SUPPLIER CREDIT MECHANISMS

Supplier Credit at a Glance:

- Farmer access to credit NES is limited to in-kind credits from input suppliers, loans from family and friends and informal lending markets.
- NES Farmers juggle loans and payments from many sources to finance operations.
- More formal supplier credit mechanisms, initially supported via input distributors or the donor community, can expand opportunities for more farmers and lead to increased input use.
- Supplier credit mechanisms can be linked to cooperatives or managed via the Agricultural Directorate.
- Linkages with agricultural advisory services, local storage facilities, inventory credit mechanisms and local service providers support expanded use of supplier credits

CHALLENGES WITH THE SUPPLY OF AGRICULTURAL INPUTS

Access to credit and financial services remains a significant challenge to farmers, herdowners and suppliers of agricultural chemicals, veterinary supplies and fodder. The absence of formal financial institutions has relegated agricultural credit to an informal system of suppler credits and loans from relatives and informal lenders.

Farmer surveys indicated many farmers and herdowners juggle multiple loans they pay off by selling livestock and agricultural produce at intervals corresponding to market conditions and payment dates. Farmers report this is necessary to meet production needs but is stress-ful given seasonal shocks and fluctuations in currency exchange.

Suppliers of agricultural inputs report they provide in-kind advances of agricultural inputs to their clients. Uniformly, these are informal credits based solely on character and payment history. Input suppliers provide in-kind advances to maintain their customer base and market share. Most report on-time payments of 80-90 percent and most delinquencies are due to verifiable disruptions. To collect loans, suppliers make calls or meet clients to demand payment. Ultimately, a client that does not repay advances on supplies is banned form future credit with a given input-dealer. For fodder and veterinary supplies, transactions are in Syrian pounds. Agrochemical dealers demand payment in US dollars, passing the exchange risk to borrowers.

Input suppliers may also receive advances on veterinary medicines, feed additives and agrochemicals to support client demand. As long as they make timely payments, their relationship with wholesalers works well. Fodder producers in particular, may borrow from a relative or other lender to increase sales and meet market demand. Lenders are repaid their costs plus a percentage of profits.

SUPPLIER CREDIT MECHANISMS

Supplier credit mechanisms in Northeast Syria remain small, ad hoc services to the preferred clients of input retailers and merchants. However, if supplier credit activities can be expanded, formalized and linked to other agricultural development services, they can become an important element of expanding access to credit for larger numbers of farmers.

In the absence of formal banking or other organized funding mechanisms, it will be necessary for an external source of capital to initiate expansion of supplier credits. One way to increase supplier credits is for distributors and manufacturers to increase the volume of product they will advance to a merchant, to accommodate increased supplier credits. A second mechanism will require stimulus from the donor/NGO community in the form of additional capital or guarantees that enable dealers to increase the volume of product and customers they serve.

In either case, specific of in-kind loan products will need to be developed, but in principle, any lender or financier supporting expanded supplier credit would participate equitably in the profits on increases from the program.

To expand ad hoc services, retail dealers will require training in the development of supplier credits, doing simple credit analysis, managing a larger volume of loan payments and enforcing a more formalized loan contract.

LINKING SUPPLIER CREDIT TO AGRICULTURAL EXTENSION SERVICES

Surveys and interviews with farmers, agrochemical and veterinary input retailers identified the need for farmers to use inputs more efficiently, safely and effectively. The deployment of integrated pest management packages and strengthening agricultural advisory and agricultural service providers is a crucial step to improve supplier credit mechanisms. Farmers purchasing inputs as loans must use those products to increase yield and quality of their crops and livestock. This will depend upon improved extension agricultural advisory services and farmer training.

- **Linkages with cooperatives:** Cooperatives members have interests in strengthening the capacity of members. By linking expanded supplier credits to the production support, irrigation and other services a coop can provide, the risks of expanding credit are reduced
- **Coordination with Agricultural Directorate services**: Agricultural directorates provide limited subsidies to registered farmers. As Local Authority services expand, linkage to increased access to finance may also be strengthened.
- **Pilot approaches through retail dealers:** In Al-Hasakeh especially, there are retail dealers in agrochemicals, fodder and veterinary supplies that have linkages to distributors and potential clients. By piloting expanded supplier credit mechanisms, the demand for increased credit and specific mechanisms that will work in the NES context can be developed

FORMALIZING SUPPLIER CREDITS

Developing a more deliberate and formal approach to supplier credit is an important step in growing a nascent credit system that, until now, functions on an ad hoc basis and relies upon the relationships between the retail outlet and their suppliers and NES farmers and herdsmen. Because Al-Hasakeh has a larger agricultural community and output, it is more likely that expanded supplier credit approaches will work there. There are several keys to making the system work:

- **Develop specific loan products** a appropriate to the region that are equitable and create opportunity for farmers/breeders
- **Develop contracts and legal mechanisms** required to enforce contracts and manage risk both to lender and borrower
- **Test loan products** in target markets and linking expanded supplier credit to existing farmer organizations
- **Link supplier credit to an inventory credit mechanism**. Invest in good quality storage facilities owned by cooperatives where farmers can store grain rather than sell to traders at harvest. With this resource, farmers could have a source of collateral that will increase their capacity to take advance purchase of inputs and reduce the risks of retailers.
- **Tie supplier credits to agricultural advisory services** or reputable agricultural service providers to ensure agricultural inputs are used safely and effectively

MANAGING SUPPLIER CREDIT RISKS

Supplier credit mechanisms will involve risk-taking by farmers, retailers and wholesalers. Climate change, rainfall patterns, conflict, fires, livestock diseases all have the potential to reduce yield or cause catastrophic damage to both crops and livestock herds. When the returns to agricultural input use are not realized, any emerging system of supplier credit is jeopardized.

Supplier credits must deploy high quality inputs that are formulated properly, have not been adulterated and have been manufactured by reputable companies.

Foreign currency exchange rates are already a challenge for supplier credits. Fluctuating exchange rates create challenges with pricing and repayments.

Improved inputs must be linked to higher quality seed. Development of supplier credit mechanisms should be established in coordination with activities that improve seed and improved livestock husbandry to ensure the best return on in vestment.

Initial donor support may be required to create opportunities for interested retailers and farmers to develop systems and pilot mechanisms for expanding supplier credits.