



Agri-finance: the main challenge and opportunity for sesame sector transformation in Northwest Ethiopia

A. Setting the stage

The sesame sector is of prime importance for the country – some parameters

The figure below shares key information about the sesame sector in NW Ethiopia:

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| <ul style="list-style-type: none"> • 13 woredas, 263 kebeles • Sesame acreage 500 to 600,000 ha (2019: 588,000 ha sesame; 45% of total cultivated land) • 170,500 sesame farming households (16% female headed) and 5,000 investor farmers • 10 Unions, 249 cooperatives (\pm 170,000 members; 26% women) • 540,000 labourers at peak times - of whom 320,000 (60%) are seasonal labourers | <ul style="list-style-type: none"> • Average yield is low: 200-600 kg/ha; Large yield gap: 800-1200 is possible • Production: 200-300,000 MT/year • World market and ECX prices fluctuate: 1200-6000 ETB/Qt (0.4 to 2 USD per kg) • Market value of 200-600 million USD (fluctuating production and prices) • >95% of sesame is exported in bulk. Export mainly to China, quality not rewarded, limited in-country value addition, very limited involvement of cooperatives and unions in marketing |
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If farmers earn more, the country earns more

Finance continues to be one of the major challenges of the sesame sub-agricultural sector in NW Ethiopia. As farmers and other stakeholders repeatedly enunciate, increasing the productivity of sesame is a very remote goal without appropriate funding for the sector. Doubling yields is possible. Farmers are however not in a position to purchase inputs and apply good agricultural practices (GAP), that could help them double their yields and improve their livelihoods. Investments in the sector could lead to higher farmer income and much higher export revenues for the country. The calculations in the table below are based on a sesame acreage of 500,000 hectares and a production increase of 4 quintal per hectare, which requires 6,000 ETB extra farmers' investment per hectare. If farmers would invest an additional 6000 ETB per hectare for applying the recommended practices (which for 500,000 ha is an investment of 3 billion ETB) the country could earn an additional 8 billion ETB.

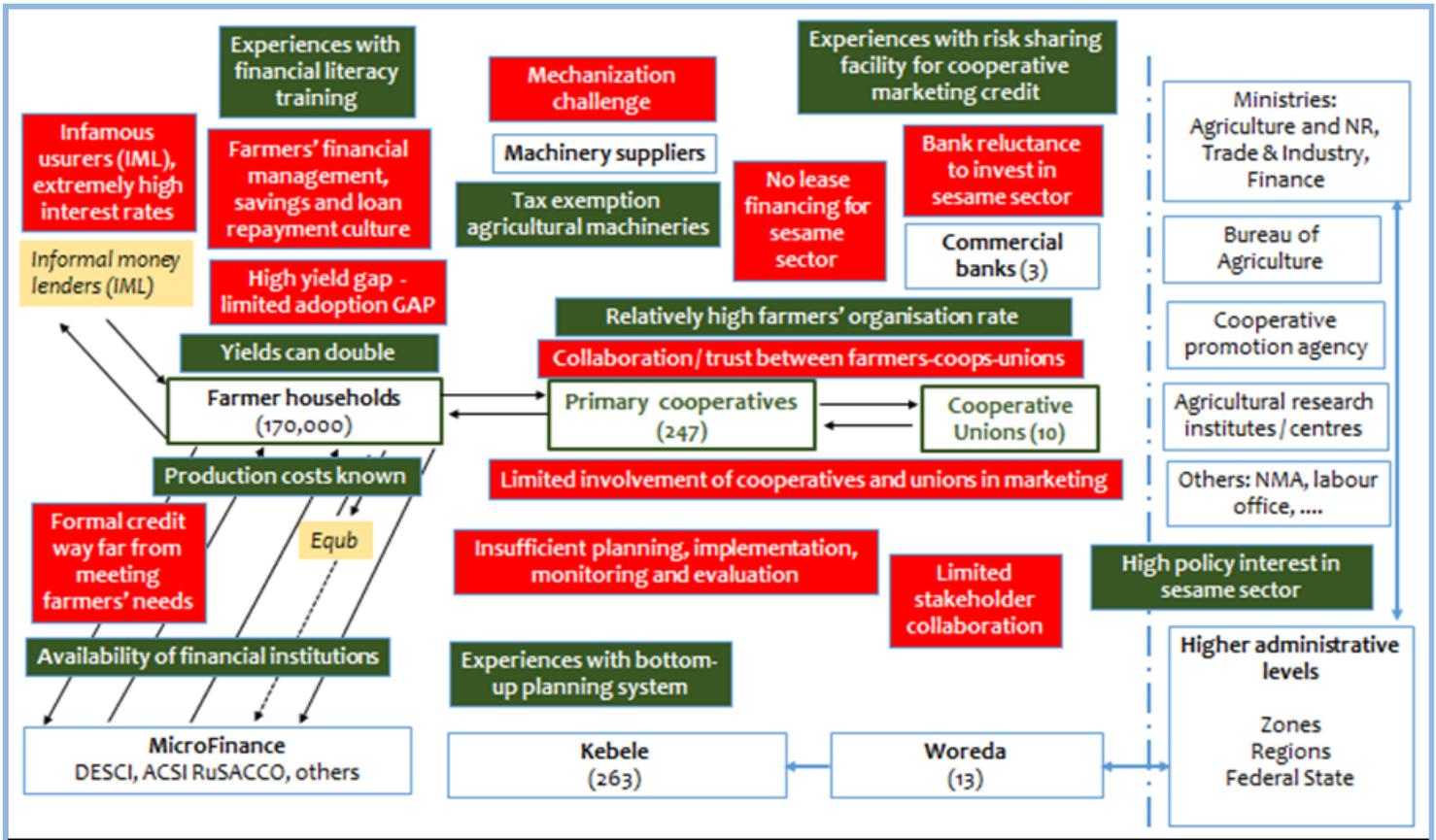
ECX price	Farmers' extra income	Additional export revenues
4000 ETB/Qt	10,000 extra per hectare Break-even at 5.5 Qt/ha	$500,000 * 4 \text{ qt} * 4,000 = 8 \text{ billion ETB}$ (267 million USD)
2500 ETB/Qt	4,000 extra per hectare Break-even at 6.5 Qt/ha	$500,000 * 4 \text{ qt} * 2,500 = 5 \text{ billion ETB}$ (167 million USD)
1500 ETB/Qt	Break even	$500,000 * 4 \text{ qt} * 1,500 = 3 \text{ billion ETB}$ (100 million USD)

To improve sesame farmers income and thus earn more foreign currency for the country, the stakeholders and decision-makers would need to pay close and thoughtful attention to the financing of sesame farmers in Northwest Ethiopia.

B. Challenges

In the current situation farmers get to some extent formal credit from micro-finance institutions and from their primary cooperatives. The interest rates are quite decent (15-20% per year). The provided formal credit is however far from meeting farmers' needs. The provision of input finance is also limited because of farmers limited financial management capacities, limited savings and insufficient loan repayment culture.

Many farmers are in the grip of informal money lenders, especially for the final stages of the production season. Desperate farmers enter into agreement with informal money lenders who charge very high (usurious) interest rates. It is known as "shi be shi" (you borrow 1000, you pay 1000 interest). On an annual basis these interest rates may be up to 250-300%.



The needs for seeds and agro-inputs, and related needs for input finance are insufficiently assessed and not sufficiently availed. This is hampering the adoption of good agricultural practices and eternalises the high yield gap.

Agricultural production is mainly manual. Although the sesame sector is very suitable for mechanisation, the purchase and use of machineries is very limited, which is to a large extent due to limited linkages between farmers, machinery suppliers and banks. Lease financing facilities are not available for the sesame sector.

Unions and cooperatives lack finance for aggregating and marketing the farmers' produce. Commercial banks are reluctant to finance them, as a result their involvement in value addition and marketing of sesame and other products is very limited.

Planning is mainly top-down and there is limited collaboration between stakeholders. As a result, sesame sector information management, planning, implementation, monitoring, evaluation and reporting is weak.

C. Opportunities

Although there are many challenges (red boxes in the figure above), which are strongly related to the insufficient financing of the sector, there are also many opportunities to improve the performance of the sector (see green boxes in the figure above).

There is high policy interest for the sesame sector, as it is an engine for development for the lowlands of NW Ethiopia and because sesame is an important earner of export revenues. This is as such a huge opportunity, which has to be operationalised in a vision (2025) for the sesame sector, annual action plans, backed by operational decisions for investing in the sector.

Microfinance institutions, especially ACSI and DESCI, are available to provide input finance to farmers and are eager to manage risks. In the past three years, a tool for integrated planning, which starts at kebele level (Kebele agro-economic planning) has been developed

and applied in 50 kebeles. This planning tool is based on a 'triangle of collaboration', i.e. the collaboration between the kebele (DA and kebele administrator), farmer/cooperative representatives, the local financial institution and the kebele credit committee. There is regional, zonal and woreda interest to further scale this planning system. This can be the basis for improved assessment and targeting of seed and agro-input supply and the selection of farmers that are most eligible for input finance.

Concerning production, it has been proved for 6 years in a row that yields can double from 3.5-4 quintal/ha to 7.5-8 quintal per hectare. Best-fit agricultural practices are consolidated, production costs are known and farmers are trained. Applying the recommended agricultural practices (20 steps) requires farmers to invest 6,000 ETB more per hectare, for purchasing seeds, fertilisers and agro-chemicals, for row planting and for labour costs. There is agreement that farmers who adopt the full package need 5,000 ETB input finance per hectare. For an acreage of 500,000 hectares, this is an investment of 2.5 billion ETB.

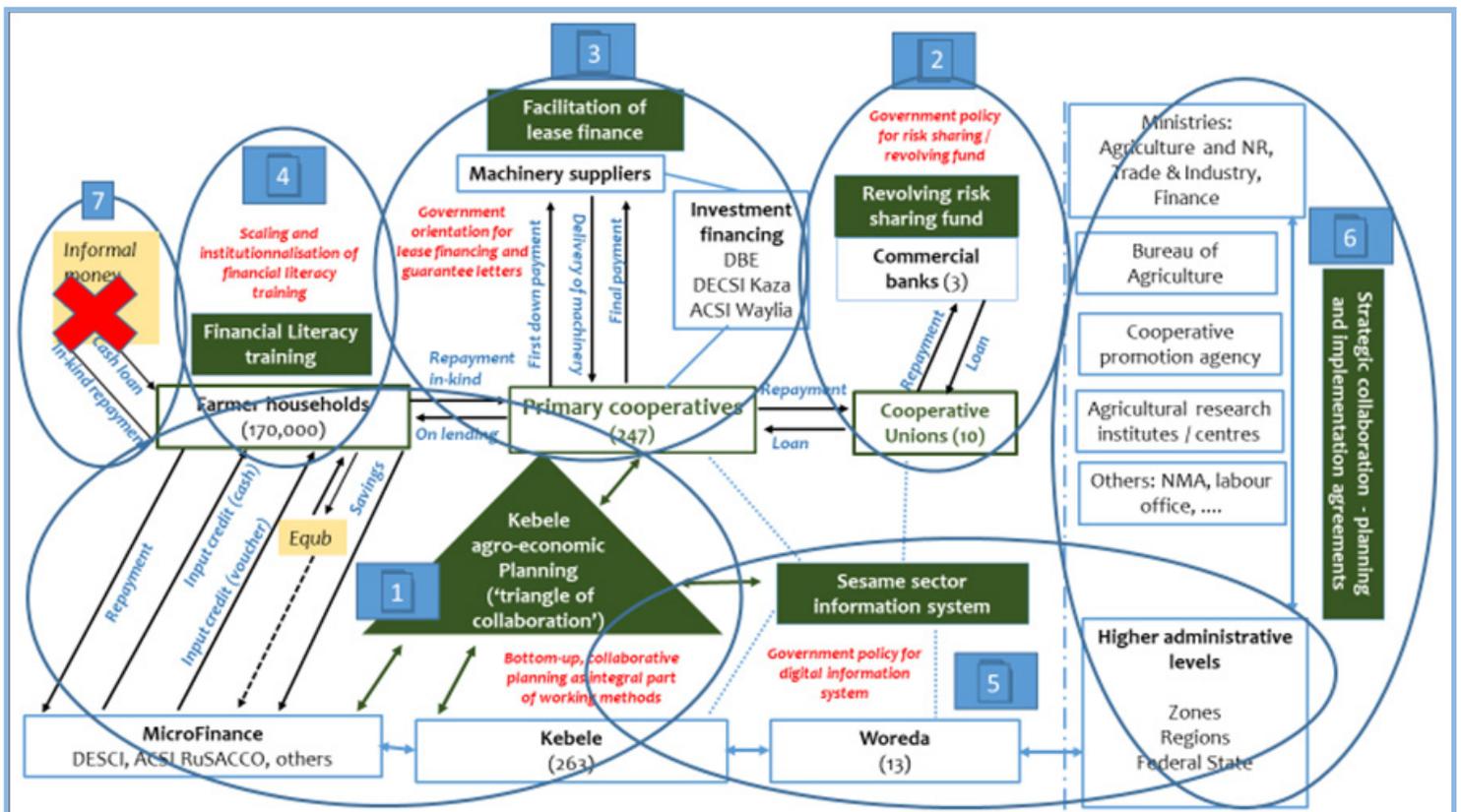
In the past 4 years, more than 20,000 farmers of more than 100 cooperatives have been trained in financial literacy (cost recording, cost-benefit analysis) which contributed to informed farmer decision-making. The MoANR has identified 'farmer financial literacy training' as a subject that all Development Agents (DA's) should master.

Sesame farmers have a relatively high organisation rate (170,000 cooperative members) and most cooperatives are affiliated to unions. In the past 4 years, very good experiences have been obtained with 3 commercial banks providing marketing credit to cooperative unions, which channelled the loan to selected cooperatives, who on-lended to selected members. As a result, farmers could take care of the costs of the last stages of the agricultural season (last weeding and harvesting), delivered sesame to the cooperatives, which, as a result, were more present on spot markets. The marketing credit strengthened the collaboration and trust between farmers and cooperatives and between cooperatives and unions. Many farmers opened bank accounts and bought additional shares.

There is Government support for mechanisation. Tax-exemption for the purchase of agricultural machineries is now also allowed for farmers, cooperatives and unions. This decision, which can be coupled to the development of lease financing, can prove to be decisive for the effective mechanisation of the sesame sector.

D. Recommended integrated plan of action

The agri-finance challenge of the sesame sector calls for the attention of different stakeholders. To meet the demanding challenge of finance and improve sesame yields and overall national production, it is important to have an integrated action plan. The core areas of action are shown in the figure below:



1. Agro-economic planning by collaborating stakeholders

Starting at kebele level (KAEP) and consolidated at higher levels, agro-economic planning will help to target available input credit to reach those farmers who are ready to apply GAP. It helps to have real field-level evidences, not only for input finance but also for targeting trainings and for providing agro-inputs such as seeds, fertilizer and chemicals.

- Vision 2025: stakeholders at different levels make KAEP integral part of their work, plan together based on kebele realities of the kebeles and financial institutions avail input credit to farmers selected by kebele committees
- Action plan 2020: Target 50 kebeles and 20,000-hectares of land with GAP in 2020. With an average credit of 5,000 ETB/ha, 100 million ETB credit is required (more details in KAEP experience paper and issue brief)

2. Facilitating marketing credit for cooperatives

Marketing credit is an activity that kills two birds with one stone: it increases the presence of cooperatives in sesame marketing and allows farmers to use advance payments for the final stages of their production activities.

- Vision 2025: Several commercial banks have provided marketing credit to all unions and 50% of the cooperatives, at first facilitated by a revolving risk sharing fund.
- Action plan 2020: Target 20-25 cooperatives for a similar amount as was successfully applied in 2018-19 (100 million ETB) (more details in marketing credit experience paper and issue brief)

3. Lease financing for mechanization

Facilitating lease financing can help farmers and cooperatives to buy agricultural machineries for improved efficiency and productivity.

- Financial organizations such as DBE, Kaza and Walya have provided lease financing for >100 mechanisation cases and machinery rental services have effectively developed.
- Action plan 2020: Lease financing for 10 cooperatives (25 million ETB) provided by DBE, Kaza and/or Walya. (more details in mechanization experience paper and issue brief)

4. Farmers' financial literacy

Improving farmers financial literacy skills will help them to perceive farming as a business, take informed farm decisions and make them more prone to save and to become eligible for loans. This is a supportive activity for addressing the agri-finance challenge.



- Vision 2025: MoANR, BoA, CPA, unions and cooperatives have collaborated to train more than 50% of the sesame farmer households (85,000) in financial literacy. Farmers buy cost recording books themselves and financial institutions use the farm information for preparing and assessing loans.
- Action plan 2020: Through a ToT system (experts, local trainers and coaches), train an additional 10,000 farmers, which would bring the total to 30,000 farmers trained. (more details in financial literacy experience paper and issue brief)

5. Sesame sector information management system

Improving the information management system is a prerequisite for bringing the sesame sector to the next level. Digitalization is the rule of the day, which can help address multiple systemic challenges. It is also a supportive action.

- Vision 2025: Fully digitalized planning, monitoring and reporting system at regional, zonal and woreda level, integrating the planning and realizations as developed and reported by kebele teams.
- Action plan 2020: Updating and use of woreda databases and demonstration of digitalized information systems at kebele level (ATA and SBN) (more details in sector information system experience paper and issue brief)

6. Stakeholder collaboration

Agricultural development is a team sport that requires multiple stakeholders to work together, as shown in the figure above.

- Vision 2025: A sesame board is established at national level, regional decision makers quarterly meet during sesame ACC value chain alliance meetings, regional stakeholder meetings are organized two times per year and multiple stakeholder collaborate at zonal, woreda and kebele level.
- Action plan 2020: Quarterly ACC value chain alliance meetings during which important decisions are taken and the details of stakeholder collaboration at different levels are worked out.

7. Informal money lenders

Illegal and usurious money lending has effectively come to an end, because farmers have had access to different financial products tailored to the sesame sector (input finance, marketing credit for cooperatives and lease financing).