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TRANSACTION EFFICIENCY

Global demand for food is expected to increase by 70% by the year 2050, requiring at least $80 billion in annual investment. However, this level of investment will be difficult to achieve due to a number of barriers in developing economies, including the high transaction costs of lending to smallholder farmers and other agriculture value chain actors. In this context, technical assistance (TA) can be provided to help finance providers—including banks and other lenders—lower the cost of client acquisition, distribution, and servicing, in turn making the agriculture sector more attractive to serve. Reaching $80 billion in annual investment over the coming decades will require significant capital from the private sector, and accordingly, this kind of TA can have a catalytic impact on improving food production and food security across developing economies.

OVERVIEW OF TRANSACTION EFFICIENCY

THE BASICS

TA to lower the cost of providing agriculture financing can be used to help an established finance provider start serving the agriculture sector or increase its existing activity in the agriculture sector. There are many different models that finance providers can use to serve the agriculture sector. However, the best approach, and the corresponding TA support, should be designed based on the specific needs of the finance provider and the market context. For example, a finance provider serving a market with geographically dispersed smallholder borrowers could benefit from TA that lowers the cost of client identification, acquisition, and servicing. And a finance provider serving larger value chain actors, such as storage or processing companies, could benefit from TA that builds robust due diligence and risk assessment procedures. In tandem with such cases, technology may be leveraged as a tool to help improve efficiencies, including through use of mobile technology, online portals, payment platforms, or automated/streamlined processing.

This case study will dive into the Financing Ghanaian Agriculture Project (FinGAP) to explore how USAID has effectively provided TA to financial providers in Africa. To illustrate another innovative model for efficient lending to the agriculture sector, there will also be a brief description of how the State Bank of India partnered with ITC, a private sector company, to enable lending to farmers in rural locations.

KEY TAKEAWAYS

1. **TARGETING TA.** TA to create efficiencies and lower costs should be targeted at financing providers that will serve a segment of the agriculture value chain, in alignment with development goals. Conducting due diligence and choosing the right institution(s) to support are critical to this intervention yielding positive development impact.

2. **USE OF TECHNOLOGY**. Technology can be a disruptor to standard operating models—process automation, mobile, and geolocation technologies, to name a few, can help finance providers to lower costs in new ways and make it possible to reach new clients.

3. **ROLE OF PARTNERS.** External partners can bring unique assets or specialized capabilities to a financing provider that can then be used to create efficiencies. For example, a specialized network of agents can help source clients and prepare them to receive financing, or a partner with a physical distribution network can help reach clients in dispersed rural locations.

FINGAP MOBILIZING FINANCE FOR AGRICULTURAL VALUE CHAINS

Ten percent of Ghana's population is currently food insecure or at risk of becoming food insecure in the future. Food insecurity is particularly widespread in northern Ghana, where the poverty rate is twice that of southern Ghana. This is partly because northern Ghana relies primarily on the maize, soy, and rice agricultural value chains, which have been devastated by the effects of climate change. When coupled with limited agriculture lending by Ghanaian financial institutions, there is widespread insufficient access to finance for smallholder farmers, which significantly impedes the development of more-resilient farming

practices and impedes growth in the sector.

FinGAP was launched in 2013 by USAID's Feed the Future initiative, and is a 5-year program that takes a comprehensive approach to financing the maize, rice, and soy value chains in northern Ghana. Two main elements make up the FinGAP program: the Financial Sector Support Unit, focused on building agriculture lending capacity and capabilities within financial institutions (FIs), and the Agribusiness Development Unit, focused on building a network of external advisors to support FIs' agriculture lending activities. Despite the different focus areas of these two elements, they utilize similar methods, including training and technical assistance support (see Figure 1).

Through the Financial Sector Support Unit, FinGAP focuses on increasing FIs' capacity to provide agriculture financing using a small grants incentive program and technical assistance. Technical assistance has involved the development and delivery of trainings focused on building the capacity of 128 FIs and increasing the quality of their agribusiness portfolios. These trainings have covered topics such as due diligence procedures, financial analysis, and savings capture strategies. For example, the training program on savings capture strategies provided information to managers on how longer term bank deposits can be used to fund lending activities as well as mechanisms for lending to Small, Medium, including Large Enterprises (SMiLEs) at low interest rates.

Through the Agribusiness Development Unit, FinGAP helped establish a network of over 40 Business Advisory Support (BAS) providers focused on lowering financial institutions' barriers to serving the agriculture sector. The BAS providers identify strong enterprises in need of financing, deliver investment preparatory TA for potential borrowers, and help structure financing arrangements. In order to establish this network, FinGAP undertook a significant effort to recruit top talent, provided supplementary training, and signed contracts with BAS providers who showed potential to connect SMiLEs with financing opportunities.

FinGAP's program provides ongoing technical assistance to BAS providers to strengthen their performance. This has involved training 43 BAS providers on competitive alternate financing mechanisms, marketing techniques, digital financing, and financial analysis. By offering these types of value-add services to SMiLEs, BAS providers are more effective at preparing their clients to grow and access financing. For example, BAS providers used insights from the alternative financing training to help SMiLEs list securities on the Ghana Alternative Market, and they leveraged skills from trainings and connections from FinGAP conferences to help SMiLEs develop strong business plans and apply for financing.

To help coordinate the efforts of the two TA programs, FinGAP invited exceptional BAS providers to participate in FI training programs. By developing relationships between the two constituencies, the BAS providers were able to further build their knowledge of FI financing requirements, increasing the likelihood of financing being successfully deployed.

To date, FinGAP has provided over 4,000 hours of TA support to FIs and has helped generate a 6% increase in the size of agricultural lending portfolios at participating FIs. As a result of FinGAP's broad TA endeavors, both FIs and BAS providers have developed new tools to improve their agribusiness financing activities. For example, one FI developed an agricultural cash flow analysis tool to help align crop budgets with the calendar in order to forecast borrower cash flow and financing needs, thus improving lending efficiency. Additionally, the BAS network has successfully improved their client acquisition and service delivery operations, closing 120 financing deals for SMiLEs since FinGAP's inception. Overall, FinGAP has catalyzed more than $100 million of investment into the maize, rice, and soy value chains, impacting the lives of more than 80,000 smallholder farmers.

ITC AND STATE BANK OF INDIA, USING E-CHOUPALS TO ENABLE SMALLHOLDER LENDING

Agriculture represents 23% of India's GDP and employs 66% of the workforce, but many smallholder farmers cannot access financing due to the high transaction costs associated with rural lending and concerns over farmers' lack of formal credit history. The State Bank of India (SBI), one of the largest and oldest banks in India, partnered with ITC, an Indian private sector conglomerate, to improve the cost-effectiveness of providing loans to smallholder farmers. This is an example of how an innovative partnership can be used to help traditional finance providers reach rural customers at a lower cost than would otherwise be possible. As part of their agricultural business, ITC developed the e-Choupal program which provides computers and internet access to rural farming villages. Through the ITC internet portal, farmers can access information on weather and market prices, learn farming best practices, and purchase agricultural inputs. As of 2014, there were 6,500 e-Choupals in operation, reaching more than 4 million farmers across India. While the e-Choupal model makes it easier for farmers to purchase higher quality agricultural inputs, oftentimes

farmers' low income and inability to access credit put these inputs out of reach, limiting their ability to grow.
To address this need, SBI partnered with ITC, leveraging the e-Choupal network to reduce the cost of lending to smallholder farmers. ITC contributes to this partnership by collecting information on the credit history of smallholder farmers and continually monitoring their credit through each e-Choupal's sanchalak (the individual farmer responsible for the hub). ITC then shares this data with SBI, helping SBI make more-informed lending decisions and allowing it to avoid the high cost of collecting and maintaining this information itself. Overall, this IT-enabled partnership model greatly improves SBI's operational efficiency, helping it expand its lending activity to smallholder farmers.

For more information on the partnership between SBI and ITC, including how the e-Choupal network is being leveraged to enable lending to smallholders, please see this World Resource Institute Report.

SOURCE LIST

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