

Financing Africa's Agriculture – Understanding the Continent's Realities

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ADB

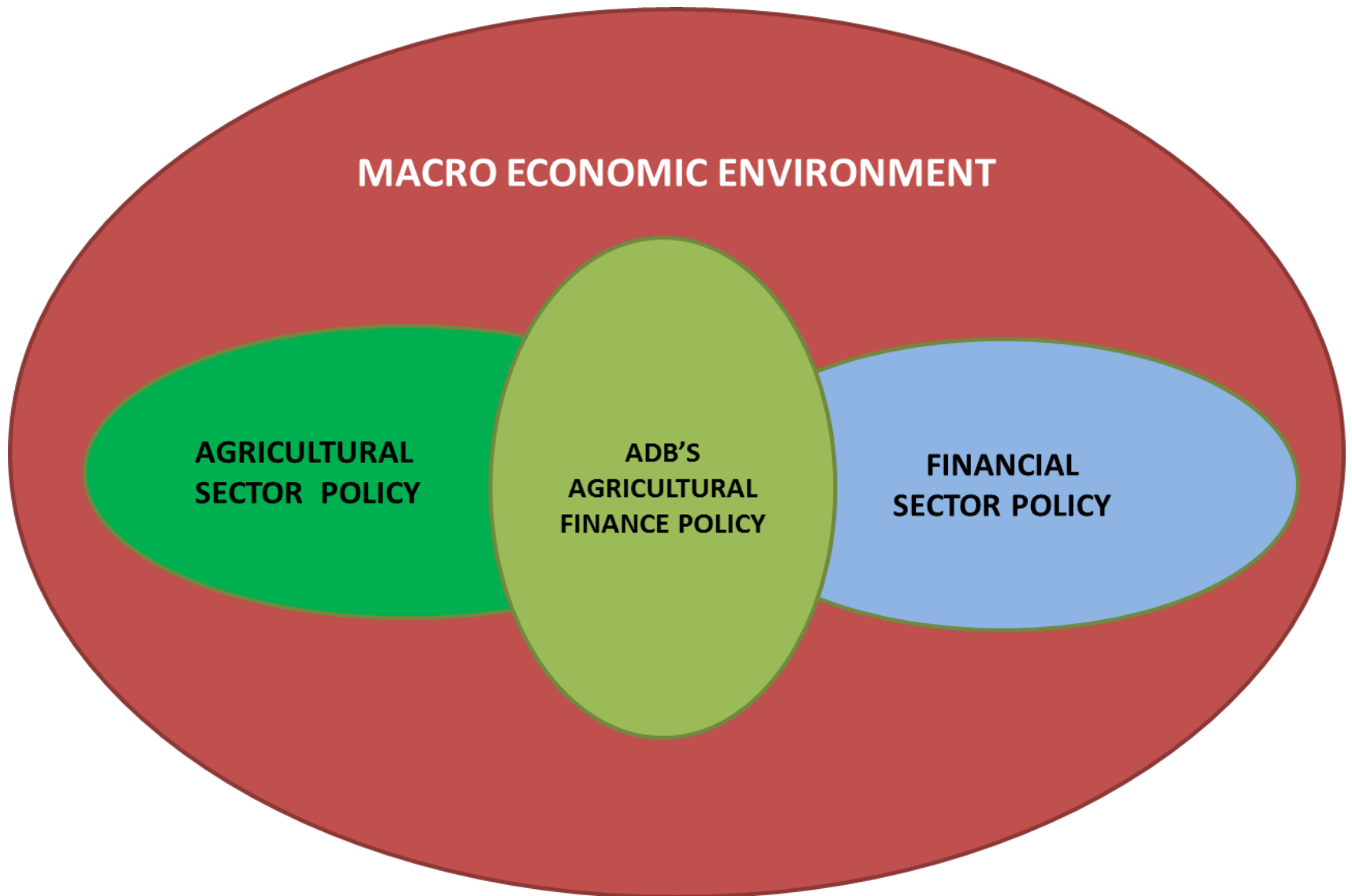
AGRICULTURAL DEVELOPMENT BANK

Agric and more...

Agricultural Finance

Is the *availability, provision* and *accessibility* of *affordable* financial resources to *support* and *facilitate* the *effective, efficient* and *timely* delivery of *sustainable* agricultural related services along the *value chain* through a process that is *understandable, systematic* and *coherent* to the end beneficiaries.

THE THREE MAIN POLICY SPHERES AFFECTING THE EFFECTIVENESS OF AGRICULTURAL FINANCE



Challenges of Financial Services

- **Diversity of input dealers/suppliers, primary producers, processors, transporters, storage/inventory warehousing operators and distributors.**
- **Low loan recovery.**
- **Untimely delivery of agricultural credit.**
- **Limited access to medium to long-term agricultural loans.**

Agriculture Financing Challenges/Opportunities

- **Globalisation of Financial Markets**
- **Trade Liberalisation**
- **Agricultural Commodity and Food Price Volatility**
- **Uncertainty of Climate Change**
- **Unsustainability of some Current Agricultural Practices**
- **Weak Infrastructure**

Agriculture Financing Challenges/Opportunities

- **Seasonality and variability of rainfall**
- **Property rights and unsecured land tenure system**
- **Lack of appropriate collateral for agricultural financing**
- **High level of defaults among agricultural loans beneficiaries in comparison to other sectors**
- **High transaction cost of disbursement of agriculture loans to smallholders**

Some Strategies to Improve agricultural Financing

- **Strengthen capacity of financial operators in agricultural credit management.**
- **Strengthen loan monitoring.**
- **Streamline loan application procedures.**
- **Intensify education of farmers on loan procedures.**
- **Promote linkage between formal and informal financial services for delivery and recovery of loans.**
- **Promote flexibility in types of collateral demanded by financial institutions.**
- **Strengthen capacity of FBOs to facilitate delivery of financial services to their members.**
- **Advocate an Agriculture Development Fund to serve as a core source of medium to long-term funding**

Some Sources of Funds

- **Support from Development Partners.**
- **Co-financing with the private sector.**
- **Loans and Grants from international financial institutions.**
- **Bilateral agreements.**
- **Deposit Mobilisation**
- **Internally Generated Funds**
- **Government Funds – project specific**

Sources of Funds for Agricultural Lending

1. Sources	International development agencies, national government, central bank, depositors, shareholders etc.
2. Conditions	Commercial or concessionary, voluntary or compulsory deposit, long-term or short-term, fixed interest rate or variable rate

Sources of Funds (SoF) for Agricultural Lending: Pros & Cons and Recommendations

SoF	Advantages	Disadvantages
Government loans	<ul style="list-style-type: none"> • Low financial costs • Low interest rate risk 	<ul style="list-style-type: none"> • High administrative costs • Unpredictable and limited supply • Limit autonomy • Negative effects on repayment discipline
International loans	<ul style="list-style-type: none"> • Low financial costs • Long-term funds 	<ul style="list-style-type: none"> • High administrative costs • High foreign exchange risk • Unpredictable and limited supply • Negative effects on repayment discipline
Central bank loans	<ul style="list-style-type: none"> • Low financial costs • Stable supply 	<ul style="list-style-type: none"> • High administrative costs • Negative effects on repayment discipline
Compulsory deposits	<ul style="list-style-type: none"> • Low financial costs • Low degree of direct external intervention 	<ul style="list-style-type: none"> • Unpredictable supply and conditions • Negative effects on repayment discipline
Savings deposits	<ul style="list-style-type: none"> • Low financial costs • Permanent minimum core balance • Improve information on loan clients • Unlimited source • Incentives for good governance and management 	<ul style="list-style-type: none"> • High fixed operational costs • High liquidity risks due to volatility • High interest rate risk • Reserve requirements • Have to be mobilized actively
Commercial borrowings	<ul style="list-style-type: none"> • Fast supply • Fixed amount of known duration • Incentives for good governance and management 	<ul style="list-style-type: none"> • High financial costs • Costly disclosure of information • High interest rate risk • High liquidity risks
Debt instruments	<ul style="list-style-type: none"> • Long-term funds of known duration • Low interest and liquidity risk • Incentives for good governance and management 	<ul style="list-style-type: none"> • High financial costs • Costly disclosure of information • High asset quality required

Sources of Funds for Agricultural Lending (cont.)

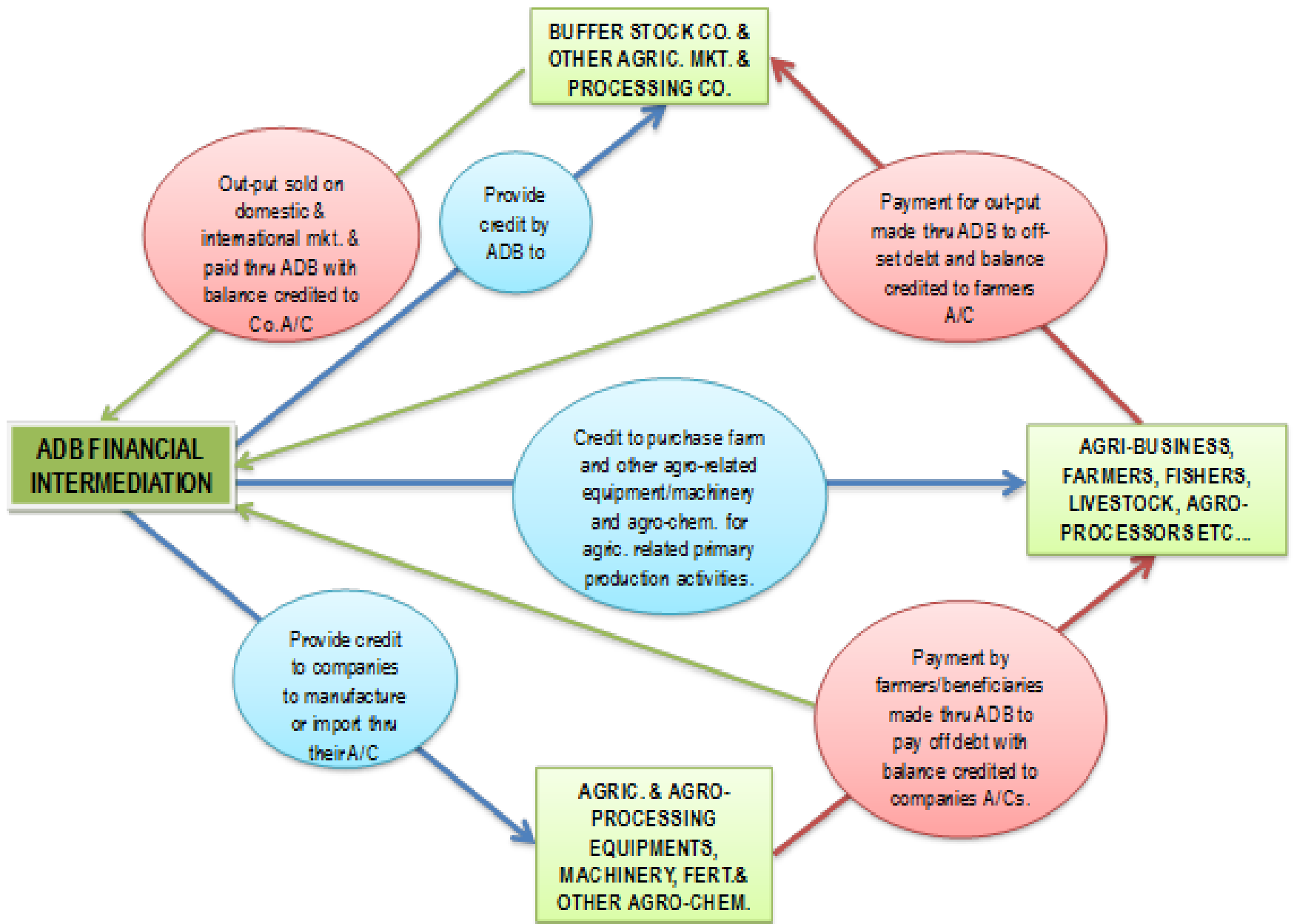
Equity	<ul style="list-style-type: none">• Flexible costs• Long-term funds• Leverage effect• Risk cushion	<ul style="list-style-type: none">• Limited supply• Difficult to raise• Expensive in the long run (if it is not a donation)• Additional decision-makers
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Some Existing Funds for Agricultural Financing in Ghana

- **Out-grower Value Chain Fund (OVCF) – KFW**
- **Rubber Out-grower Plantation Programme (ROPP IV) – AFD**
- **Rice Sector Support Strategy (RSSP) - AFD**
- **Northern Rural Growth Programme (NRGP) – AfDB/IFAD**
- **Root and Tuber Improvement and Marketing Programme (RTIMP) - IFAD**
- **Rural and Agriculture Finance Programme (RAFIP) -IFAD**
- **Export Development and Investment Fund (EDIF)**
- **Millennium Development Authority (MiDA) - MCA**
- **Africa Enterprise Challenge Fund (AECF) - AGRA**

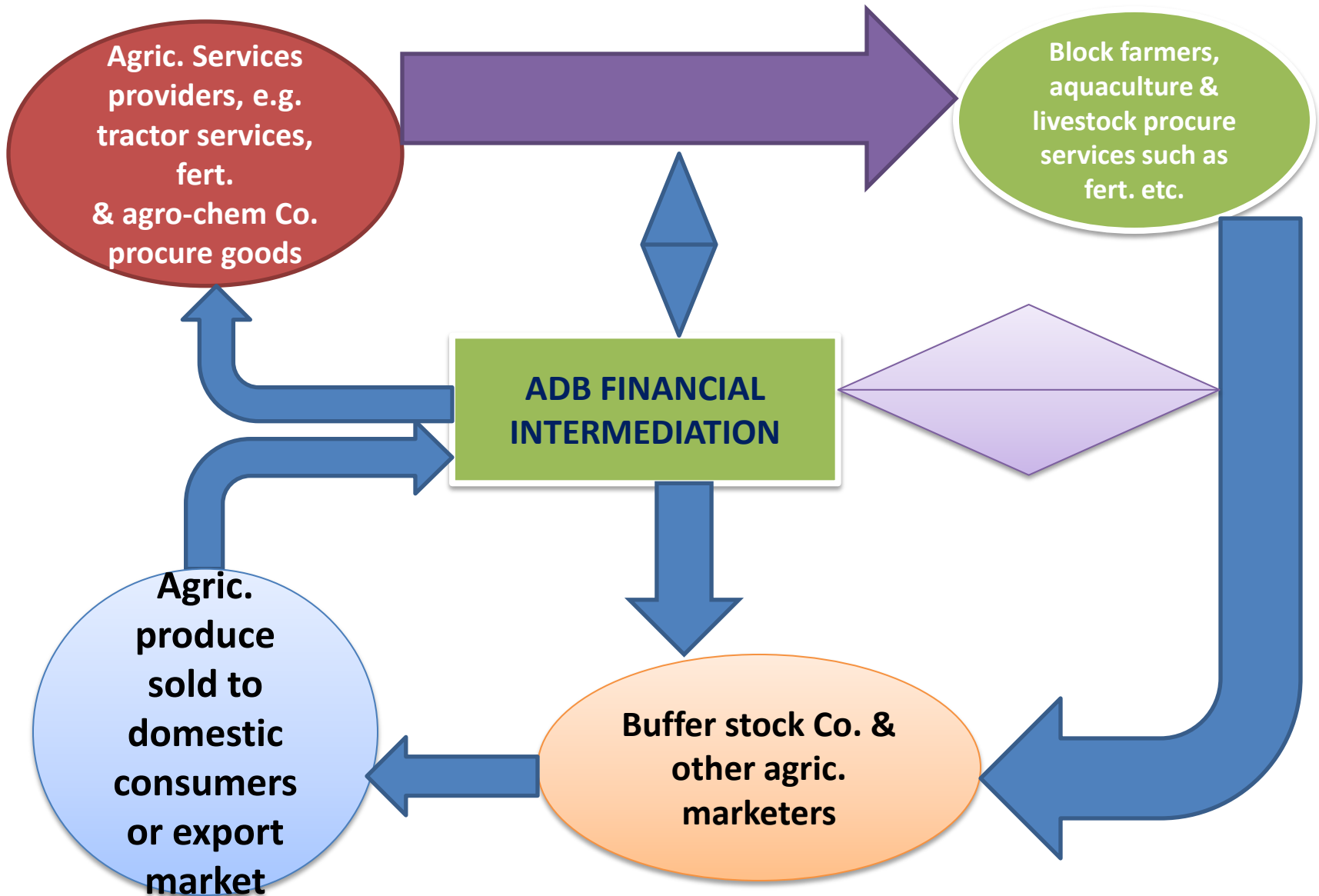
Integrated Agricultural Financing Framework

- **Enhance the timeliness, efficiency and effectiveness of agricultural credit delivery and recovery**
- **Minimise the misapplication of agricultural credit by beneficiaries since beneficiaries have access to little cash**
- **Reduction in the transaction cost of credit administration**
- **Timely provision, procurement and delivery of agricultural inputs and services**
- **Ensure the synchronisation of agricultural inputs with farmers' requirement**
- **Synergy between agricultural production with processing and marketing**

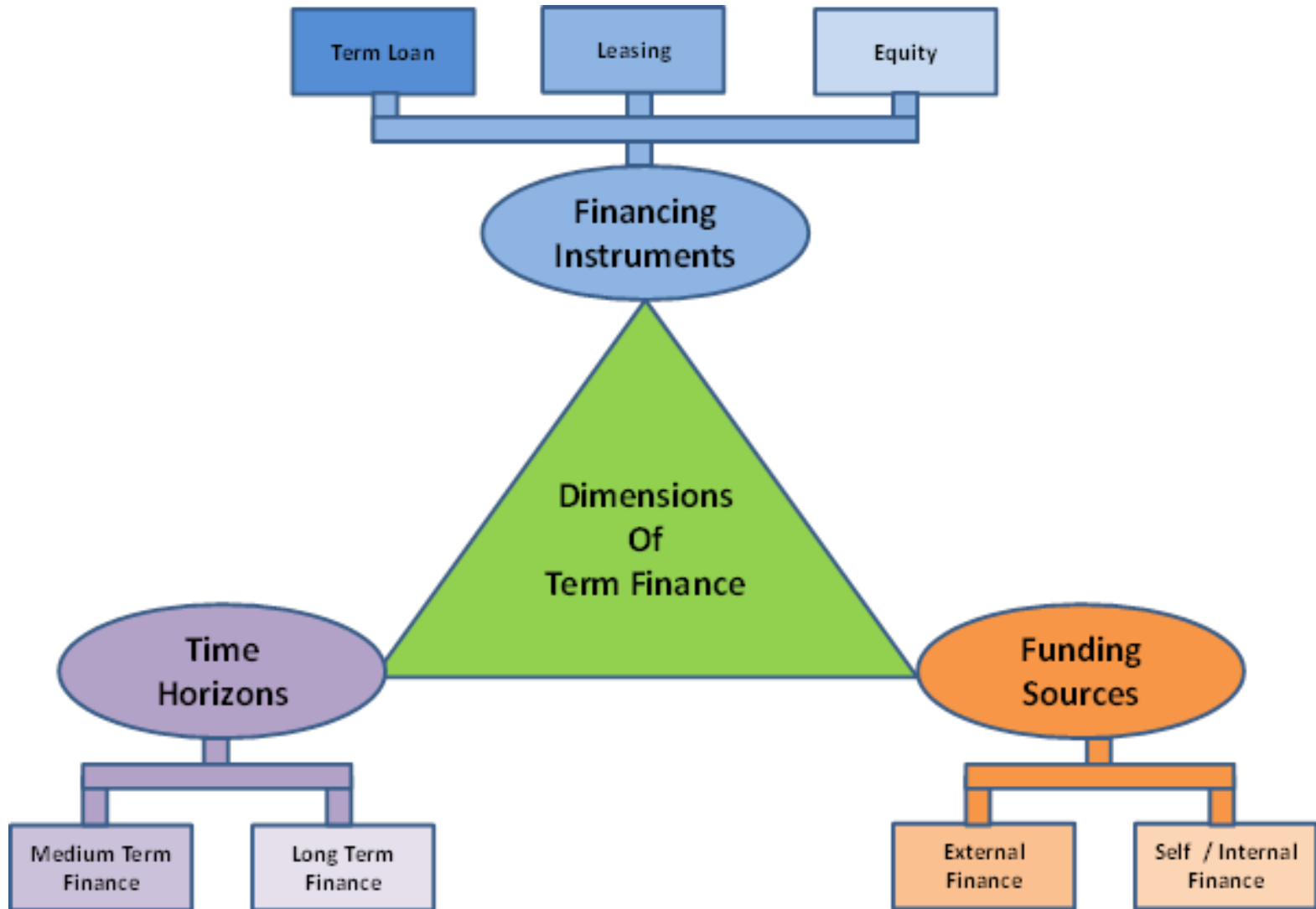


Integrated ADB Term Financing Framework

Integrated ADB Scheme Lending & Recovery Framework



Dimensions of Term Finance



Five Guiding Principles for Agriculture Finance Interventions

- **(i) develop and support access to a variety but coordinated financial services/products;**
- **(ii) support demand driven and innovative approaches to financing agriculture;**
- **(iii) encourage – in collaboration with private sector partners – market-based approaches that strengthen and yet avoid distortions in the financial sector;**
- **(iv) develop and support long-term strategies focusing on sustainability and wealth creation;**
- **(v) continues policy dialogues that promote an enabling environment for agriculture finance.**

What else can I say?

