Shine a light on the gaps

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This essay is part of a special edition being published in partnership with Foreign Affairs, titled "African Farmers in the Digital Age". This anthology explores the future of African food systems and the role that digital solutions can play in overcoming the isolation of smallholder farmers and speeding up rural development.

©Gilles Paire via 123RF - the vegetable crops in Burkina Faso is the main activity in the summer when there is rain to irrigate and make a reservation of nourishment for the year.

Financial inclusion matters for Africa's smallholder farmers

Agriculture forms the backbone of African economies, accounting for 32 percent of gross domestic product (GDP). A majority of the continent's farmers earn their living on small plots of less than two hectares, which represent 80 percent of all farms across sub-Saharan Africa. But these smallholder farmers are largely excluded from financial services and are therefore constrained from improving their wellbeing and transforming their farms into economically viable businesses. Although smallholder farmers face a number of challenges to raising productivity, bridging the financial access gap must be a priority.

There is much literature on expanding financial inclusion among the world's poor. The issue has been a development priority since Group of Twenty (G20) leaders launched the Financial Inclusion Action Plan in 2010. But Africa's smallholder farmers have received little attention, and women farmers - who make up half of the continent's agricultural labor force - have received even less.

Being excluded from financial services has negative consequences for smallholder farmers. Access to credit can help raise farm productivity by expanding access to inputs as well as better storage, marketing, and processing. Access to savings instruments at harvest enables families to put money aside and helps smooth consumption at other times of the year. Access to payment platforms can offer a secure and efficient way to make transactions. And access to insurance products can protect against illness and weather-related shocks.

In the absence of these formal mechanisms, smallholder households often rely on informal instruments. Although they are accessible and flexible, informal financial services can also be inefficient and costly in the short term, and they do not always offer the services needed to help transform subsistence farming into a profitable business.

Understanding farmers' needs and the range of financial services they rely on to meet those needs, must be the first step. But translating this knowledge into tailored products will be even more critical. While evidence is still emerging, digital solutions are at the forefront of these efforts.

Read the full essay here.

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