

Country: **Niger** / Practice Name: **Inventory Credit**

Title of the good practice:
Inventory credit, an innovative model for rural finance institutions in Niger to offer finance to agricultural producers and their organisations.
Synopsis of the good practice:
<p>The Inventory Credit model is a technique for securing agricultural products by warrant. At harvest time, production cooperatives who want to get involved ask their members to deposit a part of their products in a warehouse as a guarantee to ask for a credit in a bank. Usually, farmers stock dry products such as millet, sorghum, beans, etc. However, gardening products like potatoes, and onions can also be warranted.</p> <p>The inventory credit system was first introduced in Niger in 1999 by FAO through its Agricultural Inputs Project. Initially, the objective was to respond to the lack of funding for agricultural inputs. Today, the model has gained a widespread recognition and is considered by farmers' organisations, financial institutions, and development partners as an effective tool that can help reduce poverty in rural areas.</p>
Objective of project/initiative:
<p>The main objective of the inventory credit model is to identify and test innovative mechanisms that would support the promotion of the use of agricultural inputs, in particular fertilizers, by farmers and their organisations, and to establish technical-economic standards that would guarantee the appropriateness/reproducibility/durability of the application of inputs, all in order to assist the various actors along the line in the elaboration of a national level strategy, built on partnership, for improved farm input supply in support of a durable agriculture. Another objective of the model is to help reduce poverty and food insecurity in Niger as well as in the other countries of the Sahel region, through the FAO/Belgium 2008-2011 multilateral cooperation programme called "Knowledge and Gender Management", thereby to fulfil the Millennium Development Goal N° 1.</p>
Brief description:
<p>Inventory credit is a technique whereby agricultural producers obtain finance against stocks of a wide range of durable products that are subject to seasonal surplus and that show a positive price evolution over a short period of time. The produce is deposited in a safe and reliable place where it remains during the duration of the loan. At the expiration of the loan, the stock is sold at a price higher than that at the harvest time, thus enabling the borrower to repay his/her outstanding debt and to make a profit from the operation. If the borrower does not repay the loan by the due date, the bank seizes the grain and sells it to a third party. This is not a new concept. Inventory credit for agricultural produce is widely used in Latin American countries and in some Asian countries. In many countries, however, it is seldom practiced and real estate remains the main form of collateral acceptable to banks. Various different approaches to inventory credit exist. In some countries, the operation is a three cornered arrangement between a bank, a borrower and a warehouse operator. The borrower can be a trader, a miller, a large farmer or a group of farmers. A crucial element of inventory credit is the availability of reliable storage facilities and storage operators. These should not only have the necessary infrastructure and technical skills in storage management and pest control, but should also have business skills and independence from political pressure, which will provide a reasonable guarantee of the integrity of the stocks. In Niger, in order to respond to the potential/constraints of the country, the inventory credit model was adapted so as to be done directly between farmer associations and the local financial institution. The farmer associations, on behalf of the member farmers, sign loan contracts with the participating local financial institution and redistribute individual loans to the farmers according to the volume of their stored produce. The farmer associations themselves also store in some cases their own produce.</p>
Technical specifications:
<p>a. Targets:</p> <p>The inventory credit system has various targets:</p> <ul style="list-style-type: none"> • The Financial Institutions operating in the rural areas; • Banks; • Farmers; • Farmers' organizations • The government; • Partners in development. <p>b. Budget:</p> <p>Since 1999, funding for the Inventory Credit Project in Niger has discontinuously come from a bilateral donor, precisely the Government of Belgium. Thus, from 1999 to 2007, the Kingdom of Belgium provided around 6 850 000 USD to fund the project. In order to scale up inventory credit, the promoters would need to foresee costs associated with:</p> <ul style="list-style-type: none"> • Studies in order to adapt the model to the country specific context whilst maintaining and respecting the general principles of inventory credit; • Training of farmers/farmer associations and local financial institutions in inventory credit technique; • Support to the establishment/improvement of appropriate storage facilities; • Possible financial support (grants or loans) to those local financial institutions that do not yet dispose of sufficient own financial resources and that have not yet become eligible for refinance from the banking sector but that show sufficient high management capacity levels.

c. Outcomes & impacts :

According to the goals, several results, effects and impacts have been observed:

- For the producer and the farmer association, the economic results of the inventory credit (average over several years, concerning different types of products stored and different types of additional income generating activities made possible from the loans obtained), the experience in Niger has shown a 25% average increase of the value of the stored produce, a net profit of 8% on the additional income generating activities, i.e. a total increase (net of all costs) of approximately 33% of the capital in 4-6 months. Other studies also show that on average 20% of the gross margin is being spent on agricultural inputs. On average, 12 % of the loans obtained were used to purchase inputs, 16% of the value of the stored produced were used to purchase inputs. On average, the use of the stored produce consisted of seeds (29%), to bridge gaps in food items between harvesting periods (18%), and for sale (53%);
- At the financial level, the inventory credit has enabled the local, rural financial institutions to reduce their credit risk by obtaining a tangible guarantee that is easy to divide and to realise, adding to this the positive effects of a solidarity guarantee by grouping small loans into one for which the farmer associations take responsibility. In the longer perspective, inventory credit may increase the supply of financial services to rural households by attracting new financial operators to establish themselves in the rural areas. As of today, the loans granted under the inventory credit model have been repaid, without major difficulties, at 100% both as far as capital and interest are concerned. This largely improves the health of the lending portfolios of the rural financial institutions and increases their credibility/eligibility towards the banking sector as far as refinance is concerned;
- At the level of the Central Bank, stock of agricultural produce has been officially recognised and legally accepted as guarantee for loans by financial institutions.

Key lessons learned and replicability of the approach:

Since its implementation in Niger in 1999, the Inventory Credit system has significantly contributed to eradicate rural poverty. Because it enables farmers to use agricultural inputs, the system has also resulted in a significant increase of yields, thereby contributing to reduce hunger in the rural areas. In Niger, the Inventory Credit is thus playing a key role in the fulfilment of the UN Millennium Development Goal N° 1 ("Eradicate extreme poverty and hunger").

The viability of the system, a guarantee for its duration and development, is built on the interest and advantages that the stakeholders (farmers and their associations, rural financial institutions, development projects, NGOs, Government, donors) find therein (financial profit, credit guarantees, food security, securitisation/finance of agricultural cycles, release from debt/impoverishment,...).

The viability is also based on the willingness and the intrinsic capacity of the main actors, i.e. the farmers and their associations and the local, rural financial institutions and the other actors (development projects, banks, ...) that come to reinforce the capacity (improved professionalism, development of storage infrastructure, financial support, ...) of the aforementioned. Finally, the development of inventory credit depends to a large extent on the capacity of the participating local, rural financial institutions to manage in an efficient manner additional financial resources. A parallel support to improving their professionalism is therefore a sine qua non.

Because the Inventory Credit model has shown its effectiveness in fighting hunger and reducing extreme poverty in rural areas during the experimental phase in Niger, it has been selected as an example of "good practice" to be implemented at a regional level during the newly adopted 2008-2011 FAO/Belgium Multilateral Cooperation Programme that involves four countries: Niger, Burkina Faso, Mali and Senegal.

For further information

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