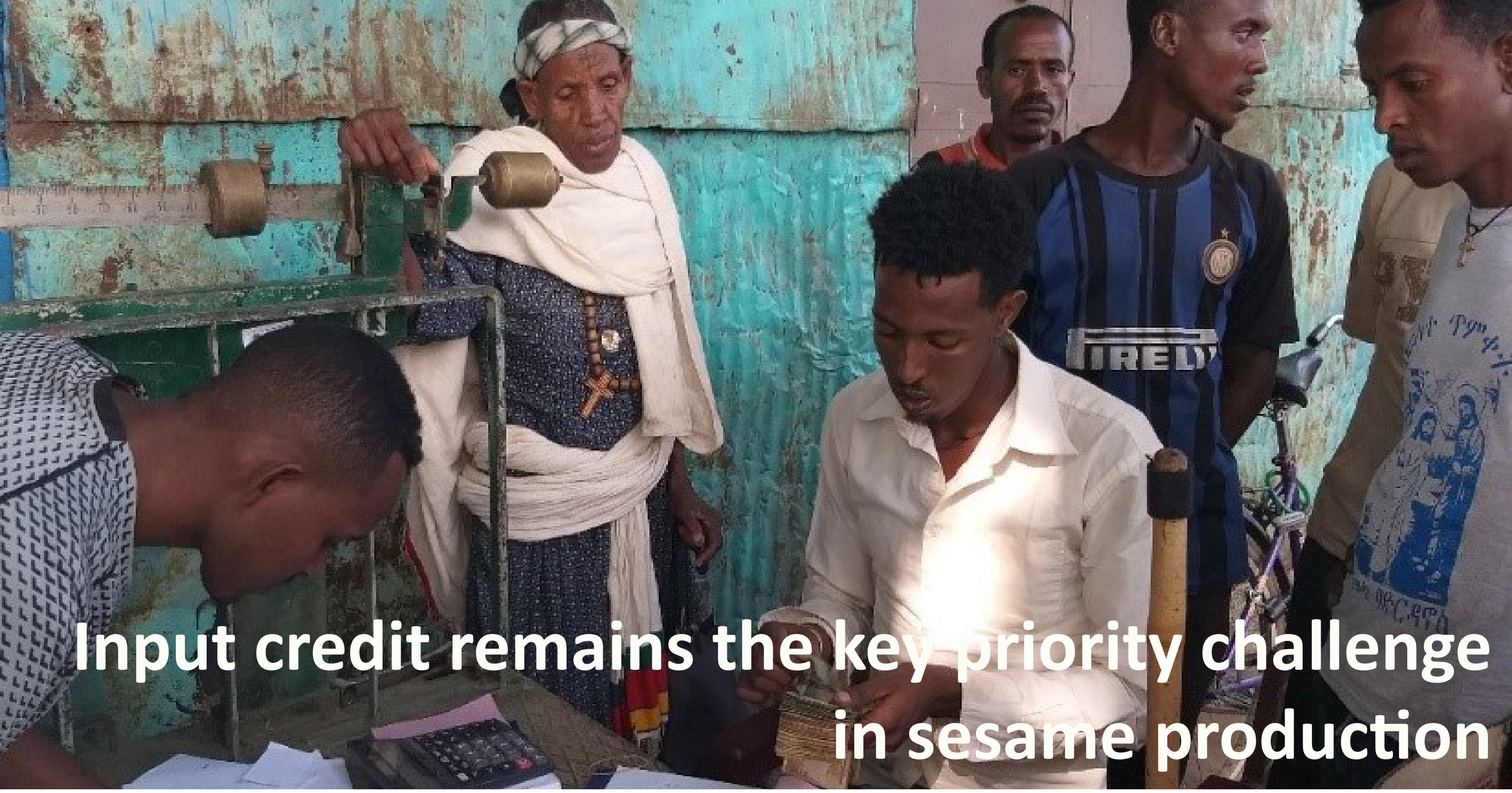


Input credit remains the key priority challenge in sesame production

Executive Summary

Finance continues to be one of the major challenges of the sesame sub-sector in Northwest Ethiopia. Time and again, farmers and other stakeholders of the sesame sub-sector have enunciated that without having ample finance for the sector, increasing the productivity of sesame is a very remote objective to achieve. As a result of the limited availability of finance, smallholder farmers are not in a position to buy inputs and apply good agricultural practices, which could help them augment their production and improve their livelihoods. In 2017, about 2.35 billion ETB additional finance was needed to cultivate sesame using good agricultural practices. Investing this money and applying good agricultural practice (GAP) would help the country to earn an additional 5.3 billion ETB profit. In order to improve sesame farmers income and therby earn more foreign currency for the country, concerned bodies need to give a close and thoughtful attention to financing the sesame farmers in Northwest Ethiopia.

Context

Limited access to input credit while high production cost. Access to input credit remains to be the key challenge of the sesame sub-sector. Despite all the concerted efforts made, farmers adoption of GAP is not still going as expected. This is largely attributed to the limited access to affordable credit. Sesame production requires high production costs because it is labour intensive. Farmers incur high labour costs, for instance for ploughing, row planting, weeding, harvesting, threshing etc. The application of the recommended good agricultural practices (20 steps) requires farmers even higher investments to purchase agricultural inputs such as seed, fertiliser, chemicals. The credit cost is also higher.

Credit from formal financial institutions: way far from meeting farmers needs. Smallholder farmers do not have access to credit from banks because they do not have assets for collateral. The only formal credit source for small-scale farmers is either from cooperatives or nearby microfinance institutions. Primary cooperatives are often not able to provide credit due to the shortage of capital. Though microfinance institutions are the most important source of credit for farmers, their services either do not seem to reach most farmers or does not satisfy farmers' needs. Studies show that farmers do not like the loan procedure that the microfinance institutions follow. Farmers complaine about the bureaucracy they have to go through to get credit from financial institutions. In particular, most farmers do not like the group collateral system which does not favour those who do not have friends.

The infamous usurers: many sesame farmers are still in the grip of informal money lenders. Most smallholder farmers start with own capital but finish it in the early stages of the sesame production. Those who have access to credit from microfinance institutions also finish the money before the end of the production season. Due to this, the sesame sub-sector largely depends on informal money lenders, especially for the final stages of the production activities. A study conducted in 2015 shows that informal money lenders are abundant in the sesame producing areas and they avail money on a short notice. A large portion of the finance for sesame production has been sourced from informal money lenders, with very high interest rate, sometimes reaching over 300% per year.

Poor financial management. On top of the aforementioned challenges, farmers unwise and poor management of money exacerbates the situation. Most farmers do not record their production expenses and they do not calculate their cost benefit analysis. They have difficulties to determine whether their efforts eventually pay off or not. In a similar vein, those farmers who have access to credit do not seem to spend their money wisely. They do not see their farm activity as a business. They do not usually make informed decisions. What is more, farmers have not yet developed a strong saving culture which could also help them build up a collateral to get credit from formal loan providers.

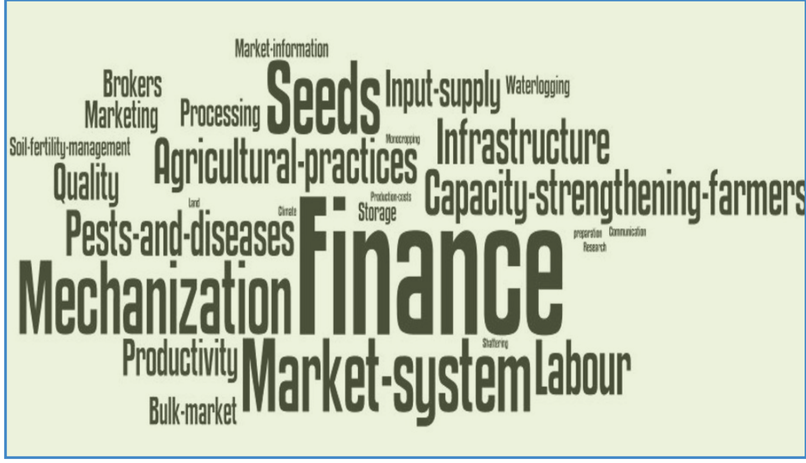
Production cost known. Research findings and practical field experience show that farmers can double their yield by adopting 20 steps improved sesame production technologies. The production costs related to the 20 steps are known. The marginal rate of return (MRR) study by Benefit-SBN shows that farmers using conventional farming practices incur about 8,000 ETB per hectare and earn 8,518 ETB net benefit. The application of 20 steps requires about 12,000 ETB investment per hectare from which it is possible to get 23,220 ETB net benefit. Field level observations and data from kebele- level agro-economic planning show that half of the production cost is covered by farmers themselves. That is 4,000 ETB per hectare. In order to employ the recommended improved technologies and boost the productivity of sesame an additional investment of 8,000 ETB per hectare is needed. A simple calculation of this number by the total acreage (294,204 hectare- CSA data 2017/2018) covered with sesame in 2017 in Northwest Ethiopia shows that about 2.35 billion ETB credit was needed.

As the MRR (2018) study indicates the average productivity of the 20 steps full package is 7.5 quintal per hectare while the traditional practice is only 3.5. If there was a possibility of having credit for the specified acreage it would be possible in total an additional 1.18 million quintals of sesame which is worth 5.3 billion ETB (approximately 176.5 million USD) (2018 average sesame price of 4,500 ETB per hectare). Due to lack of credit and inability to use improved production technologies, 4.3 billion ETB net benefits are lost from the total acreage of sesame.

Policy alternatives and recommendations

The input finace issue in the sesame sub-sector calls for the attention of financial institutions and policy makers. To meet the demanding challenge of input credit and improve the productivity of sesame, the following policy alternatives are suggested.

- **Agricultural loan.** One possible alternative is to have agricultural loans with affordable interest rates to smallholder farmers. This could be through government banks. In this regard, lessons can be drawn from the experience of other countries such as India where government avail agricultural loan to farmers with very low interest rate using land certificates as a guarantee.
    - Having agricultural experts will help banks to better understand the agricultural sector so that they can work towards availing credit for input financing.
    - The other option that the government could explore is launching of a specific agricultural development bank which can support farmers and farmers organisation by availing credit with affordable interest cost..
- **Developing new loan products.** The need to have diversified loan products is underscored by different bodies. Financial institutions need to study the sesame sub-sector and develop new loan products which meet the demand of sesame farmers.



One possible way is to finance smallholder farmers through their cooperatives and unions.

- **Guarantee fund.** The guarantee fund activity that Benefit-SBN has been running to support farmers cooperatives and unions marketing for three consecutive years has been proven successful. Regional and federal government, banks and microfinance institutions can draw lessons from this and replicate it for input financing.
- **Timing of credit and phase disbursement.** A striking situation which needs to be addressed by the formal financial institutions is the timing of credit provision. Microfinance institutions provide credit ahead of the production season. Most farmers put themselves in the trap of informal money lenders during the the final activities such as weeding, harvesting and threshing. Financial institutions need to consider their lending time and way of disbursement- phase disbursement can be an option.
- **Financial management skill.** There is a need to improve the financial management skill of smallholder farmers. Ministry of Agriculture together with Cooperative Promotion Agency can work together with farmer cooperative unions in promoting farmers financial literacy so that farmers can develop their knowledge and skill of recording their costs; calculating cost benefit analysis and developing a saving culture.
- **Collaboration of local stakeholders.** The synergy and collaboration among the financial institutions, farmer cooperatives and agriculture office at the grassroot level will help facilitate the available limited credit to reach those farmers who are ready to apply GAP. The kebele-level agro-economic planning that Benefit-SBN currently pilots could play a significant role in this regard.

Resources

Adeno Kidane Ereda (2007) *Outreach and Sustainability of the Amhara Credit and Saving Institution (ACSI), Ethiopia.* Masters thesis.

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Marginal Rate of Yield and Return Study conducted by Benefit-SBN

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