Promoting Financial Sector Dialogue: Making Finance Work for Africa

Financing Agricultural Value Chains in Africa

Focus on Cotton and Cassava in Burkina Faso

Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

On behalf of

BMZ

Federal Ministry
for Economic Cooperation
and Development

Published by

Deutsche Gesellschaft für
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Name and logo of consulting company:

MAXWELL
STAMP PLC

Design:
Alexandra Müller

Eschborn, March 2011

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Contents

List of Figures

List of Abbreviations and Acronyms

ADRAO	Association pour le Développement de la Riziculture en Afrique de l'Ouest
AFD	Agence Française de Développement
AfDB	African Development Bank
APIPAC	Association Professionelle d'Irrigation et Promotion d'Activités Connexes
APFSP	Agricultural Productivity and Food Security Project
ATM	Automated Teller Machine
BACB	Banque Agricole et Commerciale du Burkina
BCEAO	Central Bank of West African States
BIB	Banque International du Burkina
CAADP	Comprehensive Africa Agricultural Development Programme
CIDA	Canadian International Development Agency
CILSS	Comité permanent Inter-Etats de Lutte contre la Sécheresse
CIMA	Inter-African Conference on Insurance Markets
CIRDES	Centre International de Recherche-Développement sur l'Elevage en zone Sub-humide
CNSF	Centre National de Semences Forestières
COFAF	Conseil Ouest et Centre Africain pour la Recherche et le Développement Agricoles
CPF	Confédération Paysanne du Faso
CPG	Cotton Producer Groups
CSLP	Cadre Stratégique de Lutte contre la Pauvrété (Poverty Reduction Strategy Paper)
DANIDA	Danish International Development Assistance

DRAHRD	Direction Régionale de l'Agriculture, de L'Hydraulique et des Ressources Halieutiques
EC	European Commission
ECOWAS	Economic Community of West African States
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FIAB	Federation Nationale des Industries Agro-Alimentaires et de Transformation du Burkina Faso)
GDP	Gross Domestic Product
GM	Genetically modified
GIZ	Deutsche Gesellschaft fur Internationale Zusammenarbeit
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics
IDA	International Development Association
IFC	International Finance Corporation
IFIs	International Financial Institutions
IITA	Institut International d'Agriculture Tropicale
INERA	Institut National des Etudes et de la Recherche Agronomique
IRD	L'Institut de recherche pour le développement
IRSAT	Institut de Recherche en Sciences Appliquées et Technologies
ICT	Information and Communication Technology
IT	Information Technology
MAHRH	Ministère de L'Agriculture de l'Hydraulique et des Ressources Halieutiques (Ministry of Agriculture, Water and Fisheries)
MFIs	Microfinance Institutions
MIGA	Multilateral Investment Guarantee Agency
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
PADAB II	Second Phase of the Support to the Development of Agriculture in Burkina
PAFASP	Agricultural, Forestry and Pastoralist Value Chains Support Programme
PAOSA	Action Plan for the Organisation of the Agricultural Sector
PAMF	Première Agence de MicroFinance
PPP	Public-Private Partnership
RAG	Red-Amber-Green
RCPB	Reseau des Caisses Populaires du Burkina
SACCOs	Savings and Credit Co-operatives
SDR	Rural Development Strategy

SMEs	Small, Medium and Micro Enterprises
SOFIGIB	Société Financière de Guarantie Interbancaire du Burkina
SP/CPSA	Secretariat Permanent de la Coordination des Politiques Sectorielles Agricoles
STABEX	Stabilisation of Export Earnings
TA	Technical Assistance
UNPCB	Union Nationale des Producteurs de Coton du Burkina
UNDP	United National Development Programme
UEMOA	Union Economique et Monétaire Ouest-Africaine
USAID	US Agency for International Development
US$	United States Dollars
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WARBP	West Africa Regional Bio-Safety Project
WB	World Bank
XOF	West African CFA Franc

1 Executive Summary

This study is part of a series on agricultural finance in Africa, sponsored by GIZ and executed by Maxwell Stamp PLC. The aim is to examine access to finance for agriculture, with a view to identifying strategies and tactics which will improve that access for commercially-oriented agriculture. These recommendations will be used to inform policy development by government and development agencies, both at country level but also for the continent overall. To ensure the success of the studies, it is crucial that that they draw lessons from each other, and become a sum greater than their parts.

The countries studied are Kenya, Ghana, Burkina Faso and Ethiopia. Each country report includes analysis of a small number of agricultural sub-sectors. By referencing the analysis against specific value chains, we hope that we can illustrate how different agricultural markets work, and to highlight the features which make them more or less attractive to financiers. A synthesis report which aggregates and analyses all the findings from studies, and makes recommendations that can be considered by other countries in Africa trying to address similar challenges, is also being produced.

This study reviews the agricultural finance environment in Burkina Faso, with particular reference to the cotton and cassava value chains. Accompanying the value-chain analysis is a review of both the agricultural and financial sectors in Burkina Faso, with a performance dashboard for each. We hope these dashboards will be useful in highlighting the relative performance in certain key indicators between each of the countries under study and drawing the attention of policymakers to examples of particularly good (or bad) practice.

The fact is that, unlike Ethiopia and Kenya in particular, which are blessed with profound natural fertility, the long-term competitiveness of many forms of agriculture in Burkina Faso is limited. The climate is semi-arid, and water is relatively scarce in the absence of major irrigation schemes (Burkina Faso does have significant water resources, however). Burkinabe agriculture, as a rule, is subsistence level and it is difficult to find commercial financing opportunities. This is very different from the other ultra-poor country we studied, Ethiopia, where there is at least some culture of large commercial farming, and investors are keen on the future production opportunities the country presents (despite the many other problems Ethiopia faces – it does possess staggering fertility).

Burkina's major exports are people and cotton, and we are not being trite about the former. It is a serious and viable strategy for a country to consider the important role that remittance income plays in improving economic development. Integration of these remittances into the formal financial sector should be a priority. While reliance on remittances over the long term should not be encouraged, the policy should be to »make hay while the sun shines«.

The cotton industry is currently in crisis, though hopefully this will be resolved. The country has been handed a lucky break through other people's hardship (i.e. natural disasters in Pakistan and China) and the longer-term rebound in cotton prices due to economic recovery. It is unlikely to get another chance to really turn around its cotton industry and make it truly competitive at a producer level. It must therefore seize this opportunity while continuing to look at ways of diversifying agricultural production and value addition.

Burkina Faso will find its niches in agriculture, but an increasingly high rural population farming increasingly smaller plots of land at subsistence levels seems a recipe for long-term food insecurity. Other countries have the fertility to get away with this approach, but the Burkinabe environment is much less forgiving. We felt that Burkina Faso, perhaps more than any other country in the study, needs to make some bold decisions about its agricultural strategy. The country badly needs some large farms capable of producing economies of scale. Serious consideration should be given to inviting foreign investors in, with incentives to establish large contract farming and outgrower schemes (as in Ethiopia). This will require land reform, and the will to deal with the political controversy attached.

More than any of the other countries studied, Burkina Faso seems to have the most agricultural strategy and policy documents. Most of these incorporate many common sense concepts around diversification, engaging with the private sector, and strengthening value chains. However, while the development of strategy is admirable, most fail in implementation. The state, in collaboration with development agencies, perhaps needs to focus a little less on continual re-engineering of policy statements and devote more time to implementing those good ideas already established.

More than any other country studied, Burkina Faso is more deeply rooted in a major regional economic bloc. To a great extent, Burkina Faso's economic future and the prosperity of its people is dependent on the deepening of regional integration and the widening of access to markets.

The report is structured as follows:

- **Section 2 Agriculture,** includes a high-level review of the agricultural sector in Burkina Faso, together with sub-headings which break the analysis into the macro-, meso- and micro-level factors which we feel have the most impact in enabling access to finance for agriculture. A RAG (Red-Amber-Green) flag has been assigned against each factor, which reflects our subjective view of the current status of that factor in terms of having a relatively negative (red) or positive (green) impact on agricultural finance. It should be stressed that this is a device to draw the attention of the reader to areas of most interest, particularly where remedial action is most required, or where there are notable examples of good practice. It is not intend to be a rigorous quantitative tool.

- **Section 3 Business Environment**, is a short section with some cross-cutting factors which do not fit easily into either Section 2 or Section 4. Again, each factor has been assigned a RAG flag.

- **Section 4 Financial Sector**, is in the same format as Sections 2 and 3 but is focused on the financial sector.

- **Section 5 Value Chains**, is an overview of the structure of the cotton and cassava agricultural subsectors, the current role of financial services within these value chains, and some suggestions for practical interventions.

- **Section 6 Recommendations and Critical Success Factors**, is a high-level articulation of some key strategies and policies which we feel would have a major beneficial impact on access to finance for commercially-oriented agriculture, based on the information and expert opinion we have assimilated.

The key recommendations are as follows:

➲ Increasing agricultural productivity – while not directly related to agricultural finance, we felt this is a necessary precondition;

➲ Development of an Inputs Guarantee Fund – directly related to improving agricultural productivity is increasing input use, perhaps by building on, or replicating, the model used in cotton prefinancing;

➲ Recapitalisation of the cotton industry – while Burkina Faso is overly dependent on cotton, it would be disaster to let the one structured value chain fail entirely while hope for the industry remains;

➲ Strengthening Banque Agricole et Commerciale du Burkina (BACB) – previously the only commercial bank with exposure to agriculture, which has suspended lending since its takeover by Ecobank and a strategic review, and could be a key development partner in this sphere;

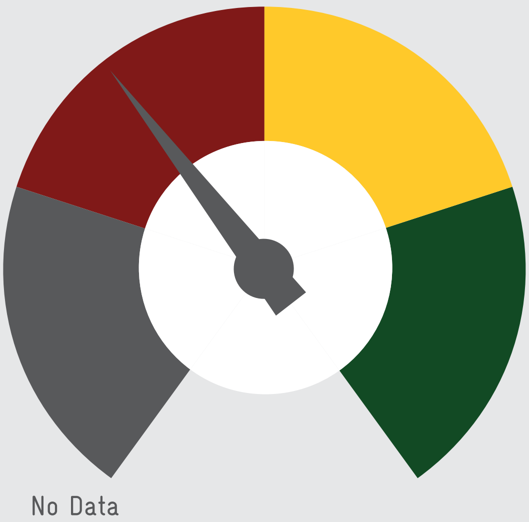
➲ Strengthening Reseau des Caisses Populaires du Burkina (RCPB) – the massively undercapitalised and institutionally weak co-operative banking network is probably the only option in terms of outreach to farming communities at present;

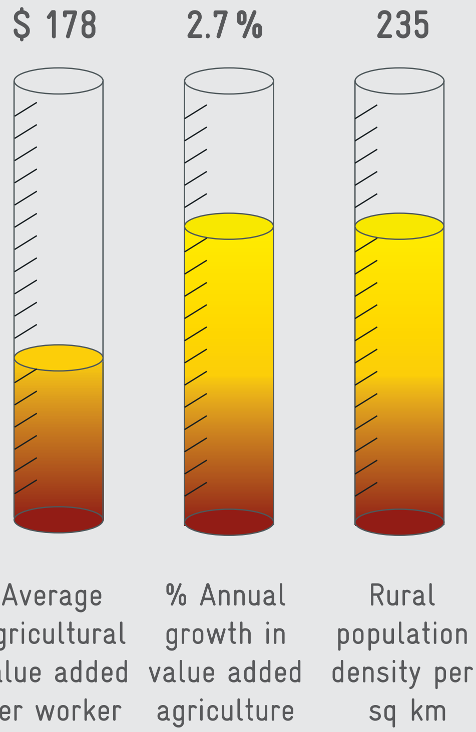
- Involving large agro-industrial companies – development agencies and government need to bend over backwards to attract major industrial farmers, processors, input suppliers and providers of other ancillary services;

- Improving irrigation through Public-Private Partnership (PPP) investments – perhaps the single biggest micro-factor that we felt is worth concentrating on in terms of infrastructure potential; and

- Potential new product development – we have put forward an idea for a livestock purchase loan, secured on remittance income from family members.

2 Analysis of Agricultural Sector





Burkina Faso is an extremely poor and food insecure country. It suffers from natural competitive disadvantages through scarcity of water, transport challenges (i.e. lack of coastline), and insect borne infection. The country is hugely dependent on its comparative advantage in cotton production, though slumps in market prices have even left this industry vulnerable.

Figure 1: Performance Dashboard for Agricultural Sector

Macro-Level

Burkina Faso´s inability to reduce economic dependence on cotton is a major challenge. The country requires major investment to overcome some of the intrinsic challenges to competitiveness such as water scarcity and transport difficulties.

Leadership	The MAHRH has set up policy co-ordination mechanisms but implementation of policy still seems to be poor.
Strategy Development	There are plenty of strategies and policies in place, but little in the way of tangible implementation plans and performance measurement.
Legislative and Policy Development	The state seems effective in formalising policy, but the process of implementation is weak and could be affected by the new decentralisation process.
Budget Allocation	Burkina Faso has a high budget allocation to agriculture, much of which is provided by development partners, however.

Meso-Level

Burkina Faso has a wide range of players in the agricultural sector, and has made significant progress in embedding a structure for producer organisations. Clearly capacity of some of this players is quite weak, however.

Parastatal Organisations	There are a large number of parastatal an academic institutions but under-investment and lack of co-ordination have hampered effectiveness.
Producer Organisations	A lot of progress has been made in establishing an effective structure for producer organisations, but may still lack financial sustainability.
The Development Community	As an ultra-poor country, Burkina Faso receives a great deal of donor attention, some of which is not well co-ordinated, however.
Agribusiness	Aside from cotton, and a number of other small exceptions, agriprocessing is basically absent. There are traders, of course, and some small input suppliers, too.

Micro-Level

Agricultural production in Burkina Faso is basically at subsistence levels, and in dire need of drastic improvements in yields and the development of a culture of modern commercial farming. Most farmers do not even have access to animal traction, let alone more modern agronomic practices.

Producer Viability	Farmers tend to have very small plots of land and are basically subsistence farmers. There is a small population of farmers with slightly larger landholdings, however.
Access to Inputs	Aside from the cotton sub-sector, access to inputs for Burkina Faso farmers is very poor indeed.
Water and Irrigation	Despite variability in rainfall, Burkina Faso has access to significant water resources. The potential for expanding of irrigation is a major priority.
Agricultural Extension Services	Extension services exist but tend to have low levels of uptake in terms of new technology. The scope of extension services has reduced over time.
Agricultural Standards, Pests and Disease	Poor performance, largely as a result and consequence of lack of integration into international markets, and poor value chain structure.

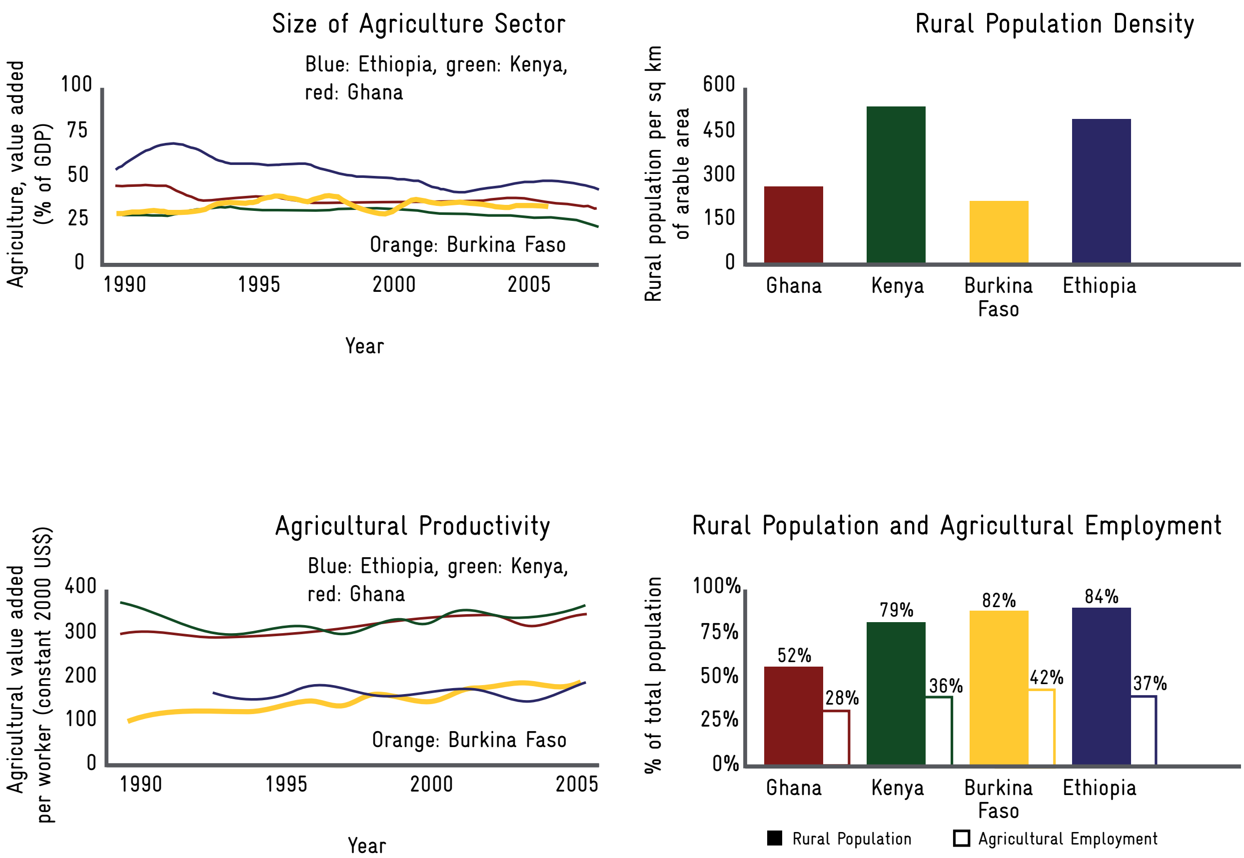


Figure 2: Comparison of Key Agricultural Statistics

Macro

LEADERSHIP

The strength of both the leadership structures and the qualities of the individuals who make up the cadre is vital. The ability to influence stakeholders and manage change is more important than technical experience.

*

STRATEGY

Strategic objectives are the straight forward part. Generally plans are missing specific and robust monitoring and control frameworks, to ensure deliverables are achieved. They also fail to assign accountability, and also how to incentivise staff.

**

BUDGET

Budgets generally need to increase but, most importantly, demonstrate stability. Allocation and measurement of the impact of funds should be integrated into a holistic monitoring and control framework.

LEGISLATION/ POLICY

Good and stable government works with both the public and private sector to develop robust and unambiguous legislation affecting the agricultural sector, and enacts it in a timely manner. It is not subject to partisan interests.

*It is vital that the strategy and leadership are a good fit and well alligned. Leadership should be accountable for development and delivery of the strategy according to agreed measures.

Meso

PARASTATAL ORGANISATIONS

The sector should be supported with a range of well-funded expert agencies to promote development. Where possible, strong links should be formed with the private sector. Research and development, and depth and outreach of extension services are key.

PRODUCER ORGANISATIONS

Well-funded and well-organized producer organisations are a vital component in linking small farmers with other stakeholders and the rest of the economy. Ideally these are organised from the ground up by farmers.

DEVELOPMENT AGENCIES

Development agencies have, and will continue to have a role in supporting agricultural development, both in terms of funding and expertise. They should be aligned where possible with the agricultural sector strategy.

AGRIBUSINESS

A strong agribusiness sector is important both for value addition (including input supply), but also to provide a stable domestic off-take market. Agriprocessors are particularly adept at intermediating with the producers.

BUSINESS ENVIRONMENT

**It is difficult for leadership to stipulate the available budgets and to specify the precise government policy and legislative plan. Alignment between politicians and civil servants on these issues is vital.

Micro

INPUTS

Access to a wide market of competitive input supplies is a key ingredient. Suppliers need to have scale and outreach, and a business model capable of reaching small producers. Like agriprocessors, input suppliers can intermediate finance and expertise.

NATURAL RESOURCES

The natural resources of the country in relation to agriculture are generally static, aside from the unique ability to better harness and manage vital water resources. Investment in water security is difficult to finance but has long-term pay-offs.

KNOWLEDGE

Producers need the requisite to execute their enterprise effectively, exemplified in the provision of extension services. The outreach and depth of extension services is an asset, and can also be used to facilitate access to finance.

RISK MANAGEMENT

The ability to manage key agricultural risks is very important for maintaining yield quantities and qualities. Aside from water, pest and disease management are the major themes. The policies and processes to address this are important.

COMPETITIVENESS

The commercial ability of farmers and the underlying viability of their farm enterprise is crucial. In the longer term, most farms need to be larger and better managed. Focus should be on those with high-growth potential.

Figure 3: Key Factors Affecting Agricultural Markets

2.1 Overview

Red status:

Structural reforms, sound macroeconomic policies and steady investment enabled Burkina to sustain significant growth rates and maintain relative macroeconomic stability over the decade preceding 2007, however, the economy's narrow resource base and high vulnerability to exogenous shocks jeopardise growth performance. Although semi-arid and landlocked, Burkina has the potential to develop and diversify its agriculture especially through irrigation. However, very few value chains are structured and the processing industry virtually non-existent. A large number of structural factors greatly constrain the development of the agricultural sector.

Burkina Faso is one of the world's poorest nations, with 45 % of the population living on less than a dollar a day. Burkina Faso remains mainly dependent on foreign aid, which represents 10 % of the Gross Domestic Product (GDP) and 80 % of public investments. Per capita income was US$480 in 2008, significantly lower than the average US$524 in Sub-Saharan African countries, and less than a third of Kenya's GDP per capita. The country maintains a comparatively low ranking of 177 out of 182 countries in the United Nations Development Programme (UNDP) Human Development Index.

Burkina Faso is characterised by chronic food insecurity. Most people live in rural areas and survive on subsistence farming on small family plots of land. The average household size of land cultivated is 0.4ha. Maize, sorghum and millet make up 85 %-90 % of the staple diet in Burkina Faso. In rural areas these cereals make up nearly 100 % of consumption and little is ever marketed. More than 38 % of households had difficulties satisfying their food needs in 2007, according to the national household survey. Rice has become the preferred staple food for many city dwellers over the years. However, national production meets only about 30 % of the demand.

The agriculture sector accounts for close to 40 % of GDP (agriculture 25 %, livestock 12 % and for 3 % forestry and fishing) and is considered the main source of economic growth. Farming employs 85 % of the population, and agriculture is the main source of income for the majority of the population, generating 44.7 % of household income, of which 24.3 % is through crop cultivation and 20.4 % through livestock husbandry. The average revenue per household in 2006 (agricultural and non-agricultural revenues) was XOF743 000 or about US$1 500 a year.

Key national agricultural commodities and value chains are: oilseeds (cotton, sesame, groundnuts), legumes (cowpeas), tubers (cassava), cereals (maize, rice, sorghum, millet), livestock and horticulture. In 2009, an estimated US$648m was generated through exports, with over 50 % of this revenue owing to the agricultural sector, and predominantly the cotton and livestock markets. Despite the growing strength of the mining sector, the Burkina Faso economy is still structurally and excessively dependent on cotton, which remains the country's main export earner. Cotton represents close to 70 % of the total value of exports in the last five years. Aside from the cotton industry there is virtually no agriprocessing in Burkina Faso.

Historically, Burkina Faso has relied mostly on extensive agriculture to meet its population's food needs. However, in the past two decades, its population has grown at nearly 3 % a year while crop productivity has stagnated. Cereal yields are still below one ton of grain on average per hectare. Livestock production, largely practiced under extensive pastoral and agropastoral conditions, displays equally low productivity. Being a net importer, food security in Burkina Faso has also been significantly affected by the recent surge in food prices worldwide.

The higher cost of living triggered riots in February 2008. However, the government, with the support of donors, took concrete measures that helped alleviate social tensions. The government temporarily suspended the automatic mechanism for setting oil prices, distributed food aid from food reserves, issued three-month, renewable exemptions from customs duties and Value Added Tax (VAT) on main staple foods, and set indicative prices based on reasonable profit margins for imported goods. Additional measures taken in a special action plan included the supply of subsidised fertiliser and improved maize and rice seed to farmers, guaranteeing a profitable price for rice and facilitating producers' access to farm equipment. Overall, farmers responded favourably to these measures, leading to a significant increase in sown acreage.

Cereal-root crop farming systems are dominant in the southern part of the country and the area is characterised by a relatively low population density, abundant cultivated land, poor communications, lower altitude, higher temperatures, and the presence of a tsetse challenge that limits livestock numbers and prevents the use of animal traction in much of the area. Although cereals such as maize, sorghum and millet are important in the system, in the absence of animal traction, root crops such as yams and cassava are more important than cereals. A wider range of crops is grown and marketed, and intercropping is far more significant.

In the northern part of the country, agro-pastoral millet/sorghum farming systems dominate. These are characterised by rain-fed sorghum and pearl millet as the main sources of food and are rarely marketed, whereas sesame and pulses are sometimes sold. Land preparation is by oxen or camel, while hoe cultivation is common along riverbanks. Livestock are kept for subsistence (milk and milk products), offspring, transportation (camels, donkeys), land preparation (oxen, camels), sale or exchange, savings, bridewealth and insurance against crop failure. The population generally lives permanently in villages, although part of their herds may continue to migrate seasonally in the care of herdboys. The main source of vulnerability is drought, leading to crop failure, weak animals and the distressed sale of assets.

The country stands to benefit from regional actions in the context of an integrated and open West Africa economic space under the auspices of West African Economic and Monetary Union (WAEMU) (or UEMOA from its name in French: Union Economique et Monétaire Ouest-Africaine) and the Economic Community of West African States (ECOWAS).

ECOWAS is a regional group of 15 West African countries, founded in 1975, with the signing of the Treaty of Lagos. It was founded to achieve »collective self-sufficiency« for the member states by means of an economic and monetary union creating a single large trading bloc. The ECOWAS Secretariat and the ECOWAS Bank for Investment and Development are its two main institutions to implement policies and projects for intra-community road construction and telecommunications, and agricultural, energy and water resources development.

WAEMU is a customs union and monetary union between eight ECOWAS members (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo). The common currency is the West African CFA franc (XOF), whose exchange rate is tied to the Euro and guaranteed by the French Treasury.

The objectives of WAEMU are:

- Greater economic competitiveness, through open and competitive markets, along with the rationalisation and harmonisation of the legal environment;
- The convergence of macroeconomic policies and indicators;
- The creation of a common market;
- The co-ordination of sectoral policies; and
- The harmonisation of fiscal policies.

2.2 Macro-Level

Red status:

Being landlocked and overt dependence on cotton exports are constraints on trade competitiveness and growth in Burkina Faso. Despite reforms in the 1990s, diversification has yet to unfold in the country. Burkina's natural comparative advantage in cotton has reinforced its export concentration in unprocessed cotton. Non-cotton agriculture is oriented mostly toward domestic consumption.

2.2.1 Leadership

Red/Amber status:

Burkina Faso's political system is characterised by a highly centralised state system which remains deeply rooted in hierarchical traditions. The well-organised and professional high-level administration can be contrasted with weak lower-level administrative capacity. Patron-client relationships continue to exist in the state system, hampering the effectiveness of reform implementation and the impact of public debate. A general culture of top-down governance has resulted in societal deference to the exercise of state authority. The state's dependence on donor financing also causes distortions in accountability. Greater attention is often given to donor demands, leading to a focus on the development of higher-level policies rather than policy implementation at the grassroots level. The plethora of donor-funded and overlapping programmes is also an issue, despite efforts from the donor community towards greater aid effectiveness and harmonisation.

The Ministry of Agriculture, Water and Fisheries (MAHRH) (in French – Ministère de L'Agriculture de l'Hydraulique et des Ressources Halieutiques) takes the lead on design and implementation of the national agricultural policy. MAHRH's mission is »to promote and guide sustainable development of agriculture, livestock, fisheries and agro-based production systems and strengthen related institutions now and in the future«.

A number of agricultural policies and action plans were developed between 1995 and 2004, which led to the creation of a co-ordinating body, the Secretariat Permanent de la Coordination des Politiques Sectorielles Agricoles (SP/CPSA). The SP/CPSA is in charge of co-ordinating and updating agricultural policies in country; and monitoring performance nationally against these policies through various implementation structures (implementation units, steering committees and public-private joint committees). It is in charge of strengthening relations between the state and rural development public and private stakeholders. More than 70 stakeholders are represented in the SP/CPSA:

- 18 ministries and 13 regional governors;
- 8 members of the private sector;
- 15 members representing several value-chains; and
- 3 observers from development partners.

2.2.2 Strategy Development

Amber status:

Limited progress has been made against the Poverty Reducation Strategy Paper and the Rural Development Strategy (SDR). Whereas these strategies have been helpful in defining priorities, their large number, and their wide-ranging scope, has also contributed to confusion and overlaps. Moreover none of these documents are binding, which reduces the efficacy of implementation.

The overriding national development strategy is the Poverty Reduction Strategy Paper (the CSLP, Cadre Stratégique de Lutte contre la Pauvrété), initiated in 2 000 and revised in 2003. It constitutes a strategic framework which defines government's development priorities on a three-year basis. Government is in the process of developing a new Strategy for Accelerated Growth and Sustainable Development which is expected to update and supersede the existing CSLP in 2011.

The 2002 Lettre de Politique de Développement Rural Décentralisé provides an overall framework for all rural initiatives in the country and a vision up to 2010. It provides a guiding document for the various Local Development Projects and the Second Phase of the Programme National de Gestion des Terroirs.

The Stratégie Nationale de Sécurité Alimentaire sets the conditions towards sustainable food security by 2015, and contributes to reducing structural causes to inequality and poverty in Burkina.

The main agriculture sector strategy was developed in 2003 under the SDR. The SDR defined seven strategic pillars and priority actions for advancing the rural development agenda:

- Increasing, diversifying and intensifying crop, livestock, forestry, wildlife and fishery production;
- Reinforcing the links between production and markets;
- Increasing and diversifying income sources;
- Improving water supply and sanitation;
- Ensuring sustainable natural resources management;
- Strengthening the capacity of stakeholders and creating an enabling institutional framework; and
- Promoting a gender approach in order to enhance the economic and social status of women and youth in rural areas.

The SDR is led by MAHRH with support from the Ministère des Ressources Animales (Ministry of Animal Resources) and the Ministère de l'Environnement et du Cadre de Vie (Ministry for the Environment and Living Conditions). It is financed through:

- A range of donor-funded programmes (including the Agricultural Development Programme of GIZ; the Agricultural, Forestry and Pastoralist Value Chains Support Programme (PAFASP); and the World Bank (WB);
- Targeted budget support (Second Phase of Support to the Development of Agriculture in Burkina (PADAB II); African Development Bank (AfDB);

- Sector specific funding (e. g. for cereals); and
- Direct budget support;
- More recently in the Green Revolution Document (2007), the government recognised the need for renewed emphasis on food security. It aims to set up practical and strong activities to reverse current trends and develop an agribusiness industry based on diversifying and intensifying, in a sustainable manner, agriculture, forestry and livestock husbandry. The key selected value chains with the greatest potential to improve food security, livelihoods and agro-industry development are cereals (sorghum and maize), cowpea, rice, fruits and vegetables (tomato, onion and mango) and cotton.

Other complementary programmes relevant for agricultural growth include:

- Enhancing rural infrastructure (led by Ministry of Infrastructure);
- Private sector and export promotion (led by Ministry of Trade);
- Natural resources preservation, environment and desertification (led by Ministry for the Environment and Living Conditions);
- Local development and decentralisation (led by Ministry of Local Government); and
- Animal production intensification (led by Ministry of Animal Resources)

2.2.3 Legislative and Policy Development

Amber status:

Policies and legislation seem to be well-developed and disseminated. Numerous institutions and parastatal bodies are in charge of co-ordinating and monitoring the implementation of these policies. The ongoing decentralisation process is yet to materialise in adequate financial and human resources at the commune, province and regional levels. Following the 2008 food, fuel and financial crises, government together with development partners have set up short-term measures to reduce the effect of food prices and agricultural inputs hike.

There are a plethora of agriculture-related policies including:

- Plan d'Actions pour la Gestion Intégrée des Ressources en Eau;
- Stratégie Nationale de Développement et de Gestion des Ressources Halieutiques; and
- Stratégie Nationale de Développement de l'Agriculture Irriguée.

One of the main policies affecting producer and processor groups is the laws regulating groups and co-operative societies. The Act 014 of 1999 defines the classification of rural organisations by value chain. These are structured into Unions, Federations and Confederations. The major innovation is the recognition of their profit-making character. A large number of donor-funded programmes are assisting producer organisations in registering and formalising their status. This has helped producer groups to open bank accounts and access credit.

The country is currently undergoing a large decentralisation process led by the Ministry of Interior and supported by a range of development partners. Decentralisation laws were passed in 1998, which specify the roles of villages, communes, municipalities, departments, provinces and regions. These include devolution of power in areas relating to land tenure; land planning; environment and natural resources management; economic development and planning; health and hygiene; education, vocational training and literacy; culture, sports and leisure; human security; water and electricity; markets, slaughterhouses and fairs. Decentralisation is a new process in Burkina. In 2006, 302 rural communes were created along with the first municipal elections. Delegation of powers to the regions from the centre is slow, as sectoral ministries are dubious and sometimes opposed to it, and competences and financial resources at the local level are few. It is unclear yet how these new structures will be able to contribute to agricultural policy implementation.

In the wake of the rising food prices, the government prepared an Emergency Plan for Food Security (2008) to mitigate the impact of the food price crisis. Accordingly, the government has taken a number of short-term measures to deal with the immediate effects of rising food prices, including:

- Tax relief on high consumption food items, such as rice and milk;
- Distribution of seeds and fertiliser to farmers; and
- Use of safety nets in the health and education sectors.

In taking these short-term measures, the government acknowledged that these necessary steps were not sufficient to address the more structural aspects of food insecurity. Hence, its decision to complement short-term measures with dedicated efforts aimed at improving the productivity and post-harvest conditions of food crops and animal products, and facilitating access for those segments of the rural population that are most affected by food insecurity.

2.2.4 Budget Allocation

Amber/Green status:

Burkina Faso is one of the top five countries which allocates over 10 % of its national budget to agriculture. In the 2010 National Budget available online, the total amount assigned to MAHRH, the Ministry of Agriculture, Water and Fisheries, is close to 20 % of the budget. However, over 20 % of the agricultural sector budget comes from grants and 50 % from loans. The budget is geared towards a revival of agriculture and livestock production through facilitating access to inputs (e.g. fertiliser and seeds), and improved irrigation.

Under the Maputo Declaration of 2003, Burkina Faso, along with other African countries committed itself to the Comprehensive Africa Agricultural Development Programme (CAADP) and the allocation of 10 % of the national budget to agriculture. In 2010, it was the 20th country to sign its CAADP Compact agreement. By then, Burkina Faso had made available 14 % of its national budget for the agricultural sector.

2.3 Meso-Level

Amber status:

Despite a fairly structured rural sector with local, regional and national organisations representing a range of value-chain stakeholders, women and youth are not involved and do not occupy any positions of responsibility. The creation of Regional Agricultural Chambers has had a slow start.

2.3.1 Parastatal Organisations

Amber status:

There are a range of parastatal organisations including agricultural research and extension centres, and industry groups. Some of these face financing issues, while others have started to tackle this by commercialising some of their services (e.g. IRSAT, Institut de Recherche en Sciences Appliquées et Technologies) to a range of clients.

Following the structural adjustment programme which started in 1992, the state gradually refocused its role and withdrew from agricultural production, the provision of agricultural inputs, marketing, agriprocessing and equipment supply. A range of national and international agricultural research and extension structures remain including:

- INERA: Institut National des Etudes et de la Recherche Agronomique;
- IRSAT: Institut de Recherche en Sciences Appliquées et Technologies;
- CNSF: Centre National de Semences Forestières; and
- Production of animal feeds; and
- CIRDES: Centre International de Recherche-Développement sur l'Elevage en zone Sub-humide.

Another organisation worth mentioning is the Système d'Information sur la Sécurité Alimentaire, which publishes a range of statistics (weather, yields, market prices) and emergency early warning systems in case of agricultural yield deficits and forecasted hunger periods.

Most of these institutions rely on external funding to cover recurrent costs and disseminate knowledge and technologies. INERA for instance was involved in developing improved varieties of cassava, better suited for the local climate and soil conditions and appropriate for transformation. INERA's involvement stopped after the programme (and funds) ended and there is no consistent follow-up on the ground. IRSAT, the national research institute of applied sciences and technology, has set up a differential fee scale for its food quality/inspection testing depending on the type of organisation (non-government organisation (NGO), public or private sector).

Burkina Faso hosts the headquarters of the CILSS (Comité permanent Inter-Etats de Lutte contre la Sécheresse dans le Sahel). Created in 1973, this regional organisation aims to combat desertification and improve food security across West Africa.

A large number of regional and international agricultural research organisations are also represented in Burkina Faso including:

- CORAF: Conseil Ouest et Centre Africain pour la Recherche et le Développement Agricoles;
- IRD: L'Institut de recherche pour le développement (branch of the French public organisation);

- ICRISAT: International Crops Research Institute for the Semi-Arid Tropics;
- IITA: Institut International d'Agriculture Tropicale; and
- ADRAO: Association pour le Développement de la Riziculture en Afrique de l'Ouest

2.3.2 Producer Organisations

Amber status:

There seems to be a well-organised structure of producers, processing and marketing groups across a range of value chains. Each organisation has multiple layers of representation, from local, regional to national levels. Financial and management skills are extremely low though, and even basic literacy levels are very poor.

Rural organisations have restructured over the past 10 years, leading to the disappearance of village groups in favour of co-operative societies and groups, better structured around a given value chain. Crucially, members of these groups are more homogenous in their activities (which is critical in the case of a group guarantee).

The process also led to the creation of an umbrella organisation: the Confédération Paysanne du Faso (CPF). CPF is a confederation of all rural organisations in Burkina Faso, formed to foster sustainable livelihoods for producers. Its mandate is to provide an information sharing and participatory network, to represent the interests of its members, and to promote a professional agricultural sector. It is comprised of five federations:

- UNPCB, Union Nationale des Producteurs de Coton du Burkina;
- FEPAB, Fédération des Professionnels Agricoles du Burkina;
- FNJPAF, Fédération Nationale des Jeunes Professionnels Agricoles du Faso;
- FEB, Fédération des Eleveurs du Burkina; and
- FENAFERB, Fédération Nationale des Femmes Rurales du Burkina.

There is a need for credible, active organisations to represent producers of maize, millet, sorghum, rice, and meat and livestock along the lines of cotton. One organisation could be established for the entire cereals sector.

The Programme d'Appui d'Organisation du Secteur Agricole (Action Plan for the Organisation of the Agricultural Sector or PAOSA) is providing support to producer organisations, notably the cereals sector, and the microfinance institution (MFI) sector. The European Commission (EC) is helping the Chambres Regionales d'Agriculture and Associations Professionelles to support producers, and is creating a Conféderation d'Associations Professionelles in the cereals sector.

A network of semi-public professional Regional Agricultural Chambers was created late 2003 in each of the 13 regions. They cover each value chain (whether agriculture, fisheries, livestock husbandry or forestry) in a given region and represent all agricultural producers. They are staffed by professional agriculturalists elected by the members. They are independent from the state and have their own decision-making powers in terms of strategy and management. Members are elected at the village, department, province and regional levels. Their financing comes from the national budget (which is unreliable and subject to political influence), grants, donations, and fees and service charges.

2.3.3 The Development Community

Amber status:
There are a large number of development partners operating in Burkina Faso, often with overlapping programmes and differing approaches, which can lead to confusion. Burkina has sometimes been referred to as a »country of projects«. The national budget is heavily reliant on donor funding to the extent of nearly 50 %. There are efforts to harmonise aid through a Joint Donor Platform but progress is slow.

International and regional development and relief partners such as the World Food Programme, the International Fund for Agricultural Development, CILSS, the New Partnership for Africa's Development (NEPAD), UNDP, European Commission Humanitarian Office, and many other international partners, play a crucial role in shaping agricultural policy in Burkina Faso.

In addition, a plethora of donors operate in the country through the provision of grant funds and technical assistance (TA). Some of the agricultural-related programmes are listed below:

- EC: Action Plan for the Organisation of the Agricultural Sector (PAOSA);
- DANIDA: Second Phase of the Support to the Development of Agriculture in Burkina (PADAB II), in three regions (Sahel , East and Centre East), €250bn over six years;
- WB: Agricultural, Forestry and Pastoralist Value Chains Support Programme (PAFASP);
- WB: Agriculture Diversification and Market Development Project;
- WB: Competitiveness and Enterprise Development Project;
- WB: Agricultural Productivity and Food Security Project (APFSP); and
- Agence Française de Développement (AFD): Support programme for Sustainable Development and Poverty Reduction in Rural Areas focuses on building capacity of national institutions in policy formulation, implementation and monitoring of national strategies dealing with rural development and poverty reduction.

With nearly €18 million from the European Union's Food Facility, FAO (the Food and Agricultural Organization of the United Nations) launched a two-year project in June 2009 to help improve the food security of 861 150 rural households (more than six million people) in Burkina Faso who were made more vulnerable by high food prices. The main thrust of the project is to boost food production through the availability of improved seeds (rice, maize, sorghum, cow peas and millet) in rural markets and to promote a sustainable system of seed multiplication and certification. FAO will focus on increasing the capacity of all actors involved in the seed chain, providing institutional and technical support to national public services including INERA, the national seed service, and other structures within MAHRH.

A large number of donor and NGO interventions are aimed at developing professional associations, producer groupings and MFIs. Much of this is in the form of TA. There is a Plan d'Action pour l'Organisation Professionelle Agricole, an informal arrangement between donors and government.

Other regional programmes include:

- CIDA, (Canadian International Development Agency) is financing the second phase of the Programme for building African Capacity for Trade II (2009-2014). It aims to strengthen the support capacity of relevant regional and national institutions to enhance the export competitiveness, market linkages and, finally, export revenues of African small, medium and micro enterprises (SMEs) in high-potential sectors;

- The Agribusiness and Trade Promotion project, a four-year project funded by USAID with the main objective of increasing the value and volume of selected agricultural commodities including livestock/red meat, onions/shallots and maize to facilitate intra-regional trade in the West Africa region;

- Under the fourth pillar of CAADP, a regional initiative that promotes collaborative efforts to improve agricultural technology generation and dissemination at national and regional levels, under the leadership of the Forum for Agricultural Research in Africa;

- WB financed WARBP project (West Africa Regional Bio-Safety Project); and

- A sub-regional initiative on water resource management in river basins (Volta and Niger).

2.3.4 Agribusiness

Red status:
The agribusiness sector is very limited at present as most export produce (e.g. cashew nuts, livestock) is unprocessed aside from cotton fibre.

Besides three cotton ginneries, SOSUCO (sugar-cane processing industry), and a few fruit juice manufacturers (DAFANI, Delicious), there are very few large-scale agribusinesses in Burkina. Small-scale cassava processing units are developing and usually run by women, either individually or organised in processing groups. A number of tomato processing plants will be set up in the next two years, one through a PPP scheme and the other by a private equity investor.

The food processing sector in Burkina is nascent. The FIAB is the Federation of food and processing industries in Burkina. Its objectives are to promote the development of professional agriprocessing associations and agriprocessing SMEs. It has created agribusiness open day fairs to help network various segments of agricultural value chains. The most organised value chains besides cotton are those in cereals, and fruit and vegetables.

Value chains may be weak but there is no shortage of traders. However, they need to be professionalised so that they learn to behave and trade professionally. There are problems of collusion and cartels in some markets. There is a need to improve the quality of product and competition in all markets.

2.4 Micro-Level

Red status:

Production in the agricultural sector is essentially characterised by an extensive but low productivity system. There are about 1.3 million smallholder farmers in the country, 87 % of whom practice subsistence agriculture and extensive livestock husbandry activities. Since the withdrawal of the state in agricultural production, the private sector has not picked up and the farming sector has remained at rudimentary levels with most farmers cultivating by hand or at best with a plough and a pair of oxen (one in three farmers use animal traction). Support programmes are focusing on the importance of soil conservation and use of fertilisation using animal manure. Very few farmers have access to markets, agricultural extension services or finance.

2.4.1 Producer Viability

Red status:

The majority of farmers are subsistence farmers who cultivate plots under 1ha and sell out their surplus on local markets. Most of these surfaces are too small to become economically viable enterprises. Farmers who voluntarily join in membership schemes of producer groups (e.g. Union National des Producteurs de Coton du Burkina) tend to benefit from greater organisation and access to credit, although agricultural investments are few and greatly affected by illiteracy and lack of land tenure rights. Some members of producer groups have up to 10ha or more of land and diversify their crops. They are usually literate, use mobile phones and would be prime candidates for accessing credit and developing their farming business.

Ultimately, to access agricultural finance, a farm needs to be a viable commercial enterprise. This requires some tangible components such as:

- The farm needs to generate at least some retained cash which can be used to repay loans and/or reinvest in growth and improvements;
- To achieve this, the farm needs to be of sufficient size and/or scale;
- It also needs access to a market which will off-take this production; and
- The farm needs access to a minimum level of inputs and infrastructure required to enable production.

There are many whose livelihood, while it is wholly or partially dependent on the land, does not meet this definition. This does not necessarily mean that they are excluded from access to finance, but rather that specific agricultural finance solutions are not appropriate. These include circumstances where:

- Small-scale production is used to supplement the diet and/or income of a household where the primary source of income was from another source (i. e. another job);
- Subsistence agriculture, where most of the production is used for household consumption rather than cash generation;
- Absentee »farmers«, for example those who have moved to cities from rural areas whose landholdings are not really actively managed, tend to be harvested by others in line with established custom, and the resulting cash payment generally considered a supplement to other income streams; and
- Those rural poor who have a small patch of land, used for very small-scale subsistence, to the extent that the landholding is so small that it cannot even be improved on a full-time basis.

Most counterparts in the field of private sector development, agribusiness, and the financial sector were also keen to stress the intangible factors that make a successful farmer, and therefore bankable proposition. These include:

- Farmers must be full-time entrepreneurs in pursuit of generating surplus cash from the farm »enterprise« (this includes off-farm income);
- They must be experienced and have an enthusiasm for developing their expertise;
- They need to be capable of thinking long term about their business, and open to receiving advice and adopting new ideas; and
- Capable of working well with others where there is demonstrable mutual benefit, and of understanding their rights and responsibilities in a group structure, and to external stakeholders.

These criteria further restrict the scope of agricultural finance and, while the extent to which ingrained values and behaviours can be changed, it is certain that a significant group of farmers would not be able to adapt to these requirements.

2.4.2 Access to Inputs

Red/Amber status:

Although well-performing technologies exist, these are not often accessible to producers and processors. Generally, the initial investment and maintenance costs are too high. The mechanisation rate in agriculture is very low, with one in three farmers using animal traction. Very few farmers use fertilisers and pesticides, mainly because of lack of access to finance.

The main structure providing finance for agriculture seeds, fertilisers and pesticides for a range of crops is the three cotton ginneries, which sell these on credit to Cotton Producer Groups (CPGs). There are no banks providing credit for agricultural inputs since the BACB was bought by a commercial bank.

For animal production, farmers rarely use genetic improvements (local or exotic breeds, artificial insemination) to improve their genetic materials because of the lack of availability and the high cost of this technology (XOF80 000 or more than US$160 per head). Increased productivity would require greater use of improved technologies. For animal production, this would include better access to improved animal feed (fodder and supplementation) as well as to animal health services and drugs (including vaccines).

2.4.3 Water and Irrigation

Amber status:

There are lots of opportunities to develop cash crops (rice and garden vegetables) through irrigation, especially for large cultivated surfaces; however, financing, land tenure rights and support for water user groups are the main bottlenecks.

Less than 10 % of the country's arable land is irrigated and is mainly used for rice cultivation and market-gardening (tomatoes, salads, cabbage etc). Burkina has more than 1 500 small and medium water bodies which collect rainfall water for domestic, agricultural and hydroelectric uses. There are four large dams in Bagré, Kompienga, Ziga and Sourou. The total storage capacity of these dams is estimated at over five billion cubic meters.

The introduction of irrigation has offered households the possibility of increasing the annual agricultural output. However, it has not replaced traditional rain-fed agriculture. Rather, farm households use the irrigated production to supplement the rain-fed production.

The Direction de l'Aménagement et du Développement de l'Irrigation at the MAHRH is the directorate in charge of water and irrigation. The SDR targets are to irrigate 60 000ha, of which 30 000ha is large-scale irrigation schemes; 25 000ha small- to medium-scale schemes; and 5 000ha micro schemes. In 2010, they are halfway there with around 30 000ha irrigated land.

MAHRH, with support from with development partners, has embarked on a nine-year (2004-2015) investment plan. The APIPAC (Association des Professionnels de l'Irrigation Privée et des Activités Connexes) is facilitating access to credit for irrigation equipment. The World Bank-financed PAFASP programme is providing bank guarantees for APIPAC credit applications.

2.4.4 Agricultural Extension Services

Amber status:

Agricultural extension is in practice implemented by the MAHRH's regional centres. These regional directorates often provide a good local base for development programmes to associate with, and work in collaboration with national and regional agricultural research organisations. Levels of technology uptake are low, however, without considerable external funding. Overall, the geographic coverage of extension services has decreased over time, and a number of farmer training centres have been closed because of the lack of personnel. There is also a need to reinforce the capacities of existing extension services so they are capable of assisting producers with issues related to value-chain development and the promotion of modern farm businesses.

Agricultural research extension services are provided mainly through MAHRH, the ministry of agriculture, and its regional directorates – the Direction Régionale de l'Agriculture, de L'Hydraulique et des Ressources Halieutiques (DRAHRD) – in the 13 regions.

The DRAHRH are in charge of:

- Managing extension services and assistance to farmers and professional farming organisations, and facilitating relationships and the sharing of experiences between research and extension;
- Setting up and implementing extension systems and communication of results;
- Co-ordinating extension services with partner structures;

- Providing extension services for seed production;
- Promoting the use of and running demonstration plots (seeds, pesticides, fertilisers); and
- Undertaking phytosanitary surveys and pest prevention campaigns.

In addition, a wide range of national and regional agricultural research centres (INERA, CNSF, IRD, CIRDES, ICRISAT, IITA, CORAF, ADRAO) have contributed to the development of new technologies and scientific knowledge, including:

- Developing improved varieties of cereals, oilseeds, tubers, fruits and vegetables;
- Developing insect resistance management techniques especially for cotton, adapted to the region; and
- Formulation of organic and mineral compost, and adapting cultural practices to agro-climatic regions and varieties

However, adoption rates of these new techniques are low (on average only 40 % are adopted) mainly because of weak links between research and dissemination; inadequate training and extension support; insufficient finance; difficulty accessing equipment and agricultural inputs; and weak organisation of value chains.

2.4.5 Agricultural Standards, Pests and Disease

Red status:

Although progress has been made in animal disease prevention, the standards in terms of quality and variety selection, especially in the less organised value chains, are limited. A large proportion of cassava producers are planting traditional varieties, which are not adapted to processing. Very few farmers have access to pesticides and herbicides.

Quality standards are regulations imposed on the production and marketing of produce in order to guarantee the quality of goods sold and the safety of consumers. WAEMU is promoting the establishment of a quality accreditation in the region. As part of this initiative, a new Directorate for quality accreditation, normalisation and promotion has been set up under the National Office of External Trade in Burkina Faso.

The national quality inspection service is under the Directorate for Protection of Plants. There is little demand for quality certification of agricultural products apart from exports of mangos for instance, regulated by EuroGap and GlobalGap systems. For cotton, quality inspections are carried out by cotton ginneries. Another issue is the lack of adequate and safe food packaging and lack of labelling. Shea nut production is the third most important export in Burkina after cotton and livestock. Standards have been defined for shea nuts but they are insufficient to promote greater exports in the absence of additional support to producer groups. Furthermore, import companies tend to set their own private standards. Pests and diseases are common in both in crops and livestock. The tsetse fly (trypanosomiasis) is halting the promotion of draught animals in the South West region. Progress has been made in terms of animal health: 30 % of bovines are regularly vaccinated against local diseases, and 15 % of poultry are immunised against Newcastle disease. Burkina Faso was even declared a bovine pest free country in 2006.

3 Analysis of Business Environment

This section addresses a few cross-cutting issues in the general business environment, which affect the performance of both the financial sector and the agricultural sector. We have not broken them down into macro-, meso- and micro-levels, arguing that to fully review the business environment for Burkina Faso is beyond the scope of this study.

Rather, we have largely assumed for the purposes of this study that the business environment is a static feature of the Burkina Faso environment (it is not), in order to draw attention to some of those areas which may be deserving of the highest priority in relation to agricultural finance.

3.1 Land Tenure

Amber/Green status:

It is hoped that a recently enacted land tenure law is set to alleviate many of the constraints to business and other problems associated with land tenure in the past. However, the success of the law remains to be seen, and it is likely that the benefits flowing from the law will be slow to materialise and that the law will require fine-tuning along the way.

Traditionally, land tenure has been a major obstacle to business in Burkina Faso. Land ownership is an area of dispute between the government and local communities. The uncertainty in land tenure has acted as a disincentive to investment in economic activity and reduced the ability of borrowers to pledge land as collateral. In addition, government policy has discouraged private ownership of small areas of land in the belief that smallholder farming is insufficient to meet the country's economic development needs.

In the North Eastern regions, conflict is rife between farmers and livestock herders who let their cattle graze on fields, thus reducing crop yields. The issue of land tenure rights is extremely sensitive and is being addressed by the government's recent rural land rights policy (2007 Politique Nationale de Sécurisation Foncière en Milieu Rural).

A new land tenure law has been adopted recently under which the communes will transfer the title of land to landholders. Title can be long lease, lease in perpetuity, or freehold, as the commune sees fit. For the first time, farmers will have the assurance of long-term tenure, and this should encourage entrepreneurial activity and investment, and provide security for financing. In practice the impact is likely to be slow. The accurate defining of boundaries is essential, and there is little cadastral capacity in the country.

3.2 Legal System

Red/Amber status:

The country's legal system has a number of weaknesses, which devalue contracts as a means of promoting financing agreements along the value chain. The difficulty in enforcing contracts also creates barriers to collateralised lending.

On the whole, Burkina Faso's judicial system is weak. Rural dwellers in villages have their own system of customary traditional courts. The executive has extensive appointment and other judicial powers. Weaknesses of the legal system include an insufficient number of courts, arbitrary removal of judges, outdated legal codes, a lack of financial and human resources, and excessive legal costs. The courts do not offer a remedy for breach of contract as it can take 10 years to get a judgment. There are now a number of alternative dispute resolution schemes for resolving complaints, disputes and legal problems without court action, including arbitration, mediation and ombudsmen schemes, which could be used at commune level. There is a case to establish small claims courts, again perhaps at commune level, which can give quick judgments and enforce them.

The weaknesses inherent in the legal system are relevant to agricultural finance as they give rise to a widespread problem in that producers do not respect contracts with buyers and will sell to anyone who offers a better price. Traders too will ignore contracts when it suits them, and they can be just as guilty as producers. The difficulty in enforcing contracts is an impediment to collateralised lending.

3.3 Infrastructure

Amber status:

Burkina Faso's transport infrastructure remains relatively undeveloped, although programmes are underway to modernise and liberalise the sector. The country's communications infrastructure has seen a transformation from state domination, however, it has a long way to go to reach developed country standards.

There have been a number of programmes in recent years to develop Burkina Faso's transport infrastructure. Despite these, the transport system is poorly developed. The largest infrastructure programme currently being undertaken in the country is a World Bank-funded programme to create a strategic policy and a regulatory framework for infrastructure, including rehabilitation of the road and rail network, and restructuring of the state transport system.

Burkina Faso's road network comprises over 13 000 kilometres of roads. The former state bus company has been privatised and now runs five main routes throughout the country. Rail traffic is in decline and the 1 260-kilometer Abidjan-Niger railway – the country's main rail line – has suffered from operational inefficiencies in recent times. Burkina Faso's other railway lines are scheduled for restructuring. In 1995 a French-dominated company took control of the railroad, and it is expected that it will be rehabilitated with a World Bank loan. The country has two international airports, and several regional carriers operate international services. The country is landlocked and therefore has no port facilities. The nearest ports are in Cote d'Ivoire, Benin and Togo.

Fresh investment and new technologies have accelerated the development of the national telecommunications network infrastructure – private investors bought a 51 % stake in the national telecoms operator in 2006. Another 20 % of the company was sold in an initial public offering in early 2009. Mobile telephony has had strong growth since competition was introduced in 2000; however, market penetration is still well below the African average. Penetration rates in the broadband internet sector are still extremely low and services are expensive. Being landlocked, Burkina Faso has traditionally depended on expensive satellite links for its international bandwidth, and more recently on transit fibre links through neighbouring countries that have access to the region's only international fibre optic submarine cable.

Renewable energy is the country's primary source of power, approximately two-thirds of which is thermally produced and one-third hydro-electrically produced. Demand for electricity is growing at an annual rate of around 10 %, however, the country is struggling to develop new energy sources to meet this demand.
The African Development Bank (AfDB) has recently approved a US$38m loan to fund the country's Electricity Infrastructure Strengthening and Rural Electrification Project. With the help of the AfDB and a co-operative agreement known as the West African Power Pool, the country's electrical grid will be connected to the grids of its neighbours, Ghana and Cote d'Ivoire. Those two

countries, which border the sea and have easier access to sources of electricity, will be the main conduits for the increased supply of power in Burkina Faso.

3.4 Financial and Business Education

Red/Amber status:

Between them, the country's higher education institutions provide academic education in business, economics and finance. The Chamber of Commerce runs various schemes to promote capacity building in business skills in various industry sectors. There are no institutions specially providing professional training in finance and management to agribusiness.

Primary and secondary education are compulsory and free in Burkina Faso, but the provision of education is hampered by the fact the government does not have sufficient resources to fulfil its mandate of universal provision of primary education. In any case, the primary and secondary syllabi do not include business studies or any commercially oriented teaching.

The country's higher education sector is relatively well served, with the University of Ouagadougou and the Université Polytechnique De Bobo-dioulasso. The University of Ouagadougou's UFR Economic Sciences and Management department provides young people with industrial training. Students take the university diploma after two years of study. They may then take further courses leading to the licence and master in Economic Sciences. The Université Polytechnique De Bobo-dioulasso provides further education with an emphasis on applied sciences. The Institut Supérieur d'Informatique et de Gestion provides undergraduate and postgraduate degrees in information technology (IT), management science and business information, including finance and banking.

The Chamber of Commerce runs numerous initiatives to build capacity among the business community by strengthening business skills. Often these initiatives are aimed at specific industries, although the coverage of these initiatives seems to be widespread across all sectors. The Centre Ouest Africain de Formation et d'Etudes Bancaires is the only institution in the country that specialises in professional education and training in finance. There appear to be a large number of disparate organisations running schemes to foster the development of income-generating skills and activities, however, it is unclear to what extent these can be categorised as »business training«.

3.5 Taxation

Amber status:

By African standards, Burkina Faso's tax system is conducive to business, characterised by a simple structure and relatively low rates. However, 18 % VAT is imposed on interest payments for loans which results in additional costs for borrowers.

The procedure for registering with the tax authorities in Burkina Faso is bureaucratic and slow. However, once registered, tax is rarely a debilitating aspect of Burkina Faso's business environment, as the tax system is relatively simple and the contribution of direct taxation to governmental revenue is relatively low. Individuals pay a single income tax, varying from 2 %-30 % on salaries and 10 %-45 % on business income. Companies pay a tax on profits, a forfeit tax, and taxes on income from debt and investments. There are also a number of real estate taxes. There are consumption taxes on specified items, such as petroleum products and tobacco, and local taxes on motor vehicles. Other indirect taxes include customs duties and licence fees.

One exception to the relative favourable tax system, and one that has a particular impact on the financial sector, is the imposition of VAT at 18 % on interest payments. Classically, this tax drives a wedge between financial institutions' borrowing and lending rates, but as the tax is paid by the borrower from financial institutions, the incidence of the tax is likely to fall on the borrower. The tax acts as a brake on financial intermediation and discourages borrowing. We have not come across a similar tax elsewhere, and we would encourage the withdrawal of the tax from all interest payments, perhaps funded by a widening of the income tax base.

3.6 Information Environment

Amber status:

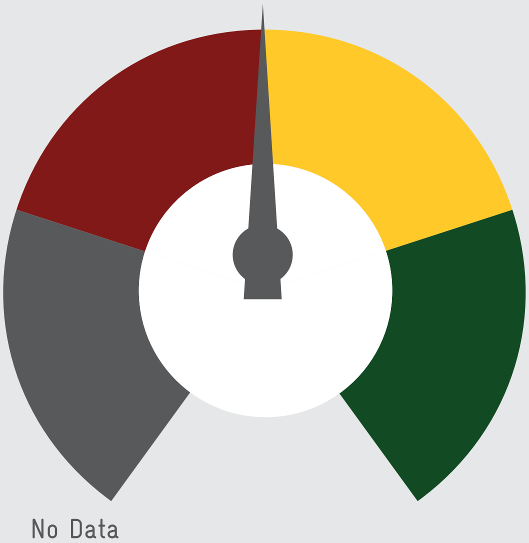
Generally, the information environment in Burkina Faso is quite good, with a public credit registry established and some success to date in implementing technology to improve business information. However, there is room for financial institutions to improve their collection, aggregation and analysis of financial and credit information, possibly by promoting formal use of bank accounts.

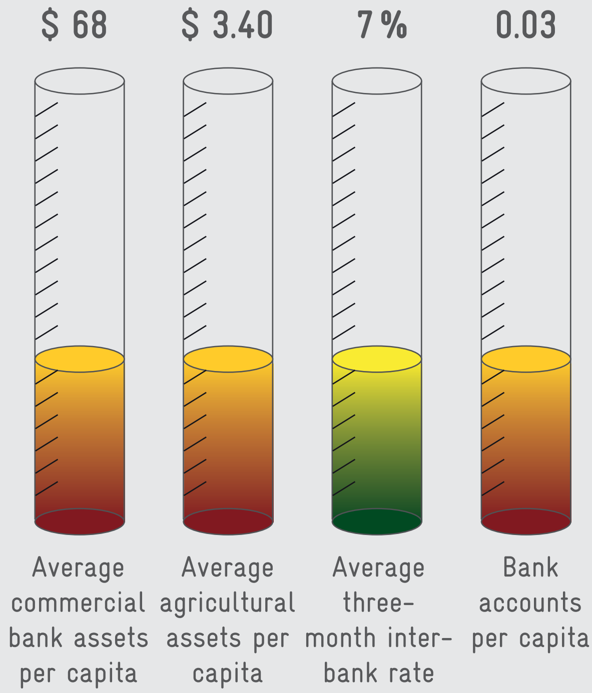
Burkina Faso's Institut National de la Statistique et de la Démographie collects various sets of social and economic data, which is mostly used by the government in its formulation of socioeconomic policy. The WAEMU has a public credit registry, although there are no private credit bureaus.

Various organisations have had success in introducing technology to improve business information. One example, specific to the agricultural sector, is an initiative being carried out by IICD, a non-profit foundation specialising in information and communication technology (ICT). Sissili Vala Kori is a project set up in 2005 to improve communication and information between the farmers' federation FEPPASI and its members. Two small telecentres are being created in the villages of Vieha and Boura. In these centres, computers are being installed and members of the farmers' federation are receiving training in the use of internet and multimedia tools. About 6 000 farmers benefit from this project, and through increased access to prices, production and food-processing techniques they can increase their production and income.

Relationships between players in many agricultural value chains are often informal, with records of transactions between them seldom kept. This means that data on the cash flows of farmers, buyers and agribusiness is being lost. This data is potentially a hugely valuable record of financial activity, which could be used to help financial institutions identify bankable customers at both sub-sector and individual level. There is clearly a need to capture this information. One way would be to promote the use of formal bank accounts. This way, over time, banks would amass information on their clients' incomes and expenditures and be much better placed to make credit decisions armed with this information.

4 Analysis of Financial Sector





Burkina Faso´s financial sector has now been liberalised and is home to a small private sector, commercial banking system. Access to financial services for most parts of the economy is very low. It is, however, part of the wider WAEMU financial market, which supports Burkina Faso with a robust central bank, access to foreign capital, and a rapidly improving financial market infrastructure.

Figure 4: Performance Dashboard for Financial Sector

Macro-Level

Market Liberalisataion	The reforms of the mid-1990s and Burkina Faso´s membership of WAEMU mean the market is now much more liberalised.
Regulation and Supervision	The BCEAO is well-respected with a forward-looking approach but is naturally worried about some of the rapid balance sheet expansion in the sector.

Meso-Level

Financial Sector Infrastructure	Burkina Faso shares a reasonably sophisticated payments and settlements system, though the credit reference infrastructure does not function well.
Scope, Depth and Integration of Market	Regionally, there is much to be positive about, but economic development in Burkina Faso is so low as not be a high priority for financial institutions.
Product and Market Development	There is very little engagement with agriculture by the financial sector, especially since the withdrawal from cotton lending following the crisis.
Interest Rates	Interest rates are generally high, a function of inflation, but exacerbated by VAT on interest charges on loans.
Financial Sector Expertise and Culture	Burkina Faso has access to a reasonably deep pool of regional talent, and also has a local financial sector training academy.
Financial Sector Operating Model	Lack of depth in commercial banking, and outreach by other financial institutions, means the key ingredients are missing.
Technology	The basic enablers are in place, and innovation will occur as market conditions and demand improve.

Micro-Level

Commercial Banks	Commercial banking in Burkina Faso is very shallow, and penetration of financial services exceptionally low.
SACCOs	Have developed a reasonable network but are institutionally weak with very small balance sheets.
Development Finance	Extremely weak. No real sovereign development finance capacity at all since the insolvent national development bank was wound up.
MFIs	Burkina Faso has a small MFI sector which seems to be operating more-or-less successfully, though with extremely limited exposure to agriculture.
Venture Capital and Private Equity	Virtually absent.
Insurance	Some development in the life and non-life sectors but no agricultural insurance currently.
Development Agencies	There are many active development players, but very little involvement with the financial sector and credit enhancement is extremely limited.

4.1 Overview

Red/Amber status:

Burkina Faso's financial sector has been liberalised and now has a small, private sector commercial banking system. Access to financial services for most parts of the economy is very low. It is, however, part of the wider WAEMU financial market, which supports Burkina Faso with a robust central bank, access to foreign capital, and a rapidly improving financial market infrastructure.

The financial sector in Burkina Faso is small and weak, though it has recovered from a low point in the mid-1990s. Since then, the government has enacted a process of restructuring, privatisation and liberalisation, which has at least created an environment in which private sector credit can grow. Burkina Faso must be viewed within the context of the wider WAEMU financial market, home to more than 90 banks and a wide range of other financial institutions.

Following independence, Burkina Faso adopted a state-owned financial services model with disastrous results. When the sector was liquidated and restructured in the mid-1990s it was riddled with bad debts. Efforts continue to reduce state involvement with the liquidation of the National Development Bank.

Though credit has grown steadily in recent years, financial intermediation in Burkina Faso is extremely low, even by African standards. As of 2007, the World Bank estimated that 26 % of the Burkinabe population has access to financial services. Despite agriculture's overwhelming dominance of the economy, it makes up less than 5 % of overall bank lending.

Burkina Faso is a member of the regional Bourse Regional des Valeurs Mobilières located in Abidjan, Ivory Coast. As of 2009, the regional stock exchange's market capitalisation reached nearly 10 % of Burkina Faso's GDP.

The payment and settlements system and clearing mechanisms were reformed in 2004 through the Central Bank of West African States (BCEAO), which established a Real Time Gross Settlement system and SWIFT facilities for banks, financial institutions, the stock exchange and the central bank.

4.2 Macro-Level

4.2.1 Market Liberalisation

Amber/Green status:

Following a complete restructuring of the WAEMU financial system during the 1990s, the WAEMU's financial sector is generally regarded to be well liberalised, characterised by liquid markets, solvent institutions and strong competition. The financial sector is now much more market oriented and governments have much less power to distort the market.

During the 1990s, the countries of the WAEMU suffered a regional financial crisis, characterised by interest rate controls, domination of the financial sector by state-owned banks, government-directed lending and all sorts of other distortionary government interventions. During this period, huge economic imbalances were created because of the absence of a market mechanism which facilitated efficient capital allocation. The monetary authorities' response to this crisis was a complete restructuring of the WAEMU's banking system. Insolvent banks were liquidated, many banks were privatised, and the sector was opened up to foreign ownership. A regulatory commission was established, the money market was restructured, and many of the distortionary policies of the monetary authorities of the member states were abolished.

Today, the WAEMU's financial sector is generally regarded as well liberalised, characterised by liquid markets solvent institutions and strong competition. While governments of individual member states play a role in the financial sector, they have much less power to distort the market mechanism of optimal resource allocation. No longer do the governments of WAEMU member states have the ability to impose minimum or maximum rates; and financial institutions are now free to determine their own costs and set their own prices. Furthermore, the governments' power to direct lending to certain sectors has been greatly reduced.

4.2.2 Regulation and Supervision

Amber/Green status:

Burkina Faso is part of the West African Economic and Monetary Union, in which supervision of the financial sector is the responsibility of the Central Bank of West African States. Financial supervision in the West African Economic and Monetary Union is generally considered strong. Regional supervision of the financial sector places limits on government involvement in the sector and eliminates problems of cross-border supervision within the region, but leaves governments of individual member states less direct control over financial sector policy.

Burkina Faso is a member of WAEMU. The BCEAO is the central bank of WAEMU and members have adopted the CFA Franc (XOF) as a single currency.

The BCEAO is responsible for the monetary and reserve policy of the member states, and also for the regulation and oversight of financial sector and banking activity. A legal framework covering licensing, bank activities, organisational and capital requirements, inspections and sanctions (all applicable to all countries of the union) is in place and underwent significant reforms in 1999. The BCEAO defines the regulations applicable to banks and financial institutions and ensures the supervision of their activities.

In that respect, the Banking Commission, created in 1990 and chaired by the Governor of the BCEAO, is responsible for the organisation and supervision of the WAEMU banking sector. The BCEAO also controls the Savings and Financial Markets Regional Council. Microfinance institutions are governed by a separate law, the PARMEC (Projet d'Appui à la Réglementation des Mutuelles d'Epargne et de Crédit) Law, which regulates microfinance activities in countries within the union. The insurance sector is regulated through the Inter-African Conference on Insurance Markets (CIMA).

A financial regulatory and supervisory framework that is structured regionally, rather than nationally, offers a number of advantages. Most notably, the regional regulation and supervision of the financial sector limits the involvement of government in the financial sector and the associated economic inefficiencies. Furthermore, the regional supervisory framework eliminates problems associated with cross-border supervision across countries that are members of the union. However, the regional regulatory and supervisory structure leaves the governments of individual member states with less control over financial sector policy.

4.3 Meso-Level

4.3.1 Financial Sector Infrastructure

Amber status:

Payment and settlement systems within the WAEMU are well established and function well. The infrastructure comprises a transfer and settlement system, an automated interbank clearing system, a payments incident centre, and the supporting legal framework. The WAEMU has a long-established public credit registry, but there are some serious problems that limit its usefulness. There have been a number of initiatives to strengthen credit reporting in Africa, but none specific to WAEMU.

In recent years, the WAEMU monetary authorities have been undertaking a major programme to improve the payment and settlement systems. These new payment systems are governed by a revised legal framework and management principles consistent with international standards in terms of safety, payment lags and risk management. They are also based on a region-wide telecommunication infrastructure likely to provide high-quality, competitive service.

The automated transfer and settlement system (STAR-UEMOA) is designed for large-value interbank transfers. Each transaction is settled on a gross and real time basis. It is characterised by rapid transaction processing, great safety, high availability, and also affordable costs. The automated interbank clearing system (SICA-UEMOA) is the infrastructure for low-value payments and is operational in all WAEMU member countries. Ancillary elements of the payment systems include the payment incidents centre – established to centralise and disseminate information on payment incidents related to payment instruments – and the legal framework governing payment systems.

BECAO has operated a public credit registry for more than four decades that includes data on both firms and individuals. WAEMU member states send information on loans above XOF5m to the Public Credit Registry on a monthly basis. The information includes the names of the reporting institution and borrower, and the amount and type of the loan. A rating is also assigned to the loan and the data is processed and then distributed to reporting institutions.

Despite being well-established and institutionalised, a number of criticisms of the credit reporting system are frequently expressed. Perhaps the most serious problem with the system is that it takes too much time to receive information from the registry to be of any practical use. It usually takes over a month for credit queries to be answered and the technology infrastructure is too weak to allow online or real-time queries. Another problem is the limited sharing of credit information across borders, a situation brought about by both legal constraints and cultural practices. These legal and cultural factors have also acted as a barrier to establishing private credit registries.

Legal and regulatory reforms are in progress and countries such as Senegal are leading the improvement of financial data within the WAEMU. The World Bank, under the FIRST initiative, has been undertaking an African regional project on Credit Reporting and Financial Information Infrastructure. The International Finance Corporation (IFC) and PEP Africa have also supported work on credit reporting in Africa.

4.3.2 Scope, Depth and Integration of Market

Amber status:

Due to the impact of WAEMU and the involvement of foreign institutions, Burkina's financial sector has the requisite conditions in place for a broad, deep and well-integrated sector. Unfortunately, the low level of economic development does not currently incentivise financial institutions to radically expand access to credit.

The WAEMU financial sector is relatively well-developed, broad and deep. It is competitive and relatively free from state intervention/manipulation. This is largely the result of foreign institutions leading the market. By virtue of the fact that the WAEMU is an integrated union of nations, the financial sector within the union is well-integrated. The WAEMU financial sector is also well-integrated with the international financial sector, on account of the involvement of foreign institutions.

4.3.3 Product and Market Development

Red/Amber status:

Exposure to the agricultural sector is extremely low. Almost all financial institutions are focused on building a franchise in the urban markets, aside from the RCPB. Cotton used to have a relatively well-developed financing mechanism but this has broken down since the cotton crisis and the exit from the market by BACB. Legal and regulatory conditions are generally supportive but the poor state of Burkinabe agriculture is a major impediment.

Commercial banks are exceptionally reluctant to lend to agriculture and have branches in less than half the country's 45 provinces. That said, their foreign ownership and regional franchise should mean that they can react reasonable swiftly in identifying lucrative new markets and products.

The financial co-operative network, or RCPB (Reseau des Caisses Populaires du Burkina), is a major player in rural areas. It has rolled out a range of savings and credit products for group-based lending, and is also working in partnership with other co-operative networks in the region to share product development expertise and expenses.

RCPB has also set up a shared network, Centres Financiers aux Entrepreneurs at Agriculteurs, to support larger lending activity which could not normally be financed by any individual caisse (co-operative).

Larger-scale agricultural finance has traditionally focused on cotton, especially by the BACB. However, since its purchase by Ecobank recently, BACB has virtually ceased its agricultural lending.

Most MFIs practice a solidarity-type lending approach, often focused on small groups of women who will guarantee each other's loans. Typically they will collect some compulsory savings from the group, which is frozen pending repayment. Some MFIs lend to micro-entrepreneurs.

4.3.4 Interest Rates

Amber status:

Borrowing rates are high and are likely to be unaffordable for many SMEs. The government cannot control the rates that lenders charge, but it can reduce the total costs faced by borrowers by removing the VAT on interest payments.

Notwithstanding the VAT on interest payments, borrowing rates paid by entrepreneurs are high. They vary between 15% and 18% for bank loans and 18% to 27% for microfinance loans, before VAT. These rates are effectively interest rates on Euro, compared to borrowing rates of about 5% to 6% in the Eurozone. In part the higher rates in Burkina Faso reflect higher inflation rates in WAEMU compared to the Eurozone.

While the Government of Burkina Faso cannot directly influence interest rates, it can withdraw the VAT on interest payments. We understand that the Direction de Microfinance in the Treasury has proposed that the tax be withdrawn from microfinance loans, and that the banks want similar treatment.

4.3.5 Financial Sector Expertise and Culture

Amber status:

Owing to the openness of the WAEMU financial sector and the existence of strong educational institutions, Burkina Faso has a relatively strong financial sector expertise and culture.

As the financial sector in WAEMU is open to, and in many cases led, by foreign institutions, the region has imported a lot of financial sector expertise and culture. In addition to the on-the-job transfer of skills and culture provided by the international banks operating in WAEMU, education and training in finance is good. The main provider of professional education for the financial sector in Burkina is the Centre Ouest Africain de Formation et d'Etudes Bancaires.

4.3.6 Financial Sector Operating Model

Red/Amber status:

As long as commercial banking remains shallow, and the penetration of other institutions into rural markets so low, Burkina Faso will miss the key ingredients for a suitable operating model.

Currently, the commercial banks are not interested in addressing agricultural finance and have not set themselves up to do so. The one commercial bank with a wide network suitable for financing producers has recently been acquired by Ecobank. It is not clear what its future strategy will be, but for the time being they are suspending agricultural lending.

Savings and Credit Co-operatives (SACCOs) and MFIs have much better outreach. However, they are essentially MFIs, best oriented towards short-term, high-turnover lending business for low-income urban and rural customers. As already noted, there is little integration between financial institutions operating in different markets.

4.3.7 Technology

Amber status:

While Burkina Faso's banking sector has lagged behind many other countries in technological progress, the financial sector restructuring of the 1990s brought the country up to speed in many areas.

Technological improvements among banks in the WAEMU zone increased dramatically during the 1990s. This was largely driven by the widespread restructuring of the financial sector during this period. The first institutions to introduce new ICT to the sector were the subsidiaries of foreign banks, which introduced computer-based management information systems, ATMs, and cards. Another driver of technological improvement was the creation of the 1996 bank accounting plan (plan comptable bancaire), which necessitated banks digitise their financial data.

There is currently no mobile banking franchise in Burkina Faso but, given the country's decent payment and settlements architecture and deepening mobile phone franchises, the rate of expansion in other countries suggest it will not be long before this is introduced.

Rural and Agricultural Lenders

BACB (Banque Agricole et Commerciale du Burkina) was traditionally one of the main financiers of the agricultural sector in Burkina Faso (see right for typical regional branch). Since its takeover by Ecobank (a regional commercial bank owned by the ECOWAS states), agricultural finance has been suspended pending a strategic review. It is anticipated that lending to agriculture will resume in due course though it is not clear what form this will take.

The Reseau des Caisses Populaires du Burkina (RCPB) is the dominant co-operative banking network with over 120 branches or outlets through-out the country (see left for interior of typical branch). It provides some very small-scale agricultural credit, though with a total balance sheet of around €35m, the total amount is negligible in a broader context. Lending is based on a compulsory savings based scheme, and typically for periods of less than three months.

Figure 5: Profile of Rural and Agricultural Lenders

4.4 Micro-Level

4.4.1 Commercial Banks

Amber status:

Commercial banking in Burkina Faso is small but generally well managed and supervised. Exposure to agriculture is kept to a minimum, however. The market has some large multinational players as well as some domestic franchises. Competition largely revolves around the retail (increasingly including microfinance) and larger corporate banking.

The WAEMU region is home to 59 commercial banks, dominated by major international and regional institutions including Societe General, BNP Paribas, Credit Lyonnais, Citibank, Bank of Africa, Ecobank and Financial BC. Of these, BNP, Bank of Africa, Ecobank and Sahelo Saharan Investment and Trade Bank (a Libyan-based banking group) have operations in Burkina Faso. There are also some small, locally-owned banks. All banks permitted to operate in one of the member states have freedom to expand into other member countries.

Credit to the private sector has increased significantly on a cumulative basis since 2004, both in real terms (by about 30 %) and as a share of GDP. Total credits outstanding in Burkina Faso stood at around €875m in March 2008, which equates to approximately €58 per capita. Compare this to over €200 per capita in Kenya to get an indication of how underdeveloped the sector is. At end of December 2008 there were 543 237 accounts held with banks, which equates to 0.03 bank accounts per capita compared to Kenya with about 0.16. This in itself places a severe restriction on the penetration possibilities for bank credits in the agricultural and commercialisation links of value chains.

With the exception of cotton financing, the commercial banking sector provides little direct finance to the agricultural value chains. However, the banking sector does advance some funds to MFIs for on-lending, some of which finds its way to the value chains. The banks also fund guarantee funds and leasing companies, which are discussed below.

The banks therefore engage with relatively large businesses and neglect micro, small and even perhaps medium-sized enterprises. As microfinance organisations provide maximum loans of around XOF750 000 (or about €1 000), a substantial financing gap exists. This is particularly important in Burkina where the vast majority of participants in the agricultural value chain are micro or small businesses, and are often sole traders.

We have been unable to get reliable data on bank credits to the agricultural sector, but some figures suggest that this is less than 5 %. More finance is provided to agro-processing companies, but again data is not available.

Access to credit for small and medium-sized enterprises is being facilitated by a new financial institution owned by the commercial banks responsible for guaranteeing interbank credit, Société Financière de Guarantie Interbancaire du Burkina (SOFIGIB), which was set up in 2007.

4.4.2 SACCOs

Red/Amber status:

Though the SACCO movement in Burkina Faso is relatively small, it is served by a relative widespread network in the RCPB. The RCPB does provide some limited credit for producers.

There is a growing movement of co-operative financial services in Burkina Faso. By far the largest network is RCPB, though there are other independent co-operatives and smaller networks. In addition, there is also a network of member-managed MFIs called the Caisse

Villageoises d'Epargne et de Credit Autogerees. These are not officially classified as co-operatives, however, as they do not require members to save, and rely heavily on credit from commercial banks and donors for their funding.

The RCPB has a network of 128 »branches« throughout 40 of Burkina Faso's 45 provinces, an estimated one million members, and credit outstanding in the region of €35m. The Caisses Populaires are the only ones lending to the agricultural sector with a range of products for farmers and livestock herders. RCPB has also been developing a specialist cotton financing product secured by the cotton, which it believes will be successful. Understandably, most products are small, short-term loans.

In a number of initiatives, the national federation of members (i.e. the caisse or co-operatives) of the RCPB has spearheaded the development of auxiliary spin-off institutions to co-operate in product and market development (the CIF) and larger-scale financing (the CFE).

The regional and national federations provide some administrative and technical support to member caisses, and some liquidity support though each caisse is meant to be financial sustainable in isolation. Supervision is very weak with many institutions having never been audited. Also, the capacity of frontline staff and management is generally weak, without co-ordinated human resources and personnel management to create a professional culture within the network. Management information systems and IT are also not well-integrated. The RCPB is receiving long-term capacity building measure from Developpment Internationale Desjardins and CIDA.

4.4.3 Development Finance

Red status:

The troubled national development bank was liquidated during the restructuring of the financial sector during the 1990s. There is very little in the way of development finance to replace it.

During the restructuring of the WAEMU banking sector in the 1990s, the troubled national development bank, Banque Nationale de Développement, was liquidated by the government in 1998.

The West African Development Bank is owned by the member states of WAEMU and also has membership and credit lines from the African Development Bank, the European Investment Bank, Exim Bank of India, and the People's Bank of China. Activity in Burkina Faso seems to be limited to a single large credit for financing the development of road infrastructure.

The ministry of work has a special fund (Fond d'Appui a l'Initiative des Jeunes) but conditions to access funds are heavy (guarantee, transport, land title, etc).

4.4.4 Microfinance Institutions (MFIs)

Amber status:

The microfinance sector is characterised by seemingly well-capitalised institutions. However, there are some concerns surrounding the state's involvement in the sector and governance of MFIs. Encouragingly, MFIs seem to be becoming more market oriented and the range of products and services on offer is expanding, however, microfinance products designed to meet the needs of specific value chains are the exception to the norm.

There are around 60 MFIs operating in Burkina Faso with a total portfolio around €350m. The bulk of these are centred on larger conurbations, and focused on short-term household lending to the lowest socioeconomic strata.

Première Agence de MicroFinance (PAMF), part of the Aga Khan Development Finance network, is an exception to this lack of provision in rural areas. It says that agriculture accounts for over 40 % of its lending, and 60 % to agricultural value chains. Established in 2006 as a regional organisation in Cote d'Ivoire and Mali as well as Burkina, the PAMF has grown rapidly with the value of loans outstanding at end 2009 being about US$3m, with over 13 000 borrowers. Losses have been only 2 % in agriculture, but higher, maybe 5 %-6 %, with rural traders. PAMF is starting micro-enterprise loans this year of up to US$3 000, rising to US$7 000 next year.

PAMF charges borrowers 27 % before VAT. PAMF is tax exempt for now so borrowers are exempt from VAT on interest payments. It pays 3 % on sight deposits (no term deposits) and gets lines of credit from banks at 8 %, which it considers expensive. It will lend to individuals with a guarantee from another individual as security, but 60 %-70 % of agricultural value-chain lending goes to groups of producers, with group guarantees. Increasing loans depend on previous loans going well. PAMF's major constraint is not demand or funding, but human resources capacity. Recruiting and training staff is a slow process, and PAMF does not yet feel able to authorise branch managers to lend, so all loans have to be approved by the credit committee.

4.4.5 Venture Capital and Private Equity

Red status:

Venture capital and private equity in Burkina Faso appears to be virtually absent, though searches revealed a number of private sector investments in agriculture.

4.4.6 Insurance

Red/Amber status:

The insurance sector in Burkina Faso is small but growing. A number of firms are offering both life and non-life insurance and efforts are underway to introduce crop and weather insurance products into the market. There is a small leasing market which finances industries ancillary to agriculture.

The total portfolio of the WAEMU zone is dominated by non-life insurance. Burkina Faso's insurance sector is relatively small, encompassing three life insurance and five non-life insurance companies, as of end 2005. As a proportion of GDP, the turnover of the insurance sector is well below the average in Africa. The insurance sector in Burkina Faso is regulated and supervised by the CIMA, which was established in 1992 in Yaoundé. The CIMA Treaty came into effect in February 1995 and the regulatory body of CIMA is the Regional Commission of Insurance Control.

AECOM has just started working to set up crop or climate insurance. AECOM says it needs to have producers' groups or Associations Professionelles in existence in order to put insurance in place.

Burkina Bail is the only commercial leasing organisation in Burkina Faso, apart from a car leasing operation. Burkina Bail does not lease directly to agriculture but does to processors of fruit, mangoes, dairies, etc. Burkina Bail considers agriculture artisanal, not mechanised and not well organised, the value-added chains fragile, and the professional associations not effective. Good companies to organise the chains are needed. Burkina Bail finances some refrigerated wagons and would do so for the meat and livestock sector if it were organised. Burkina Bail could finance equipment such as tractors if it could see a secure cash flow from the lessee.

Burkina Bail starts leasing from XOF2m to XOF3m for small equipment, and charges the equivalent of 16% per annum or a little more. The company does factoring at about 1.3% per month. Non-performing loans are about 12% to 15% of the lease portfolio. Burkina Bail would be interested in managing an agricultural leasing fund.

PAFASP provides leasing for the Union Professionel des Producteurs de Coton for agricultural equipment. Operations start this season, and it will be funded by Banque International du Burkina (BIB). The scheme could be extended in future to mangoes and juices through a subsidiary.

4.4.7 Development Agencies

Amber status:

Development agencies are generally very active in Burkina Faso. Their interventions tend to be focused on rural development, agriculture and poverty alleviation. There is little donor activity in the field of financial sector development, although the donor community does provide a number of credit enhancement schemes.

SOFIGIB is owned largely by the banks and guarantees their loans. SOFIGIM manages two funds:

- A fund for PAFASP, which promised XOF600m, but so far has put up only XOF300m. It is for the PAFASP sectors of onions, mangoes, meat and livestock, and local poultry; and

- A XOF800m fund provided by Denmark's DANIDA and Netherlands, to guarantee loans to SMEs.

DANIDA has expressed satisfaction with its financing and TA involvement with SOFIGIB to date, although it is too early to assess performance properly. DANIDA has had previous successes in agricultural finance, notably with guarantee funds and equipment leasing, in Uganda and Tanzania.

SOFIGIB's capital is separate from the guarantee funds. XOF425m was provided by the banks and XOF50m by the state. SOFIGIB was approved by the Commission Bancaire in December 2007 and started operations in 2009. To date it has provided 39 guarantees valued at XOF1bn. Banks pay a fee of 3 % for loans to SMEs, which is being revised as it regarded as too high. The fee for loans to MFIs is lower as the risk is the institution rather than the single borrower. Banks lend to MFIs at 8 %-8.5 %. SOFIGIB had a TA fund from the French but this is now exhausted.

SOFIGIB claims there is demand for guarantee funds of around XOF4bn-XOF5bn. There are currently 870 unmet requests. In 2009 SOFIGIB received requests covering 42 loans of XOF7bn in transport and a further XOF5bn in infrastructure and for loans to MFIs, five requests covering XOF1.2bn of loans. SOFIGIB is no longer publicising its guarantee services as it does not want any more requests. SOFIGIB has incurred no losses so far.

SOFIGIB provides guarantees for loans of up to five years and cannot touch loans longer than that. SOFIGIB has not given any guarantees yet to agriculture or agro-industries because agricultural credit is suspended during the implementation of the merger between BACB and Ecobank. They expect that requests to guarantee agricultural and processing loans to come through soon from the merged entity and BIB soon.

PAFASP focuses on strengthening the value chains in mangoes, onions, meat and livestock, and local poultry. It provides subsidies (to producers) of between 10 % and 50 % for micro projects and for irrigation. A newspaper article suggested that many producers still found it difficult to fund the remaining amounts (Le Pays, Friday 12 March 2010). Seventy-five percent of project funds go to irrigation and land development.

PAFASP is funding a guarantee fund managed by APIPAC with XOF200m capital. APIPAC requires borrowers to have a savings account and a credit account which provide interest. It will then provide a guarantee. The fees for the guarantee are variable.

AFD has a bank loan guarantee scheme operated from Paris. A bank will approach a local AFD office with a request for a 50 % loan guarantee, which does the due diligence and makes a recommendation to Paris. The minimum loan guaranteed is €10 000 but it will also guarantee a portfolio of small loans of €5 000. In Burkina, AFD has about 12 individual guarantees and three banks have portfolio guarantees. Banks do not tell borrowers about guarantees.

5 Value Chain Analysis

5.1 Cotton

Burkina Faso is Sub-Saharan Africa's biggest cotton producer with unprocessed cotton accounting for above half (in good years) to above a third (in bad years) of exports. The sector provides 700 000 jobs, employs 17 % of the population and constitutes the only source of cash revenue for many farmers. Cotton is the main cash crop in Burkina and can be a viable business assuming rains do not fail and farmers have timely access to the right agriculture fertilisers and herbicides. Although cotton world prices have reduced slightly in the last five years, Burkina remains one of the largest exporters of cotton-fibre through its three cotton ginneries. Cotton farming has been in crisis since the liberalisation of the sector, with large credits for agricultural inputs remaining unpaid by producers due to droughts and failing yields.

The cotton value chain is the most structured one in Burkina. Cotton is produced by individual producers, who are organised into CPGs, themselves structured in unions at department, province and national levels. UNPCG, the National Union of Cotton Producer Groups of Burkina, was created in 1998, is present in 36 provinces out of 45 and represents around 325 000 producers. It was created to facilitate access to agricultural inputs and equipment for cotton producers; improve credit management; and increase productivity. The elected representatives of each cotton-producing province form a General Assembly and elect the national executive office board of the UNPCB.

There are three cotton ginneries (SOFITEX, Faso Coton and SOCOMA) which have exclusive purchasing monopolies in their respective areas and provide agrochemicals, seeds and other agricultural inputs to producers on credit. They are also responsible for providing technical extension services, transport of cotton seed, cotton ginning and marketing of cotton fibre and by-products. UNPCB has a stake in the cotton ginneries following an agreement protocol in 1999 with support from the state. All three cotton ginneries form an association, Association Professionnelle des Sociétés Cotonières du Burkina. Though they operate as separate entities, they have a common approach to their producers, offering similar services and price guarantees.

After ginning, the cotton fibre is usually sold on to buyers in Europe and worldwide. The cotton seed which remains after the cotton is ginned is used to produce cotton seed oil (which can be refined into cooking oil), cotton seed meal and cotton seed hulls (used in livestock feeds).

Following a set of successful years and others less so, the sector was liberalised in 2004. This resulted in regular increases of national yields, reaching 760 000 tons a year at its peak. While global cotton prices improved slightly in 2006 after a 15 % decline in 2005, cotton revenues remain vulnerable to climate shocks. The last two seasons have had a devastating effect on the economy. Following poor harvests, along with a slump in cotton prices on the global market in 2007 and 2008, ginning companies suffered significant losses, resulting in the need for recapitalisation with extensive government assistance. Burkinabe cotton sales have also been affected badly by subsidies in developed countries, by the devaluation of the dollar/euro rate, and the fuel price increase.

The cotton sector, which had not fully recovered from the previous crisis of 2004-2006, now faces impending bankruptcy in the cotton companies, heavily indebted farmer and village co-operatives which are unable to turn cotton into a profitable activity, and low productivity levels which risk diminishing further if producers withdraw from the sector. The crisis significantly aggravates systemic risks which could compromise the next cropping campaign and the viability of the entire sector in the medium run.

The government is putting together an emergency package which focuses on immediate measures to save the coming cropping campaign (2009/2010), including:

1. Extending genetically modified (GM) Bt cotton seed production;

2. Increasing subsidies for fertilisers;

3. A comprehensive financial restructuring of the ginning company SOFITEX with a liquidity injection of XOF16bn (around US$32m) to the company's credit line; and

4. The World Bank's International Development Association (IDA)-financed budget support was increased and accelerated in 2009 to support the government's emergency policy reform and institution strengthening response.

The government is also preparing a three-year action plan to address underlying structural problems and the lack of competitiveness in the sector. Measures will target managerial efficiency of cotton companies; improved management of the Price Smoothing Fund; reducing the cost of fertilisers, possibly through a rotating input financing fund; rolling out Bt cotton in accordance with biosecurity safeguards; and increasing overall production volumes above the critical threshold of 500 000 tons needed to boost utilisation ratios of installed processing capacity above the minimal level required to arrive at internationally competitive unit processing costs.

The World Bank's Agricultural Productivity and Food Security Project planned for the 2010 financial year will include a cotton sector structural enhancement component. This component will support the adoption and implementation of the government's three- year action plan to address structural weaknesses and improve the sector's competitiveness. These operations will also support measures to protect local communities involved in the cotton sector, including sustainable measures to address farmer indebtedness and improve access to affordable inputs.

The Global Facility for Disaster Reduction and Recovery-funded integrated weather risk management study will investigate the feasibility of weather-based insurance to protect producers against rainfall variations. The recently WARBP project will support measures to ensure that appropriate biosafety standards are applied to the government's roll-out of productivity-enhancing genetically modified Bt cotton. MIGA (Multilateral Investment Guarantee Agency) will examine the possibility of extending guarantees to the cotton ginning companies.

5.1.1 Production

Every year, cotton farmers plan the surfaces they wish to grow under cotton and other crops and submit their request for the seeds, fertilisers and herbicides they require per type of crop. Cotton is sown in May-June and takes 150 days to grow. Harvest is in October.

At the start of the season each producer identifies his agro-chemical needs. Credit committees within each CPG analyse each farmer's request for credit. Each application is then referred up through the channel, to department and provincial unions. At departmental level a representative of the financing institution and the cotton ginnery sit on the credit committee and are responsible for reviewing credit applications based on past cotton campaigns and decide on a maximum allowable credit amount. Cotton ginneries will then tender out the procurement of fertilisers by international procurement and deliver the stock to the CPGs before the start of the season (between January and March).

The UNPCB controls the allowable debt ratio under which each producer determines how many hectares will be planted under cotton and how many under other crops (typically maize). The debt ratio is the ratio of the number of ha planted under cotton (deemed as revenue) over the amount of other cultures, and can only be a maximum of 33 % debt-revenue ratio. Typically, if a farmer wishes to plant 6ha of cereals, he must be able to plant at least 18ha of cotton (or thereabouts) to obtain the full allocation of relevant agro-chemicals for both cultures.

To secure enough credit to finance the season's working capital and input supplies, each cotton ginnery negotiates with a range of financing institutions. This can be a cumbersome process and often requires the participation of several banks. BACB used to be their main financier until it was bought by Ecobank in 2008.

Most cotton farmers do own equipment and borrow equipment from the cotton producer group. Typical producer equipment includes a plough and oxen for land preparation and a cart to collect the cotton bolls. The CPG is also likely to have built small storage warehouses for fertiliser and to stock cotton bales prior to collection and transport to the cotton ginnery.

Genetically modified cotton is also being cultivated. About 85 000ha of Bt cotton is currently grown out of 500 000ha nationally. Bt cotton seeds are more expensive (XOF27 000/ha) but require less fertiliser and insecticide treatments than conventional cotton. Cotton yields about 1.1 ton/ha for conventional cotton compared to 1.3 ton/ha for Bt cotton. There are plans to upscale the production of Bt cotton to a quarter of the total surfaces cultivated under cotton in 2010 (475 000ha). Expected gains are yield increases of 30 % and a cost saving of 50 % on traditional insecticide treatments.

Financial analysis suggests that with a purchase price at XOF145/kg it is not viable to grow conventional cotton and that producers should switch to fairtrade or organic varieties.

UNPCB is in charge of distributing agricultural inputs in accordance with plans. It also organises the cotton seed harvest and transport to the cotton ginneries. It receives a small fee for the transport service.

➔ Financing

Access to equipment is mainly done on credit from the CPG. CPGs levy fees from their members. CPGs are financed through the following process:

- Cotton ginneries pay XOF750 per ton of marketed cotton to the different union levels: XOF250/ton for departmental unions, XOF250/ton for provincial unions, and XOF250/ton to the UNPCB. Assuming a national production of 300 000 tons/year, producer organisations receive on average XOF225m a year.

- Marketing commission of XOF3 500/ton to CPGs in exchange for their role in organising the cotton sales to ginneries.

- The EU through STABEX (Stabilisation of Export Earnings) credit lines is also supporting cotton producer organisations by contributing to the financing of storage warehouses for CPGs, communal buildings for provincial unions, vehicles, motorbikes and computers for the UNPCB.

UNPCB was therefore able to acquire its own headquarters building in Bobo Dioulasso with its own funds. It is able to operate and pay salaries for eight permanent employees (one agronomist, one sociologist, one communications expert, one accountant, one secretary, two drivers and one security guard).

Working capital and input supplies are mostly provided on credit to cotton producer groups which agree to enter a solidarity group guarantee. If one member defaults because his harvest wasn't good, other members have to reimburse his credit. Some CPGs have created an additional layer of group guarantee through »family groups«.

There is a strong tripartite relation between the cotton ginneries, financial institutions and the CPGs. Until recently the sector has been financed by the BACB (now part of Ecobank), an international banking group, the RCPB and some MFIs.

The cotton fibre is used as a guarantee for the cotton ginneries to obtain credits from the financing institutions to finance agricultural inputs. Once the credit amount is agreed, CPGs agree to receive their revenues into a bank account at the financial institution that is providing the credit. After the cotton fibre has been sold to international buyers, cotton ginneries repay CPGs, after the balance of the loan has been collected by the bank.

The financial institution recovers the entire credit due from the revenues made by collectively by the GPC, regardless of the level of yield that year or of each producer's yield performance. However, recent climate and financial crisis meant that yields were not good enough to repay amounts borrowed. Poor XOF/US$ exchange rates also exacerbated the finance gap. The World Bank has covered the cost of the last two cotton harvests.

Agricultural inputs cost around XOF40bn each year for the cotton sector in Burkina. Banks do not have the capacity to cover this amount on its own. Delays are common before agreements are reached and credit released, which is an issue for the production cycle. Cotton ginnery SOCOMA admitted to bypassing banks for buying fertiliser and passing on the risk on to agricultural input providers: the procurement of fertiliser is tendered out internationally with repayment terms after the cotton fibre sales (after 270 days). The incremental unit cost of fertiliser provided by the agricultural input providers is in this case passed on to the producers.

On the face of it, the system has proved reasonably effective at distributing significant amounts of credit to support input purchase on a fairly equitable basis (despite the delays). However, it has not fundamentally helped transform the competitiveness of Burkinabe cotton through helping strong farmers in invest in and expand their enterprise.

A guarantee fund could perhaps draw on the long credit history of many Burkinabe producer groups and target the best performing for some longer-term investment loans. Investment opportunities could include working animals and/or traction equipment, storage facilities and/or transport, or perhaps enhanced GM cotton seed stock.

5.1.2 Processing

Once harvested, cotton is then sent to the ginneries to be processed into cotton fibre. The industrial processing cycle includes delinting and press stages. Cotton fibre is produced according to buyers' quality norms. Cotton seeds are either used for the next season's planting or processed into oil by specialised factories. SOCOMA sell the cottonseed for oil extraction to local companies (e.g. SN CITEC, Jossira).

The ginneries hold an important fleet of vehicles that are paramount to the effectiveness of the supply chain. In-country vehicles are used to transport and provide agricultural inputs and equipments for cotton production as well as to transport used cottonseeds to oil companies. Vehicles are also used to transport fibre balls to Burkina's export ports.

➔ Financing

The financing needs of each cotton ginnery are provided through a range of banking pools. SOCOMA relies on a pool of local banks, whereas the larger ginneries are also financed through international banks.

Every year, cotton ginneries guarantee a minimum purchase price for cotton to producers (floor price), which is set at 5 % below the average price. The average price is based on historical world rates. The amount is then adjusted upwards after the season if the cotton rates were above a given threshold (the ceiling price), set at 10 % above the average price. If the cotton rates are below the floor price, cotton ginneries can compensate some of their losses through the price smoothing fund mechanism.

After being recapitalised in 2007, the SOFITEX and Faso Coton ginneries again accumulated significant losses during the 2008/2009 cropping campaign, amounting to over 50 % of their capital.

International bids in early April 2009 were between XOF500 and XOF510/kg of fibre cotton, significantly below the break-even point for cotton companies, estimated at between XOF680 to XOF730kg. Due to the companies' limited use of forward contracts at the start of the campaign to sell their upcoming production of fibre cotton when world prices were significantly higher, Burkina's three ginners still had a lot of unsold cotton at the end of the 2008/2009 campaign. The lack of sale contracts, a collateral requirement for the banking pool, further complicated the access of cotton companies to their line of credit for the financing of the 2009/2010 campaign. The price smoothing fund is now empty and urgently needs to be replenished. Solvency constraints of the cotton companies from the late sale of cotton contracts have delayed payments to producers which were only expected to be completed in July 2009 – well into the next cropping campaign. The new floor price for the 2009/2010 season is even lower, given developments on world markets. Furthermore, fertiliser prices have only marginally decreased this year, suggesting an increase in the overall input price (hiked up by financing costs).

With the recent surge in cotton prices, Burkinabe cotton processors have an opportunity to restructure. Cotton is a volatile business, and competitiveness needs to be at the cutting-edge to consistently avoid crisis. Long-term investment loans could be guaranteed, but a longer-term solution may be to invite in some strategic investment, especially from experienced international cotton processing groups.

Burkina Faso may perhaps like to consider incubating even greater value addition, through support to textile and clothes manufacturers. This could be encouraged by offering significant tax breaks to investors that propose to invest in value addition locally.

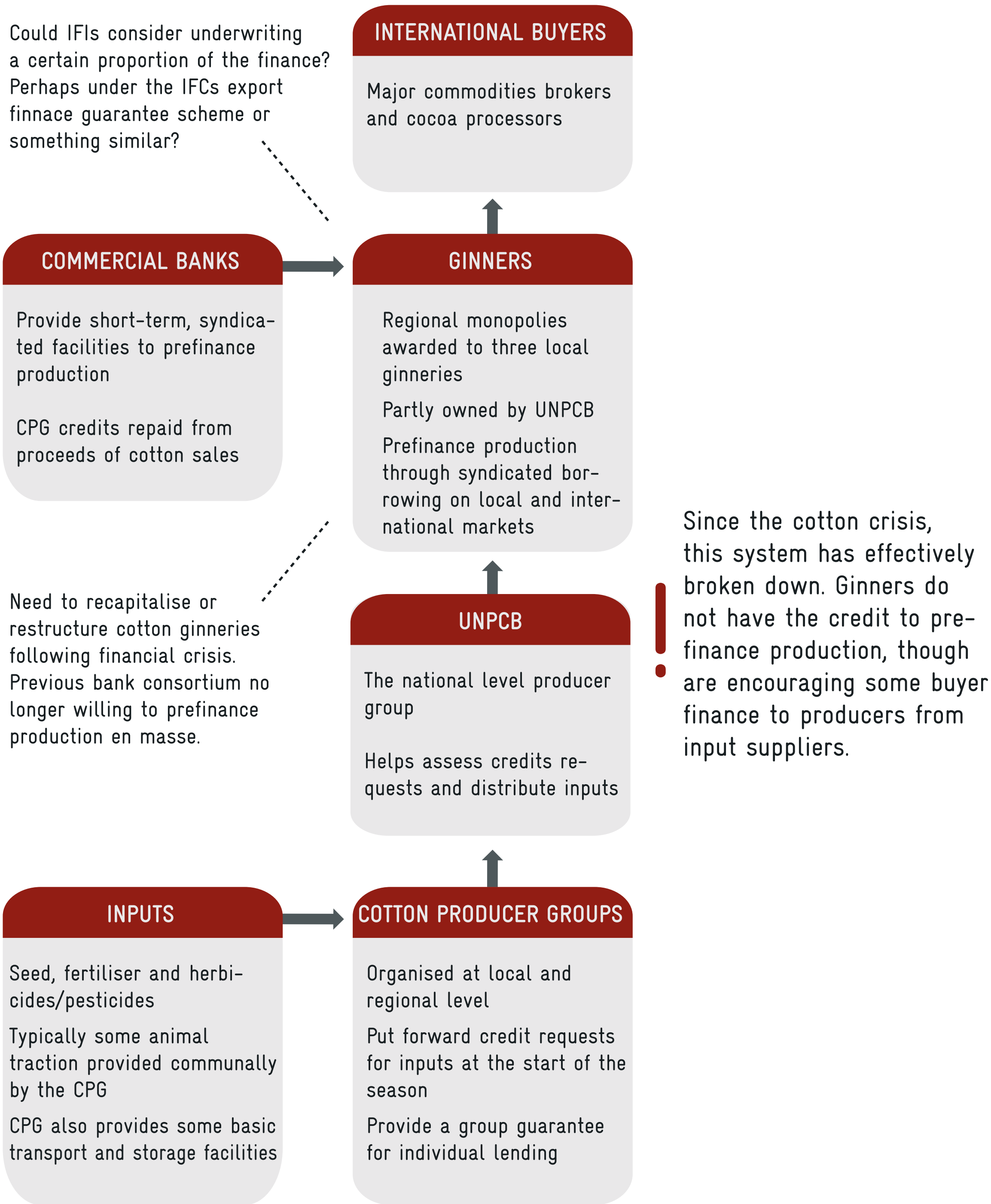


Figure 6: Diagram of Typical Cotton Value Chain

5.2 Cassava

Cassava (or manioc) is mainly produced in the regions of la Boucle du Mouhoun, the South East, East, Cascades region, Hauts-Bassins, Centre South, Centre West, and Centre East of Burkina Faso. Many farmers are currently taking up manioc as it has a reputation for being a profitable cash crop with fall-back subsistence value. Most producers are individuals farmers with more and more producers organised into cassava producer groups, mainly with support from development projects.

Cassava production is being strongly promoted by government as an alternative to cotton monoculture and as a way to address food security. Cassava is relatively easy to grow. When irrigated, the production cycle is seven to eight months and yields between 45-60 ton/ha and two crops per year are possible. In rain-fed conditions (mostly the case in Burkina), yields are much lower (29-45 ton/ha), and the production cycle is 10 months. Most farmers, however, will wait the full year until the start of the rainy season (when cassava tubers are easier to uproot and cuttings can be replanted straight into the ground).

Cassava can be processed into a variety of foods: attiéké (fermented cassava grains), garri (grilled cassava grains), starch, tapioca, placali, cassava flour and leaves. Demand for attiéké has increased dramatically, especially in urban areas where it is bought at street restaurants and served usually with fish.

The cassava value chain is poorly organised and has a number of constraints, summarised below:

- Weak vertical and horizontal linkages within the value chain;
- No written contracts and weak enforcement;
- Limited capacity of different value-chain segments to mobilise guarantees to secure credits;
- Large proportion of cassava variety grown is not adequate for processing and is susceptible to parasites;
- Irregular supply of raw cassava (seasonal production in rain-fed conditions);
- Processing is labour intensive and usually in poor hygienic conditions;
- Processing equipment is expensive and difficult to obtain without sufficient credit; and
- No storage and conservation facilities for processed goods.

5.2.1 Production

Cassava is cultivated principally for its tubers and leaves. Once a field is planted, it generates up to five new shoots, which can be transplanted the following year. Establishment costs are therefore mainly for the seedlings in the first year, as well as fencing to deter livestock from grazing off cultivated grounds. Cassava is best grown in a three-year crop rotation with maize, cereals or cowpeas. Cassava farmers also typically produce millet, groundnuts, cowpea and sesame on their other plots to diversify their income streams.

Local varieties of cassava are not very suitable for processing and are low yielding. INERA conducted research to select improved cassava varieties and disseminated them to producer groups for further multiplication in the provinces of Houet, Kenedou and Lacomo. INERA also trained farmers in better agronomy practices for cassava growing and distributed 5 000 improved variety seedlings to producers.

Farmers have a range of requirements including:

- A plough and pair of oxen for land preparation;
- Fertilisers, pesticides and fungicides, available from a range of stockists across the country;
- Labour costs for planting the cassava shoots; and
- Additional minor items such as basic tools, spraying equipment, and packing bags.

Very few producers own a pair of oxen and plough, and will most likely contract out labour for land preparation (usually manual). Very few farmers currently use fertilisers. Development projects are promoting the use and low cost of preparing organic manure to fertilise plots. Improved varieties of cassava do not require the use of pesticides and fungicides.
Due to cash flow constraints at end of the dry season, producers are often forced to sell their produce when

prices are at their lowest. Revenues are generated from cassava tubers, which fetch around XOF2 500 per bag of 50kgs (or XOF2.3m per hectare based on 45 ton/ha). Seedlings can also be sold by farmers. Each plant produces on average five seedlings each year. Each seedling is sold for XOF25.

➔ Financing

Financing needs at production level are mainly for purchasing hybrid seedlings and protective fences. Producers are able to access seedlings by purchasing these from INERA or other producers with surplus seedlings (XOF25 per seedling or XOF250 000 per hectare). Fencing is affordable only to the better-off producers (and costs up to XOF480 000 per hectare). There is great demand for, but limited supply of, financial products to help acquire fencing and improved cassava seeds.

Some producer groups have bank accounts and obtain credit from the Caisse Populaire based on a solidarity group guarantee. Many producers do not repay their credit, which causes friction in the group.

In practice, besides labour costs, very few inputs are needed for cassava production, which explains its recent success with producers. When grouped into producer organisations, farmers can access equipment within the group such as carts and ploughs to collect the tubers.

The unexpectedly poor repayment rates undermining this credit business actually need a technical solution. First, the lending policy, process and methodology need to be improved to focus resources on groups with better repayment records. Financial literacy needs to be extended to borrowers to help them understand why they are unable to repay their loans.

Clearly, if the metrics of the cassava business are not good, it is unwise to encourage them to continue it. It would be useful to examine the true use of the loans. Are they being used to finance agricultural production, or are they being diverted to household expenses? If cassava is being used as a subsistence crop rather than a cash generator, it is unlikely to be suitable for bank financing.

5.2.2 Processing

Cassava is usually processed by women on a part-time basis (two-three days a week), in small processing units operating manually or with rudimentary equipment. Women either work individually or grouped into formal or informal processors associations. Women will typically have other income-generating activities such as producing groundnuts and sesame; and some trade in rice, cowpea, maize and kola nuts. INERA has provided training for women on processing techniques for each of the cassava products (cassava flour, fermented flour, garri, attiéké, starch and tapioca).

Cassava processing is labour intensive and involves the following stages:

- Peeling
- Grating
- Fermenting
- Pressing
- Drying
- Steaming
- Packaging

Equipment requirements are a motorised grater, mill, press, gas cooker, sieves, buckets and plastic bags. Equipment providers for cassava transformation exist in some urban centres (e. g. BB Equipement) but they are not well networked or have contacts with cassava processors.

Equipment costs for a grater, press, bucket, sieves and gas cooker can range between XOF500 000 and XOF1.5m, depending on the size of the mechanised press and grater.

The cost of mechanised equipment is prohibitive for most individual women and groups without external support. Sometimes equipment is bought second-hand from Ghana or Côte d'Ivoire, especially through family links.

Demand for attiéké is high and a large amount is still imported from Cote d'Ivoire (through the Sitarail rail station in Ouagadougou). Many of the varieties in Burkina are not suitable for attiéké production and customers are able to differentiate between qualities. Raw cassava tubers, once harvested, need to be processed/used within four days as cyanide toxins develop and make the tuber not edible. Cassava transport is expensive and prices vary greatly due to transport costs. Many processing groups will collect bags of cassava using public transport.

During the dry season, the soil is too dry and digging up tubers costs more in labour costs. This explains why producers prefer to wait until the rains in June-July even though prices for cassava are high during the dry season, reaching up to XOF100 per kg as opposed to XOF40 per kg normally. When supplies of raw cassava are not available in the country, some groups import cassava paste from Côte d'Ivoire.

Production is on demand, as there is no storage (attiéké doesn't keep beyond a few days and is best eaten fresh). Some processing groups are exploring other types of products such as dried attiéké, which is less perishable.

Attiéké is sold by processing groups to street vendors and restaurants as well as cafeterias (e.g. university, hospitals and colleges). They are usually in contact with processors directly and will order specific quantities on the day. Attiéké is either delivered directly to the retail market or collected at source by larger institutions. Some women also supply households with attiéké in exchange for a 20% commission. There are no formal written contracts for attiéké supply but customers tend to be loyal.

Attiéké is sold at different prices depending on the location of the market. In Ouagadougou, a bag of 500g is sold for XOF200 retail, three bags for XOF500, and seven bags for XOF1 000. In the South West, prices vary from one processing unit to another. In Gaoua for instance the 1.5kg bag is sold for XOF500 whereas in Bobo Dioulasso buyers pay XO 500 for 1kg.

➔ Financing

Most processing groups encounter difficulties with access to credit adapted to finance their cash flow and equipment needs, which sets back the quantities of attiéké they can produce a day. Women processors operate using their own funds, paying producers mostly in cash and cassava paste importers in cash or credit. At the same time they sell attiéké on credit to street vendors, who usually repay within 10-15 days. This puts them short of cash and many cannot honour credit repayments.

Some groups have opened accounts with banks but they have not deposited much. There is very limited interaction with banks or understanding of how credit works. Commercial banks require guarantees which groups cannot always provide. For instance, a cassava producer and processing group can be asked to find a parent organisation as guarantee (»avalisation«). Group guarantees are difficult to organise due to lack of strong horizontal and vertical value-chain structures.

A number of development projects are subsidising processing equipment (mainly large oversized presses, capable of processing 1 ton/hour) provided that the group sets up an account at the Caisses Populaires or a local microfinance branch and contributes 20% in cash or in kind. Credits can be accessed for up to one year for a maximum of XOF 500000 the first year. The amount can increase each year up to a maximum of XOF1.2m. Interest rates are quoted at 10%.

Most street restaurants and vendors rely on informal credit, MFIs, and other funds that they can mobilise. They will often purchase the cassava products on credit from processors and repay within 30 days. Perhaps financial institutions can build on this trade credit by embedding some supplier finance at both the retail and processor level. Competitive is an issue with so much small-scale production. It would be interesting to see a feasibility study for the financing of a larger-scale agro-industrial enterprise in the cassava value chain.

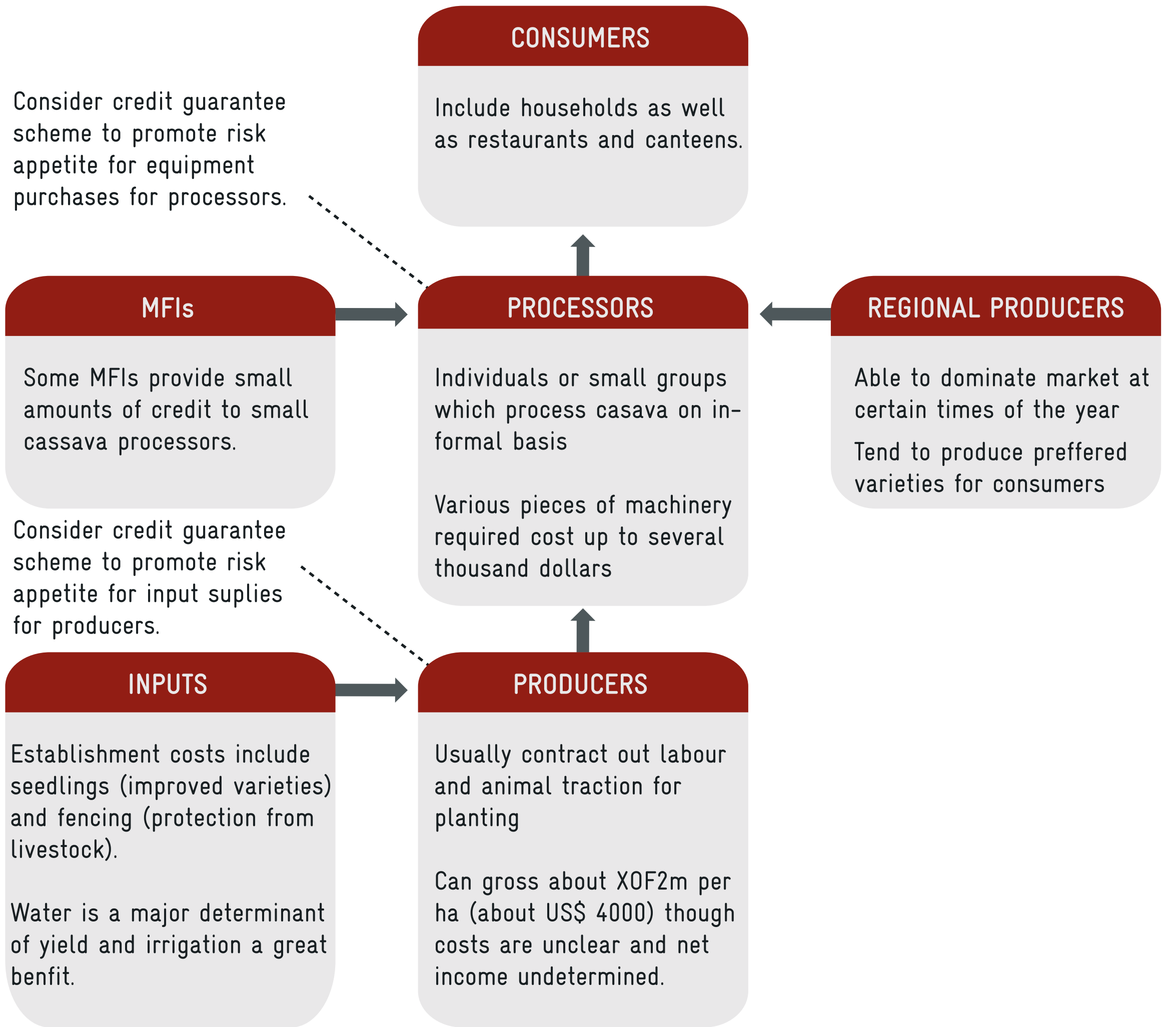


Figure 7: Diagram of Typical Cassava Value Chain

Case Study: Casava Production

The picture on the right shows a typical cassava plot. The seedlings are retained from previous harvests, or purchased from INERA or other producers. The fence is useful in keeping out livestock. Preparation for planting is hard work, and animal traction and manual labour usually has to be contracted. Irrigated land can produce to crops a year, while rain-fed land will typically only produce one.

Once harvested, the cassava is often processed by small processing groups, like the one the women on the left belong to. The cassava is peeled, grated, fermented, pressed, dried, steamed and packaged before it reaches the consumer. This is greatly facilitated by access to some basic machinery (i. e. like the cassava shredder and press shown below).

Figure 8: Profile of Cassava Production

6 Critical Success Factors and Recommendations

This section of the report is a suite of broad recommendations which we feel will assist the value-chain approach to financing the agricultural sector. They therefore tend to concentrate on aspects of value-chain development and financial sector reform which directly impact on the topic. It is not our intention to reflect all the well understood elements of successful value-chain development which indirectly impact the financial feasibility of value chains and their participants.

The study is oriented towards the promotion of private sector capital towards endeavours which are mutually rewarding, and it does not reflect deeply on the poverty alleviation aspects of agricultural finance. This is not remotely dismissive of the efforts of colleagues working on this field, but rather a recognition that the following need to be acknowledged in relation to financial services:

- Finance is limited, largely in private hands, and allocated by market principles;
- It is not allocated randomly, but by the principles of risk and reward;
- Governments and central banks have an overriding duty to ensure the stability of the financial sector;
- The overwhelming fiduciary duty of financial institutions is to shareholders, depositors and members; and
- Financial support must be sustainable as market exit and/or default events can create unnecessary hardship and ruin markets for others.

Many of the recommendations are mutually supportive and, to some extent, interdependent. It is difficult to separate them clearly but we have done so for the sake of readability. However, they should be viewed as a suite of proposals rather than a set of mutually exclusive options.

6.1 Macro-Level

6.1.1 Increasing Agricultural Productivity

It is difficult to see any material improvement in agricultural finance in Burkina Faso without a substantial transformation of the competitiveness of the agricultural sector. Currently, much of the farming is of subsistence level and unsuitable for commercially-oriented agricultural finance.

Before agricultural finance can really begin to gain traction in the market, some basic levels of competitiveness are needed. This probably requires much greater public investment in extension services, and infrastructure. To target this investment most effectively, a realistic assessment should be undertaken on the commercial opportunities represented by various agricultural sub-sectors, and international, regional and local competitiveness.

Rather than target smallholders, it may bring more benefit to the economy overall to look at larger commercial farming or livestock production.

In addition, the country's finances are very reliant on cotton production, which is an industry in real trouble. Some cotton producers are in favour of diversifying their crops to reduce reliance on cotton; however, some feel that they are locked in with cotton ginneries as the latter control the credit for agricultural inputs. Efforts could focus on larger cotton producers, to help them expand and diversify, as well as improving the productivity of cotton production.

6.1.2 Inputs Guarantee Fund

Burkinabe farmers, in general, need to use inputs much more effectively if they are to transform productivity. Unfortunately they lack access to credit products built around the seasonal nature of their business, allowing them to prefinance production cost effectively.

It is our opinion that one of the best ways to extend finance down the value chain is through supplier pre-financing. It will be some years before the liquidity of the commercial banks can be effectively distributed to small farmers and farmer groups directly. Agribusiness buyers (including co-operatives) have the network, operating model, knowledge and incentives to try and extend finance to suppliers. Given an appropriate sharing of risk between the fund, the supplier, and of course the ultimate borrower, we believe this is the most feasible option. Consideration could be given to establishing a national agricultural sector supplier finance guarantee fund.

Realistically, it seems that the only sub-sector which would be amenable to such a fund is the cotton industry, where there are some reasonably strong buyers, and where a robust system of suppler prefinancing has been in place for some time. A World Bank initiative is looking into reducing risks carried by cotton ginneries in providing agricultural inputs to producers on credit; and it is suggested that a common fund to finance agricultural inputs in Burkina Faso be set up.

In the financial sector, the banks with the most likely interest in developing this product line would be BACB (now Ecobank). We feel long-term benefits would also accrue if RCBP could be engaged, particularly to help with loan application and account administration. The whole process of cash management should be formalised and digitised, to make sure long-term records of customer behaviour are captured. In addition, written contracts between counterparties should be established and enforced as far as possible.

Buyer Finance, Ghana

Alternatively, input suppliers can be helped to extend buyer finance. Wienco is a major Ghanaian input supplier (mainly fertilisers but increasingly more innovative products like warehousing and transport as well). They are working with the Cocoa Abrabopa Association to extend trade credit to up to 10 000 small cocoa farmers. Their field officers help the farmers get the best yield possible. Using local knowledge and expertise, they are able to identify productive farmers and help them expand their franchise (as well as their consumption of agricultural inputs). Wienco is keen to solicit additional finance to expand their operations.

6.2 Meso-Level

6.2.1 Recapitalisation of Cotton Industry

A realistic assessment probably needs to be made about the current and ongoing competitiveness of the cotton sector in Burkina Faso. The recent rally in prices, exacerbated by natural disasters in China and Pakistan, offer some reason for optimism. Analysts forecast that cotton demand will continue to outstrip production for some time, and stockpiles have continued to drop.

As already noted, Burkina Faso is engaged in a process of recapitalising its cotton industry after a series of losses. Should this progress smoothly and the industry bounce back into profit, the opportunity must not be lost for substantial restructuring.

It appears to us that cotton production at producer level is fundamentally falling behind international competition. The cotton industry badly needs larger farms and mechanisation to maintain market share. This is not to the detriment of smaller farmers, but precisely the opposite. The cotton processors need a certain economy of scale to be internationally competitive, and the more production the better. Perhaps the subsidisation of some major contract farming and outgrower schemes could be considered, probably in collaboration with the local ginneries.

6.2.2 Involvement of Large Agro-Industrial Companies

Substantial, reputable agro-industrial companies can strengthen all aspects of agricultural value chains, including contributing their own finance and their ability to attract bank financing. The development community can play an important role in promoting Burkina Faso to potential investors in the cereals, meat and livestock, sesame and cashew nut sectors where serious private sector investment can modernise production, commercialisation, transformation and exporting.

Basically, agriprocessing is virtually absent. Donors would probably need to provide substantial credit enhancement, or even equity investment, to attract the interest of the local financial sector, however. Consideration should be given to a scheme to support the entry and development of medium-large scale agribusiness.

This need not be limited to agriprocessing. Competitiveness could also be introduced by ancillary businesses such as input supply, transport or logistics, for example. These might include sub-sectors in which local commercial banks have more appetite.

6.2.3 Strengthening BACB (now Ecobank)

KBACB (now Ecobank) is the only commercial bank of any scale in Burkina Faso with a legacy of agricultural lending. The opportunity should be seized to engage with the new owners, to talk about co-operation in developing the agricultural franchise in the future.

Practical steps may entail the development of a TA programme for BACB. Such assistance could encompass:

- Credit strategy for agriculture: helping financial institutions develop a portfolio for the agricultural sector aligned to their balance sheet strategy, to determine attractive sub-sectors and set suitable limits, to develop products fitting both the needs of customers and the balance sheet, and to articulate a clear credit policy towards the sector;

- Marketing strategy for agriculture: working with financial institutions to develop a cost-effective operating model and distribution strategy, setting appropriate sales targets, training and incentivising sales staff;

- Risk management approaches: including portfolio management strategies, developing risk rating models and credit scoring methodologies, and effective bad debt management and collection; and

- Training: in all of the above, making sure that the training is customised for the local environment, applies detailed local case studies, and involves participants in intensive problem-solving group work.

6.2.4 Strengthening RPCB

It is our contention that the RCPB has a major role to play in expanding financial outreach to farmers. As noted, however, most member co-operative banks are founded on quite basic savings and credit models which severely limit (with some justification) balance sheet growth. Given adequate technical and financial support, it is reasonable to suggest that some of them can break out of this mould into agricultural finance.

We believe the long-term growth of the RCPB is linked to close relationships with the commercial banking sector (as well as other financial sector players such as insurers). This could include the deepening of wholesale credit markets so that high-performing members can access credit lines to strategically expand their balance sheets. This would also entail working with commercial banks to help them develop an effective credit and marketing strategy for the sector, as well as assistance in the development of the risk tools and models they would need to understand and manage this exposure.

The ancillary benefit of strengthening relationships between commercial banks and the RCPB is the transfer of financial sector expertise. This includes advice and practical support across a wide range of topics such as governance and management, marketing and product development, risk management, and information technology. More sophisticated relationships include strategic partnerships of different types to jointly develop and market products.

6.3 Micro-Level

6.3.1 Potential New Product Development

The two main sources of wealth in Burkina Faso are animals and remittances from overseas workers. Animals are a source of stored wealth for farmers, while simultaneously providing traction and food security in the event of crop failure.

Local financial institutions and MFIs might like to consider the introduction of a livestock purchase loan, particularly if it was underpinned by regular remittances of income from a family member for instance. Often, remittance income is directed towards animal purchase anyway, so this is a way of deepening the integration of farmers within the financial system. It is an easy product for them understand and to appreciate. We have found it works well in environments of similarly high poverty such as Bangladesh for example.

6.3.2 Improving Irrigation through PPP Investments

There are a range of large-scale and long-term investments which need to be made to improve the competitiveness of agriculture in Burkina Faso. These include physical infrastructure such as roads, warehouses and power facilities, but could equally include more intangible services such as grading and inspection services, research services, and information technology support. However, in light of Burkina Faso's tenuous circumstances, there is potential in focusing on irrigation in the near-medium term.

Consideration should be given to establishing a national fund (or budget allocation), perhaps to be supplemented by International Financial Institutions (IFIs) under certain circumstances, focused on strategic investments in irrigation. These investments should be mapped to the overall national policy for the commercial development of agriculture and implemented, as far as possible, in a PPP structure which invites private sector capital and expertise through improved risk allocation.
It was not clear to us whether the Burkinabe public sector already has a PPP unit (usually situated in the Ministry of Finance). If so, we suggest that it is engaged as a key counterparty by the Agricultural Sector Co-ordination Unit, and that they work together to develop a specific strategy for agricultural infrastructure, and to identify high-potential investments and high-calibre private sector partners.

Irrigation PPP, Zambia

The Chiansi Irrigation Scheme in Zambia is a PPP arrangement sponsored by InfraCo Africa, a donor-funded infrastructure investment company. It is structuring finance of around US$30m to fund an irrigation scheme and linked 2 400ha wheat and soya double crop operation. The 2 400ha is essentially underused land on a long-term lease from local smallholders. In addition, the smallholders benefit from secure water supplies and an equity stake in the project company. Full ownership and management of the company will revert to local ownership following the repayment of external debt.

Annex: Glossary of Financial Terms

This brief guide was prepared by the authors to help explain some basic financial terminology used in the reports. The definitions given are to aid interpretation, and not to be relied on in preference to a good financial text book. Some of the terms may seem like jargon but they are not, and some financial terminology is imbued with quite subtle and nuanced meaning which can require some explanation.

Capital – money or assets used to generate income (e.g. in a business)

Capital Market – the mechanism by which long-term capital finance is allocated. An example is a stock market, though any kind of competition between financiers to provide capital finance to borrowers or investees is a capital market

Equity Capital – is money contributed by the owners of the business. Therefore equity investment is taking an ownership stake with a share of the profits (or losses)

Debt Capital – is longer-term loans which can be used to invest in fixed assets in particular

Guarantee Fund – a fund which underwrites some or all of the credit risk assumed by private sector lending, usually in order to encourage greater participation

International Financial Institutions (IFIs) – development banks such as the World Bank or African Development Bank

Liquidity – the cash or cash equivalents on hand for a business to meet day-to-day operational requirements

Long-term Credit – typically loans of more than five years in duration, often used for investment in capital items

Microfinance Institutions (MFIs) – financial institutions which specialise in small, short-term loans

Public-Private Partnership (PPP) – a deal structure whereby public good or services are provided by the private sector, whilst the public sector retains some project risk to incentivise interest

Savings and Credit Co-operative (SACCO)/Credit Union – member-based financial services organisations run along the co-operative model

Short-term Credit – typically loans of less than one year in duration, typically used for funding working capital

Undercapitalised – a business (which can include a bank) which is overly reliant on short-term borrowing to cover its day-to-day liquidity needs

Wholesale Credit – lending to other financial institutions (who will then presumably further intermediate the credit)

Working Capital – is the net position of the short term assets of a business (e.g. debts owed to it, inventory, cash etc) less short-term liabilities (e.g. debts owed by it, for example loans)

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