

Value Chain Finance in Tanzania's Sunflower Sector

A case study from the Rural Livelihood Development Programme (RLDP)

Context

RLDP is funded by the Swiss Agency for Development and Cooperation (SDC) and jointly managed by two Swiss International NGOs, HELVETAS Swiss Intercooperation and Swisscontact. Since RLDP started its operation in 2005, it has been working with sunflower farmers and oil processors – private sector buyers – in the central corridor of Tanzania; the objective being to contribute to poverty reduction among small scale farmers by improving the sector's market systems (M4P approach). The activities ranged from improving sunflower production at farmers' level, improving standards and markets for processed sunflower oil to linking processors/buyers and farmers. However, processors failed to absorb the raised sunflower production because of lack of working capital. Most of the processors partnering with RLDP are small scale and lack assets that would qualify as bank loan collateral, so most financial institutions shied away from providing loans.

Collateral Management System with CRDB Bank

In 2011, RLDP facilitated the collaboration between CRDB bank and small sunflower processors. The bank came up with an innovative way of grouping processors together and using their stocks of sunflower seeds as collaterals for loans. The arrangement is called *collateral management system* and works as follows:

- The processors hire both a warehouse and a collateral manager to manage stocks on behalf of the bank, which provides an overdraft loan to processors. The bank releases the loan on instalment basis after confirmation from the collateral manager that the previous instalment stocks have been received in the warehouse. The instalments continue until the entire approved loan amount allocated to a particular processor is exhausted.
- After all the stocks have been bought and deposited in the warehouse, the arrangement is reversed. The collateral manager releases the stocks in instalments to the processor for production and sales of sunflower oil. The sales revenues of the processed oil allow the processor to pay back the previous instalment of seeds. The collateral manager will be releasing stocks after confirmation from the bank that the processor has deposited money equivalent to the previous instalment of seeds stocks. By the time a processor is using the last stocks the bank will have recovered the entire approved loan.

Results

The arrangement has helped 43 sunflower processors from the central corridor to access this facility with loans amounting to TZS 5.6 Billions (about USD 3.5 Millions). This had a large impact on the sector with sunflower prices rising by 100% from TZS 28,000 (USD 17.5) in 2010 to TZS 55,000 (USD 34.5) in 2011. RLDP has facilitated the linkage, loan management training and costs for collateral manager for this first introduction year. The arrangement is being carried out in three districts; Dodoma Municipal, Kondoa (Dodoma) and Babati (Manyara) under the Tanzania Sunflower Promoters Association (TASUPA). Other banks have started showing interest in working with sunflower oil processors.



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