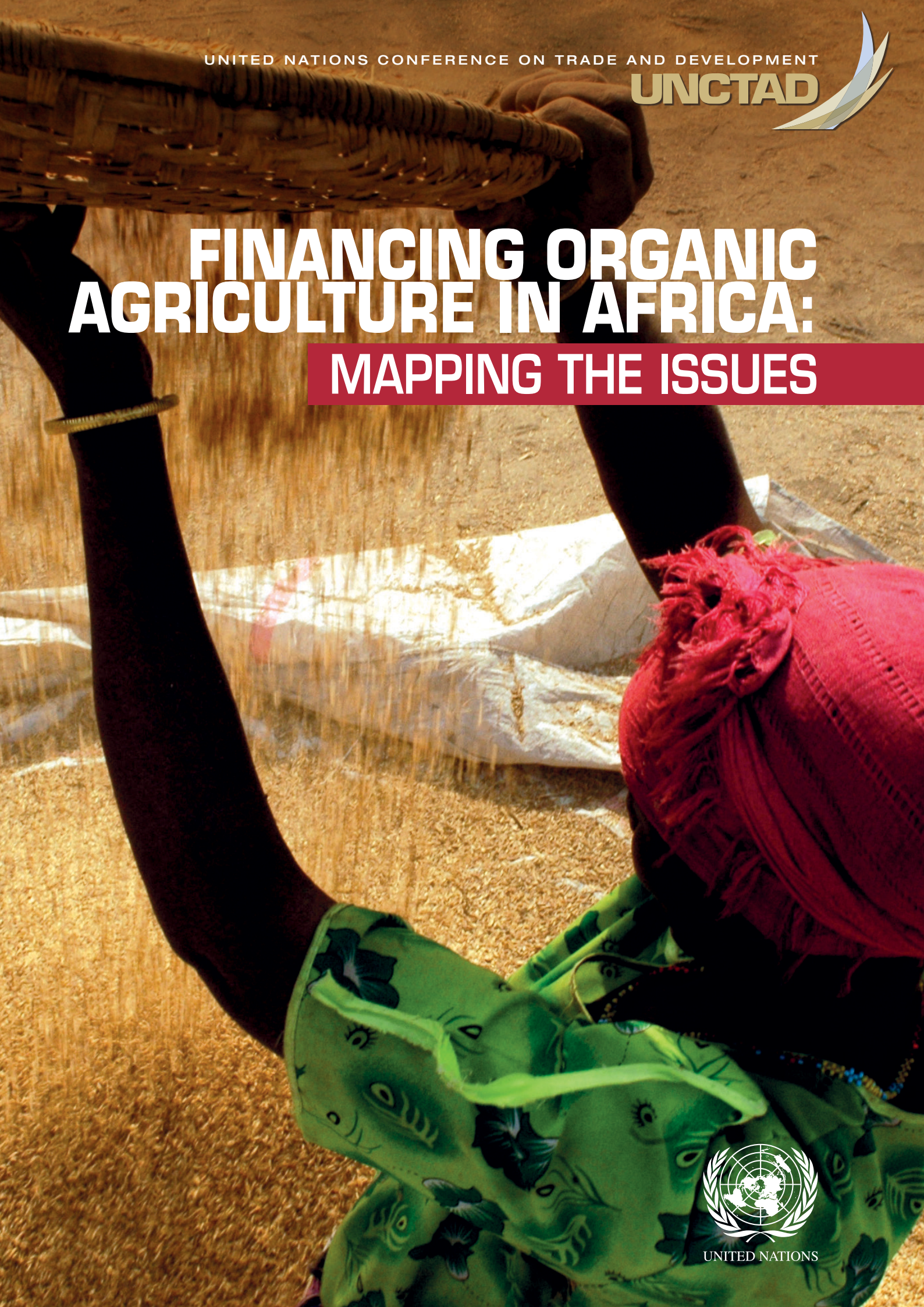
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
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FINANCING ORGANIC AGRICULTURE IN AFRICA:
MAPPING THE ISSUES
UNITED NATIONS

## Note

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*29 August 2016*

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# 1. Introduction

Organic Agriculture (OA) is a rapidly growing sector in Africa, with strong links to economic and socio-cultural development in the continent (Willer and Kilcher, 2012; Auerbach, 2013). OA can also be seen as a relevant tool to advance the Sustainable Development Goals (SDGs) 2, 12, 13 and 15 on sustainable agriculture, sustainable consumption and production, climate change and the sustainable use of ecosystems.

In 2003, African countries endorsed the Maputo declaration, committing to allocate at least 10 percent of national budgets to agriculture and rural development projects (AU, 2004). This pledge demonstrated the resolve of African leaders to revitalize the agricultural sector and underlined the importance of adequate financial resources to ensure such progress.

The objective of promoting the development of OA was endorsed by African Heads of State and Government in 2011 (African Union Decision EX.CL/Dec.621 XVIII). More recently, during the 3rd African Organic Agriculture Conference (AOC) held in October 2015 in Lagos, Nigeria, organic farmers, entrepreneurs, researchers and representatives from national and international institutions, all highlighted the need for effective funding solutions to foster the development of OA in Africa. Stakeholders at the AOC highlighted a lack of information and available options concerning access to finance. The subsequent adoption of the Lagos declaration at the AOC called for at least 10 percent of public resources devoted to the agricultural sector to be specifically employed to develop OA in the continent (UNCTAD, 2015b). This has led to a renewed emphasis on the need for suitable funding solutions to further develop the OA sector.

In recent years, there has been a steady reduction in the proportion of African government expenditure devoted to agriculture[1]. In view of the needs expressed by African OA stakeholders, UNCTAD sought to identify the needs, challenges and opportunities related to the funding of OA on the continent. Due to limitations in official data, a structured survey was conducted, with support from AfrONet[2], among targeted OA stakeholders, including National Organic Agriculture Movements (NOAMs), farmers and exporters from 16 African countries. The results, presented in this technical paper, are in line with existing studies on both conventional and Organic Agriculture in Africa (FAO, 2012; UNCTAD, 2009). They highlight the existence of a persistent funding gap and the need to better address barriers faced by OA stakeholders in securing external capital to finance their activities.

# 2. An overview of financing needs

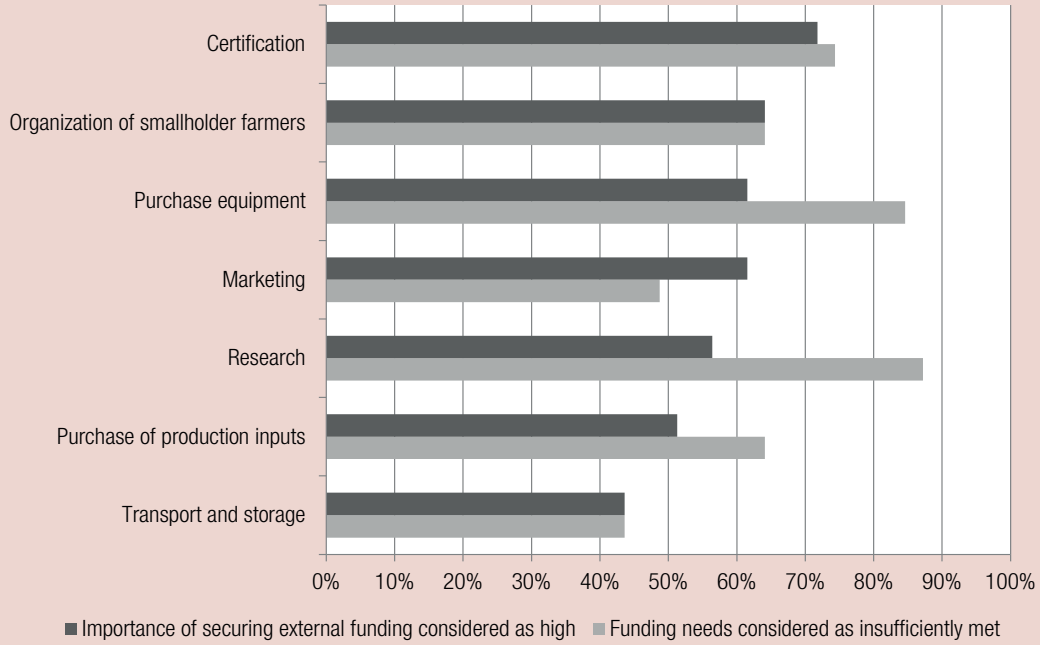
Despite African leaders reaffirming their strong political commitment to promote agricultural development at the 2014 Malabo Declaration on Agricultural Growth and Transformation[3], African agriculture faces major challenges in terms of investment and access to finance. According to the FAO, the rates of investment per worker in agriculture have been declining or have stagnated for three decades[4] in Africa and the average share of agriculture in public expenditure fell from 4.5 percent in 2001 to 2.7 percent in 2013[5], far from the 10 percent target set by the Maputo declaration. During the same period, the share of commercial credit devoted to agriculture in Africa dropped by 3.6 percent to an average of 2.8 percent, whereas the global average is 5.8 percent[6].

The specific situation of OA in terms of access to funding is no exception to this trend. On average, 67 percent of surveyed stakeholders indicated that the funding needs of the sector were insufficiently met. Moreover, only 3 percent of respondents considered that OA stakeholders were completely able to meet their funding needs. The most critical areas in terms of the need for external funding highlighted by OA stakeholders were certification, the organization of smallholder farmers into production groups, marketing, and the purchase of equipment. Such results do not come as a surprise as the importance of financing for certification is well documented[7]. It should nevertheless be noted from Chart 1 that the categories considered as the most important in terms of external funding needs are also among the areas in which stakeholders see funding as being most scarce[8].

Chart 1 suggests that despite being considered as an area of activity in which the need for external funding is relatively moderate[9], research is the area with the highest perceived level of unmet funding needs. The scarcity of funding for research can also be observed in Chart 2, which shows that research grants are perceived as one the least available funding instruments to support OA development.

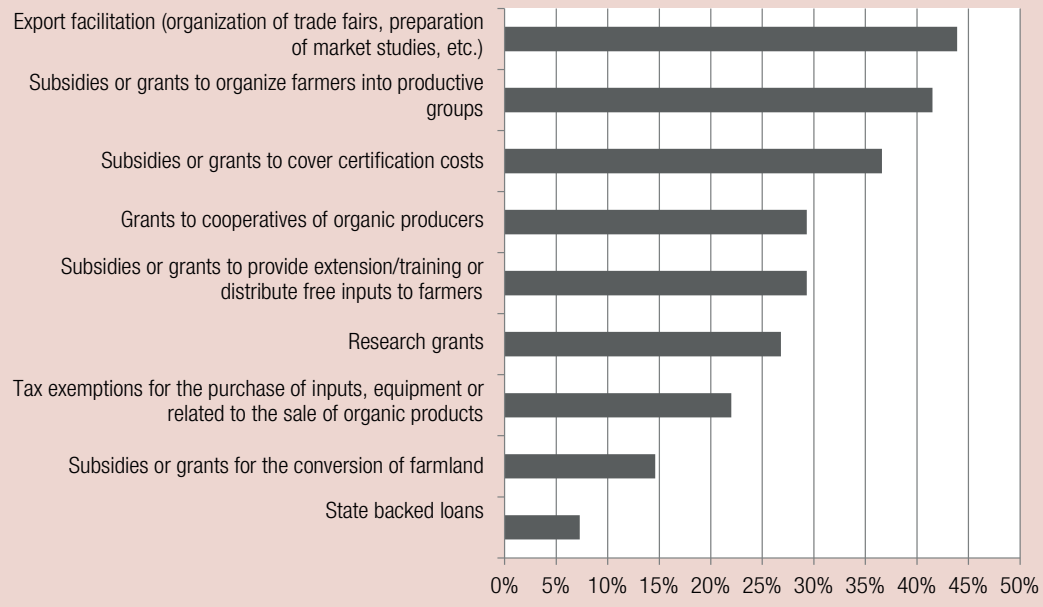
This acute shortage of research funding poses a particular challenge for the development of OA in Africa

**Chart 1: Relationship between the importance of securing external funding and the extent to which funding needs are met in key areas for the development of OA**




*Source:* UNCTAD (2016).

**Chart 2: Perceived availability of funding instruments to support specific areas of OA development**




*Source:* UNCTAD (2016).

as evidence suggest that Research and Development (R&D) investments are one of the most crucial contributors to growth in agricultural productivity and poverty alleviation[10].

## 3. Barriers to funding

In Africa, access to credit and other financial services is more restricted in agriculture than in other sectors of the economy[11]. High perceived levels of risk, limited market and infrastructure development, the cost and lack of accessibility of credit, an unsupportive regulatory environment as well as uncertainties arising from the informality of the sector, are some of the most commonly identified barriers that limit the financing of African agriculture[12].

As shown in Table 1, these restrictions in terms of access to finance also apply to OA, with only 5 percent of surveyed stakeholders considering access to finance as effective in their country and 67 percent of the respondents judging this access as limited.

**Table 1: Perceived level of access to finance of OA stakeholders under a business as usual scenario**

| Perceived level of access to funding | Limited | Moderate | Effective |
|---|---|---|---|
| Percentage of respondents (%) | 67 | 28 | 5 |

In relation to the importance of the factors limiting access to finance, issues usually regarded as key impediments, such as land tenure or farmer capacity and the level of information, were only considered as moderately restricting access to finance. At the same time, respondents identified factors more directly related to the banking system (i.e. limited credit backing mechanisms, high interest rates, etc.) as having the greatest impact. Chart 3 illustrates barriers and their perceived importance.

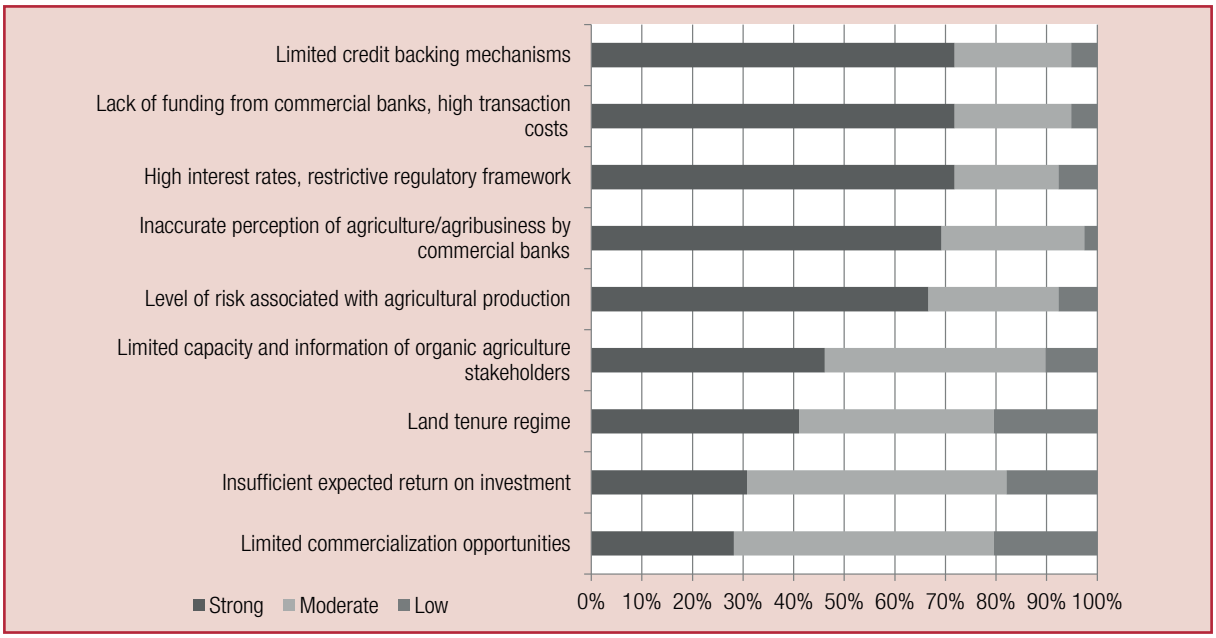
The high perceived impact of barriers related to commercial credit suggests there is a potential need for the creation of dedicated credit lines for OA. In this view, some initiatives offer promising prospects, such as AgriFin, which supports partnering African banks in better identifying and assessing both the risks and business opportunities, as well as developing financing solutions adapted to agricultural clients[13].

## 4. Funding trends and opportunities

### 4.1 Supported productions

Securing price premiums for organic products in export markets is one of the main drivers for the development of organic production in Africa, along with increased environmental sustainability and reduced dependence on external inputs (UNCTAD, 2009). Major export oriented productions such as coffee or cocoa are

**Chart 3: Perceived Importance of Barriers to Finance for OA**




*Source:* UNCTAD (2016).

perceived as benefiting the most from the facilitated access to finance (see Table 2).

The survey also sought to identify which other organic produce has potential for development. A large majority of respondents (66 percent) identified horticultural products such as fruits (e.g. pineapple, mango and banana), but also potatoes and vegetables as having promising prospects. This potential of horticulture was also identified in a recent UNCTAD study on agriculture and tourism linkages in Tanzania, which highlighted the potential of organic horticulture products. This however was not only for exports, but also for the development of the regional and domestic market (UNCTAD, 2015a).

**Table 2: Organic productions beneficiating from facilitated access to finance in respondent countries**

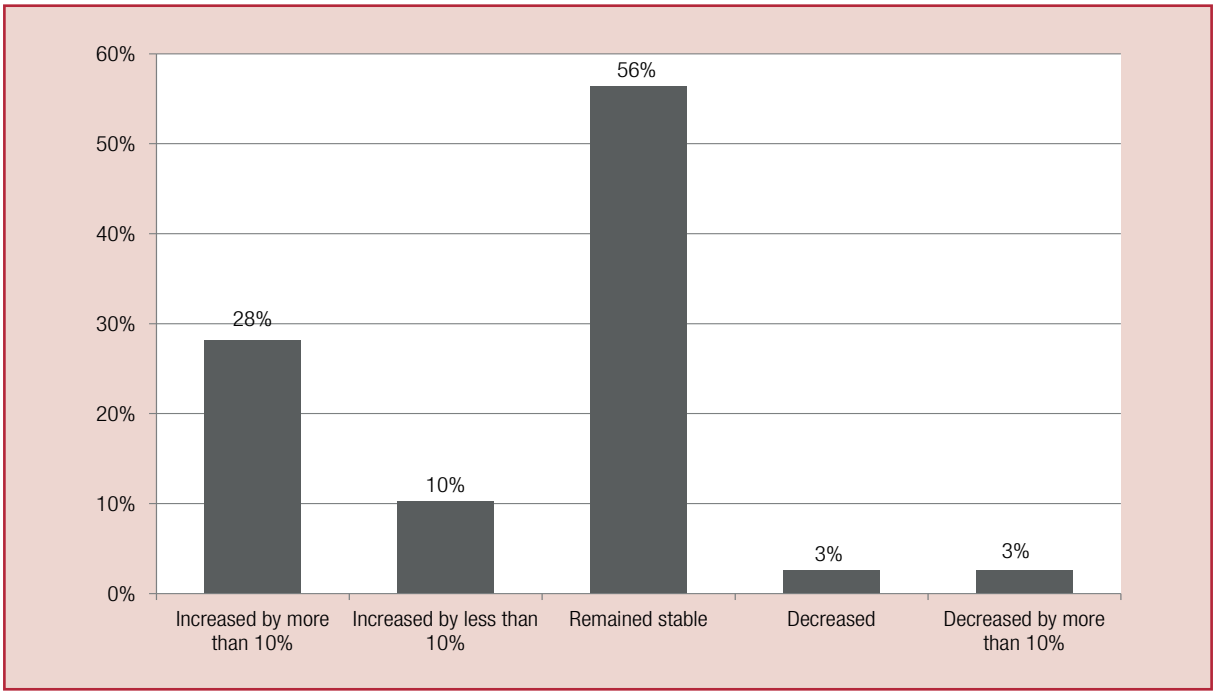
| Supported production | Coffee | Cocoa | Maize | Cotton | Rice | Shea Butter |
|---|---|---|---|---|---|---|
| Percentage of respondents (%) | 33 | 13 | 13 | 10 | 8 | 5 |

## 5. Market development and price premiums

Export markets are regarded as the main destination of most certified African organic production, which was produced on 1.3 million hectares of land in 2014 (EuropeAid, 2012; IFOAM, 2016), but there is currently no consolidated set of data to assess the evolution of traded values and volumes of OA production. However, figures indicate that targeted support can yield significant results in terms of export promotion.

One of the best-documented illustrations of the export potential of African OA is the East Africa Export Programme (EAEP), which contributed to raise regional organic exports from US$ 4.6 million in 2002/2003 to US$ 35 million in 2009/2010[14]. The EAEP led to the adoption of a common regional organic standard, the inclusion of organic products in national trade strategies and the development of supportive national policies and programs. It also brought about a significant increase in average crop yields and the number of certified producers in Burundi, Kenya, Rwanda, Uganda and in the United Republic of Tanzania (UNCTAD, 2011).

**Chart 4: Perceived evolution of the price premium for organic crops**




*Source:* UNCTAD (2016).

Overall, available information such as country studies on main African organic producers and land use statistics suggest that both export and domestic markets are expanding. Nonetheless, in order to make a stronger business case for organic produce, accurate data on market trends and particularly on the trade value of organic products should be collected.

With regard to price premiums, significant variations have been recorded depending on the commercialized crops, periods and markets. Based on available estimates, premiums for organic products can range from 10 percent to 100 percent (or more) of the price of the conventional variety (EPOPA, 2008). These premiums play an important role in the profitability of organic crops as they compensate for additional costs incurred by organic farmers, such as those arising from compliance to organic practices and certification.

Survey results confirm the variability of price premiums but also indicate that premiums for organic products mostly remained stable over the past 5 years (according to 56 percent of the respondents). A significant share of stakeholders (28 percent) also reported a growth of more than 10 percent of the price premiums in the last 5 years, which could reflect an increased profitability for some organic products. The chart below illustrates the perceived evolution of the price premiums.

Findings from across Africa suggest that export and domestically-oriented organic farming can help increase the income and livelihood conditions of smallholders. For example, studies on export-oriented organic cotton, fruits and vegetable production found that these productions opened new and financially rewarding market opportunities, which boosted the income and livelihoods of smallholder farmers (Jermann, 2011; Mamuya, 2011). Other studies also concluded that the income of contractually-linked export oriented organic producers could be consistently higher than that of conventional, spot-market dependent farmers (Gibbon, 2006, UNCTAD, 2008; Bowig et al., 2009; Mamuya, 2011; Kleemann, 2011; Faturoti et al., 2012; Kleemann et al., 2014;). In this regard, it should be noted that the ability of farmer cooperatives to support their members through capacity building, facilitated access to financial services, and market information, play a key role in allowing farmers to benefit from organic premiums (Jena et. al., 2012).

## 6. Perceived evolution of access to finance

Despite positive signs, such as growing markets and potentially higher profitability, access to finance in the OA sector remains constrained and survey results do not suggest the situation is improving. As shown in Table 3, the majority (64 percent) of surveyed stakeholders indicated that, over the last 5 years access to finance had remained the same, and close to a quarter of respondents (23 percent) even suggested that access to finance has become more restrictive.

**Table 3: Perceived evolution of the access to finance for organic agriculture in Africa over the last 5 years**

| Evolution of the access to finance | More restrictive | Stable | More efficient |
|---|---|---|---|
| Percentage of respondents (%) | 23 | 64 | 13 |

This perceived lack of progress in terms of access to funding despite OA's potential for income generation, export growth and environmental sustainability can be regarded as a signal for a better inclusion of funding considerations into OA development plans, at both national and continental levels.

## 7. Conclusion

Despite a growing market and a positive evolution of price premiums on organic produce, recent literature and survey results suggest that OA stakeholders have insufficient access to funding, particularly in strategic areas such as certification, producer organization, research, and the purchase of equipment.

Limited credit guarantee mechanisms and insufficient capacity of commercial banks to integrate the specificities of organic agriculture are major hindrances to the ability of OA stakeholders to finance their activities in Africa. Therefore, a coordinated effort to improve data collection on both the domestic and export value of OA is needed to make a better business case for organic agriculture. In addition, the financing issue needs to be better integrated into existing and future efforts to promote the development of OA in the continent.

The commitment to support sustainable agriculture expressed in the 2015 Addis Ababa Action Agenda

on Financing for Development, and the unanimous approval of the Ecological Organic Agriculture Strategic Plan (2015-2025)[15] by the African Union Ministerial Council, are opportunities to bridge the OA funding gap. In this regard, efforts to further embed OA in the Comprehensive Africa Agriculture Development Programme (CAADP) will play a key role in the allocation of funding and the systematic inclusion of OA considerations into national agricultural development plans and strategies.

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## Notes

1 Source FAO. Government expenditure on agriculture - Experimental series: http://www.fao.org/economic/ess/ess-economic/expenditure/en/.

2 AfrONet is the continental network of Organic Agriculture (OA) stakeholders in Africa. More information on AfrONet is available at: http://www.africanorganicnetwork.org/.

3 See: http://pages.au.int/sites/default/files/Malabo%20Declaration%202014_11%2026-.pdf.

4 FAO (2012), the State of food and agriculture 2012.

5 Source FAO. Government expenditure on agriculture - Experimental series: http://www.fao.org/economic/ess/ess-economic/expenditure/en/ and ReSAKSS: http://resakss.org/region/africa-wide/growth-options.

6 Source FAO stats. Data available at: http://www.fao.org/economic/ess/ess-economic/credit/en/.

7 Gama (2014) in UNCTAD (2015) Tanzania.

8 Respectively 74% and 85% of respondents consider that funding needs are not met for certification and the purchase of equipment.

9 As perceived by respondents.

10 FAO (2012).

11 Honahan and Beck (2007), World Bank, Making finance work for Africa.

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13 See World Bank, AGRIFIN, Centenary Bank - Uganda, Project Result and Lessons or World Bank, AGRIFIN, Centenary Bank - Uganda, Project Result and Lessons. Available from: https://www.agrifinfacility.org/general_resources?publication_type=Field+Lesson&country=All&keywords_v=.

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