

# Zoom microfinance

## The role of Harbu Microfinance in the development of the soybean value-chain (Oromia region, Ethiopia).

Context and project origins

The actors in the chain

The establishment of the value-chain

Funding

Benefits for each actor

Constraints and limitations



*The soya milk production unit in Jimma.*

In partnership with SOS FAIM<sup>1</sup>, the Ethiopian NGO FC supports a network of community cereal banks<sup>2</sup> in the district of Jimma, in the Oromia region. As this network has developed, the dual challenge of access to finance and markets have become clearly apparent. In response, the NGOs leaders came up with the idea of bringing together the various actors (producers, financiers, processors, consumers) to create economic opportunities that would be advantageous to each of them. This collaboration was built up around the production of soya milk.

This issue of Zoom Microfinance presents a summary of this experience, drawing attention to the mutual interests of actors in the construction of such value-chain alliances. In 2010, Harbu Microfinance Institution, an MFI created by FC, received the European Microfinance Award for its key role in this endeavour.

1: Since 2003.

2: See Farming Dynamics No. 19.

## Context and project origins

When the community cereal banks (FMO - Farmers' Marketing Organisations) started their activities in 2000 with FC support, farmers in the area of Jimma faced many problems. The soil is poor and most farmers cultivate maize, the staple food, year on year. They do not have sufficient resources to purchase seeds and fertilisers, and lack both a market for their surplus and marketing skills. Borrowing money is expensive - money lenders offer rates of 120% per year. Farmers who go into debt at this rate are sometimes forced to sell their crops at low prices to be able to repay their debts on time.

Some farmers have a few animals, but the area is densely populated and grazing areas are scarce. The cattle are generally of low quality, and the effects of hazards such as drought or animal diseases, combine to make milk production unpredictable and barely profitable (average yields are less than one litre per day per cow).

What alternative crops are available to farmers? FC decided to discuss these issues with the farmers, research centres and local government officials, with the outcome that soybeans were presented to farmers as an alternative. This leguminous plant is suitable for the climate and soil type and has the advantage of improving the quality of the soil by fixing nitrogen. It is suitable for both human consumption and for animal feed and can be processed, notably into milk. Surveys carried out by FC have shown that there is a promising market for soybeans in Jimma and Addis Ababa, where there is a demand from factories.

FC and Jimma Agricultural Research Center (JARC) have jointly promoted the cultivation of soybeans since 2005. Several activities have been implemented to make this crop attractive to farmers: the organisation of an annual soya day, visits to «model farmers» and demonstrations of different ways of preparing soya (soya bread, production of milk as a cottage industry etc.). As a result, soybean cultivation has gradually increased to a point where the need to find new outlets for production has become apparent.

While soybean cultivation was increasing, women's self help groups (SHG) – supported by FC – were looking for ways to diversify their financial resources. Aware that there was a real demand for milk<sup>3</sup>, they decided to embark on the preparation and sale of soya milk. To do

<sup>3</sup>: Particularly during periods of fasting. A portion of the inhabitants of the area, Orthodox Christians, observe a fast which prohibits the consumption of any animal products for about 120 days a year.

finance this project, they approached Harbu MFI, while FC offered to put them in touch with the FMOs to facilitate their supply.

## The actors in the chain



☛ **Farmers in Jimma zone:** an average farmer cultivates 1.5 to 3.5 ha of land, of which about a quarter is planted to soybeans. Most farmers in this region have a turnover of about 4500 to 5000 ETB (200 to 225 EUR) per year from farming. They plant soybeans between late May and mid-June and harvest in December. Farming families use about 25% of the crop for their own consumption or keep as seed for the following year. They sell the rest, in part to community grain banks (FMOs). The average yield is 1.5 tons per hectare.

☛ **FMO:** Farmers in the area of Jimma are traditionally organised in groups according to neighbourhood. These groups, called *Ollas*, consist of 20 to 25 farmers. These *Ollas* are themselves grouped together on a voluntary basis into farmers' associations: the FMO. FC has supported the establishment of 64 such associations across the country, with a total membership of 4,000. Specifically, 30 FMO currently exist in the Jimma area, representing 2,000 members and with a total capital of 750,000 ETB (approx. 34,000 EUR). FC's work has been to support their organisational effort, strengthen their management capacity and provide seed money for these FMO to start a business.

Five of the Jimma zone FMOs (240 members) are involved in the integrated project entitled «Soya milk».

With 150,000 ETB capital behind them, they can buy soybeans from their members and conduct preparatory work (cleaning, packaging) prior to sale. Each organisation has a warehouse where soybeans are stored in bags. Elected officials of each FMO (members of the management committee) negotiate each transaction.

☛ **Cluster-level organisations of women's groups:** since 2000, FC has supported the establishment of 131 Self-Help Groups (SHGs) composed of women in vulnerable situations (15-20 members per group). These SHGs are organised into 14 intermediate cluster-level organisations, each engaged in a specific activity: small-scale processing, various services, etc. The aim of these associations is to allow their members to access appropriate financial services and strengthen their technical skills for their particular business.

One of these associations, with 164 members<sup>4</sup>, decided to process soybeans. To do this, the management committee of the association signed a contract with soybean-producing FMOs, but also approached independent producers in order to secure sufficient amounts of soybeans. The processing and packaging work (hulling, grinding and cooking, filtering, and bottling) is carried out at a production unit set up specifically for this purpose. Some of the association's members work in the processing unit and three professionals have been hired to operate and maintain the equipment, which requires specific technical knowledge.

One kilo of soybeans yields 7.5 litres of soya milk. Members consume about 5% of production, but most is bottled (half litre or 5 litre bottles). This production is sold through direct sales or through a network of retailers. The association also uses part of the soya beans purchased to make tofu<sup>5</sup> and livestock feed.

☛ **Final consumers:** as soya milk is not a product that Ethiopians have a tradition of consuming, the target audience for this product is quite specific. It consists of people who are attracted by novelty, such as students and the affluent middle class. Soya milk is cheaper (compared to cow's milk) and has a reputation of being a quality product, with recognised nutritional value. A special effort has been made to make soya milk available for consumption in public places (cafés and bars) as well as in hospitals.

4: 220 members in 2011.

5: Tofu: a slightly fragrant white paste derived from soya beans. It is produced from soya milk that is curdled and then pressed to extract its water. (Translated from French at <http://fr.ekopedia.org/Tofu>)

## The establishment of the value-chain

FC has played a leading role in linking up the actors and in strengthening the value-chain (as much the actors themselves as the relationships between them): FMOs and women's associations, JARC and FMO, input suppliers and buyers (FMOs), not to mention putting the women's associations in touch with Harbu, which was essential for funding.

This long process has been achieved by capacity building in producer organisations and women's associations, through training and sharing experiences. These courses have enabled organisations to have better view of financial management, and especially how they manage the loans granted by Harbu MFI.

The relationship of trust that has gradually developed over several years of collaboration between FC and these organisations has been fundamental to throughout the whole process of setting up the network for the development of the value-chain.

With the help of agronomists, FC contributed to significantly improving the quality of the soya produced. On the commercial side, FC has focussed on access to capital but also on the provision of local warehouse space for the storage of large quantities of soybeans.

Concerning access to capital, FC established a system of increasing the capital raised by members of the FMO. This system of matching, based on a 1 to 1 ratio, was designed to encourage farmers to start by mobilizing their own resources. It was limited to 40,000 ETB for a period of three years. Material support was shown especially through the provision of construction materials (cement, corrugated iron roofing). Again, the delivery of the material was dependent on mobilising the community: to supply the timber, land and labour.

FC also helped the women's associations with marketing and distribution. The NGO conducted (or hired professionals to conduct) market research on the product itself and also the packaging. This work also enabled them to make contact with a number of potential retailers.

Finally, among the influential players in the sector, mention must be made of the Ethiopian government, which

The relationship of trust developed over several years of collaboration has been fundamental.

controls large parts of the economy. The chambers of agriculture or cooperatives' local branches also play a preponderant role, for instance in the legalisation of the producers' organisations, or through the control of these organisations (financial auditing, health check). FC has often exercised the much needed role of mediator between local authorities and FMO, adding its weight to the balance of power in favour of the latter.

## Funding

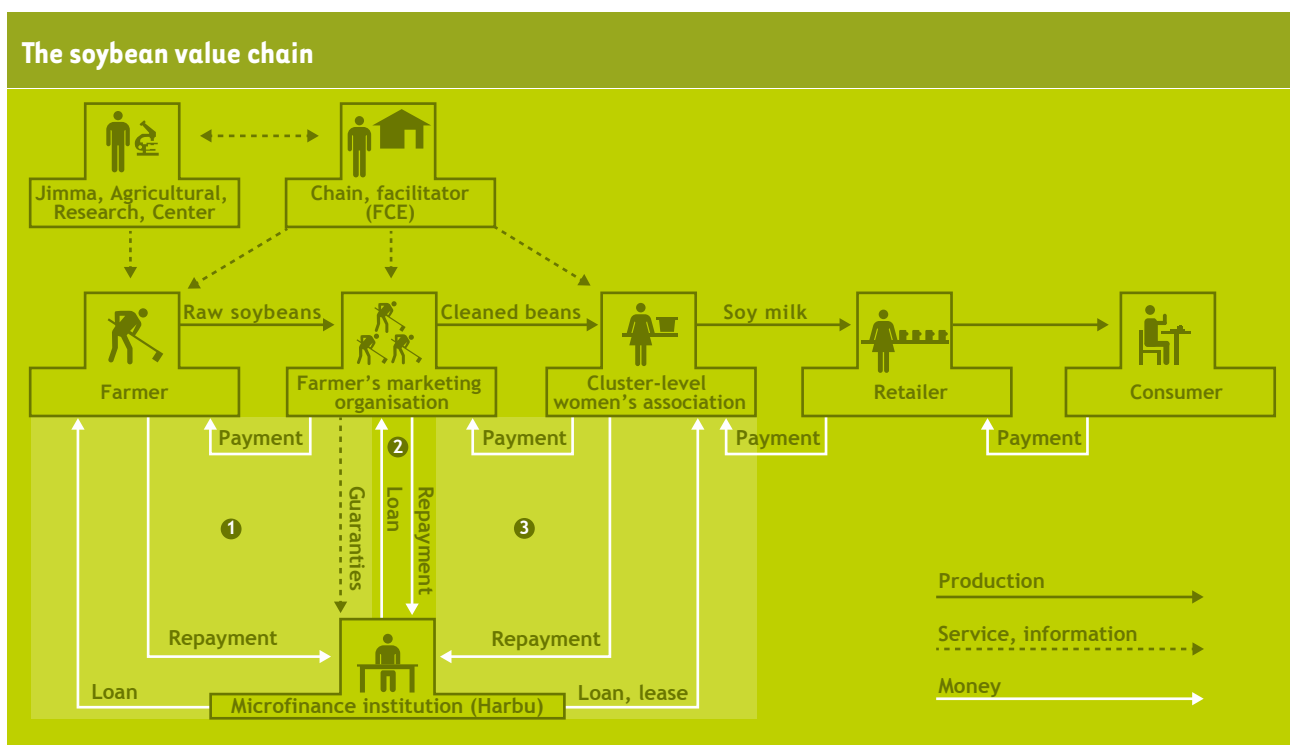
To meet the needs of different stakeholders, Harbu MFI offers a large variety of financial products: farms loans, working capital loans and finance leasing.

➤ **Farm loans for FMOs:** soybean producers need money to buy inputs (seeds, fertilisers and equipment). To access loans, the farmer must be a member of an FMO that has been operational for over a year. If an individual borrower fails to repay the loan, *Ollas* first, then the FMO, are responsible for the debt. This financial arrangement is illustrated in the diagram below (relationship 1).

➤ **«Working capital financing» loans for FMOs.** Many FMOs have savings accounts at Harbu; however, these FMOs need capital at harvest time to buy their mem-

bers' harvest (fully or partially). Harbu MFI finances that working capital shortfall based on an assessment of the FMOs' financial statements, their warehouses and their stocks. A contract signed between the FMO and Harbu MFI stipulates the interest rate, term, repayment schedule, etc. 5% of the total amount of credit must be deposited with Harbu MFI as compulsory savings. The five FMO involved in the chain have received this type of credit from Harbu MFI. (Relationship 2 in the diagram)

➤ **Credit and leasing for women's associations.** Harbu MFI also disburses working capital finance to the women's associations to allow them to purchase from the FMO the soybeans needed to produce soya milk, as well as the bottles. In 2008, the cluster-level association approached Harbu MFI to obtain a loan to finance the purchase of soybean processing machines. As the cost of each machine of this type was 25,000 ETB, MFI Harbu viewed the risk involved as quite high. The MFI proposed a lease arrangement to the association, which meant it would only own the machine when the loan had been paid back in its entirety. The lease period was set at 5 years with an interest rate of 10% per annum on the outstanding capital. In this way, in the event of a default, Harbu MFI could itself sell the machine. This arrangement is the result of the relationship of trust constructed over the long term between Harbu MFI, the FMO and the women's association. (Relationship 3 in the diagram)



## Financial products offered by Harbu MFI to finance the value chain

	Farm Loans	<<Working capital>> loans	Leasing
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### Products and financial flows<sup>6</sup>

<b>Objective</b>	<ul style="list-style-type: none"> <li>• Enable farmers to purchase inputs</li> </ul>	<ul style="list-style-type: none"> <li>• Cover the working capital needs (finance soybean inventory and equipment purchases) of the FMOs and the women's association.</li> </ul>	<ul style="list-style-type: none"> <li>• Enable the women's association to purchase equipment.</li> </ul>
<b>Amount</b>	<ul style="list-style-type: none"> <li>• Average 210 EUR</li> <li>• Max 380 EUR</li> <li>• Min 40 EUR</li> </ul>	<ul style="list-style-type: none"> <li>• Average 5,000 EUR</li> <li>• Max 7,690 EUR</li> <li>• Min 2,310 EUR</li> </ul>	<ul style="list-style-type: none"> <li>• Average 37,270 EUR</li> <li>• Max 72,230 EUR</li> <li>• Min 2,310 EUR</li> </ul>
<b>Term</b>	<ul style="list-style-type: none"> <li>• 9 months</li> </ul>	<ul style="list-style-type: none"> <li>• 5 months (FMO);</li> <li>• 1 year (Women's Association)</li> </ul>	<ul style="list-style-type: none"> <li>• 5 years</li> </ul>
<b>Released</b>	<ul style="list-style-type: none"> <li>• Beginning of the season (May).</li> </ul>	<ul style="list-style-type: none"> <li>• At harvest (December) for the FMOs.</li> </ul>	
<b>Repayment</b>	<ul style="list-style-type: none"> <li>• Repayment upon maturity at the end of the season.</li> </ul>	<ul style="list-style-type: none"> <li>• Repayment at maturity.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly Payments</li> </ul>
<b>Interest rate</b>	<ul style="list-style-type: none"> <li>• 15% per year (payment upon maturity)</li> </ul>	<ul style="list-style-type: none"> <li>• 15% per year</li> </ul>	<ul style="list-style-type: none"> <li>• 10% of outstanding capital</li> </ul>
<b>Transaction costs</b>	<ul style="list-style-type: none"> <li>• Commission = 3% of loan</li> </ul>	<ul style="list-style-type: none"> <li>• 3%</li> </ul>	<ul style="list-style-type: none"> <li>• 3%</li> </ul>

### Risk Management

<b>Security</b>	<ul style="list-style-type: none"> <li>• Joint guarantee</li> </ul>	<ul style="list-style-type: none"> <li>• Stock and warehouse (FMO)</li> <li>• Compulsory deposit of 5% of the loan at the outset</li> </ul>	<ul style="list-style-type: none"> <li>• The equipment provided remains the property of the lender until repayment is complete</li> </ul>
<b>Liability limited to</b>	<ul style="list-style-type: none"> <li>• Farmer borrower and solidarity group (<i>Ollas</i>), then the FMO</li> </ul>	<ul style="list-style-type: none"> <li>• FMO as an organisation (not its individual members)</li> </ul>	<ul style="list-style-type: none"> <li>• Women's Association as an organisation (not its individual members)</li> </ul>

### Information flow

<b>Information required for the loan application</b>	<ul style="list-style-type: none"> <li>• Cohesion of the group (frequency of conflicts, use of funds raised by members, degree of member participation in meetings, etc.)</li> <li>• Purpose of loan</li> <li>• Credit history of borrower</li> <li>• The group should support individual applications</li> </ul>	<ul style="list-style-type: none"> <li>• Valuation of assets</li> <li>• Balance sheet and income statement</li> <li>• Auditor's Report</li> <li>• Reputation (credit history, clarity of accounts, profitability)</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluation of the associations' capacity to manage internal loans</li> <li>• Purpose of credit</li> <li>• Feasibility of the activities for which the loan is intended</li> </ul>
<b>Information required over the duration of the loan</b>	<ul style="list-style-type: none"> <li>• Harbu's evaluation of production</li> <li>• Harbu regularly monitors use of the loan (either fortnightly or monthly)</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly evaluation of stocks by Harbu.</li> </ul>	<ul style="list-style-type: none"> <li>• Harbu staff participate in the associations' monthly meetings</li> </ul>
<b>Delay for the MFI to consider the loan application</b>	<ul style="list-style-type: none"> <li>• 2 weeks</li> </ul>	<ul style="list-style-type: none"> <li>• 1 month</li> </ul>	<ul style="list-style-type: none"> <li>• 1-2 months</li> </ul>

6: We note for completeness that in the context of this initiative, Harbu MFI has provided, in addition to financial services in this table, a credit to allow the SHGs concerned to purchase a piece of land for themselves and a building for housing the processing unit.

## Benefits for each actor

☛ **Farmers:** the farmers involved are no longer exclusively dependent on maize. With current market conditions, soybeans are an interesting crop economically speaking and they also bring benefits in terms of soil regeneration. Soybeans make an important contribution in improving human nutrition, especially for those communities whose members suffer from lack of diversity in their diet. Soybeans also enable a significant improvement to be made to cattle feed. Through FC's actions, farmers now have access to credit for production and have the capacity to enhance the commercial value of their soybean production. Their skills in terms of collective organisation and planning have improved significantly.

☛ **FMO:** overall, FMO's today have profitable market opportunities and collective sale has contributed to increasing the income of each member. The relationship of trust that has been woven with women's associations has brought these FMOs recognition as reliable players on the market.

☛ **Women's associations:** women members have gained new skills and have more importantly been able to improve their incomes over the past 3 years. Overall, the introduction of this chain has greatly contributed to the social and economic empowerment of the women involved.

☛ **Harbu MFI:** through this project, Harbu MFI has developed a new approach and new loan products. Funding the various actors in the chain is a way to acquire better knowledge of the value-chain and can be seen as a good risk reduction strategy for Harbu. It also enables transaction costs to be reduced (compared to individual loans). However, this strategy of concentrating funds in a single sector carries its own risks, since if one actor in the chain weakens it could set off a domino effect throughout the chain.

It should also be noted that the establishment of such a value chain is part of a process of local development by strengthening (or creating) connections among groups that previously knew little about each other. This process is a factor of wealth creation and redistribution at the local level.

## Constraints and limitations

Despite an encouraging start, this experience of value-chain several important challenges remain. A brief critical analysis provides a list of these challenges. Some relate directly to the context in which the chain's actors evolve (external factors), others relate to the sponsors' roles (NGOs, MFIs) (internal factors).

With regard to the external factors, attention should be drawn to the following challenges:

☛ **Funding shortfall for the various actors in the chain.**

Despite the financial support of its NGO partners in the North, Harbu MFI faces a lack of resources to adequately cater to all the actors. To meet this challenge, Harbu MFI has, in part, turned to the banks, but the relationship between the banking sector and MFIs in Ethiopia is complicated.

☛ **Organisation of grassroots groups.**

In order to truly participate in trade and derive maximum benefit, grassroots groups (women's associations, FMOs) need to permanently improve their internal organisation and technical skills. With regard to organisation, project actors must face the difficulties resulting from the country's recent history. Indeed, successive Marxist style regimes over 30 years have encouraged

the development of community groups, but have used them mostly as vehicles for political propaganda and as a tool of social control. Aware of only the most negative aspects of this type of organisation, people are often reluctant to organise themselves into cooperatives. Because of this, much work is still needed on raising awareness, training and sharing experiences.

☛ **Getting the actors to think in terms of cooperation instead of competition:**

at first, those involved in the value-chain tended to retain a certain mistrust towards each other. In this context, making sure that everyone understands that they all gain from enhancing the value of production (the more one enhances the value of a product, the more «cake there is to share») is a necessary condition for success. Again, FC plays a central coaching role helping substitute trust for mistrust in the relations between producers, processors and distributors.

☛ **Lack of formal contracts:** the collective institutions such as farmers' organisations or SHG suffer from a lack of recognition from the more formal actors. This situ-

Through this project,  
Harbu MFI  
has developed  
a new approach and  
new loan products.

ation remains an obstacle to collaboration. Moreover, even when contracts are signed between actors, the lack of the right of appeal does not encourage confidence. In general, lack of standards (in terms of production and services) is disadvantageous for new players.

In addition to the above, an analysis of relations between actors shows how they adopt different modes of operation (due to their experience, their culture, and their laws) that sometimes make relations between them complex.

We should remember each player has a specific role:

- producers organised in FMOs produce soybeans with technical support from FC;
- Women's groups (SHGs), representing 220 members (who have benefited from other FC projects), buy the soybeans from the producers and turn the soybeans into milk in a production unit that belongs to them in the town of Jimma.
- Harbu MFI finances the producers (farm loans), the women's groups (construction and processing unit equipment), and the women individually in their economic activities.
- A trader from Jimma buys and sells the production.

The actors are supposed to be autonomous in making their technical and strategic decisions. However, the bonds of dependency on the NGOs, in practice, sometimes undermine the theory. Here, presented briefly, are issues that relate to the roles of the actors and relations between them:

☛ **Relationship between FC and Harbu MFI:** as illustrated in the diagram of the value-chain, FC and Harbu MFI are the value-chain's two main drivers, although their roles, particularly that of the NGO, is expected to decline in the years come. The fact remains that it is the NGO who devised the model and participated very actively in its implementation, the MFI merely implemented the NGO's strategy<sup>7</sup>. However, they do not share the same level of financial commitment to the chain. Unlike the MFI (and other players in the sector), the NGO is not involved financially. In addition, it operates in a very different time frame to the other actors. Where trust can take several years to be established between an FO and an MFI (several loan cycles and sufficient time for the MFI to measure its risk), the NGO must achieve often ambitious goals and have spent its entire budget in a limited amount of time. This gap implies very different rationales for action and, as we have noted, levels of involvement also vary widely.

☛ **Relationship between institutions (NGOs and MFIs) and members of grassroots groups.** For sociological reasons, but also for objective reasons of competence, it seems

that members of grassroots groups (SHGs and FMOs) still treat the NGO that has done so much (and continues to do so) for them with a great degree of reverence. As a result, and despite the NGO's efforts to implement participatory methods, members of OP frequently find it hard to adopt a critical stance. Some evidence suggests they consider NGOs to be omniscient and, therefore, they place reckless hope on its abilities (both technical and financial). While a discourse on group empowerment is much in evidence, it is clear that the reality is still very different. Indeed, despite the efforts of the NGO the management capacity of women's groups is limited to managing the processing unit. As a result, it is Harbu MFI, for whom financial commitments to this project represent about 8% of its overall portfolio, which is managing this operation. In addition, the unit provides only a few jobs to women group members (currently three).

## Conclusion

The genesis of a project like the development of the soybean value-chain in the area of Jimma derives from the will of its sponsors to enable farmers to make the best of their production in order to obtain a decent income. We must recognize that the idea of bringing actors to work together who, initially, are institutionally and technically weak and do not know each other, is a very ambitious goal. The experience presented in this article demonstrates the extent to which defining the roles of each actor and analysing sociological factors among the actors are crucial elements that require constant attention. The differences in approach and the power imbalances sometimes produce the opposite effects to those sought, such as, to some extent, a loss of autonomy for the groups. For Harbu MFI as for FC, it is an important output with a view to replicate this model in the future.

### Document used for this article:

The part devoted to the presentation of the experience of soybean production was taken from an article entitled «*Financing the soybean value chain in Ethiopia*» by Tesfaye Befekadu (Harbu MFI) and Tarekegn Garomsa (FC), which appeared in the publication «*Value Chain Finance - Beyond microfinance for microentrepreneurs*», KIT and IIRR, Amsterdam and Nairobi, 2010.

### Further reading:

«*How to support value chain in a smart way?*», published by European Microfinance Platform.

7: The Harbu committees are largely made up of executives from the NGO.

This issue of *Zoom Microfinance* was written by François Legac,  
Partnership Manager of SOS Faim Ethiopia.

## SOS Faim and microfinance

For several years, SOS Faim has supported different microfinance institutions in Africa and Latin America. As with all development tools, we have to analyse the aims, models and implementation conditions of aid to farmers organisations. It is with this purpose in mind that SOS Faim publishes *Zoom Microfinance*.

This publication is available for download in French, English and Spanish on SOS Faim's website: [www.sosfaim.org](http://www.sosfaim.org).

Apart from *Zoom Microfinance*, SOS Faim publishes another newsletter, *Farming Dynamics*, which deals with the development challenges farmers' organisations face. This publication is also available for download in French and Spanish. SOS Faim's website: [www.sosfaim.org](http://www.sosfaim.org).

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