FINANCIAL INCLUSION STIMULATES AGRICULTURAL AND INDUSTRIAL DEVELOPMENT

Driving the development of enterprises, appropriate savings instruments and_objective, stakeholders need to understand what types of enterprises to enter into, in niche markets and small firms/enterprises.

Survey data compiled by Afrobarometer registered disproportionately low levels of trust by citizens across Africa, compared to other developing countries. This arguably constrains the development of financial institutions. Low levels of trust and transparency, access to affordable capital for enterprise, and decreasing supply chains, limit their ability to expand employment.

Creating competitive lending environments to support employment creation.

Improving access to capital for enterprise requires the development of better tools to assess risk.

Improving the commercial viability of small scale farming across Africa.

Training agricultural entrepreneurs to manage complexity.

In addition, increasing competition in credit markets and access to capital for enterprise requires the development of better tools to assess risk. The development of competition in lending markets (across Africa) has led to the emergence of new African (and other) financial institutions increasingly focused on domestic markets and small firms/enterprises. The once pervasive incentives for lenders to provide credit to national governments at high rates – which would be taken up due to poor fiscal management – have been removed and no longer crowds-out lending to the private sector.

In Kenya, for example, the brand recognition provided by products such as M-Pesa for mobile payment services and M-Bima for accessing insurance products via a mobile phone platform, has gone some way to overcoming the trust dilemma. The scheme has only recently been launched (so it would be premature to assess its impact), there are concerns that it might lead to over-regulation through a lack of flexibility and competition, as the current system is over-reliant on point of sale (POS) devices.

IMPROVING ACCESS TO CAPITAL FOR ENTERPRISE REQUIRES THE DEVELOPMENT OF BETTER TOOLS TO ASSESS RISK

For many agricultural enterprises, limited access to capital constrains their ability to expand employment. Securing access to affordable finance is hampered by a lack of adequate institutions which provide relevant information to build trust, transparency and adequately price and mitigate risk.

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levels of public trust might be attributed to the transatlantic slave trade and colonialisation. These brutal systems of exploitation and acquisition damaged community and regional social fabrics. Yet, in a country like Bangladesh, public confidence is also low and yet the development of financial institutions has made good progress.

Bridging the trust gap by developing new ways to reduce risk, would enable financial service providers and entrepreneurs to adequately identify, assess and mitigate risks through the development of appropriate indicators. These could then produce functioning and appropriate credit reporting systems. For providers, this ensures capital is being channelled to the most commercially viable enterprises and for the entrepreneur, reliable credit reporting data generates cheaper credit costs and more flexibility regarding forms of collateral (which is often scarce and might include: cattle loans, warehouse finance and credit card borrowing - used with designated suppliers) in lieu of credit history. In addition, establishing registries for mobile collateral (beyond mortgages and fixed collateral) to help plug the credit information gap may prove to be useful.

**IMPROVING THE COMMERCIAL VIABILITY OF SMALL SCALE FARMING ACROSS AFRICA**

The agricultural sector across Africa is characterised by small scale farming, some of which is commercial but most of which can be described as ‘too small to be big and yet, too big to be small!’. This results in such enterprises being served neither by microfinance institutions nor by banks and constrains their ability to access credit to grow. This unwillingness to lend is driven by a number of factors. Production risks, which resource-rich commercial farms are more capable of mitigating against (e.g. through index-linked insurance) compared to smaller-holder farm enterprises. There are price risks associated with whether revenues raised from sales can be adequately re-invested as well as covering the costs of production. In addition, there are risks associated with procuring good quality seeds and fertilisers. Furthermore, there is the lack of technical know-how and extension services (dissemination of useful and practical information related to agriculture) to help increase productivity and alleviate adverse environmental impacts such as deforestation which is often adopted to expand farmland. Furthermore, there are issues associated with collateral, particularly where land tenure and access to land (either buying or leasing) can be problematic. In order to support the profitability of the sector, what role might financial institutions and national and regional governments play in helping small scale farming enterprises build and develop business networks to mitigate those risks which prevent employment expansion across the sector? How can the advantages and limitations of small scale farmers working collaboratively through producer cooperatives be better understood? This might: promote intragroup/peer-to-peer lending, build extension services, support the development of more viable and sizable economic sales and procurement units through pooling, build value chains - which might commit to buying agricultural off-takes as well as provide access to technical assistance (through MNCs). This could all go some way to help increase levels of profitability, reduce risk and ultimately build resilience to expand employment for small scale farmers. Yet, while the collectivisation of small farms into coops could prove very effective at managing risks, the success rate of the cooperative farming model in Africa is mixed. Where coops have succeeded, the roots of the movement has been indigenous and built from the bottom up – as opposed to being imported from outside (e.g. through colonial powers or religious movements).

**TRAINING AGRICULTURAL ENTREPRENEURS TO MANAGE COMPLEXITY**

In supporting agricultural enterprises to expand employment, financial products and services needs to be local and affordable in order to meet both working/operational capital requirements as well as investment (for business infrastructure and equipment) needs. Ideally, such finance should provide the flexibility needed to promote investment in training entrepreneurs to manage complexity and risks associated with a number of factors:

1. Firstly, risks associated with financial cost, as profit margins are often lower unless large volumes are traded.
2. Secondly, access to capital needs to be provided at an appropriate time which is neither too early nor too late in the season. In addition, adequate timing is crucial to determine the best time to buy agricultural inputs and sell agricultural outputs.
3. Thirdly, accessing or identifying appropriate collateral and guarantees for businesses which often have very few fixed assets.

The often volatile nature of work in the agricultural sector (due to pricing, climate, quality of harvest, mitigating the impact of pests/diseases, etc.) is particularly acute for small enterprises. Support from financial institutions which helps these businesses understand issues such as the nature of the global commodity markets (as there are very few developed commodity exchanges in Africa excluding South Africa and Nigeria) and supports them to identify their target markets and main competitors etc. plays an important part in managing potential risks to smallholder farming (and ultimately increasing employment). Furthermore, financial institutions and donor agencies, diaspora communities, the business community etc. might explore building this risk management capacity through supply chains, trade facilitation and loan guarantees financed by match funding or commitments to buy products.
On the supply side, a useful example might include using weather or crop-based index-linked data to provide insurance coverage more competitively. However, without appropriate financial literacy and education, innovative products such as index-linked insurance can appear intangible and somewhat suspicious to end users. Thus, without developing financial capabilities, little benefit might be associated with insuring against a weather event that may not happen. On the demand side, SAB Miller’s experience in Colombia found that micro-retailers in their value chain, preferred to employ the use of informal money lenders who often charged exorbitant rates. Credit lines from banks were viewed with deep apprehension, as conventionally they had shown little interest in supporting access to finance for this sector or help to develop their businesses. SAB Miller was able to act as an intermediary between the two sides. Thus, the micro retailers’ MNC supply chain association provided what might be regarded as a ‘credit reference indicator’ giving banks the confidence to offer more affordable financial products and services to approximately 10,000 small retailers.

CONTRIBUTORS
Bayo Akindeinde, Team Leader, ENABLE - Enhancing Nigerian Advocacy for a Better Business Environment, a UK Department for International Development (DFID), Nigeria
Alexandre Berthaud, Financial Inclusion Program Manager, Universal Postal Union (UPU), the UN Agency
Dr Adotey Bing-Pappoe, Lecturer, International Business Economics, the University of Greenwich
Lord Ray Collins of Highbury (CHAIR), Opposition Spokesperson for International Development, the House of Lords
Leah Dembitzer, Consultant, Financial Sector Practice, Maxwell Stamp
Ngozi Eze, Women for Women Country Director, Nigeria
Matthew Gamser (SPEAKER), Head - SME Finance Forum/Women’s Finance Hub, International Finance Corporation
Kate Hallam, Investment Executive, Financial Inclusion Team, CDC Group
Joy Malala, PhD candidate, Warwick Law School
Maude Massu, Senior Microfinance Advisor, CARE International UK
Margaret Miller (SPEAKER), Senior Economist in the Financial Inclusion Practice, the World Bank Group
Karen Moore, Economic Security Adviser, Plan UK
Nico Mounard (SPEAKER), Managing Director Twin and Twin Trading
Bianca Shevlin, Sustainable Development Media Relations Manager, SAB Miller
Brienne Van der Walt (SPEAKER), Managing Executive, Barclays Africa AgriBusiness

OBSERVERS:
Vicky McAllister, Barclays
Emily Hallie, SAB Miller

NOTE TAKERS
Josephine Osikena, Foreign Policy Centre
Anna Owen, Foreign Policy Centre (by telephone)
Deniz Ugur, Foreign Policy Centre