



Value chain/cluster development process

I. Background:

<p>1. Name of innovation: Facilitation of access to credit for rural entrepreneurs through value chain/cluster development process</p> <p>2. Country - Region: West Africa (Benin, Burkina Faso, Ghana, Mali, Niger, Nigeria, Togo)</p> <p>3. Organization and originator: An International Center for Soil Fertility and Agricultural Development (IFDC) IFDC and its partner</p>	<p>5. Actors involved: Farmer's organizations, Input dealers, Traders/Processors, Financial institutions, Business development services (BDS)</p> <p>6. Implementation date: From June 2006 – to date</p> <p>7. Type of innovation: (Technological, institutional, policy or knowledge sharing) - Institutional</p>
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II. Key Issues:

8. Summary:

The project "From Thousand to Millions" (1000s+) is an agribusiness project being implemented since 2006 by IFDC in seven countries of West Africa. This project aims to facilitate agricultural intensification and agribusiness development through the development of clusters (i.e., linkages among rural entrepreneurs within a specific commodity value chain, who can improve their competitiveness through collaboration) and value chains. Greater access to finance is key to developing agriculture although financial institutions are reluctant to finance agricultural sector given the high risks associated with agricultural finance. The 1000s+ project is trying to reduce these risks through the clustering approach combined with joint business planning. All actors of a cluster develop a joint business plan that is submitted to the financial institution which is in partnership with IFDC. Instead of a financial guarantee, IFDC provides technical assistance to entrepreneurs in the implementation of their joint plan and enforcement of the different contracts. Training is also provided both to entrepreneurs (i.e., in business plans and management) and to financial institutions. The joint business plans have partially resolved the problem of asymmetric information and the clustering has improved the coordination among actors. At present, financial institutions have provided around CFA 108 millions as loans to local entrepreneurs in Burkina Faso. Activities are ongoing and seem promising although it also seems necessary to also introduce a guarantee fund to support both the financial institution and local entrepreneurs during the learning process.

9. What issue does the innovation address?

The innovation aims to facilitate access to credit for local entrepreneurs (especially farmers' organization) by reducing risks of coordination.

10. Key success factors for replication:

- The development of partnership with financial institution within which IFDC and its partners provide technical assistance to entrepreneurs;
- Intensive support to entrepreneurs in the constitution of the clusters and the elaboration and implementation of the joint business plans ;

- Capacity building of local entrepreneurs, financial institutions and BDS.

11. Accessibility: (Poor, gender, youth, migrants...)/ Target group

- The project pays special attention to the economic activities of women and youth.

12. Difficulties encountered:

During the process several constraints have emerged. First of all, it has been difficult to find financial institutions involved in financing of agricultural sector, especially staple foods. Even those with a portfolio in the agricultural sector do not commonly provide credit without a guarantee. The knowledge of financial institutions in agribusiness and their capacity to innovate in rural financing are very low. It has taken much time to convince them how the cluster in itself can reduce a great deal of the risks associated with agricultural financing, which has led to delays in provision of credit. It has also been difficult to get the entrepreneurs to plan their activities and work together as they did not initially want to share information with each other. The general absence of initiatives and policies to support and develop entrepreneurship in rural areas (especially in Togo), which has led to low capacity in business management has constituted a great difficulty for the project.

13. Financial aspects:

1000s+ is a project funded by the DGIS (Dutch Government). A grant is provided to each group of local entrepreneurs (i.e., a cluster) whose business ideas and action plan has been selected for implementation within the project. This grant allows the entrepreneurs to use the services of Business Development Services for development of linkages, implementation of the joint business plan and capacity building. In practice, a contract is established directly between the project and BDS.

III. Technical Summary:

(Main technical characteristics - In addition to section 8 summary)

Coordination risks are inherent to agricultural sector. They are common in situations where returns to an investment of a financial institution are dependent on complementary (but often uncertain) actions involving an input supplier (to provide good inputs on time), a farmer's group (to produce), support services (to provide technical advice to farmers) and downstream actors such as processors and traders (to buy agricultural produce). Coordination risks are one of the main causes of the reticence of financial institutions to provide credit to rural entrepreneurs (especially farmers) along the commodity value chain in West African countries. To reach the objectives of the project, it was important to find ways to reduce these risks and thereby improve access of entrepreneurs to credit and increase the volume of their business and income. To address this issue, instead of working individually with each actor to strengthen his/her capacity, provide direct guarantee funds, or subsidize interest rates (as many development agencies/projects do), our approach has focused on reducing these risks by developing competitive strategies to link farmers to input and output markets and thereby improve their business. We believe that risks related to prices and coordination can considerably be reduced by setting up of a cluster through the development of strong linkages among farmers' groups, input dealers, traders/processors and Business Development Services (BDS) and, more importantly, through establishment of binding contractual agreements between farmers and those purchasing their products.

To facilitate the process, IFDC has developed a partnership with the Banque Regionale de Solidarité (BRS), a bank with branches in all WAEMU countries, and with an aim to reduce poverty through development of entrepreneurship. In this partnership the project provides technical assistance and capacity building to improve local capacities of all partners. The technical assistance/capacity building focuses on two important aspects: (1) Development of joint business plans and support in their operationalization, and (2) Facilitation of coordination among major actors within clusters and value chains. The business plan gives detailed information on the businesses of each actor and the possible impact of the linkages on their incomes. It also includes plans of the actor for the upcoming season to anticipate the quality/quantity of goods and services that should be delivered to achieve a common goal. The joint business plan partially resolves the problem of asymmetric information – a situation where one party of a business transaction has more information than the other – and reduces coordination risks. Thus the bank has more incentives to finance the project of the cluster and can therefore satisfy the financial needs of the cluster members. To date, the project has finalized the partnership with the BRS-Togo and the BRS-Burkina which together provide around CFA 108 millions in loans for local entrepreneurs; activities are on going. The project is working with local entrepreneurs to implement their plans and enforce the different contracts so that the objectives of the business plans and a good repayment rates can be achieved.

IV. Follow up:

15. Key contacts:

Information given in the previous sections

Name	Organization	Email
Abdou KONLAMBIGUE	IFDC	akonlambigue@ifdc.org
Arnoldus MAATMAN	IFDC	amaatman@ifdc.org
Marjatta EILITTA	IFDC	meilitta@ifdc.org

16. Useful web link:

www.ifdc.org

www.aissa.org

17. Key documents: (Name of the document + Link or Contact or Co ordinates)