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MCC's Compact is Improving Benin's Business Climate

Any business owner will testify to the importance of credit and other financial tools. Without access to credit and helpful support from a financial institution, few entrepreneurs would be able to marshal the resources necessary to get their ideas off the ground.

Businesses in Benin have faced that problem for years. In a country where reliable collateral and resources are scarce, financial institutions are reluctant to lend to businesses because they cannot mitigate the risk of their investment. In response, the Millennium Challenge Corporation (MCC) funded the \$17 million Access to Financial Services Project as part of Benin's \$307 million Compact. By reducing the cost of and improving access to financial resources, the project aims to ensure that micro-, small- and medium-sized enterprises (MSMEs) are able to take advantage of business opportunities and contribute to the long-term economic growth of the region.



GATID consortium representatives hold the DETAREN SARL water that is produced using the GEA-Bénin medicinal herbs and the FMB-Groupe equipment

The Access to Financial Services Project created a grant fund and provided financial support to 65 projects to improve the production capacity, profitability and access to financial services of MSMEs, and to improve the capacity and innovation of microfinance institutions. Among this group is a consortium of three companies, named GATID, which was formed in response to the MCA opportunity and is using a \$500,000 grant from MCA-Benin – plus approximately \$1,000,000 of its own funds – to help build an industry that is supporting new jobs and economic activity in Benin. It was only while seeking the support of the Access to Financial Services Project that the three GATID companies connected, paving the way for a partnership and a sustainable business model.

The GATID Consortium

GEA-Bénin

GEA-Bénin is an association of organic medicinal herb growers. Using organic seeds and no pesticides, these farmers produce herbs such as bay leaf, ginger, lemongrass and African basil. These are high-value crops; on average, a bay leaf tree sells for \$70, compared to \$10 for an orange tree. In order to participate, farmers joining the association need at least half a hectare of land. They must also show that they can grow five key products – pineapples, lemongrass, and three types of basil. In addition, they need to invest in the seeds, which tend to be more expensive than those required for subsistence crops and other agricultural products. This is a risk many farmers are willing to take because the potential return on their investment is high. With the help of the Access to Financial Services Project, the farmers have been able to install irrigation systems to increase their production.

DETAREN SARL: A demand-driven approach

Like any business, the farmers of GEA-Bénin need a market for their high-value products. That need is fulfilled by the second part of this consortium – a company called DETAREN SARL. DETAREN SARL uses GEA-Bénin’s medicinal herbs to make essential oils, which are sold for cosmetic use, or to produce “Eau Noble,” French for “noble water,” a local brand of flavored bottled water. The flavored water is sold domestically and exported to Nigeria, Burkina Faso, Kuwait, and Saudi Arabia. DETAREN needs at least 250 kg (about 550 lbs.) of herbs to make each liter of essential oil. This is why the partnership with GEA-Bénin is essential, and why there is such a high demand for this produce. Eau Noble is made with organic herbs from the farmers, and these herbs have perceived medicinal purposes such as calming stomach aches or relieving headaches, making the water appealing to all types of customers. With support from the Access to Financial Services Project, DETAREN SARL purchased new machinery. The company has also doubled its original staff of 15 and increased its production from 12,000 to 32,000 bottles per week. Each bottle sells for a little less than \$1.

FMB-Groupe

With so much new economic activity, both GEA-Bénin and DETAREN SARL require regular maintenance to make sure their machinery is functioning and well-adapted to their activities. That is where Forge Moderne du Benin Groupe (FMB-Groupe), the third member of the consortium, enters the picture. FMB is a 40-year-old, family-run company that builds machinery such as the irrigation equipment that the farmers use, as well as the water and boiling systems for DETAREN SARL. FMB’s owner, André Soui-Guidi, studied engineering in Belgium and came back to invest in his country. He is an entrepreneur who has big aspirations and ideas for expanding his business and eventually creating a vocational training center. He wants to establish a market in Benin first, and later expand to Nigeria and become a leader in the region. He has a steady demand for his innovative machinery from the farmers working with GATID.

Soui-Guidi has eight people working for him. In the coming months, when he finishes an extension to his current workshop that will create space for additional machinery, he expects to hire 12 more workers.

Sustainability matters!

The GEA-Bénin farmers, DETAREN SARL, and FMB-Groupe all need working capital to purchase supplies and machinery, and to expand their businesses. Getting a loan has always been a challenge. Thanks to the visibility that this consortium received as part of the Access to Financial Services Project, both banks and microfinance institutions in Benin and the region have approached these companies to work with them to access credit. The assistance of the Access to Financial Services Project has provided the consortium with the credibility and assets to become qualified customers, gaining interest from the Bank of Africa, Oikocredit, and regional Beninese financial institutions.

A total of 42 MSMEs and consortiums like GATID have received funding through the Access to Financial Services Project to help expand production capacity and improve profitability and financial management. In addition, to ensure these expanded MSMEs and the sector as a whole have better access to finance, the project has provided grants to 23 projects for capacity-building and technological innovation for microfinance institutions, for a total of 65 projects funded through this grant program. Moreover, the Access to Financial Services Project has provided support to strengthen the microfinance industry overall, including promoting the passage of the National Microfinance Policy, strengthening the Benin microfinance regulation authority, and funding the creation of a microfinance credit bureau.

MCC is committed to measuring long-term results and this project is being independently evaluated. Results from final impact evaluations will be available a few years after the Compact. The evaluations will analyze the extent to which MCC's investments have contributed to improved access to credit, grantee profits, reduced transactions and operating costs, and improved microfinance institutions performance.

The partnership between the United States and Benin is improving the country's poor investment climate and lack of dynamic private sector activity by not only providing access to capital, but also enhancing land security, creating a more efficient judicial system, and improving and expanding the Port of Cotonou. These are key ingredients to achieve our shared goal of poverty reduction through economic growth, and to create lives of greater hope and opportunity for the people of Benin. Over the next 20 years, MCC's investments in Benin are expected to benefit the entire population of the country.