Bridging the gap...

Why is it so difficult for African farmers to have access to loans? The study 'Finance for Smallholders' carried out by NpM, Platform for Inclusive Finance, together with AgriProFocus and funded by the Food & Business Knowledge Platform gives insights. The study provides 15 cases of how Dutch investors have successfully realised access to financial services for smallholder farmers.

NpM
"The question is how to reduce the risk of agricultural activities so that financial institutions are prepared to provide loans to farmers," said Josien Sluijs, director of NpM, platform for inclusive finance. A series of expert meetings was organised in Uganda, Tanzania, Kenya, Benin, Mali, Senegal and Burkina Faso this year, organised by the three organisations, to discuss their research 'Finance for Smallholders: Opportunities for risk management by linking financial institutions and producer organizations.'

This research includes an analysis of 15 successful projects in four countries (Uganda, Ethiopia, Rwanda and Mali). The 15 cases address 20 different crops, seven types of producer organizations, seven financing models and 14 financial institutions that serve over 500,000 farmers. The meetings included a broad delegation of farming organizations, microfinance institutions, central banks, national and international development organizations, insurance companies, government officials and consultants, and were aimed at disseminating the research and improving financing models for smallholder farmers in various parts of the world. The following important lessons were learned, according to NpM:

LESSON 1: ORGANISED FARMERS HAVE BETTER FINANCING OPPORTUNITIES
A key point of discussion was that it is important that farmers organize themselves into formal organizations, as this can mitigate a lot of the risks associated with farming. Generally, the quality of the produce increases for members of these organizations, because extension training is coordinated and linkages to the market are established.

LESSON 2: LEARNING TO MITIGATE RISKS CAN BE DONE
The meeting participants made an inventory of additional challenges and risks, each one based on his/her own background and expertise. These range from the lack of effective links to the market to sell goods, to missing laws and regulations. In the research we have categorized the risks in three main areas:

- Risks related to specific crops and how they are cultivated;
- Risks related to farmer organizations and marketing, and linkages to the market; and
- Risks related to viability and financial proposals submitted by entrepreneurs.

Technology
Josien Sluijs is convinced technology can also play a large role in decreasing risks for financial institutions. "Together with Rabobank and the Netherlands' Space Office, we look into possibilities to increase access to finance for farmers through using technological applications based on satellite data," she said. "New techniques can lead to higher yields, causing lower risks for the financial institutions. "

LESSON 3: GEODATA CAN INCREASE FINANCIAL INCLUSION AND FOOD SECURITY
It was often stated at the meetings that financial services should be well-adjusted to the needs of farmers. For example, our study shows that in the most successful financial structures the loan is paid back after the harvest has been sold. Furthermore, insurance for farmers is a product that is not yet easily available, though the demand is high.

Green inclusive finance
Sluijs: "In Uganda, the majority of people cook on charcoal, resulting in rapid deforestation and high CO_2 emissions. Because we know that climate change predominantly affects the poorest of the poor, Dutch investors have committed to investing in solutions like energy-efficient cook stoves, solar panels, biogas installations, etc."

LESSON 4: WE NEED TO WORK TOWARDS GREEN INCLUSIVE FINANCE
The experts mentioned three issues that require special attention: the effects of climate change on farmers, the role of women and the role of youth. Regarding climate change, it has contributed to failed harvests in previous years that have had a disastrous effect on farmers' lives.
A recent report, which can also be found at the NpM website, shows the current status of the inclusive finance portfolios of the NpM Members.
Great response to stakeholder meetings
"We are overwhelmed with the response we got from these meetings. In Uganda a participant from the ministry of finance indicated he wanted to use our research for policy making," said Josien Sluijs. "This is exactly what we meant to achieve."

On 16th February 2017 NpM organises a conference on the subject 'Geodata for inclusive finance and food.' Mor information can be found on www.inclusivefinanceplatform.nl

between banks and farmers

AgriProFocus
On behalf of AgriProFocus, Lisette van van Benthum was one of the researchers for the 'Finance for Smallholders' report. In an interview, she explained the efforts made by her organisation to bridge the gap between farmers and banks.

"Banks don't like taking risks," Van Benthum explained. "Traditionally we see that banks and microfinance Institutions, which take care of the small loans knowns as Microfinance, have a preference for lending money to for example shops. This is less risky for them, because there is always a collateral, in this case the shop's stock. Financing agriculture requires a different approach," said Van Benthum.

Cooperation needed
Small farmers need to team up, is the advice AgriProFocus would give. "The urgency for small farmers to team up has been known for some time now," acknowledged Van Benthum. "But what we advise now is that they do not only have to work with other smallholder farmers, but also with the traders who buy their products."

She gives a practical example. "Let's say you are a farmer in rural Uganda, and you produce half a hectare of onions every season. If you want to get a bank loan in order to buy seeds or fertilizer, they may not give it to you if you don't have the guarantee that a trader will buy your unions and the bank gets its money back. So you'll need to sign a contract with the trader in advance, which gives the bank some guarantees. In case the trader finds your quantity is too low, you need to cooperate with farmers from your area. If you can sign a contract with the trader as a cooperation, everything becomes more structured and therefore the required financing for the banks is more likely to materialize."

The long period which elapses between sowing and harvesting is seen as one of the issues holding back banks from lending to farmers. "Most crops can be harvested once or twice per year, but if you want a loan for a coffee plantation, it will take at least five years before the bank will see some money coming back," Van Benthum explained. "Trade contracts can serve as a guarantee for banks. We see they are increasingly being used for that purpose, also internationally."

The Dutch Triodos bank has been experiencing with this already. When an African pepper farm makes a deal with a buyer in Europe, the bank can provide a loan to the entrepreneur in Africa - in case the trade agreement is solid and approved by the bank. "Once the delivery has been completed, the entrepreneur will pay back the loan to the bank," Van Benthum explained.

Bringing farmers and bankers together
AgriProFocus operates in 11 African countries, where it has an extensive member base amongst agricultural entrepreneurs. "Every year we organise a so-called 'Finance Fair' in all these countries," Van Benthum explained. "This is where we try to bridge the gap, and where we bring bankers and farmers together. Loans can materialize and it is a great place for the different sectors to learn from each other."