

WHEN MICROFINANCE GETS INVOLVED WITH SMEs

Experience with cooperatives
of producers



THE IMPORTANCE OF THE SME SECTOR

The raison d'être of microfinance is to provide access to financial services to those who are excluded from the usual sources. Rapid progress has been made, particularly with very small enterprises in urban areas.

But it has to be said that there is still a lot to be done: small and medium-sized enterprises (SMEs) are missing out. 90% of privately-owned companies in Africa are SMEs, but only 10% have access to any funding¹, making it difficult for them to grow: banks often decline to lend to SMEs because they think it will be too risky.

For the microfinance institutions the challenge is to ensure they have the appropriate:

- | Risk analysis capability (analysis of balance sheets, debt ratios, etc)
- | Business model (product range, guarantees required)
- | Client support
- | Financial capacity (amounts and duration).



Data from the World Bank reveals a global SME funding gap of **\$2.6 billion**, concentrated in Africa and Asia.

¹ Source : portail microfinance : financer efficacement les PME en Afrique : une vision du terrain – Gouillat, E., November 2017.

GLOBAL SME FUNDING GAP

OTHER TYPES OF
COMPANY

IN AFRICA

90%
OF COMPANIES ARE SMES



10%
HAVE ACCESS
TO ANY FUNDING

RURAL COOPERATIVES OF PRODUCERS AND THEIR SPECIAL VALUES

At a workshop held in Addis Ababa during African Microfinance Week in October 2017, SOS Faim highlighted the fact that rural cooperatives of producers are a very special type of SME, with values that merit attention.



This is, of course, an “ideal” set of values. They are not all present in every cooperative; rather they represent a goal to aim for.



THE SEVEN VALUES OF A COOPERATIVE

DEMOCRACY

MANAGERS ARE MEMBERS WHO HAVE BEEN DEMOCRATICALLY ELECTED BY THE OTHER MEMBERS. ALL MEMBERS HAVE A VOTE, WITH NO EXCEPTIONS: ONE MEMBER, ONE VOTE.

SOLIDARITY

THE COOPERATIVE AND ITS MEMBERS SUPPORT ONE ANOTHER AND THE COMMUNITY.

RESPONSIBILITY

ALL THE MEMBERS HAVE A SHARED RESPONSIBILITY FOR THE COOPERATIVE, IRRESPECTIVE OF THEIR ROLE.

CONTINUITY

A COOPERATIVE SERVES THE INTERESTS OF ITS MEMBERS, WHETHER CURRENT OR FUTURE.

TRANSPARENCY

A COOPERATIVE IS TRANSPARENT IN ITS DEALINGS WITH ITS MEMBERS AND WITH THE COMMUNITY.

PROXIMITY

A COOPERATIVE IS ROOTED IN ITS LOCAL AREA AND SUPPORTS REGIONAL DEVELOPMENT.

SERVICE

A COOPERATIVE OFFERS PRODUCTS AND SERVICES WHICH ARE DESIGNED TO MEET THE ECONOMIC AND SOCIAL NEEDS OF ALL OF ITS MEMBERS.

A STRONG REVIVAL

The cooperative sector has been through some bad times, suffering from state intervention in the 70s and 80s.

The 90s saw the start of a revival linked to growth in the social economy, but the picture is still far from perfect. There is still some poor governance, weak management and inadequate funding – much as there is with other SMEs.

A rural cooperative of producers has quite specific financial requirements, both for its members and for its corporate activities (working capital, commercialisation funds, finance for the construction of shared infrastructure and facilities).

One way of meeting these needs is to work closely with existing financial institutions. This can be beneficial for both parties, as can be seen from the **three initiatives** we describe below, in **Mali, Senegal and Ethiopia.**

Each case study has its own characteristics. The Mali experience is presented from the point of view of the cooperative of producers; in Senegal the cooperatives teamed up with the financial institutions at the outset; in Ethiopia it was the financial institution which chose the cooperative route.



MALI, FASO JIGI – SPOILT FOR CHOICE?

FASO JIGI is a union of cooperatives in the Ségou region of Mali. It has just celebrated its twentieth birthday. It produces cowpea, rice, dry cereals (millet, sorghum and maize) and shallots.

The union's objective is to ensure that it gets a fair price for what it produces, and thus to ensure that its members benefit from a reliable source of income.

What is special about FASO JIGI is that it has set up commercial relationships with three different financial institutions, with different characteristics in terms of their geography and of the rates and services that they offer, thus creating a form of competition between them.

FASO JIGI IN ACTION



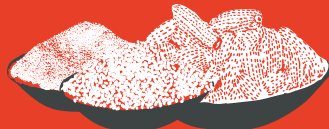
241 MEMBERS



COWPEA



337 MEMBERS



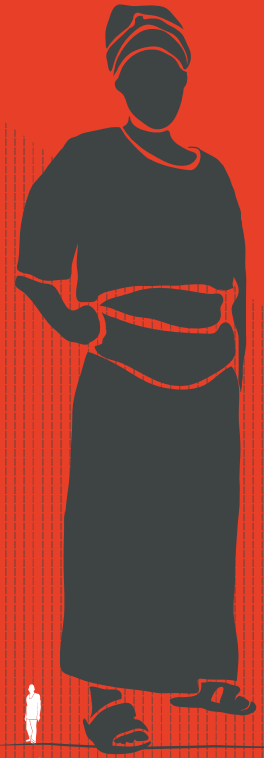
DRY CEREALS



1103 MEMBERS



RICE

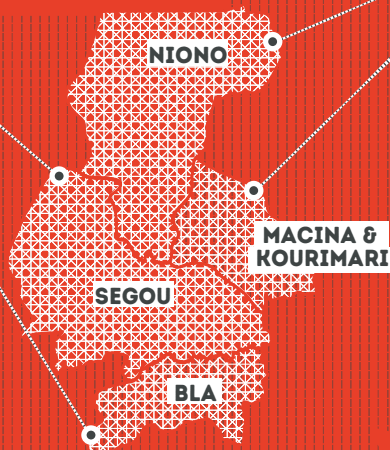


110 1465

1 575 MEMBERS



SHALLOTS



THE RELATIONSHIPS COMPARED



NIESIGISO

INTEREST RATE **12%**
for production loans

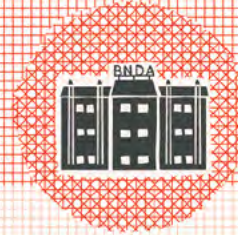
GUARANTEE FUND DEPOSITS **20%**

DEED (NOTARISED) **NO**

INSURANCE **NO**

GEOGRAPHY **LOCAL**

TERM DEPOSITS **NO**



BANQUE NATIONALE DE DÉVELOPPEMENT AGRICOLE (BNDA)

INTEREST RATE **8%**
for production &
commercialisation loans

GUARANTEE FUND DEPOSITS **20%**

DEED (NOTARISED) **NO**

INSURANCE **NO**

GEOGRAPHY **CENTRALISED**

TERM DEPOSITS **YES - 4%**



THE PARTNERSHIP WITH
NIESIGISO HAS GENERATED
1 BILLION CFA FRANCS
(1.524.490 €)
FOR THE PRODUCTION OF
SHALLOTS.



IN THE 20 YEARS
OF ITS EXISTENCE, BNDA HAS LENT
15 BILLION CFA FRANCS
(22.867.352 €)
FOR THE PURCHASE OF SEED AND FER-
TILISER, WHICH HAS RESULTED IN THE
PRODUCTION OF
71,000 TONNES
OF CEREALS.



KAFO JIGINEW (KJ)

INTEREST RATE 12 to 15%
for equipment loans

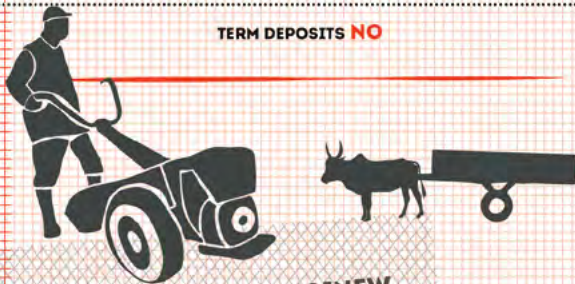
GUARANTEE FUND DEPOSITS 30%

DEED (NOTARISED) YES

INSURANCE YES

GEOGRAPHY LOCAL

TERM DEPOSITS NO



THE RELATIONSHIP WITH KAFO JIGINEW
HAS FOCUSED ON EQUIPMENT USED IN
PRODUCTION AND POST-HARVEST.

400 MILLION CFA FRANCS

(609.796 €)

HAVE BEEN MADE AVAILABLE
FOR THE PURCHASE

**OF 400 PAIRS OF OXEN AND
PLOUGHS, 86 ROTAVATORS,**

**18 MILLET AND SORGHUM
HARVESTERS.**

60 RICE HARVESTERS AND

30 MACHINES FOR SHELL RICE.



➤ **INTEREST RATE** 12% in irrigated areas and 15% in rainfed areas

➤ **GUARANTEE FUND DEPOSITS** In the case of KJ, 20% by the beneficiaries and 10% by the Union

➤ **DEED (NOTARISED)**
1 to 2.5% of the value of the loan

➤ **INSURANCE** 1 to 2.5% of the value of the loan

➤ **TERM DEPOSITS** BNDA loans are distributed by rural finance institutions

The terms offered by Kafo Jiginew are the most stringent, but they apply to investment loans, considered a priori to be higher risk.

Each
of the financial
institutions
has made
large loans.



SENEGAL, MUTUALIST FINANCIAL UNION OF LOUGA (UFM)

An institutional framework enabling cooperatives of producers and financial institutions to cooperate from the outset...

The UFM (Mutualist Financial Union of Louga), a community savings and credit mutual, was founded in 2008. It is unusual in that it brings together 10 financial institutions and 22 cooperatives of producers: a good basis for strategic discussion of rural financing.

It has more than 15,000 members and a credit portfolio of more than €1,500,000

This synergy has the following benefits:

For the cooperatives	For the financial institutions
Fulfilment of the economic potential of the agriculture practised by the cooperatives and their members	Improved performance by virtue of a stable relationship with the cooperatives
Financial inclusion for rural populations with local development projects – often using migrants' savings	Development of new market niches
	Diversification and management of risk

TWO EXAMPLES IN PRACTICE

| Microfinance for young people (the valley of the River Senegal)

This project was set up in response to representations made by cooperatives of producers on behalf of their individual members. Loans of €1,000 repayable over five years have been made to 740 young people to cover investment and related running costs.

| Financing the FAPAL cooperative (Groundnut Basin)

This initiative is a response to the collective need for investment funds (a workshop for the production of agricultural equipment) and for the

working capital required in the cultivation of millet, cowpea and groundnut (commercialisation).

The UFM is supporting digitalisation across the different value chains by getting involved in the development of a platform which brings together the various players, including cooperatives (market information system), and of a system of digital finance to reduce the cost of operational transactions.

It is also a prominent advocate of modifying the regulatory environment to make it more favourable to agricultural investment eg through the introduction of a warehouse receipts system, to give a very concrete example.

MICROFINANCE FOR YOUNG PEOPLE (THE VALLEY OF THE RIVER SENEGAL)



RICE
(MEMBERS OF THE UGIED COOPERATIVE)
510 YOUNG PEOPLE
200 HECTARES



FRUIT & VEGETABLES
230 YOUNG PEOPLE
150 HECTARES

INDIVIDUAL LOAN VALUE
€1,000

Saint-Louis ●
Mpal ●
Louga ●
Kébémèr ●

UP AND RUNNING IN SENEGAL

FINANCING THE FAPAL COOPERATIVE



MEETING COLLECTIVE NEEDS IN
35 VILLAGES



COMMERCIALISATION
LOANS OF
€45,000 PER YEAR
FOR EACH FARMERS ORGANIZATION

MORE THAN
5,000 PRODUCERS



3 ETHIOPIA, WASASA MICROFINANCE

INSTITUTION (MFI)

Working with independent cooperatives...

Wasasa MFI was set up in September 2000 by the Oromo Self-Reliance Association (Osra), a local development support NGO.

It is now one of Ethiopia's leading private micro-finance institutions, with more than 70,000 borrowers and more than 140,000 active savers.

At the start of 2018 savings totalled €4,853,711 and loans €11,780,482. To meet the demand for loans Wasasa is currently obliged to borrow on the Ethiopian finance market.

75% of its business is in rural areas.

The cooperative movement in Ethiopia has strong support from the government, for savings and loans, and in the main fields of agriculture (cultivation of coffee and sugar cane, apiculture, seed multiplication, livestock and fish farming, etc).

There are currently more than 78,000 cooperatives in Ethiopia. Somewhat perversely, govern-

ment support is so strong that the management and membership of the cooperatives feel under an obligation to make use of it. 93% believe that it is essential to work with the government, but only 37% feel that the support they get has any real value.

The frame of mind which prevails in this situation leads to high expectations, a lack of ownership and weak governance; behind a successful cooperative often stands a local NGO.

Wasasa has developed a product aimed at this cooperative market, and at "independent" cooperatives in particular – thus fulfilling its mission whilst reducing costs and limiting risk.

The cooperatives benefit from access to finance, enabling them to offer more services to their members, whilst making credit applications also helps them to manage better.

A CONCRETE EXAMPLE OF SUCCESS

Wasasa has been supporting a seed multiplication cooperative with 82 members. Backed at the outset by a development support NGO, the cooperative has continued to function effectively since the NGO withdrew.

The leadership is strong. Each member devotes half a hectare to seed multiplication. 95% of the output is sold to the cooperative, which has a warehouse, processing machinery and a tractor.

A first loan to the cooperative for the purchase of seed, of 300,000 Birrs (€8,965), at a rate of 15% flat, has been repaid without difficulty.

Wasasa's willingness to offer services to this type of cooperative means that it has to employ specialists in agricultural finance and to have access to medium- and long-term sources of finance in order to make investment loans which meet the cooperatives' requirements.

AN EXAMPLE OF A COOPERATIVE FOR THE PURCHASE OF SEEDS



CONCLUSION

Each of these case studies is a “win-win” for the parties involved.

Working with cooperatives enables a finance institution to pursue the fulfilment of its mission whilst making economies of scale, developing sustainable relationships, expanding its client base, and reducing risk through diversification.

A relationship with a finance institution gives a cooperative access to a local source of finance, enabling it to offer more and better services to its members, which means they can get more involved. Moreover, this exposure to the world of finance (and the need to make loan applications) results in better management and helps ensure that the economic potential of the activities of the cooperative and its members is exploited.

It is essential that relations between cooperatives and finance institutions should continue to grow stronger, as they both have an important part to play in the economic development of family farming. Communication, cooperation and mutual comprehension are key to the success of this collaboration.

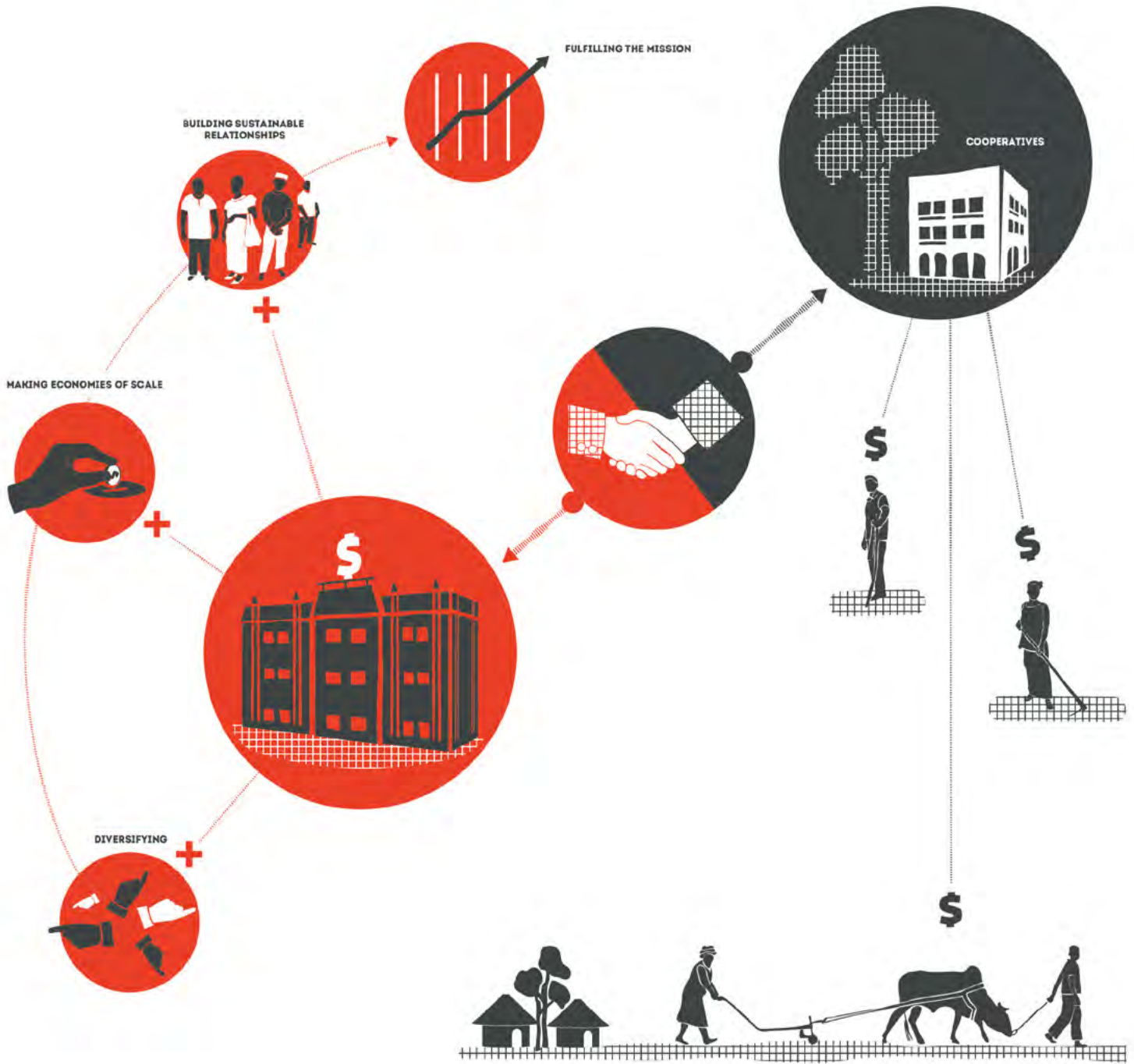


To further level the playing field it is also important that a big effort should be made to educate cooperatives of producers in financial matters.

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“WIN-WIN” PARTNERSHIPS



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Graphic design
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Zoom Microfinance
is printed on recycled
paper

Zoom Microfinance is published with funding from the Belgian Directorate General for International Cooperation. The authors alone are responsible for the opinions expressed in this publication.

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