Financing Urban Agriculture: Current challenges and innovations

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Urban agriculture requires financial and political legitimacy to increase its contribution to feeding cities. While there is increased political support for urban agriculture in many parts of the world, financial support for urban growers remains quite limited. Most urban producers lack access to credit and investment schemes and develop their activities with limited resources. From 2008 to 2010, local teams from 17 cities in the "Global South" carried out applied research, coordinated by the RUAF Foundation, on financing of small-scale urban and periurban agriculture.

This paper focuses primarily on innovative ways that the cities and some actors such as farmers, producers' organisations, local governments, micro finance institutions (MFI), banks and NGOS are facilitating small-scale urban producers' access to financing. The full synthesis of the research findings will be published in the near future, which will be announced on the RUAF web site.

Three key issues were examined in the 17 cities:

- (i) How public and private institutions finance, or could possibly finance, urban agriculture.
- (ii) Needs and demands for finance from urban poor engaged in urban agriculture, agro-processing or marketing. A central objective was to understand how and through which mechanisms these urban farmers all along the value chains are financing and expanding their activities.
- (iii) Ways to bridge the gap between existing and potential financial resources (the *supply* side) and the needs and demands of small-scale urban farmers (the *demand* side).

Background

The cities studied are a selective sample of primarily large cities where some form of urban and periurban agriculture is being practiced (see figure 1). Most of these cities have a population beyond one million inhabitants (Bulawayo, Accra, Ibadan, Amman, Sana'a, Cape Town, Belo Horizonte, Freetown) and four of them are megacities (Bogota, Lima, Shanghai, Beijing). Apart from the small municipality of Magadi, at the periphery of Bangalore, the remaining cities have between 500 000 and one million inhabitants (Ndola, Bobo Dioulasso, Porto Novo, Gampaha).

Most of the cities are either national capitals (Accra, Aman, Sana'a, Porto Novo, Bogota, Lima, Freetown, Beijing) or regional ones (Ibadan, Bulawayo, Ndola, Cape Town, Bobo Dioulasso, Belo Horizonte and Gampaha). Districts from Shanghai (Minhang), Beijing (Huairou, Tangzhou) and Magadi were chosen because they are positioned at the periphery of large metropolises and offer a more periurban perspective.

In this article, the concept of financing is not limited to micro-credit or credits delivered by banks and MFIs, as is the case in most of the scarce existing literature. *Financing is considered here as a highly complex and changing combination of: resource mobilisation, both monetary and non-monetary + savings + subsidies + credits.* One central argument is that this equation needs to be taken into account and serves as a basis for any consolidation of the financing system for urban agriculture. Approaches only focusing on credit are very limited and may only be useful for a small minority of the various producers.

Women farming group in Freetown, Sierra Leone who should be eligible soon to a loan, once they got a collective lease from the Government
(Photo Marco Serena)

The lessons learned from the study are divided into two parts: those related to the practices of public and private financing institutions, dealing essentially with credits and subsidies, and those related to the practices of urban farmers for resource mobilisation and savings.

1. Credits and subsidies

Based on the results of the study, three main conclusions can be drawn regarding the practices of public and private financing institutions.

a) Based on the results of a previous UN Habitat / UMP / RUAF investigation of 13 cases (also located on the map[1]), it was originally assumed that credits for urban agriculture were the exception and not the rule. But the more recent study showed that micro-credits for small-scale urban farmers do exist in various cities even if they are generally limited in scope and in number. Moreover, they are granted mostly for commercially oriented activities such as raising animals, agro-processing or marketing. These loans are relatively common in, for instance, Lima, Ibadan and Amman. This unexpected conclusion deserves further research.

(b) However, most credit institutions are reluctant to give loans to urban farmers for a long list of (good and bad) reasons (the details of which will be in the full report). The most common reasons given are: (i) a high rate of default; (ii) too-high risk because of possible crop failure, essentially for climatic reasons (e.g. Gampaha); (iii) limited financial management capacities of farmers (e.g. Ndola) and (iv) lack of proper title deeds or collateral.

(c) One conclusion common to various cases is that high interest loans provided by MFIs and conventional banks have had limited positive impact on the situation of poor farmers shifting from subsistence to more market-oriented activities. Central and local governments play a major role in the success and failure of city-level financing systems for urban agriculture. Their role is primarily to deliver subsidies (in some cases of significant value, such as in Cape Town). One key finding is the creative range of ways through which local governments are using their scarce resources. In addition, they tend to play a role in setting up public finance strategies covering a wide range of financial interventions that complement the banking and micro-finance system. Some of these interventions are presented below.

Seville, Community gardens in low income neighborhood, have received support from municipality, through the participatory budgeting process (Photo Yves, Cabannes)

2. Urban farmers' financing practices

A first key finding is that most poor urban farmers stand outside the formal institutional landscape. They usually self finance their activities through a rich array of solutions:

- (i) Loans from families and friends, or (less commonly) from remittances sent by some members of the family working abroad.
- (ii) Rotating savings systems are present under different names in different cities. Called *tontines* in Porto Novo, Osusu in Ibadan, *group savings* in Bulawayo or banquitos in Lima, they share the same basic principles with some local variations: small groups of persons saving; voluntary adhesion; each member receives the sums saved on a weekly and fortnightly or monthly basis.
- (iii) Cross subsidies from one item that is highly valued in a specific period (for instance raising and selling goats in Sana'a), which makes it possible to take risks on less profitable or risky products. These forms of multiple commodities produced at the same time on a family scale recall the quite resilient and traditional polycultivation and animal raising (polyculture /élevage in French) of family-based rural farming systems.
- (iv) Informal credits from input suppliers of seeds, pesticides or fertilisers who are willing to receive payment once the products are sold.

A second key finding is that urban farmers, in most cities, express a high level of need but at the same time are quite reluctant to ask for loans or even subsidies (where available). There are many reasons for this expressed by the urban farmers, the most important of which are briefly mentioned below:

- (i) The loans offered are generally not adapted to agricultural and animal raising cycles: *"the loans to be paid back in one year are not sufficient for livestock (Beijing)"; "timing is too short for reimbursement, and too long to be made available"* (Bobo Dioulasso - referring to the need for resources at a specific sowing time in the year, usually at the beginning of the rainy season).
- (ii) *"Too much bureaucracy"...."the process is onerous"... "lots of paperwork"..."no clear procedures"* are opinions expressed in cities as different as Porto Novo, Ndola, Sana'a and Bobo Dioulasso, highlighting the difficulties encountered with financial institutions.
- (iii) It is impossible to get loans without formal land titles required by banks as collateral or a guarantee. This was expressed by urban farmers in a large number of cities such as Magadi, India. Farmers are reluctant to apply for "impossible loans" or even subsidies that might require a proof of ownership of the land cultivated, which poor farmers usually do not possess.
- (iv) Much too high interest rates, primarily those imposed by MFIs, is a recurrent argument, even if some of the

loan takers accept the rates due to a lack of other options. Interests rates as high as 60 percent per year are offered in Accra, making it quite difficult for a poor urban farmer to reimburse the loans.

(v) Loans are not small enough: for instance in Bulawayo, urban farmers report that the loans offered start at 1000 dollars and are therefore beyond the farmers' repayment capacities. Similarly, other farmers argue that the financial products offered are not in proportion to their (limited) incomes.

(vi) Many of the interviewed farmers are reluctant to engage because of their limited capacity to complete funding applications, whether to obtain subsidies or a loan. For instance, the Freetown report indicates that "there is a lack of knowledge on how to obtain credits".

3. Bridging the gap between limited demand and restricted offer

In several of the 17 studied cities and in various more beyond the scope of the study, quite innovative solutions are currently improving the access of poor urban farmers to finance as it is defined below:

Urban agriculture finance = monetary and non-monetary resource mobilisation + individual and collective savings + subsidies in different forms + micro-credits and conventional loans.

These local experiments relate to the financial sector itself and to the enabling environment.

Improving the financial sector

The study documented five cutting-edge innovations for the financial sector itself. They are briefly mentioned here and will be more developed in the final report.

(i) Diverting or channeling **mainstream financial resources** to urban agriculture. Particular emphasis is given to four different sources:
   a. rural agriculture loans;
   b. housing loans and subsidies, to be used for the development of *"productive"* housing, encompassing the house itself as well as its immediate productive surroundings, e.g. a garden to cultivate vegetables or sheds to raise animals or develop home-based agro-processing activities.
   c. income-generating and job-creation loans and subsidies that marginally benefit the urban farmers;
   d. slum improvement resources and programmes that again very rarely consider urban agriculture.

(ii) **Evolutionary loans** with decreasing levels of subsidies that allow the urban farmer to pass through a couple of lending cycles from a high level of subsidy to a conventional banking loan.

(iii) Creation of **community banks** and creation of **local and regional currencies**, such as the Banco Palmas, in Fortaleza Brasil (http://www.bancopalmas.org.br/).

(iv) Credits for consumption (in local currencies) of locally produced or transformed food, such as in the case of the Banco Palmas. These credits were crucial to generate a locally sustainable financial system and are unfortunately very rare.

Generating an enabling financial environment

These innovations, despite not being of a financial nature, do have a direct impact on the sector:

(i) formal organisations and confederation of the various productive sectors
(ii) security of tenure
(iii) technical support (formulation of business plans)
(iv) participatory budgeting
(v) urban agriculture insurance system.

Formal organisations and confederations

One of the challenges faced by urban farmers and producers is that they are often not legalised and considered informal. As a result they are not eligible for support from most of the formal banking systems and public institutions.

Agrosilves, an organisation that represents a couple of hundred pig raisers in metropolitan Lima (see also article on page 56) has been successful in attracting the attention of two banking institutions and negotiating individual loans as a result of a collective approach. The credit institutions recognise the benefit of getting a critical mass of clients already "pre-selected" by Agrosilves. One of the most difficult obstacles to obtaining a mortgage is getting a proper land title that will guarantee the loan. This requirement can be by-passed in this case as Agrosilves issues a certificate of residence that is accepted as a proxy by the banks.

In the city of Ibadan, Nigeria, 21 of the 28 sectors that compose the All Farmers Association of Nigeria are locally organised in *"commodity associations"*. These associations provide the farmers with increased legitimacy, while at the same time identifying specific risks and specific financial needs of the different producers in terms of amount of loans, possible guarantees offered, grace period or duration of the repayment in relation to the cycle of production. Becoming organised is seen as important not only by the urban farmers themselves, but also by public and finance institutions.

Security of tenure

The lack of formal land titles appears to be one of the key obstacles to increasing the accessibility of urban farmers to finance. An on-going practice developed in Freetown, Sierra Leone, is a good example of how to address this bottleneck. *"The Freetown Urban and Peri Urban Agriculture Forum, involving key political institutions, credit institutions and farmers, designed an innovative financing mechanism in 2010. The new programme relies on authorities for the permanent allocation of valleys, slopes and low lands for UPA use. Land is allocated to registered and functioning farmers' groups for a period of five years for a token rent provided that they abide by the Agreement regulations. The group receives technical training and monitoring and, for farmers' groups participating in the scheme, four credit institutions (First*

Farmer group in Freetown (Photo Marco Serena)

International Bank, Access Bank, Luma Micro Finance Trust Limited, Salone Micro Finance Trust) have agreed to accept such land agreement together with the group's existing savings or current account as collateral for two purposively designed credit products (Personal comment, Marco Serena, 2011). The first is a microcredit of between 100 and 400 euros (repayment period 1 year); the second is a loan between 1000 and 2000 euros (repayment period 2 years) with a yearly interest rate of 24 percent. The number of households that could potentially benefit from the scheme once fully established is estimated at 2500."

Positive impact of technical support to urban farmers for formulation of business plans

One of the main reasons urban farmers are reluctant to try to get loans is their limited capacity to put together an application and more importantly a business plan that does not go against their own interests. At the same time, the financing institutions repeatedly mentioned the limited capacities of urban farmers at that level. The RUAF FStT programme, such as in Porto Novo, Benin, addresses this need. As a result, a first batch of 19 loans was approved by a locally established MFI to around 130 tomato growers.

Participatory budgeting

Participatory budgeting (PB) is a mechanism (or a process) by which the population defines the destination of part or all public resources[2]. It emerged in 1989 in Brazilian municipalities, of which Porto Alegre became the most emblematic. By 2010, at least 1400 municipalities in more than 40 countries had adopted PB as a means to define their financial priorities.

Some cities, such as Seville in Spain, Rosario in Argentina and Porto Alegre in Brazil have included urban agriculture projects as part of their chosen priorities. The results have been excellent as PB is a way to finance urban agriculture in a regular and endogenous way. This approach thus deserves much greater attention. The most interesting aspect is that PB offers a permanent and endogenous source of funding for organised urban farmers to finance what they exactly want and need.

4. Concluding remarks and looking forward

Findings from the research in 17 cities confirm and expand on previous findings in 13 cities, and can be summarised as follows: financing urban and periurban agriculture, in its broader sense, is and will be a major bottleneck to maintain, expand and scale up affordable and accessible food production in cities. Therefore, governments, banks and International aid agencies need to support urban farmers, all along each one of the steps of the value chain. They might want to concentrate on supporting, consolidating and transferring the innovations that are currently taking place in various cities and that are quite promising for the future.

On the other hand, urban and periurban agriculture cannot survive only through market forces. It needs serious support, which does not exist today. Therefore strategic decisions with a strong financial significance should be taken. For example: (i) national and municipal urban agriculture policies should have a strong and clear subsidy component aimed at unlocking the key bottlenecks of the finance system; (ii) specialised training courses and modules, both academic and vocational on the financial dimension of urban agriculture should be put into place as they do not exist today; (iii) support should be provided for the creation of a powerful funding facility (at RUAF international level) that could channel a mix of funding and subsidies to the sector, including small grants for subsistence agriculture, revolving local funds, grants for technical advice and support to business plans, guarantee funds and insurance facilities.

These steps are needed to effectively expand urban and periurban agriculture and increase the capacity of cities to produce affordable nutritious food, not only for those who are better off, but also for the poor and the oppressed.

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Notes

1) Cabannes Yves, Financing and Investment for Urban Agriculture, Chapter 4, pp 87-123 (incl. cases), in: Cities Farming for the Future, Urban Agriculture for Green and Productive Cities. Edited by René van Veenhuizen, 2006, Leusden, Netherlands
2) Cabannes, Yves. 72 Frequently Asked Questions About Participatory Budgeting. Quito, 2004, UMP-LAC, UN-HABITAT, UNDP, 46p, downloadable from http://ww2.unhabitat.org/campaigns/governance/documents/FAQPP.pdf