

## Transforming African Agriculture: *The Impact of a Digital Fiat Currency*

Africa is at the forefront of becoming the next global superpower for agriculture<sup>1</sup> - being the only continent where all crops found in the world can grow twice a year, containing sixty-five percent of the world's remaining arable land, having abundant access to water resources, favorable climate conditions, a young population and the capacity to adopt the latest technologies. Despite progress made by organizations such as the New Economic Partnership for Africa's Development (NEPAD) through the implementation of the Comprehensive Africa Agriculture Development Program (CAADP) which serves to advance and accelerate Africa's regional and global ambitions concerning agricultural growth, small holder farmers who are the backbone of the food system, comprising sixty-five percent of the work force and producing over eighty percent of food consumed in Africa face severe limitations generating revenue from their farms - with limited access to inputs, technology, finance and markets. According to USAID, there is a \$430 billion gap in financing for smallholder farmers continent wide<sup>2</sup>. Africa also produces approximately 600 million tons of food for 1.1 billion people. With less than 7 percent of arable land under irrigation, expanding irrigation continent wide is critical to accelerating production productivity which will positively impact wealth creation, health, employment, education, gender equality, infrastructure development and significantly reduce food insecurity in Africa at a faster pace. Agriculture is not only about farming. Making progress in aligning, harmonizing, coordinating initiatives and providing coaching, technology, financing and market support, are crucial steps in the process for Africa to achieve higher levels of sustainable economic development through accelerated growth in the agricultural sector.

The Agraria Africa Program implemented through the New Economic Partnership for Africa's Development (NEPAD) is a new vision for doing business in agriculture. This program will organize the private sector (all stakeholders in the agricultural value chain) including smallholder farmers into agribusiness and agro-industry in every country in Africa using irrigation technology as a driver in this process. The financial services industry is an important stakeholder with a pivotal role in accelerating financial inclusion, improving transaction efficiency, providing higher levels of transparency and greater opportunities for regional economic integration. It can also; render more efficient, the process of financing farm investments, improve post-harvest practices, create smooth household cash flows, enable better access to markets and maximize transaction security standards. For example, Mezzanine Ware with an estimated 800 million mobile subscribers and partners such as Vodafone offers comprehensive solutions for agribusiness to interact and transact with smallholder farmers. Master Card has launched 2KUZE enabling farmers to buy, sell and receive mobile payments for agricultural products in East Africa. Arguably, these providers are part of a growing trend in the financial service industry –providing

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<sup>1</sup> 2017 African Development Bank Annual Meetings: "Transforming Agriculture for Wealth Creation in Africa"

<sup>2</sup> USAID Guide to the Use of Digital Financial Services in Agriculture

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agriculture related financial services to smallholder farmers as a means to expand in a highly competitive market environment. According to GSMA, the digitization of B2P and G2P transfers within agricultural value chains could reach 2 billion dollars globally by 2020 providing mobile money operators with approximately 202 million dollars of additional revenue annually.

Despite the impact of the financial service industry in enabling digital access, mobile financial services and digital financial services for millions of people, sixty six percent or more of people in Africa lack access to formal financial services<sup>3</sup>. e-Money is helping bridge this gap and can provide a platform for small holder farmers to access mobile payments for micro loans, credit, insurance, better savings and payments mechanisms, reduced transaction times and costs, lower vulnerability to theft and loss. However, e-money lacks certain characteristics intrinsic to paper currency including interoperability between various e-money schemes and requiring intermediaries such as commercial banks to participate in the settlement process. Governments across Africa can leverage the latest regulatory technology providing Central Banks with the capability to transform paper currency into a Digital Fiat Currency - issued by governments, distributed across all payment systems and accessible from any mobile device. Creating a Digital Fiat Currency will unleash the full potential of paper currency in the digital realm by providing interoperability, instant settlement, trust, and higher security standards. This will restore the role of Central Banks in Africa as the sole issuer of currency by extending the application of existing currency laws into the digital realm and removing the requirement for complex regulations that govern current e-money schemes. This technology will also make it more effective for regulators, financial authorities and governments to enforce e-money regulations, seamlessly gather data in real time on all transactions flows and improve their capacity to monitor, secure and regulate the financial ecosystem.

Organizations such as the African Union need to continue building on initiatives such as the Lagos Plan of Action, the Abuja Treaty, the Minimum Integration Program, the Program for Infrastructural Development in Africa, the Comprehensive Africa Agriculture Program, the New Partnership for Africa's Development together with national and regional plans. Success in reaching higher levels of sustainable agricultural development in Africa involves providing a framework for small holder farmers to organize themselves into agribusiness and agro industry and in parallel, creating a conducive financial environment through regulations and policies that support the realization of a Digital Fiat Currency in all countries in Africa. The implementation of a digital fiat currency will create an open, non-exclusionary currency environment that invites immediate financial inclusion for all individuals with a mobile device and will result in greater participation in the digital economy, increase tax and other revenue collection, reduce the cost of physical cash,

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<sup>3</sup> World Bank Findex Database

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accelerate economic growth, lower service costs for mobile financial services and ultimately provide central banks with the control and visibility they require to regulate the financial ecosystem with better precision. A digital fiat currency issued by the central bank will also widen and deepen the value of e-money as a driver of financial inclusion while eliminating structural inefficiencies and systemic risks affecting current models of e-money<sup>4</sup> and allow small holder farmers in Africa to effectively leverage on mobile technology to reach higher levels of financial inclusion and participation in the formal African economy. Cross country estimates published by the World Bank indicates GDP growth originating from agriculture is two times more effective in reducing poverty compared to GDP growth outside the agriculture sector. When this model is implemented in every country in Africa, it will significantly increase business in agriculture, land equipped for agriculture, employment, the number of SME's participating in the agricultural value chain, wealth creation and productivity while considerably reducing poverty and hunger for Africa at a faster pace.

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<sup>4</sup> Solution documents "Benefits of eCurrency"