Food and Agriculture Organization of the United Nations

FOOD SYSTEMS


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Strengthening financial services for roots and tubers value chains development in Africa

The demand for roots and tubers derived products has grown in the past decade, globally and regionally, leading to an increase in production in several African countries, where the majority of the producers are smallholder farmers. According to World Bank data (World Bank, 2013), this demand is expected to continue growing over the next two decades. In addition to this, governments in Africa are placing the commercialization of food staples at the center of national agricultural development strategies.

In spite of these opportunities for smallholders to commercialize their products in new markets, roots and tubers value chains in the region reain loose, fragmented and informal. Smallholders – both producers and processors – have a relatively weak collective bargaining power; they utilize low yield varieties, and their production and processing skills are weak, while the margins on the added value are often not paid off.

Small-scale producers and processors within roots and tubers value chains tend to rely mainly on informal financial service providers (such as informal moneylenders, friends and family, village loans and savings associations) to compensate for the lack of engagement of commercial banks and other formal financial institutions, who are unwilling (and often unable, due to gaps in technical capacity) to accurately target these actors with a tailored offer of financial services. A series of interventions are required to turn farmers and processors into more creditworthy and reliable clients for formal financial institutions. At the same time, measures are required to provide these financial institutions with tools and methodologies that can assist them in designing profitable and sustainable financial services that are suitable to the needs of roots and tubers smallholders and processors.

Investment potential in the roots and tubers value chains

Beyond the aforementioned market opportunities, roots and tubers value chains hold considerable investment potential for formal financial institutions (FIs) due to the following reasons: (i) the diverse end-uses for roots and tubers outputs

KEY MESSAGES

- Smallholders in the roots and tubers sector in Africa have great opportunities to access larger markets.
- Access to financial services is very limited for roots and tubers farmers and processors, though, due to weak capacities and fragmented value chains.
- A number of factors are key to increase access to financial services in the sector, such as regular information exchange; the fostering of financial literacy and business advisory services; and an enabling legal and regulatory environment.

in a variety of sectors (including food, beverages, animal feeds, pharmaceutical, flavouring, and spirit distilling from ethanol); (ii) the opportunities for institutional procurement (schools, hospitals, public offices); and (iii) the lack of competition in terms of formal financial provision, as FIs investing in the sector can be firstcomers in a rising market segment.

Constraints to financial provision

The lack of capacity to assess business opportunities within roots and tubers markets, and the consequent lack of interest in developing specialized financial services tailored to the needs of smallholders, result in a very limited supply of quality financial products. The only financial products for smalls-scale agriculture available nowadays present very basic features that are the same as those applied to non-agricultural markets (e.g. short terms, fixed repayment terms, no grace period), coupled with higher costs reflecting the transaction costs that are inherent to agricultural activities. Such financial products have no added value proposition, and are usually completely inadequate for the needs of producers and processors. Table 1 presents a list of select core constraints faced by both the demand and offer side of the financial provision equation, which impairs

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the development and dissemination of quality and tailored financial services in the roots and tubers value chains.

TABLE 1. Typical constraints in cassava and Irish potato value chains

ACTORS	CONSTRAINTS
Producers and processors	‣ Lack of organized value chain structures (e.g. producers' associations, cooperatives) ‣ Lack of access to conventional forms of guarantees and identity documents ‣ High geographical dispersion in rural areas ‣ Irregular income patterns and high risk exposure ‣ Low levels of financial literacy and weak credit culture ‣ Low access to quality seeds and seeds' multiplication systems ‣ Limited access to different market outlets
Formal financial institutions	‣ Minimal experience in agricultural financing (and roots and tubers value chain financing in particular) ‣ Lack of information and data on the roots and tubers markets ‣ Bias against lending to a traditional subsistence crop

Best practices to foster investments in the roots and tubers sector

Some encouraging new initiatives and approaches related to investment in the roots and tubers value chains have recently been documented, whose implementation can assist in overcoming the aforementioned barriers.

On the demand side, promising results have been achieved when the provision of financial education has been bundled with business advisory and other related extension services. Many farmers managed to access financial services from a financial institution, for the first time in many cases, after their competitiveness had improved as a consequence of: assistance received on financial literacy; adoption of improved varieties and intensified sustainable production practices; use of improved processing techniques; business planning; price setting and marketing.

On the supply side, targeted fora and business-to-business meetings to foster dialogue and the exchange of information between financial institutions and actors of the value chain have strongly helped to overcome the existing information gap. Once the interest of financial institution has been raised, they may need to be provided with technical support on products design.

Profitable investments have taken place through tripartite agreements and value chain schemes, where a financial institution lends to an established business, such as a renowned inputs provider, which in turn lends to farmers and processors, based on its first-hand knowledge of producers and traders.

Financial institutions that have experimented the use of alternative forms of collateral to be accepted as a guarantee for credit (e.g. moveable assets, group guarantees), have generally not registered any negative return on repayment rates, while access for farmers and processors has dramatically increased.

Recommendations for policymakers

- **Favour capacity building of formal FIs instead of subsidizing their operation costs.** Direct policymaking towards the fostering of FIs' capacity to develop a broad portfolio of different financial products, tailored on the needs of each value chain segment.
- **Facilitate the use of alternative forms of guarantees.** Develop a financial regulatory framework that has provisions to accept unconventional forms of guarantees, such as sale contracts, movable assets, livestock, and agricultural inventories. Investments in macro-level financial infrastructure, such as a national credit bureau, can also strongly increase FI's willingness to accept and allow alternative forms of collateral for their services.
- **Strengthen the structure and organization levels of roots and tubers actors' groups and cooperatives.** An enabling policy environment is fundamental to ensure the sustainability and recognition of these entities. This can be achieved, for example, through regulatory reforms that establish governance standards, as well as public initiatives aimed at strengthening the apex representatives of the roots and tubers cooperative movement.
- **Foster regular convening between value chain representative groups and formal FIs.** Facilitate exchanging of information. Over time, such meetings can be upgraded to stable fora and innovation platforms (physical and digital) for information exchange.
- **Create tailored State funds for roots and tubers financing.** Instituting a State fund dedicated to enhancing and complementing the offer of financial services for roots and tubers value chain actors – formally provided by FIs – can go a long way in ensuring that vital segments of these value chains are not financially excluded.

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Strengthening linkages between small actors and buyers in the roots and tubers sector in Africa

www.fao.org/in-action/african-roots-and-tubers

The FAO Agricultural Development Economics Policy Brief series is available at www.fao.org/economic/esa/policy-briefs

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