

Planting the Seed: Improving oilseed supply in northeastern Uganda

by Edward Kamoga

Donor organisations are often tempted to throw money at a problem. Ugandan farmers aren't producing enough oilseed to meet consumer demand? The traditional solution would be to channel funds directly to farmers. After all, that seems to address the root of the problem, namely farmers' lack of financial services. Unfortunately, this approach distorts competition and incentives. After all, what happens when the donations dry up? The sector needs a sustainable, market-driven solution—not a short-term handout. If donors want to help, they should concentrate instead on connecting commercial funders to smallholders. That's exactly what SNV Netherlands Development Organisation did in the oilseed sector.

The problem with growing oilseed in Uganda

Oilseed production is one of the most vibrant and promising business sectors in Uganda, with both local and export markets. Many Ugandans make their money in the oilseed business, from fertiliser producers to seed suppliers to farmers to processors. Yet despite the available markets and size of the industry, not enough oilseed is being produced to meet consumer demand.

The problem is there are simply not enough seeds for planting. Consumer demand for oil in Uganda requires over 120 metric tonnes of sunflower seed every season. Mills certainly have the capacity to handle that much seed, but during the first planting season in 2011, farmers had less than 70 tonnes available, over 60% of which was controlled by one importer because only large companies have the money to import the seed from South Africa.

The problem seems easily solvable: farmers should get loans to plant more seeds. Unfortunately, most commercial banks see the agriculture sector as too risky for investment and only provide loans after the crop has been harvested to take it to market.

Accessing loans

SNV and Centenary Bank have partnered to tackle this problem in three districts in eastern Uganda—Mbale, Bukedea and Kumi. Centenary Bank is the only financial institution that provides business development services and financial services to smallholder farmers, who are otherwise neglected. Together, SNV and Centenary have developed a financing model that looks at oilseed production as a whole by providing loans to seed suppliers, farmers and others to increase both demand and supply for oilseed.

Along with VECO East Africa, a development organisation promoting the growing and marketing of oilseeds, SNV and Centenary chose to focus on groups representing the diverse segments in the oilseed "value chain"—the different steps in the process of getting oilseed to market. The clients included Popular Kumi Women's Initiative Farmer to Farmer Cooperative (P'KWI FFC), which provides business development services to farmer members; Busiu United Marketing Cooperative Ltd. and Busia Savings and Credit Cooperative, which are engaged in providing financial services for sunflower and groundnut farmers; and Masaba Seeds/SUKURA Ltd., a seed and input dealer in the region.

SNV brought these farmers, processors, marketers and seed dealers together in a "multi-stakeholder platform" (MSP) to identify reasons for the gap in supply and demand and explore potential solutions to redress this gap. The MSP came to the conclusion that the best way to unlock the sector's potential was to

increase farmers' access to loans so they could purchase more—and better—seeds. The MSP agreed that if farmers, processors, marketers and seed dealers better coordinated their efforts, commercial banks would be forced to provide loans because coordinated production and marketing would mitigate the risk of smallholders defaulting on loans.

In fact, financial institutions need to influence both the supply *and* demand of a given product in order to grow their business. The oilseed financing model SNV, Centenary Bank and VECO East Africa developed illustrates how this can be done. First, seed dealers receive letters of credit in order to import hybrid seeds and thus end the near-monopoly of seeds by Uganda's largest seed importer. Second, farmer and producer groups receive loans for seeds and farming equipment (such as ox ploughs), which in turn create more demand for seeds from suppliers. With ox ploughs, farmers are suddenly able to open up so much more land and can therefore plant more seed. Third, registered farmer cooperatives receive loans to coordinate purchases with large buyers and thereby make certain they sell their grain at competitive rates, assuring the bank of the cooperative's ability to clear the loan and allowing it to provide loans to other farmers to expand their businesses. Meanwhile, two local organisations, DEMIS and Effective Skills Development Consultants Ltd., have lent a hand to the project by working with the farmer organisations to increase their professionalism and become more attractive recipients for loans.

SNV and its partners expect that as a result of this restructuring of the financing system, 60% of regional households involved in the oilseed sector will benefit from Centenary Bank's financial services. Indeed, the trends thus far are positive. So far over 20 farmers have accessed animal traction loans. Meanwhile, using letters of credit from Centenary Bank, four small seed suppliers are receiving financing to import hybrid seeds.



Centenary Bank offered training on animal traction

The way forward

This project shows that donors looking to improve smallholders' livelihoods should encourage small farmer cooperatives to improve their market position by offering temporary financial guarantees, providing extension training or connecting them with buyers. If farmers improve the scale and quality of their production, they can access better markets and loans, as banks will view them as less of a credit risk.

Although SNV has been involved in negotiating linkages between farmers, private businesses and financial institutions, this is most definitely a private sector initiative in which profit was the main driver. Therefore, it is sustainable so long as banks create the demand for credit before supplying it. When banks treat farming as a profitable business and distribute loans accordingly, everyone involved in the sector benefits.