



## Financing sesame

### Credit cost for sesame producers

SBN support programme, 15 & 16 May 2014

# Credit costs in Metema & Humera area

Challenges in the sector

# #1

## Finance

Some negative consequences for the sesame producer

- Missing essential production activities since money is not available → **non-optimal yields**
- Taking high interest rate loans → **Severely diminishing the profits**
- No room for investment → **Being stuck in subsistence farming**

# Some characteristics on credit suppliers

- **12 Banks** in Humera town; VERY limited service provision for sesame producers
- **Primary cooperatives**; CANNOT always supply credit
- **Informal money lenders**, in all kinds of forms
  - Spot market traders
  - Investor farmers supplying to small scale farmers
  - Groups of people having an extra buck (e.g. bank employees, '*business women*', priests etc.)

# Preconceived ideas about credit supply – Producer perspective

## Formal sector

Pros	Cons
Lower interest rates	Red tape
Transparent procedures	Limited credit supply
Trustworthy	Finance issued too late

## Informal sector

Pros	Cons
Quickly available	High interest rates
Plethora of credit providers	Illegal agreements
Sufficient credit availability	Tying oneself to one market option

# Preconceived ideas about credit supply – Credit supplier perspective

- Default repayments due to poor yields
- Default repayments of cooperatives and Unions due to poor management
- Financial institutions will not invest in agriculture. Instead they will



# Study preparations

Preparing a team of  
**10 enumerators**

Stratified sampling; **land size, gender, kebele**

Selecting **190 respondents** for production cost study

Proposal writing & questionnaire development

Start study on **10<sup>th</sup> of January**

**10** Production cost studies per cluster

Selecting **475 respondents** credit cost respondents

**25** Credit cost studies per cluster



# Respondent characteristics

**391** Men & **85**  
Women

Total cultivated  
land +/- **21,000**  
Ha.

Average age of **44**  
years

Setit & Kafta Humera -  
Tsegede - Wolkayit

Average household size of  
**6** persons

**19** Sesame Business  
Clusters (SBCs)

**376** Cooperative  
members

Tach & Mirab Armachiho  
– Metema – Quara

Average farming  
experience of **15.5** years

**619** loans  
recorded = **1.5**  
loan per credit  
taker

**41** Kebeles



# Own versus Borrowed money

Own	Borrowed
<b>51%</b> of total finance used	<b>49%</b> of total finance used
<b>16.2%</b> used own finance only	<b>9.5%</b> used borrowed money only
<b>74.3%</b> used own & borrowed money	



# Credit missed

- **33%** of the respondents ~~run~~ ran short of money

**Leaving land fallow  
unnecessarily, right from the  
start**

represents almost **11%** of ~~total~~ total finance  
**requirement**

# Credit sources – in order of frequency used

1) Micro finance institute

**34.4 %**

2) Primary cooperative

**23.2 %**

3) Informal money lender

**21.8 %**

4) Relatives

**9.2 %**

5) Friends

**4.9 %**

6) Bank

**4.1 %**

7) SACCO

**1.8 %**

8) Other

**0.6%**

# Credit sources – in order of credit contribution

1) Bank

**66.3 %**

5) Relatives

**3.8 %**

2)

**Excluding banks; Informal money lenders are supplying 48 % of the credit**

3)

4) Primary cooperative

**5.0 %**

8) Other

**0.03%**

# Credit supplier interest rates

## Remark on methodology used

### Questions asked

- 1) What is the amount of money you took? (A)
- 2) At which date did you receive the loan? (B)
- 3) How much money did you repay in total (loan amount + interest)? (C)
- 4) At which date did you repay the loan? (D)

### Calculations made

- 5)  $C - A = \text{Total interest paid (E)}$
- 6)  $D - B = \text{Loan duration period (F)}$

### Formula applied

- 7)  $((E / A) / F) * 365 \text{ Days} = \underline{\text{Annual interest rate}}$

# Credit supplier interest rates

**Example – Cooperative provides loan at 15% interest rate annually**

## Questions asked

- 1) What is the amount of money you took? (A) → **12,000 Birr**
- 2) At which date did you receive the loan? (B) → **2<sup>nd</sup> of February 2013**
- 3) How much money did you repay in total? (C) → **13,800 Birr**
- 4) At which date did you repay the loan? (D) → **2<sup>nd</sup> of February 2014**

## Calculations made

- 5)  $C - A = \text{Total interest paid (E)} \rightarrow 13,800 - 12,000 = 1,800 \text{ Birr}$
- 6)  $D - B = \text{Loan duration period (F)} \rightarrow 365 \text{ Days}$

## Formula applied

- 7)  $((E / A) / F) * 365 \text{ Days} = ((1,800 / 12,000) / 365) * 365 = 0.15 \rightarrow 15\% \text{ Interest}$

# Credit supplier interest rates

## Example – Short-term loans and its consequence

### Questions asked

- 1) W
- 2) A
- 3) H
- 4) A

Annual Interest  
Rate of **176.6%**

2013

2013

### Calculations

- 5) C
- 6)  $D - B = \text{Loan duration period (F)} \rightarrow \underline{\mathbf{31 \text{ Days}}}$

### Formula applied

7)  $((E / A) / F) * 365 \text{ Days} = ((1,800 / 12,000) / \underline{\mathbf{31}}) * 365 = 1.766$

# Credit supplier interest rates

	Credit provider	Average annual interest rate
1	Informal money lender	259 %
2	SACCO	173 %
3	Friends	76 %
4	Relatives	49 %
5	Cooperatives	31 %
6	Micro finance institute	19 %
7	Bank	10.5 %

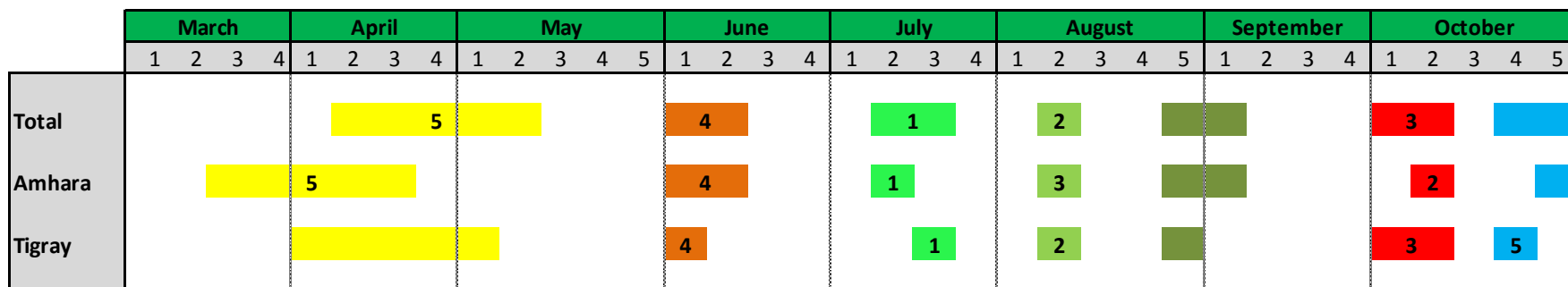
# Timely credit supply





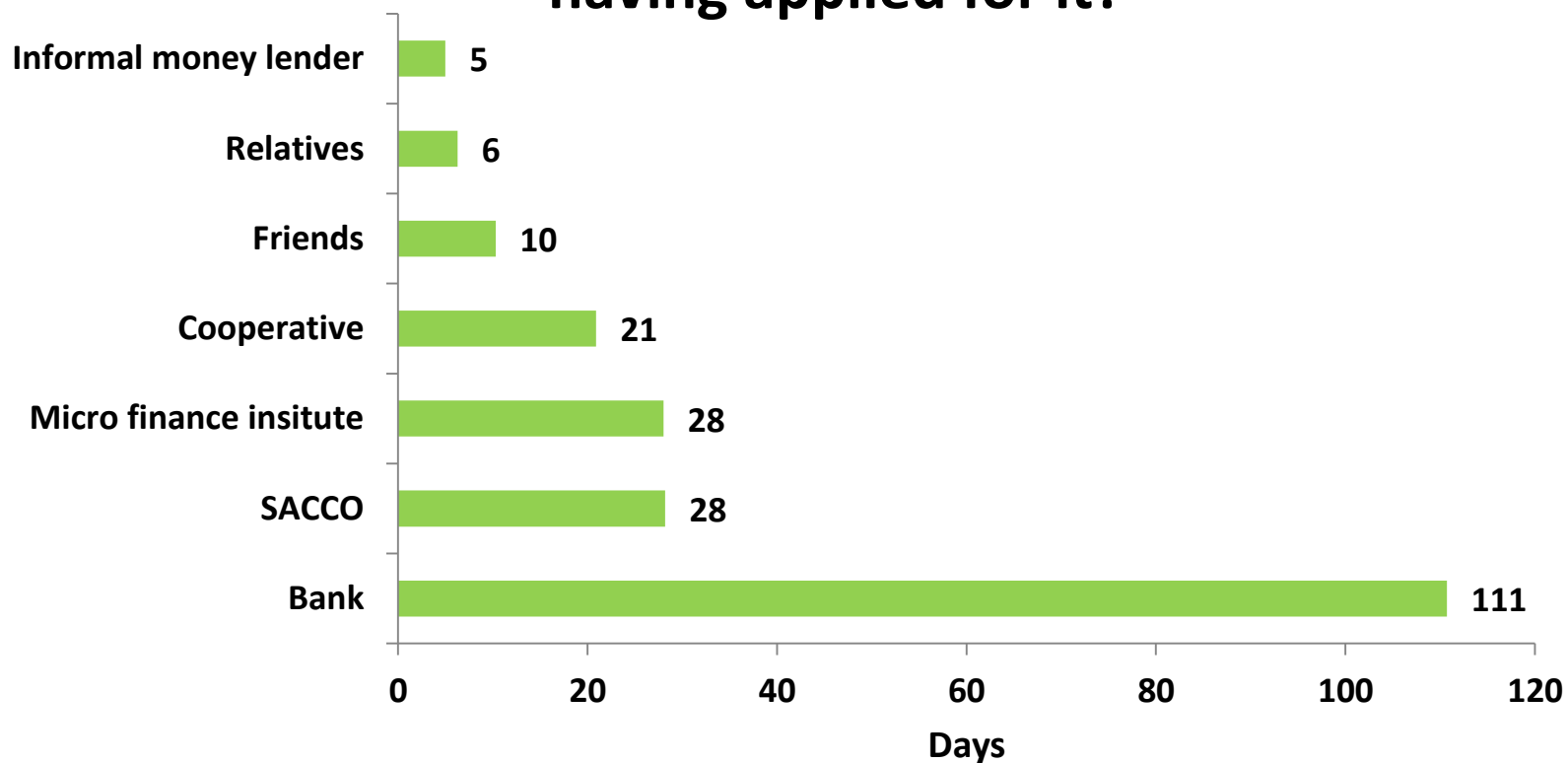
# Timely credit supply

When is finance needed the most?



# Timely credit supply

Waiting period between loan application & loan reception  
How long does it take to receive a loan, after having applied for it?



# Production cost study

Sesame storage costs

Costs for renting of land

Ploughing costs

Chemical application at store costs

Administrative costs

Sesame transportation costs

Costs on food for labourers

Sowing costs

Maintenance & spare part costs

Costs related to ECX delivery

Land cleaning costs

Threshing costs

Fertilizer application costs

Bagging costs

Farm security & health costs

Depreciation costs of assets

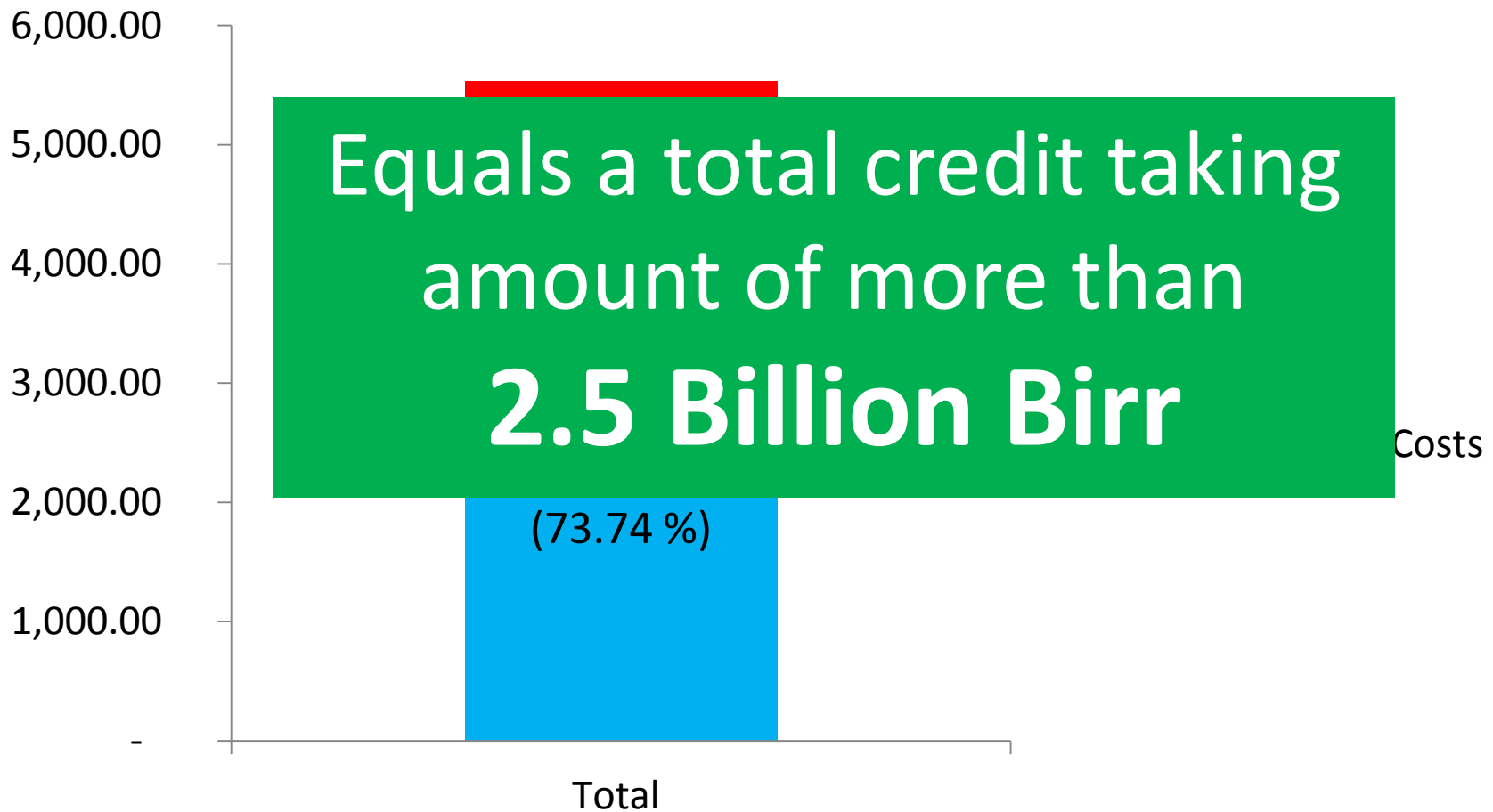
Harvesting costs

Chemical application at field costs

Weeding costs



# Share of interest rate to sesame business costs



# Sesame Business Network Ethiopia

