Agro-Industry Fund:
facilitating the mobilisation of private funding by SMEs in Burkina Faso

Gaining access to funding is a major challenge that small and mid-size enterprises (SME) face, especially in rural areas. The Agro-Industry Fund (Fonds Agro-Industrie, or "FAI") was created in Burkina Faso in 2013 under the Programme for Economic Growth in the Agricultural Sector (PCESA) and seeks to address those challenges and stimulate agricultural value chains by facilitating access to funding for economic operators.
An in-depth look at a solution with an original operational approach.

To understand the issue of funding SMEs, one must consider the business relations between financial institutions (FI) and businesses. But those relations are complex and are most often based on imperfect and incomplete information, whether on the projects carried out by the SMEs, the certification of their financial statements, or the methods used by FIs to process loan applications.

Reducing information asymmetry and risk perception

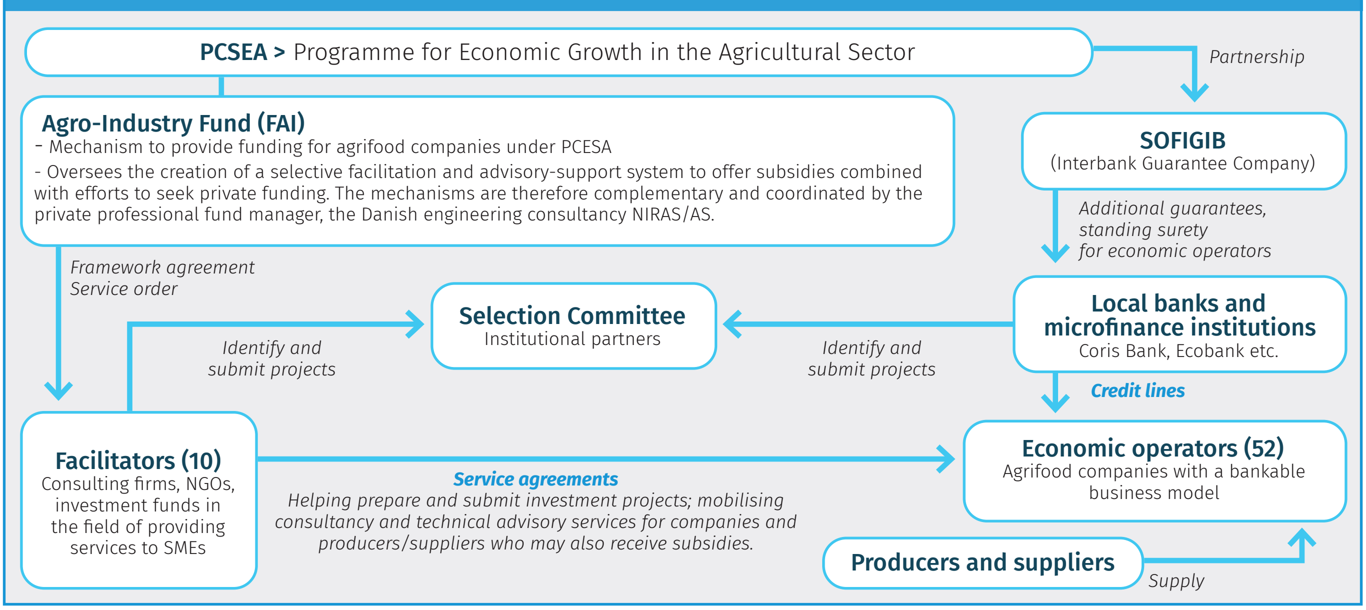
To address those constraints, the FAI developed an original mechanism to support agrifood SMEs in order to facilitate the mobilisation of private funding, allow for dialogue between stakeholders and create an environment of reciprocal trust.

From 2013 to 2017, the PCESA project focused on funding very small businesses and interprofessional bodies by developing business plans to submit to financial institutions. Only five sectors were targeted (livestock meat, shea, maize, cowpea and gum arabic), and the project zone covered five regions. The project was managed by Maison de l'Entreprise du Burkina Faso, an association that provides support, advisory services and business-creation assistance. The financial arrangement allowed for the provision of direct support to projects with credit lines worth a total of 5 billion FCFA through two banks: CORIS BANK International and ECOBANK Burkina.

A change in approach in 2017

An assessment conducted in 2016 revealed the programme's limitations in terms of impact and funding accessibility, as very few companies were able to mobilise funding from institutions, who themselves had not necessarily adapted their risk-analysis method to the specificities of the agricultural world. The programme changed its approach and scale, and expanded its scope. On the one hand, the targeting of funding was reoriented from all small companies to mid-size companies, with a focus on bankable projects involving networks of producers and suppliers. The size of the companies receiving support (annual revenue over 30 million FCFA) and the critical number of suppliers and producers invol-

Overview of the FAI



Source: Final experience-assessment report on the FAI, June 2021 ved in the project are considered conditions that will allow for a greater ripple effect over the entire value chain. To expand its reach, the project has been opened up to all sectors (except for cotton production) and to all 13 regions of Burkina Faso.

On the other hand, facilitation entities, private companies, NGOs specialising in the intermediation of banking operations and investment funds were introduced. All local banks and microfinance institutions were included. Facilitators enter into contracts with the FAI for their advisory support as intermediaries already working in the market. They work with the promoter to implement the budget and mobilise private funding. They therefore play a central role in the system. All of these different pillars allowed the FAI to develop a selective system for facilitation and advisory support where subsidies are offered in combination with efforts to seek private funding in order to stimulate their development capacities. The systems are therefore complementary and work together in synergy. They are entirely under the responsibility of the private professional manager of the FAI, the Danish engineering consultancy NIRAS. The state is involved in the FAI's institutional anchoring.

Ultimately, three types of subsidy and a guarantee fund

Projects approved by the selection committee receive three types of subsidy: one for putting together a loan application; one for strengthening the company's supply networks; and one for funding green projects through a cost-sharing subsidy (50% with the operator, capped at 75 million FCFA).

Moreover, in addition to the FAI, PCESA also developed a partnership with the Burkina Faso Interbank Guarantee Company (SOFIGIB). Its involvement consists in providing additional guarantees by standing surety for economic operators receiving support through the FAI, particularly companies struggling to mobilise them. Applications approved by SOFIGIB are sent to the bank with a pre-approved guarantee for requesting the funding. When an application is approved by the bank, SOFIGIB submits a formal notification of guarantee, and a surety agreement is signed with the bank. An amortisation schedule for the loan and periodic reports allow SOFIGIB to monitor the repayment of the loan, any incidents that may arise with regard to the account, and actions undertaken to collect payment. In all, 71.43% of facilitators received a guarantee through SOFIGIB, which proves the usefulness of this additional system.

Better-than-expected results

The implementation of the FAI allowed 46 of the 50 companies receiving support to mobilise private funding. A total of 11.8 billion FCFA was mobilised by the companies and their suppliers. Given that the end-of-project target was 7.740 billion FCFA, the completion rate was 152.5%. These results are attributable to the dynamism of companies in certain sectors, who had considerable investment and working-capital needs. By the end of the project, the shea sector mobilised 29.4% of the funding, cashew 22.3%, maize 19.0% and rice 7.9%. In the shea sector, for instance, one project to set up an industrial facility in Bobo-Dioulasso for processing shea mobilised nearly 3 billion in funding.

Impact on local agrifood systems and farmers

One of the programme's main objectives is to stimulate the purchase of local products and strengthen the capacities of economic operators and their supply networks in order to have a positive impact on the food system. It has been observed that 59% of the companies receiving support started with product marketing, but continue their development through processing. We are therefore seeing a significant return on investment because by improving product quality, processing creates added value, satisfies a demand and generates a diversification of needs, which, over time, may stimulate growth in sales of local products. This is where strengthening supply networks through the FAI plays an essential role. In Burkina Faso, demand for local agricultural products increased 23% between 2018 and 2019, and SMEs receiving support through the FAI helped drive up that demand. The amount of money those companies spent on Burkinabe agricultural products rose from 10.6 billion to 13.06 billion FCFA over the same period.

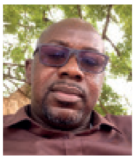
A total of 31,205 farmers were affected by the project (provision of inputs, equipment, training, etc.). The maize, rice and shea sectors account for over 75% of the producers and suppliers in the supported projects. In the cashew sector, support for the implementation of digital tools in the collection zones of the cooperatives receiving support helped improve contractual relations with the customer.

A system that should be replicated, taking into account the lessons learned

PCESA officially ended on 30 June 2021. The FAI was revived for a second five-year phase, still under the supervision of the Ministry of Agriculture. The innovative mechanism will continue with a few improvements, namely the creation of a project pre-selection committee and a reduction in the promoter's contribution in order to have access to the green fund. Also, several facilitators and projects supported through the FAI were selected by the PACTE project (on contract farming and ecological transition), which is funded by the AFD, KfW, the EU and the Burkinabe government. The model was also a source of inspiration for the Sahel Finance for Resilience (Sahel F4R) project, promoted by USAID.

Several specific challenges should be taken into account for the future: the degradation of the security situation is making it difficult to monitor operators in certain regions, and the Covid-19 pandemic has also complicated the implementation of projects. With regard to the arrangement, there is also room for improvement for the facilitators, who are sometimes slow in order to justify the amounts made available to them, and for the beneficiaries, who sometimes have trouble understanding the loan terms.

Wothuan Benjamin Bicaba



bbicaba75@gmail.com
Expert in monitoring/evaluating the FAI

FOR MORE INFORMATION:
https://www.fai.bf/
Inter-réseaux's case study on the private sector in agrifood sectors in Burkina Faso is available here: https://bit.ly/30bExxe

[1] PCESA is funded by the kingdom of Denmark, the European Union (EU) and the Burkinabe government in the amount of 33.3 billion FCFA, 3.6 billion FCFA and 8.325 billion FCFA, respectively. It aims to boost productivity, added value and agricultural income, in order to stimulate economic growth and reduce poverty.