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**BRIEF DESCRIPTION OF THE AGRICULTURAL PRODUCTION
 SUPPORT AND FINANCIAL SERVICES PROGRAM:
 TO STIMULATE GROWTH OF AGRICULTURE
 IN EASTERN AND SOUTHERN AFRICA**

**Funded by USAID AFRICA BUREAU
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Coordination Office / Bureau de Coordination
 SAFGRAD

01 B.P. 1783, Ouagadougou 01 - Burkina Faso

Tél : 30-60-71/31-15-98

**Pilot PSAFS Study countries:
Ethiopia, Kenya, Uganda, Zambia and South Africa**

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AGRICULTURAL PRODUCTION SUPPORT AND FINANCIAL SERVICES PROGRAM FOR EASTERN AND SOUTHERN AFRICA

I. Background:

Some of the major constraint to rural enterprise development has been the paucity of production support and financial services and the weak technology transfer and commercialization systems. These constraints are especially evident in the sub-saharan Africa region. Improvement in these agricultural support services can help rural farmers and agribusiness producers increase incomes, become more food secured, and raise their general welfare. At present, the need for agricultural services, defined as transfer and commercialization of agricultural technology services, production support services, and financial services far exceed the ability to provide them. At the same time, there are several USAID field missions, other donors, and African based organizations that are providing assistance to make these services available. The rural landscape in sub-Saharan Africa remains replete with failed attempts to make agricultural production services available efficiently and in a sustainable manner. One lesson from these attempts is that existing resources are not being used effectively. Further, lessons gained in strengthening agricultural services are not moving across countries effectively. Farmers and agribusiness producers in the region have yet benefit from agricultural research results and available technological options. The goal of this program, therefore, is to promote effective agricultural services in the rural areas of some countries.

While the breath of agricultural services that need attention is quite extensive, the program will focus specifically on (a) financing services for rural enterprise development, including on-and off-farm enterprises, and (b) production support services.

A successful commercialization of the technologies resulting from agricultural research is a necessary condition to fulfill the requirement if agriculture is to assume its role in providing food and enhancing the overall economic development in Africa. Such large-scale commercialization can best be achieved by the private sector, but must satisfy certain prerequisites for its success.

The first prerequisite is an adequate institutional framework. At the present, agricultural services are dominated by public agencies, which will take time to be transformed into effective private sector entities. Therefore, an approach for a successful commercialization must include a transition period to insure that selected private sector entities get the technical capacity and managerial know-how to commercialize and services key technologies and that the legal framework allows for appropriate control and monitoring of the whole process. Here again, OAU/STRC-SAFGRAD will need to draw on its previous years' experience in implementing similar activities in Eastern and Southern Africa.

The second prerequisite is economics. A sustained adoption and commercialization of a technology will only occur if it is profitable for and beneficial to all actors involved, i.e., the producers, sellers, and end users. Sustained demand for and marketability of the technology are important considerations for sustained technology adoption; and a combination of private and public initiatives should be put in a place end product market efficiency.

Market liberalization, structural adjustments and macro economic policy reforms have all but eliminated government-owned and operated financial services in most African countries, therefore opening the door for commercial financial institutions and NGOs to deliver a variety of innovative financial services to rural economies. However, few of these financial institutions have taken up the task. Thus, rural entrepreneurs are forced to: (1) become reliant on external (donor) credit, (2) pay exorbitant rates of interest to informal money lenders, (3) lose local and regional market shares, and (4) watch their productivity and competitiveness decline due to too few financial services.

If rural entrepreneurs are to make greater contributions to domestic productivity, rural financial institutions must: improve their ability to mobilize savings; design innovation demand driven credit products; decrease their dependency on external (donor) funding sources; and manage the delivery of financial services more efficiently. There is need, therefore, to find new and innovative ways for delivering financial services.

Production support services, including extension, input supply (pesticides, seed, fertilizers, equipment, land and water management systems), technology transfer, information, produce marketing, veterinary services, research, input and product inspection, phyto-sanitary services, and technology commercialization have traditionally been the domain of the public sector. Efforts to strengthen production support services through the public sector-implementing agents have met with limited success and placed significant burdens on public revenues. Innovation in this area has languished.

In recent years, while there has been some concern about the sustainability of non-governmental organization (NGO) provide services, NGOs have played and increasing role in production support services, demonstrating in the process, that there are non-state agents with interest and capacity to provide these services. At the same time, business investment in the production support services has been limited, with missed opportunities for and the use of production credit as an effective entrepreneurial tool for vertical integration in agribusiness. This is due, in part, to government crowding out entrepreneurial efforts, the lack of funding mechanisms that have the confidence and trust of public and private funding agents that they will be responsive to their commercial and non-commercial interests, and the lack of a policy environment that induces private investment in production support services.

There is need to establish a framework for effecting agricultural support services that will enable increased access to and use of technology, increased cross border trade investment, improved production and marketing efficiency, increased access to finance and improved financial service delivery, innovative options to address institutional capacity constraints, and options and best practices to strengthen and improve production support services. There is also need to test and promote these innovative options through strengthened partnerships and networks, identify and share best practices and provide program and strategy development options to USAID field mission and African organizations supporting private sector production support and financial services.

II. Goal and Objectives:

The goal of the program is improve the capacity of rural farm and non-farm enterprises to increase their productivity and the incomes and employment of the rural population. The objectives of the program are:

A. Agricultural Technology Transfer and Commercialization

- To identify and commercialize more productive and promising technologies to improve farmers' productivity and facilitate the development of micro-enterprises.
- To improve selected private sector capacity for assessing socio-economic and technical constraints and opportunities for micro enterprise development in agribusiness, food processing and transformation.
- To facilitate women participation in agribusiness technology transfer and commercialization for food security and nutrition enhancement.
- To stimulate demand driven technology transfer and commercialization between beneficiaries and research institutes for sustained supply of technologies and related services.
- To strengthen linkages and partnership development between sources of technology and users of technology.
- To document experiences and lessons learned in technology transfer and commercialization.

B. Production Support and Financial Services

The overall objectives are (1) to develop a framework, including principles, for guiding efforts to strengthen production support and financial services; (2) to develop, test and promote innovative options through strengthened partnerships and networks; and (3) to identify and share best practices and provide program and strategy development options for supporting production support and financial services.

III. Strategy/Approach:

To achieve the stated goals and objectives, the following strategies/approaches should be adopted:

- **Develop Framework for Production Support and Financial Services** – A framework, including principles, operating structure and arrangement for guiding efforts to strengthen production support and financial services, as well as monitor performance of various options used or promoted, is a first and important phase of this activity.
- **Strengthen Innovative Partnerships formation/development and networks** – Identification of interest in improving production support and financial services and establishing partnerships and networks with USAID and other donor private sector, NGOs and other partners (i.e. input suppliers, traders, commodity groups, associations and cooperatives, financial service groups, research and extension organization, technical service groups, environmental groups, and education institutions) will be important aspects of the framework development to establish the foundation for the implementation of this activity.
- **Undertake Survey/Inventory** - To be able to characterize the major types of production support and financial services being supported by USAID field missions and interests in future support, it will be important to complete a survey and inventory of these services.
- **Identify Innovative Options to address constraints** - Formal financial institutions as well as informal financial institutions face various constraints in offering financial services to rural enterprises. These constraints need to be identified and analyzed and options developed for addressing them.
- **Establish Information System for Sharing Best Practices and Lessons Learned** - A system to share best practices, develop and catalogue information on supplier inputs and sources of technical and financial services must be established.
- **Development of skills** - Workshops and seminars to develop skills in new approaches to strengthen production support and financial services will be important aspects of this activity.
- **Testing and promoting innovative options** - Innovative options that have been developed will need to be tested and shared through strengthened partnership and networks.

- **Other approaches/strategies** – Other approaches and strategies that have not been addressed here can be include identification and allocation of resources and monitoring performance of options, service delivery mechanism to respond to requests for assistance, and others.

IV. Pilot PSAFS Activities

Initially, the Agricultural Production and Financial Services Program Studies will be undertaken in collaboration with stakeholders and partner institutions of the following countries:

Eastern Africa: Ethiopia, Kenya, Uganda
 Southern Africa: Zambia and South Africa.

V. Cooperating Partners and beneficiaries from production support and financial services

The key production support and financial service partners will include but are not limited to:

- FAO, ECA, UNDP and other development organization
- NARS and Research Institutes and University Research Centers in Ethiopia, Kenya, Uganda, Zambia and South Africa;
- IARCs operating in the region (i.e. IITA, ICRISAT, WARDA, ILRI, and ICRAF);
- Regional and sub-regional organizations such as ASARECA, SACCAR, Specialized Government Institutions;
- The sub-regional agricultural research networks
- Extension and support services agents such as national extension services, parastatals, (multi-national and local) and the private sector;
- Farmers' organizations and associations;
- Input suppliers and agents, including traders, processors, marketing agents, agribusiness firms and entrepreneurs;
- Financial institutions and financial intermediaries, moneylenders, and credit unions.
- NGOs- such as Africare, World Vision, ADRA, Technoserve, Global 2000, etc.

End-users of production support and financial services:

The key partners in this category would include but not limited to the following:

- Farmer producers, cooperatives, associations and groups)
- Agri-businesses (input suppliers, marketing agents, and traders)
- Commodity groups,
- Financial service groups;
- Processors and consumers
- Industrialists, including breweries

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