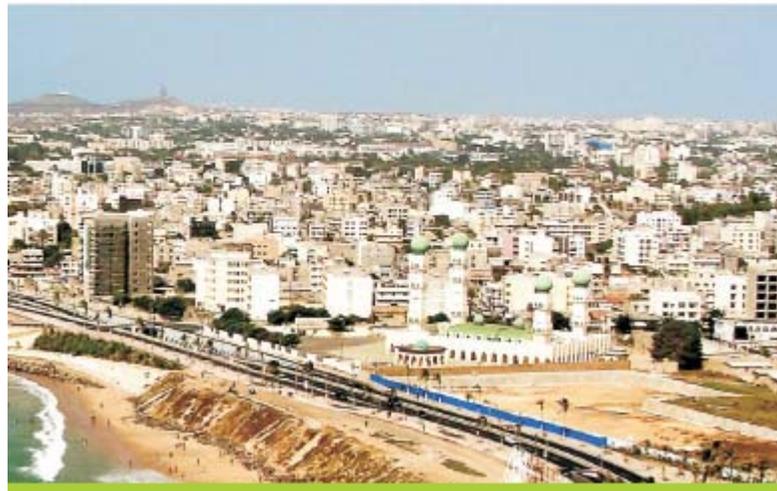




# Financing African Organic Agriculture: Mapping the issues



Malick KANE  
**UNCTAD**



## Background

2003 Maputo declaration: commitment to allocate at least 10 percent of national budgets to agriculture and rural development projects

Objective of promoting the development of OA endorsed by African Heads of State and Government in 2011

**3rd AOC, October 2015, Lagos, highlighted the need for effective funding solutions to foster the development of OA in Africa**

Commitment to support sustainable agriculture expressed in the 2015 Addis Ababa Action Agenda on Financing for Development



# UNCTAD studies on financing African Organic Agriculture

Limited data availability (lack of studies, little data collection)

2 studies; cooperation with AfrOnet and support from World Bank (Agrifin)

1st study published in 2016, based on inputs from OA stakeholders from 16 countries

2<sup>nd</sup> study (under completion) based on findings from the 1st study and inputs from financial institutions from 14 countries

**Even with limited resources, OA stakeholders can contribute to bridge the data gap**



## General data

Rates of investment per worker in African agriculture have been declining or have stagnated for three decades (FAO)

Agriculture share of Central Government Expenditures in 2015 (source FAO):

World: 1.29%; Northern Africa 1.47%; Sub-Saharan Africa 1.72%

Developing regions 1.87%

Agricultural contribution to GDP:

World: 4.99%; Northern Africa 13.85%; Sub-Saharan Africa 13.23%

Developing regions 7.07%

Share of agriculture in total credit flow in 2017 (source FAO) :

Africa > 4%; Asia and Pacific >4%; World 2.9%



## Key findings: funding needs

Only **3 percent** of respondents considered that OA stakeholders were completely able to meet their funding needs

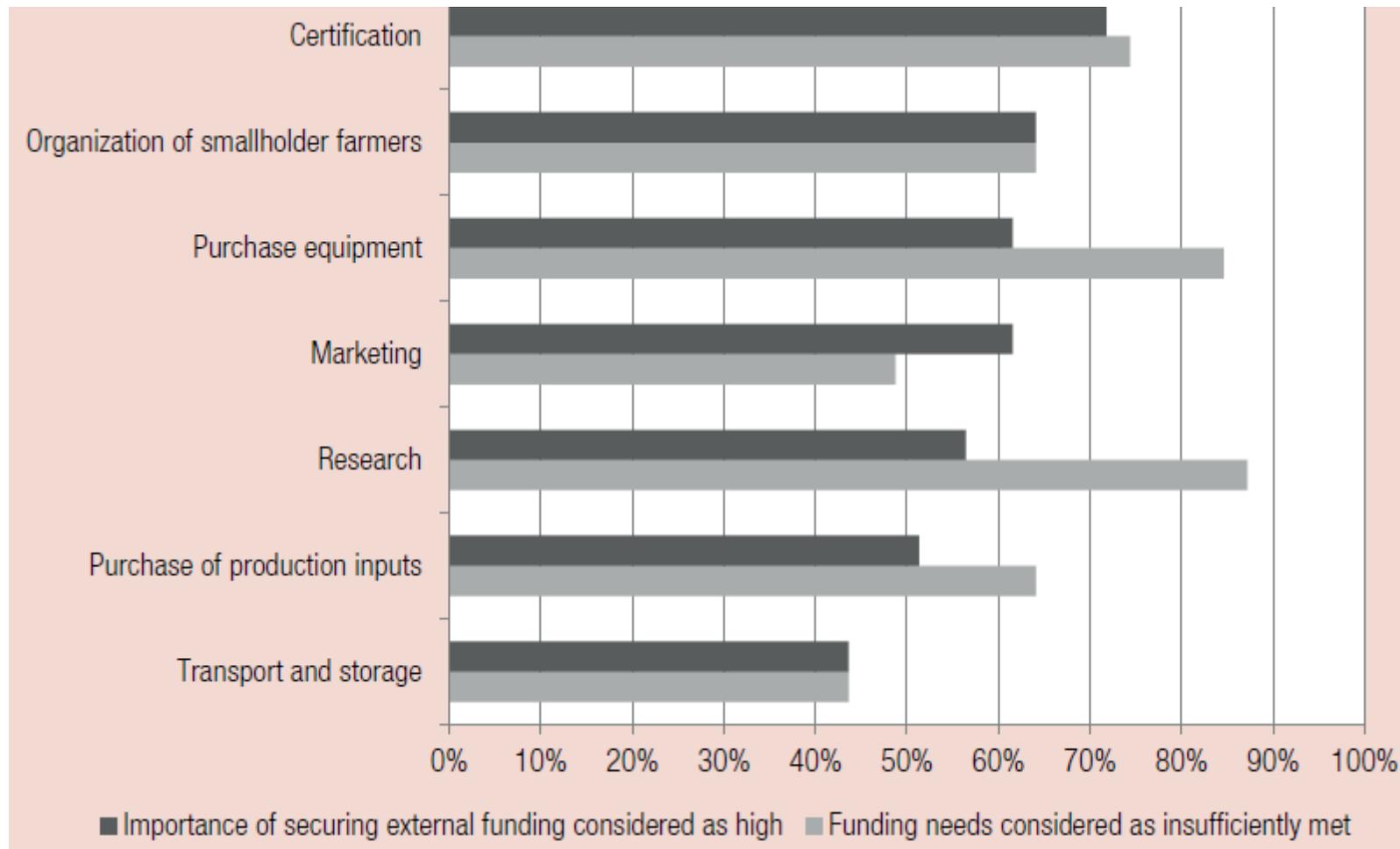
Despite awareness of market growth, **level of access to finance perceived as stable or more restrictive over the last 5 years** (87% of OA stakeholders and 67% of respondents from financial institutions)

**67 percent of surveyed stakeholders indicated that the funding needs of the sector were insufficiently met.** More than 70% considered needs insufficiently met for research, purchase of equipment and certification

Certification, organisation of smallholders farmers and purchase of equipment are viewed as the areas for which securing external funding is the most important by stakeholders



## Importance of external funding needs vs satisfaction of funding needs





## Key findings: Barriers to funding

Access to credit and other financial services in Africa is more restricted in agriculture than in other sectors of the economy → **67% of surveyed stakeholders that access to finance for OA is limited and only 5% consider it as effective**

Funding instruments (subsidies, grants, tax exemptions) are perceived as little available by a majority of respondents in both categories

**OA stakeholders perspective:** Limited credit backing mechanisms, lack of funding from commercial banks, high interest rates and restrictive regulatory framework, inaccurate perception and risk associated with agriculture (considered as strong limiting factors by approx 70% of respondents)

**Financial institutions perspective:** Land tenure regime, risk associated with agriculture and limited guaranties.



## Key findings: Barriers to funding

64% of respondents from the financial institutions indicate that **there is no differentiation between OA and conventional agriculture loans** and only 23% indicate that their institution offers specific loans for OA

Lack of clarity on share of OA in banks portfolio (43% of N/A vs 5% of N/A for agriculture in general)

**Organic certification not viewed as having a major impact on securing a loan** (least impactful among 6 parameter including fair trade certification)

**Major elements for securing a loan: sales contract (international 75%, domestic 64%), profitability (price premiums 53%)**



## Conclusions and next steps

- Overall lack of data on African organic agriculture production (volumes), domestic and export markets (sales/exports)
- Specificity of organic agriculture is not sufficiently taken into account by financial institutions despite initiatives such as AgriFin having demonstrated the benefits of a specific treatment
- Export oriented production is viewed as a privileged track for accessing finance
- Building a strong business for African OA is essential to successfully engage governments and financial institutions (ex. NGER)
- Further data collection and studies can be developed and publicized with the commitment of OA stakeholders in Africa

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