Marketing Strategy for Financial Services

Financing Farming & Processing the Cassava, Maize and Plantain Value Chains in Côte d'Ivoire

Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung

UK Government

WOMEN ENTREPRENEURS FINANCE INITIATIVE

IFC International Finance Corporation WORLD BANK GROUP

Creating Markets, Creating Opportunities

Photography by: Cadel Musala – N'Gol Vision

Contents

List of Abbreviations

FIG	Financial Institutions Group
GDP	Gross Domestic Product
IFC	International Finance Corporation
MT	Metric Tonnes
USD	United States Dollars

Executive Summary

Agriculture plays a critical role in the economy of Sub-Saharan Africa. The sector is a source of livelihood to more than 50% of the population and contributes an average of 23% to the region's Gross Domestic Product (GDP). Despite that, only a small proportion of funding goes to the agriculture sector. Only 6% from traditional bank lending and 9.5% of lending from decentralized financial systems is directed towards the whole agricultural sector (IFC).

In Côte d'Ivoire, credit growth remains heavily concerted and many micro, small and medium-sized enterprises (MSMEs) are struggling to access credit financing. Organised value chains with strong buyers find it a lot easier to secure financing. However, majority of players in the agriculture space in Côte d'Ivoire operate outside of these highly organised value chains and within the staple food crop value chains. These staple food crop value chains are low value and characterised by a high level of heterogeneity between farmers. This diversity poses challenges for financing institutions in lending to the sector.

Constraints to credit financing manifest on both the supply and the demand side. A report by the SME Finance Forum estimated the MSME finance gap in the country at USD 2.4 billion in 2017. On the other hand, due to the risks involved in primary production, for food crops, the provision of financing is largely skewed towards activities higher in the value chain with aggregators, processors, and exporters getting a large chunk of the funding in the agri sector. Constraints to accessing financing include:

Supply-side constraints

- High cost of credit coupled with limited options of collateral substitutes
- Unavailability of products that meet the needs of appropriate, adequate, and timely credit
- High risk of lending to agri-MSMEs as compared to other sectors and lack of appropriate risk mitigation measures and mechanisms.
- A lack of technical understanding at the financing institution level to assess and analyse the creditworthiness of agri-enterprises
- High transaction costs arising from client dispersion and less developed infrastructure
- Perception of agriculture as a low-margin business by financing institutions

Demand-side constraints

- Lack of formal credit history
- Lack of adequate collateral to guarantee credit financing
- The lack of reliable information and data for measuring risks and profitability in the food crop value chain
- The unpredictability of production due to external factors such as changes in weather conditions

This report covers the maize, cassava, and plantain value chains in Côte d'Ivoire and is based on the business model assessment conducted for the three value chains that was aimed at identifying optimal business models within these value chains and recommending criteria for lending to these value chains.

For financial institutions to intensify financing to agri-MSMEs operating within the staple food sector in Côte d'Ivoire, understanding and classifying farmers and agri-processors based on their specific challenges, attributes and funding needs will be key in identifying funding opportunities and create suited financing products.

> **In 2021 the annual financing gap for agri-SMEs in Sub-Saharan Africa was estimated at $65 billion.**

Primary producers can be categorised into small, medium, and large-scale producers and their specific attributes alongside funding opportunities within the staple-food sector are as shown below:

	Small	Medium	Large
Proportion of farmers	85%	10%	5%
Area under cultivation	17 million	2.1 million	1 million
Land sizes (ha)	1-5	5-10	Over 10
Equipment	Limited use - Leased	Owned	Owned
Funding opportunities			
Inputs	Yes	Yes	Yes
Irrigation	No	Yes	Yes
Farm mechanisation	No	Yes	Yes
Transportation	Yes	Yes	Yes
Working capital	No	Yes	Yes
Trade financing	No	Maybe	Yes
Crop Insurance	Maybe	Yes	Yes

Some of the loan products that would be applicable for players in primary production include:

		Applicability		
Loan Product	**Purpose**	**Small**	**Medium**	**Large**
CAPEX				
Agribusiness Asset financing	For purchase of farm assets such as machinery, tractors, distribution vehicles etc	No	Yes	Yes
Farm Development Loan	For expansion of farming operations	No	Yes	Yes
Working Capital				
Input Financing	For purchase of farm inputs and labour	Yes	Yes	Yes
Contracted Crop Loan*	For purchase of inputs for farmers contracted by reputable buyers	Yes	Yes	Yes
Structured Loan	For agribusinesses that do not have contracts with buyers	Yes	Yes	Yes
Warehouse receipt-financing**	Financing working capital requirements by use of securely stored goods as loan collateral	No	Maybe	Yes
Invoice discounting***	Financing working capital requirements by use of accounts receivable as collateral for a loan	No	Maybe	Yes

*This is applicable for plantain and cassava growers contracted by cassava processing companies

**This is applicable for maize only as cassava and plantain require processing due to perishability issues.

***This relies on a strong relationship between the primary producers and their buyers

On the other hand, processors can be categorised into small-scale (artisanal) processors and medium/large-scale (industrial) producers and their specific attributes alongside opportunities for funding within this staple-food sector are as shown below:

	Small/Artisanal	**Medium/Large**
Processing units	Semi-industrialized processing units	Modern processing technologies
Input supply	Direct sourcing from farmers	Through agents or cooperative societies
Production cycles	Seasonal based on production	Done through-out the year as companies have storage facilities
Typical capacity	Under 4 tonnes per day	4-10 tonnes per day
Funding opportunities		
Raw material sourcing	Yes	Yes
Machinery and equipment	Yes	Yes
Working capital	Yes	Yes
Trade financing	No	Yes

Some loan products that would provide growth opportunities for processors include:

		Applicability	
Loan Product	**Purpose**	**Small-scale**	**Medium/ Large**
CAPEX			
Machinery and Equipment financing	For purchase of processing machinery	Yes	Yes
Business Expansion Loans	For expansion of processing operations	Yes	Yes
Working Capital			
Invoice discounting/ Factoring	Financing working capital requirements by use of accounts receivable as collateral for a loan	Maybe	Yes
Warehouse receipt-financing	Financing working capital requirements by use of securely stored goods as loan collateral	Yes	Yes
LPO financing	Financing working capital requirements by use of purchase orders or letters of award to deliver goods	Maybe	Yes
Pre-Shipment Finance/ Pre-Export Finance	Financing primarily offered to exporters	No	Yes
Stock Financing Facility	For purchase of stock in bulk while using that same stock as security	Yes	Yes

There is an existing opportunity in non-financial services investment/training. Majority of farmers are often unaware or are misinformed on different financial products available. These coupled with low financial literacy levels may result in deployment of capital into unproductive uses. Financing institutions working with smallholder farmers are now bundling financial products with other non-financial products such as capacity building, market linkages, risk management, financial education, agronomic support etc.

In addition to developing suited products, discussed above, the below table provides a summary of the other components of the marketing mix.

Price

1. Adopt risk sharing approaches to lending such as loan guarantees
2. Risk-based pricing of loans
3. Adopt value chain financing approach

Place

1. Adopt Alternative Delivery Channels
2. Adopt/expand a relationship banking approach

Promotion

1. Agricultural Trade Shows
2. Referrals
3. Radio programs
4. Event Sponsorships
5. Training and investment seminars for agri-MSMEs
6. Strategic partnerships
7. Agricultural Trade Shows

> **"Only 6% from traditional bank lending and 9.5% of lending from decentralized financial systems is directed towards the agricultural sector in Sub-Saharan Africa."**

1. Industry Analysis

1.1. Agri-Financing in Sub-Saharan Africa

Agriculture plays a critical role in the economy of Sub-Saharan Africa. The sector is a source of livelihood to more than 50% of the population and contributes an average of 23% to the region's Gross Domestic Product (GDP). With the region's population expected to double by 2050 reaching 3.8 billion people (UN) the demand for agricultural products is expected to intensify, putting the pressure on African farmers to produce more with less.

Agri-MSMEs including primary producers, farmer groups, input providers, distributors and processors form the backbone of the agricultural value chain. According to a recent analysis by McKinsey, it was established that Sub-Saharan Africa had the potential to double or triple its current production of cereals and grains which would add 20% more cereals and grains to the current 2.6 billion tons of output produced globally.

According to a brief by IFC in August 2022, banks, microfinance institutions, and institutional investors have traditionally been providing very limited resources for the agriculture and agri-food sectors. Agriculture loans and investments portfolios currently are disproportionately low compared to the agriculture sector's share of GDP.

As a result, the annual financing gap was estimated at $65 billion for agri-SMEs in Sub-Saharan Africa with financing needs between USD 25,000 and USD 1.5 million. This is out of a total annual financing gap estimated at USD 180 billion across enterprises of all sizes in Sub-Saharan Africa (Mobilizing Agricultural Finance by AGRA, February 2021).

However, achieving the region's full agricultural potential demands a significant investment. Sub-Saharan Africa will need six times more improved seed, eight times more fertilizer, at least USD 8 billion of investment in basic storage (not including cold-chain investments for horticulture or animal products), and as much as USD 65 billion in irrigation to fulfil its agricultural promise (McKinsey & Company).

Lenders are increasingly recognising the opportunities of lending to agri-MSMEs and the potential for lending is driven by:

- Food demand which is expected to grow by 59% - 98% by 2050 thereby increasing markets for producers and processors
- The need to access better inputs and farming and/or processing equipment to increase production and contribute to food security.

> **A rise in food demand of up to 98% by 2050 significantly increases producer and processor markets, and the need for associated financing.**

1.2 Agri-Financing in Côte d'Ivoire

Over 60% of the land in Côte d'Ivoire is agricultural and therefore, agriculture forms a key component of the country's economy. Côte d'Ivoire is a net exporter of major cash crops such as cocoa, rubber tree and cotton. On the other hand, the staple food sector is dominated by maize, cassava and plantain. Most funding in the Agri-MSME space goes to export crops with a small amount of funding being provided to food crop enterprises.

Côte d'Ivoire's financial sector is among the most advanced in the Economic Community of West African States (ECOWAS) region. However, credit growth remains heavily concerted and many micro, small and medium-sized enterprises (MSMEs) are struggling to access credit financing. A report by the SME Finance Forum estimated the MSME finance gap in Côte d'Ivoire at USD 2.4 billion in 2017.

Constraints to credit financing manifest in both the supply and the demand side and include:

Supply side constraints

- High cost of credit coupled with limited options of collateral substitutes.
- Unavailability of products that meet the needs of appropriate, adequate and timely credit
- High risk of lending to agri-MSMEs as compared to other sectors and lack of appropriate risk mitigation measures and mechanisms.
- A lack of technical understanding at the financing institution level to assess and analyse the creditworthiness of agri-enterprises
- High transaction costs arising from client dispersion and less developed infrastructure.
- Perception of agriculture as a low-margin business by financing institutions.

Demand side constraints

- Lack of formal credit history
- Lack of adequate collateral to guarantee credit financing
- The lack of reliable information and data for measuring risks and profitability in the food crop value chain
- The unpredictability of production due to external factors such as changes in weather conditions.

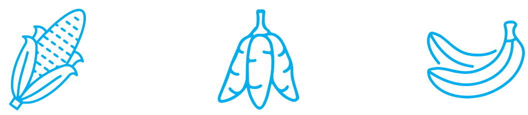
General constraints of the sector include:

- Risks not covered by private instruments or public policies.
- Profitability of agricultural activity that is both modest and delayed (with threshold phenomena in terms of equipment and technical packages).
- Constraints linked to the sensitive nature of food supply in cities.

Due to the risks involved in primary production, for food crops, provision of financing is largely skewed towards activities higher in the value chain with aggregators, processors and exporters getting a large chunk of the funding in the Agri sector.

1.3. Target Market

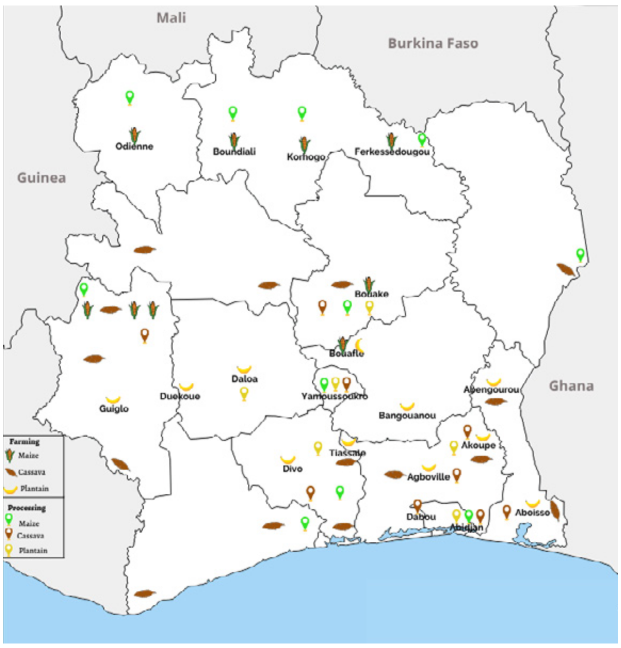
This marketing strategy defines agricultural finance for MSMEs as financial services for small and medium enterprises engaged specifically in primary production and processing focussing on the staple food sector in Côte d'Ivoire. Emphasis is on the 3 following key value chains in the scope of the study:



Maize value chain **Cassava value chain** **Plantain value chain**

The aim is to identify financing opportunities in primary production and processing which are key activities in the above value chains and recommend a strategy for funding agri-enterprises.

The focus of this report is primary production and processing activities in the value chain. Players in these segments are spread across the country as shown in the image below.



Source: Agri Frontier Analysis

Note: The locations indicated in the diagram above were collated through a combination of external data as well as information received from key informants during the market research phase. These locations are not exhaustive but can be considered as the main areas under which the farming or processing activities are undertaken in each of the three value chains.

i. Primary production

Primary production is made up of smallholder farmers, medium-scale, and large-scale farmers. Although segmentation of players in the primary production space is a challenging task owing to the differences in crops, it is a very critical task for financial institutions wishing to operate in the space. Segmentation is not aimed at determining who to lend to but to identify opportunities in each market segment allowing for innovation of financing products suited to each. This exercise also offers financing institutions insights into segments that are easier for market entry.

The profile of farmers as well as the funding opportunities available within each segment are summarised in the table below:

	Small	Medium	Large
Proportion of farmers (Est.)	85%	10%	5%
Area under cultivation (Est.)	17 million	2.1 million	1 million
Land sizes (ha)	1-5	5-10	Over 10
Equipment	Limited use - Leased	Owned or leased	Owned or leased
Funding Opportunities			
Inputs	Yes	Yes	Yes
Irrigation	No	Yes	Yes
Farm mechanisation	No	Yes	Yes
Transportation	Yes	Yes	Yes
Working capital	No	Yes	Yes
Trade financing	No	Maybe	Yes
Crop Insurance	Maybe	Yes	Yes

Source: https://www.statista.com/statistics/1309990/agricultural-land-in-Côte-d-ivoire/

Note: The land sizes indicated in this table are reflective across the three value chains and will vary for other value chains in Côte d'Ivoire.

ii. Processing

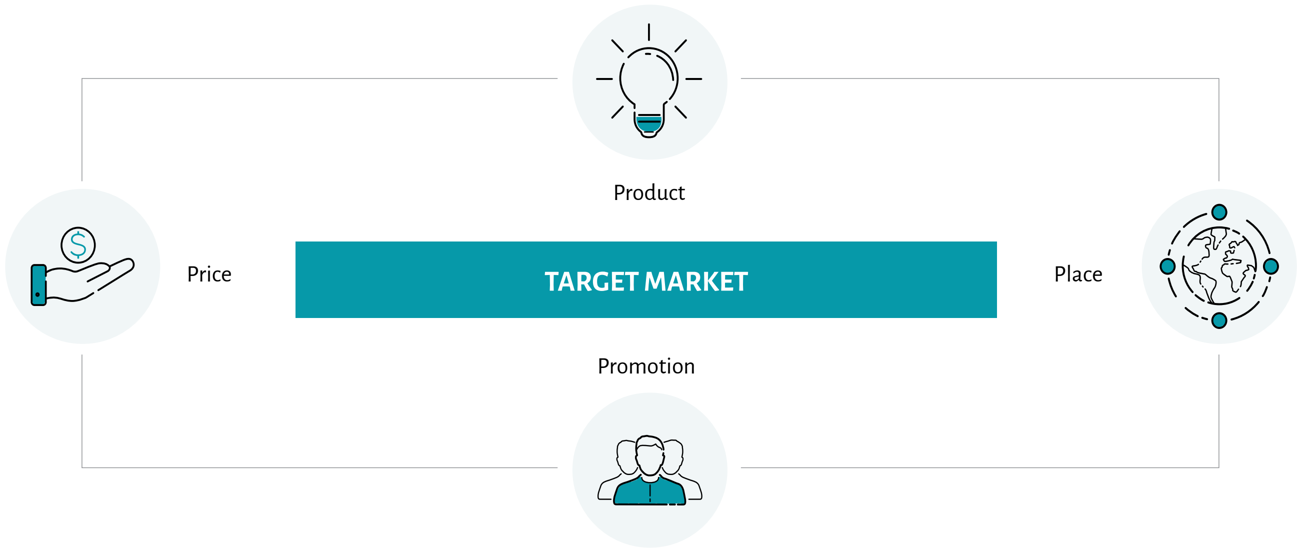
While more funding goes into processing compared to primary production, agri-processing enterprises still face some of the systemic risks affecting primary production. Traders and processors are exposed to price swings and crop failures of the products that they aggregate for trading or processing.

Processing enterprises in the staple food space can be categorised into small semi-industrial and the industrial (medium and large) processors. Their profiles and funding opportunities here are summarised as shown below.

	Small/Artisanal	Medium/Large
Processing units	Semi-industrialized processing units	Modern processing technologies
Input supply	Direct sourcing from farmers	Through agents or cooperative societies
Production cycles	Seasonal based on production	Done through-out the year as companies have storage facilities
Typical capacity	Under 4 tonnes per day	4-10 tonnes per day
Funding opportunities		
Raw material sourcing	Yes	Yes
Machinery and equipment	Yes	Yes
Working capital	Yes	Yes
Trade financing	No	Yes

2. The Marketing Mix

The marketing mix is a comprehensive marketing strategy tool comprising of four key elements known as product, price, place (distribution) and promotion as shown in the figure below. This tool helps organizations to find the right combination of the 4Ps while entering a new market or growing the existing market.



2.1 Product

Most lending in the agricultural sector in Côte d'Ivoire is directed towards cash crop farming which is more organized. Still, there exists opportunities for financial institutions to lend to the staple food sector at both the primary production and the processing levels.

a) Potential Loan products at the Primary Production level

At the primary production level, opportunities exist to lend to farmers for their capital expenditure needs as well as for their working capital needs. The table below shows the different products that would be relevant for the small, medium, and large farmers.

		Applicability		
Loan Product	**Purpose**	**Small**	**Medium**	**Large**
CAPEX				
Agribusiness Asset financing	For purchase of farm assets such as machinery, tractors, distribution vehicles etc.	No	Yes	Yes
Farm Development Loan	For expansion of farming operations	No	Yes	Yes
Working Capital				
Input Financing	For purchase of farm inputs and labour	Yes	Yes	Yes
Contracted Crop Loan[*]	For purchase of inputs for farmers contracted by reputable buyers	Yes	Yes	Yes
Structured Loan	For agribusinesses that do not have contracts with buyers	Yes	Yes	Yes
Warehouse receipt-financing[**]	Financing working capital requirements by use of securely stored goods as loan collateral	No	Maybe	Yes
Invoice discounting[***]	Financing working capital requirements by use of accounts receivable as collateral for a loan	No	Maybe	Yes

*This is applicable for plantain and cassava growers contracted by cassava processing companies
**This is applicable for maize only as cassava and plantain require processing due to perishability issues.
***This relies on a strong relationship between the primary producers and their buyers

b) Potential Loan products at the processing level

At the processing level, the products that would be relevant to the small scale and the medium/large processors include:

		Applicability	
Loan Product	**Purpose**	**Small-scale**	**Medium/ Large**
CAPEX			
Machinery and Equipment financing	For purchase of processing machinery	Yes	Yes
Business Expansion Loans	For expansion of processing operations	Yes	Yes
Working Capital			
Invoice discounting/ Factoring	Financing working capital requirements by use of accounts receivable as collateral for a loan	Maybe	Yes
Warehouse receipt-financing	Financing working capital requirements by use of securely stored goods as loan collateral	Yes	Yes
LPO financing	Financing working capital requirements by use of purchase orders or letters of award to deliver goods	Maybe	Yes
Pre-Shipment Finance/ Pre-Export Finance	Financing primarily offered to exporters	No	Yes
Stock Financing Facility	For purchase of stock in bulk while using that same stock as security	Yes	Yes

According to farmers interviewed during the technical feasibility study, the loan process is quite complicated and collateral requirements are too expensive. As a result, most farmers do not bother to apply for loans.

To break barriers to access and ensure the adoption of credit finance in the staple food sector, it is important for financial institutions to ensure that their financing products are responsive to the demands of this sector. To do so, it will be critical to put the following considerations in the design of appropriate products:

i. Flexibility of financing products

Agriculture and especially primary production are very dynamic. Production cycles can shift significantly. To effectively manage risk while also addressing the diversified needs of agri-MSMEs, it will be critical for financial institutions to incorporate this variability in their agri-financing products. This can be achieved by adapting the payment terms, loan tenor and disbursement to the different profiles of agri-MSMEs.

Financing products can be split into 3 categories depending on the repayment source:

1. Farmer/farmer groups – relying on farmer cashflow analysis for loan review
2. Movable collateral – relying on equipment or inventory review
3. Buyer/suppliers – based on existing relationships and agreements with buyers/suppliers

Understanding the needs of agri-enterprises helps classify these needs into the above categories. This classification drives product innovation within the financing institutions which is expected to reduce the impediments and risks of lending to farmers and agri-enterprises.

ii. Deep knowledge of the staple food sector

Design of appropriate and bespoke financing products for agri-MSMEs especially those operating in the staple food production space can only be achieved when financial institutions develop a deep understanding of the value chains comprising the staple food sector in Côte d'Ivoire. Insight into the input requirements, costing, yield, harvest cycles and market dynamics in the sector will assist financial institutions to better assess the inherent risks involved and develop innovative products to mitigate those risks.

The focus of financing for the staple food sector is primary production and processing. The key attributes of the players are discussed in detail below

Primary Production level

This is split into 3 categories: Smallholder farmers, medium-scale farmers and large-scale farmers. The financing needs for these categories differ based on the specific attributes of each category.

i. Smallholder farmers

These make up 85% of primary agriculture in Côte d'Ivoire with 17 million hectares under production. Farming is carried out on land sizes between 1 to 5 ha. This category is characterized by:

- Rain-fed production
- Non-mechanised farming methods
- No or very limited use of farm inputs
- Absence of or limited technical farming capabilities
- Losses arising from crop pests and diseases
- Most of the products are for subsistence use and the local market
- Limited access to information
- Limited access to external capital

ii. Medium-scale farmers

Medium-scale farms make up 10% of primary agriculture in Côte d'Ivoire with 2.1 million hectares under production. Land sizes are between 5 to 10 ha. They are characterized by the following attributes:

- Weaker position compared to large-scale farmers in the value chain
- Production is either rainfed and/or irrigated
- Partly mechanized
- Possession of some technical farming capabilities – labour provided through a mix of family members and external labour
- Use of farm inputs which varies with farm sizes, often improves as the size of land increases
- Reasonably good market access - farming is done for local and/or export market
- Limited access to information
- Limited access to external capital

iii. Large-scale farmers

Large-scale farms make up 5% of primary agriculture in Côte d'Ivoire with approximately 1 million hectares under production. These farms carry out production on land sizes above 10 hectares and are characterized by:

- Great position in the value chain
- Production is irrigated and carried out throughout the year
- Fully mechanized
- Optimal use of farm inputs
- High farming capabilities arising from the use of skilled labour
- Good market access - farming is done mainly for the export market
- Access to market information
- Own storage/logistics
- Access to external capital

Processing level

Processors in the staple food value chain can be classified into two broad categories

i. Small-scale (artisanal) processors

Small scale processors in Côte d'Ivoire are mainly characterized by the following attributes:

- Semi-industrialized processing units
- Manual operations with low uptake of modern technologies hence inefficiencies in processing
- Limited access to credit for working capital and processing equipment

ii. Medium/Large scale processors

Medium/Large scale processors are characterized by:

- Use of modern processing technologies such as electric grinders, millers, slicers and crushers
- Production capacities between 4 to 10 metric tonnes per day.

The technical feasibility report for cassava, plantain and maize value chains provides a detailed analysis of the 3 value chains covering production systems with the highest potential.

2.2. Price

The pricing of agricultural loans is a major constraint to agri-MSMEs seeking credit financing. As a result of the inherent risks associated with agri-lending, interest rates for agri-loans are often high and thus prohibitive. Commercial banks charge an interest rate of 13 – 18% while microfinance institutions charge between 19 – 22%.

The below approaches can be adopted to manage the pricing of agri-loans:

i. Adopt risk-sharing approaches to lending such as loan guarantees

By de-risking agri-MSMEs, financial institutions can design affordable financing options that will spur more loan uptake across the staple food sector. Financial institutions can achieve this by developing strategic partnerships with development organizations such as the World Bank for loan guarantees. Loan guarantees would significantly lower the credit risk and incentivise commercial banks to lend more to agribusinesses.

This would in turn lower the collateral requirements of agri-MSMEs as well as the interest rate of the investment.

ii. Risk-based pricing of loans

Currently, most financing instruments offered by commercial banks in Côte d'Ivoire have fixed interest rates regardless of the level of risk involved. By adopting a risk-based pricing approach, financing institutions will be able to achieve a level of flexibility in their pricing thus increasing access to financing to agri-MSMEs. This approach will also serve to provide financing to promising sectors such as irrigated plantain which has high potential although few farmers have adopted it.

To strengthen their risk assessment process, FIs should consider integrating agricultural specialists such as agro-economists, rural economists, and agribusiness specialists. In addition, FIs can involve specialists in agricultural advice for monitoring and annual evaluation of agri-MSMEs.

iii. Adopt value chain financing approach

Value chain financing can play a huge role in lowering the risk and cost of financing agri-MSMEs. One approach to this kind of financing is lending to primary producers through a processor or an aggregator. This would ensure that agribusinesses with financing needs too small for commercial banks and too large for microfinance institutions are integrated into the financing ecosystem.

2.3. Place

Presently in Côte d'Ivoire, only a few banks (such as Ecobank), with recently established Agri divisions, are lending to smallholders. It is critical then as these divisions are being established to define how financing products will reach the end consumer. A good distribution strategy should be simple and efficient. Some approaches for consideration by financing institutions include:

i. Adopt alternative delivery channels

Alternative delivery channels consist of non-conventional means of lending such as agents, online banking, and mobile banking. These channels provide a more convenient and cost-effective option of lending to agri-MSMEs as compared to conventional channels.
In addition, partnerships with cooperatives, union of cooperatives and federation of cooperatives could be a good avenue to promote new financial products. The maize value chain is being organized into different market nodes: farmers, processors, traders etc. There is a national value chain organization being set up which could provide a good avenue for financial institutions to reach primary producers and processors. Third-party agents (network) can also be involved, especially in remote areas. Through authorized agents, traditional banks can expand their branch network using this branchless banking strategy. This type of banking has become more popular in Africa for several reasons, including the availability of products, risk management, real-time transactions, increased financial inclusion, etc.

> **"Value chain financing can create important market linkages, efficiency gains and expansion potential for smallholder farmers and banks alike."**

ii. Adopt/expand a relationship banking approach

In Côte d'Ivoire, banks are not aggressive in monitoring products relevant to the staple food crop space. For cash crops however, they use agents to promote their products to farmer cooperatives. A relationship banking approach is a strategy used by banks to provide their individual customers with appropriate financial products by proactively anticipating their needs. This approach will require commercial banks to develop a close relationship with their primary production and processing customers to determine their needs and recommend relevant products for them.

2.4. Promotion

A promotional strategy is designed to inform, persuade or remind target audiences about a company's product offerings. With most agri-MSMEs concentrated in rural areas, using the appropriate marketing channels is fundamental to achieving the desired outcomes in regard to deal origination. From our market research, the following activities were found to be the most appropriate:

- **Strategic partnerships** – Through strategic partnerships with other actors in the agricultural value chain such as input suppliers, financial institutions can source deals downstream by providing credit to farmers who wish to purchase inputs but lack the funds to do so at that moment.

- **Non-Financial Services -** Provision of non-financial services such as training and investment seminars for agri-MSMEs would provide an excellent platform for financial institutions to communicate their requirements to agri-MSMEs and market their products. In turn, this would help to reduce the risk profile and improve bankability of MSMEs.
- **Agricultural Trade Shows –** Agricultural trade shows bring together different stakeholders in the agricultural value chain. This presents a ripe opportunity for financial institutions to pitch their products to agri-MSMEs as well as to gather pertinent market information that they can use to improve their product offerings. One example of an agricultural trade show in Côte d'Ivoire is the Agrofood West Africa which happens bi-annually in Abidjan.
- **Referrals -** Referrals provide a simple and cost-free means of reaching potential customers in the agri-MSME space. According to McKinsey, referrals influence up to 50% of all purchasing decisions and generate more than twice the sales of paid advertising. However, for referrals to work, financial institutions must strive to provide excellent customer care and more attractive financial products to agri-MSMEs.
- **Radio programs –** With radio being a popular media instrument in Côte d'Ivoire especially in the rural areas where most agri-MSMEs are located, financial institutions can utilise this tool to reach potential customers. By purchasing radio airtime or ad placements, financial institutions can spur deal origination from the wide audience that this channel provides.
- **Event Sponsorships –** With event sponsorship, financial institutions could offer financing to agri-centric events such as trade shows and extension services in order to improve their visibility in the agri-MSME space. To increase the effectiveness of this channel, representatives from the financial institutions should also be in attendance during those events to meet potential clients and answer any questions or concerns they could have.

In marketing loan products, it will be important to consider critical components of the agricultural lending process. These include:

1. **Potential of agriculture** – Priority should be given to areas with potential for crop diversification and multiple crop seasons. In addition, access to water and irrigation infrastructure increases the potential for agriculture.
2. **Prioritisation of businesses** – Since in agriculture financing businesses in rural areas are most preferable, marketing to these rural-based businesses necessitates a slightly different approach than marketing to urban-based businesses.
3. **Leveraging partnerships** – Local partners often provide knowledge that can be used to mitigate risks in agricultural financing. Developing a marketing strategy in collaboration with them these institutions help in disseminating these products to the target market.

3. Effective Risk Management For Loans To The Food Value Chain

Agri-lending faces three main risks: operational, market, and intrinsic credit risks. For FIs involved in farm funding, the major cost driver is the intrinsic credit risk, which is particularly important and unpredictable in agriculture. However, operational and market risks should not be neglected, especially when there is poor management at the macro level.

Good practices to manage credit risks

FIs must adapt their credit management approach to customers in the food value chains (especially primary production). Procedures should be aligned to the specificities of the customers in the staple food value chains.

We recommend the following three approaches to credit risk mitigation in the staple food sector:

a) Set up a borrower (e.g., farmer) evaluation system

A system of internal rating of borrowers could be based on the following criteria:

- History of their relationship with the bank (regularity of the refunds);
- The nature of their agricultural activity according to the area agro-climatic condition (diversification, availability of water); and potential of the chosen activity - Meso level analysis at the country or regional level.
- Capability of repayment and the level of debt;
- Ownership or renting mode of the land and insurance owned (multi-risk).

The system of internal rating will attribute a final score and classify customers in three categories:

i. Good - Weak degree of risk hence allowing them to be offered an improved financing model

ii. Medium - Offer of classic financing model

iii. High risk - No funding.

The evaluation procedures should be simple and standardized, and followed rigorously.

b) Set up a partnership system for managing credit

Partnerships between market players and the FIs are likely to improve the management of risks. For example, the market players could be responsible for the selection of the borrowers, submission of request for funding, and even acting as guarantors in case members default in loan repayment. They may also provide technical advisory and monitoring to ensure that their members carry out a proper implementation of the project and adopt good technical and managerial practices.

c) Financial institutions training

Training at financial institutions should be conducted at two levels (strategic level and operational level). This will enable the banking personnel to a) understand the dynamics across the entire value chains from primary production, storage and aggregation, processing, marketing and support service, thus avoiding pitfalls associated with agri-lending; and b) build the operational skills required to offer and manage agri financing products and services for specific client and market segments.

In addition, FIs should adopt an Information System (market price, input prices, etc) which should be updated frequently to further strengthen the credit appraisal process.

4. Catalyzing Financing In The Staple Food Value Chain

4.1. Key Demand Side/Supply Side Attributes

To scale up financing in the agricultural sector, and more specifically the food value chains, it will be necessary to consider the following attributes for both the borrower and the lender:

Important attributes of a suitable financial product/service

- Accessibility ;
- Sufficiency ;
- Cost effectiveness ;
- Timeliness ;
- Sustainability
- Coupled with advisory, partnering and outreach
- Coupled with monitoring and recovery system

Important attributes of a suitable financial request by a borrower

- Clarity/honesty;
- Capacity/ability to honour debt obligations
- Competencies of the loan seeker
- Willingness to pay
- Indication of profitability
- Leverage potential of financial and non-financial products
- Medium- and long-term growth potential

4.2. Key Success Factors

There are several critical factors necessary to promote financing in the staple food sector of Côte d'Ivoire. These include.

- The direct and indirect proximity of financial institutions to their customers. Direct presence could be through established branches countrywide while indirect could be through other customer networks such as banking agents and alternative delivery channels/networks.
- Listening to customer needs. Banks can set up various mechanisms to identify and establish customer needs through phone calls, SMS platforms, social media etc.
- The professionalism of the agents of the financial institutions.
- The availability of suitable complementary services/non-financial products that can be embedded into financial products (agronomical and technical advisory, financial literacy and management, risk management, market information and access, business networks etc.)

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"A strong marketing strategy anchored in product, price, place and promotion is essential for financial institutions to successfully start or grow lending in the staple food sector and to women-led cooperatives."

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