

ISSD Africa

Synthesis paper



Financing seed business

Introduction

Economic growth within the agricultural sector in Africa is very much needed to enhance food security and stimulate income generation. Investments are a prerequisite for this economic growth. However, access to finance to support investments in agriculture is a major challenge. Even though banks and investment funds are expanding their operations in Africa, the proportion of their lending to the agricultural sector remains limited, considering the economic importance of the sector.

Agriculture in developing countries, and sub-Saharan Africa in particular, continues to be largely overlooked by financial institutions (Jessop et al., 2012). A report by Dalberg estimated the global demand for smallholder finance at 450 billion US dollars, most of which is currently still unmet (Dalberg, 2012). Loans are rarely extended to smallholders, and access to finance for youth and women deserves specific attention (MFW4A, 2012). Credit provision by banks in Africa is often overregulated and inflexible, and does not take adequate consideration of the specificities of the agricultural sector, resulting in a mismatch between financial products and needs of agricultural enterprises (MFW4A, 2012). Matching loan repayment terms to agricultural cash flows is critical, and results in higher repayment rates (Hystra, 2015).

A recent study by Dalberg Global Development Advisors frames the solution to this mismatch as 'centricity'. Centricity can be described as an approach to "providing solutions based on a deep understanding of customer needs, preferences, and behaviors. By using customer engagement to tailor their approaches to the circumstances and challenges of smallholder farmers, financial service providers can begin to close the gap between smallholder demand and need, while also mitigating risk and improving the sustainability of their smallholder business models" (Goldman et al., 2016, p. 28).

The same constraints that are hampering access to finance in agriculture in general are restraining access to finance in the seed sector. This paper presents an analysis of the current pathways by which seed producers in sub-Saharan Africa access finance, and discusses which particular measures can be taken to improve access to finance for seed producers. Considering the need for growth of the seed sector in sub-Saharan Africa, the focus is particularly on access to finance for emerging local seed producers. The various options available for seed producers in sub-Saharan Africa to access finance, are thus analysed.

This paper aims to answer the following research question: *How can emerging seed producers be provided with access to credit with favourable conditions?*

The paper is based on a study by the Integrated Seed Sector Development (ISSD) Africa programme, comprising three different components. First, a desk study was carried out to provide an overview of the various types of agricultural finance in Africa. Second, seven field studies were carried out in Tanzania, Burundi, South Sudan, Mali and Burkina Faso (an overview of these case studies is provided in Annex 1). Interviews were held with seed producers, seed companies and financial service providers to gain an understanding of the financial opportunities and constraints. Two case studies from Uganda were added based on documented descriptions. Finally, insights collected from field studies were debated in a cross-case analysis meeting, attended by case study researchers and senior seed sector specialists.

Seasonal and investment credit

For the sake of analysis, a distinction is made between two types of financing demands: seasonal credit to fund farming operations, and credit for capital investment in equipment, land and farm infrastructure, hereafter referred to as short- and long-term credit. Short-term credit is meant to solve cash flow constraints and is usually paid back after

the sale of the farm produce. A specific constraint for seed producers is that the time between investment in production, and the sale of the produce is longer than in ordinary farming. Long-term credit concerns loans that are used for capital investments which cannot be paid back after a single production season; for example, building a warehouse, investing in equipment and machinery or investing in irrigation. The amount required for short-term credit is usually modest compared to long-term credit.

Credit mechanisms for seed producers

Seven field studies have been executed to analyse various finance mechanisms that provide emerging seed producers with credit. Two well documented cases from Uganda were also included in the study (see Table 1). Based on the literature review and the field cases, a list of financing mechanisms used by seed producers was made. The mechanisms range from informal to formal and include for example own savings, value chain finance, and bank loans.

Table 2 presents the various financing mechanisms for seed entrepreneurs encountered, providing insights into whether they facilitate access to short- or long-term credit, and how easily they can be accessed. The mechanisms are analysed in more detail in this chapter.

Own savings or informal credit from family, friends and neighbours

The majority of Africa's smallholder seed producers rely mainly on the use of their own savings to buy seasonal inputs and to invest in seed business activities. For instance, in South Sudan, there are three larger, officially licensed seed companies that are operational: Aim Global, Century Seeds and Greenbelt. These seed companies started off as small informal seed producers and over time gradually transformed into formal seed companies by registering with the government. They started their business by using their own savings as start-up capital. This is not unique to South Sudanese seed producers. All other seed enterprises encountered use their own savings as the most important source of finance for their operations.

Table 1. Overview of case studies on credit mechanisms for seed producers

Case study	Country/area	Financing mechanisms
1 Seed companies, Nafaso and Faso Kaba, accessing credit through the West Africa Agricultural Investment Fund (WAAIF) of the Alliance for a Green Revolution in Africa (AGRA)	Burkina Faso and Mali	Grants provided to seed companies to boost the start of their business operations
2 Cinzana Seed Producer Cooperative accessing credit from the Banque Nationale de Développement Agricole(BNDA), guaranteed by the African Development Bank (AFDB)	Cinzana, Mali	Bank loans to cooperatives through the support of loan guarantee fund mechanisms
3 Farmers' groups accessing credit for open-pollinated varieties (OPV) of maize and rice production	Morogoro and Dodoma, Tanzania	Group lending mechanisms
4 Seed companies providing credit to out-growers of vegetable seed	Arusha, Tanzania	Seed out-grower schemes as part of value chain finance
5 Rice chain integration, providing seed producer access to credit (Coris Bank)	Bagrépole, Bagré, Burkina Faso	Bank loans for seed producers
6 Individual seed potato producers accessing bank loans	Kayanza province, Burundi	Commercial loans for individual seed producers
7 Individual seed potato producers benefitting from partial grants as co-investment in their seed production infrastructure	Kayanza province, Burundi	Project co-funding investment grant for seed entrepreneurs
8 Post-conflict access to finance for seed producers	Central Equatorial State, South Sudan	Credit mechanisms available in post-conflict setting
9 Seed receipt system financing – addressing inherent cash flow challenges in local seed businesses (LSBs)	Uganda	Seed warehouse receipt system
10 The seed box approach – mobilizing internal resources by local seed businesses	West Nile Region, Uganda	LSB group savings

Table 2. Case studies on access to finance with characterization of the financing mechanisms

Financing mechanism	Seasonal credit	Investment credit	Ease of access	Case	Advantage	Disadvantage
Bank loan	X	X	--	Mali, Burkina Faso	Both the duration and size of the loan can be large	High interest rate; tough collateral conditions; only suitable for large amounts
Microfinance	X		+/-	Mali, Burkina Faso, Burundi	Considerable loan size; locally available; adjusted to local demand; multiple guarantee mechanisms	High interest rate; social burden of defaulting on group guarantees
Grants	X	X	--	South Sudan, Burkina Faso, Burundi	No need for repayment; suitable for infrastructure investments	Not sustainable; only available for the 'happy few'
Value chain finance	X		+/-	Mali, Tanzania	Direct loan; no – or modest – interest; tailored to needs; no collateral needed	Only seasonal credit
Inventory credit	X		-	Tanzania, Uganda	Provides cash when needed; allows to postpone selling till demand for seed	Stored seed can spoil; no guarantee for higher market prices; limited amounts
Credit and saving schemes: VSLAs*, SACCOs*, Seed Box	X		+/-	Mali, Tanzania, Uganda	Social control; no collateral requested	Small amounts; only to be used for working capital
Own savings	X		+	All	No conditions	Small amounts
Loan guarantee fund	X	X	--	Tanzania, Mali	Enables access to formal credit	Only for larger producers; system is not sustainable in itself

*Key: VSLA – village savings and loan associations; SACCOs - savings and credit cooperatives.

The main advantage is that farmers have full control over their own savings, and as a result they are tailored to their needs in terms of timing; no collateral is demanded and no interest is paid. The disadvantage is that the amount saved is often limited and this makes it difficult to fund growth of the seed business, as maintaining the same level of investment is hard enough. Social structures in Africa make it sometimes complicated to save money as the extended family and social networks often request financial support. During the cross-case analysis, it was mentioned that some seed producers prefer to invest their savings in cattle to reduce the liquidity of the money and be sure it cannot be used for purposes other than reinvesting in the seed business. The cattle are herded by someone else and sold when market prices are high or when the money is needed. This could increase the savings, but cattle can also be stolen or die, therefore this mechanism also involves some risks.

Country	South Sudan, Burundi, Tanzania, Burkina Faso, Mali
Credit objective	to start/maintain seed business
Credit mechanism	own savings
Credit provider	self
Credit takers	self
Loan conditions	no interest, no collateral
Tailored to seed producers	yes

Own savings can be complemented by informal credit from family or friends. Such credit is highly diverse in nature, and can be used to support the development of the enterprise, but also as a serious investment by the person providing the credit.

Microfinance

Microfinance targets particularly those clients that are not able to access credit from banks. The field studies in Burkina Faso show that both Coris Bank International S.A. (Coris Bank) and Caisse Populaire du Burkina Faso (Caisse Populaire) are providing microcredit to seed producers.

Country	Burkina Faso
Credit objective	to access seasonal credit
Credit mechanism	microfinance
Credit provider	Coris Bank International and Caisse Populaire du Burkina Faso
Credit takers	small seed producers, cooperatives
Loan conditions	guarantee, account, insurance
Tailored to seed producers	no

Coris Bank started as a microfinance institute and still provides various banking services to private, small- and medium-sized industries and businesses in Burkina Faso. As a proximity bank, Coris Bank also provides microcredit



Professional seed store 50% co-funded through a grant, Gitega, Burundi

to small seed producers everywhere in the country. It uses a lending rate of about 8% to 9%. Seed producers in Bagré are organized in a cooperative; the stock of their seed is used as a guarantee through a collateral management system. In this system, the producers do not get the full value of their seed stock as credit, but about 85% to 90%, which allows the banks to have a margin in case seed prices fall.

Caisse Populaire is a microcredit institution that has branches everywhere in Burkina Faso, and is therefore close to its clients. To access credit one needs to:

- have had an account for a minimum of two months;
- have collateral for up to 100% of the loan;
- be able to show a clean credit history; and
- take out insurance (with insurance companies).

Caisse Populaire provides short-, medium- and the long-term credit. For emerging seed producers, the need for collateral is a constraint, as they do not always have land title deeds, solid storage facilities or equipment to serve as collateral. When farmers are members of a cooperative and need credit, the Caisse Populaire usually asks for a group guarantee and can waive the need for collateral. Other members can vouch for the loan, but would have to pay back the loan if the creditor defaults on repayment.

In Burundi, the Union for Cooperation and Development (UCODE) provides credit to seed potato producers. The combination of a savings history, credit history, seed trade records and preferably forward contracts for seed potatoes are used to judge credit worthiness, with their house

or seed store serving as collateral. Credit repayment is conducted after selling the seed, roughly six months later, at an interest rate of 1.2% – 1.5% per month. Twelve private seed potato producers have so far received credit, and UCODE is seeking to increase the number clients, having learned that seed potato production is profitable, and as a result repayment is good.

One advantage of microfinancing is that it offers an opportunity for seed producers to access credit by group, and vouch for each other by pledging complete or partial collateral. Also, as is the case in Burundi, a dossier can be built on a combination of guarantees. These financing mechanisms respond to the actual needs of their agricultural clients. One disadvantage concerns the interest rate, which is similar to that of commercial banks, sometimes even higher as a result of the higher transaction costs associated with many small loans. Despite the high interest rates, field studies show that microfinancing does provide an opportunity for seed producers to access mostly short-term credit to solve cash flow constraints.

Country	Burkina Faso, Mali
Credit objective	to support seed businesses in their operations
Credit mechanism	grant
Credit provider	AGRA
Credit takers	seed companies
Loan conditions	track record
Tailored to seed producers	yes

Grants

Grants are used by projects and programmes to quickly expand their businesses or to invest in upgrading their facilities. Grant providers set the conditions under which to provide a grant and as such select those enterprises that seem most promising. Grants can be given in cash or in kind. Usually a percentage co-investment is made a requirement for beneficiaries to access grant money.

The Alliance for a Green Revolution in Africa (AGRA) uses start-up grants for emerging seed enterprises as its basic instrument. The philosophy behind the start-up grant approach is that seed companies can become economically viable and bankable once they have realized a certain business volume and track record. Through the grants, the seed companies can grow much faster than their own savings or microcredit would allow. These bankable seed companies can then serve other smaller seed producers with out-grower contracts. AGRA has issued start-up grants to 87 seed companies across Africa. Through its seed sector development programme, providing technical support and start-up grants to emerging seed enterprises, the seed sector landscape in sub-Saharan Africa has changed and quality seed, of especially hybrid maize, but also other crops, has become better available.

Faso Kaba, a seed company in Mali, received a grant from AGRA in the period 2008-2010 to enlarge its operations and invest in seed conditioning facilities. Similarly, NAFASO, a seed company in Burkina Faso that specializes in the production, packaging and marketing of improved seeds, received a grant in the period 2008-2009 to support fast business development and growth. Currently, Faso Kaba and NAFASO have the business volume and track record to obtain credit with commercial banks like the National Agricultural Development Bank (BNDA) and the Development Bank of Mali (BDM), and Coris Bank International in Burkina Faso respectively.

In South Sudan, two seed companies – Century Seeds and Greenbelt Seed Company – received grants from AGRA to increase their seed production. The grants have been utilized for short-term financial needs such as buying foundation seed, casual labour and land preparation, but also for long-term investment such as opening up new land and purchasing processing equipment.

In Burundi, seed producers have been able to apply for co-funding of capital investments to a tune of 50% of the total amount. Dossiers are judged based on the contribution of the investment to increased availability of high quality seed for smallholders, the track record of the seed producer, and the co-funding pledged, of which at least half needs to be in cash. Through this mechanism, seed producers have been able to build

seed stores, access small irrigation facilities and obtain seed packaging equipment.

The major advantage of a grant is the simplicity of the instrument, and it can indeed, as the AGRA experience has shown, transform existing seed producers into companies producing and trading larger volumes of seed. Also, it can support seed producers to upgrade their facilities, resulting in increased quality and volumes of seed, which would have been too risky if fully commercially funded. An important, and valid, criticism of grant support concerns its sustainability. Seed enterprises may begin to rely on grant resources in their operations, and may face difficulties when such programmes phase out. A second criticism of grant support to selected seed enterprises is that it creates an unfair competition for other seed enterprises not benefitting from grants. As a result, there is a risk of reduced diversity of seed producers, which in the long run may not benefit the seed client. Lastly, providing grants also does not encourage the financial sector to take a more active role in rural finance. The financial sector should be stimulated to open up their business for rural clients and to create a supportive financial environment.

Value chain finance

Access to finance can also be provided by seed clients. Three different methods of such financing were identified in the field cases. The first is an out-grower system in which a seed trading company buys seed from out-growers. As part of the contractual arrangements the seed producer can access credit, either in the form of inputs or cash, from the seed enterprise. This is a successful system in the case of indigenous vegetable seed production in Tanzania. This out-grower model is also being practiced in Burkina Faso and Mali. The seed companies NAFASO and Faso Kaba enable credit for small seed producers by supporting an out-grower system whereby out-growers are provided with either cash or inputs. The two companies received grants supported by AGRA, and once these ended they took out loans from the banks to continue their business operations with the seed producers.

Country	Burkina Faso, Mali
Credit objective	to support seed producers to safeguard the companies own supply
Credit mechanism	out-grower schemes
Credit provider	Faso Kaba, NAFASO
Credit takers	smallholder seed producers
Loan conditions	seasonal credit, cash or in-kind
Tailored to seed producers	yes

At the beginning of the season, seed producers who work with Faso Kaba contractually commit to produce a certain volume of seed, and to sell their entire yield back to Faso Kaba at an established price. In return, the contract growers obtain credit for the inputs needed from Faso Kaba at no interest. NAFASO uses a similar system, but in addition requires the seed producers to be trained in seed production and also to be trained by NAFASO. Seed producers indicated that this chain finance is the only feasible option to access seasonal credit as an individual, as they cannot meet the collateral requirements set by the banks and microfinance institutions.

Agriseed in Tanzania provides basic seed and inputs on credit to its 10-15 out-growers. The out-growers receive training from the company on how to produce the quality seed. The farms are inspected by Agriseed before they both sign a contract, to check whether the seed farmers meet requirements concerning the isolation distance and minimum farm size. On graduation, the newly trained farmers are awarded certificates by the district authority, confirming them as qualified seed producers.

Country and location	Tanzania
Credit objective	to support seed producers to safeguard the companies own supply out-grower schemes
Credit mechanism	out-grower schemes
Credit provider	Agriseed
Credit takers	smallholder seed producers
Loan conditions	seasonal credit, cash or in-kind
Tailored to seed producers	yes

A second, looser kind of value chain finance was found in Burundi, where input traders provide the Imbanzaguseruka Association with inputs on credit. Seed farmers use their seed potato fields as collateral for accessing pesticides on credit from the traders. At harvesting time, the farmers use the revenue from seed sales to repay the pesticides.

A third form of value chain finance is where seed clients order their seed in advance and provide the seed producer with an advance to substantiate their order. A pre-ordering system is being developed in Burundi, and has been in operation in Mali for pre-basic seed from Cinzana research station. In addition, Faso Kaba indicated that it requests an advance of up to 60% from large clients. In Mali, rice, sesame and maize producer cooperatives provide inputs for seed producers in their own cooperatives on credit. Such seed producers within the cooperatives produce seed to satisfy the demands of cooperative members, for a friendly price, and surplus is sold to non-members for a commercial price.

According to Miller and Jones (2010), 'trade-related finance' is the most frequent form of value chain finance and can be either 'pre-financed sales' – when credit is provided to farmers by vendors who sell farm inputs – or 'advance payments' given by buyers who purchase farm outputs. A seed company that works according to this principle on a large scale is Nagari Seed Nigeria Ltd (Bentley, Ajayi and Adelugba, 2011). The company advances foundation seed and fertilizer to its out-growers of hybrid maize seed.

Accessing credit, either in kind or cash, from the ultimate buyer of the seed has a number of advantages. In the first place, it means that there is a limitation in risk: there is a standing agreement that the investment is worthwhile, as there will be a client for the end product who is willing to pay a guaranteed fixed or minimum price. A second important advantage is that such a system of out-growers linked to a seed enterprise can unlock access to financing from banks. Whereas the smaller seed producers are not bankable, and transaction costs are high, the larger seed enterprise can, when having proof of stable profits and turnover, access commercial credit easier and at much more benign interest rates. The lender has the advantage to contract the seed producers for a fixed seed price and secures its business from supply by signing exclusive contracts.

The disadvantage for the seed producer in having a seed trader as a credit provider is the reduction in choice of customers and, oftentimes, in supplier of inputs. The seed producer will get into a situation of double dependency on the seed enterprise. This has the potential of reduced bargaining power and a downward pressure on seed prices and the profitability of seed production. It depends on the situation of the individual seed producers, and on the details of their credit and supply contract, as to whether the seed producer considers it a fair deal or not.

Inventory credit

Inventory credit, or warehouse receipt financing, is mainly known for its use by producers to speculate on price increases of harvested produce for the consumption market. Through this mechanism, credit can be accessed using the harvested product as collateral. This allows farmers to wait to sell their produce and benefit from gradually rising prices after the main harvesting peak. Basically, inventory credit resolves the immediate cash-flow problems of producers.

Seed producers suffer from an even more structural cash-flow constraint than ordinary producers. In many cases, they can only sell their produce at the onset of the next season, i.e. in 1-3 months in bi-modal rainfall systems, and up to 5-6 months in unimodal rainfall systems. All this time, the seed producer's capital is locked in his or her

seed in storage. In the meantime, renewed investments are needed in the farming enterprise, for which either own cash reserves or credit are required.

Smaller seed producers are tempted to sell seed as grain to cover the cost of inputs and other household expenses, such as school fees. This is a loss to the individual seed producer, but also to the larger agricultural system, as less seed will be available once it is needed.

Country	Uganda
Credit objective	to create working capital by storing seed as collateral
Credit mechanism	seed warehouse receipt system
Credit provider	SACCO
Credit takers	members of LSB
Loan conditions	to be a member of the LSB, paying interest
Tailored to seed producers	yes

ISSD Uganda developed a warehouse receipt system tailored to the needs of seed producers. Seed producers store their seed in the collective seed store run by the seed producer association, and obtain credit using the stored seed as collateral. The seed is stored for three months and sold whenever the market prices are favourable to reimburse the loan (Figure 1).

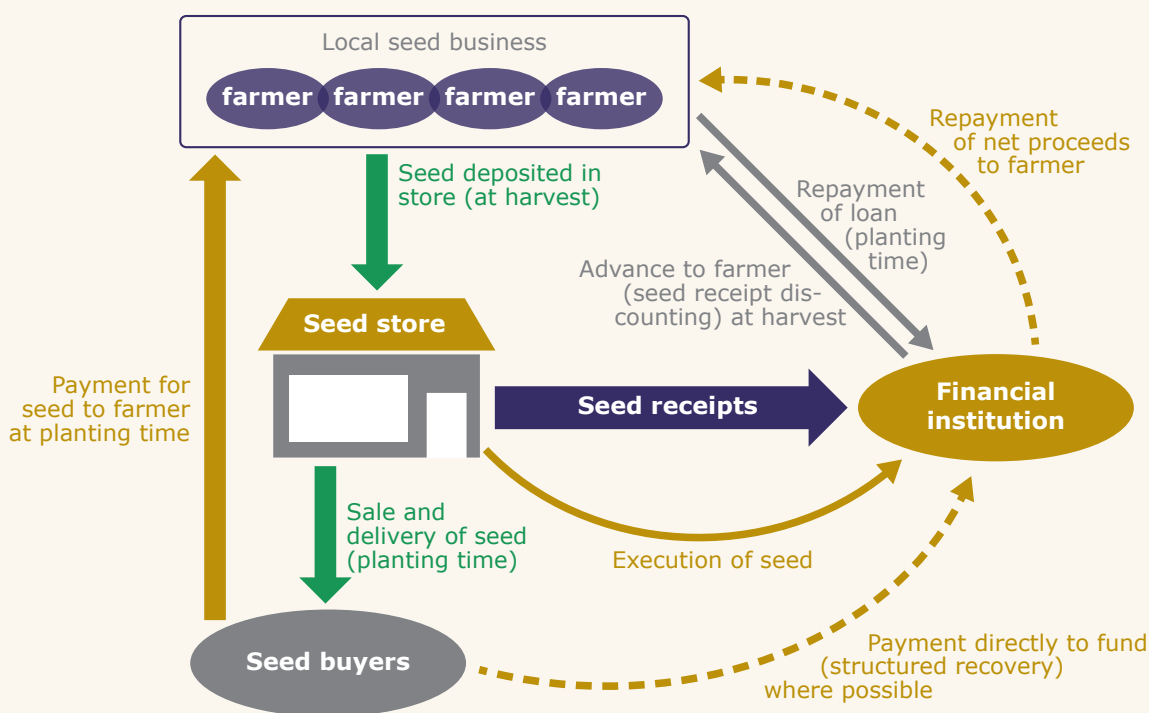
The loan to the seed producers is provided by a savings and credit cooperative (SACCO) at an interest rate of 2% per month. Results have shown that members who were taking a loan and thereby storing their seed, were able to sell their produce at a time when market prices were high. This led to a positive income difference of 46% compared to those who did not take out loans and sold their seed below the market price (Oyee, 2015).

A similar experience with a seed inventory credit system was noted in Tanzania, but in this case it was combined with a value chain financing mechanism. Seed producers received payment for the seed they delivered to the seed enterprise that had contracted them, once their seed was stored at the facilities of the seed enterprise. However, it was not the seed enterprise, but rather the bank that paid the seed producers, in name of the seed enterprise, thus providing the seed enterprise with a seed trade credit facility.

In both the Uganda and the Tanzania cases, the inventory credit value was based on the grain price rather than the seed price, to cover the risk that the stock would ultimately not be sold as seed, and farmers would in that case not be able to repay their loan.

The biggest advantage of this financing mechanism is that it allows the seed producer to sell the seed whenever the market prices are favourable. In the meantime, it provides working capital to the seed producers, allowing them to

Figure 1. Warehouse receipt financing



Source: reproduced from Oyee, P. (2015)



Local office of Nyèsigiso micro-finance Cinzana Gare, Mali

buy inputs for next production season. However, the system also has a downside. The stored goods can spoil or be stolen. The produce has to be sold for a favourable price after storage, otherwise the seed producer will still make a loss. Some seed cannot be stored for lengthy periods as seed quality may deteriorate, effecting, for example, the germination rate. Lastly, this mechanism only works if seed is stored, so until the seed has been produced, the producer is not able to access credit through this system.

Group-based savings and credit schemes: VSLAs, SACCOs and the seed box

Saving groups are a well-known credit mechanism in Africa, for example through village savings and loan associations (VSLAs) and SACCOs. These group savings and loans systems differ slightly, but the principles are mostly the same. A group of 15 – 25 self-selected members save together through the purchase of shares. At regular intervals, every member must purchase between one and five shares. The accumulated capital allows the members to take out loans at a benign interest rate. The profit made on the loans is, after a certain period, paid as dividend to the members of the association or cooperative.

In Tanzania, one must be a member of the savings group to access a loan, abiding by certain conditions. The conditions include a paid membership and contribution of savings according to an agreed interval, usually weekly. Members can access loans funded by the joint savings of the group. Payment is monthly and one can access another loan immediately once repayment is complete. Being a self-selected group, usually no collateral is required but the member has to be guaranteed by fellow members. Interest ranges between 3% and 5% per month. This loan facility is used by seed producers for seasonal credit, although the size and number of the loans is restricted, and the interest rate is high.

Country	Tanzania
Credit objective	to provide in small credit needs
Credit mechanism	group lending
Credit provider	SACCO, VSLA
Credit takers	members of the group
Loan conditions	be a member of the group
Tailored to seed producers	no

The Cinzana Seed Producers Cooperative in Mali comprises 20 members and they have their own shop from where they collectively sell their seed. In addition, the cooperative runs a savings and loans facility. The cooperative finances its members by providing credit and inputs for the production of seed from the cooperative’s savings. To enlarge the credit portfolio, this is combined with micro-financing from institutions like Nyèsigiso. The only condition the seed producers need to meet for accessing credit is to be a member of the cooperative. If seed producers meet this condition they will get the requested credit for all the inputs they need for their seed production.

Country	Mali
Credit objective	to create access to finance to support livelihood activities
Credit mechanism	cash upfront
Credit provider	Cooperative de Production de Semences de Cinzana
Credit takers	seed producers
Loan conditions	to be a member of the cooperative
Tailored to seed producers	yes

ISSD Uganda has developed a savings mechanism tailored for seed producer associations – as local seed businesses (LSBs) – to finance their own inputs, particularly foundation seed. Individual savings plans are made based on

Country	Uganda
Credit objective	credit for LSB to sustain business and be less dependent on external finance
Credit mechanism	internal resources
Credit provider	LSB
Credit takers	seed producers who are members of the LSB
Loan conditions	none, own savings
Tailored to seed producers	yes

projected seasonal resource needs. Weekly savings are deposited in the LSB 'seed box', and the progress of each individual towards reaching his or her savings target is monitored. The benefits of this system is its independence from external sources of finance. A disadvantage of the system is that the limited amount that can be saved makes financing the growth of a seed business difficult. Furthermore, it requires good financial governance within the seed producer association. This financing mechanism supports the financial sustainability of emerging LSBs by financing their own foundation seed rather than counting on donation by projects and programmes (Chebet, 2015).

To summarize, group-based savings and credit mechanisms are relatively easy to access, provided that a seed producer joins a group or cooperative. The duration of the loan depends on the needs of the seed producers and the financial capacity of the cooperative. Members know each other personally and therefore trust each other in saving and lending together. Collateral is not required as a back-stopping control mechanism. However, the group's financial assets depend on the input of the group members. The size of the loans is relatively small. Some group savings systems do not allow members to request a loan at any preferred time; they have to await their turn to take out a loan. This financing mechanism provides mostly short-term credit needs and is not able to support large investments in seed businesses. A strong point of these mechanisms is the combination between savings and loan mechanisms, which makes them independent from outside finance.

Commercial banks

The most formal manner to access credit is through a commercial bank loan. Most seed producers and seed companies interviewed have indicated that they have not been able to access bank loans. The reasons for this include lack of collateral, loan conditions – e.g. if the interest rate is too high – or because commercial banks do not consider seed production as an eligible enterprise for credit. Larger seed producers in Tanzania explained they are hesitant to take out a bank loan, since they do not want to use their personal property as collateral. Another seed producer in

Tanzania testified that after receiving the initial approval of a credit request, an employee of the bank came to visit the field and decided to withdraw the loan as the field size was not considered sufficient to secure the loan.

Nevertheless, in some cases seed producers are able to access commercial credit. In Burundi, three seed potato producer groups (Imbazarukeruka, Codeci, Twiyungunganye) obtained short-term commercial credit through the bank where they have their savings account, and where the monthly contributions by members are being deposited. This savings account forms an additional guarantee for the bank. It has to be taken into consideration, however, that the bank is operating like a microfinance institute with a profit objective.

The larger seed companies that had received AGRA grants (Faso Kaba in Mali and NAFASO in Burkina Faso) did manage to obtain commercial credit at benign interest rates, after they had been able to increase their operations and build a business track record. Nonetheless, when the grant had finished, intervention from PAFISEM was still needed in the form of guarantees to reduce the risk for the banks, before they were convinced to approve credit requests (see 'Loan guarantee funds' below).

Accessing credit through a commercial bank has the advantage that larger amounts can be requested, as the commercial banks do not lack capital. Nonetheless, banks are inconvenient for those working in the agricultural sector owing to the strict requirements and administrative burden associated with a loan request. The requirements for collateral in combination with high interest rates make such loans impossible or uneconomical for most seed producers. Furthermore, banks do not usually have many branches in rural areas. Accessibility is therefore a burden for those living in the countryside, like many farmers and seed producers who are in need of credit.

Loan guarantee funds

Loan guarantee funds are not financing mechanisms in their own right, but they do stimulate easier access to commercial loans for agriculture, and they can also be appropriate for facilitating access to funding for seed producers. This mechanism uses a third-party pledge to share losses in case of loan default issues; the loan is guaranteed by a third party.

An example is the Private Agricultural Sector Support (PASS) programme in Tanzania¹. PASS was established in 2000 to stimulate facilitated access to financial services by small and medium agribusiness entrepreneurs through linkages to financial institutions. PASS services assist agricultural entrepreneurs in accessing loans through:

¹ See www.Pass.ac.tz, accessed 17 February 2017.

Country	Tanzania
Credit objective	to provide bank loans by guaranteeing the payback
Credit mechanism	loan guarantee fund
Credit provider	commercial banks
Credit takers	small and medium agricultural entrepreneurs
Loan conditions	business plan
Tailored to seed producers	no

(1) the appraisal of credit requests on behalf of commercial banks; and (2) the provision of partial credit guarantee cover to collaborating banks to complement inadequate collateral. No specific distinction is made between general farmers and seed producers, but seed producers have been able to access commercial credit as a result of the third-party guarantee offered by PASS.

Another example is the guarantee scheme set up by the PAFISEM project to facilitate access to credit for seed companies through the Banque Nationale de Développement Agricole (BNDA). About 290 seed producers out of 471 received the credit they requested. Although this scheme is no longer operational, the BNDA continues to consider credit requests from seed companies. It does, however, only offer credit to larger seed producers able to meet the BNDA conditions.

Country	Mali
Credit objective	bank loan
Credit mechanism	loan guarantee fund
Credit provider	PAFISEM supplies loans through BNDA, funded by AFDB
Credit takers	small and medium agricultural entrepreneurs
Loan conditions	business plan
Tailored to seed producers	yes

The experiences in Tanzania and Mali do show that guarantee schemes can facilitate access to credit for seed producers. Considering the benefits for the larger agricultural system, a guarantee scheme to ease access to finance for seed producers is a worthwhile investment. It does still require seed producers with an established business track record and a reasonable volume of operation, to justify the transaction costs to the commercial bank. Furthermore, such loan guarantees involve additional transaction costs, which are often financially supported by donor resources, making the mechanisms financially unsustainable. The underlying assumption is that the formal financial sector will continue to provide credit once the guarantee is discontinued, but this holds true only for larger seed producers in Mali.

Discussion and conclusions

The research question we aim to answer in this study is: *How can emerging seed producers be provided with access to credit with favourable conditions?* The combination of field and literature study led to the identification of credit options available for and used by seed producers in different countries, and, not surprisingly, these options do not in essence differ much from the general credit options known in agriculture.

The most used, and easily accessed sources of financing are own savings. This is not only because the seed producers often have no access to credit, but also because this source of finance carries the lowest risk. The second easiest source of finance is offered through group-based savings and loans mechanisms. These mechanisms build strongly on the combination of savings and loans, and therefore also limit risks; interest rates are usually not exorbitant, and the users also benefit from the interest gained on loans, as members of the fund. Considering the importance of own savings in access to finance for seed producers, proper book keeping and accounting is an essential condition for a successful seed producer.

As such, these topics require to be integrated in seed producer training, which often tends to focus largely on the technical aspects of seed production. The seed box approach in Uganda illustrates an example of where group-managed individual savings ensure access to foundation seed. It demonstrates that group-based savings and credit mechanisms can be focused specifically on the seed business and be accompanied by support efforts to render seed producers more business oriented.

The third mechanism for accessing credit that is reasonably open to small seed businesses is through microcredit institutions, which often have a better understanding of agricultural enterprises than commercial banks, use less stringent conditions, such as considering social guarantees to complement collateral, and often have branches closer to their customers in the countryside. All these three mechanisms – own savings, group-based savings and credit mechanisms, and microfinance – are, however, constrained by the limited amount of finance that can be accessed.

A mechanism of particular importance, and with scope for further development in the seed sector, is value chain finance in several different forms. Most promising is the value chain finance provision by seed enterprises to make seasonal credit accessible to contracted seed producers. Possibly even more important, but somewhat outside of the scope of this paper, is the associated division of tasks between the seed producer, who only has to deliver a product of decent quality, and the seed

trader, who takes responsibility for the marketing of seed. In addition, it opens up an opportunity to share the risks of seed storage and the associated costs of capital locked in the stored seed.

Both the desk study and the field studies have shown that access to finance by making use of out-grower schemes is rather efficient and popular in both East and West Africa. An interesting feature is that it can make commercial credit from banks, where there is no shortage of capital, accessible through larger bankable seed trade enterprises, to emerging seed producers. However, farmers also indicate they are sceptical about contract farming as they wonder whether the seed companies are offering them the best price. Furthermore, even for larger seed companies access to commercial credit at a benign interest rate is not easy.

A second form of value chain finance is the pre-financing of seed orders. Individual seed clients, especially larger seed buyers, such as traders, projects and programmes, order seed in advance and pre-finance part of the order. This allows the seed producer to better manage cash-flow constraints, and ensures better planning of volumes to produce. The incentive for the seed client is guaranteed seed supply, and at a reduced price. The advantage for the seed producer is market assurance and access to some working capital. The partial organization of the seed market can assist in easing the financial access constraints of seed producers, as this is largely associated with the insecurity of the market for their produce. It must be recognized that in sub-Saharan Africa, a substantial part of the seed market is institutional, in the form of public, NGO and international seed distribution and subsidy programmes that buy and distribute seed. If these clients were able to order their seed through pre-season contracts, access to finance would become easier for seed producers.

Another promising mechanism is the inventory credit system, as piloted in Uganda and Tanzania. Experiences in these two countries show that this financing mechanism can be tailored to the credit needs of emerging seed producers. It enables the seed producers to store their seed in exchange for cash, and wait to sell their produce until seed clients actually demand the seed, at the onset of the planting season, and when market prices are favourable. This mechanism can be further stimulated and explored in other countries.

Lastly, grants are a popular financing mechanism. Grant programmes foresee financial needs, but their approach is by definition not sustainable. Once the grant is finished, the seed entrepreneur will still be struggling to access finance. The AGRA experience does show that start-up grants for emerging seed enterprises can accelerate business development in the seed sector. If combined well with

own investments and credit products ('blended finance'), grants form an important part of the instruments to stimulate seed sector entrepreneurship. It has to be acknowledged that grants do disturb the seed market, and provide unfair advantage to those receiving them. It is up to the grant providers to ensure that grant conditions are not too soft and are available to competing enterprises, provided they fulfil the specific conditions set.

Traditional finance institutes should make use of more creative ways to serve those that do not match their formal conditions. By studying the credit mechanisms in informal settings, and even through loan guarantee fund structures, the seed producer loan default risks can be assessed and understood, and their risk profile adapted accordingly.

In general, it can be concluded that there are a number of options available to facilitate access to seasonal credit to cover cash-flow constraints in seed businesses of diverse sizes. What is much more complex is to obtain credit to fund business growth. Only gradual growth of seed businesses is possible, unless large clients are willing to pre-fund orders, or funding can be accessed through either development programme-backed grants, or loan mechanisms that support selected ambitious seed businesses.

It should be noted that access to credit is not the holy grail that solves the challenges in the seed sector. It is a single element in the comprehensive environment that contributes to a sound seed value chain. Policy support, regulations and an open market are, for example, other crucial elements contributing to a functioning seed value chain. Access to finance is a challenge in a wider context of seed sector challenges. Moreover, it is rather artificial to separate the access to finance constraints faced by seed producers from those by ordinary producers, as they are essentially the same.

For seed sector interventions, the most promising points of intervention can be summarized as follows:

- 1 Organization of the institutional seed market so that pre-season orders become a custom, which provides market assurance, and will increase the bankability of seed producers.
- 2 Investment in advanced financial literacy training tailored to seed farm and enterprise management.
- 3 Development of inventory credit mechanisms tailored to seed producers and seed traders.
- 4 Support for the development of seed out-grower systems and a division of labour between seed producers and seed traders.
- 5 Support for loan guarantee funds which cater to seed producers, as their investments in their seed enterprise are of individual, but also of public benefit.

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Photo: Daniel Karanja, CABI

Freshly harvested black nightshade berries to produce seed, Tanzania

Annex 1: Case descriptions

Table 3. Summary of case studies

Case study	Finance mechanism	Country/ area	Resource person
1 AGRA WAAIF – NAFASO and Faso Kaba	Grant	Burkina Faso and Mali	Adolphe Kadeoua & Issoufou Kapran
2 Cooperative de Production de Semences de Cinzana; PAFISEM supplies loans through AFDB	Loan guarantee fund	Cinzana, Mali	Adolphe Kadeoua & Samba Traore
3 Farmer groups access credit for OPV maize and rice production	Village loan and saving groups	Morogoro and Dodoma, Tanzania	Raphael Laizer
4 Seed companies providing credit to out-growers of vegetable seed	Value chain finance	Arusha, Tanzania	Daniel Karanja
5 Rice chain integration, providing seed producer access to credit (Coris Bank)	Bank	Bagrépote, Bagré, Burkina Faso	Adolphe Kadeoua
6 Individual seed potato producers access bank loans	Bank	Kayanza province, Burundi	Cyriaque Simbashizubwoba & Alexis Ntamavukiro
7 Individual seed potato producers benefit from partial grant as co-investment in their seed production infrastructure	Partial investment grant	Kayanza province, Burundi	Cyriaque Simbashizubwoba & Alexis Ntamavukiro
8 Post-conflict access to finance for seed producers	Own savings, grant	Central Equatorial State, South Sudan	David Ndung'u
9 Seed receipt system financing – Addressing inherent cash flow challenges in local seed businesses	Warehouse seed receipt system	Uganda	Patrick Oyee
10 The seed box approach – Mobilizing internal resources by local seed businesses	Seed box	West Nile Region, Uganda	Andrew Noah Chebet

Case 1: AGRA WAAIF – NAFASO in Burkina Faso, Faso Kaba in Mali

Case describers/investigators: Adolphe Kadeoua

Which interest: None

Where: Burkina Faso and Mali

History (since when): 2008-2010

Type of seed producer accessing credit: Larger seed companies

Number of seed producers in this case: Start-up grants for 87 seed companies in Africa

Type of credit: Faso Kaba in Mali received a grant from AGRA (2008-2010) to help the enterprise to support the promotion of seed within the country and also to build a small factory for the conditioning of seed. This grant was only to be used to build up the seed business and promotion of improved seed varieties. The grant mechanism is almost the same for NAFASO in Burkina Faso; the grant was received (2008-2009) for the promotion of seed and the settling of the enterprise (building of seed shops and small warehouses).

Who provides the credit: Grants are given by AGRA and processed through a local bank

Which kind of collateral if any: None

What other kind of guarantees: For the seed companies, they only need to be clients of the banks and have a business plans. But for the grant of AGRA only the legal status of seed companies is required.

What are the key features that make this finance mechanism good: Grants enable seed producers to invest in their seed business without the burden of paying interest and other guarantees (including collateral requirements). Afterwards seed businesses are able to access a bank loan as they have developed a stronger track record. The grant system stimulates the development of seed businesses including their infrastructure.

What are disadvantages/constraints of this finance mechanism: Grants can disturb the market since grants are not given to all seed businesses and can create unfair competition and outplay others. Grants are not sustainable, and therefore seed producers are still in need of credit once the grant is finished. Lastly, grants only benefit a selected number of seed businesses.

Main lessons from the case: Grants enable seed companies to invest in storage and marketing of seed. Without grant this would have been impossible. Grants pave the road for further financial opportunities, like bank loans. Grants prepare the seed businesses to enter the formal financial market by supporting the organizational development and marketing activities. Lastly, grants indirectly benefit smaller seed producers as grants funds the liquidity in the seed value chain that enables seed producers to credit smaller seed producers by the usage of out-grower contracts.

Case 2: Cooperative de Production de Semences de Cinzana; PAFISEM supplies loans through BNDA funded by African Development Bank

Case describers/investigators: Adolphe Kadeoua

Where: Mali

History (since when): 2002 - 2007

Type of seed producer accessing credit: Loan guarantee fund accessed by seed growers associations

Number of seed producers in this case: About 290 seed producers of 471 received the credit they wanted. Today few of them are still getting credit from BNDA directly as a standard loan without any guarantee.

Type of credit: PAFISEM had put a guarantee fund in BNDA to allow agriculture actors like seed producers to access credit at BNDA.

Who provides the credit: African Development Bank through the BNDA (Banque Nationale de Développement Agricole)

Which kind of collateral if any: None

What other kind of guarantees: PAFISEM is the guarantee for the bank

Which interest: The repayment rate varies from 10 to 12% depending to the type of credit.

What are the key features that make this finance

mechanism good: The loan guarantee fund enables seed producers to access a bank loan to support their seed business which otherwise would not have been possible. This three-tier structure bridges the gap between financial service providers and those who are in need of credit.

What are disadvantages/constraints of this finance

mechanism: This mechanism enables to open up the financial market for small seed producers, but the interest rate is still quite high and not favourable for small seed producers. Next, once the project ends, the loan guarantee fund ends. This finance mechanism is therefore not very sustainable and afterwards only a small number of relative larger seed producers was able to access a loan directly at BNDA.

Main lessons from the case: Providing loans by guaranteeing the risks through a third party is successful, hence careful selection of the target groups is vital for successful credit distribution by BNDA. Apparently, this mechanism made it difficult to reach the economically weak and/or vulnerable producers for who it would be advisable to use other financing mechanisms. Finally, this project has set in motion a private sector-propelled seed business; this emerging process is still fragile and should be strengthened through further support with focus on marketing.

Case 3: Farmer groups access credit for OPV maize and rice production, Dodoma, Tanzania

Case describers/investigators: Raphael Laizer

Where: Tanzania, Dodoma region

History (since when): Group saving is a relative old mechanism

Type of seed producer accessing credit: Small seed producers

Number of seed producers in this case: Four seed producers interviewed

Type of credit: Group saving and loans mechanism at community level to support working capital

Who provides the credit: Group members themselves create credit as they buy shares and pay interest on loans

Which kind of collateral if any: None

What other kind of guarantees: Being a member of the group. Rules and regulation are organized by the group itself.

Which interest: In one example 10.000 TS for each 100.000 TS; these rates can differ per group as rules are determined by the group members themselves.

What are the key features that make this finance mechanism good: Saving and lending money at village level is

beneficial for seed producers since it is very accessible, as the saving group is at village level. Next, the mechanism is reliable because people know and trust each other. There are no collateral requirements and the payback cycles correspond to their agricultural production. This mechanism is by the absence of any other external finance mechanism an important and worthy internal finance mechanism.



Amaranthus seed, Tanzania

What are disadvantages/constraints of this finance mechanism:

The size of the loan is relatively small. Therefore loans can only be used for seasonal spending and do not support substantial business investments. This mechanism is also often used by female members to support household consumption and school fees and does not specifically support the seed sector in itself.

Main lessons from the case: This finance mechanism is based on a group saving and lending activities.

The trust among the group members and the conditions set up by the members themselves create a favourable environment for members to both safe and lend money. The concept of the group lending is good, but the system in itself is too limited to support seed producers in their seed business. The financial capacity of the mechanism is restricted.

Case 4: Seed companies providing credit to out-growers of vegetable seed, Arusha, Tanzania

Case describers/investigators: Daniel Karanja

Where: Arusha, Tanzania

History (since when): Many years

Type of seed producer accessing credit: Small scale seed producer

Number of seed producers in this case: Five out-growers interviewed

Type of credit: Value chain financing is the type of finance provided to farmers by value chain actors, buyers or suppliers. In this case study, farmers obtained credit from buyers, and the credit was tied to subsequent sale of seed. The credit included seasonal credit (for inputs) or to cover labour costs at peak production times such as weeding, harvesting or processing. An elaborate contract-financing arrangement is a pre-requisite.

Who provides the credit: Seed companies

Which kind of collateral if any: None

What other kind of guarantees: The loans are given for the duration of the growing season and paid using a check off system as farmers sell their output to the company/person contracting them. Often a written agreement is signed.

Which interest: The loans received by farmers do not attract any interest rates, though respondents expressed concern that the provided inputs are usually priced above the normal market price, implying an embedded interest rate.

What are the key features that make this finance mechanism good: This finance mechanism enables small seed producers to access credit upfront the production cycle, without collateral requirements and high interest rates. This mechanism is based upon a direct agreement between two actors in value chain and therefore excludes additional overhead costs for external actors. Further, the mechanism provides a secured market for the seed producer since the sales is part of the contract. The seed company on the other hand is assured of seed supply, as written in the contract.

What are disadvantages/constraints of this finance mechanism:

Value chain finance often only provides seasonal credit and does not provide investment credit. Even though contracts are in place, there is a risk of side selling as seed producers can be triggered by more favourable market prices.

Main lessons from the case: Value chain finance is seen as an important and favourable mechanism to access credit, because seed businesses do not request for collateral and often maintain low levels of interest. Therefore the mechanism is very accessible for small seed producers.

Case 5: Rice chain integration, providing seed producer access to credit (Coris Bank) Bagrépole, Bagré, Burkina Faso

Case describers/investigators: Adolphe Kadeoua

Where: Burkina Faso

History (since when): Coris Bank was founded in 2008, but settled in Bagré in 2012.

Type of seed producer accessing credit: The bank is open to all types of clients for any agricultural activity, but the presence of many seed producers in Bagré explains the fact that they demand for credit through their association.

Number of seed producers in this case: about 90 seed producers

Type of credit: The financial institution (Coris Bank International) is to assist seed producers with financial loans in the most secured manner. The institution built a system to make the producers pay back the loans without any risk.

Who provides the credit: Coris Bank International

Which kind of collateral if any: The seed stocks of the cooperative

What other kind of guarantees: For the seed producers in Bagré the guarantee is the stock of their seed through a collateral management system. In this system the produc-

ers do not get the full value of their seed stock as credit but about 85 to 90% which allows to banks to have a margin in case of seed prices decrease. In general to get access to credit with Coris Bank the following conditions are required: (1) be a client of the bank; (2) have guarantee; and (3) loan documentation.

Which interest: The interest rate varies from 8 to 9% depending to the type of credit.

What are the key features that make this finance mechanism good: The collateral management system allows the seed producers to access credit and ensures the bank in case of repayment problems. Seed producers are able to access the formal finance system including long term loans to invest in their business.

What are disadvantages/constraints of this finance mechanism: The lack of knowledge of how the financial institutions function makes some seed producers hesitant. Seed producers have to be organized to access the system.

Main lessons from the case: The collateral management system in Bagré is a good way for seed producer to access credit from banks for their activities. The formal credit products can enable the seed sector to develop, however, the interest rate is still substantial.

Case 6: Individual seed potato producers access bank loans, Kayanza, Burundi

Case describers/investigators: Cyriaque Simbashizubwoba; Alexis Ntamavukiro

Where: Burundi, Kayanza Province

History (since when): A local Microfinance agency UCODE Micro Finance Institute is developing financing facilities for seed producers. These producers are trained and organized by NGOs on saving mechanisms.

Type of seed producer accessing credit: Seed producers with an average land size over 5 ha and yield up to 18-20 tonnes per hectare. The producer needs to have a good credit history, and be able to show sales figures as well as, if possible, forward delivery contracts.

Number of seed producers in this case: ten

Type of credit: Bank loan - The deposited individual savings are used to guarantee loans, combined with collateral such as a house or warehouse. The MFI is seeking to increase its business and sees a potential market in providing seed potato producers with credit, as it is a profitable enterprise. For seed potato producers, the major constraint is getting funds at the planting period to buy inputs such as (pre-) basic seed, fertilizer and crop protection products and funds to pay casual labour for land preparation. UCODE MFI has developed credit mechanisms which match with the particular timeframe of seed potato production.

Who provides the credit: For-profit Micro Finance Institute

Which kind of collateral if any: House, storage facilities

What other kind of guarantees: Seed producers need to possess a saving account at the bank. The amount saved is used as part of guarantee by farmers combined with collateral such as a house or a warehouse to access a loan.

Which interest: 14 - 18%

What are the key features that make this finance mechanism good: The Micro Finance institute is an established institute and provides both short and long term credit for those who meet the criteria. The institutes are present in the country side and support the accessibility.

What are disadvantages/constraints of this finance mechanism: The required collateral and guarantees set by the MFI make it hard for small seed producers to access credit. Further, the process of accessing credit requires time, and last, the high rate of interest is still a burden for the relative small seed producer.

Main lessons from the case: The burden of high interest makes this finance mechanism only favourable for a relative small number of seed producers. Microfinance is an established form of credit with often many local branches in the county side, but their strict guarantees withhold the mechanism to fully support the seed sector in its development.

Case 7: Individual seed potato producers benefit from partial grant as co-investment in their seed production infrastructure, Kayanza, Burundi

Case describers/investigators: Cyriaque Simbashizubwoba; Alexis Ntamavukiro

Where: Burundi, Kayanza Province

History (since when): Marie-Rose Nyonizigiye is a commercial seed producer since 2010, and an active member of the Burundi Seed Trade Association (COPROSEBU). She has been one of the first to benefit from a grant from the ISSD Burundi project to co-invest in the improvement of her seed production infrastructure.

One of the major constraints for seed potato production in Burundi is the short time between harvesting the seed potatoes of the September – January season. Planting of the consecutive February – June season needs to be done very timely to assure making optimal use of the rainfall. The obvious solution is supplementary irrigation, to allow for early planting. Developing irrigation facilities is, however, very costly. It is an investment which is difficult to make by a Burundi seed multiplier. Credit is poorly available and very costly. Through a co-funding subsidy the seed producer has been able to invest in irrigation infrastructure. As a result, seed potato clients can be sure of well sprouted seed potatoes to be available timely.

The total investment amounted to around 35,000 USD, of which the project contributed half.

Type of seed producer accessing credit: Medium size seed production with average land size over 5 hectares and yield up to 18-20 tonnes per hectare

Number of seed producers in this case: One

Type of credit: Partial investment grant

Who provides the credit: Development project

Which kind of collateral if any: None

What other kind of guarantees: Track record in seed production; co-funding in cash

Which interest: n.a.

What are the key features that make this finance mechanism good: Without the co-funding grant the seed producer would not have made the decision to invest in irrigation facilities to upgrade the seed production capacity. As a result of the partial grant the seed producer can further professionalise seed production.

What are disadvantages/constraints of this finance mechanism: Development resources are invested in an individual commercial enterprise. This can create unfair competition, even when the same mechanism is in principle available for other seed producers.

Main lessons from the case: Co-investment in individual seed production infrastructure can assist in upgrading production facilities, professionalization of production, and contribute to the capacity of seed systems to avail affordable high quality seed.

Case 8: Post-conflict access to finance for seed producers, Central Equatorial State, South Sudan

Case describers/investigators: David Ndung'u

Where: Juba County in Central Equatoria state, South Sudan

History (since when): Since the independence of Sudan in 2011

Type of seed producer accessing credit: both small and large seed producers

Number of seed producers in this case: Four seed producers interviewed

Type of credit: The main source of finance for seed enterprises in South Sudan is from their own savings followed by finance from NGOs, while finance from cooperatives and banks follow in third and fourth positions respectively.

Century seeds and Greenbelt Seed Company received grants from AGRA to increase seed production. Seed Grow is also earmarked for support through AGRA. For those seed businesses that have received grants from AGRA, the grants have been utilized both for seasonal purposes like buying foundation seed, labour, land preparation, seed processing but also for long term goals like opening up new land and purchasing processing equipment.

Who provides the credit: Own savings, NGOs (grants), and banks

Which kind of collateral if any: Only banks ask for collateral

What other kind of guarantees: Depending on the type of credit, but for example having a concrete business plan and credit repayment plan in the case of organizations like Spark and SSADP (NGOs).

Which interest: Only banks ask for interest

What are the key features that make this finance mechanism good: Seed producers that are able to access a grant can invest in their business without having the burden of not matching the bank's collateral requirements and paying high interest rates. Those seed producers that use their own savings for seasonal credit can operate independently and are not constricted to any kind of guarantees.

What are disadvantages/constraints of this finance mechanism: Constraints in accessing the credit include stringent credit application procedures as in the case of SSADP for example while in the case of Spark, the loan amount usually amounting to just a few thousand USD is not sufficient for the seed businesses to invest in the long term. The repayment process was also found to be stringent with some enterprises defaulting on the loans. The seed producers using their own savings can only save small amounts and are not able to invest on a large scale.

Main lessons from the case: With the current poor economic situation in country, it means that only a very limited number of people are able to accumulate enough savings to start up any kind of business. This lack of credit is exacerbated for seed business that is also considered a risk prone enterprise because of its dependence on unpredictable environmental conditions.

Case 9: Seed receipt system financing – Addressing inherent cash flow challenges in local seed businesses, ISSD Uganda

Case describers/investigators: Patrick Oyee

Where: Uganda

History (since when): 2015 – onwards

Type of seed producer accessing credit: Small seed producers, organized in groups (i.e. LSBs)

Number of seed producers in this case: Of the 68 members, 24 warehouse receipts were issued, against which

lending was provided for 15, while nine opted not to borrow. Since group membership is both husband and wife this means that about 30 members borrowed under the scheme.

Type of credit: 'seed receipt system (SRS) financing'. It brings together savings and credit cooperatives (SACCOs) and local seed businesses for the provision of bridging loans, using seed stocks as collateral for borrowing.

Who provides the credit: SACCO

Which kind of collateral if any: Seed

What other kind of guarantees: Seed producers have to be a member of the SACCO

Which interest: A lending rate of 2% per month was successfully negotiated with Ruhira SACCO while their normal rate was 4%.

What are the key features that make this finance mechanism good: The mechanism is implemented at grassroots level and therefore accessible for small seed producers. The system enables seed producers to store their seed as collateral, and to sell their seed once demand is high. A member gained a 46% added value to her income by using this system and selling her seed once prices were high.

What are disadvantages/constraints of this finance mechanism: First, the difficulty of convincing local seed businesses to take loans as a solution. This is attributed to reluctance to borrow and perceived high cost of financial products. Convincing and engaging SACCOs requires substantial effort, especially as they do not have experience with the product and perceive risks to be high. Further, the stored seed can spoil and there is no guarantee for higher market prices afterwards. The mechanisms only provided limited amounts of credit.

Main lessons from the case: Given the necessary arrangements and groundwork, seed receipt financing is an appropriate and sustainable solution to address LSB cash flow challenges. It also provides new viable financing opportunities to financial institutions and can be duplicated to other LSBs of different entrepreneurship levels across the country.

Case 10: The seed box approach – Mobilizing internal resources by local seed businesses, ISSD Uganda

Case describers/investigators: Andrew Noah Chebet

Where: Uganda, West Nile Region

History (since when): 2013 – onwards

Type of seed producer accessing credit: Local seed businesses (LSBs)

Number of seed producers in this case: All ten LSBs in West Nile were trained in the seed box mechanism. Of these, four LSBs are actively implementing the seed box with routine collections recorded on a weekly basis. The other six groups waited to see how the approach would work.

Type of credit: Mobilizing internal resources

Who provides the credit: LSB through mobilization of internal resources

Which kind of collateral if any: None

What other kind of guarantees: Being a member of the LSB, payments/savings as agreed upon by the LSB to reach the financial targets

Which interest: None

What are the key features that make this finance mechanism good: This system is based on internal resources and enables small seed producers to collectively mobilize the resources needed for the purchase of foundation seed needed for seed production. This system does not depend on external finance; therefore, the system is adjusted specifically to the needs and preferences of the users itself. Further, there are no additional costs, i.e. overhead cost, for external organizations such as banks or loan guarantee funds.

What are disadvantages/constraints of this finance mechanism: The seed box is only successful if good governance is maintained and if members keep to their obligations to save according to the plan. Lastly, because the system is based on personal resources, the system can only little by little increase its funds and only provides short-term credit.

Main lessons from the case: The seed box will ensure timely access to foundation seed and reduce reliance on external resources. Effective linkages to seed markets are a motivating factor for success and ensure long-term sustainability. If the LSBs plan realistically they can reach their targets and effectively invest in their seed business. Individual seed producers can reach more if they effectively work together. This system differs from standard VSLA since the seed box is explicitly developed to invest in the LSB. VSLAs often provide in finance for general household consumption.

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ISSD Africa is a community of practice that unites African seed experts, seed programmes and associated organizations, and which aims to increase farmers' access to quality seed through the development of a market-oriented, pluralistic and vibrant seed sector in Africa.

The ISSD approach is a farmer-focused and demand-driven seed sector development approach, which caters for the diversity of seed demands. Through this approach interventions are designed that are tailored to specific crops, value

chains and seed systems. It is a seed sector-wide and inclusive approach.

ISSD Africa is coordinated by a consortium of Wageningen Centre of Development Innovation (CDI) of Wageningen University & Research, the Royal Tropical Institute (KIT), the Future Agricultures Consortium and Tegemeo Institute of Agricultural Policy and Development in Nairobi Kenya.

For more information on our ISSD portfolio please visit our website www.ISSDseed.org.

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