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Financing African Agriculture: Perspective from the Private Sector

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Executive Summary

There has been significant increase in active lending to commercial African agriculture among the commercial banks and Micro Finance Institutions. Unfortunately the reach among the farmers remains far too short for significant impact on African agriculture. I believe that agricultural finance is only one of the key drivers required.

Most of the finance institutions are using value chain approaches to ease the access to finance and there has been a marked increase in competition among the finance institutions. This is great for the consumer but not positive for the transformation of agriculture in that there is limited movement towards the segment that needs access to finance the most, the 'Missing Middle' of any African value chain. By conservative estimates, Africa has at least 120 million smallholder farmers making independent farming decisions on a daily basis and the majority is linked into non-integrated value chains and carries the bulk of the risk in the value chain.

Similar to a food pyramid, where a few are at the top and the majority at the bottom, so too is the array of financial institutions. For significant transformation we have to reach the majority of the African smallholder farmers in value chains that directly relate to the smallholder. For example, a commercial bank serving a well-structured coffee value chain (high end) may not be able to serve a small aggregator buying from 50 small scale coffee farmers within the same chain value. The picture is worse in the non-integrated value chains.

Bearing in mind that the African agricultural landscape will continue to evolve and, as investments increase, so too will the value of assets in agriculture and the markets in which these assets are traded. In time, the collateral that we find missing today will gradually reduce. Overcoming the lack of adequate and reliable collateral has seen the growth in value-chain-based finance but this value is to a large extent determined by the policy environment within a country. For example, the local market price of soya bean is determined by supply and demand on the local market. In cases of overproduction the price on the local market will drop unless the market can export the surplus. However, in some cases governments impose export bans to ensure food security and as a result the price on the local market drops and the value-based finance is put at risk with limited recourse. Such situations are limiting the rate at which the financiers can expand this approach. Greater stability and better coordination of agriculture and agricultural trade related policy will lead to more stable and predictable value chains. This will ease the access to finance quicker than processes to give the small scale farmer formal title to land.

I believe that while we should expect the commercial banks and other financial institutions to play a greater role, there is a need for the governments, non-governmental organisations and international development organisations to understand the agricultural markets and coordinate their development efforts within selected value chains with a clear understanding that there are multiple value chains. These are not necessarily value chains of agricultural produce and inputs but could also be financial and health services, public administration, government policy, etc..

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