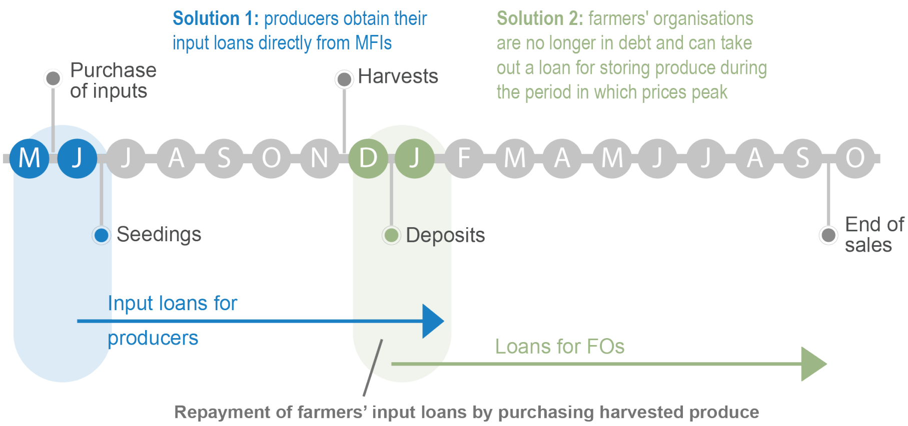
FARMER 2.0

Smallholder Financing Support Programme

The F2.0 solution

In sub-Saharan Africa, agriculture employs 60% of the working population and accounts for 23% of the continent's GDP, but only 3% of loans are allocated to this sector. F2.0 aims to change the financing logic to improve the situation.

With F2.0 farmers can become clients of MFIs and take out loans to buy their inputs. The farmers' organisations (FOs) which previously financed these inputs can instead take out loans to buy a portion of farmers' harvests, accumulate stock and sell it during the period in which food prices peak.



Target population

Smallholder farmers in sub-Saharan Africa

Sub-Saharan Africa today

Population : 1 billion
Banking penetration rate < 20%
Mobile phone penetration rate > 50%
Food market: $300 billion

Sub-Saharan Africa in 2040

Population : 2 billion
Banking penetration rate < 50%
Mobile phone penetration rate > 90%
Food market: $1.5 trillion

Source: The State of Agricultural Commodity Markets 2022, FAO

"Growth from agriculture is at least twice as effective in reducing poverty as GDP growth from other sectors."
- World Bank

Advantages

Producers	· Finance the inputs of the season · Sell their harvest at a fair price · Indirectly benefit from the profits generated by the FO
The farmers' organisation (FO)	· Increases its lending capacity for less risky activities (storage vs. production) · Uses its creditworthiness to finance a profit-generating activity (purchase/sale of stock) · Opts for electronic cash management
MFI	· Checks the purpose of the loans · Increases its activity (two loans instead of one) · Reduces its risk · Simplifies the administrative management of these clients

Contribution to SDGs

Project status in late 2022

F2.0 started as a pilot project in Senegal in 2020. In 2022, through seven partner MFIs and around fifty farmers' organisations, the programme financed:

- €800k inputs for 3,500 smallholders
- €400k for farmer organisations

Overview in late 2022

Institutions	# profit	Credits (€)
Ethiopia		
Wasasa	1 115	300 000
Senegal		
UIMCEC	555	186 339
MEC FADEC	337	14 198
Caurie	745	485 992
Baobab	455	157 016
Pamecas	238	49 122
CMS	7	7 205
Total	**3 452**	**1 199 871**

How F2.0 works

Two main factors explain the reluctance of institutions to finance the agricultural sector:

- Cost: small amounts, complex analysis, remote clients – all these factors contribute to making agricultural financing unprofitable
- Risk: no guarantees from producers, climate risk, unpredictable markets - the sector is rightly considered very risky

Front office F2.0 - demand for inputs

INPUT FINANCING

Since requirements are reported in the form of orders, the loan officer can finance hundreds of producers very easily. Disbursements are made from one account to another account at the MFI (producer account to FO account) based on input deliveries only, which guarantees that the loan serves its intended purpose. The loan officer's work is streamlined, even though field visits continue to be useful.

Streamlined key steps:

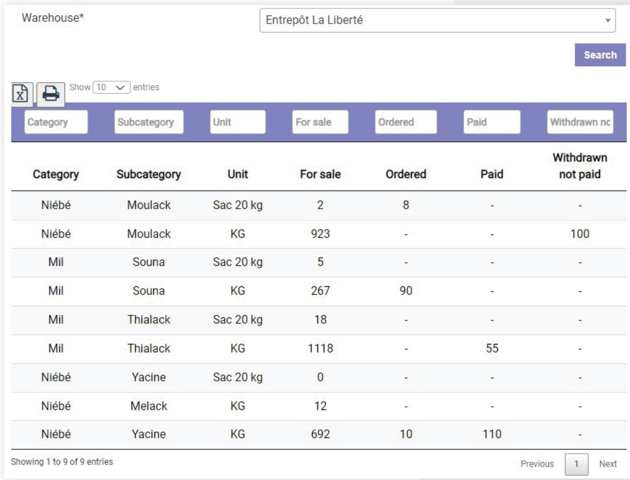
1 – Recording of farmers' needs (FO)
2 – Review of needs and approval of loans (loan officer)
3 – Loan approval triggers the distribution of inputs (FO)
4 – Payment for deliveries based on information confirmed in F2.0 (loan officer)

STOCK FINANCING

The FO obtains a loan at least equal to the sum of the input loans obtained by its members. This is used to purchase harvested produce from its members so they can repay the input loans. This stock will be sold when food prices peak, enabling the FO to generate profits. The increasingly valuable stock is the best possible collateral asset for the MFI.

Key steps streamlined:

1 – Storage of harvested produce by the FO. The data entry process is very simple.
2 – Once verified, these entries are added to the FO's stock
3 – The FO has order placement and stock-tracking tools
4 – The MFI can check the assets that serve as collateral for the stock loan



Category	Subcategory	Unit	For sale	Ordered	Paid	Withdrawn not paid
Niébé	Moulack	Sac 20 kg	2	8	-	-
Niébé	Moulack	KG	923	-	-	100
Mil	Souna	Sac 20 kg	5	-	-	-
Mil	Souna	KG	267	90	-	-
Mil	Thialack	Sac 20 kg	18	-	-	-
Mil	Thialack	KG	1118	-	55	-
Niébé	Yacine	Sac 20 kg	0	-	-	-
Niébé	Melack	KG	12	-	-	-
Niébé	Yacine	KG	692	10	110	-

Showing 1 to 9 of 9 entries Previous 1 Next

Back office F2.0 - Stock tracking

RISK MANAGEMENT

In terms of risk management, F2.0 can fully verify the correct use (allocated purpose) of loans. In addition to this direct impact, partner financial institutions are responsible for defining and implementing mechanisms that improve risk management, including:

- Increased savings
- Solidarity between FOs and their members
- Replacement of non-fungible collateral with current assets
- Sale of index-based crop insurance for the outstanding principal

Outlook

Following its implementation in Senegal and Ethiopia, F2.0 will continue to expand into West Africa via Togo, Benin and Côte d'Ivoire in 2023. Interested financial institutions can send an e-mail to: a.delavalette@ada-microfinance.lu.

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