

LOCAL INITIATIVES FOR VALUE CHAIN FINANCE



A case of Bukonzo Joint Cooperative Microfinance
Society Ltd (BJCMS)

Netherlands

Development

Organisation

Solomon Kagaba
SNV Uganda



Connecting People's Capacities

Background to the Case:

SNV

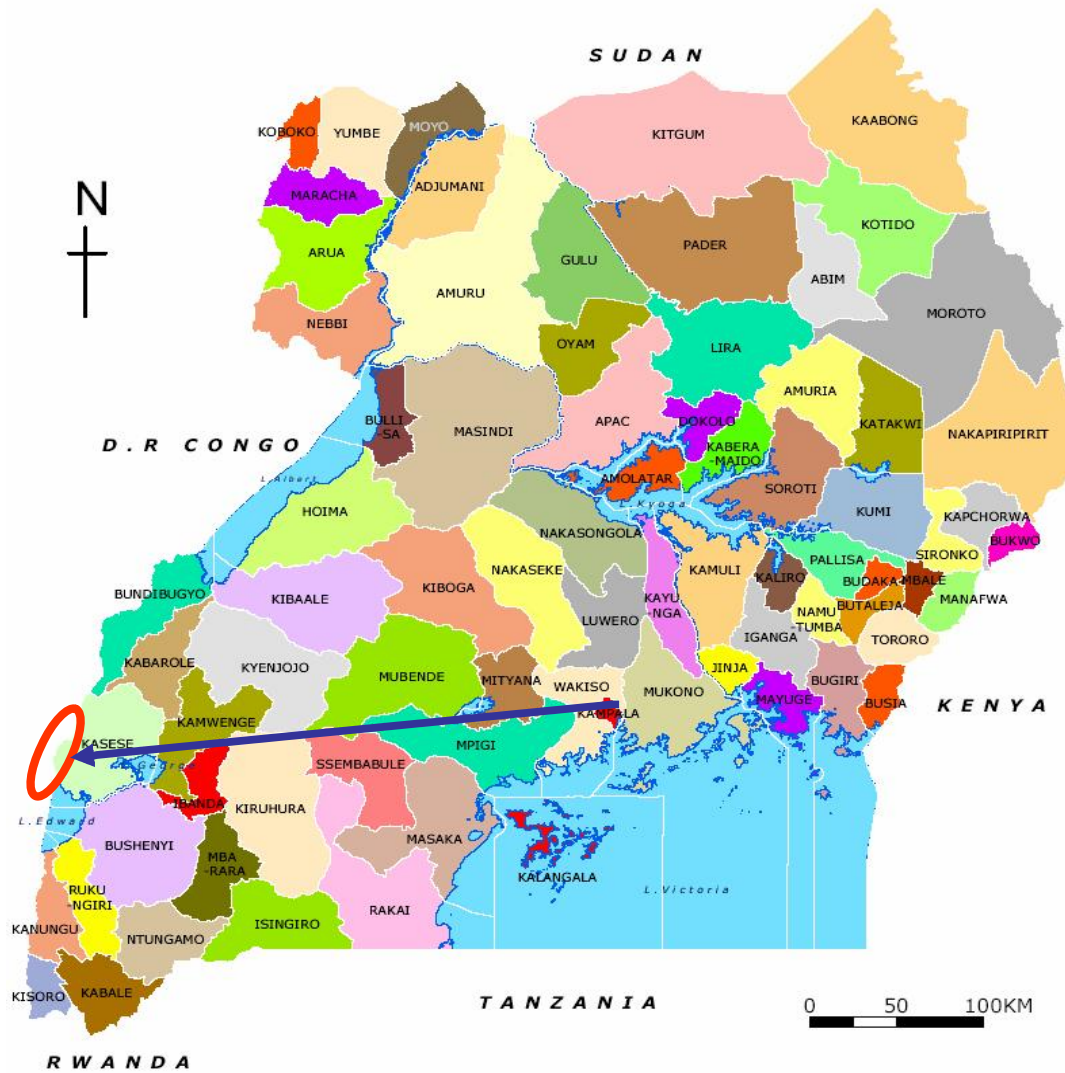
- Provides capacity development Services to local Organisations such as Bukonzo to deliver efficiently on their mandate
- Focuses on reducing extreme poverty by increasing production, employment and equitable income opportunities;
- Supports value chain development with financial services and BDS as supporting processes

Background to the Case:

Bukonzo Joint Cooperative Society

Self-initiative to improve returns by the local communities from coffee and honey through organised Marketing systems, resource mobilisation and quality management.

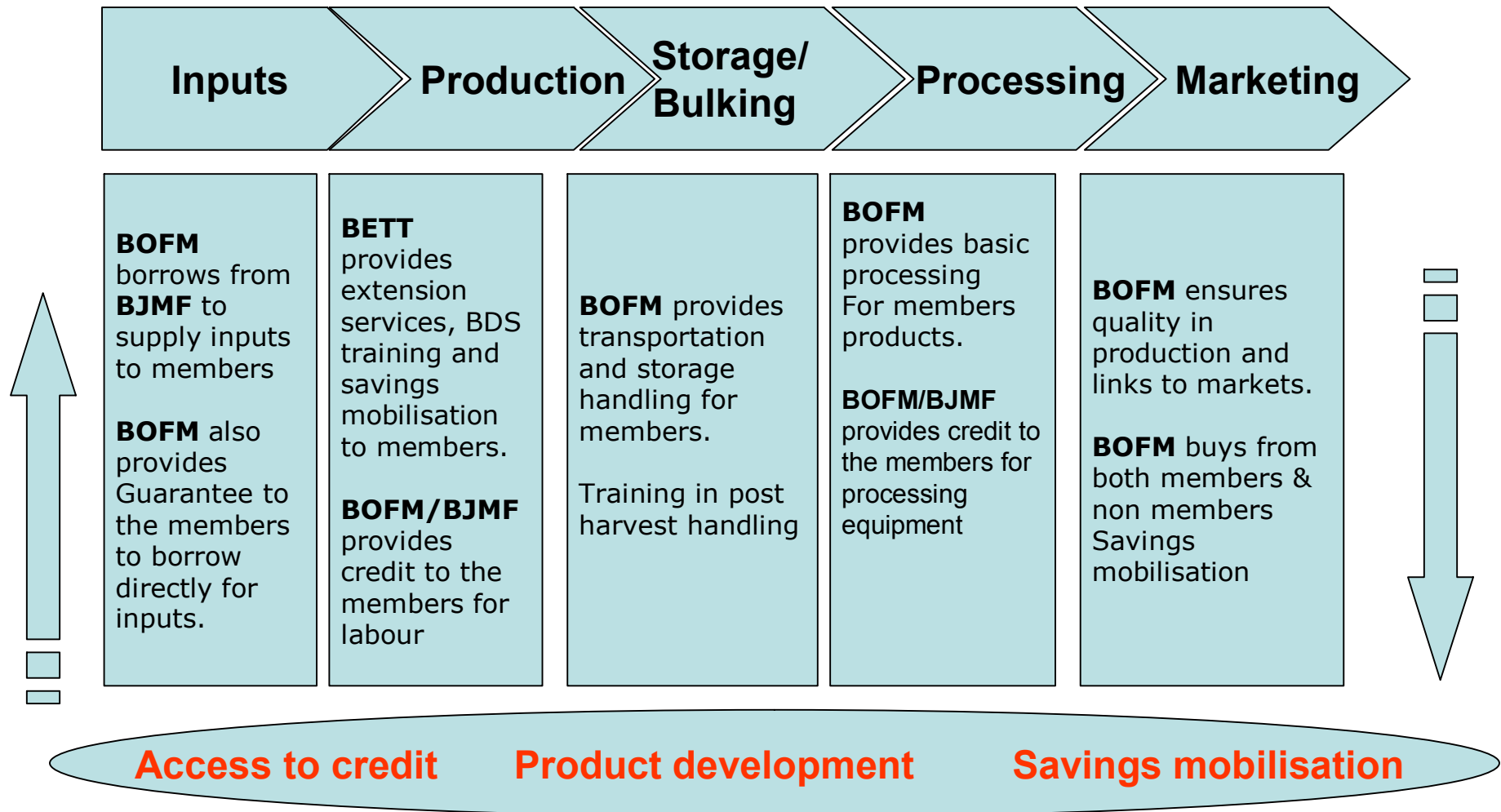
- » Started operations in 1999 with 11 groups comprising 142 women and 23 men,
- » Current membership of 57 groups with 1,957 members (1,373 women, 584 men)
- » Registered as a production and marketing cooperative focusing on coffee and honey.
- » Current focus has expanded to include financial services and skills development as embedded services



Context

- Despite the high yield potential for both coffee and honey, returns to the farmers were low due to:
 - Poor infrastructure,
 - Low literacy levels
 - Poor farming technology,
 - Lack of information on markets and
 - Insufficient and inappropriate financial products to support production processes and markets
- The approach is aimed at maximizing returns through the support to major activities in the value chain
- Undeveloped financial markets(credit, savings, Insurance etc) to meet the needs of the small scale farmers, processors and marketers

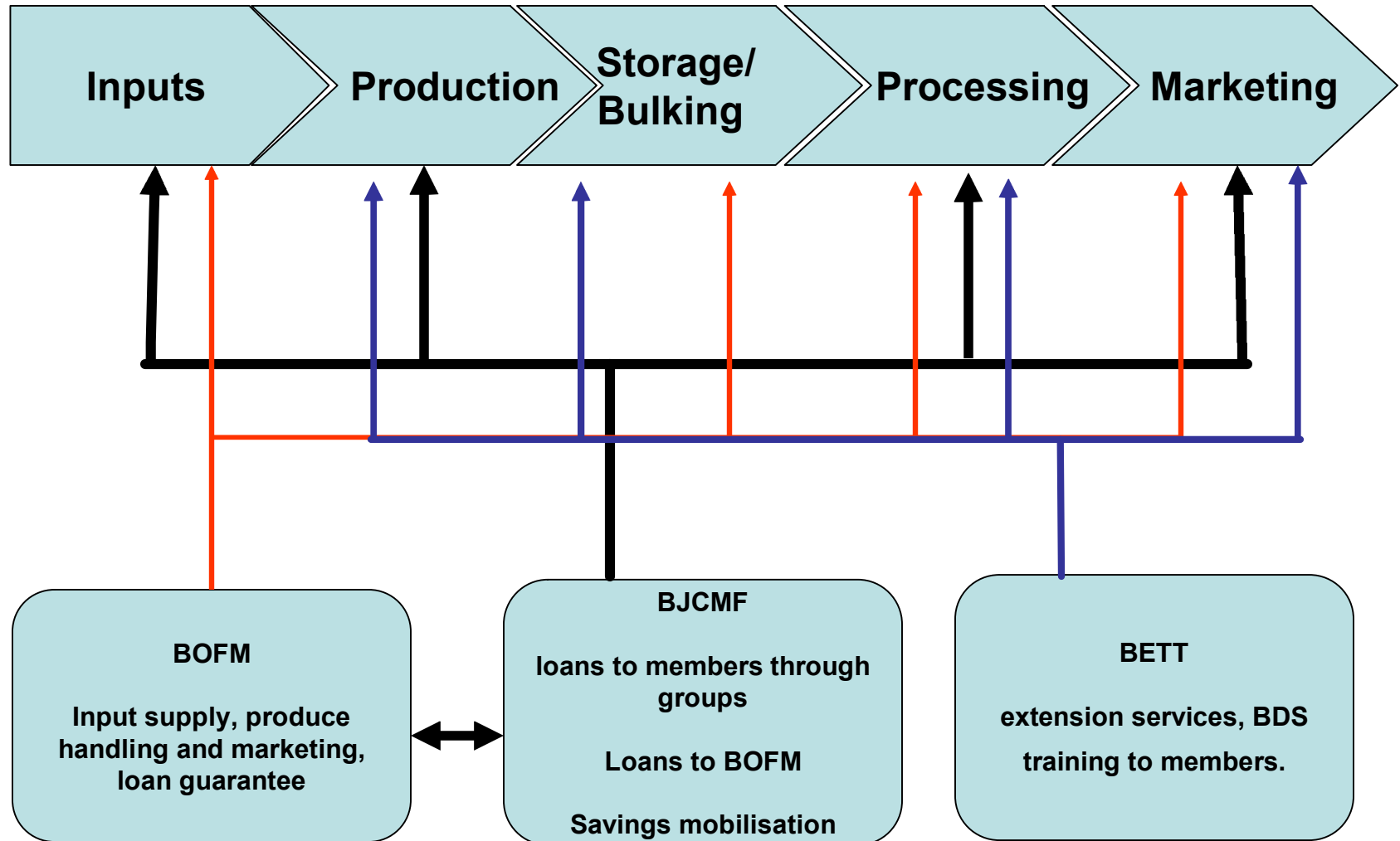
Context



The Bukonzo value chain financing Model

- Organized into 3 semi autonomous units each providing a different service; skills development, access to finance and marketing services.
 - ❖ Bukonzo Organic Farmers Marketing Association (BOFMA), the storage and marketing arm;
 - ❖ Bukonzo East Training Team (BETT), offering extension, BDS and community mobilisation training;
 - ❖ Bukonzo Joint Cooperative Microfinance (BJCM)- SACCO offering financial services to the other two components.

The Bukonzo Value chain financing model

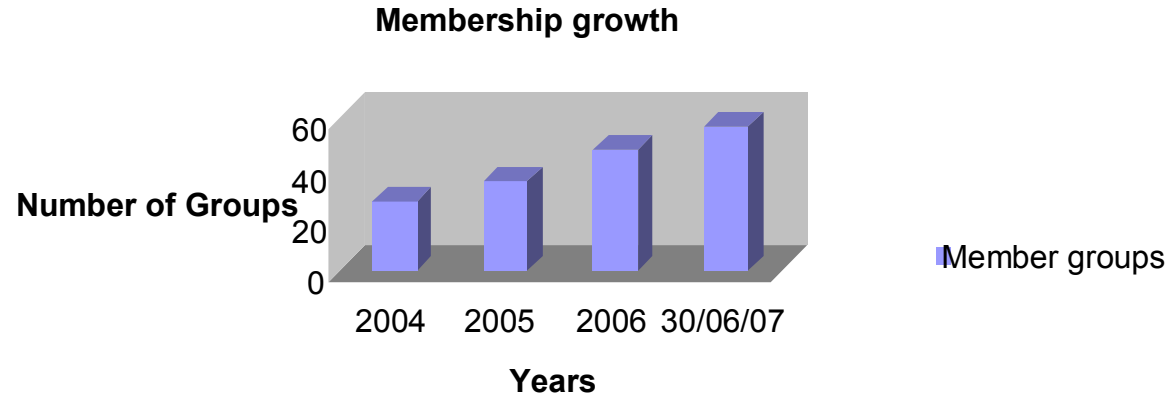


The Model.....

- Recognises the need for financial services to support production processes
- Enhanced savings mobilisation leads to reduced interest on loans hence financing cost
- Redistribution of returns from the production process to the members and the organisation
 - Above average prices on produce
 - Considers break even income with a margin for growth
- Emphasis on autonomy of the components in decision making strengthens governance

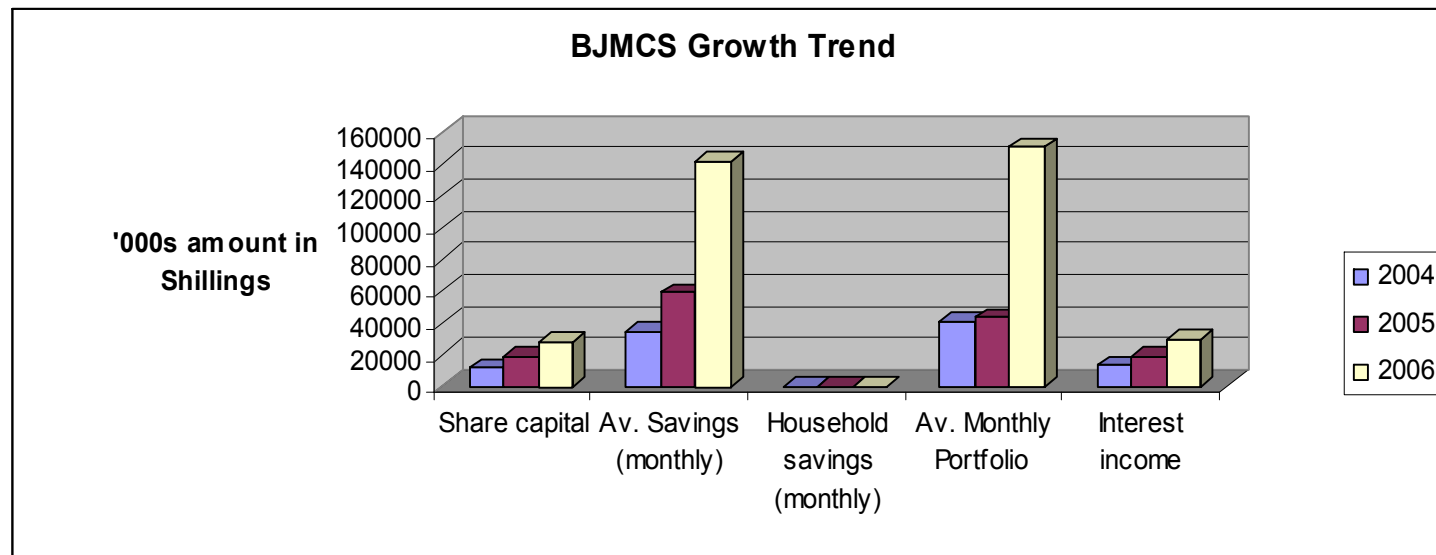
Results to-date

1. In terms of production and marketing, the society purchased 39.4 tons of coffee valued at 102 million in 2006 compared to 13 tons in 2005, an increment of over 200%!
2. Increased membership as illustrated below;



Results to-date

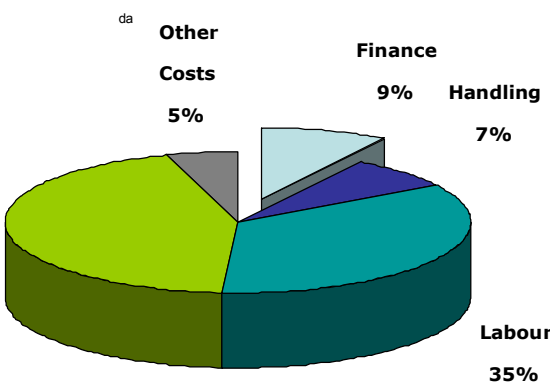
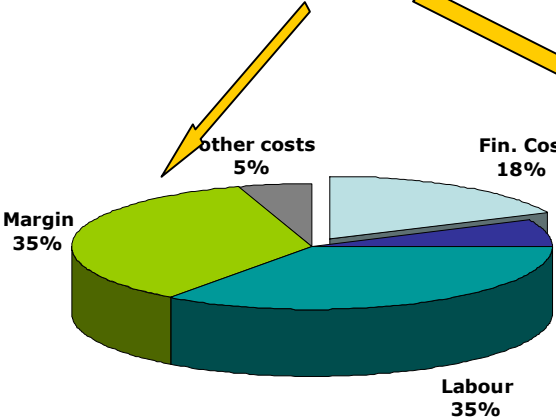
- 3. Reduced financing cost of production over the last 3 years. E.g for honey, cost reduced from 19% to 10% resulting in a 9% increase in the overall margin.



Results to-date

4. Consistently reduced the interest rate charged on loans from 3% to 2.5% to 2% as a result of increased activities..
5. Increased access to finance by the members and a higher return on investment as reflected by:
 - Supply of low priced inputs
 - Higher than average prices on products

Scenarios



Second scenario reflects financing from Bukonzo model at different stages of the value chain considering improved interest rates from **26% to 12%**. Cost of financing reduces to 9% of the production costs and the margin increases to 44%

First scenario reflects current financing without any intervention- cost of financing taking up **18%** of the production cost and a margin of **35%**

Emerging Issues

1. Governance:
 - ❖ Secondary cooperative.
 - ❖ 3 independent components.
2. The sustainability of BETT with financing from BOFMA and BJMF
3. How to ensure quality, efficiency and resource flow since many stakeholders are locked out. The cooperative controls 80% of the value chain activities.

Lessons:

- Rural communities are key to their own development and can contribute to defining working models that suit their own needs and environment.
- The value chain segments can not operate independently. The model offers a platform for developing integrated rural financial systems.
- Microfinance may not be able to address financial needs across the entire chain. The model provides an opportunity for integrating non-financial products such as warehouse receipt system and trader credit into the rural financial system

Conclusion

- Replication with major adaptations is possible: DATOSE SACCO in Zimbabwe using the model to improve financing for Marula value chain.
- BJMCS and her partners like PRICON, Rabobank, KADDENET & SNV should continue developing the model as a learning point but also as a way of supporting the rural communities to increase their income.
- The model can be a learning point for donors, capacity builders and practitioners involved in building inclusive financial systems

Thank you for your attention.

Questions and comments are
welcome