



THE ROLE OF FINANCING IN THE PRODUCTION PROCESS IN THE RICE INDUSTRY

Importance of the Guyana **Rice Industry**

- The Rice Industry is the one of the pillars of the Guyanese Economy.
- This Industry employs over 120,000 persons, directly and indirectly.
- The potential to earn over US\$300M annually from exports.

Importance of the Guyana **Rice Industry – cont'd**

- The sale of paddy generates over G\$50 billion annually.
- This income contributes significantly to rural development and poverty alleviation.
- Many producers are small subsistence farmers who depend solely on rice farming for a livelihood.

Importance of the **Guyana Rice Industry – cont'd**

- Also contributes significantly to the sustenance of businesses in the Services Sector – Transportation, Shipping, Banking, Insurance, etc.
- Guyana is the only country in the world that exports as much as 75% of the rice produced.
- The lucrative prices obtained during the period 1995 – 1997 and 2008 – 2014 contributed significantly to the growth of the industry.
 - Up-grade of equipment etc.

Quantum of Finance needed (nationally) for the Rice Industry as working capital for one (1) year

Rice Producers

	Hectares Sown	Acres Sown (2.471/1)	Avg. Cost of Inputs @ \$80,000/acre
Spring Crop 2014	90,793.3	224,350	G\$17.948 B
Autumn Crop 2014	94,596.7	233,749	G\$18.700 B
<u>TOTAL</u>	<u>185,390</u>	<u>458,099</u>	<u>G36.648 B</u>

Rice Millers

	Paddy Production Bags	Average Price Per Bag	Total Cost to purchase Paddy
Spring Crop 2014	7,583,229	3,000	\$22,749,687,000
Autumn Crop 2014	7,802,090	2,900	\$22,626,061,000
<u>TOTAL</u>	<u>15,385,319</u>	-	<u>\$45,375,748,000</u>

Rice Miller – Cost of Production – 5,000 metric Tonnes **Rice – (Base Year 2014)**

<u>Income:</u>		<u>G\$</u>
Sale of Rice - 5,000 metric tonnes at US\$430/tonne US\$1/G\$205	\$440,750,000	
Broken Rice - 700 metric tonnes at US\$250/tonne US\$1/G\$205	\$35,875,000	
Rice Bran 12,000 bags @ \$500 per bag	\$6,000,000	<u>\$482,625,000</u>
<u>Expenses</u>		<u>G\$</u>
Purchase of paddy 120,000 bags at \$3,000/bag	\$360,000,000	
General/Milling expenses (before financing)	\$36,000,000	
Financing – Interest 14% and Bank Charges – 6 months (1 crop) Loan for \$360,000,000 (100% cost of paddy)	\$29,200,000	
	<u>\$425,200,000</u>	<u>\$425,200,000</u>
Net Profit		<u>\$57,425,000</u>

The above cost of production analysis confirms that providing rice millers can obtain the requisite export markets that their rice milling operations can operate at a profit after debt servicing and with a reasonable price paid to rice producers.

Rice Producer – Cost of Production – 100 Acres (Base year 2014)

Income:

Sale of Paddy – 100 acres @ 30 bag/acre @\$3,000 per bag = = \$9,000,000

Expense:

	-	(Per Acre)	
Land Preparation	-	\$16,000	
Fertilizers & Chemicals	-	\$26,043	
Labour	-	\$ 6,700	
Transportation	-	\$ 4,500	
Machinery Cost	-	\$20,000	
Miscellaneous	-	<u>\$ 1,757</u>	
Production cost before Financing	-	\$75,000	
* Financing Cost	-	<u>\$ 5,500</u>	
Total Cost after Financing	-	<u>\$80,500</u>	= <u>\$8,050,000</u>
<u>Net Profit</u>			= <u>\$ 950,000</u>

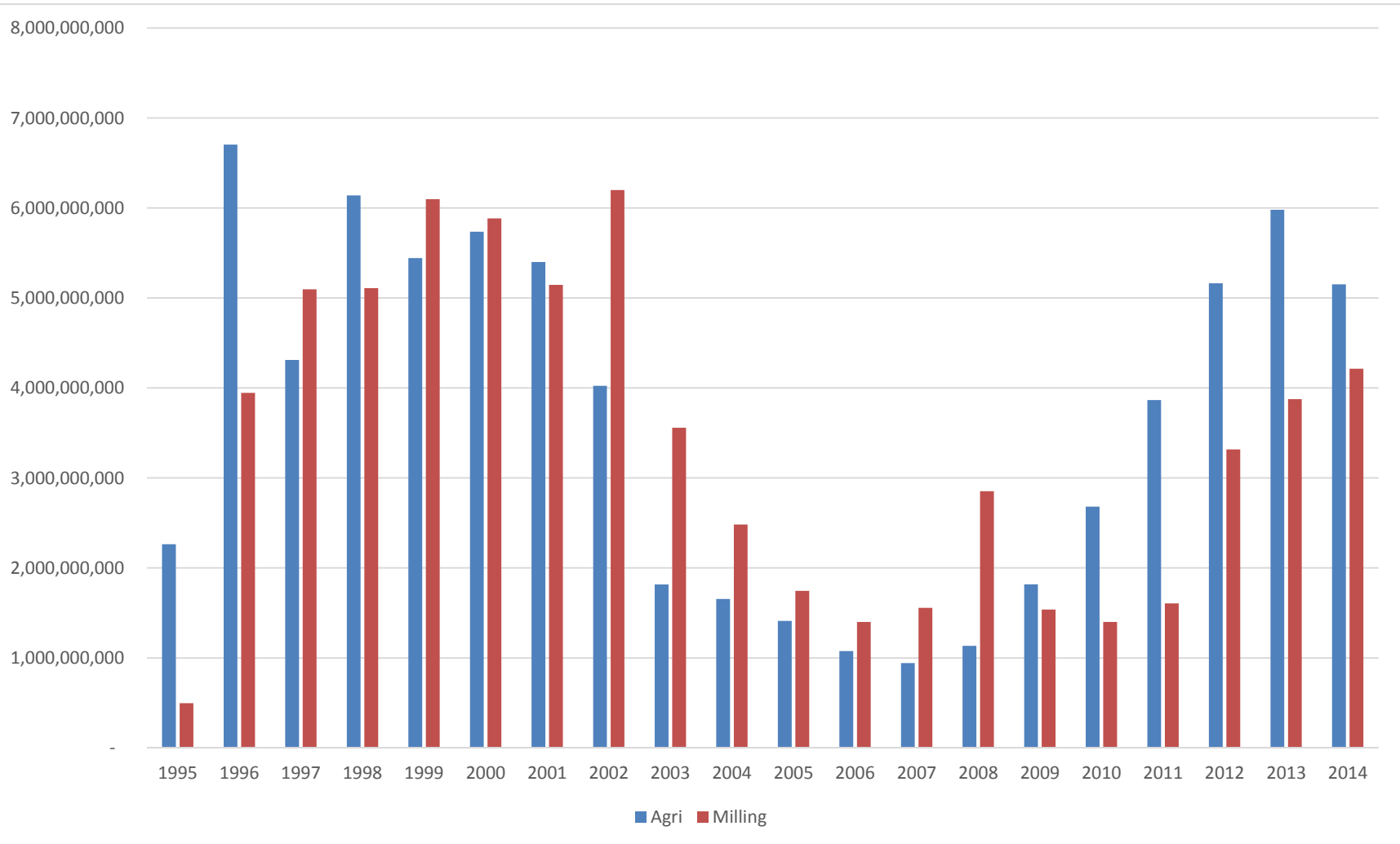
* Financing Costs – Loan of \$7.5M for 6 months (1 crop) at 14% interest per annum

The rice producers once operating at an average level of efficiency (30 bags/acres) can also operate at a level of profitability once he is paid a reasonable price (\$3,000 per bag for paddy).

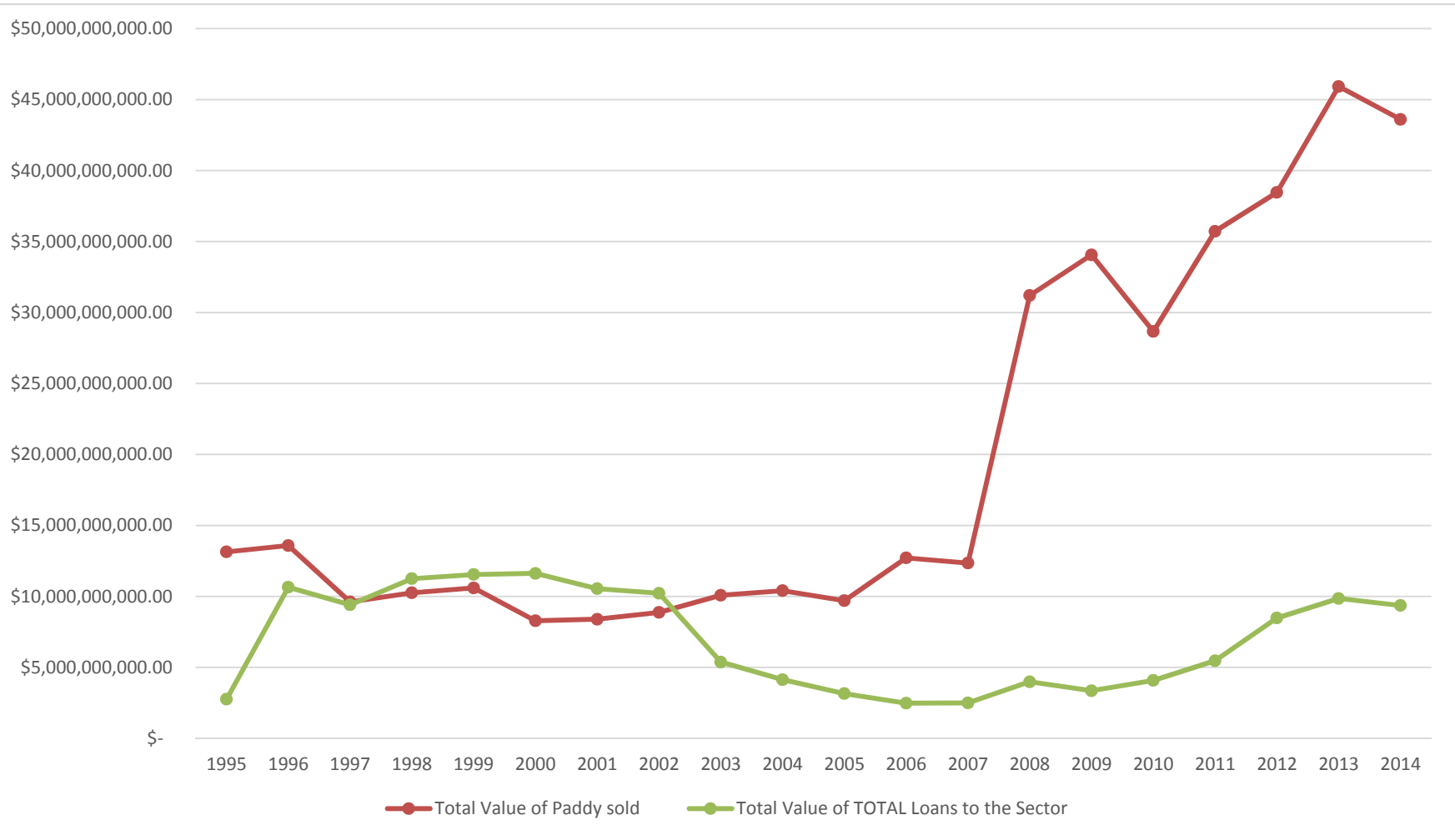
Financiers in the Rice Industry

- The quantum of finance needed to meet the full working capital requirement for the year 2014 for the rice industry could be approximated to G\$36.6B for the rice producers and G\$45.4B for the rice millers.
- The graphs for 'Agri. vs Milling Loans to the Sector' illustrates that the amount of Agriculture and milling loans provided to the rice industry for the year 2014 was G\$6.2B and G\$4.2B which is a small percentage of the Credit needs of the industry.
- It is however pertinent to state that some amount of financing is provided by the rice millers to the rice producers primarily in the form of fertilizers and fuel.

Agri. vs Milling Loans to the Sector



Value of Paddy Production vs Loans to the Rice Industry



Value Chain Concept

- Using the Value Chain Concept to the Rice Industry allows for the understanding of the role of the different actors in the production chain, how they are linked and how they each add value to the finished product and what is required by each actor to efficiently add value to the product.

Sources of Finance

- Sources of finance for the Rice Industry:
 - a) Self-Finance
 - b) Traders of Inputs – sometimes these are millers
 - c) Commercial Banks

Types of Financing Available

- Finance is the grease that makes the rice machinery run.
- “Examining the potential for value chain finance involves a holistic approach to analyzing the chain, those working in it and their linkages.”
- Types of financing available to the Rice Industry:
 - a) **Product Financing** – crop loans, overdrafts to millers
 - b) **Receivables Financing** – not much done
 - c) **Asset Collateralisation Lending** – capital works.
- If finance is insufficient or inadequate the machinery may grind to a halt.

Sources of Finance (cont'd)

- With total value of paddy produced in 2014 of approximately \$46.0B, total lending to the industry was approximately \$9.4B from the Commercial Banks. The funding gap in 2014 was therefore \$36.6B.
- How was this funding gap covered?
 - a) Government Intervention
 - b) Self-finance

Why is there a Funding Gap?

- a) Perception of high interest rate
- b) Minimized finance cost
- c) Maximized profit/reduce loss
- d) Inability to borrow

Was the Funding Gap Adequately Covered?

- Consequences of the uncovered funding gap:-
 1. Delay in payment to farmers
 - a) Economic
 - b) Social
 - c) Political

Disadvantages of Lack of Finance/Delayed Payments

- | | |
|-----------------------|---|
| Rice Producers | <ul style="list-style-type: none">- Unable to procure all inputs for rice production- Unable to complete husbandry practices in the timely manner- Low yields- Reduction in income/profitability |
| Rice Millers | <ul style="list-style-type: none">- Decrease in quality and quantity of paddy to be purchased- Lower quality of rice milled- Reduction in income/profitability |

Current Legislation/Rice Factory Act.

- A. Rice Factories (Amendment) Act 2009
Second Schedule Conditions of Licence:
- (h) The licensee's total debt owed to an individual producers shall not at any given time, exceed 5 percent of the value of the paddy supplied by the producer, unless-

Proposed Additional Legislation

- 2010 Bill was presented to Parliament
- One reading only
- Two parts:
 - a. All New rice millers must established a security deposit equal to 25% of the proposed annual turn-over
 - b. All millers that are in default for payment in the past two years must set up a similar security Deposit.

Recommendations/Conclusion

- **For Rice Millers** ~ Introduction of a negotiable financial instrument for payment to rice producer, rather than a delayed system of payments. This instrument can be discounted/en-cashed at the Commercial banks.
- **For Bankers** ~ Acceptance of this negotiable financial instrument as part of its banking service.
- **For Government/Private Sector** ~ Establishment of an Investment Bank.
- **For Government** ~ Concessions to the Commercial Banks to stimulate growth in the Rice Industry

THANK

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