

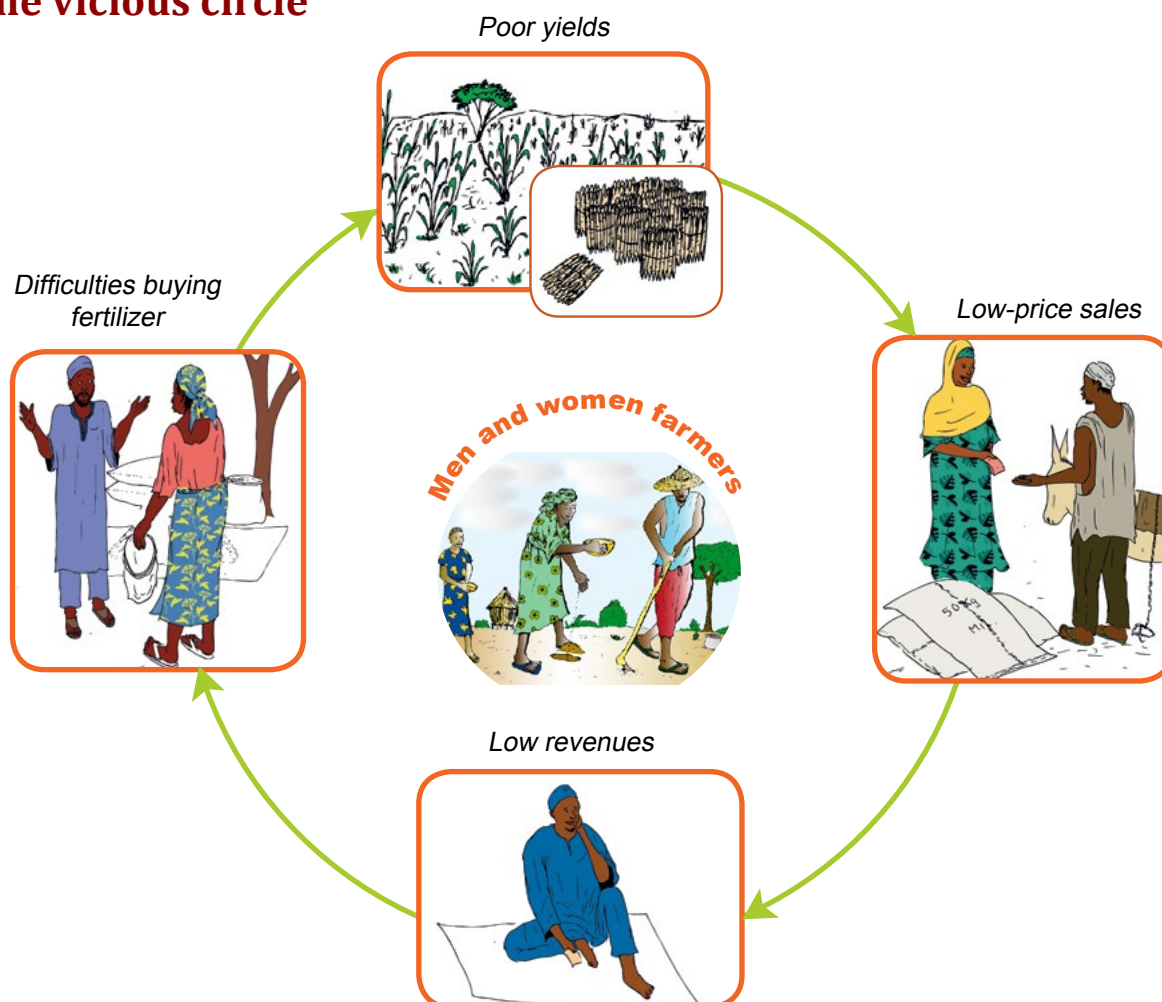
Inventory credit

Background

In Sahel countries in general, and Niger in particular, agriculture is vulnerable to unfavourable climate conditions, resulting in low crop yields. Often, small-scale farmers are forced to sell off their agricultural products at low prices straight after harvest, to earn cash and pay off their debts or to meet their immediate needs (food, medical care, travel to cities, children's education, etc.). During the lean season, the price of these same agricultural products rises. Farmers' low incomes prevent them from buying inputs that would enable them to increase their yields and output. As a result, both men and women producers find themselves trapped in a vicious circle of spiralling poverty. It was against this backdrop that, in 1999, inventory credit was introduced in Niger, to offer solutions to the challenges of financing agricultural production and addressing the impoverishment of farmers, by making it easier for them to obtain credit in a rural setting.



The vicious circle



Definition

Inventory credit, also known as warrantage, is a system of rural credit that enables a producers' organization and/or its members to obtain a loan against collateral in the form of non-perishable agricultural produce (millet, sorghum, rice, maize, sesame, gumbo, groundnuts etc.) that is likely to increase in value.

Why inventory credit?

The inventory credit system was introduced in Niger and adapted to help farmers, through their cooperatives, to have access to cash in the form of credit. This enables them to meet their immediate needs or develop an income-generating activity soon after harvest, allowing them to sell their agricultural products at a later date, when prices are higher. By taking advantage of the price difference between harvest time and the lean season, farmers acquire the financial means to satisfy their basic requirements, without affecting the meagre household budget.



Benefits of inventory credit to men and women farmers

Inventory credit allows farmers to:

- Carry out income-generating activities (IGA), giving them resources which will enable them to wait and sell the products they have stored for higher prices
- Generate additional revenues
- Make more investment in agricultural production
- Improve soil fertility and agricultural production by purchasing and using fertilizer
- Maintain local varieties and biodiversity
- Strengthen food security



The main actors in inventory credit

- Farming households (men and women farmers)
- Producers' organizations
- Decentralized finance systems (DFS), formerly known as microfinance institutions (MFI)
- Commercial banks
- Government, technical and financial partners



Stages of inventory credit

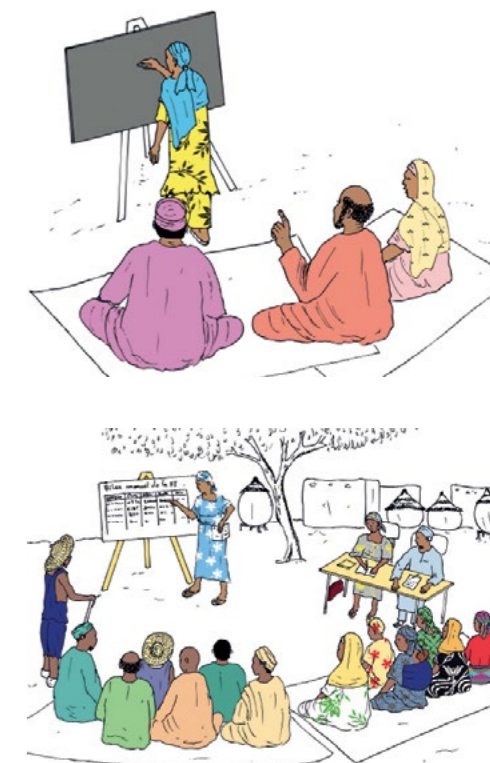
- Promotion and training in inventory credit technique for PO and DFS
- Information and awareness-raising for PO members
- Needs assessment
- Decision-making and planning of inventory credit implementation
- Declaration of intent to carry out inventory credit by PO to DFS
- Preparation of warehouses
- Collecting and storing products to be secured
- Official request for credit to DFS
- Compiling files, negotiations and conclusion of loan agreement between DFS and PO
- Granting of loans by DFS
- Distribution by PO of loans granted
- Monitoring and warehouse maintenance (checks)
- Monitoring loans
- Recovery and loan repayment
- Withdrawal of products



Best practices

Draw up rules of procedure within the PO so as to ensure fair access to men and women farmers:

- Respect the meeting's decision on the type of products, quality, quantities and timeframe for withdrawing stock
- Regular monitoring of market prices for stored products
- Limit loans granted to the PO to 80% of stock value at harvest, to ensure full and smooth repayment for members of the General Assembly
- Impose a contribution from members securing stock, based on the volumes stored, to enable the PO to cover inventory credit expenses (warehouse and stock maintenance, training, etc.)
- Carry out income-generating activities (IGA), to facilitate loan repayment
- Take care to label each person's stock when they secure it (by writing their names on the sacks)
- Respect the principle of double padlocks (given that there is as yet no agreed warehouse operator in Niger) with keys kept separately by the DFS and PO
- Do not grant a secured loan to an individual without an agreed warehouse operator, so as to reduce risks and a proliferation of warehouses.



Mistakes to avoid

- Delays in securing stock
- Delays in declaring intent to implement inventory credit
- Poor packaging or storage of agricultural products.



Financing and refinancing of inventory credit

The main source of financing and refinancing of inventory credit is the DFS.

However, recently, other actors have begun mobilizing funds to finance inventory credit: commercial banks, projects, research institutions, POs, NGOs and other rural development stakeholders.

Refinancing can be handled by:

- ⦿ commercial banks
- ⦿ lines of credit or guarantee funds set up by rural sector support projects and programmes, etc.



Fundamental preconditions for launching a successful inventory credit initiative

- ⦿ The PO must be registered and eligible for financing from a DFS or bank
- ⦿ The DFS must have sufficient financial resources
- ⦿ Availability of adequate storage infrastructures
- ⦿ Training of DFS and PO on the rules and principles of the inventory credit technique
- ⦿ Availability of a stock of agricultural products, such as millet, sorghum, maize, rice, groundnuts, gumbo, sesame, etc.



References

- Training manual on inventory credit, Capitalization and IARBIC projects, May 2011 (available in French only)
- Report of training of trainers workshop for DFS, PO, NGOs, banks on inventory credit, "Training module on inventory credit in Niger", Capitalization/IARBIC/ISFP projects, October 2010 (available in French only)
- Practical guide to inventory credit in Niger, Inputs Project/FAO together with the Rural Finance Services Development Programme, August 2007 (available in French only)



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