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IFC SmartLessons

real experiences, real development

Well-Structured Agribusiness Linkages Projects Lead to Happy Clients and a Developed Sector

Despite the large potential of the agricultural sector in Eastern Europe and Central Asia, production is still limited by a lack of technical knowledge and, in many cases, an unwillingness to change agricultural practices inherited from Soviet times. The problem has more than one cause: poor technology, management skills, and quality of produce prevent farms from joining agribusiness supply chains. Limited access to financing further prevents farmers who want to improve practices from making the investments needed to achieve better productivity and efficiency. This situation is further complicated by an unfriendly regulatory environment, specifically, land ownership issues and corrupt state subsidies systems, which distort the market. IFC Private Enterprise Partnership in Eastern Europe and Central Asia (IFC PEP-ECA) has developed a comprehensive approach to tackling each of these issues in its agribusiness projects; this approach has also been affirmed by the Independent Evaluation Group.

Background

In 2006, PEP-ECA underwent an in-depth evaluation by the Independent Evaluation Group (IEG). PEP-ECA has been conducting advisory services projects in agribusiness since the late 1990s,¹ and the IEG evaluation reviewed both active and closed agribusiness advisory services projects.

The lessons from this evaluation, coupled with years of experience on the ground, have been incorporated into PEP-ECA's current model for agribusiness advisory services projects:

This note outlines key aspects of implementing agribusiness supply chain advisory services projects in the ECA region and analyzes the lessons from IEG, as well as the driving forces that contributed to success or failure in achieving sector development.

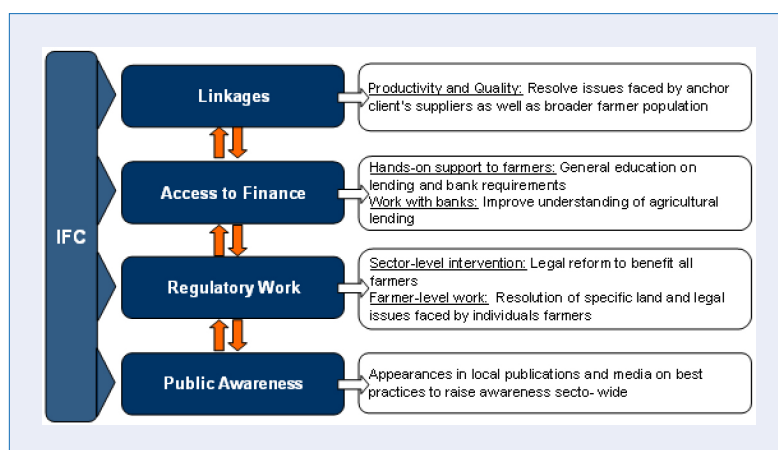
Lessons Learned

1) A strong pull factor is key to convincing farmers to implement changes.

Experience shows that an anchor processor motivates local farmers to adopt quality standards,

upgrade technologies, and improve their operational practices. Producers of milk, fruits, and/or vegetables are more willing to utilize IFC's advice if they feel confident their produce will be bought. Moreover, the processor may be even willing to pay farmers a premium price for produce that meets their requirements. The IEG evaluation showed that projects

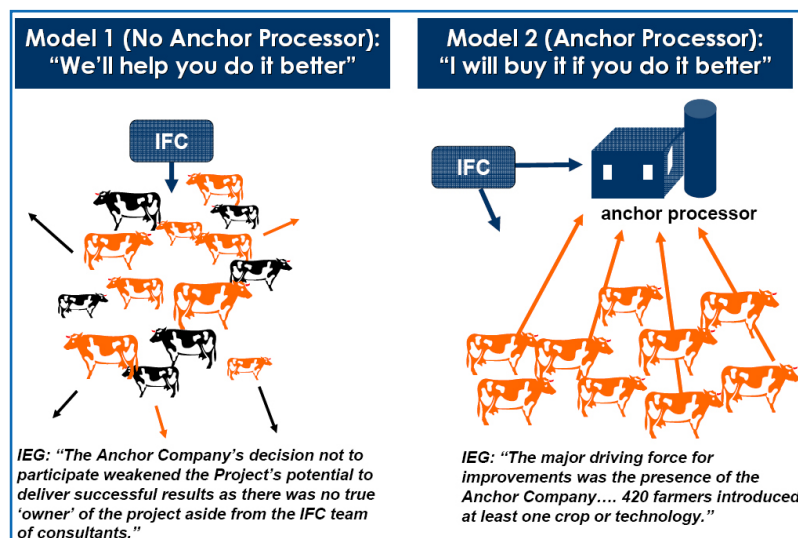
designed around an anchor client had higher



¹ In total, 10 agribusiness projects have been launched in the region. Currently, there are four active agribusiness supply chain projects: three in Ukraine and one in Tajikistan

development effectiveness ratings than those that did not.

Issues to bear in mind:



This lesson has been incorporated in recently developed projects by ensuring that they are designed around an anchor company in order to achieve targeted development results². Examples of when this has worked well and not so well are provided below:

<i>Tajikistan Supply Chains Development Project (Anchors: Geha Food – tomatoes, Dushanbe Dairy – milk)</i>	<i>Southern Ukraine Supply Chain Development Project (Anchor: Sandora Juice Company)</i>
Geha Food initially agreed to work with the IFC project, but then failed to ensure intake of tomatoes that farmers had planted specifically for Geha, choosing to buy harvested produce instead. As a result, farmers lost trust in the company and the following year they either reduced tomato production or refused to supply to Geha at all. Eventually, the company decided to pull out of the project. As a result, the tomato component of this project is likely to be terminated. The project is continuing its dairy supply chain work.	"Jointly with the project specialists, we had two pilot programs on processing carrots and tomatoes. I can say with certainty that the quality of vegetables supplied for processing has improved considerably due to good hybrid seeds, new growing technologies and combine harvesting. All these changes were facilitated by the project helping our suppliers to be more competitive and run sustainable businesses, and ensuring that Sandora has a stable supply of vegetables for processing."
	-Elena Kurik, Sandora Production Manager

² For more details on the impact of anchor companies, please see Ebbe Johnson's Smart-Lesson, "A Juicy Story - Using the Pull Factor to Build an Agricultural Supply Chain": <http://smartlessons.ifc.org/lessonlisting.asp?id=233>

- **Ownership of an advisory services project:** An anchor company should be fully committed to an advisory services project and take ownership of it as much as IFC does. This can be achieved through extensive engagement with the anchor company from the project design stage and signing of an Advisory Services Agreement; and
- **Memorandums of understanding (MOUs) with farms:** Farmers should also feel a responsibility to the IFC project. However, signing an MOU does not necessarily make a farmer more committed. Experience shows that some farmers did not treat MOUs as serious legal documents. It is important to thoroughly screen farmers up front, to ensure their commitment, and properly convey the meaning and implications of partnering with the IFC project.

2) Access to finance (A2F) issues must be addressed.

Analysis of the agribusiness sector in ECA has indicated that there are two main factors that inhibit access to financing: banks have little understanding of sector specifics and risks; and farmers have little understanding of the banks' credit culture and are scared of loans. Therefore, in order to address access to finance issues, IFC chose to target both banks and farmers.

Example: Southern Ukraine Supply Chain Development Project

Vegetable producers in Mykolaiv were facing challenges in accessing finance because credit officers did not differentiate among vegetable and grain producers when appraising loans. Through extensive discussions and public events (conferences and round tables), IFC was able to convince one of the leading banks to abolish its limit of US\$60/hectare for lending to vegetable producers in the Mykolaiv region. As of today, the project has helped its pilot farms raise about US\$4 million from banks. As a result, farmers were able to invest in combines and replace manual labor with more efficient machinery.

Tomato Harvesting: Initial process



Improved process with modern equipment



"Cooperation with the project brought a new vision and a new approach. We estimate that directly, and indirectly, the project helped us to extend our agribusiness credit line [in the Mykolaiv region] by more than UAH 100 million (~20M USD)."

- Elvira Alekseeva, Deputy Director for the Mykolaiv branch of Raiffeisen Bank Aval

Issues to bear in mind:

- **Banks are financial creatures and are new to agribusiness:** The IFC project must change the mindset of a bank's credit officers toward agriculture, to educate them about the risks, and to show them the potential of the agribusiness sector. In order to formulate a well-structured and digestible message for the banks and to gain trust, projects should conduct extensive sector analyses and be well equipped to address any questions the bank staff might raise;
- **Farmers are often scared of bank loans:** Ordinary farmers need consultations on bank lending culture, business plan development, and proper handling of financial data at the farm level. Once farmers get used to dealing with banks on a regular basis, they become more confident in their ability to access credit for machinery upgrades/purchases and, more important, in their ability to repay those loans; and
- **Projects should be staffed appropriately for A2F work:** The background and skills needed to analyze and interact successfully with banks require a slightly different skill set than is needed for the direct linkages work. Projects should keep in mind when making hiring decisions that a person should have A2F skills with an appropriate background in agriculture.

3) Regulatory reforms are needed to ensure sector-wide development.

When working with farms on supply chain development issues, it becomes evident that a large portion of the problems farmers face results from a weak regulatory environment. Common issues include: a lack of clarity about property certificates; the resulting inability to use land as collateral; and barriers to operational efficiency (standards, crop and input registration, laws on cooperation, etc.). IFC is uniquely positioned to influence agricultural reforms as an honest broker institution that has direct experience with problems on the ground.

Example: Ukraine Agribusiness Project (Closed)

Work was undertaken both at the farm level to help farmers legalize/register their rights on their land plots and property, and at the national level in cooperation with the Ukraine State Agency on Land Resources. The Kyiv office focused on policy, legislation, and information dissemination from a national level, while the local offices were engaged on the ground with farmers. In all, 33 national laws/regulations were passed as a result of the project's work, including:

- Land Code of Ukraine – legally formalized land ownership
- Law of Ukraine on Household Plot Farm – established mechanism to regulate household farms

IEG: "Presence in both national and regional levels created conditions conducive to successful exchange of information, experience and knowledge between local practitioners and policymaking community in the capital... The combination of IFC's unique institutional features has enabled it to help promote private sector development by addressing enabling environment issues in tandem with technical concerns...."

Issues to bear in mind:

- **Critical mass:** It is necessary to accumulate a critical mass of legal cases that farmers regularly face (i.e., a way to legalize farmers' rights for their land plots) to get this issue on the agenda of regional or national policymakers and have regulatory improvements. It is important for projects to keep this in mind and be strategic about which legal issues to target;
- **Regional vs. national level of policymaking:** In some cases, given national level political turmoil and/or the inaccessibility of national level policymakers, projects might want to consider what can be achieved through collaboration with regional government officials. It may be possible (and more efficient) to influence procedures and practices at the regional level to improve the regulatory situation faced by farmers; and
- **Collaboration with other IFC advisory services projects:** Given that IFC might have Business Enabling Environment (BEE) advisory services projects active in the given country, it is likely that other IFC project staff might already have well-established relationships with government officials who could benefit the agribusiness advisory services projects' legislative reform initiatives. It is important to capitalize on situations where there might be overlap between IFC projects, both to present a united face to the government and to ensure that resources are being used as efficiently as possible.

4) Impact is maximized when information is disseminated to the entire sector.

While the bulk of a project's activities should be focused on the specific supply chain of the anchor client, we need to leverage that experience to achieve broader sector-wide impact by engaging in a public awareness campaign. By promoting the learning and results achieved with the anchor processor and its supply chain, an advisory services project can inform and educate farmers who are outside that specific supply chain but could stand to benefit from this information. IEG's evaluation of agribusiness advisory services projects in ECA found that information dissemination was a key mechanism used by projects to expand the breadth of impact in a given region or sector.

(See Example: Vinnytsya Fruit Supply Chain Development Project on Page 4)

Issues to bear in mind:

- **Media articles, speeches, brochures, and educational programs on TV:** It is beneficial to use every opportunity to post articles in relevant agricultural media, deliver speeches at conferences, and develop project materials describing the results achieved at pilot farms. Farmers outside the anchor processor's supply chain are hungry for information, and this kind of dissemination can stimulate broader adoption of best practices.

es. Further, farmers have reported that IFC's publications in local media are very well regarded, and farmers know that the IFC recommendations reflect best practices and are independent of any commercial interest. In addition, developing good working relationships with local and/or national TV channels can be useful for reaching a large audience with educational programs on new agricultural techniques, managerial practices, and pilot farm results; and

- **Demonstration fields and field days:** Projects should create at least one demonstration field on a pilot farm and allow all interested parties to visit and learn about the new techniques and best practices being implemented on that farm. It is also useful to organize field days specifically for all relevant stakeholders in order to exhibit benefits and ensure that the message reaches the desired audience.

Example: Vinnytsya Fruit Supply Chain Development Project (Anchor: Agrana Fruit Fillers)



Pictured here is a group of farmers on their way to a seminar held at one of the project's demonstration fields.

The project aims to streamline the company's fruit supply with a group of pilot farms. However, in addition to these activities it conducts an extensive public education campaign in the region and beyond. A dedicated public education specialist is on board to leverage the achievements at pilot farms by highlighting the potential benefits to other farmers and stakeholders. As a result, since the beginning of the project, the number of hectares of new orchards established in the region has grown from 470 in 2005 to 740 in 2007.

Public awareness outputs: 102 media appearances, 110 project materials developed (e.g., brochures, manuals), and over 29,000 copies of project materials disseminated.

IEG: "The main benefit from a supply chain development model comes when the TA benefits are widely shared ... making the mutually beneficial contractual model a regional engine of growth."

DISCLAIMER

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