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Jean-Michel Voisard
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MPEP Seminar #17

One Country, Two Models: Adjusting Financial Services to Fit Smallholder Input Supply Systems





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Jean-Michel Voisard

IRG/Engility

Jean-Michel Voisard is the chief of party of the U.S. Agency for International Development (USAID)/Senegal Economic Growth Project, a Feed the Future initiative implemented by International Resources Group (IRG)/Engility, which aims to boost the participation of small farmers in the country's rice, maize, and millet value chains. Over the past 20 years, Voisard has played a key role in the design and implementation of value chain initiatives for the World Bank and USAID across West Africa. The industry and business-to-farmer interventions he manages link the private sector with grassroots rural organizations to boost agronomic productivity, introduce high-value products and technical innovations, streamline logistics and traceability systems, implement quality management and certification, scale-up small business financing, and promote trade.



FEED^{THE}FUTURE

The U.S. Government's Global Hunger and Food Security Initiative



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***One Country, Two
Models:
Adjusting Financial
Services
to Fit Smallholder
Input Supply
Systems***

***SENEGAL
Projet Croissance
Economique***

Presented by
Jean-Michel Voisard, IRG/ENGILITY
December 16, 2014



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FTF Senegal: Inclusive transformation of cereal value chains





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**Linking farmers to
markets**

**VALUE CHAIN NETWORK
"FRANCHISES"**

Productivity training

Quality control

Consolidation & Data

SEED SYSTEM

Multiplication

Certification

Processing

**FINANCIAL
SERVICES**

VC Finance

Crop Insurance

Leasing

CONTRACT MANAGEMENT SKILLS

**POLICY, REGULATIONS,
& STATISTICS**



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What are the issues for a small farmer?

ACCESS

Retail outlets/
Collective orders/
Subsidy eligibility

Quality inputs
available on site
and on time ...
year after year.

TIMING

Rain season start
date/ Point of
delivery

To **convince banks**
to support their
expansion.

GROWTH

Year-on-year
sustainability/
Adequate volume

Risk management
tools against crop
and market failure.

RISK

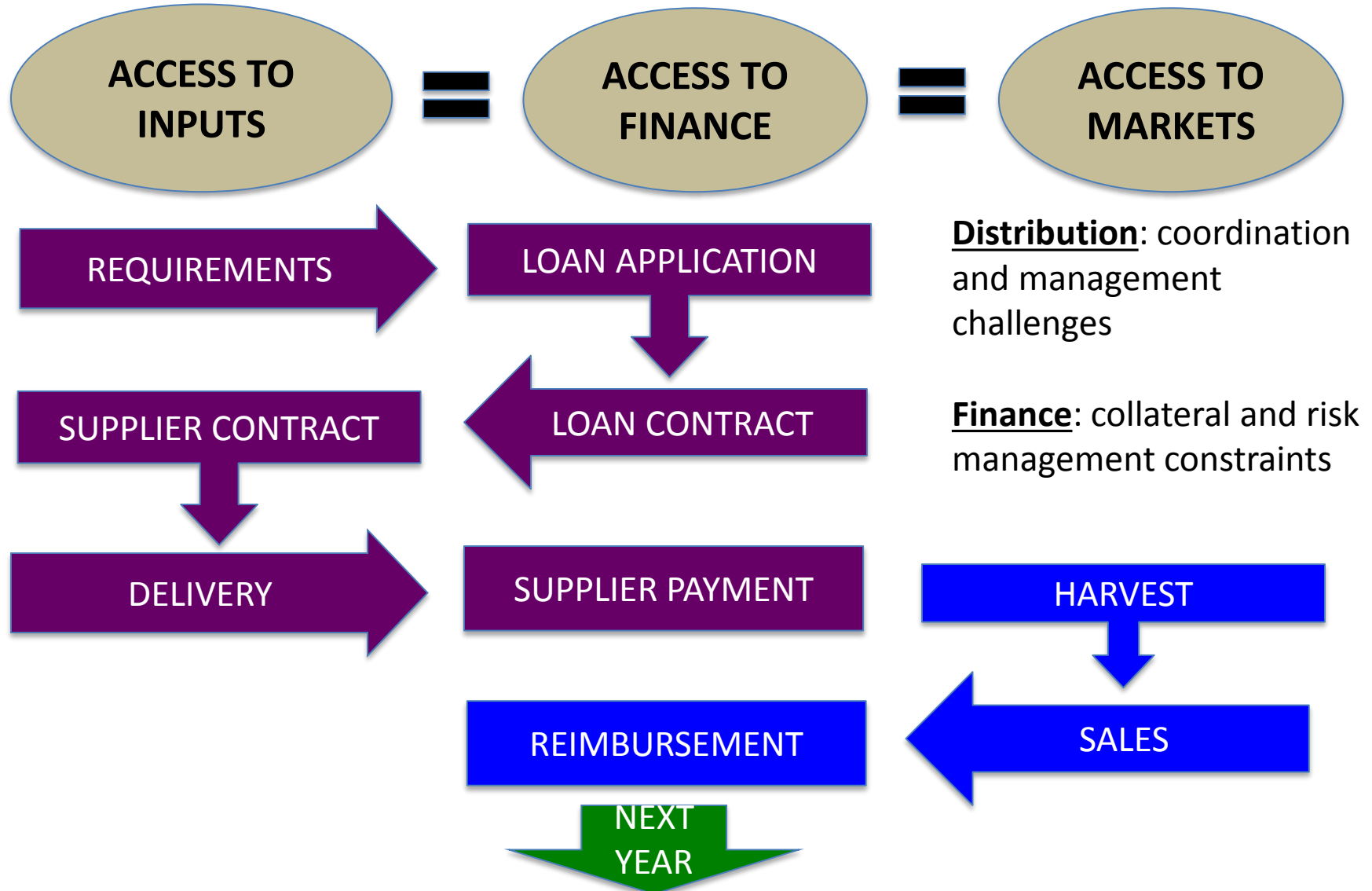
Quality & Yield/
Rainfall & Climate/
Pests/ Sales



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The role of finance



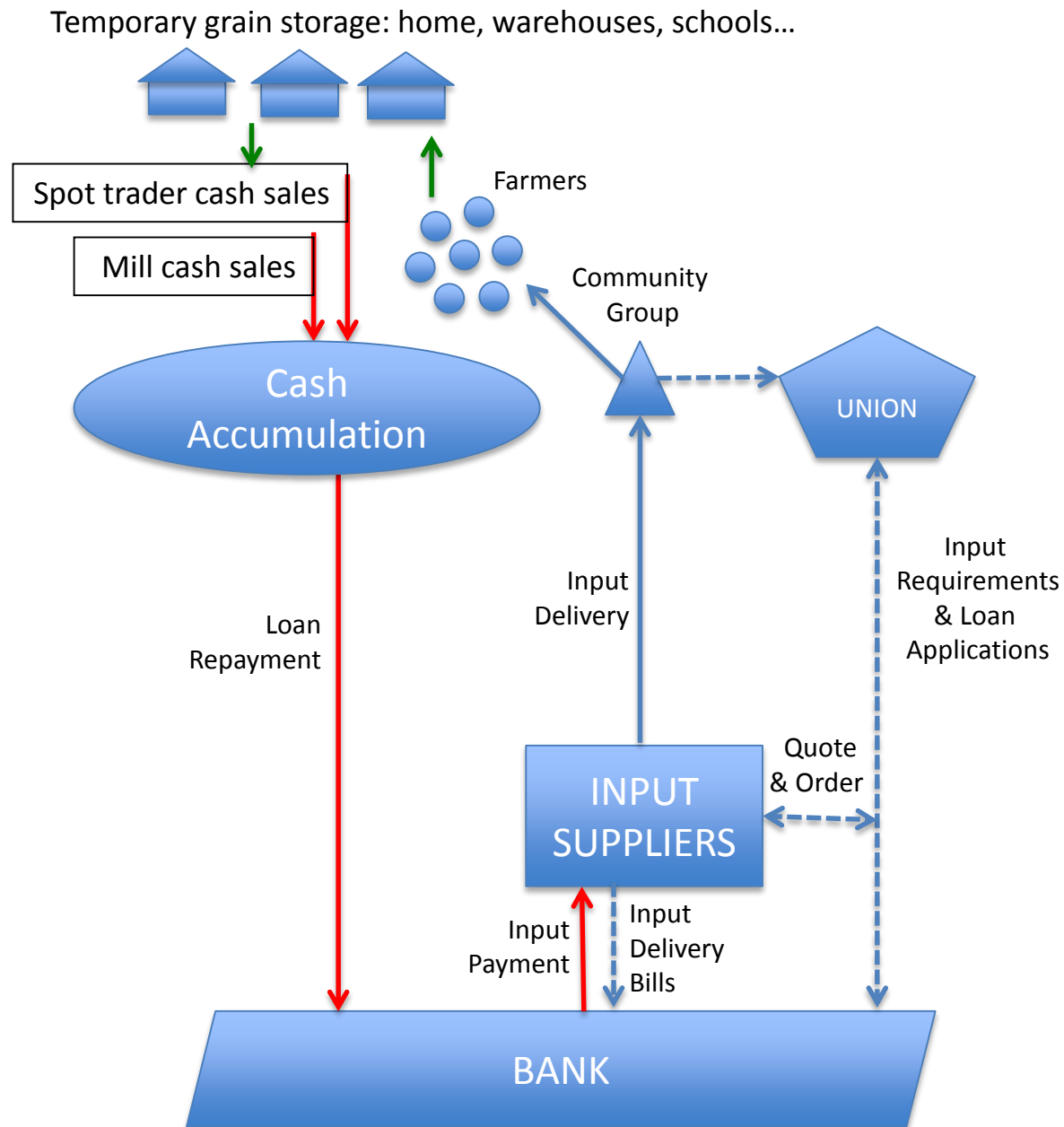
CASE 1: Irrigated rice in the Senegal River Valley

INITIAL MODEL:

- Bank-driven system
- Imposes certified seed and approved suppliers
- State extension loan concurrence
- Farmers sell on the open market and reimburse in cash on a lump sum basis

Results:

- High price volatility at harvest
- Slow loan turnaround: only one crop per year
- Low quality of output
- Uncompetitive mills
- 75% repayment rate
- Defaulting farmers left out indefinitely



CASE 1: Irrigated rice in the Senegal River Valley

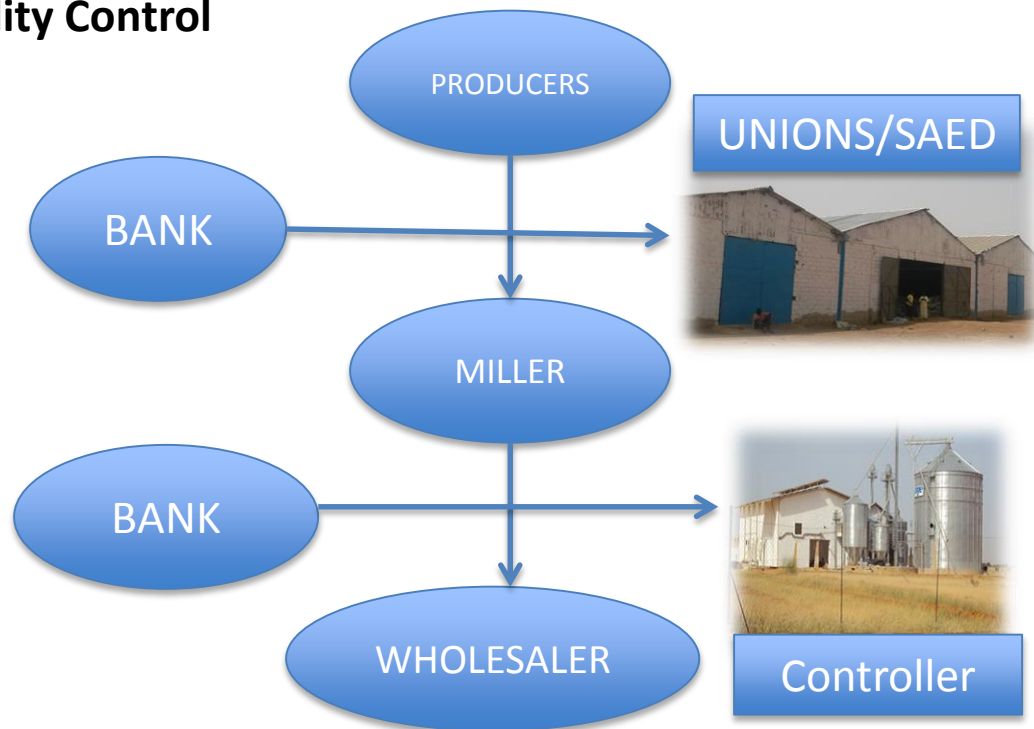
NEW MODEL: Sales Contracts, Inventory Collateral, Crop Insurance *as an Input*, Output Quality Control

• **Contract facilitation & VC trainings:**

- **Tri-party contract framework:** Farmers-Mill-Bank limited to loan reimbursements
- **In-kind** re-imbursements at **set price**
- Matching **inventory collateral** loan to millers backed by **wholesaler orders**
- **Raw material norms & standards** and testing technologies included in contract annexes
- Mandatory subscription to **crop insurance**

• **Results:**

- **20% price gain** and stability over the season
- 25% of farmers sell 100% of harvest to mills
- High quality and **+5% milling productivity**
- **+95% reimbursement rate** and seasonal lending doubles to more than \$7 million
- Consolidation **reduces transport costs** and streamlines logistics
- **Faster loan turnaround** enables double-cropping



Evolution:

- From 1 to 7 millers... & more to come
- Contract framework re-arranged around the inventory collateral system managed by banks
- Facilitation of storage investments
- Extend the system to urban wholesale points

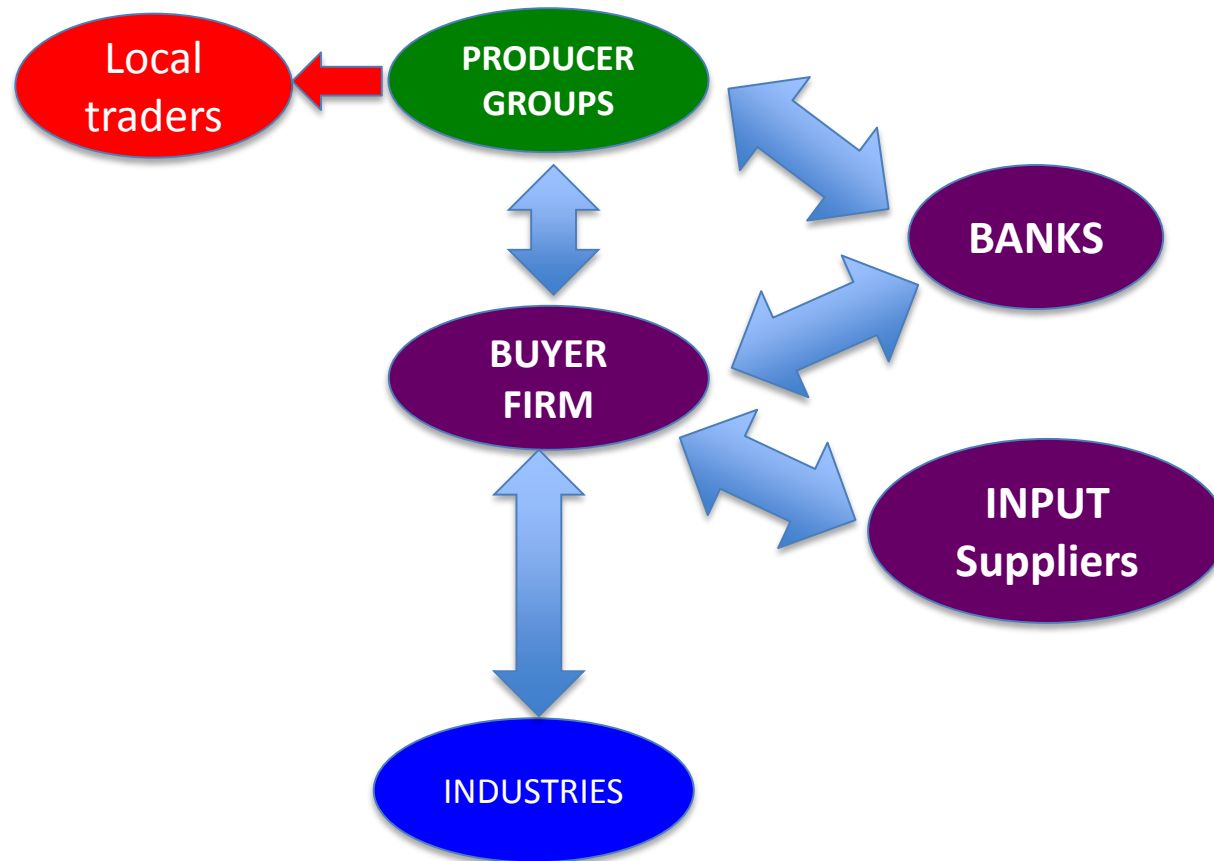
CASE 2: Commercial maize in the South Saloum

INITIAL MODEL:

- Buyer firm contract-driven system
- Firm procures and distributes inputs to farmers
- Bank finances farmers and pays inputs to firm
- Firm buys grain at set price and deposits to farmer bank account to settle loan

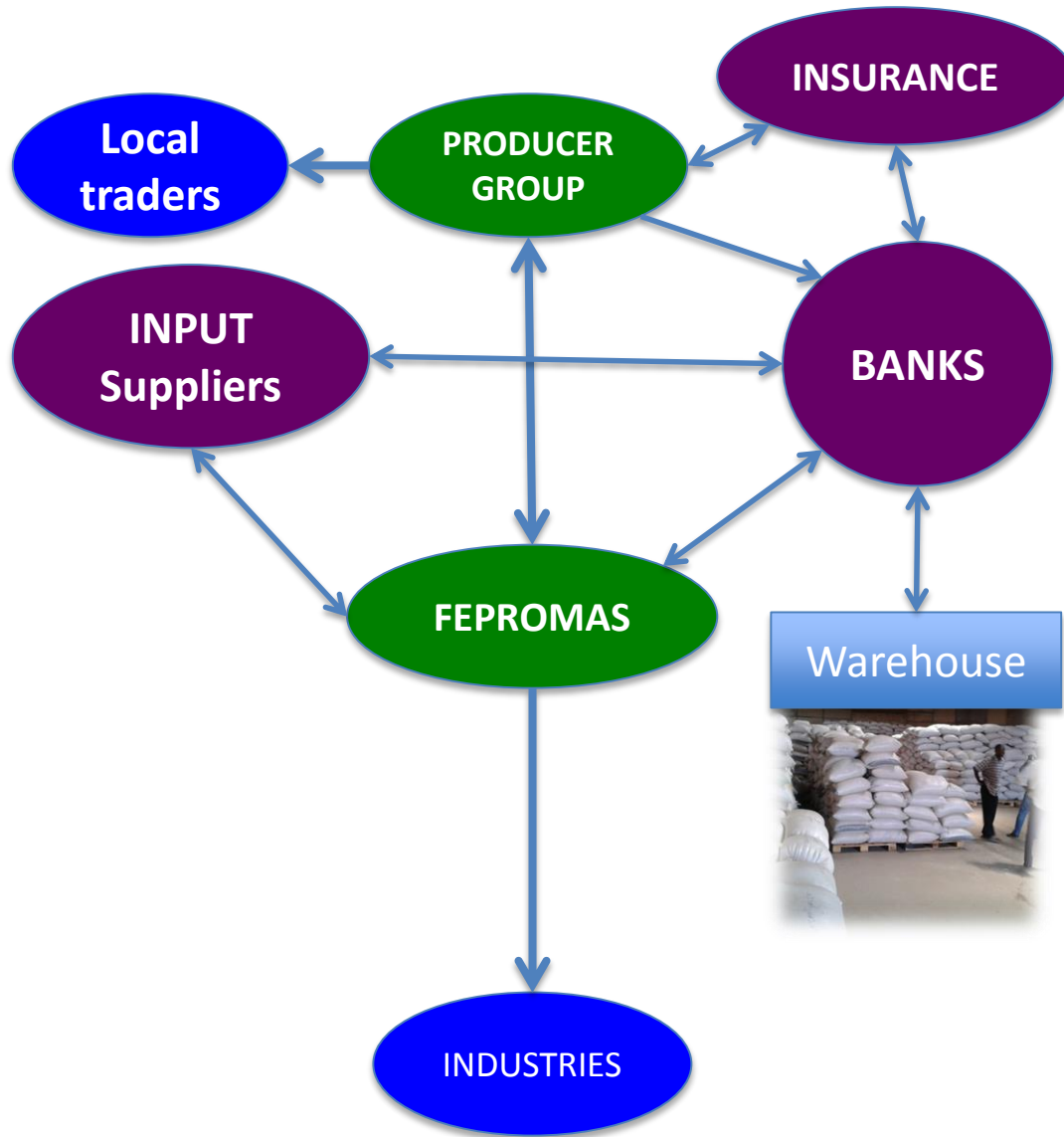
Results:

- Increase of input loan amount
- Certified seeds
- Litigation on both input and sales prices
- Side selling
- Variable quality
- Out-of-contract loan settlements
- Defaulting farmers due to localized drought



CASE 2: Commercial maize in the South Saloum

NEW MODEL: Farmer Cooperative



- Farmer cooperative coordinates input procurement, subsidy, loans, insurance, and collateral warehouse
- Side-selling is OK
- Rain-Index insurance mandatory
- In-kind contracts for credit reimbursements at a floor price delivered to a designated warehouse
- Tight, farmer-monitored quality control norms applied prior to delivery
- Inventory collateral-based marketing loan offsets input loans
- SDV storage manager at Kaolack port warehouse complex
- Sales to industrial buyers brokered by FEPROMAS

Results:

- Quality inputs on time: yields double
- 98% loan reimbursement rate
- More than 90% of sales still to local traders
- Quality at par with Argentina
- Minimal price fluctuations and opening prices are double the 2010 baseline



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Some takeaways

PATHWAYS CAN LEAD TO DIFFERENT MODELS THAT MEET BASIC PRINCIPLES

- Sound input procurement management skills are essential but not sufficient
- The value chain financial risk management system is a core component of input procurement
- Buyer contracts are an option for high volume surpluses
- Orderly side-selling may get farmers a better price
- **Crop insurance and output quality control** are key elements of the risk management system
- **Transactional tracking** and documentation, whether contractual or not, is a key capacity that must evolve as the systems grow
- **Bottom-up empowerment** of value chain actors improves yield, quality, and loan reimbursement; enables growth



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Thank you for your attention



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