



Business Innovation for Resilient and Efficient Farming

 Diner's Group Limited

Increasing the use of multi-stage rice mills to improve rice quality in Uganda, benefiting farmers and consumers

Context

A fast growing cash crop with real potential

In the past decade, rice has become a staple of household diets in Uganda and is now one of the country's fastest growing cash crops. However, discerning consumer tastes sees higher quality imported rice frequently selected over home-grown varieties.

While there has been a rice industry in Uganda since the 1970s, it is not yet producing the quality and quantity

needed to meet the growing domestic demand. The widespread use of single-stage rather than multi-stage mills is a contributing factor to this under-performance.

As a business with multi-stage rice milling capabilities, Diner's Group is seeking to secure a reliable source of paddy for milling. The rice will then be packaged and distributed on the domestic market.

Diner's Group Ltd

Diner's Group Limited (DGL) offers multi-stage milling services to Ugandan rice farmers. Located near a number of rice-growing districts, the company receives and mills paddy and distributes packaged rice under the brand 'Diner's Rice'.

Despite the comparative advantage of its location, DGL is falling short of its capacity to mill and bag 30 MT of rice per day. It is currently milling 8-10 MT per day during peak harvest periods and 1-2 MT per day during the off-season.

Multi-stage milling produces better rice in higher qualities (around 10% more) than single-stage milled rice. Due to the better quality, multi-stage milled rice sells for between USD 27 and USD 54 more per 100kg bag.

Despite the increased income offered through multi-stage milling, the ease of access and financial credit options offered to farmers by village-based single stage mills means they can be reluctant to switch.

DGL has begun work on a range of strategies to build a greater farmer base, including links with a formal finance service through government-owned credit provider, Microfinance Support Centre Ltd.

Farmers



With growing domestic demand, rice is a good cash crop for Ugandan farmers. However, yields can be low and quality poor due to limited access to clean seed, poor water management and cultivation practices. Limited use of fertilisers and a reliance on single-stage rather than multi-stage milling also affect yields.

Farmers typically transport and sell their paddy to single-stage mills located in their villages. These mills are often rudimentary, resulting in lower volumes of poor quality rice that can appear dirty and contains stones.

Despite the poor quality and volume losses, farmers continue to use these village-based mills as they are close to home, which keeps transport costs low. Farmers also have long-standing credit relationships with the mill owners that can be difficult to break.

Challenges

Business offerings that build farmer confidence

Diner's Group Ltd



DGL faces a number of challenges as it works to build a greater farmer base from which to purchase paddy for milling. The company must provide a service over and above what farmers receive from village-based single-stage mills. This service must be multi-faceted, reliable and underpinned by relationships with farmers.

While DGL is located near to rice-growing districts, farmers must still find a way to transport paddy to DGL to be milled, which can be expensive.

Access to credit is often key to the relationship between farmers and village-based single-stage mills. While credit through the Microfinance Support Centre is provided at a significantly lower interest rate than village-based mills (1% per month compared to 20% per month), uptake remains low due to an onerous application process and a less certain chance of success.

DGL must also find a way to build relationships with farmers. This will be critical to building farmers' understanding of the benefits of multi-stage milled rice and the support services offered by DGL. It will also be important to instil the confidence farmers need to break away from village-based milling providers.

Farmers

Many rice farmers secure credit from their local single-stage mill prior to planting, and then pay the loan back with a portion of the harvested paddy they bring to the mill for processing.

This debt cycle is difficult to break as high interest rates on loans combined with less-than-optimum yields and inefficient milling processes limit the income rice farmers make. The need for cash becomes urgent each planting season and the cycle repeats.

For many farmers, the process of accessing credit through an institution such as the Microfinance Support Centre is daunting. The documentation needed to support an application and the longer approvals timeframes do not align with the often urgent need for cash, particularly prior to planting.

Transporting paddy to a multi-stage mill, even one such as DGL which is located near rice-growing districts, can be seen by farmers as a prohibitive and unnecessary cost. Particularly when they can have their paddy milled so close to home.

Despite the constant cycle of debt and poor quality milling of single-stage mills, the combination of easy access to finance and cheaper transport costs can outweigh the better quality, higher volumes of rice offered by multi-stage mills such as DGL.

Solutions

Stronger business-farmer connections and tailored support



If the quality of Ugandan rice is to improve, boosting income for farmers and providing consumers with locally produced options, more rice needs to be processed in multi-stage mills. DGL has partnered with REACH-Uganda to improve its service offerings and increase its farmer base so that it can source more paddy for multi-stage milling, packaging and distribution.



REACH-Uganda will support DGL to better connect with farmers. Two field extension workers have been recruited to engage with farmer groups and advocate for multi-stage milling. A further two field extension workers will be recruited in 2020 to meet the expected increase in farmer groups supplying paddy. The extension workers will link farmer groups to DGL's paddy collection and credit services and offer additional support such as information on improved cultivation practices. To ensure extension workers can travel out to farmer groups, they will each be provided with a motorcycle.



To tackle the costs associated with transporting paddy to DGL, a truck has been purchased through the partnership to support the paddy collection service. Farmers contact DGL once their paddy is ready for collection. This process reduces the farmers' transport costs by 50% from USD 1.30 to USD 0.68 per 100 kg bag.



REACH-Uganda and DGL will put in place measures to support farmer groups to access credit through the Microfinance Support Centre. DGL will provide letters of recommendation or verbal assurances to the Microfinance Support Centre on behalf of farmer groups wanting to supply paddy. They will also provide ongoing support to farmer groups and provide advice on good practice as needed.



In a separate partnership, REACH-Uganda will work with the Microfinance Support Centre to ensure they have the resources and capacity needed for more intensive engagement with farmer groups wishing to access finance.



Finally, to build consumer awareness and confidence in DGL's Diner's Rice brand, packaging will be re-designed so that consumers can immediately recognise it as high quality, multi-stage milled rice.



Results

Achieved and expected



Program investment

REACH-Uganda
USD 43,325



Private investment to be leveraged

Diner's Group Ltd
USD 35,525



Value of increased sales at DGL

Value of additional sales for DGL by 2020
USD 1,039,536



Total additional income for farmers

Value of additional sales for farmers by 2020
USD 237,312



DGL recruited two field extension worker in 2019, with a further two to be recruited in 2020.



727 farmers from 48 farmer groups, now supplying paddy to DGL, with this expected to increase to 1,267 farmers from 84 farmer groups by 2021.



DGL purchased a truck in 2019 which will be used to collect paddy from farmer groups.



18 new full-time jobs to be created.



In 2019, DGL milled and bagged an average 2.4 MT of rice per day. This is expected to increase to 4.4 MT by 2021.

