
Breakout 9: Agribusiness: **Vendor Financing in Input Markets**

“A Comparative Study of Fertilizer Credit in Bangladesh”

Authors

Robert Weiland (Main Street Economics), Curtis Slover (WOCCU) and M.A. Baqui Khalily

Summary and Key Findings

This paper provides a snap-shot of credit delivery in a market for fertilizer that is undergoing liberalization. The findings indicate that the availability of bank credit significantly increases the availability of trade credit. The paper recommends the following steps to improve credit delivery for the fertilizer sector: introduce variable lending interest rates that account the risk characteristics of borrowers; design loans to counter loan diversion incentives; increase the use of security pledging in order to create more value at less risk in fertilizer loan portfolios; and take a harder line of the practice of renewing loans without full adjustment of the outstanding balance.

“Case Study of DFCU Leasing Company – Uganda”

Author

Juma Kisaame (DFCU Ltd)

Summary and Key Findings

This paper provides an overview of Uganda Leasing Company Limited’s (DFCU) leasing activities and donor programs; the challenges DFCU faces in the market; and the innovative solutions DFCU has crafted to provide lease transactions to SMEs. There are several challenges that need to be overcome including tax laws that are not conducive to leasing, inefficient and expensive dispute resolution/court systems, lack of knowledge regarding leasing as an option, absence of local leasing expertise, and limited access to funding. The paper provides specific recommendations to overcome these challenges.

“The Evolution of Commercial Finance in Russian Agriculture”

Authors

Glenn Pederson (University of Minnesota) and Vera Matusevich (World Bank, Moscow)

Summary and Key Findings

This paper explores how past state intervention, agrarian policies, and weak institutions have contributed to the current set of fragmented markets in Russia, and how those problems have effectively constrained the development of commercial financing for agriculture. The paper looks specifically at two types of channels for farms and agribusinesses in Russia today. One channel operates with the use of State funds (commodity credit and leasing) and the other is a commercial channel (supplier and vendor credit/indirect lending) that operates without State funds.

“Improving Access to Rural Finance through Regulated Warehouse Receipt Systems in Africa”

Author

Gideon Onumah (Natural Resource Institute)

Summary and Key Findings

Taking the view that access to rural finance can be improved by focusing on risk reduction, this paper argues that the perception of rural borrowers as high risk can be changed, over the long term, by providing them with opportunities to manage and reduce risks such as the warehouse receipt (WR) system developed in Zambia. The most significant challenge in establishing WR systems in Africa remains the disabling elements in the policy environment, particularly ad hoc interventions occasioned by short-term reactions to symptoms of market inefficiency.

Break out session # 9
Agribusiness: Vendor financing in input markets
June 3, 2003, 2-3.30pm

Moderator: Bob Barnes, USAID, Manila, The Philippines

After an introduction of speakers by Bob Barnes, 5 speakers presented papers in the session.

There was very little time left for discussion.

Discussions were around the following topics:

1. Qn. By Nory Miller, DAI to Juma Kisaame, DFCU leasing company in Uganda.

How many distribution channels and branches do the Uganda leasing firm have? Can the banks that finance you use non-donor deposits for financing your leasing activities?

Ans. There are 5 branches – one head office and 4 regional branches. All branches are within a 200km radius to speed up transactions. In future, we are planning on using network of commercial banks as outlets. We are waiting for the relaxation of the current law that limits commercial banks from leasing activities. If that happens, we will be able to use 10 bank.

Current law does not allow mobilizing deposits by the leasing firm. Commercial banks can mobilize deposits from public but, by law, cannot finance more than 25% of it for leasing companies. So, the banks use donor funds to finance the leasing firms.

2. Qn. By Bob Barnes, USAID, to Juma Kisaame, DFCU leasing company in Uganda.

Where do the Uganda leasing firm get its clients? Do all of the applicants get accepted?

Ans. Only 3 out of every 10 applicants are usually accepted for the leasing loan. Sometimes, clients are referred to us by the MFIs and banks. Often, they respond to advertisements placed in local newspapers.

3. Qn. By Jeremy, USAID

Qn. What are the insurance products used with warehouse products? If offered, will the demand for warehousing increase? Insurance companies in east Africa write contracts against frauds.

Ans. ZACA insists on fire insurance for warehouse products. In Zambia, 3 low level custom bonds are issued as insurance. Heavy emphasis is placed on inspectors. This has created a lot of problems. But we are sure that with experience, can get some re-insurer to come in. Also, we expect the banks to participate later and this may increase the quality of the bonds issued. I have heard of professional liability policy but not aware of any other types of insurance policies.

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