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.

Advantages

- 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)
- Opt 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

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

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

Contribution to SDGs

Overview in late 2022

<table>
<thead>
<tr>
<th>Institutions</th>
<th># profit</th>
<th>Credits (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethiopia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wasasa</td>
<td>1,115</td>
<td>300,000</td>
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<tr>
<td>Senegal</td>
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<tr>
<td>UIMCEC</td>
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<td>MEC FADEC</td>
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<td>Caurie</td>
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<td>Baobab</td>
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<td>Pamecas</td>
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<tr>
<td>Total</td>
<td>3,452</td>
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</table>
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

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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ADA (Appui au développement autonome) is a Luxembourgish non-governmental organisation that leverages inclusive finance to strengthen the autonomy of vulnerable people by leveraging inclusive finance to improve their living conditions.