

A woman wearing a teal hijab is shown in profile, focused on counting a large stack of banknotes. She is seated at a table, and another person's hands are visible in the background, also handling money. The setting appears to be an outdoor or semi-outdoor structure with wooden walls.

## FINANCE

FARM AFRICA'S APPROACH

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**FARM AFRICA**

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# FARM AFRICA'S VISION FOR A PROSPEROUS RURAL AFRICA

Investing in smallholder farming is key to combating poverty in rural Africa. Prosperity depends on making agriculture work better, using natural resources well, creating strong markets for what farmers produce and facilitating access to finance to grow agri-businesses.

Almost half the world's extreme poor live in sub-Saharan Africa. The vast majority work in agriculture in rural areas. But agricultural yields and profits are a fraction of their potential.

The region is full of opportunities for growth, including much fertile land and water, and millions of smallholder farmers who are eager for change.

Farm Africa works with smallholders to develop practical solutions that work locally and can be replicated elsewhere. Our approach papers set what we aim to deliver, and how, in support of our vision of a prosperous rural Africa.



# PREFACE

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Farm Africa's approach papers set out what we aim to deliver, and how, in relation to:

## ■ Agriculture



- technology
- climate-smart agriculture
- land, water and environment

## ■ Environment



- forests
- rangelands
- landscapes

## ■ Business



- business development
- trade
- finance



# PREFACE

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**The access to finance approach paper focuses on the flow of cash to and through the value chain.** It sets out our approach to building the capacity of smallholders to optimise their cashflow and invest in new technologies.

It also explains how we assist agribusinesses, especially those that work directly with smallholders, to obtain **working capital** to buy produce and **equity/debt capital** to expand their businesses.

The paper derives from Farm Africa's longstanding experience in village and loan associations (VSLAs) and savings and credit cooperatives (SACCOs) across the region and builds on recent successes in preparing small agribusinesses for commercial finance in Kenya and northern Tanzania.

More details about our approach to market engagement can be found in the approach papers on business development and trade.

# WHAT'S THE ISSUE?

- Smallholders often do not receive prompt payments for their produce, don't have readily available cash to buy inputs and lack finance to invest in new technologies. They also often lack awareness about loans and savings that could potentially help them address critical cashflow problems.
- Farming and livestock rearing carry significant risk, especially in semi-arid areas that suffer frequent droughts, crop failure and livestock loss. Without some form of insurance, smallholders find it very hard to purchase inputs upfront.



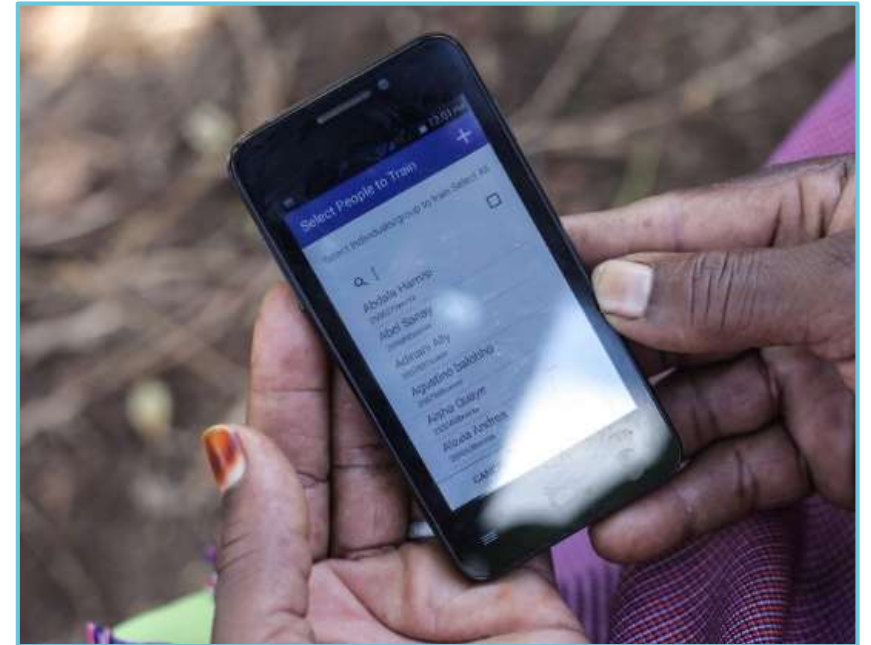
# WHAT'S THE ISSUE?

- Agribusinesses that sell inputs to smallholders and aggregate their produce find it hard to obtain working capital to purchase farmers' produce and offer inputs on credit. They are often too small and typically do not have the necessary financial records to convince commercial banks and investors to offer them loans and/or equity to expand their businesses.
- Commercial banks are typically risk-averse, often do not understand smallholder and 'first mile' business constraints and opportunities, and do not offer affordable financial products that address their particular needs. This is particularly true for clients who do not have physical assets or firm sales contracts to offer as collateral.



# WHAT'S THE ISSUE?

- There is growing investor interest in small businesses. There is also growing interest from international donors in blending public with private capital to bridge the financial needs of small businesses. However, private investors and donors are risk-averse and have limited experience in managing complex investment portfolios comprising large numbers of small businesses.
- The rapid growth of mobile payment and banking systems, and weather-indexed crop and livestock insurance represent real opportunities to bridge some of the constraints smallholders and agribusinesses face in their attempts at making the transition from subsistence farming to commercial agriculture.





# THEORY OF CHANGE

## MISSION

To ensure farmers and agribusinesses have the necessary cash to cover their daily expenses, investment needs and ambitions for growth.

## GOALS



Improved smallholder earnings and cashflow

Rise in working and investment capital for agribusinesses



## STAKEHOLDERS

Producers



Businesses



Financial institutions



Government

## OUTCOMES

Improved cashflow

Access to capital

Links with financial institutions

## OUTPUTS

VSLAs and SACCOs

Mobile money

Better contracts

Tailored financial products

Insurance

Gender-sensitive finance

# FARM AFRICA'S APPROACH

We work closely with smallholders, agribusinesses and financial institutions to **improve the flow of working and investment capital.**



# FARM AFRICA'S APPROACH

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We work with smallholders to develop access to finance via saving and loans associations, SACCOs and micro-finance institutions

We work with SMEs to elaborate their business cases and prepare for due-diligence processes to support requests for working and investment capital

We work with financial institutions to build awareness of potential SME and smallholder markets and develop bespoke, gender-sensitive financial products

We work with suppliers, buyers, financial institutions and smallholders to develop tailor-made contracts and ease their cashflow

We develop innovative ways to mitigate financial risk through crop and livestock insurance, collateral and loan guarantees

# METHODOLOGY

## 1. Assessment and planning

A. Analyse strengths, weaknesses, opportunities and threats with regards to access to finance across the value chain

B. Identify critical intervention points such as smallholder savings schemes and SME overdraft facilities



# METHODOLOGY

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## 2. Implementation

### A. Smallholder access to finance

- Mobile money
- Village Saving and Loans Associations (VSLAs)
- Savings and Credit Cooperatives (SACCOs)
- Microfinance Institutions (MFIs)

### B. Agribusiness access to finance

- Financial analysis
- Working capital and investment capital
- Preparing for due diligence

### C. Enhancing the role of financial institutions

- Financial products and capacity development of financial institutions
- Collateral
- Developing mutually beneficial contractual linkages between smallholders, agribusinesses and banks
- Crop and livestock insurance

# METHODOLOGY

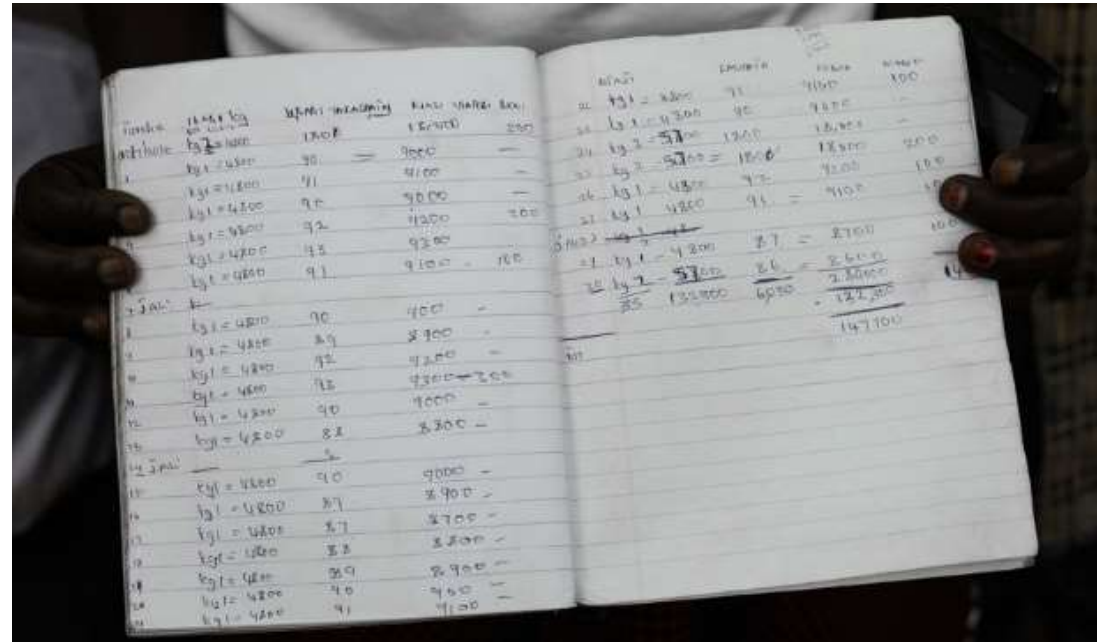
## 3. Learning and Adapting

A. Agree key metrics for success

B. Collect and analyse data

C. Collate feedback to and from stakeholders and adjust interventions accordingly

D. Consolidate learning and share with public and private sector



# HOW TO USE FARM AFRICA'S APPROACH PAPERS

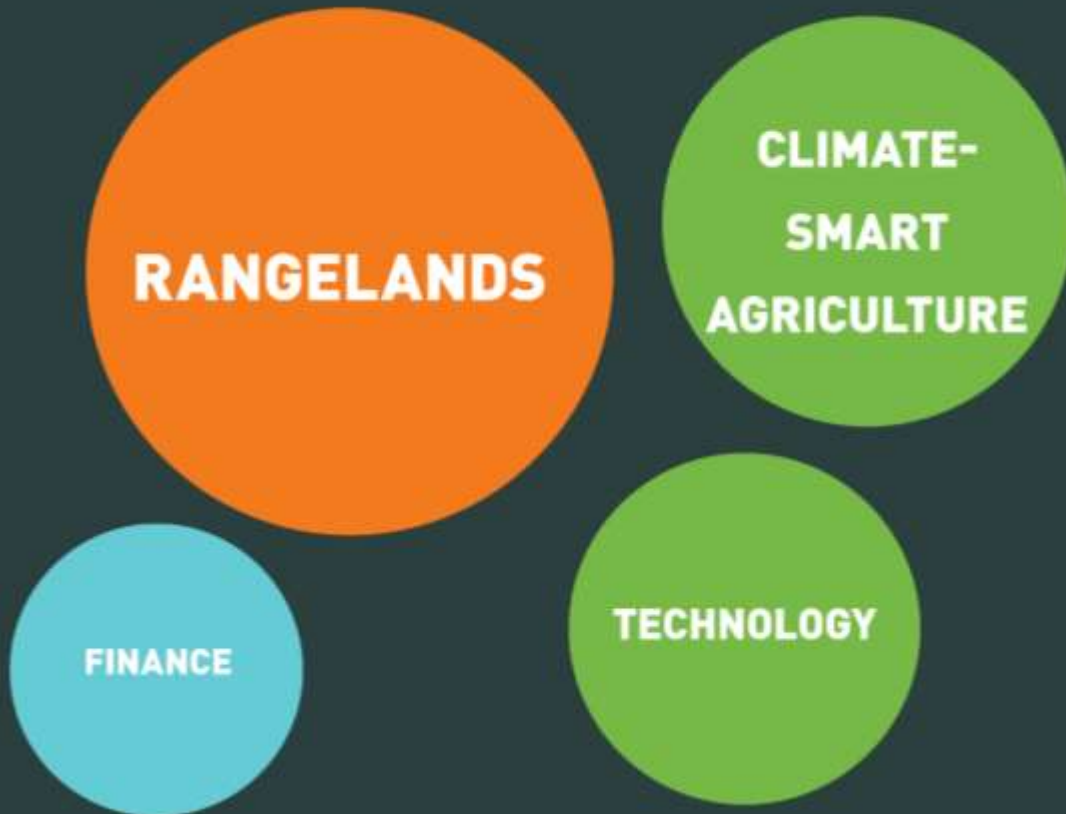


## What the approach papers are for:

- Provide clarity to the communities we work with and those who support us about what we do, and how
- Build coherence across our operations
- Ensure each project is based on our experiences, lessons learnt and consolidated knowledge

# HOW TO USE FARM AFRICA'S APPROACH PAPERS

## A typical natural resource management project



## How to use the approach papers in project design:

- The structure of our approach does not mirror the organisation of our individual interventions. The latter are constructed by combining elements from the approach papers – as illustrated in the diagram to the left.
- While the approach papers give detailed guidance about how to do things, this will not always be followed to the letter in all projects. Local context and needs will continue to guide Farm Africa's project design and implementation.

**We continuously learn and adjust our approach. The approach papers are regularly updated to reflect the dynamic nature of our experience.**