



Livelihoods and **F**ood Security **T**rust Fund



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GRET

Professionals for Fair Development

Value Chain Development for Inclusive Economic Growth in Central Bogale/Mawlamyinegyuan Townships

Farmer-managed Financial Service in Delta

Purchase Finance System & Inventory Credit

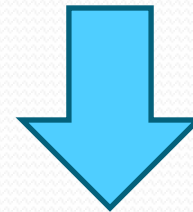
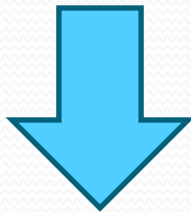
Delta context and rationale

- Farmers need cash right after harvest
- At harvest time, prices are low
- Farmers don't have appropriate place to store and wait for high price



Objective: Give chance to farmers to **get higher price** by **collective storage** while keeping **cash down payment at harvest time**

2 different methodologies



Purchase Finance System



Inventory Credit

Purchase Finance System (PFS)

- ▶ Presentation by Phyo Wai Nyi (WHH)

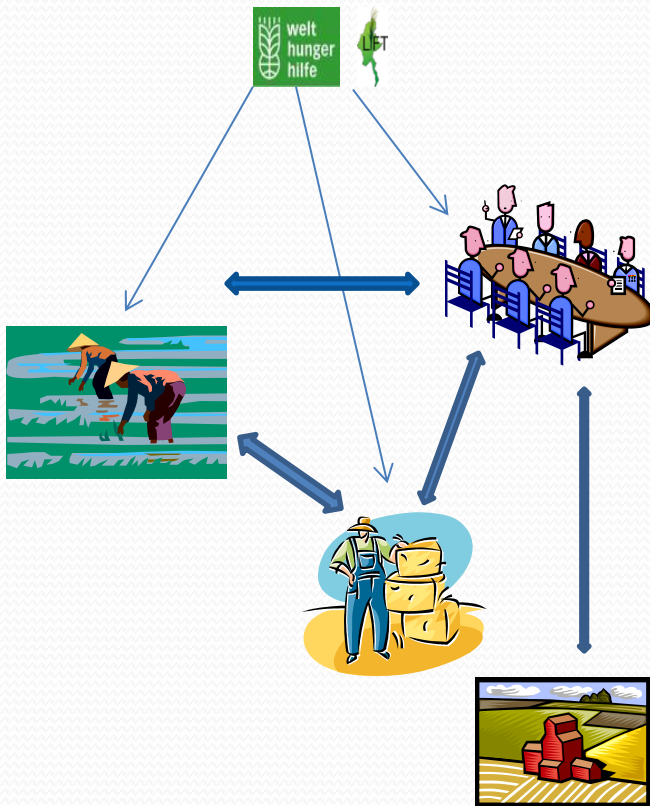
Financial service package for collective

- purchase
- storage
- sale

System

- 80% cash down of the actual market price the day farmers sell to PFS
- 20% remain with PFS committee as a reserve for overhead costs
- Final outstanding amount (20% remaining + proportional profit) will be distributed to the farmers at the end of cycle.

Methodology



Main Actors :

- Farmers, storekeepers, PFS committees, traders

Relationship Farmers and PFS Committee :

- Committee: Fixes and announces the criteria
- Farmers: Responsible for the stock transportation
- Farmers & Committee: Cash settlement with certificate after quality & quantity check.

Relationship Farmers and Storekeeper :

- Storekeeper: Receives the defined amount of paddy
- Storekeeper: Q/C, records the data and prepare transparent receipt.
- Storekeeper: Updates market price development (weekly) on announcement board.

Relationship Storekeeper and PFS Committee :

- PFS Committee: Contract for storekeeper
- Storekeeper: Stock monitoring & market price follow up
- IStorekeeper > Committee: Inform market price development

Relationship WHH, PFS Committee and Storekeeper :

- WHH > PFS Committee: Providing initial funds, technical support
- WHH > Storekeeper: Providing technical training and market price information

Geographical coverage and figures

PFS (2013-14) Monsoon

- 9 PFS locations (5 CAEDPs & 4VDCs).
- 186 farmers from 23 villages.
- Total purchased Qty : 8004 baskets.
- Average profit/basket : 200 MMK > 1490 MMK/basket

PFS (2014) Summer

- 2 PFS locations (2 CAEDPs).
- Purchased 3460 baskets from 65 farmers.

Purchase Finance Service (CAEDP 5-Toe Hla)



Purchasing

5,000 > 6200
MMK/basket in Low
Price time

Advertising criteria

1. CAEDPs /VDCs purchased only from VDC member farmers
2. Purified seed will be priority in purchasing
3. Varieties cultivated in relevant area were purchased
4. Only (1251) baskets from (37) farmer are accepted to be purchased
5. (95%) purified rice
6. Accepted of (15%) of moisture only
7. CAEDPs/VDCs are focal place for purchasing
8. (80%) of the stock was paid cash down to Farmer on the purchased date
9. NO advance payment
10. The rest 20% of cash will be paid after sold out stock before next season
11. If profited, CAEDP will deduct overall operational cost and allocate profit sharing (60% net profit for farmers and 40% net profit for CAEDP/VDC).
12. If lost, CAEDP will be responsibility of 60% lost and 40% lost by farmer.

Storage

Labor Cost



Transport Cost



Admin Cost



Natural Loss

747,683 MMK

Selling

7,650 MMK/basket
in High price Time

Net Profit Calculation

Selling = 9,037,700 MMK

Investment = 5,471,040 MMK

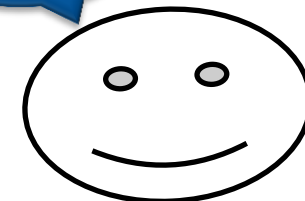
Gross Profit = 2,198,900 MMK

Overhead Cost = 747,683 MMK

Net profit = 1,496,100 MMK

60% for
Farmer

40% for
CAEDP/VDC



Comparison of Regular Sale vs PFS



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Regular selling	Price (MMK)	Qty	Amount (MMK)
Selling stock to traders	5,800	50	232,000
100 % cash down payment	5,800	50	232,000
Loss & transportation charges to be deducted	500	50	25,000
Final income at the end of cycle			207,000

Participating in PFS	Price (MMK)	Qty	Amount (MMK)
Selling stock to PFS	5,800	50	232,000
80% of stock cash down received	5,800	50	224,000
Selling stock to traders	7,650	50	382,500
Gross profit			102,500
Shared overhead cost	558	50	27,922
Net profit after sale by CAEDP	1490	50	74,578
20% remaining will be settled after sale by CAEDP		50	56,000
Final income at the end of cycle			354,578
Surplus amount by PFS			147,578

Advantages & Challenges



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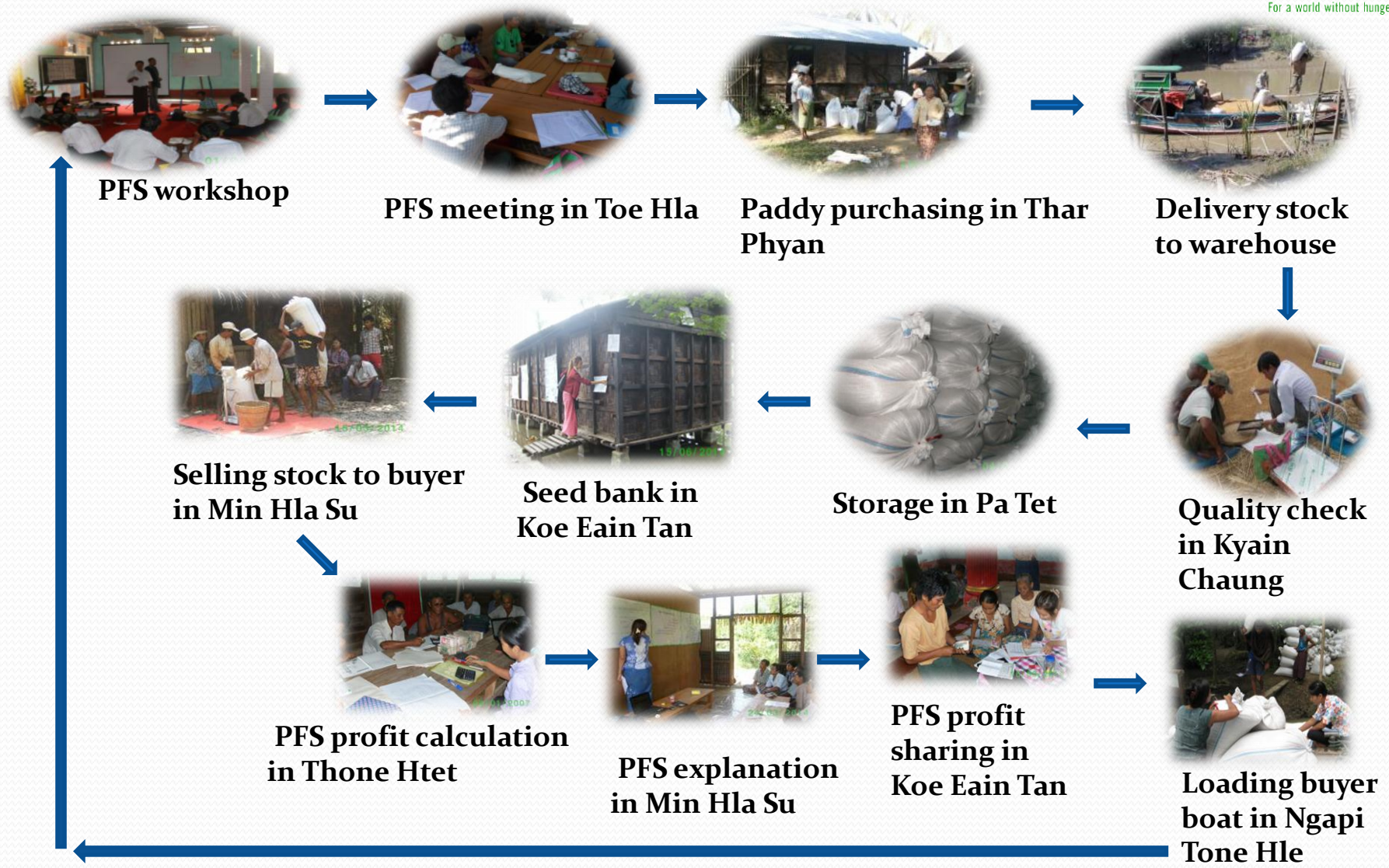
Advantages

- ❖ Low cost & self regulating.
- ❖ Opportunity to spend or reinvest the additional profit by PFS for next cultivation
- ❖ Reliable grain quality due to the systematical storage and Quality Control
- ❖ Avoided the manipulations of the traders due to the collective selling of large quantity
- ❖ Able to avoid some losses & damages, utilizing particular poly bags and specific scaling system
- ❖ Most of the project's former seed bank were getting active due to PFS activities

Challenges

- ❖ Market price can not predicted due to price fluctuation
- ❖ No sufficient storage available
- ❖ In some cases, farmers were forced to sell out directly after harvest for the repayment of loans to money lenders.
- ❖ Unreliable weather constraints and storage difficulties

PFS Process Cycle



Inventory Credit

- ▶ Presentation by Yin Yin Aye (Gret)

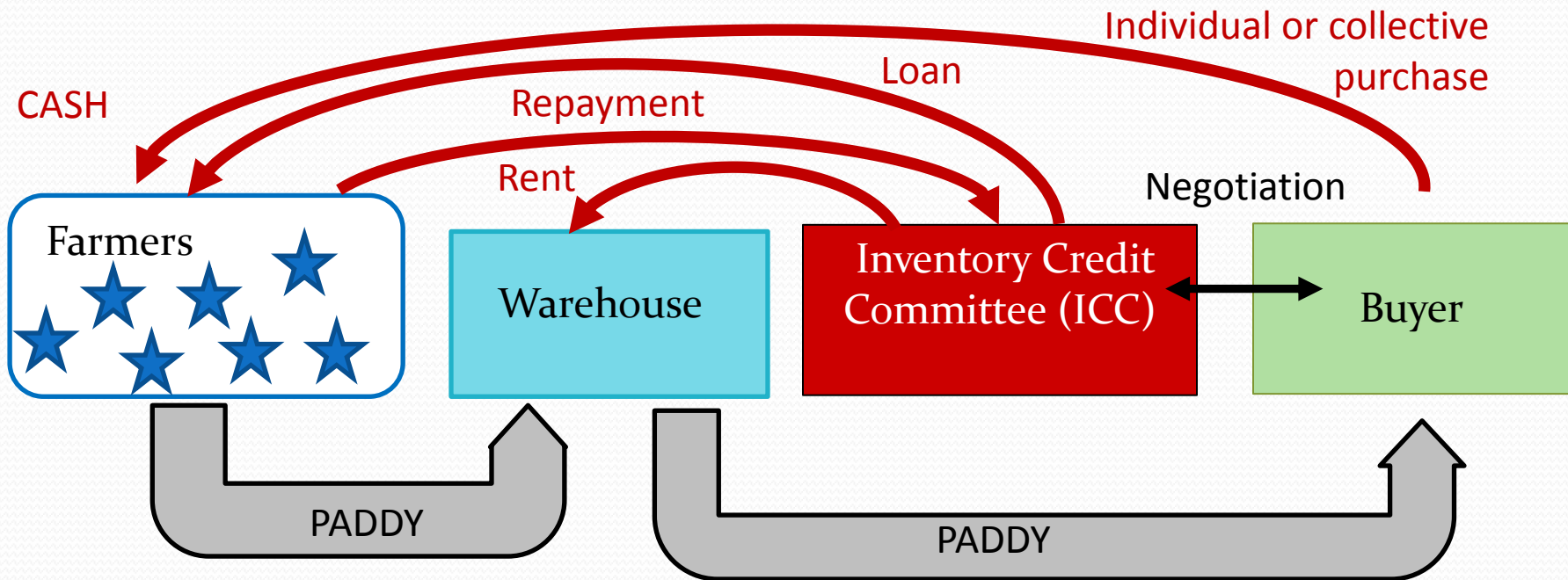
Financial service providing

- Loan
- Collective storage
- Access to collective sale

Service managed by Inventory Credit Committee (ICC)

- At cluster level, selected by Gret after assessment → signature of agreement and initial fund provision
- Committee selected by members (=farmers who have paid membership after 2 seasons)
- Committee technically supported by Gret for training (management, accounting) and monitoring

Methodology



1. Selection of farmers
2. Storage of paddy and loan disbursement (65% of stock value at this time)
3. After few months, when price is higher, committee negotiate with buyers . If farmers approve, stock is sold
4. Farmers reimburse their loan+ interest (2,5%/month) and pay for storage cost (4 or 5%) and eventually air tie bag cost

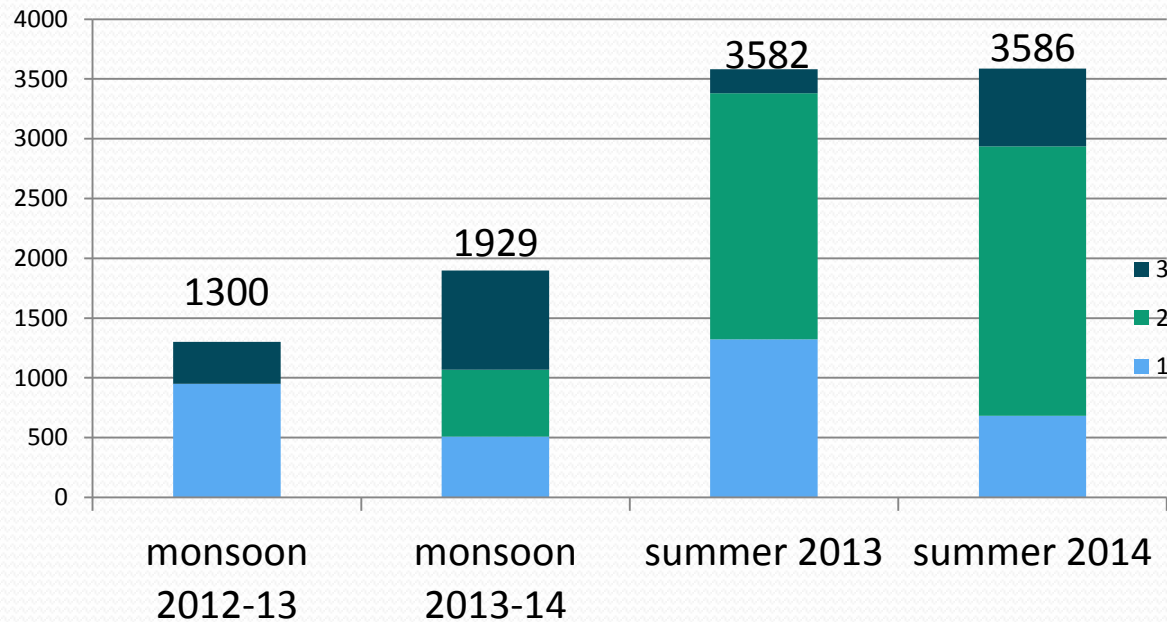
Geographical coverage and figures

3 ICC established in 3 clusters

1. Alae Cahung (4 villages)
2. Lay Ein Tan (4 villages)
3. Taung Tha Lai (5 villages)

→ Extension to new cluster
Planned for end 2014

Stored baskets



Number of farmers	20	24	42	38
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Advantages & Challenges



Advantages

- Access to safe place for storage
- Access to loan at low interest
- Awareness of farmers on weighting process (better negotiation power with buyer)
- Awareness of farmer/buyers on quality
- Improved linkage between farmers and buyers
- Develop self management, community decision making and operational capacities of villagers + improved cooperation and unity of cluster members
- Committee member develop strong negotiation/communication abilities and reinforce recording and accounting skills

Challenges

- Market price fluctuation make storage risky for some variety
- Farmers cash needs due to seasonal repayment loan strongly limits capacity of storage
- Governance/capital ownership system not yet finalized (planned for extension)

Comparison of methodology

Particulars

PFS



IC



Type of service	Financial Service	
Mode of service	Collective storage	
Objective	Give chance to farmers to get higher price by collective storage while keeping cash down payment at harvest time	
Target beneficiaries	Small farmers (under 7 acres)	Small farmers (under 10 acres)
Accumulated Achieved storage	2 seasons	4 seasons
	251 Farmers	124 Farmers
	11,464 baskets stored	10,397 baskets stored
System & Methodology	Managed by CAEDP/VDC	Managed by Users
	PFS purchase paddy from participants	IC store paddy for participants
	Storage for 5-6 months	Storage for 4-8 months
	3 varieties selected	4 varieties selected
Profit variation	200 – 1490 MMK/basket	0 – 1527 MMK/basket
Fund raising	From Storage service: 40% of net profit	From Loan service: loan interest + member fee

Comparison of profit (example 1 farmer, 50 baskets, 6 months)

		PFS			IC		
			/basket	TOTAL		/basket	TOTAL
Profit calculation	A .Harvest stock value		4700	235000		4700	235000
	B. Selling time stock value		5850	292500		5850	292500
	C. Storage cost			29298			11700
	D. Loan interest						22913
	Gross profit = B- A			57500			57500
	Net profit	Storage = B-A -C	564	28202	System = B- A -C - D	458	22887

Received by farmer	cash down at harvest time	80%		188000	65%		152750
	Payment after storage	20%		47000	35%		82250
	Net profit	60%		16921	all		22887
	TOTAL		5038	251921		5158	257887

- Storage cost for both system are really variable, this is example of 1 season.
- Storage cost (C)of PFS system is higher than IC System due to inclusion of admin & transport expenditures while it is covered by IC fund.
- Net profit by PFS is higher because in IC net profit is decreased by deduction of loan interest (D)
- Farmers receive more money with IC because he gets all profit at the end of cycle while it is shared for PFS.
- PFS is more restricting but less risky for farmer than IC.



Thank you !