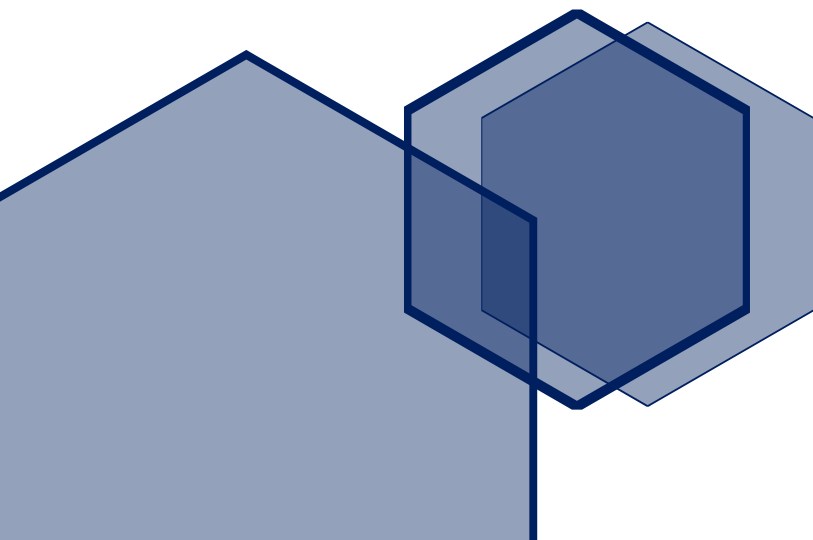


POLICY BRIEF

**Facilitating Finance and Global Trade for Small and Marginal
Farmers in Africa**



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Agriculture has been an integral part of the human society, the most persisting productive human engagement across times and space. Globally, about [5 billion hectares](#) are classified as agricultural land (comprising native as well as cultivated pasture). Of this figure, 25 percent is accounted for by the industrialized countries, an amount that at the global scale, has only little scope for expansion. Conversely, South, East and Southeast Asia account for only about 20 percent of the global agricultural land, while Sub-Saharan Africa accounts for about 18 percent. Global agricultural population is also reported to stand at around [2.6 billion](#) people.¹ In Africa, particularly, no less than half of the continent's labour force is employed under agriculture,² all pointing to the significance of agriculture as a sector in the human productive business and general development. Sadly, despite its contribution to the continent's development, agriculture in Africa suffers from a severe funding deficiency.

Over half a billion Africans, which is somewhere around [65–70 percent](#) of the African population (above 80 percent in some countries), depend on small or micro-scale farming as their main source of livelihood.³ Such dominance by smallholders is largely because farmers lack the capital (finance) necessary to improve methods, expand scale and gain more access to markets. Consequently, the productivity of Africa's agriculture is among the lowest in the world.⁴ Facilitating finance and trade for farmers has become a very critical policy issue especially for developing economies. In fact, the World Bank argues that meeting the continent's demand for food requires [\\$80 billion](#) annual investments.⁵

¹ Otte, J. (2007). Globalization and Smallholder Farmers. A Research Report. Available at <https://www.fao.org/3/bp293e/bp293e.pdf>

² Dokle, E. and Farrell, J. (2021). Mobilizing Agricultural Finance: Toward a Common Language Between Lenders and Agri-SMEs in Sub-Saharan Africa. Accessed on 19th Nov at <https://agra.org/wp-content/uploads/2021/02/Mobilizing-agricultural-finance-2021-02.pdf>

³ Making Finance Work for Africa (2021). Agricultural Finance. Available at <https://www.mfw4a.org/our-work/agricultural-finance>

⁴ Ibid

⁵ Ibid

Only about [15 percent](#) of Africa's 250 million smallholder farmers have reliable access to information, markets and input credit, which can significantly increase productivity, yields and income. Climate change, water scarcity, crop and livestock disease and post-harvest losses,⁶ are also global challenges for these farmers, as are a lack of adequate rural infrastructure, knowledge gaps, including financial literacy, and a lack of reliable data. However, the lack of access to finance and a significant share of the global market is of particular interest.

Financing is a major barrier to growth in Africa's agricultural sector, particularly for smallholder farms. Interest rates have risen to as high as [47 percent](#). Lack of collaterals from farmers and businesses, as well as difficulties for banks in pricing the risk of loans to smallholder farmers, is a significant impediment to the development of the sector.⁷

The share of commercial bank lending to agriculture in Africa only ranges from 3 percent in Sierra Leone, 4 percent in Ghana and Kenya, 6 percent in Uganda, 8 percent in Mozambique, to 12 percent in Tanzania. On the average, only about 5 percent of domestic resources are allocated to the agricultural sector. In part, a combination of perceived high risk and modest returns – as well as the costs of extending traditional banking infrastructures in rural areas – has deterred many financial service providers. The G-20 Global Partnership for Financial Inclusion's (GPII) SME Finance Sub-Group reported that neither commercial banks nor the emerging microfinance industry is willing or able to sufficiently meet the financial needs along agricultural value chains, leaving farmers and agricultural SMEs unserved in the "missing middle".⁸

⁶ See Mezzanine at <https://mezzanineware.com/digital-productivity-technology/technology-solutions-for-agri-business/smart-farming/>

⁷ Making Finance Work for Africa (2021). Agricultural Finance. Available at <https://www.mfw4a.org/our-work/agricultural-finance>

⁸ Ibid

It is based on the foregoing that this paper is spurred to explore the idea of smallholder and marginal farming in Africa, drawing on existing literature to explain its challenges in terms of access to both finance and market, the progress so far, as well as how finance and global market may be facilitated in order to improve the performance of the smallholder and marginal farmers in Africa.

Defining Smallholder and Marginal Farmers

The definition of smallholder farmers greatly varies across regions and countries, given that their categorization can depend on various factors like living standards, ownership of land, agricultural activity and scale of production, access to assets and resources, as well as share of family labour. Food and Agricultural Organisation (FAO) defines farms under 2 hectares as small.⁹ In China, nearly 98 percent of farmers cultivate farms smaller than 2 hectares (where the country alone accounts for nearly half of the world's small farms). In India, about 80 percent of farmers are regarded as small. In Africa, Ethiopia and Egypt have farms smaller than 2 hectares making up 90 percent of the total amount of farms.¹⁰

The concentration in smallholder farms across countries can be significant, as it often reflects the differences in stages of development between countries too. This is because the gradual emergence of smallholder farms is intrinsically related to the process of economic development. However, across all development stages, smallholder farmers operate their farm business as entrepreneurs operate their firms (or at least they try), raising capital from multiple sources and investing in productive assets. In many cases, decisions about production and profits (including what and when to plant, which inputs to use and how, when to harvest, as

⁹ Maass Wolfenson, K. D. (2013). Coping with the food and agriculture challenge: Smallholder's agenda. Rome: FAO. Retrieved from http://www.fao.org/fileadmin/templates/nr/sustainability_pathways/docs/Coping_with_food_and_agriculture_challenge_Smallholder_s_agenda_Final.pdf

¹⁰ Nagayets, O. (2005). Small farms: current status and key trends. Paper prepared for the Future of Small Farms Research Workshop. Wye College, June 26–29, 2005.

well as how much to consume in the household and how much to sell) are made under economic environments that are not favourable, subject to risks such as adverse weather and surge in prices.¹¹

There are about [250 million](#) smallholder and peasant farmers that constitute the agricultural labour force in Africa, and effectively driving food security in most nations of the continent.¹² And they produce a wide range of foods, often wider than do larger and commercialized farms. Although may not be fully integrated in markets, smallholder farmers choose to produce their main staple but also diversify their production to achieve better diets. Even if smallholders were commercialized, they diversify their crops as a risk management strategy to stabilize their income. By growing many crops, they minimize their exposure to risk, such as in price shocks.¹³

In the face of these realities, one thing is clear- Improving the participation of these smallholder farmers in the agricultural supply chains would represent a significant opportunity for some substantial benefits like reduction of poverty, gender equality and a healthier environment.

Finance and Market Access Challenges Facing Smallholder and Marginal Farmers in Africa

Experts have observed that the expansion of smallholder farmers can lead to a faster rate of poverty reduction, by raising the incomes of rural producers, increasing food supply (which in

¹¹ Rapsomanikis, G. (2015). The economic lives of smallholder farmers: an analysis based on household data from nine countries. Food and Agricultural Organisation, Rome. Retrieved on 21 Nov from <https://www.fao.org/3/i5251e/i5251e.pdf>

¹² Jacques de Vos (2021). Smallholder farming in Africa and the opportunities for digital enablement. Available at <https://www.vodafone.com/news/digital-society/smallholder-farming-in-africa>

¹³ Pope, R. and R. Prescott (1980). Diversification in relation to farm size and other socioeconomic characteristics. American Journal of Agricultural Economics, 62(3).

turn reduces food prices and the expenditure on food), thus narrowing the income inequality gaps.¹⁴ But agricultural productivity has stayed low in Africa, accounted for by, not least, the limited use of improved technologies, particularly improved seeds, fertilisers and mechanisation services, which in turn are an artefact of the lack of access to agricultural finance. The apparent lack of land tenure security, additionally, is thought to be a hindrance to increased investment in land improvement technologies, which encourages the adoption of unsustainable agricultural practices.¹⁵

Moreover, the commercialization and transformation of food supply chains, which is best reflected by the emergence of supermarkets in the developing world, which offer new opportunities for smallholder farmers, can also marginalize them, keeping them off lucrative markets and making them unviable economic units.¹⁶ Realities as these have continued to constrain the agricultural capacity of Africa (and it is even worse for smallholders), leaving farmers unable to produce at a scale large enough to take advantage of trade in a globalized world system. And it has, therefore, become increasingly imperative to facilitate finance and global market for smallholder and marginal farmers in the continent.

How to Make Finance and Global Trade work for Smallholder and Marginal Farmers in Africa

With the large financing gap for agriculture, especially to smallholder farmers, as created by inability and/or unwillingness of commercial banks to grant credit facilities to stakeholders in

¹⁴ See Magingxa and Kamara [2003](#); Diao and Hazell [2004](#); Resnick [2004](#); Barham and Chitemi [2008](#); World Bank [2008a](#)

¹⁵ UNECA (United Nations Economic Commission for Africa). (2005). Structural transformation to break away from poverty. Chap. 4 in Economic report on West Africa. Available at <http://www.UNECA.org/eva2005/chap4.pdf>. UNECA, Addis Ababa, Ethiopia.

¹⁶ Rapsomanikis, G. (2015). The economic lives of smallholder farmers: an analysis based on household data from nine countries. Food and Agricultural Organisation, Rome. Retrieved on 21 Nov from <https://www.fao.org/3/i5251e/i5251e.pdf>

the agricultural sector, a deliberate response strategy would be to explore new, alternative options.

The conventional thought would be to ask governments to intervene. However, away from traditional response, every intervention has to be anchored on innovation (an enduring and most effective approach). The innovative approach allows both government and private entities to play a part in the solution process; and it brings not just solutions to the prevailing constraints, but also creates additional values in doing so. There are many of such interventions already in place across different African countries, and scope has to expand.

On Innovative financing strategies

Digitization and digital services, for instance, have become a commonplace and an important aspect of agricultural business in Africa, offered by start-ups that have emerged across the continent, by designing technologies that facilitate production for farmers (especially small-scale farmers) in many ways. This includes opportunity to handle such issues as climate change, lack of access to information, lack of skills and unemployment, etc.

One of such success stories is Mezzanine's [Connected Farmer](#). Mezzanine is a subsidiary of Vodacom Group, and its Connected Farmer platform runs on mobile GSM networks, conveniently connecting farmers across widely dispersed geographic areas. Over the course of almost eight years since it was first rolled out, the platform serves smallholder farmers across several African countries, including Kenya, Tanzania, Zambia, South Africa, and elsewhere, allowing them to instantly access local services such as credit providers, buyers, resellers and insurers, and even mobile money payment solutions.¹⁷ In another instance, the **e-Soko**, is a Ghanaian start-up that provides overall farm management support to farmers, helping them

¹⁷ Jacques de Vos (2021). Smallholder farming in Africa and the opportunities for digital enablement. Available at <https://www.vodafone.com/news/digital-society/smallholder-farming-in-africa>

monitor and analyse their farming records through its data collection tool, and links them to advisory services, markets, market prices and secure payment. Elsewhere in Nigeria, **Farm-Crowdy** offers extension services to farmers and enables them to access credit directly from investors, who in return earn a share of the post-harvest profit.¹⁸

Due to the fragmentation and challenges in assessing creditworthiness, access to finance for farmers to purchase inputs (or hold on to outputs to sell when prices are higher) remains challenged. But organizations have innovated in this area to deal with the working capital challenges. For example, **One Acre Fund** has provided financial products tailored to local farmer cash flows and behaviours to about 615,000 farmers. These are complemented by training and a field force working closely with farmers to ensure a 98 percent repayment rate.¹⁹

Rising mobile-phone penetration and improvements in satellite and other forms of data communication also present another solution to this challenge. **M-Shwari and Tala** in Kenya use mobile-money transactions; voice, SMS, and data usage; and social connections to evaluate household creditworthiness and loan size. Organizations such as **Apollo Agriculture** and **FarmDrive** use remote sensing and satellite data to incorporate agronomic factors into their credit-scoring systems.²⁰ Partnerships with such organisations can be considered by private companies in order to help reduce the working-capital obstacle.

On the role of governments:

¹⁸ Kah, M. M. O. (2021). Africa is leapfrogging into digital agriculture. Africa Renewal. Retrieved from <https://www.un.org/africarenewal/web-features/africa-leapfrogging-digital-agriculture>

¹⁹ Guedde, L. (2021). Winning in Africa's Agricultural Market. Accessed at <https://www.mckinsey.com/industries/agriculture/our-insights/winning-in-africas-agricultural-market>

²⁰ Ibid

The place of government remains pivotal and certainly indispensable, especially if substantial headway will be made. This is, on the one hand, because the success of innovation in addressing the finance and market challenges of smallholder farmers hinges largely on the presence and performance of an enabling entity (a natural economic role of the government), and on the other hand, because the government itself can also lead innovation in dealing with these problems.

One certain strategy that the government can deploy is a framework of special investment and funding programmes in the agricultural sector. This, where targeted smallholder farmers are supported with development financing schemes, has worked in some countries, and can also work in others. Where commercial banks are unwilling and/or unable to grant credit facilities to farmers, the government has to intervene, either by directly providing the finance, or by creating incentives for the commercial banks to do it. For instance,

- The Anchor Borrowers' Programme by the Central Bank of Nigeria, creates economic linkages between smallholder farmers and reputable companies (anchors) involved in the production and processing of key agricultural commodities, with the core objective of providing loans (in kind and cash) to the farmers, and has, as of September 2021, disbursed a total of ₦798.09 billion since its inception in November 2015.²¹ There are also other frameworks such as the Nigeria Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL), the Agricultural Credit Guarantee Scheme, and the Commercial Agricultural Credit Scheme, etc.²²

²¹ CBN (2021a). Central Bank of Nigeria Communiqué No. 138 Of The 281st Monetary Policy Committee Meeting. Retrieved from <https://www.cbn.gov.ng/Out/2021/CCD/Communique%20No%20138%20of%20the%20Monetary%20Policy%20Committee.pdf>

²² See CBN (2021b). Agricultural Credit. At <https://www.cbn.gov.ng/devfin/acgsf.asp>

- The transformation of Agribank into Agricultural Finance Corporation (AFC) Land Bank in Zambia is another instance.²³ This is targeted at meeting the increased appetite for farmers' financing needs, where banks have been reluctant to provide loans to farmers without collateral and preferred security of tenure.
- There is also the AGRA's credit guarantee and risk-sharing facilities with Equity Bank and Standard Bank in South Africa, which have leveraged ten times their commitments to risk-sharing public capital into private lending to farmers.²⁴

Aside from is already in place, an alternative strategy is to establish agricultural insurance policy systems that can reduce the risk of non-payment of loans if harvests fail. This is critical in addressing mistrust by financial institutions of smallholder farmers.²⁵ For example, the weather index-based insurance, is a risk management tool that can also mitigate the risk associated with climate factors.²⁶

On facilitating global trade:

One of the most important ways to facilitate market and trade for smallholder farmers is to provide them with consistent access to finance. This is due to the fact that where farmers have the necessary capital to produce in reasonable commercial quantities, they can compete favourably for market share(s) and also attempt to take their produce beyond the borders of their immediate communities.

²³ Making Finance Work for Africa (2021). Zimbabwe: Land Bank to Transform Agric Financing – Minister See <https://www.mfw4a.org/news/zimbabwe-land-bank-transform-agric-financing-minister>

²⁴ Making Finance Work for Africa (2021). Agricultural Finance. Available at <https://www.mfw4a.org/our-work/agricultural-finance>

²⁵ The Conversation (2021). Ghana's rice farmers need finance for new technologies, but banks don't trust them. Accessed at <https://theconversation.com/ghanas-rice-farmers-need-finance-for-new-technologies-but-banks-dont-trust-them-167924>

²⁶ Ruete, M. (2015). Financing for Agriculture: How to boost opportunities in developing countries. Policy Brief of the International Institute for Sustainable Development. Available at <https://www.iisd.org/system/files/publications/financing-agriculture-boost-opportunities-devloping-countries.pdf>

Beside financial capital, expansion of physical infrastructure such as efficient transport system/network, is a crucial enabler of trade for (agricultural) producers. Most farmers are restricted to local markets only because access to wider (international) markets is not available. Where this access is available, there is a common problem of trade barrier locking out farmers from potential target market.

Given the implications of trade barriers, regional economic (and political) integration is necessary in order to harmonize trade policies and enhance trade between countries. The African Continental Free Trade Agreement (AfCFTA), for instance, is a promising framework that different governments must equip their farmers to take advantage of.

In general, an enabling environment—with smart regulation, targeted at effective agricultural finance policies, and well-established financial infrastructure would make significant difference, bringing smallholder farmers closer to expansion opportunities and providing them some level of competitive stance for improved market share.

Conclusion

Understanding the intricacies associated with optimal utilization of Africa's agricultural potential and addressing the challenges preventing its expansion would increase production significantly. To do this, tangible investments in agricultural inputs, infrastructure, and market expansion are recommended. This investment is expected to open up the possibility of full participation from the pool of smallholder farmers in Africa. A large chunk of Africa's smallholder farmers will be induced into productive and commercial agriculture by this step. While the challenges are many, relatively low-investment opportunities exist to innovate on route-to-market approaches along the supply chain. Demand-side farmer engagement, public-private partnership with stakeholders in Agriculture, use of Internet of Things (IoT), integration

of the Agriculture Blochian Technology alongside other ecosystem players, can help build markets to realize Africa's significant potential.