

ON THE MOVE: MODERN ACCOUNTING SYSTEM MOVES SUNFLOWER PROCESSORS TOWARDS GATEWAY FINANCE

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Sector: Agriculture



This case shows how the Central Zone Sunflower Oilseeds Processors Association (CEZOSOPA) benefits from adopting a modern computerised financial accounting system. It also indicates that the benefits are expected to create market opportunity for sunflower producer groups. However, the case focuses on how the improved accounting system positions CEZOSOPA to stand a better chance to access

CHALLENGE

SNV contracted in 2005, a local consultant to undertake an oilseed subsector study in Dodoma Region, Central Tanzania. The consultant recommended developing a sesame oil value chain. For a successful development of this chain it was suggested among others to:

- ✓ Increase business and technical capacity of smallholder farmers,
- ✓ Establish farmers' groups,
- ✓ Introduce contract farming schemes and commercial seed stock supply,
- ✓ Enhance access to financial services,
- ✓ Increasing value addition,
- ✓ Influence government trade policies.

In support of the development of the chain, it was suggested that SNV should focus its interventions on coordination of chain actors and collaboration between key stakeholders, capacity building, and facilitating financial linkages.

One year after initiating the process, the Rural Livelihoods Development Company (RLDC) and Concern Worldwide sponsored an Oilseeds Multi-Stakeholder Forum (OMSF), in collaboration with SNV. This forum identified sunflower as a more interesting value chain option, since the area under cultivation is bigger than the area under sesame cultivation. The potential for greater outreach, combined with logistical considerations and industry interviews with lead buyers, guided the decision of the SNV Portfolio Team to shift its interventions and support the development of the sunflower oil value chain. The OMSF also highlighted the need to strengthen public-private partnerships in the sector through the establishment of associations and to address the limited access to finance due to poor business practices.

CLIENTS

The Central Zone Sunflower Oilseeds Processor Association (CEZOSOPA) is an association of ten small sunflower processors in the central corridor of Tanzania based in Dodoma. They established through a consultative process that started in 2005, an agreement with SNV for capacity strengthening of the organization in 2008. One of the key issues identified during the subsector study, was the limited access to finance for sunflower processors and producers. SNV chose to work with CEZOSOPA, because they are strategically positioned to link up with oilseeds producer groups to buy their oilseeds. This is one of the preconditions to develop a reliable market.

Due to the seasonal availability of sunflower oilseeds, processors have to procure oilseeds during harvesting season. Volumes to be procured are large and the harvesting season is relatively short (hardly three months). Given this phenomenon, most of CEZOSOPA members have not been able to procure adequate quantities of oilseeds to meet their processing capacities. (Ninety percent of CEZOSOPA members are operating at less than 30% of their capacity.) This is mainly caused by financial constraints to purchase adequate volumes of sunflower seeds for processing. In order to operate in full capacity, the processors need additional working capital for procurement of large oilseeds volumes during harvesting season.

METHOD / SNV INTERVENTION

Accounting challenges

During the 2009 planning session, resulting in a client agreement, SNV was informed on the visit of Wood Family Trust (WFT) in March the same year. The Wood Family Trust seeks to support growing SMEs through a blend of grant, loan, equity and capacity support depending on the identified constraint. WFT identified the main reason for missed financing opportunities by CEZOSOPA as the lack of adhering to general accepted accounting principles.

Acknowledging this weakness and realizing that financial accounting had to be strengthened, CEZOSOPA requested assistance from SNV to improve their financial accounting systems. SNV outsourced the required specialized service to a local capacity builder (CPL) to build the capacity of the members to keep and manage proper financial records. The LCB was engaged and all ten members of CEZOSOPA were trained on how to keep records properly using accounting software specially designed for their processing business. This exercise was implemented between September and November 2009.

Based on a more detailed capacity assessment of CEZOSOPA, bottlenecks and constraints were identified, which were discussed with CEZOSOPA and transformed in an intervention plan.

Computer Promotion Ltd, the local capacity builder was selected to implement the plan and build the financial accounting capacity. The intervention focussed on two strategies. The first one, a training session to explain the basic principles and explain the software to be used. The second strategy entailed an on the job coaching/ training session with the individual members of CEZOSOPA to apply the accounting system in each business and to address specific requirements. The training was so welcomed and appreciated that the trainees bought seven desktop computers brought by the local capacity builder for training on the spot.



OUTCOME

Accessing financial opportunities

Forty percent of CEZOSOPA members are now capable of preparing, keeping and managing financial database by using a modern computerized financial accounting system (Quick Books). Enabling these members to assess their financial performance and produce adequate and accurate financial reports to respond to needs of various users has been an tremendous step forward. These reports do not benefit only their staff, but also banks, TRA, etc. Having improved their business management is very crucial for any potential investor to be attracted and convinced to invest in the business or lend money.

A new financing opportunity (SEAF) has presented itself. SEAF stands for Small Enterprise Assistance Fund. It seeks to provide growth capital and operational support to businesses in emerging markets and those underserved by traditional sources of capital.

SEAF selectively makes structured debt and equity investments in locally owned enterprises with high growth potential. SNV corporate has agreed officially to collaborate with SEAF as a facilitator to assess potential SMEs where SEAF can put their money in as equity investors. Currently five members of CEZOSOPA have completed SEAF financing application forms in an attempt to capture the opportunity. With their modern financial accounting system, they are now potentially credible for accessing finance from various investment financing opportunities.

Next to building the capacity of CEZOSOPA, there are simultaneous efforts to strengthen the capacity of ten producer groups, which is also outsourced to a local capacity builder. The producer groups are currently being trained in business skills. Next year, the focus will be on training in good sunflower farming practices and Market Intelligence.

IMPACT

CEZOSOPA's ability to access finance will consequently increase the number of smallholder sunflower producers since more produce can be purchased. (estimated 600 farmers initially and growing). This will be an opportunity for the farmers to sell more oilseeds to the processors and an incentive to develop a more reliable and stronger market. If this growing trend is continued, it will result in more production, and thus income generation and employment/ employability at farmer level.

LESSONS LEARNED

The following challenges can be identified, either in the political/ economic or local context.

- ✓ Imported crude edible oils, with an import tariff rate of zero, make the industry less competitive in the domestic market.
- ✓ Low oil content of oilseeds due to predominant use of local seed varieties by farmers.
- ✓ Acquisition of land title deeds for obtaining official ownership is a long, winding and bureaucratic process in Dodoma. This hinders the use of land property as collateral in financial transactions.
- ✓ Oilseeds procurement logistics are relatively expensive due to lack of established buying centres in the sunflower farming areas.

Lessons that can be distilled from the development of stronger financial capabilities of CEZOSOPA and its members are:

- ✓ Convincing an outside investor to invest in ones business requires the business to be promising enough in terms of opportunity, management and strategic partners, risks and reward factors as well as its ownership structure.
- ✓ It only makes sense to build the capacity of processors, if producers are also capacitated and linked to the processors to guarantee a market for their produce.

Next steps identified to further develop the value chain:

**STANDARD
DATA**

- ✓ Support CEZOSOPA to develop a strategic plan which focusses on improving its performance.
- ✓ To facilitate Round table meeting with other potential actors to increase and strengthen the association and its members.
- ✓ To support TEOSA to register the association and develop a strategy to enhance public policy management.
- ✓ Link producers to sources of improved seed varieties.
- ✓ Linking processors to alternative financial institutions.
- ✓ Support processors to organize a collective oilseeds procurement system from producers groups.

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