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

By

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2. Challenges in accessing finance for smallholder farmers

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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
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)

<table>
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<th>Arguments in favor of WR</th>
<th>Success factors</th>
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<td>collateral to facilitate the access to credit</td>
<td>Existence of price risks</td>
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<td>Reduction of transaction costs</td>
<td>Availability of independent warehouse operators and appropriate storage facilities</td>
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<td>Improvement of the quality of produce</td>
<td>Existence of quality standards known by actors</td>
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<td>It improves the trade through the development of commodity exchange</td>
<td>The confidence and involvement of financial institutions</td>
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<td>The confidence of all actors in a legal and regulatory framework</td>
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<td>Existence of reliable market information system</td>
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<td>Less Government direct intervention in the market</td>
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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

- Issuance of “receipt”
- Deposit of crop

Farmer

- Loan (using crop in warehouse as collateral)

MFI

- Fertilizers
- Economic activities
- Social expenses
FBO’s warehouse

Withdrawal of crop

Farmer

Payment of the loan

MFI

Household consumption

Individual sale
Farmer

Payment of the balance

MFI

Negotiation of sale contracts with buyers in collaboration with the MFI

Individual sale

Collective sale

Payment into the farmer or group account
- 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

<table>
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<th>Crops</th>
<th>Maize, Millet, Rice</th>
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<td>Purpose of the system</td>
<td>Access to inputs, Access to credit, marketing of produce</td>
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<tr>
<td>Volume of credit</td>
<td>&gt; 22,000,000 USD</td>
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<td>Use of the stock</td>
<td>Household consumption, trade</td>
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<td>Major Donors</td>
<td>USAID, CIDA, IFAD, AGRA</td>
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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
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

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
5. Conclusion

- Initiatives from the public or private sector to provide credit guarantees, insurance premium subsidy are yielding results but their scope is till 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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