FINANCING THE WORKING CAPITAL OF AGRICULTURAL ENTERPRISES:
RCPB EXPERIENCE

March 27 – 30, 2012 KAMPALA/UGANDA
1- Background
2- Agricultural enterprises in Burkina Faso
3- Financing requirements of enterprises
4- Constraints to financing for enterprises
5- RCPB financing strategy
6- A few figures
a- Burkina Faso?

- Located in West Africa, measures 274,000 km²
- Population of 14,077,262 / 38.61% working
- Agricultural sector employs more than 81.20% of the working population
- Main agricultural subsectors: cotton, maize, rice, fruits and vegetables, sesame, soybeans, cashew nuts, shea butter
- Adoption of development programs, government economic development policy frameworks:
  - Organization of agricultural sector (creation of Unions/Federations of local organizations by subsector)
  - Professionalization (trade organization approach)
  - Subsector approach / value chains
1- BACKGROUND (2/3)

b- RCPB: Network of financial cooperatives in Burkina Faso

- Date of creation of the first cooperative enterprise: 1972
- A two-tiered network: cooperatives, umbrella
- 39 local enterprises + 131 agencies, ¾ of them in rural areas
- Presence in 44/45 provinces of Burkina Faso
- Number of members: 852,149 - and more than 1.8 million beneficiaries
- **CFAF 84 billion** (USD 168,000,000) in savings mobilized at the local level
- **CFAF 66 billion** (USD 132,000,000) of credit provided/22% focused on agricultural sector
- Specialized structures (mutual guarantee company, financial center for entrepreneurs)
c- Area of intervention

BURKINA

- CFE/CFA de Bobo-Dioulasso
- CFE/CFA de Ouahigouya
- CFE/CFA de Koupéla
- CFE/CFA de Ouagadougou
2-AGRICULTURAL ENTERPRISES IN BURKINA FASO (1/3)

α- Types of agricultural enterprise

- Individual: physical person who has achieved a certain level of development (equipped, diversified)
- Agricultural trade organizations (OPAs): producer organizations at the local, regional, and national levels
- Agrobusiness stakeholders: physical persons promoted at government instigation (individuals from privileged backgrounds, civil servants, or private sector workers)
b- Characteristics of agricultural enterprises (1/2)

- Characteristic features
  - Legal status
  - Vision and objectives
  - Management team for rational decision making
  - More than 50% of output market-bound
  - Minimum level of equipment and technological inputs (improved seeds, chemical fertilizers, etc.)
  - Has an operating account
b- Characteristics of agricultural enterprises (2/2)

- Areas of intervention
  - Physical persons (778 agricultural enterprises): supplying inputs, collecting grain surpluses, processing, and marketing
  - Local farmer organizations (more than 50,000 organizations): defending their members’ interests in regard to the production, purchase (grouped), and sale of products (collective marketing) + providing services to members
c- Importance of agricultural enterprises

- Dominant position in the challenges of food security
- Advocacy role for creating an environment and policies favorable to smallholders and family farms
- Participation in the formulation of development policies and strategies
3- WORKING CAPITAL FINANCING REQUIREMENTS

Needs of producers

- Input suppliers
- Production
- Social needs
  - Education
  - Health
  - Pre-harvest gap
- Housing
- Equipment purchase
- Storage
- Processing and marketing

« Solidaires pour un mieux-être! »
4- CONSTRAINTS TO FINANCING FOR AGRICULTURAL ENTERPRISES

Within AE's
- Cyclical or seasonal nature
- Substantial price volatility
- Sector often poorly organized
- Weaknesses/quality of guarantees
- Market access
- Irregular financial flows, other income sources needed
- Selling off products
- Variable income, high risk of financial incapacity
- Weak group formation
- Infrastructure (quantity and quality)
- Inaccessibility, weak negotiating capacity

Limited knowledge of sector
- Complex sector/ Low level of training/
  Ignorance of the environment
  Necessity of partnership
- Limited stable financial resources
- Inaccessibility, weak negotiating capacity

Limited equipment financing

Within MFIs
- Complex sector/ Low level of training/
  Ignorance of the environment
  Necessity of partnership
- Limited stable financial resources
- Inaccessibility, weak negotiating capacity

Limited equipment financing
### 5- FINANCING STRATEGIES (1/8)

#### a- Types of credit

<table>
<thead>
<tr>
<th>Types of credit</th>
<th>Credit nature</th>
<th>Credit purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working</td>
<td>• Production</td>
<td>• Inputs (fertilizers, pesticides, seeds) MO etc.</td>
</tr>
<tr>
<td>capital</td>
<td>• Processing and marketing</td>
<td>• To purchase goods</td>
</tr>
<tr>
<td></td>
<td>• Fattening credit</td>
<td>• Cattle, sheep, swine fattening</td>
</tr>
<tr>
<td></td>
<td>Market prefinancing</td>
<td>Guarantees and credit/supply contracts</td>
</tr>
</tbody>
</table>
5- FINANCING STRATEGIES (2/8)

b- Guarantees

- Material guarantees
- Financial guarantees
- Credit provision scheme (life insurance)
- Joint and several guarantee
- Warrant
c- Method of financing (1/3)

Direct financing for producers

Example: Mango processor
- Member: individual producer
- Working capital requirements: USD 60,000
- Term: 10-month season
- 7-month grace period
- Frequency: 3 repayments max
- Guarantee: Mortgage + purchase contract + equipment

Borrower in a direct relationship with the bank
5- FINANCING STRATEGIES (5/8)

c- Method of financing (2/3)

Financing through a Producer Organization (PO)

Example: UGPA
- Members: 1,000+ producers
- Area: grains
- Working capital requirements: USD 1,000,000
- Term: 10-month season
- Frequency: based on sales
- Released gradually
- Guarantee: Joint and several guarantee + purchase contract + guarantee fund
- System of grouped sales
- Bankarization prospects

Individual producers

PO

BANK

Borrower connected to the bank through a producer organization
5- FINANCING STRATEGIES (6/8)

c- Method of financing (3/3)

Program financing

Example: FC
- Members: 50,000+
- Area: cotton and grain inputs
- PO: 10-30 producers
- UNPCB: National and subregional position
- SOFITEX: purchaser
- Working capital requirements: USD 6,000,000
- Term: 10-month season
- Frequency: based on sales
- Released gradually
- Guarantee: Joint and several guarantee + purchase contract
- Mechanisms
  - Credit committee: UNPCB-SOFITEX-FCPB
  - Facilitate credit distribution and reduce distribution costs, provide technical and business advice
  - Concerted follow-up (to professionalize the sector)
  - Training provided
  - Integrated development approach
  - System of grouped sales
- Bankarization prospects

In agreement with partners (to facilitate the distribution of financial services)
5- FINANCING STRATEGIES (7/8)

d- Internal provisions

- Contingency fund
- Portfolio diversification strategy (amount, sector of activity, subsector)
- Development of partnerships
d- Development model

TABLE D’ÉQUILIBRE DU DÉVELOPPEMENT DU SECTEUR AGRICOLE

COMMERCIALISATION

TECHNICITÉ

FINANCEMENT

PROTECTION PATRIMOINE

ACCÈS SÉCURISÉ SOL - EAU
## A Few Figures, December 31, 2011

### Financed Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>Amount (USD)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural production</td>
<td>4,568,544</td>
<td>15.77%</td>
</tr>
<tr>
<td>Stockraising and fattening</td>
<td>8,327,161</td>
<td>28.74%</td>
</tr>
<tr>
<td>Fruit and vegetable trade</td>
<td>902,920</td>
<td>3.12%</td>
</tr>
<tr>
<td>Grain storage and marketing</td>
<td>7,180,061</td>
<td>24.78%</td>
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<tr>
<td>Processing of agricultural products</td>
<td>1,204,986</td>
<td>4.16%</td>
</tr>
<tr>
<td>Investment (agricultural equipment, automotive equipment, improved</td>
<td>963,645</td>
<td>3.33%</td>
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<tr>
<td>operations, renewed plantations)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural market prefinancing</td>
<td>54,217</td>
<td>0.19%</td>
</tr>
<tr>
<td>Cotton industry contribution</td>
<td>5,772,486</td>
<td>19.92%</td>
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<tr>
<td>Total outstanding agricultural credit</td>
<td>28,974,019</td>
<td>100.0%</td>
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<tr>
<td>Total outstanding RCPB credit</td>
<td>132,530,000</td>
<td>22.00%</td>
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<tr>
<td>% agricultural credit</td>
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</table>
CONCLUSION

- Agricultural financing leads to:
  - Delivery of financial products in rural areas
  - Support for rural populations from professionals
  - Achievement of social mission

- Agricultural financing entails risks:
  - Risky sector (contingencies, unsuitable guarantees, unconfirmed expertise, level of organization, etc.)

- Efforts to make necessary adjustments:
  - Develop human resource capacities (sector knowledge, adaptation of repayment methods and products)
  - Develop quality agricultural credit – work time, contact/information networking (validation of product quality, pricing), necessity of working with producer organizations (good knowledge of the area and lower service delivery costs)
THANK YOU FOR YOUR KIND ATTENTION