

Kampala, June 30<sup>th</sup>, 2011

### **The Conference *Zippping Finance and Farming in Africa* A new approach to unleash Africa's potential**

The challenges of policy making in facilitating the flow of investment to the agricultural sector was discussed at a major meeting Kampala, 29-30 June, on the occasion of the pan-Africa Conference on the theme ***Zippping Finance and Farming in Africa***, hosted by the Central Bank of Uganda, and organised under the auspices of **Making Finance Work for Africa (MFW4A)** with support by the Bank of Uganda, the German Federal Ministry of Economic Cooperation and Development, GIZ, The World Bank and AFD.

The conference name is prompted by the clear gap between the two sectors, and the need to “zip” them together in the form of efficient and mutually beneficial business arrangements.

The Conference discussed a broad range of challenges to developing close business relationships between the financial and agricultural sectors, including

- a) The creation of conducive conditions for profitable investment in farm production and in value addition along value chains, with attention to markets, including export markets of processed agricultural products as well as to market and transport infrastructure;
- b) The legal environment for doing business with agricultural producers, including contracting and contract enforcement, and the legislative basis for new forms of loan collateral;
- c) Ways and instruments to improve management of information, since a lack of transparent information is one of the reasons for the gap between the agricultural and financial sectors.

The conference strengthened links between the financial and agricultural sectors, bringing together the most powerful ideas and most capable implementers of ideas from all over Africa, fostering the mutual understanding of needs and requirements to realize Africa's full potential and turn it from a net importer into a net exporter of agricultural produce.

In this long-term process, the conference provided a platform for plain-talking about strategies and policy recommendations for the future development of financial institutions that create an enabling environment for sustainable rural growth as well as instruments and their further refinement that have proven helpful in fostering investment.

Based on such African introspection, the result are be clear, concise guidelines on policies and practices geared to supporting investment in African agricultural sectors, endorsed through the Kampala Principles for Agricultural Finance Policies in Africa and channeled into the G20 process.

The Making Finance Work for Africa (MFW4A) Secretariat will follow up on the Kampala principles through the creation of a Stakeholder Agrifinance Working Group comprising the main African stakeholders and will agree on a certain number of concrete actions that can be undertaken in line with the Kampala Principles. *"This is just the necessary starting point to express the commitment of the African continent to better tackle the challenges facing the financing of agriculture"* Mr. Nalletamby, MFW4A Partnership Coordinator, reported.

## **About the Partnership Making Finance Work for Africa**

The Making Finance Work for Africa Partnership is an initiative to support the development of African Financial Sectors. It is a unique platform for African governments, the private sector, and development partners to coordinate financial sector development interventions across the continent, avoiding duplication and maximizing developmental impact. The Making Finance Work for Africa (MFW4A) Partnership secretariat is supported by a range of donors and development partners.

## **Contact**

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Please visit [www.mfw4a.org/zippingfinance](http://www.mfw4a.org/zippingfinance) for more information.

## Background

Africa needs markets for its products, and Africa needs investment, in all sectors of its economies, but especially in agriculture. Why?

- The population of Sub-Saharan Africa is expected to double between 2011 and 2050, to be close to 2 billion. This poses a huge food security challenge. Already it is estimated that some 239 million people suffer food deficits in Sub-Saharan Africa alone.
- Africa has by far the largest area of arable land currently not being cultivated. The continent has the potential to not only feed its people, but also to export significant volumes of grain and other food.
- The demographic realities show that Africa's population is very young. Jobs must be created for the huge numbers entering the workforce each year. Value addition in agricultural value chains holds much scope for employment and for increased incomes both for citizens and for the national economies of Africa.

While the majority of Africans live in rural areas and depend on agricultural production, the offer of financial services in rural areas is inadequate. Financial services are hardly available in many parts of the continent: current and savings accounts, credit products, payments, or insurance to individuals or enterprises, the very basic of all businesses, are beyond the reach of many, particularly in rural areas. Indeed, less than 20 percent of African households have access to formal financial services. Even where they exist, low-income individuals might not have valid identification or sufficient information on their use and benefits to take advantage of them. On average, a mere 5 percent of domestic resources are allocated to the agricultural sector.

As it seems, the African success story in recent years, with constant growth rates of 5 percent and more during the past decade, has happened rather against all odds. However, it could have even been so much better.

Reasons for the lack of access to financial services in rural areas and for agricultural producers and value chains are numerous. They can be found in the slow and uneven entry of formal financial institutions into the vast rural areas where infrastructure is lacking. Clients outside the huge urban agglomerations often remain beyond the reach of providers of financial services. They can be found in the reluctance of financial institutions to provide services to agricultural and rural activities, as risks are frequently not fully understood and seem to be too high. And they can be found in the lack of capacity on the client's side when local farmers do not know about or understand instruments that could create opportunities for investment and growth.

Despite these difficulties, formal rural and agricultural finance has been making progress on the continent, with innovative financial services and improved risk management on both the client and institution sides. The most promising approaches include: flexible credit products, where loan repayments are geared to crop cycles, value-chain finance, insurance products, promotion of financial literacy and the use of

new technologies as delivery channels.

Prominent examples are the introduction of index-based weather insurance schemes in Malawi, financial literacy campaigns in Ghana, and the spread of mobile banking in Kenya. Furthermore, rural and agricultural clients continue to rely on financial institutions, like savings and credit cooperatives or village banks.

## **Factsheet: Business Cases**

### **A Business Case I: Farmers Business Schools in West Africa**

West Africa accounts for nearly 70% of the world cocoa supply, 90% of which is grown on almost two million smallholder farms, the majority of which are two hectares or less in size. With limited resources and price fluctuations, farmers are constantly struggling to make ends meet. They lack funds to improve their situation and the knowledge about financial products and services that could help them to do better what they already do well. These constraints are tackled by the Cocoa Livelihoods Program (CLP) – an initiative of the World Cocoa Foundation in partnership with the Bill & Melinda Gates Foundation, 15 international cocoa companies and the German Federal Ministry for Economic Cooperation and Development (BMZ). The solution is a farmers business school set up with 23 public and private partners across four countries, Ghana, Nigeria, Ivory Coast, and Cameroon. By improving the capacities of the farmers a substantial raise of income has been projected. Since March 2010 more than 10,000 farmers have gone through the programme. For many, it has become a paradigm shift in life. “In Côte d’Ivoire, we believe that agriculture is for people that have nothing else to do,” says Agnès Djangobo, a participant from the Ivory Coast. “But in this training course, we have learnt that agriculture is a business!” – an insight that could be symptomatic for a new generation of self-confident African farmers.

### **A Business Case II: The Agricultural Guarantee Fund Scheme**

Lack of access to finance is a major constraint to unlocking the potential of agriculture in Africa. Financial institutions have not been inclined to lend to this sector for a variety of reasons, including the remoteness of clients, the lag between investment needs and expected revenues; lack of usable collateral; high risks in regards to weather, pests, diseases and prices; small farm size and small individual transactions; and an underdeveloped infrastructure. The Agricultural Guarantee Fund Scheme is an answer to these challenges. Being a partnership between Standard Bank, the Alliance for a Green Revolution in Africa (AGRA), OPEC Fund for International Development (OFID), Kilimo Trust, Millennium Challenge Account (MCA) and Millennium Development Authority (MiDA), the scheme aims to reach more than 750,000 small farmers and small and medium-sized enterprises in Ghana, Mozambique, Tanzania and Uganda. It is the largest single financing facility targeting smallholder agriculture by a bank in Africa, making available up to US\$ 100m for lending over three years. The scheme uses an innovative funding structure that works through a co-operative mechanism. The structure includes linkages to formal markets that provide minimum price guarantees (thus mitigating price risk), includes weather index insurance (to mitigate climate risk) as well as training and mentorship. It recognizes that investment into agriculture might have an impact on the environment and strives to anticipate and prevent environmental degradation. The result: The loans allow farmers to adopt improved technologies and practices needed to raise agricultural productivity, process and preserve produce and market differentiated products that allow them to generate higher and more reliable incomes.