

Chapter 13

Microfinance Serving Agriculture Supply Chain in Dapaong, Togo in Western Africa

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ABSTRACT

This chapter examines the crucial importance of microfinance in the agricultural supply chains of developing countries. The study aims to determine the impact of microfinance on agricultural activities in Dapaong city in northern Togo. We used a case study approach by conducting semi-structured interviews with a representative group of 15 local farmers. We found that microfinance plays a key role in funding new projects and improving farmers' living and working conditions. However, agricultural financing is still limited due to the risks and specific challenges of rural areas. Additionally, microfinance hasn't yet helped farmers shift to more eco-friendly practices, as many still use chemical inputs. Consequently, microfinance does not fully contribute to the sustainability of global supply chains. Therefore, additional funds are necessary to enable this transition.

DOI: 10.4018/979-8-3693-4330-2.ch013

INTRODUCTION

Microfinance is a core element of the agricultural supply chain in developing countries. Indeed, as mentioned by Mentzer et al., (2001), financial organizations are part of the “ultimate supply chains”, ie. a supply chains integrating not only suppliers, customers and intermediaries but also companies involved in marketing, transportation and financial activities. By financing agricultural activities (purchase of seeds, investment in advanced mechanical equipment and digital tools for example), microfinance contributes to “provide the right products (quantity and quality), in the right amounts, to the right place, at the right time, and at a competitive cost” (Jaffe and al., 2010). By doing so, microfinance acts for food security but also for social and environmental issue whereas food supply chains have to integrate these topics in their day-to-day operations (Sjah and Zainuri, 2020).

Despite the development of microfinance activities in developing countries, financing agricultural activities (ie. one the first link in the agrifood supply chains) in rural areas remains unusual (Hollinger, 2004). The caution of microfinance institutions in financing agricultural activities can be explained by the characteristics of rural areas: dispersion, low population density, remoteness from urban areas, heterogeneity, lack of transport and communication infrastructure, climatic hazards, invasions of crop-destroying insects, lack of market outlets, low profitability, low level of education, lack of appeal for graduates to rural areas, and finally the absence of land titles that could serve as collateral (Diagne and Zeller, 2001; Lapenu, 2008; Nakano and Magezi, 2020; Villalba et al., 2023). Because of the risks inherent in the agricultural sector, financial institutions like the World Bank are often more involved in financing agricultural activities (Jaffe and al., 2010).

However, as Kendro (2012) shows, microfinance has a positive influence on the process of improving agricultural productivity and reducing poverty. More specifically, microfinance can contribute to the financing of three major categories of innovations commonly observed in the African agricultural sector that work towards increasing productivity and reducing poverty: 1) the use of improved inputs adapted to climatic and local constraints (seeds, organic composts, biopesticides) (Nakano and Magezi, 2020 ; Serpantié, 2009); 2) organizational innovations such as pooling factor costs (purchasing and sharing equipment, inputs, storage spaces), combining agriculture and livestock, and the knowledge and skill dissemination system from relay farmers (Zoundi et al., 2005); 3) the use of digital technology (thanks to mobile phones, computers connected to the internet, African farmers can receive information on agricultural product prices and weather forecasts, communicate with potential buyers, and get advice on farming techniques) (Baumüller, 2015; Subervie and Galtier, 2018).

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