



Lessons learnt

Financing agricultural value chains

Results and lessons learnt from the experience of the microfinance institution FUCEC in Togo

With the support of ADA, the Faïtière des Unités Coopératives d'Épargne et de Crédit du Togo (FUCEC) has successfully developed its approach to financing agricultural value chains, notably by setting up financing facilities aimed at meeting producers' and aggregators' working capital needs, integrating a non-financial service offer for smallholders and producer groups and putting in place a tripartite contract mechanism. Thanks to this holistic approach, the institution is a major actor in agricultural finance and helps improve the living conditions of thousands of smallholder farmers in Togo.

Background

Agriculture is the main economic activity in Togo, with more than half of the population living in rural areas and directly dependent on this sector. However, the sector is characterised by a low level of financing: agricultural loans accounted for only 0.2% of total bank financing in 2019.¹ Despite the development of commercial agriculture in recent years focused on certain fast-growing sectors such as soya beans and cashew nuts, structured access to the market remains an issue. A significant part of agricultural production is intended for self-consumption and is characterised by low productivity.

In response to these issues, as part of a threefold economic, social and environmental impact mission the MFI FUCEC has developed financial products and services adapted to the needs of local farmers, their households and agri-food companies. This agricultural value chain financing approach was initiated with the support of GIZ in 2018 and strengthened by ADA until 2023.

Key project activities

- **Strengthening FUCEC's staffing capacity for agricultural finance and agricultural value chain financing** and supporting the recruitment of dedicated staff
- **Developing financial services specifically adapted to agricultural activities** (production, processing, storage, and marketing) and helping FUCEC to diversify its financial services offer based on identified needs (social loans for producers and working capital for aggregators)
- **Helping FUCEC improve the management of agricultural financing risks**, in particular by putting in place tripartite contracts between producers, buyers and the MFI and technical support for individual producers and producer groups
- **Organising multi-stakeholder workshops to facilitate dialogue within value chains** and better understand the various stakeholders' financial and non-financial needs

THEME

Agricultural and forestry value chains



OBJECTIVES

Strengthen the capacity of the MFI FUCEC in Togo to develop a range of financial and non-financial services to meet the needs of smallholder farmers and producer organisations while strengthening agricultural value chains to promote agricultural development and help reduce poverty.

PROJECT DURATION

2017 - 2023
(6 years)

AREA OF OPERATION

Togo

BUDGET

EUR 130,750

BENEFICIARY ORGANISATION

FUCEC

FUNDERS

Ministry of Foreign and European Affairs of Luxembourg, Food and Agriculture Organization of the United Nations

CONTRIBUTION TO THE SDGs

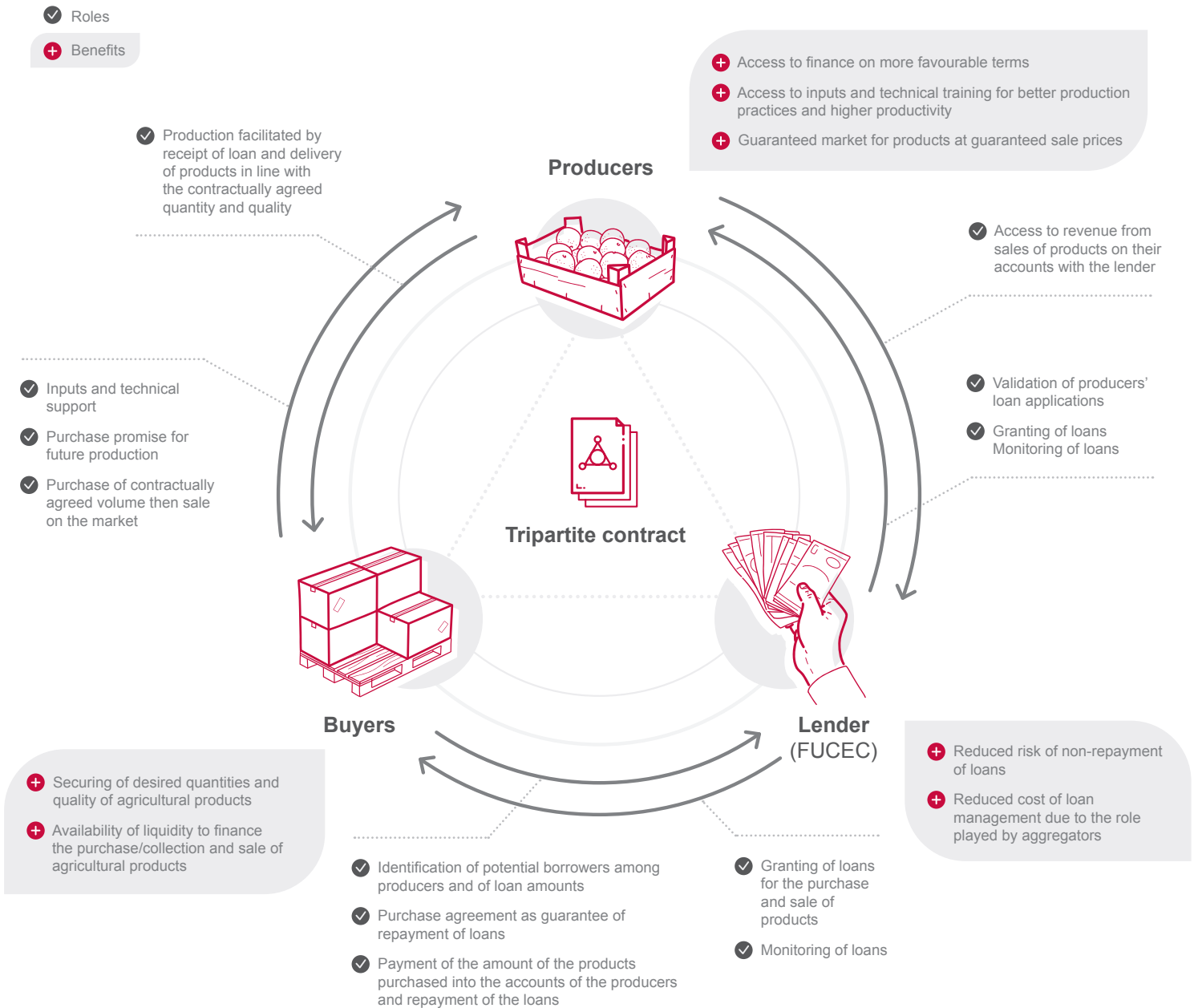


¹ Source : www.togofirst.com/en/finance/0710-4081-in-togo-agriculture-is-still-highly-under-financed-by-banks

Focus: How the tripartite contract mechanism works



The tripartite contract involves three stakeholders: a producer group, an aggregator that buys the group's products, and FUCEC as the lender. This contract clearly sets out each party's responsibilities and the associated specific benefits for each party.





Project results



18

loan officers
with an agronomic profile
recruited



18.7

billion XOF disbursed
in agri-loans in 2022 with a
PAR30 of 0.9%



39,829

customers
obtained agricultural loans
in 2022



50

**producer
organisations**
strengthened



75

partner aggregators
for financing agricultural
value chains



2,828

tripartite contracts signed
in 2022



8,010

**producers provided with
technical support**
and access to the market
through tripartite contracts



4

multi-stakeholder workshops
organised to facilitate contact
and understanding between
agricultural value chain actors



Agricultural loans

• **20,346 agricultural loans** (individual or collective) disbursed in 2022 via 22 branches, for an amount of **XOF 18.7 billion**, benefiting **39,829 customers** (individuals or representatives of SMEs). These loans targeted the grain, legume, vegetable, and fruit chains. **More specifically:**

- **56 %** of the total amount was dedicated to production loans, intended to cover the expenses associated with soil preparation, input acquisition, workers' salaries, transport, harvesting and maintenance of agricultural and transport equipment.
- **23%** was allocated to storage loans, covering costs related to the purchase, packaging, storage, and sale of products.
- **20%** was spent on marketing loans, including expenses related to the collection, transport, and sale of end products.
- **1%** was allocated to processing loans, which cover expenses associated with packaging and food production.
- A new "pre-harvest loan" product was also introduced and tested at three branches in 2022. This caters for unexpected spending needs of producers and their households during the lean period preceding harvest and is designed to prevent immature and side selling.



Insourcing of agricultural skills

- At the beginning of the project, the MFI senior managers were trained in **agricultural finance and received coaching** for designing and implementing their financial product development action plan..
- Over the years, FUCEC has **strengthened its teams by recruiting loan officers with an agricultural profile** (at least 2 years of tertiary education in agronomy). By 2022, it had **18 agri-loan officers** recruited to strengthen the MFI's in-house agricultural finance capabilities. The loan officers are also responsible for non-financial service offerings.



Afrikel Excel, a company specialising in the production and processing of organic fruit in Adangbé, and a partner of FUCEC with a tripartite contract.



: Multi-stakeholder dialogue

- **4 multi-stakeholder workshops** were organised for the cocoa, soya, pineapple, and fresh vegetable value chains. These workshops served as meeting platforms for all stakeholders in the agricultural value chains supported by FUCEC and facilitated interaction between stakeholders, stimulated dialogue, and enabled FUCEC to identify needs, assess previous campaigns and define objectives for future campaigns. They also provided an opportunity to identify potential new buyers. These initiatives promoted networking between agricultural sector stakeholders (producers and aggregators) and FUCEC, and led to the signing of purchasing contracts between producer organisations and aggregators and tripartite contracts with FUCEC, notably through a better mutual understanding of the issues, needs and operating methods of each type of stakeholder. The workshops also opened up new financing opportunities for FUCEC through the identification of aggregators' needs for working capital. In this way, the MFI responds to the financial needs of various players in agricultural value chains and by so doing scales up its impact on smallholder farmers.



: Technical and management training

- **947 individuals trained in sustainable farming practices** through a partnership between FUCEC and the NGO Mission des Volontaires Contre la Pauvreté (MVCP). The related courses focused on good production techniques, organic farming and agroecological practices, with the aim of increasing both productivity and revenue. FUCEC noted a remarkable level of satisfaction among the participants who took these courses, as well as extensive application of what was taught. To ensure that these training courses stand the test of time, on the one hand, lead farmers of producer organisations were trained with a view to replicating the training received by other members, and on the other hand, skills were transferred to FUCEC's dedicated agricultural loan officers.
- **50 FUCEC member producer organisations (POs) trained** by MVCP to prepare them to provide services, negotiate and promote their members' interests. The training course covered social cohesion, administrative management, leadership, good governance, entrepreneurial management of a cooperative, financial education and contractual obligations. In total, 666 representatives of the POs concerned were trained. Organisational support was provided to 31 POs that do not yet have a formal structure. This assistance included the drafting of articles of association and internal regulations, awareness-raising on cooperative principles and support for organising the incorporation general meeting and preparing the registration file.



: Tripartite contracts

- **More than XOF 1.6 billion in loans** (representing 9% of all agricultural loans) disbursed via **2,828 tripartite contracts** signed with more than **75 aggregators and sub-aggregators** in the cocoa, soya, pineapple, and horticultural production chains in 2022 (compared with XOF 3 million via a single aggregator in 2018, the year the mechanism was set up), with **repayment rates nearing 100%**. These aggregators are agricultural SMEs that commit to the future purchase of products from smallholder farmers, thereby enabling the smallholders to access agricultural loans by having their future income secured and thus reducing the risk of defaulting on the loans. The growth in the number of aggregators recruited and the loan amounts disbursed through these contracts is a mark of this mechanism's success.



Nadia Ouriemchi, Project Manager, Luxembourg

« While the concept of the tripartite contract mechanism in agricultural finance is not new, FUCEC has met with resounding success in standardising this approach and expanding it at scale. Of the four microfinance institutions in West Africa that ADA supports in the agricultural finance project, FUCEC stands out for the number of smallholder farmers that it has assisted and financed and who have gained secure market access for their products. This was made possible by the implementation of an agricultural value chain financing approach based on building relationships of trust and win-win partnerships between the various stakeholders. »



Impact

Application of good agricultural practices by producers

According to the survey of individual producers carried out in 2021, the training provided by FUCEC were considered highly relevant, as they both provided attendees with new knowledge and enhanced their existing skills. The survey results revealed that virtually all producers who followed the training had fully or partially integrated the knowledge acquired into their practices.



PRODUCTION

Producers used the loans to buy more organic inputs such as fertilisers, seeds and weed killers, and to hire more employees. Significant improvements were also observed in various techniques, including parcel maintenance (weeding, fertiliser spreading and ridging), crop rotation, transplanting, fallowing, composting, and more targeted application of inputs.



STORAGE AND MARKETING

Producers optimised product handling by maintaining warehouses, investing in equipment such as pallets and introducing pest control measures. There was also a notable improvement in management and marketing, with better stock management, more efficient handling and packing, adoption of grouped sales, development of marketing strategies and active search for new markets.

Support for the development of value chains through the tripartite contract mechanism

More specifically, the tripartite contract mechanism combined with capacity building for producer groups generated positive impacts for all stakeholders:

Producer testimonials on the improvement of market access through FUCEC support



• **For FUCEC**, the involvement of aggregators in the customer selection and monitoring process – as well as their commitment to guarantee loan repayments – made it possible to simplify loan management while reducing default risk.



• **For aggregators**, access to agricultural products in the quantity and quality necessary for their processing and resale activities was secured. This success reflected the technical support provided to producers, producers' access to the inputs and financing needed for their production, and the fostering of loyalty to their groups and aggregators through these services. The groups increased their level of professionalism and strengthened their skills in management and contract performance. The guarantee of a stock of products also makes aggregators more inclined to apply for loans, from both FUCEC and other financial institutions. A concrete example is FUCEC's financing of the processing units and working capital of several aggregators operating as agricultural SMEs.



• **For producers**, this mechanism gives them access to the inputs, support and financing necessary for their production, as well as market access – enabling them to sell their products at guaranteed prices. This locking in of their future income through purchase contracts setting prices and quantities makes it easier for FUCEC to grant loans, thereby helping to increase the financial inclusion of producers and their households.



« We sell as a group to an organisation that buys from us at a decent price. We don't have to undersell our products anymore. »

« ... FUCEC often introduces new buyers to us. »





« The way we work now is based on the training we received, and we now make as much as two or three times more than before from the same plot. »



Growth and improvement of FUCEC's agricultural portfolio

Thanks to these concerted efforts, FUCEC has been able to significantly strengthen its relationships with its customers. Virtually all customers interviewed in the survey expressed satisfaction with FUCEC's services and said they were likely to recommend the institution to friends and family, while also voicing their intention to apply for another agricultural loan.

The MFI has thus successfully and even-handedly expanded its agricultural portfolio. At the end of 2022, this portfolio represented 18.6% of all its loans receivable, with a portfolio at risk (PAR30) of only 0.9%. Since 2020, the quality of the agricultural portfolio has exceeded that of the overall portfolio, thus demonstrating the effectiveness of the strategy adopted.

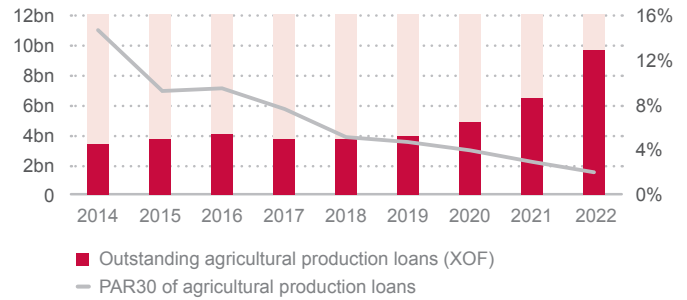
Improving producers' living conditions

Almost all FUCEC's customer producers saw their production or sales volume increase. A majority attributed this improvement partly or mostly to the loan and/or training they had received.

These positive results for the customers' activities contributed directly to improving living conditions for them and their households. The producers used this extra income in a variety of ways, the most common including investing in their children's education, paying for health care, buying food, upping investment in their business and putting money aside. This income therefore enabled them not only to meet their immediate needs, but also to build up capital for the future.

As regards indirect beneficiaries, who include the household members of direct beneficiaries as well as newly recruited workers, FUCEC's services generated benefits for ten times more indirect beneficiaries than direct beneficiaries.

Agricultural production loans



Note: FUCEC's agricultural portfolio consists mainly of loans for agricultural production, for which historical data have been available for several years.



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Lessons learnt

✔ The customer-centric approach is invariably the key ingredient for success in agricultural finance.

At the heart of this philosophy, FUCEC places customers at the centre of its initiatives by listening attentively and actively engaging them at every stage of the product development process. The MFI kicks this process off by undertaking an in-depth analysis of their contexts, challenges and needs to develop suitable products. These products are then subjected to a limited test phase for participatory evaluation, which includes the customers. The next part of this test phase involves analysing the results and identifying any areas for improvement, thus making it possible to adjust the products before their release. The test phase and the associated participatory evaluation process with the customers is crucial to identify products that meet their needs effectively.

The seasonal nature of agricultural production imposes a set of indispensable adjustments to financial products and services intended for this sector. These adjustments relate among others to eligibility criteria, grant periods, grace periods, loan amounts, loan costs, maturities, and repayment schedules. By way of illustration, most agricultural loans that FUCEC grants use the bullet loan model, meaning that the customers repay the capital once they receive the income from the sale of their products.

✔ Opting for a gradual release of funds depending on the activities being financed mitigates the risks associated with the loan.

Given the longer duration of investment cycles in agriculture compared to other sectors, releasing the funds gradually makes it possible to ensure that the loan is actually used for the agricultural activity in question.

✔ Insourcing agricultural skills within financial institutions is key.

In the case of branches with a large portfolio of agricultural loans, FUCEC's strategy is to strengthen their workforce with loan officers trained in agronomy. According to the MFI, training agronomists well versed in farming sector subtleties in finance is easier than training finance professionals in agriculture. These loan officers are also in charge of providing training and technical monitoring of producers, with a view to insourcing non-financial services. This strategy's viability will need to be assessed over the medium term.

✔ Combining financial and non-financial services creates more impact.

The survey of FUCEC's customers clearly showed that those who received training changed their practices to a greater degree than their peers, thus highlighting the crucial importance of non-financial services. In particular, training recipients became more aware of the role that credit can play in improving their practices and boosting business performance.

For the producer groups, professionalisation is also essential, particularly in management practices, to ensure compliance with contracts and the success of the tripartite contract mechanism.

FUCEC supplements the training provided by the aggregators, as the courses that they offer to producers focus mainly on technical procedures aimed at obtaining the level of product quality required in their respective markets. For example, a processor in an organic sector will train producers to comply with the principles of organic farming. In collaboration with its partner MVCP, FUCEC aims to go to the next level and add value to the support provided by aggregators. Its capacity building extends to the structuring of producer organisations, financial education, agroecological practices and product marketing. It is also committed to strengthening producer organisations that are not directly targeted by aggregators.

✔ The tripartite contract mechanism makes it possible to meet a range of small producers' needs simultaneously and facilitates the development of virtuous value chains.

It provides producers with access to the market and to credit, but also to training and inputs. It also ensures sufficient quantities and quality of products for processors, buyers, and sellers of agricultural products.

However, it can only be implemented in value chains that are already structured, with pre-existing markets, buyers and producer groups.



Jean Yao Assogba,
Head of FUCEC's
Agricultural Sector
Support Department

« The secret of our success is adapting the service to our customers' needs – and monitoring. Financial institutions invariably tend to view farming as a high-risk sector. But we have found that in nearly 80 to 90% of cases, the main cause of default lies in an adaptability issue – i.e., analysing and responding to demand. So that's what we work on – adapting our products to our customers' needs. »



✓ Carefully choosing the aggregators to be included in tripartite contracts is crucial.

To ensure the tripartite contract mechanism works as well as possible, it is essential to conduct an in-depth assessment of the aggregators' financial solvency and moral stature before any contract is signed. FUCEC had some past experiences with aggregators that did not fully comply with the terms of the purchase contracts that bound them. Some requested additional repayment periods due to liquidity constraints, for example. In addition, the COVID-19 pandemic led some of them to take on excessive debt and, in certain cases, even forced them to leave the country. In other cases, conflicts of responsibility emerged between aggregators and producers.

It is, therefore, imperative to ensure that aggregators rigorously fulfil the responsibilities assigned to them in the contract. This includes checking the authenticity of producers' financial needs before submitting loan applications to the lender. In addition, it is crucial that aggregators implement producer loyalty strategies to prevent side selling of products to other buyers.

✓ Using regular exchange to promote mutual understanding between value chain actors and lenders is instrumental to the success of tripartite contract mechanism.

FUCEC regularly organises multi-stakeholder workshops, including annual meetings that bring together all agricultural sector players, whether producers or aggregators. The underlying objective is to assess the past year and identify the related successes but also requirements on which the MFI fell short, as well as what else is expected of FUCEC. These exchanges make it possible to establish a climate of trust between the various stakeholders, to better understand each one's perspectives and needs, and to identify the relevant actions and services to be implemented. Furthermore, these special gatherings provide FUCEC with the opportunity to forge links with new aggregators (whether they already do business with producers or not) and to convert them into new partners in tripartite contracts or even into new customers.

Outlook



Building on these promising results, FUCEC is committed to a continuous improvement process and expansion of its approach to financing agricultural value chains. The MFI also aims to develop solutions to address other issues facing Togolese farmers, such as climate change and gender inequality. With this in mind, the implementation of agricultural

insurance services, the design of targeted products for women and the use of digitisation to increase service efficiency are already under consideration at the MFI. ADA will support these initiatives to develop the agricultural value chain financing approach by helping to promote sustainable and climate-resilient agricultural practices.

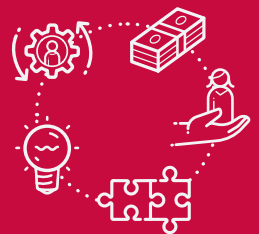
ADA, expert in inclusive finance, driver of partnerships and innovation

ADA (Appui au Développement Autonome – “support for autonomous development”) is a Luxembourgish non-governmental organisation that has been increasing the autonomy of vulnerable people in Africa, Central America and South-East Asia with inclusive finance since 1994, thereby contributing to achieving the Sustainable Development Goals.

ADA leverages its resources and expertise to innovate, support local partners, implement technical support programmes, give investment advice and manage knowledge to positively and sustainably impact targeted populations.

ADA's activities focus on three main topics: youth entrepreneurship, agricultural and forestry value chains as well as access to basic services. These activities take into account three transversal priorities: climate change, gender and the use of digital technologies.

www.ada-microfinance.org/en



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