

“HLIB EL KHIR” INNOVATIVE FINANCING OF SMALL-SCALE DAIRY PRODUCERS

Innovative Value Chain
financing extended by
linking smallholders
through partnership with a
lead firm (Delice Holding)

Economic Empowerment Department



	Title	"Hlib El Khir" Innovative Financing of Small-Scale Dairy Producers
	Excerpt about the solution	Innovative Value Chain financing extended by linking smallholders through partnership with a lead firm (Delice Holding)
	What year was the innovation introduced	2017
	#women/youth entrepreneurs served/reached	2500
	(Potential) Lives Impacted	125000
	Budget	US\$ 17 Million
	Which institution implemented the solution?	Zitouna Tamkeen – Delice Holding
	Type of institution (financial institution, fintech...)	Financial Institution – Agro-industrial Group
	Topic	Guarantee, Decentralized Payments, Financial/Technical education.
	Sectors (max 4)	Agriculture
	Video URL	https://drive.google.com/file/d/1HBBUtUINzgliMn3wEyTmdgaX_OJIdmR4/view?usp=drivesdk
	Location	Tunisia, National



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The Challenge:

Addressed by the products/ services

The macroeconomic conditions in Tunisia were having a substantial impact on the liquidity of the financial sector. The cost of lines of finance increased, resulting in MFIs being more conservative in providing financing to MSMEs. The regulation preventing Microfinance Institutions to take deposits made it more challenging. Therefore, financial institutions require stringent collateral and guarantees that smallholders working in the agriculture are unable to provide. It became clear that financial institutions needed to manage the repayment risk through managing the real sector risks in the design and implementation of innovative financing mechanisms. How can FIs provide the adequate financing/business development services to the small-scale farmers sustainably without expecting any guarantees or collaterals from the small-scale farmers?



Description:

What products / services are you providing (innovation introduced) that are helping SMEs, especially women and youth entrepreneurs? (most salient features of products/services/innovation, how they were designed and implemented...)

In 2015, IsDB and Tunisia's Zitouna Bank established 'Zitouna Tamkeen' (ZTM) as an Economic Empowerment (EE) institution targeting young people and disadvantaged populations. It is the first institution in Tunisia and the Maghreb region to use Islamic financial tools specifically for the economic integration of marginalized communities. It does this by identifying VCs that have untapped potential for stimulating entrepreneurship and employment, and therefore for delivering a significant socio-economic impact. ZTM covers all productive sectors but has a significant focus on agriculture. It is currently engaged in more than 20 EE projects targeting thousands of small producers in specific regions of Tunisia.

Hlib El Khir ('Milk for Good') was ZTM's first EE project in the dairy VC and was based on a partnership with Délice Holding (DH). DH is a market leader in the dairy value chain in Tunisia, with more than 65% of market share. As the off-taker in this project, it strengthened the production capacity of 5,500 farmers in the north-western region of Tunisia, over a five-year period. The project mainly targeted small-scale dairy farmers and unemployed higher education graduates, through training workshops in dairy farm management and the provision of Islamic finance instruments for investment in cattle, milking machines, milk cooling mini-tanks, stables and so on.

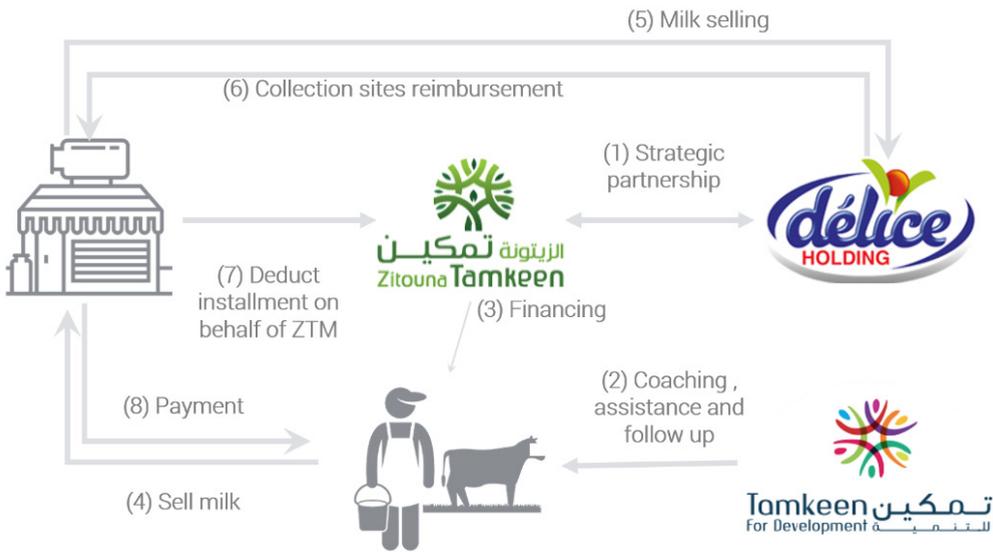
Following a communication campaign, ZTM selected beneficiaries based on a specific criteria and advanced them to the funding stage. Farmers were able to start milk production as soon as they received heifers and production equipment, which were made available at a reduced price. Milk was supplied to local collection centers, from where it was transported to DH. Every month, DH paid the collection centers an amount corresponding to the quantity received, including a premium negotiated by ZT for the benefit of the participating farmers. The collection center reimbursed farmers after deducting a monthly repayment, which went directly back to ZTM. This minimized ZTM's operational costs and secured a constant flow of milk to Délice. For the farmers, the benefit was that they had an assured off-taker for a period of five years, as well as three years of close monitoring and access to technical training.

De-risking approach: With four main players in the dairy VC, one way to reach an agreement between all of these parties is to produce a combination of bilateral contracts and sign them in pairs. However, this would fragment the relationship between the different actors and dilute accountability, and its implementation would be challenging. The solution that was adopted by consensus was to produce a tripartite contract between the small-scale dairy producers, the milk collection center and ZTM on the one hand, a tripartite contract between DH, the milk collection center and ZTM on the other hand, and also a bilateral contract between DH and the milk collection center.

Another bilateral contract was put in place when the funding was released between the small-scale dairy producers and ZTM. Each contract was specific to the nature of the commercial transactions taking place between the signing parties. For example, the bilateral contract between ZTM and the small-scale dairy producer included the producer's agreement to pay the financing received from ZTM to the milk collection center for the purchase of pregnant heifers. Also, through this contract, the producer delegated the milk collection center to pay to ZTM the amount of the monthly.

Finally, this project was a catalyst in terms of financial inclusion for small-scale farmers as all of them opened and account to benefit from the services of this project. Also, in terms of payments, the local collection centers allowed the decentralization of the payments process as they were used as satellites of ZTM.





Lessons Learnt:

what were the aspects that need to be considered when replicating the initiative etc

The main lessons learnt through this project was the ability to create a sustainable and scalable impact in the field of poverty alleviation. ZTM was not just a credit provider but also an agent of development by helping to improve the productivity and provide economic inclusion Women/Youth and vulnerable groups by enabling them to supply to an established buyer like Delice Holdings. The objective was to look at the different needs of the client especially those beyond credit. In this case, the economic inclusion of the client included linking him/her to the real economy by enhancing their productivity through technical training to meet high quality standards, opening up communication channels with economic players, setting up technical and managerial capacity building plans, and, of course, funding. Value chain financing plays an important role in developing financial products suited for economic inclusion and small business sustainability.



Impact and Results:

The project made a significant impact on the livelihoods of participating small-scale milk producers in the northwestern region of Tunisia. Farmers tripled the size of their herds, and saw their monthly income increase by 200%. The success of the Hlib El Khir project shows that a combination of appropriate financing, training, constant monitoring, guaranteed off-take (as well as protection through an insurance scheme covering herd mortality) can be transformational to the livelihoods of marginalized farmers. Crucially, it is a scalable model with the potential to impact 125,000 farmers across Tunisia, strengthening the dairy sector as a whole.



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