Driving Impact through Agricultural Finance Interventions

Objectives of this Primer
- Demonstrate the role of agricultural finance interventions in alleviating poverty, strengthening food security and unlocking private capital to meet Global Food Security Strategy (GFSS) objectives
- Highlight case studies of impact from agricultural finance interventions

Why is agricultural finance important for economic development?

**Investments in agriculture are 3-4 times more effective in alleviating poverty compared to non-agricultural investments**, particularly in low-income and resource-rich countries such as Sub-Saharan Africa.¹

**Catalyzing finance for agriculture fortifies food security, nutrition and local markets** by improving farm yields as well as the output quality, efficiency and connectivity of actors along the agricultural value chain.

**Agricultural finance interventions can unlock massive private sector capital.** The private sector may be able to provide 75% of the estimated USD 480 billion global demand for agricultural finance² in order to achieve the UN’s Sustainable Development Goals.³ When done well, agricultural finance interventions can prime a self-sustaining financial ecosystem that facilitates credit and persists long after USAID programs have ended.⁴

What are specific examples of impact?

**Agricultural finance interventions can …**

<table>
<thead>
<tr>
<th>Reduce poverty</th>
<th>Strengthen food security</th>
<th>Prime a financial ecosystem</th>
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<tbody>
<tr>
<td>• …facilitate higher-income employment</td>
<td>• … improve smallholder productivity through higher-quality farm inputs</td>
<td>• …facilitate new loans that would not have occurred otherwise</td>
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<tr>
<td>• …elevate rural income and rates of asset accumulation</td>
<td>• …increase yield through better cultivation or management</td>
<td>• …initiate a pattern of lending that continues after programming ends</td>
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**Examples of impact**

- A USD 7 million loan helped build a cold storage facility in *Morocco* and created 380 jobs.⁶
- A micro-loan provision to *Colombian* farmers increased monthly growth in assets by 25%.⁷
- Loans for better fertilizer, equipment and seeds improved production efficiency for farmers in *Rwanda* and *Nepal* by 17% and 19%, respectively.⁸ ⁹
- USAID support enabled *Malian* farmers to increase maize yields by 71% and reduce fertilizer use by 58%.¹⁰
- A USAID loan guarantee lowered collateral requirements in *Cambodia* by 50% to enable USD 15 million in new loans.¹¹
- 93% of 1,000 *Ghanaian* farm loan recipients reported confidence in acquiring subsequent loans from banks.¹²
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**Case studies demonstrating the development impact of agricultural finance interventions**

### Securing Loans and Livelihoods, Colombia

**Focus: Poverty alleviation**

**Background:** Due in part to decades of internal conflict, Colombia’s agricultural sector remains financially under-served with weak connection to markets, limited availability of credit and low levels of private sector investment. Limited access to financial services constrains productivity and exacerbates inequality for the 84% of Colombia’s four million farmers who have never received a loan.

**Development challenge:** Increase rural financial access and incomes to alleviate poverty, reduce the gap in credit accessibility between rural and urban Colombia and improve agricultural productivity.

**How the agricultural finance intervention was applied:**

- **Guarantee:** USAID provided two loan portfolio guarantees to Colombian microfinance institution Bancamía to de-risk commercial loans given to rural smallholders, valued together at USD 60 million.
- **Loans:** Bancamía provided USD 60 million in low-collateral loans to 146,000 smallholders over five years to micro-enterprises to increase their income and employment.

**Impact of the agricultural finance intervention on development:**

- 99% of borrowers accessed loans for the first time, 41% of whom were women.
- Average monthly sales for borrowers increased 19%. Some borrowers reported an increase in income of as much as 30% as a consequence of accessing loans.
- 44% of Bancamía’s poor clientele exited poverty within two years of accessing financial services.

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### Yaajeende Agricultural Development Program, Senegal

**Focus: Food security**

**Background:** Senegal faces chronic undernutrition which “persists as an underlying factor in Senegal’s high child and maternal mortality rates.” An estimated 47% of the population live below the poverty line and 14% of children are considered to be underweight. Agricultural output has seen strong growth, but more investment is crucial — especially if those at the base of the pyramid are to benefit.

**Development challenge:** Improve the nutrition and productivity of Senegalese agriculture in order to diversify diets and micronutrient deficiencies. Integrate the very poor into agricultural markets and the rural economy.

**How the agricultural finance intervention was applied:**

- **Grant:** USAID through its Feed the Future program partnered with the Yaajeende Agricultural Development Program (YAPD) to make USD 40 million available over five years for micro-loans aimed at development. Within three years, approximately half of it (USD 18.6 million) was utilized.
- **Technical assistance:** USAID funds and staff helped train smallholder farmers in applying new technologies (e.g., improved irrigation) and management practices to increase yields.

**Impact of the agricultural finance intervention on development:**

- 22% decrease in 6 to 23 month-old infants consuming a minimal acceptable diet within two years
- Improved productivity: Increase of 54% for maize, 66% for rice, 30% for sorghum
- An estimated 400% increase in total grain production for the regions impacted
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Concluding thoughts

• **Investment in agriculture can be a tremendous way to achieve impact**, 3-4 times as effective in alleviating poverty as non-agricultural investments. As shown in the examples in Colombia, Senegal and Morocco, agricultural finance interventions can improve childhood nutrition, grain production and local employment.

• **Agricultural finance interventions catalyze private sector investment**, which is very much needed to both meet GFSS objectives and fill the financing gap of USD 200 billion to meet the Sustainable Development Goals. Agricultural finance interventions can also help create a self-sustaining financial ecosystem that continues after USAID programming has ended.

• **At the same time, an agricultural finance intervention is not a silver bullet** – it often needs to be combined with other interventions. More information on combining USAID tools can be found in the “USAID Agricultural Finance Tools” knowledge primer.

Sources

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