in Ghana by the CARI team.	Henry
○ Input financing (case of Ghana, Nigeria, Tanzania and Burkina Faso)	09:30 - 09:45	15mins	Partners will share Successes story on how they Successfully implement to achieve	Fysso (GH)
	09:45 - 10:00	15mins		Babban Gona (NG)
	10:00 - 10:15	15mins		RGL (TZ)
	10:15 - 10:30	15mins		FASO MALO (BF)
Coffee Break	10:30 - 11:00	30mins		
Questions and Feedback time - Plenary	11:00 - 11:15	15 mins		Moderator
○ Working Capital Finance (WC)	11:15 - 11:30	15mins	Partners will share how it was able to get working capital from the banks, interest rate and duration etc.	SAVBAN (GH)
○ Equity Financing	11:30 - 11:45	15mins	Partner will share with the team how they were able to have equity financing and what were the modalities that went into it	Worawora
○ Village Savings and Loans (VSLAs)	11:45 - 12:00	15mins	Partner will share how Successesful as the VSLA helped farmers and how is been implemented to achieve growth and sustainability	Christian Aid
○ Questions and Feedback time – Plenary about WC, Equity Financing and VSLAs	12:00 - 12:30	30mins	Take questions, comments and feedback from participants on A2F and the way forward	Moderator
Lunch	12:30 - 13:30	1hour		

Preparation for working groups: presentation of ToR and constitution of working groups	13:30 - 14:00	30mins		Moderator
Working Groups	14:00 - 15:00	1hour		Moderator and Henry
Plenary: Presentation of working groups results and discussion	15:00 - 15:30	30mins		Participants
Coffee Break	15:30 - 16:00	30mins		
Plenary: Presentation of working groups results and discussion *(continuation)*	16:00 - 16:30	30mins		Participants
General recommendations closure	16:30 - 17:00	30mins		Moderator