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**Improving Smallholder Farmers' Access to Finance in SSA:
Challenges and Opportunities**

By

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Improving Smallholder Farmers' Access to Finance in SSA: Challenges and Opportunities



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- 1. Context**
- 2. Challenges in accessing finance for smallholder farmers**
- 3. Emerging financing opportunities for smallholder farmers**
- 4. Warehouse receipt systems and contract farming**
- 5. Conclusion**



1- Context

Agriculture remains the backbone of the economic growth in SSA

- 30% of GDP; 60% of employment

Rapid population growth across the continent

Sustainable increase in the agricultural productivity is key to ensure food security and generate income

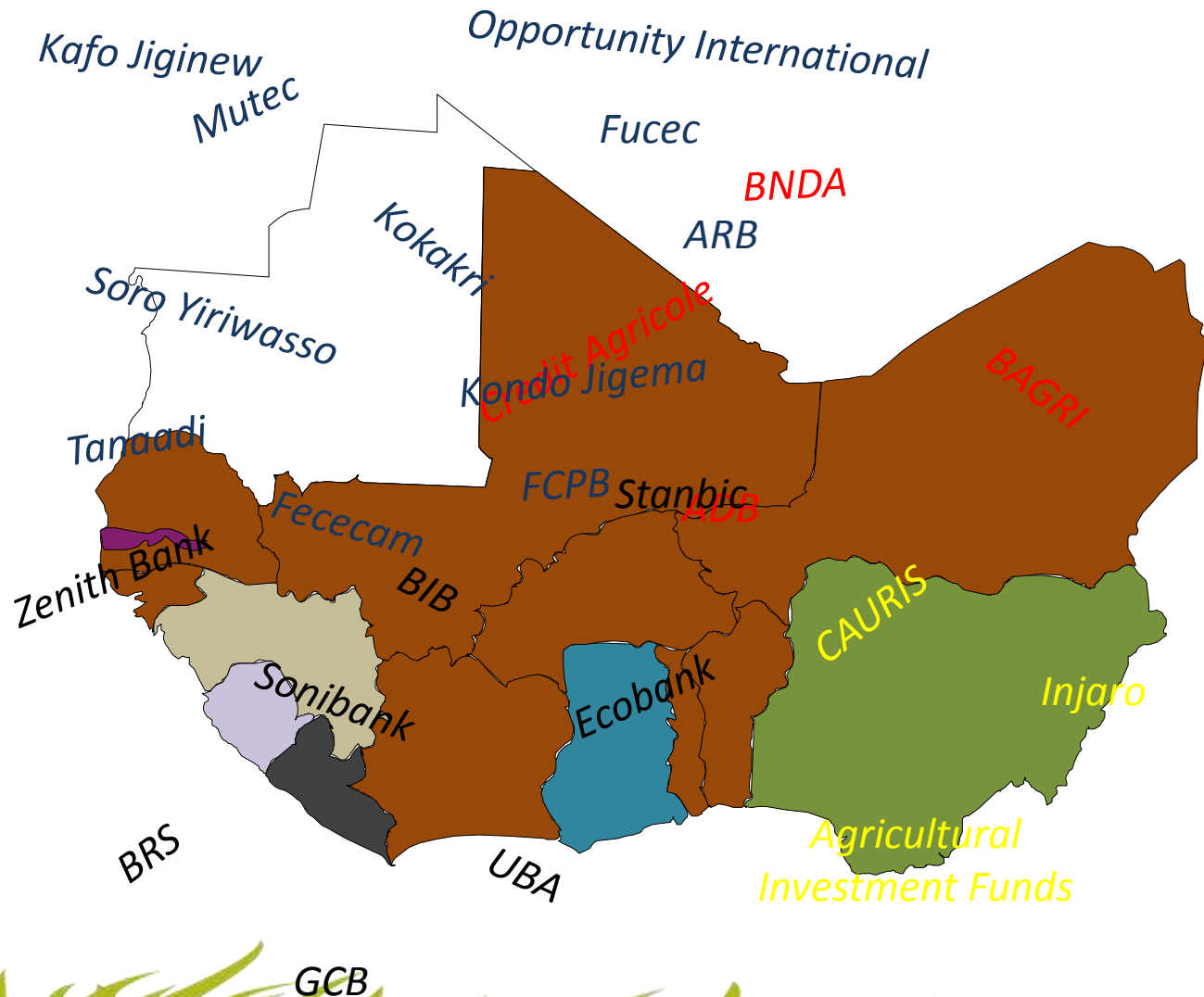
Since records began, cereal grain yields increased by 50% between 2005 and 2013, still a miserable 1.5 T/ha. (Sanchez, 2015)

- Inability of farmers to access high quality seeds and fertilizers
- lack of improved storage system and the limited processing
- Lack of adequate short, medium and long term financing
- Price volatility of commodities

Access to credit is a key lever in agricultural transformation



2. Challenges in accessing finance for farmers



2. Challenges in accessing finance for farmers (Cont'd)

- Price / climatic risks
- Economic coordination risks
- High cost to serve dispersed farmers
- Absence of acceptable collateral
- Unstructured agric. value chains



- Low financing for agriculture (3% of total Com. Loan)
- High interest rate
- No suitable financial products

- **Reduction of risks (Insurance, structured value chains, etc.)**
- **Increase of the profitability of small-scale agriculture through commercialization**



3. Emerging financing opportunities for farmers

- Availability and commercialization of weather index-based insurance for agriculture
- Government (and dvpt. partners) set up credit guarantee to leverage financing from banks; subsidy for agricultural insurance premium, etc. : AGRA, IFAD, GoK, NIRSAL in Nigeria
- Development of mobile technologies for agriculture and financing
- **Development of structured trading systems such as Warehouse receipt system (WRS) and commodity exchanges**
- **Development of innovative contract farming systems**



4- Practical cases of WRS and contract farming



Warehouse Receipt Systems (WRS)

The Warehouse Receipts are documents issued by warehouse operators as evidence that specified commodities, of stated quantity and quality, have been deposited at particular locations by named depositors. Coulter and Onumah (2001)

Arguments in favor of WR

collateral to facilitate the access to credit

Reduction of transaction costs

Improvement of the quality of produce

It improves the trade through the development of commodity exchange

Success factors

Existence of price risks

Availability of independent warehouse operators and appropriate storage facilities

Existence of quality standards known by actors

The confidence and involvement of financial institutions

The confidence of all actors in a legal and regulatory framework

Existence of reliable market information system

Less Government direct intervention in the market

Ghana Grains Council WRS in Ghana



- Establishment of the Ghana Grains Council (GGC) with 77 members
- Private owned and managed warehouses (500 – 3,000 MT) but certified by the GGC
- Commodities: maize, soybean, rice
- Paper based WR
- Community warehouses (50 – 80 MT)



Results: 2012 – to date

- 8 certified warehouses
- 18 community warehouses
- Creation of 96 WR equivalent 29,500 MT of grains and traded through system mainly for aggregators
- \$ 1,300,000 leveraged by grain depositors using 7,000 MT graded grain as collateral

Way forward

- E-WRS
- Market information system

Warrantage / Crédit – stockage / Inventory credit system

FBO's warehouse



Deposit of crop

Issuance of
"receipt"

Farmer

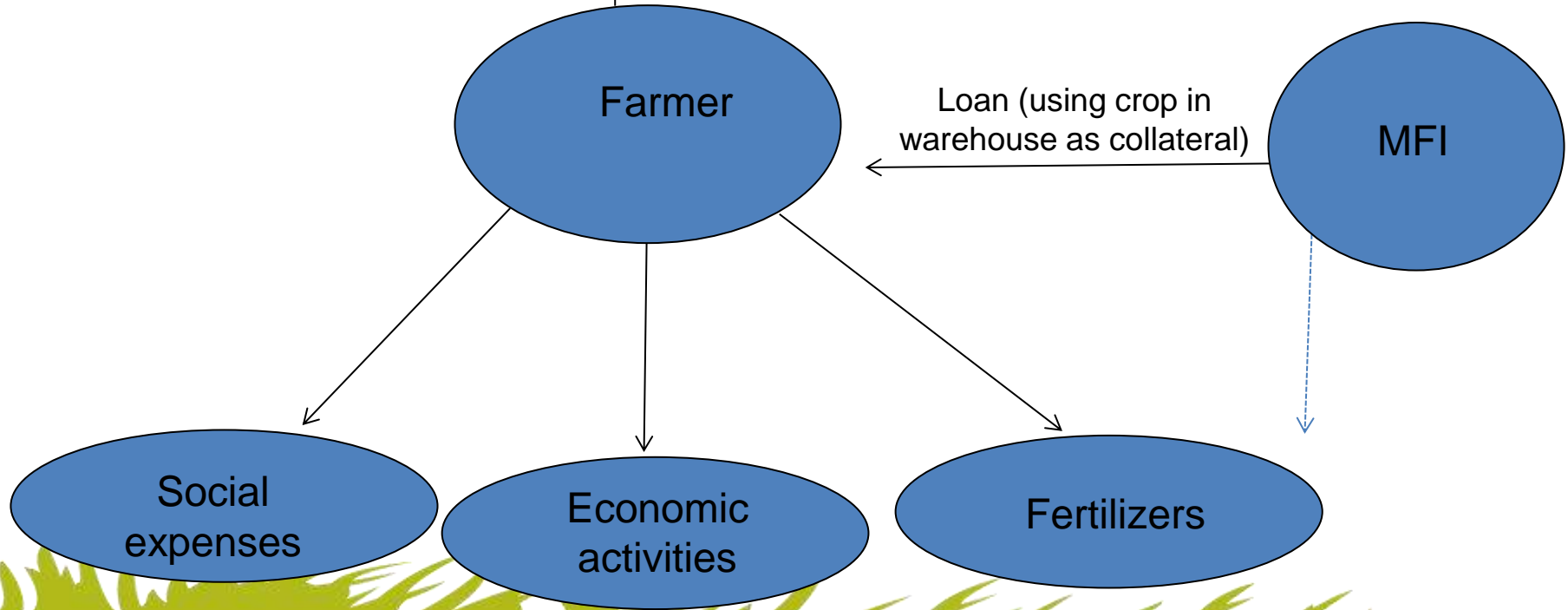
Loan (using crop in
warehouse as collateral)

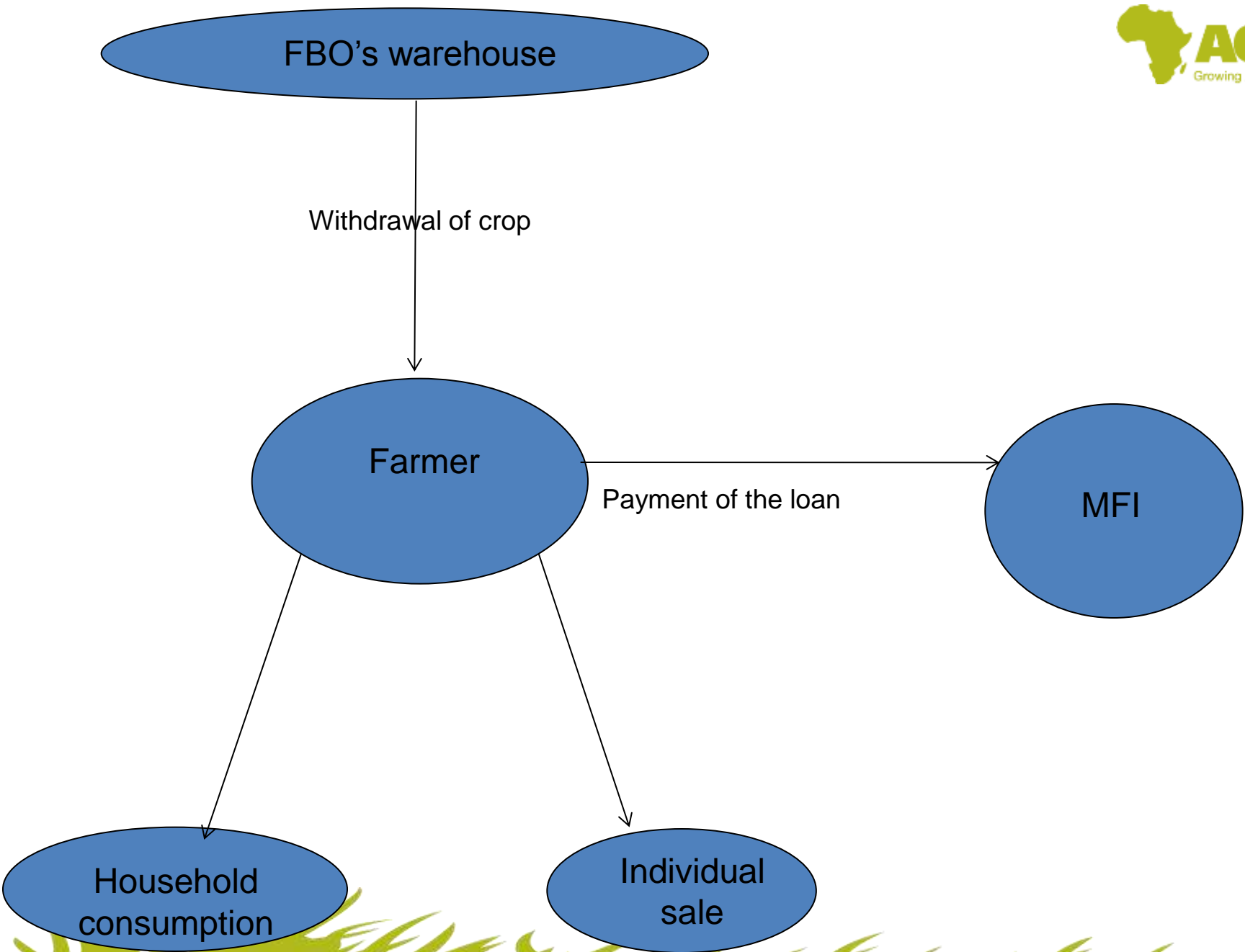
MFI

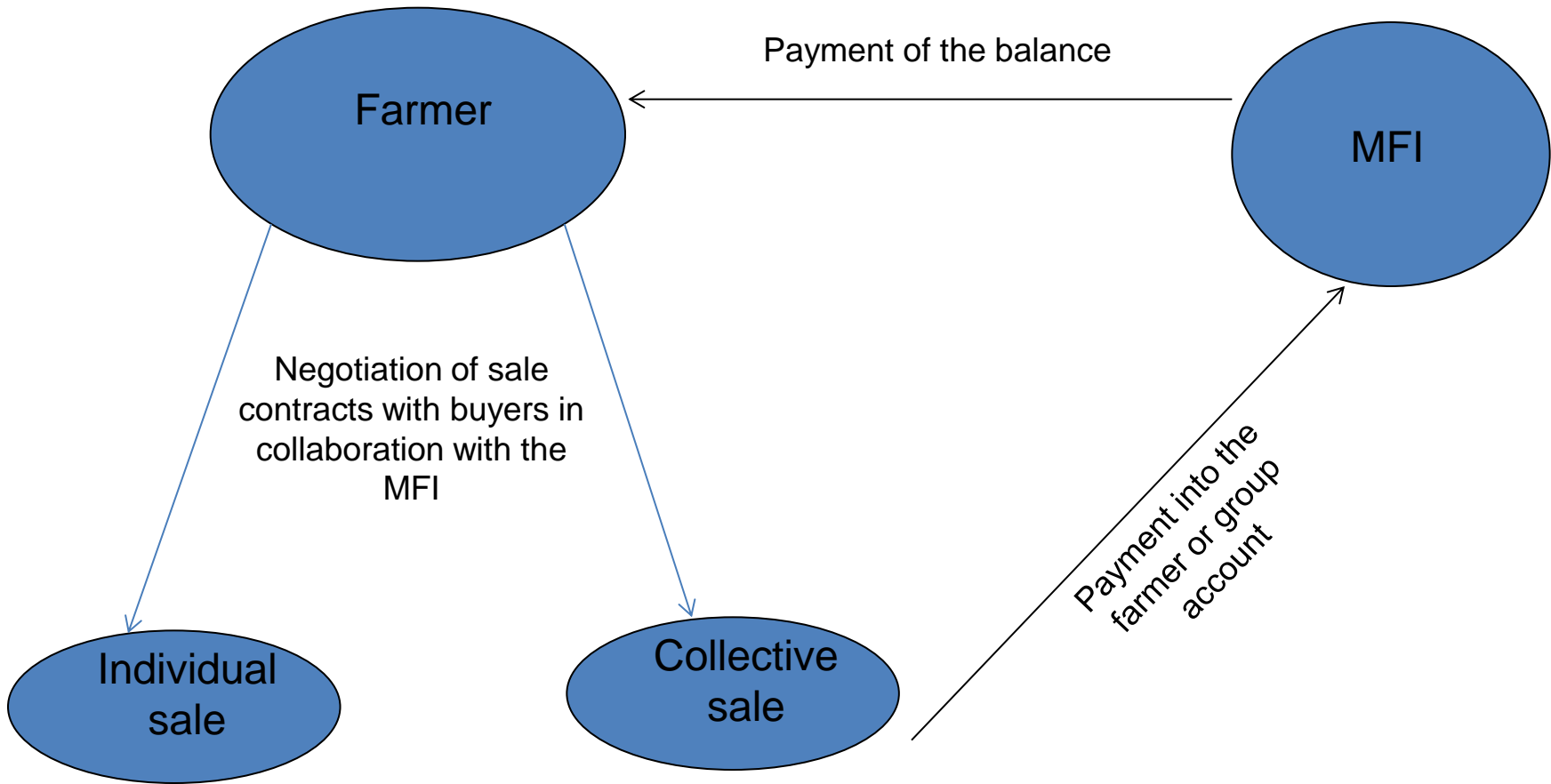
Social
expenses

Economic
activities

Fertilizers







Crops	Maize, Millet, Rice
Purpose of the system	Access to inputs, Access to credit, marketing of produce
Volume of credit	> 22,000,000 USD
Use of the stock	Household consumption, trade
Major Donors	USAID, CIDA, IFAD, AGRA

- **Use of Warrantage for diversification and to improve food security**
- **The structured WRS for local food crop is expanding (Ghana, Kenya, Rwanda, Tanzania)**
- **Emergence of Professional warehouse operators**
- **Weak management skills at Farmers Based Organizations and MFI levels**
- **A positive appreciation of the system by different actors and establishment of confidence between FBOs and MFI**
- **Timid involvement of commercial banks**
- **volume of credit leveraged is raising but still low**



Contract farming

Contract farming can be defined as agricultural production carried out according to an agreement between a buyer and farmers, which establishes conditions for the production and marketing of a farm product or products. (FAO, 2012)

- **Access to input credit**
- Access to knowledge and technical skills
- Access to logistics
- Access to ready market
- Quality control

- High quality requirement
- Risk of side selling

Preferred instruments for the commercialization of the small-scale agriculture across the continent



GADCO Rice outgrower scheme in Ghana



Context

- Increase in the Ghana rice import bill (\$ 500 million)
- Increase in the consumption of rice (projection of 64 kg/cap in 2015)
- Low yield among smallholder farmers



Creation of Global Agri-Development Company (GADCO)

- Network of outgrowers using contracts
- Input credit scheme
- Standardized production protocol
- Investment in Large modern mill
- Mobile money for the payment to farmers
- Contract with large rice wholesaler





Results (2012 – 2014)

- Farmers: 162 to 2,437
- Credit: \$497,000 input credit
- Procurement: 2,900 MT valued at \$1,085,000
- Grade 1 and 2 of milled rice
- Yield: 3 to 5 MT
- Payment to farmers in 2 weeks VS 4 weeks

Lessons learnt

- Good response of farmers to market signals in terms of adoption of technology
- Access to input credit was instrumental in the productivity increase
- The provision of harvest and threshing services has reduced the side selling
- The mobile money technology has reduced the delay of payment and build credit history for farmers
- The introduction of the weather-index insurance will be key for rain-fed farmers

5. Conclusion

- **Initiatives from the public or private sector to provide credit guarantees, insurance premium subsidy are yielding results but their scope is still limited. Effort should continue to reduce the interest rate.**
- **Access to credit for smallholder farmers cannot be dissociated from the access to market or the commercialization of produce.**
- **Contract farming schemes and WRS offer an opportunity for farmers' to access finance and limit their exposure to price volatility of commodities.**
- **Need for coordinated intervention to provide a bundle of risk management instruments, adapted financial products to farmers in structured value chains**
- **Need to develop medium term financing for agricultural equipment**



THANK YOU

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