Trade, Finance and Emerging Markets

PRACTICAL STEPS FOR IMPROVING SUPPORT AGGREGATION IN AFRICA: AGRICULTURE SECTOR

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RESPONSE TO CALL FOR COMMENTS

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Practical Steps for Improving Support Aggregation in Africa: Agriculture Sector

1. Set up a Trade Finance Fund for Africa

The challenge with having a Trade Finance Fund for Africa (TFFA) is effective monitoring and good governance of the TFFA. However, the primary challenge is the source of the funds needed to address the demands of 54 countries in Africa, where over two thirds of the population rely on subsistence farming. Owing to this, should a TFFA be set up, there may be a need for an additional body to be established to seek aid and donations from governments, private companies, NGOs and individuals to fund the TFFA. However, this may put an additional financial burden on the much-needed Fund destined for small-scale farmers. In addition, it might lead to a reduction in the amount of monies available for the development of agricultural sector as a whole. An alternative suggestion might be to work with the African Development Bank, in-country development banks and host governments to ensure viable loans are provided to farmers at the grass root level via co-operatives or NGO partnerships. This route may ensure a maximum level of penetration into rural arrears with utmost efficiency aimed at providing funding and donations to the beneficiaries. This will ensure fundamental resources are available to farmers for the development of the sector and their livelihoods. In effect, such collaborations may help reduce or, better still, avoid duplication or inadequacies as lessons can be learnt from previous case studies.

2. Specific Country Measurement

Appropriate reforms need to be put in place to maximise agricultural productivity, which is handicapped at the moment. However, due to the nature of farming on the African continent, while country specific measurement would provide statistics for each country and help focus on pertinent areas for development, this will be a huge task to mount. In reality, it is difficult to measure short, medium and long-term success at a glance, as different externalities per capita dictate the outcome of agricultural growth in sub-Saharan Africa. Such externalities include: unstable governments, political uncertainty, poor transport infrastructure, limited access to energy, poor equipment and techniques, decline in oil revenue and unstable markets, dependency on rain and delayed responses to climate change occurrences. Resulting from this, robust processes, workflows and effective monitoring need to be put in place by liaising with development institutions and relevant government ministries on a country-by-country (54 countries) basis, to obtain country specific measurements of agriculture productivity. This way, the whole process can be managed effectively and in a timely manner with positive impacts on respective countries.

3. Regional Country Measurement

The challenges and opportunities in Point 2 above apply here as well. Nevertheless, regional country measurement may be easier to manage and determine at the initial stage. Regions could be classified as Central Africa, East Africa, North Africa, Southern Africa and West Africa accordingly. These groupings may be easier to monitor and manage and the deployment of processes can be evaluated properly.

4. Programmes to Support Aggregation among Co-operatives

In the first place, the World Bank estimates 32% of Africa's GDP comes from agriculture which provides employment to 65% of the labour force on the African continent and 85% of the workforce are employed in the agricultural sector. In addition, there is an estimated 950,000 co-operative initiatives serving 13% of the world's population of over 850 million people. Therefore, the potential is huge.

Secondly, co-operatives create jobs and enable marginal informal sectors' activities like agriculture to grow into feasible lifelines for sustainable livelihoods and over 50% of worldwide agricultural produce are marketed via the co-operative platform, Department for International Development (DFID). For ease of reference, co-operatives can be set up by members of a community as a private sector enterprise to meet the needs of all the members. One of the challenges is that government or banks in many developing countries control the most effective co-operatives. In practice small-scale farmers seldom have the power to effect change that can enhance their economic development, as this has become a tool used in some cases for political patronage.

In third place, according to DFID, co-operatives can (with the right autonomy, membership and impact) sustain growth and make markets function effectively for poor people at the grassroots level. Examples of co-operatives in Africa are COOPAfrica in Kenya and Uganda, and FINCOOP, a savings and credit co-operative in Malawi. Traders and hawkers use FINCOOP because of its membership structure to save money, as street banks are seen as a high risk and costly. Its market share grew from zero to 16% and operates without external support despite the fact that 80% of its users do not have a bank account or access to credit. In addition, small-scale farmers are able to negotiate better prices for inputs, storage and transport facilities. This has led to the access of markets, value chains and processing activities. In a similar vein, Amul, the dairy farmers co-operative in India, is operational in 130,000 villages and boasts of incomes and value chains with over 7,000 distributors and 4,000 parlour outlets.

Fourthly, Africa's per capita agricultural output is only estimated at 56% of the world average. Existing markets are poorly regulated and outdated infrastructure indicates various programmes need to be aggregated to capitalise on its agricultural potential. This is, indeed, a great task. However, if suitable reforms are put in place in a timely manner to benefit small-scale farmers, the long-term forecast of the agricultural sector in Africa will be set to flourish.

5. Capacity Building among Co-operatives

An integrated approach must be adopted whereby co-operatives align their activities and operations with members' needs and requirements.

The benefits of setting up co-operative programmes are as follows:

1. **Meet the needs of small- scale farmers at grassroots level:** In most cases, co-operatives are based on values of self-help, self-responsibility, equality and democracy. Therefore, with good governance and a distinctive model private enterprise model, they can be the link between farmers and TFFA or development banks. Currently, there are existing co-operatives in sub Saharan Africa countries in the form of Saving and Credit Co-operatives (SCCOs) and unions. However, accountability should be at the forefront of activities to ensure that services such as marketing, distribution and training are made available for all members to maximise their output.

2. **Better service and low overheads:** Financial co-operatives better serve local communities in comparison to commercial or formal banks. Small-scale farmers can deposit small sums of money or open accounts with small sums of money and enjoy the benefits of low cost remittance fees. The World Council of Credit Unions (WOCCU) offers financial products of 1% in comparison to some commercial banks at 14% in Africa.

3. **Address market failures:** Co-operatives can address market failures especially at grassroots level where problems such as uneven access to information, lack of co-ordination with limited access to reach the poor exist. Many co-operatives have a different approach to the impact of "missing markets", risks, costs and the benefits of expanding markets to consumers compared to commercial banks, who are not willing to invest in such constrained situations.

KEY GROWTH AREAS IN THE AGRICULTURE SECTOR: AFRICA

Real Agriculture (Y-o-y% Change)					
	2013E	2014F	2015F	2016F	2017F
Angola	6.58	6.70	6.16	5.69	4.05
Cameroon	3.75	4.05	4.58	4.00	4.00
Ethiopia	4.90	4.40	4.90	4.80	4.90
Ghana	1.25	1.55	2.60	2.80	3.15
Kenya	5.50	4.80	44.70	4.80	5.00

Mozambique	**5.20**	**8.50**	**7.00**	**7.15**	**7.25**
Nigeria	**4.61**	**4.90**	**5.00**	**5.15**	**5.10**
Rwanda	**3.65**	**4.30**	**4.70**	**3.90**	**3.80**
Tanzania	**3.44**	**4.11**	**4.34**	**4.15**	**4.68**
Uganda	**1.50**	**2.93**	**2.85**	**3.90**	**3.50**
Zambia	**4.60**	**4.40**	**4.65**	**4.58**	**4.91**
Above are some African countries' forecasts for expansion in their agriculture sector based on the abundance of untapped arable land, political stability, government reforms, public and private ventures or improved infrastructure.					

Looking forward, trade, investment and development are a continuous problem on the African continent, which has led to low productivity, especially in the agriculture sector. Yet, statistics indicate this has been a source of sustainable livelihood sub-Saharan Africa's population. Despite the push towards agricultural diversification, Africa is struggling to become a food supplier for itself and the rest of the world. Small-scale farmers still have limited access to credit, which restricts their ability to fully participate in this sector in comparison to their counterparts in Europe, USA and Asia.

Recommendations:

Various programmes can be designed to support small-scale farmers in Africa. Key strategic development interventions can take the following forms:

a) **Integration Approach:** The local small-scale farmers should build integrated systems at the grassroots level and devise activities and structures that depict and address their needs. If value is added to this approach, the farmers' welfare will be optimised through them taking advantage of low cost co-operative schemes.

b) **Improve Marketing Opportunities:** Production and its enhancement can lead to marketing opportunities for small-scale farmers if other activities such as training on how to use modern technology to enhance production are provided to farmers and in schools for agriculture.

c) **Youth Deployment:** Youth 'bulge' in terms of unemployment in sub Saharan Africa is high. Capacity building and integrated process will provide opportunities for rural youth to improve their skills in business planning and training on how to use sophisticated agriculture technology to enhance their employment opportunities or enable them set up their own businesses.

d) **Develop Rural Industrialisation:** Devise agro-processing projects, where produce of the local farmers will generate higher economic returns to them. The aim is to strengthen agricultural credit and marketing systems by adding value to processing activities and increase the capacity for rural industrialisation. This will generate employment for specialised skill workers such as project managers who will ensure agricultural projects benefit from the full cycle of effective management and marketing.

e) **Loan Schemes:** Access to loan schemes will enable farmers' obtain sector specific loans / credit. This can be used to purchase agricultural technologies and techniques that will reduce the current infrastructure deficit and boost farm production, harvesting and delivery of crops both in country and inter-region. This will eliminate the lack of access to adequate farming infrastructure and reduce major food loss as direct links between farmers and consumers.

f) **Conservation Farming:** Cost effective conservation farming techniques such as crop rotation, timed planting, effective water irrigation and harvesting may decrease the depleted soils in Africa and increase soil fertility. Such simple farming methods will increase productivity and move small scale farming to 'motorised' farming.

g) **Strategic Management of Agriculture Donor Aid:** Young and seasoned farmers can benefit from receiving aid towards focus based agriculture development programmes, projects strategies and the right skill set needed to generate high crop yields. To date, agriculture development on the African continent is highly driven by donor aid from developed countries. However, without strategies that can benefit small-scale farmers and educational programmes designed specifically for the main beneficiaries, donor aid just gets lost within the corridors of bureaucracy in recipient countries. Access and adequate monitoring via co-operatives, or TFFA, in a timely manner will significantly enable the development of agriculture on the African continent towards being on par with Europe and America.

Practical Steps at a glance:

- Set up an effective targeted agricultural development programmes fund
- Support agricultural co-operatives at grassroots level
- Deploy agricultural, economic and infrastructural training schemes for all participants
- Enhance management leadership capacities and capabilities
- Focus on high demand and effective marketing and supply chains strategies
- Avoid time wasting duplication
- Identify differences at various levels e.g. region, country, urban and rural
- Create a standardized infrastructure policy for agro–based projects

- Provide great access to funds at low rates of interest
- Identify local and international consumer patterns
- Document lessons learnt for the benefit of all participants

Sources of Information

African Development Bank

Co-operatives in Social Development

Department for International Development UK

Grow Africa

International Monetary Fund

KPMG – Africa

ONE

One Village One Product Concept – Japan

PAMDA-Network International- India

Sendmoneyhome.org

United Nations Food and Agriculture Organisation

World Bank

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We appreciate your time and look forward to hearing from you with comments, feedback and the next step.