USAID
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Primer on Catalyzing Agricultural Finance

2019

USAID's **Bureau for Food Security (BFS)** strives to reduce poverty, strengthen food security and resilience, and improve nutrition. BFS aims to increase the productivity and profitability of smallholder farmers around the world through a diverse portfolio that combines research and innovation; market-led dissemination of technology and services; partnerships and private sector engagement; and activities that enable and accelerate private investment, improve access to finance, and enhance risk management

A tremendous amount of work went into the development of the ***Primer on Catalyzing Agricultural Finance.*** USAID would like to thank our team of field-based and Washington-based colleagues and reviewers for their invaluable input. We are especially grateful to Dalberg Advisors for their partnership in developing this work

EXECUTIVE SUMMARY

Agricultural finance is essential for achieving development objectives. Expanding access to agricultural finance provides agricultural producers and small and medium-sized enterprises (SMEs) with the capital needed to increase productivity, output, and, ultimately, income. According to the World Bank, growth in the agriculture sector, which depends upon financing, is 2-3 times more effective at reducing poverty than equivalent growth in other sectors. Expanding access to agricultural finance and supporting the development of well-functioning agricultural finance systems is essential for helping partner countries to cultivate their own food systems, from production to processing to trade

Yet, agriculture remains largely under-financed. Despite the growth of domestic and foreign private flows in developing countries, areas of under-investment persist. The annual financing gap for agriculture is estimated at ~$115B in the 12 Feed the Future countries.[1] This gap exists for actors across the agricultural value chain and includes a lack of finance for infrastructure, inputs, working capital, and assets. A variety of barriers drive this gap, including perceived or real risks of lending to agricultural actors, high costs to serve rural actors, financial providers with limited capacity and agriculture-specific knowledge, finance seekers with limited financial awareness and capacity, lack of mutual trust, and unsupportive regulations and financial infrastructure

Going forward, many local and global trends are likely to widen this financing gap. These trends will amplify the need for more agricultural financing, better financing approaches, and more effective use of finance. For example, population growth, rising incomes, and changing diets will require a significant increase in production and processing capacity. Climate change will increase the financing required for new adapted seed varieties, irrigation systems, insurance products, and resilient infrastructure, as well as other input and production technologies

USAID can increase global agricultural financing by building partnerships and catalyzing capital from a variety of sources. As the lead implementing agency of the U.S. Government's Global Hunger and Food Security Initiative, and a major donor in agriculture, USAID is well-positioned to advance the agricultural finance agenda, support structural reforms to agricultural finance markets, and catalyze more private and public funds to improve the ability of partner countries to achieve self-reliance. Engaging with the private sector can help USAID to shape the investment landscape to achieve greater scale, sustainability, and effectiveness of agricultural outcomes

This primer introduces agricultural finance and outlines the tools that USAID can use to address agricultural finance gaps. USAID staff can use grants, technical assistance, policy advocacy, and stakeholder convenings to address barriers to agricultural finance. This primer outlines how to use these existing tools in new ways to tackle market failures and mobilize private sector finance for agricultural interventions. For example, these tools can be used to de-risk third-party investments, build the capacity of finance providers (e.g. banks) and finance seekers (e.g. agricultural SMEs), connect finance seekers with providers, and support the development of an enabling investment environment for agriculture. In addition, USAID can use the tools of other U.S. Government agencies to help close the agricultural financing gap. These tools include loan guarantees and debt investments from the Overseas Private Investment Corporation (OPIC)[2] and feasibility study grants from the U.S. Trade and Development Agency (USTDA), among others

This primer provides practical guidance on how to use these tools to design effective agricultural finance interventions. Designing interventions requires an understanding of local agricultural, financial, and market systems (i.e. finance providers and seekers, finance infrastructure, and enabling environment), and the identification of specific market barriers to agricultural finance. The guidance in this document will allow USAID staff to select the appropriate tools, partner with the right organizations, and ensure sustainability of results

Note: [1] Feed the Future countries: Bangladesh, Ethiopia, Ghana, Guatemala, Honduras, Kenya, Mali, Nepal, Niger, Nigeria, Senegal, and Uganda; [2] From October 2019, OPIC will transition to the U.S. International Development Finance Corporation (USDFC)

GLOSSARY

Blended finance
The strategic use of public or philanthropic funds to catalyze private sector investment into projects

Collateral
An asset that a lender accepts as security for a loan. If the borrower cannot repay the loan and defaults, the lender can seize the collateral and resell it to cover losses

Concessional financing
Financing that is provided on substantially more generous terms than what the market typically provides. This may include, for example, offering interest rates below those available on the market or by providing a longer period of time for borrowers to make repayments

Credit bureau
An agency that researches and collects individual credit information and sells it for a fee to lenders so they can make a decision on granting loans

Debt
Money that one party borrows from another, under the condition that it is to be paid back at a later date, usually with interest. The most common form of debt financing is a loan

Equity
A stock or share in a company, which represents ownership. Equity financing is the process of selling shares in return for cash

First loss
The first loss position in an investment represents the investor that will bear the first financial losses if a borrower cannot repay their loans or an asset loses value

Lease financing
When the owner of an asset (e.g. tractor) gives another person the right to use that asset in return for regular payments. Note that the owner retains ownership of the asset throughout the contract

Letters of credit
A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make the payment, the bank will cover the full or remaining amount of the purchase

Leverage ratio
A financial measurement that indicates the relative level of debt incurred by a company. The most common leverage ratios compare debt to either the assets or equity of a company; the "debt ratio" and the "debt-to-equity" ratio, respectively. Leverage ratios are typically used to assess the ability of a company to meet its financial obligations

Liability
A company's legal and financial obligations (i.e. something they owe to another party)

Liquidity
The degree to which an asset can be quickly bought or sold in the market at a price that reflects its intrinsic value (i.e. the ease of converting an asset into cash)

Labor productivity
The value of output per unit of input. In the context of agriculture, this typically refers to the value of the agricultural output per agricultural worker per year

Micro, Small, and Medium Enterprise (MSME)
Businesses that maintain revenues, assets or a number of employees below a certain threshold. One common definition is businesses with fewer than 250 employees

Receivables
Debts owed to a company by its customers for goods or services that have been delivered or used but not yet paid for

Seed or Venture Capital
Financing that investors provide to start-ups and small businesses that are believed to have long-term growth potential. Seed capital is typically provided at an earlier stage in the growth of a company compared to venture capital

Value chain
A model that describes the full range of activities needed to create a product or service. For example, all the steps required to bring a crop from being planted to the end consumer

Working capital
The money that a company or individual uses to cover the costs of day-to-day operations (e.g. paying staff salaries)

Sources: Investopedia; OECD glossary of statistical terms.

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WHAT IS AGRICULTURAL FINANCE?

Agricultural finance is the provision of financial services to promote activities across the agricultural value chain including research, input provision, production, aggregation, processing, distribution, retail, and marketing

Agricultural finance can be provided to individuals (e.g. farmers, traders) as well as small and medium-sized enterprises (SMEs)

It encompasses a range of financing instruments, including debt, equity, and grants

These can be provided on a short-term basis, for example to cover working capital needs, or on a longer-term basis, for example to buy larger assets such as a tractor

WHY IS AGRICULTURAL FINANCE IMPORTANT?

Agricultural finance is crucial for reducing poverty. It empowers agricultural actors to make investments in farms, enterprises, and households and drives broader structural transformation

- Agricultural development contributes to job creation, economic growth, and, in many cases, has set countries on the path to industrialization. Agriculture contributes to 68% of employment in low-income countries; and ~86% of people living in rural areas in developing countries depend on it, to some extent, for their livelihoods.[1,2] According to the World Bank, growth in the agriculture sector, which depends upon financing, is 2-3 times more effective at reducing the number of people in poverty than equivalent growth in other sectors[3]
- Expanding access to agricultural finance provides agricultural producers and SMEs with the money needed to increase productivity, output, and, ultimately, income. This, in turn, allows agricultural households to deal with economic shocks and enables them to invest more in social goods such as healthcare and education. Supporting the development of well-functioning agricultural finance systems can also help USAID's partner countries to grow their own food systems and eventually achieve self-reliance

Agricultural finance is crucial for improving food security and resilience, particularly in the face of population growth, a growing middle-class, and climate change

- More than 1 billion people worldwide currently face hunger and 33% suffer from malnutrition . The growth of the global population to ~10 billion people, coupled with changing diets and increasing incomes, is expected to increase global demand for food by 70% by 2050[4,5]
- Climate change is likely to exacerbate food security issues, particularly in regions that rely heavily on agriculture. Changing weather patterns and increased exposure to extreme weather events will affect productivity and yields, thereby increasing the uncertainty around food production
- Expanding access to agricultural finance can increase food production by providing farmers with better inputs, more training, and more productive farming practices. It is also critical for increasing the resilience of agricultural households and communities to the effects of climate change and other human and natural shocks

Sources: [1] World Bank data. [2] IISD, "Financing for agriculture: How to boost opportunities in developing countries,"2015. [3] World Bank, IFPRI, "Agriculture, structural transformation and poverty reduction: eight new insights," 2018. [4] Development Initiatives, "Global Nutrition Report," 2017. [5] FAO, "Global agriculture towards 2015," 2009.

HOW CAN INCREASING AGRICULTURAL FINANCE FLOWS HELP TO ACHIEVE DEVELOPMENT GOALS?

Feed the Future Vision for a Food-Secure 2030

- Feed the Future (FTF) is the U.S. Government's Global Hunger and Food Security Initiative. It invests in 12 countries that are committed to improving their own food security and nutrition: Bangladesh, Ethiopia, Ghana, Guatemala, Honduras, Kenya, Mali, Nepal, Niger, Nigeria, Senegal, and Uganda
- FTF identifies catalytic development assistance as a key pillar for achieving food security. This includes strengthening local public and private institutions so they can provide finance and incentivizing private investment (e.g. through blended finance, risk mitigation, and investment facilitation)
- USAID funding can be used to catalyze private sector finance for agriculture, amplify its impact, and ensure sustainability of results

"Lasting change requires progress driven by private sector investment, a healthy business environment, and strong market systems"

Feed the Future

U.S. Government Global Food Security Strategy

- The Global Food Security Strategy (GFSS) 2017-2021 outlines how the U.S. Government aims to sustainably reduce global hunger, malnutrition, and poverty
- Agricultural finance is critical for achieving the GFSS's objectives, in particular Intermediate Results 1-6, with investment mobilization and private sector engagement being highlighted as core components of the strategy
- As the lead agency of the GFSS, USAID has a key role to play in driving inter-agency coordination and leading efforts to catalyze investment into agriculture

"Tailored financial services, products, and systems, as well as agriculture-focused capacity building for financial actors, will be key components to achieving outcomes"

U.S. Government GFSS

Sources: Feed the Future, "A food-secure 2030. A global vision and call to action," 2016; U.S. Government Global Food Security Strategy FY 2017-2021.

WHY IS USAID WELL-POSITIONED TO BUILD PARTNERSHIPS AND CATALYZE PRIVATE FINANCING FLOWS INTO THE AGRICULTURAL SECTOR?

Improving access to agricultural finance presents complex and dynamic challenges, with many different but interdependent actors facing different incentives. USAID staff can rely on its comparative advantages in the agriculture sector to overcome these challenges . . .

Experience

USAID has decades of experience in improving agricultural capacity and productivity across different regions and with a diverse set of actors. During this time, it has developed deep sector-specific knowledge that can help to fill gaps and overcome information imbalances that create barriers to agricultural finance flows

Influence

USAID has unrivalled access to the senior decision-makers that shape the agricultural finance system and the policies and regulatory frameworks that govern it. USAID already has substantial experience of working with country governments to strengthen public financial infrastructure, such as credit bureaus, so is well-positioned to build on this

Networks

USAID has built strong relationships with all major actors in the agricultural finance space. This external network enables it to create partnerships, and match-make between key providers and seekers of agricultural finance. USAID can also use the expertise and financial tools of other U.S. Government actors to catalyze further private investment into the agricultural sector

Risk tolerance

USAID does not seek a financial return and so has a greater degree of flexibility to support new financing models and innovative technologies that may struggle to attract financing solely from private commercial investors, given the potentially higher risks and longer timescales to providing returns

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A WELL-FUNCTIONING AGRICULTURAL FINANCE SYSTEM RELIES ON FOUR COMPLEMENTARY ELEMENTS

USAID interventions that support the development of agricultural finance systems in partner countries can target one or more of these four elements:

Finance Seekers

Actors across the agricultural value chains that need finance to operate, grow their businesses, and protect their income (e.g. smallholder farmers, agri-input enterprises, commodity traders, etc.)

Enabling Environment

Macro conditions that enable finance seekers and finance providers to engage in financial transactions without the risk of loss or fraud (e.g. property rights, financial regulation and oversight)

Ecosystem Infrastructure

Physical and digital systems that enable secure financial transactions (e.g. securities exchanges, agricultural chambers of commerce)

Finance Providers

Financial institutions, investors, and value chain actors that provide capital and financing solutions to the agricultural sector

Sources: Adapted from the Finance for Development training of USAID's Economic Growth, Education and Environment (E3) Bureau.

FINANCE SEEKERS EXIST ACROSS THE ENTIRE VALUE CHAIN AND VARY BY SIZE AND TYPE OF FINANCING NEED

Agricultural value chain actors

Input supplier | Producer | Aggregator | Processor | Distributor | Retailer

Actor type[1]	
Formal SMEs *4-5 million, representing* ***~7% of agricultural MSMEs***	Enterprises with formal business registration that employ 5-250 people. These include seed suppliers, commercial farms, and small-scale processing plants. Given their size, formal SMEs typically have the largest financing needs but can find it difficult to access finance; they are often referred to as the "missing middle" as they are too big for microfinance and too small for corporate banking finance. In this group, **23% have limited access to credit** and **50% have no access**
Formal micro-enterprises *8-11 million, representing* ***~15% of agricultural MSMEs***	Enterprises with formal business registration that employ fewer than 5 people. These include small-scale commercial farms, those in agricultural cooperatives, and small-scale retail shops. In this group, **19% have limited access to credit** and **51% have no access**
Informal MSMEs *40-50 million, representing* ***~78% of agricultural MSMEs***	Informal and unregistered enterprises that exist along the entire value chain, including local input sellers, production cooperatives, and street traders. Informal MSMEs, while typically having smaller financing needs, are also the most underserved group as they often cannot access formal banking solutions given they are unregistered. In this group, **14% have limited access to credit** and **74% have no access**
Non-commercial smallholders *270-300 million*	Individuals in rural areas who typically own <1 hectare of land, produce staple crops, and have **limited or no access to financial services**. They are more likely to rely on informal financing solutions from relatives or local shops

Notes: [1] Estimates based on number of MSMEs in emerging markets, assuming that the share of agricultural MSMEs in total MSMEs is equal to the share of agricultural value added in total GDP in emerging markets.
Sources: IFC, McKinsey & Company, "Two trillion and counting: assessing the credit gap for micro, small, and medium-sized enterprises in the developing world," 2010; ISF, "Inflection Point: Unlocking Growth in the Era of Farmer Finance," 2016; FAO, "The Number, Size, and Distribution of Farms, Smallholder Farms, and Family Farms Worldwide," 2016

FINANCE SEEKERS HAVE THREE MAIN TYPES OF FINANCING NEEDS

Agricultural value chain actors	Input supplier	Producer	Aggregator	Processor	Distributor	Retailer
Financing needs						
Working capital *Day-to-day purchasing needs*	Working capital is needed for recurrent purchasing needs that relate to the daily operations of agricultural actors across the value chain. For example, **producers** buying inputs during planting season, **aggregators** buying agricultural output from farmers at harvest time, or **processors** paying their employees					
Asset finance *Investments in assets and infrastructure*	Asset finance is needed for more long-term fixed needs of value chain actors, for example, building processing factories or buying heavy farm equipment to increase farm productivity. Asset finance also includes investments in rural infrastructure and logistics (e.g. irrigation systems, land development, roads, storage facilities)					
Risk management *Protection against potential negative events*	Finance seekers use many tools to protect themselves against operational risks. One of the most commonly used risk management tools is insurance. This can take many forms including weather insurance to mitigate against events like droughts, or political risk insurance for foreign companies investing in agricultural businesses against risks like expropriation (i.e. when a government takes privately-owned property into public ownership)					

THERE IS A BROAD SPECTRUM OF FINANCE PROVIDERS WITH DIFFERENT CAPABILITIES, RETURN EXPECTATIONS, AND SOCIAL IMPACT FOCUS

Finance providers can provide agricultural financing either directly to borrowers or indirectly via other institutions (e.g. investment funds). They offer a diverse set of financing products and forms of capital:

COMMERCIAL-FOCUSED FINANCIAL INSTITUTIONS

Banks
Offer a large spectrum of financial services (general and agri-focused)

Non-bank service providers
Offer more innovative or specialized financial services (e.g. insurance, digital finance services)

Microfinance institutions
Offer micro-loans (e.g. $50) to small-scale borrowers

Commercial investors and funds
Invest different forms of capital across agricultural value chains

IMPACT-FOCUSED INVESTORS AND INSTITUTIONS

Development Finance Institutions
Offer commercial and concessional capital

Donors and foundations
Offer grants to build capacity, encourage innovation, and catalyze private investment

Impact investors and funds
Offer different forms of capital and aim to balance social impact with commercial returns

Governments
Mobilize public budgets to finance infrastructure, social safety nets, or support programs

NON-FINANCIAL VALUE CHAIN ACTORS

Input suppliers and buyers
Offer cash advances or input credit to other actors in the value chain

Multinational consumer goods companies
Provide in-kind support or credit to suppliers

INFORMAL ACTORS

Savings and credit cooperatives
Offer short-term and small-scale loans to contributing members (general and agri-focused)

Local moneylenders
Offer short-term and small-scale loans to community members

International remitters
Transfer money earned abroad, typically to relatives or friends in their home countries

Note: See Annex for further explanation of each finance provider and examples of key providers in Feed The Future countries

A STABLE ENABLING ENVIRONMENT IS CRITICAL FOR INCREASING THE FLOW OF AGRICULTURAL FINANCE

ENABLING ENVIRONMENT

A stable enabling environment allows actors to feel confident in making agricultural finance transactions, without the risk of loss or fraud

- Financial regulation and oversight

  These are the public bodies (e.g. central banks) and rules that oversee financial institutions. They set the frameworks and norms related to financial transactions and financial risk management, and they ensure that financial institutions recognize their duty of care towards customers. This ensures that the local financial system functions smoothly and is resilient to different risks

- Macroeconomic stability

  A stable and growing economy provides a favorable environment for lending and investment. Macroeconomic conditions can influence financing decisions – particularly through the dynamics of inflation, interest rates, and exchange rates – as they affect the rates of return for finance providers and the cost of borrowing for finance seekers

- Property rights and rule of law

  Robust and enforced legal frameworks are crucial for providing finance providers and seekers with confidence in financial transactions. Property rights allow borrowers to increase their collateral and give investors the confidence that their assets are protected. A well-functioning legal system reduces the risk and uncertainty of making financial transactions as it ensures that contracts can be enforced, disputes can be fairly resolved, and legal claims can be efficiently processed

A WELL-FUNCTIONING AGRICULTURAL FINANCE ECOSYSTEM RELIES ON UNDERLYING INFRASTRUCTURE AND SYSTEMS

ECOSYSTEM INFRASTRUCTURE

Ecosystem infrastructure enables agricultural finance to be provided efficiently, securely, and with transparency. This infrastructure includes digital and physical systems such as securities exchanges, credit bureaus, and matchmaking platforms

- Intermediation systems

  These systems and platforms help to connect finance seekers with finance providers and allow dialogue among agricultural finance stakeholders. They include chambers of commerce, which are networks of local businesses that advocate for the interests of the business community, and securities exchanges, which enable the trade of company stocks and shares

- Financial infrastructure

  These mechanisms collect and verify the accuracy of financial information and facilitate the secure transfer of money between actors. Credit bureaus, for example, play a crucial role in assessing the credit-worthiness of borrowers which can help to reduce the information imbalances that prevent some agricultural finance transactions from taking place

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THIS SECTION PROVIDES AN OVERVIEW OF THE CURRENT STATUS OF AGRICULTURAL FINANCING FLOWS IN FEED THE FUTURE COUNTRIES

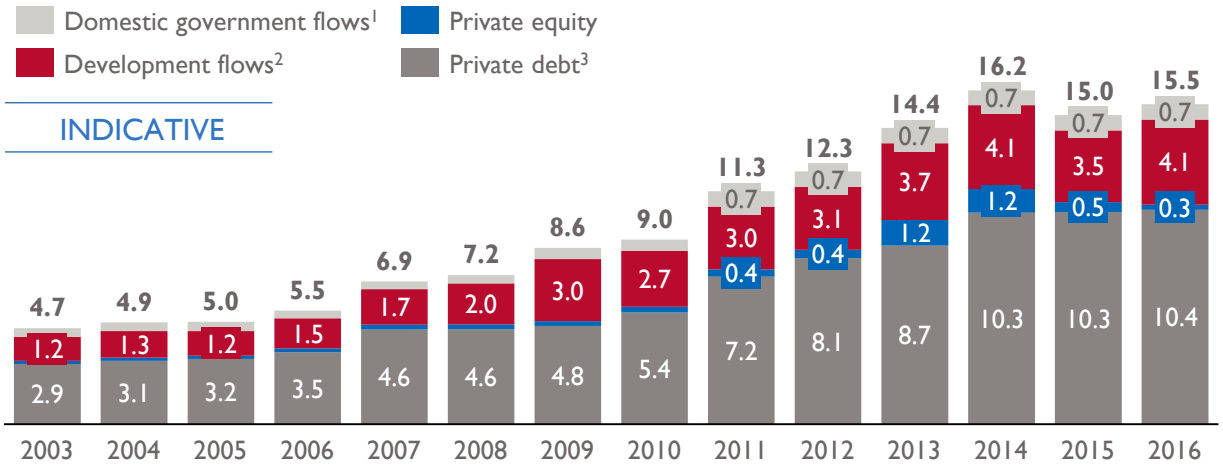
The following analyses on the trends in the supply and demand of agricultural finance in Feed the Future countries seek to answer four questions:

1. What are the current agricultural financing flows and how have they changed over time?
2. What are the major barriers that limit agricultural financing flows?
3. What is the size of the agricultural financing gap across countries and across value chain actors?
4. What trends will affect the size of this gap going forward?

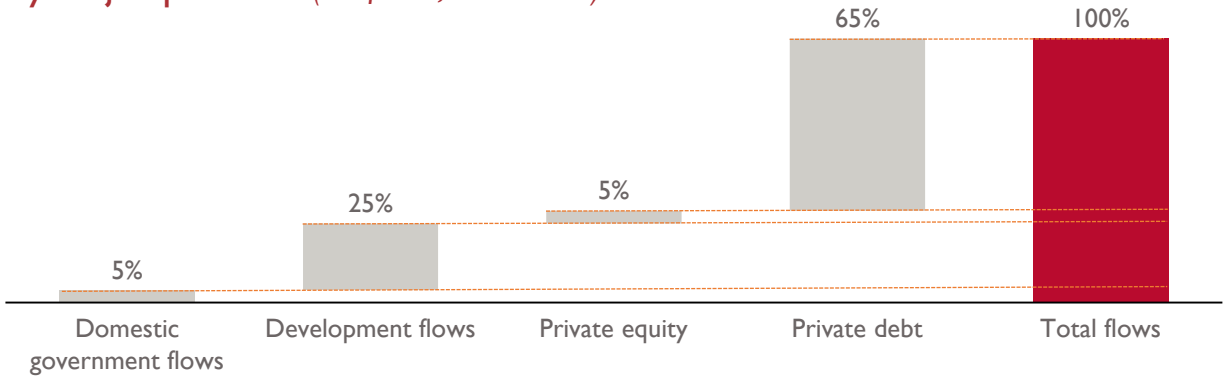
The trends observed in Feed the Future countries closely mirror global trends in agricultural financing

THERE HAS BEEN A RAPID GROWTH IN AGRICULTURAL FINANCING IN RECENT YEARS; IN 2016, ~$15.5B FLOWED INTO FEED THE FUTURE COUNTRIES

Annual agricultural flows into FTF countries by major provider
(USD billions, 2003-2016)



Breakdown of total agricultural flows into FTF countries since 2012 by major provider *(% of total, 2012-2016)*

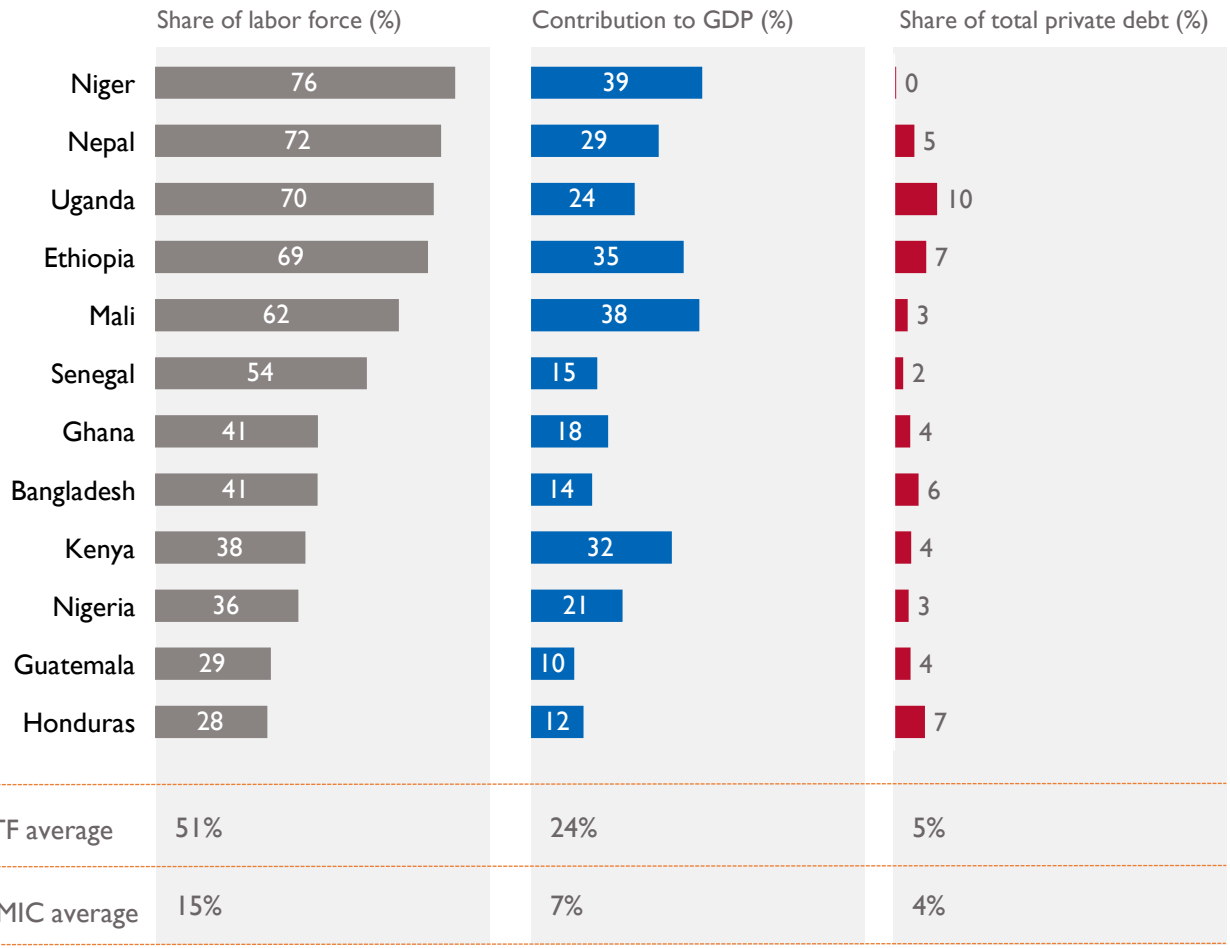


- Financial flows into the agricultural sectors of FTF countries continue to increase. However, growth seems to have stalled since 2014, largely due to the economic slowdown experienced in many FTF countries. Average economic growth in FTF countries fell from 3.2% in 2014 to 1.9% in 2016[4]
- Private debt is the largest driver of agricultural finance in FTF countries, representing 65% of all agricultural flows since 2012. It far outweighs public funding in FTF countries and so sustainable agricultural development will increasingly rely on collaborating with, and catalyzing additional funds from, the private sector
- Domestic government capital investments into agriculture are a small component of agricultural flows, typically representing ~5% each year. They are typically focused on activities such as special crop initiatives, construction of reserve warehouses, and administrative structures

Note: [1] Domestic government flows captures capital investments by governments in FTF countries. [2] Development flows include ODA, OOF, private grants, and DFI investments. [3] Some countries do not fully report private debt flows from 2003-2010, so there may be some under-reporting. [4] Measured based on growth in GDP per capita.
Sources: World Bank Group, "Africa's Pulse, No.16", October 2017; FAO Database; DFI investments; fDI Markets database

HOWEVER, PRIVATE DEBT FLOWS REMAIN DISPROPORTIONATELY SMALL RELATIVE TO THE SIZE OF THE AGRICULTURAL SECTOR IN FTF COUNTRIES

Economic importance of agriculture sector compared to share of bank lending in FTF countries *(% of total, 2016)*



- Agriculture is crucial for the economic development of FTF countries. The sector employs the largest share of the workforce in most FTF countries (51%, on average), while it contributes to 24% of total GDP. The gap between these figures indicates the sector's low productivity relative to other sectors
- Similarly, the gap between the agricultural sector's average contribution to GDP (24%) and share of total private debt (5%) indicates the relative underfunding of the agricultural sector in FTF countries. While the agricultural sector represents a much larger share of employment and GDP in FTF countries vs. upper-middle income countries (UMICs), it receives similar amounts of lending from private banks (5% vs. 4%)
- These gaps are mutually reinforcing and highlight the need for catalytic financing to break the cycle. The inability to attract private debt is partly driven by the sector's low productivity, just as the low productivity is, in part, a result of limited agricultural financing

Source: World Bank data: Employment in agriculture (% of total employment) and Agriculture, forestry, and fishing, value added (% of GDP); FAO, "State of Agricultural Markets Report: What happened to the world food prices and why", 2009

THERE ARE SEVERAL SUPPLY-SIDE BARRIERS THAT LIMIT THE FLOW OF AGRICULTURAL FINANCE

SUPPLY-SIDE BARRIERS	
High risk (real or perceived)	• Systemic risks (e.g. weather events, macroeconomic shocks) affect crop yields and commodity prices, and can hinder the ability of agricultural producers to pay back loans • Political risks (e.g. legislative change, expropriation, debt write-offs) can be high in countries where agriculture employs a large share of the population and/or concentrates an important share of national wealth • Perception of risk is biased due to a lack of trust between finance providers and seekers, and limited information on borrowers' ability or willingness to pay back loans
High cost to serve customers	• Low geographic density of farmers requires finance providers to adopt more time-intensive and expensive models for outreach and distribution • Low levels of financial literacy among agricultural producers means that finance providers must use heavier-touch delivery models and limits the applicability of digital services that have lower transaction costs
Low expected returns	• Lower productivity and profitability in the agricultural sector make it less attractive to investors compared to other investment opportunities that are available to them. For example, in FTF countries, agriculture employs 51% of the population and only contributes 24% to total GDP[1]
Limited capacity and knowledge	• Some finance providers do not have the agriculture-specific expertise required to understand the different customer segments; their needs, capacities, and credit worthiness; and to develop the appropriate products to serve them • Finance providers sometimes exclude some customer segments (e.g. female smallholders or business owners) due to inadequate outreach, poorly-designed delivery models (e.g. male-only agents), internal biases in credit assessment, and explicit discrimination

Sources: [1] World Bank data

THERE ARE SEVERAL DEMAND-SIDE AND ECOSYSTEM BARRIERS THAT LIMIT THE FLOW OF AGRICULTURAL FINANCE

DEMAND-SIDE BARRIERS

Limited financial literacy	• Many smallholders and agricultural SMEs lack basic financial literacy and experience interacting with financial providers. This limits trust and hinders their access to, and use of, financial products
Lack of collateral	• Lack of secure property rights, titles, and other forms of assets restricts access to some financial products (e.g. loans) that require collateral. This barrier can be more acute for female farmers and female business owners due to cultural norms
Informal financial management	• Many small farming, trading, and processing operations manage their finances informally and do not keep sales records or income statements. This hinders the ability of finance providers to assess their ability to pay

ECOSYSTEM BARRIERS

Lack of financial infrastructure	• Lack of quality financial infrastructure – such as registers of agricultural SMEs, credit bureaus with credit history data on agricultural borrowers, or payment systems – limit the delivery of financial services • Weak enforcement of contract terms and inefficient processing of disputes increase the risk and uncertainty involved with making financial transactions

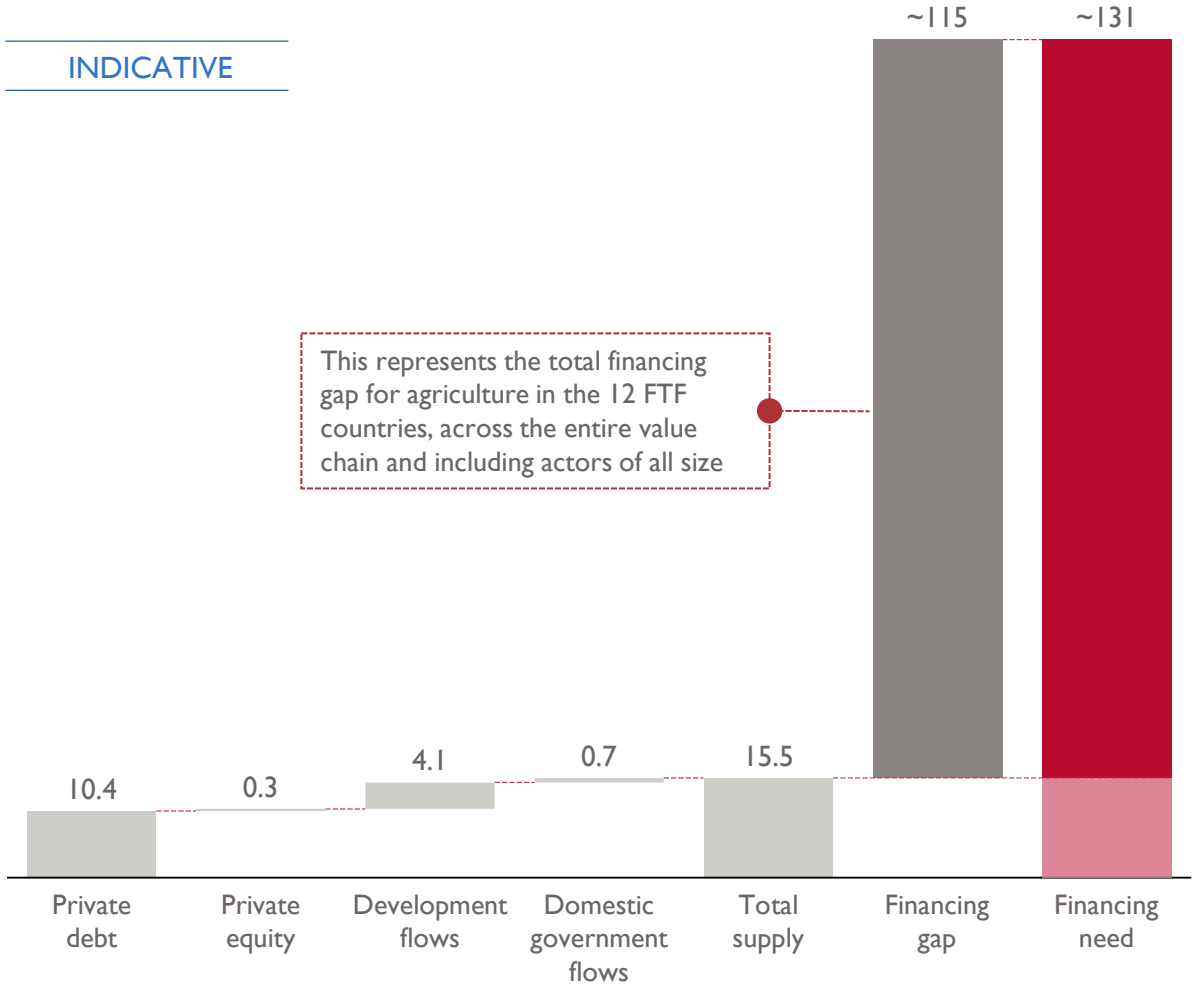
Sources: Global Partnership for Financial Inclusion and IFC, "Innovative agricultural SME models," 2012; ISF, "Protecting growing prosperity," 2018; Omidyar Network, "Currency of trust," 2017

EXISTING AGRICULTURAL FINANCING IS INSUFFICIENT; THE TOTAL GAP ACROSS FTF COUNTRIES IS ~$115B PER YEAR, OR 88% OF THE TOTAL NEED

Breakdown of long-term annual agricultural finance gap in FTF countries[1]

(USD billions, 2016)

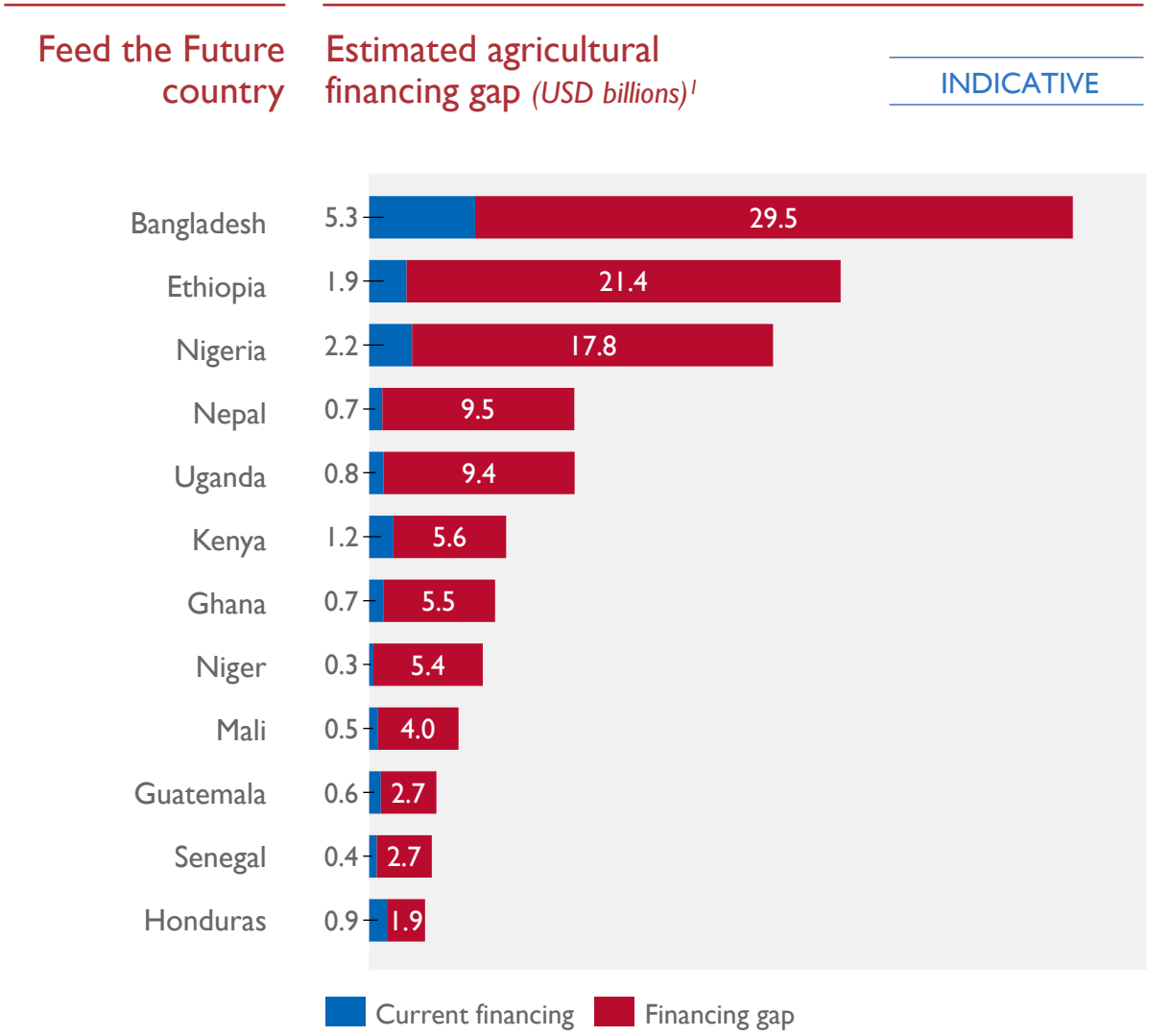
INDICATIVE



- The current supply of agricultural financing to FTF countries (~$15.5B) represents 12% of the total annual need ($131B), leaving an annual gap of ~$115B
- This financing gap indicates the annual level of financing required for FTF countries to reach the agricultural labor productivity levels achieved in an average upper-middle income country. The average labor productivity in FTF countries is five times less than the average upper-middle income country[2]
- This financing gap represents the broadest view in FTF countries and covers the financing needs of all agricultural value chain actors, regardless of size. Other estimates that focus only on smallholders, but on a global scale, have estimated the size of the annual agricultural financing gap to be $150B (see ISF's Inflection Point) and $450B (see EURACTIV's PAA report)

Note: [1] Gap estimation based on labor productivity benchmarking against upper-middle income countries, Regression analyses of agricultural labor productivity against agricultural finance per worker, followed by the utilization of labor productivity benchmarks, were used to determine the optimal level of agricultural financing per country. [2] Average agricultural labor productivity across all upper-middle income countries is ~$9,000 value add per agricultural worker compared to ~$1,700 across FTF countries.
Sources: FAO database, World Bank database, Dalberg analysis.

THIS FINANCING GAP IS MOST PRONOUNCED IN A FEW COUNTRIES: BANGLADESH, ETHIOPIA, NIGERIA, NEPAL, AND UGANDA



- Across FTF countries, the absolute size of the financing gap varies widely. Five countries (Bangladesh, Ethiopia, Nigeria, Nepal, and Uganda) account for 76% (or ~$88B) of the total agricultural financing gap across FTF countries. This largely reflects their dependency on the agricultural sector as a primary source of employment and economic growth, and the relative under-funding of the sector by private banks
- Across FTF countries, various factors drive the need for financing. The large financing gap observed in Bangladesh is primarily driven by the need for technologies that increase the productivity of the land (e.g. fertilizer, seeds, irrigation) given the relatively low amount of labor relative to the amount of agricultural land. The gaps in Ethiopia and Nigeria, on the other hand, are primarily due to the large size of the agricultural workforce

Note: [1] Refers to all financial flows including private, development, and government flows
Sources: FAO database, World bank database of agriculture and rural development indicators, Dalberg analysis

FINANCING GAPS EXIST THROUGHOUT THE AGRICULTURAL VALUE CHAIN; SPECIFIC FINANCING TOOLS ARE REQUIRED TO ADDRESS THESE GAPS

	FINANCING GAP	DESCRIPTION	TOOLS NEEDED
Input supplier	Finance for input suppliers	Fertilizer companies need lots of upfront capital to build production facilities. For example, OCP (a Moroccan fertilizer company) is planning to build a $3.7B fertilizer plant in Ethiopia.[1] Similarly, seed suppliers need money to build and operate production facilities (estimated at ~$0.5M annually) and often lack access to external financing options[2]	• Equity • Debt (long-term and short-term)
Producer	Asset finance for farm production	Agricultural producers in developing countries, particularly smallholders, need money to invest in modern production assets. According to the UN's Food and Agriculture Organization (FAO), crop mechanization and meat/milk production have some of the largest capital investment gaps[3]	• Lease financing • Equity and long-term debt • Grants
	Working capital for farm inputs	Agricultural producers in developing countries, particularly smallholders, need working capital to buy agricultural inputs (e.g. seeds, fertilizers, animal feed). The World Bank estimates that only 6% of rural households in Sub-Saharan Africa use credit to purchase farm inputs[4]	• Short-term debt • In-kind advances (e.g. from input suppliers)
	Insurance for smallholders	Smallholders have very limited access to agricultural insurance. The Initiative for Smallholder Finance (ISF) estimates that only 10% of smallholders in developing countries have agricultural insurance, with lower penetration rates in countries like Nigeria (5%) and Kenya (8%)[5]	• Insurance (e.g. weather-index insurance)
Processor	Asset financing for processing	Agricultural SMEs need upfront capital to build and operate competitive processing operations. FAO estimates that agricultural processing has the largest investment requirements across the agricultural value chain at ~$50B per year[3]	• Equity • Long-term debt

Note: Please refer to the Glossary or "*Section V: USAID's Toolkit*" for more details on each of these tools.
Sources: [1] Reuters, "Morocco's OCP and Ethiopia sign large fertilizer plant deal," 2016. [2] African Agricultural Technology Foundation, "QualiBasic Seed Company Info Sheet". [3] FAO, "Capital requirements for agriculture in developing countries to 2050," 2009. [4] The World Bank, "Agricultural input credit in Sub-Saharan Africa: Telling myth from fact," 2016. [5] ISF, "Inflection Point: Unlocking growth in the era of farmer finance," 2016.

FINANCING GAPS EXIST THROUGHOUT THE AGRICULTURAL VALUE CHAIN; SPECIFIC FINANCING TOOLS ARE REQUIRED TO ADDRESS THESE GAPS

Distributors & retailers

FINANCING GAP	DESCRIPTION	TOOLS NEEDED
Trade finance	Agricultural exporters need financing solutions for international transactions, particularly to cover their working capital needs. However, access to trade finance solutions in developing countries is limited, especially among SMEs. The unmet demand for trade finance is ~$120B in Africa and ~$700B in developing Asia, of which ~2% is specifically for agricultural trade finance[1,2]	• Letters of credit • Receivables financing

Cross-cutting

FINANCING GAP	DESCRIPTION	TOOLS NEEDED
Research and development (R&D)	There is limited investment in agricultural R&D in developing countries, including in inputs and water and land management. While agricultural R&D in high-income countries may generate globally-applicable knowledge, many issues require context-specific innovations. The African Union has recommended that agricultural R&D spending in Sub-Saharan Africa should be at least 1% of agricultural GDP but, despite recent increases, current spending is still far below this target[3]	• Venture and seed capital for innovative companies • Grants and subsidies • Government expenditure
Infrastructure finance	Agricultural infrastructure in developing countries is in dire need of investment. This infrastructure includes irrigation, roads to connect farmers to local markets, logistics infrastructure for distribution and trade (e.g. warehouses, cold chains, ports), and waste management. The current need for water and road infrastructure investments in Africa is estimated to be $79B[4]	• Long-term debt (direct to developers or indirect through investment funds) • Government expenditure

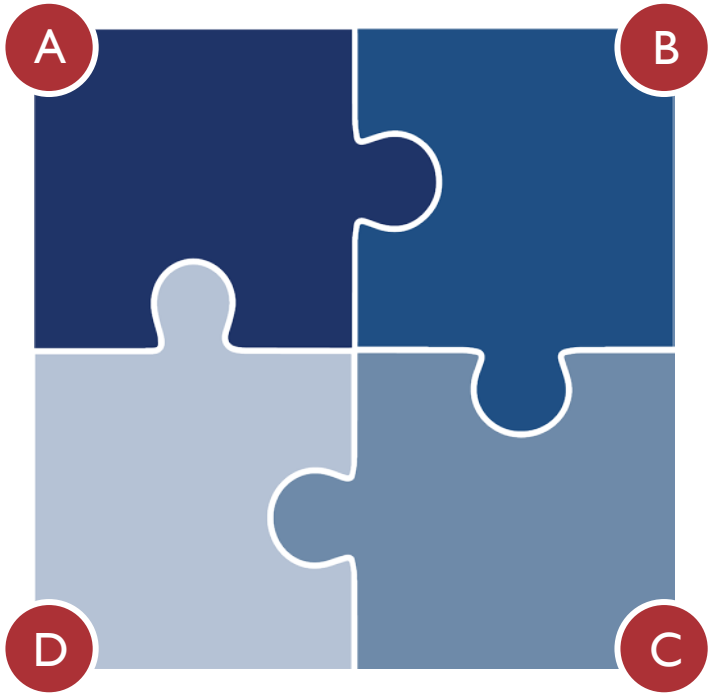
Note: Please refer to the Glossary or "*Section V: USAID's Toolkit*" for more details on each of these tools.
Sources: [1] WTO, "Trade finance and SMEs. Bridging the gaps in provision," 2016. [2] Assumes that agricultural exports represent 2% of total exports (based on World Bank data). [3] IFPRI, "Investment in agricultural research and development: an account of two-speed growth, underinvestment, and volatility,"2016. [4] Global Infrastructure Outlook.

"The future supply of, and demand for, for agricultural finance will be affected by four groups of trends: economic, political and regulatory, environmental and socio-cultural, and technological"

GOING FORWARD, FOUR GROUPS OF TRENDS WILL AFFECT THE FUTURE SUPPLY OF, AND DEMAND FOR, AGRICULTURAL FINANCE

Global trends affecting agricultural finance span across economic and political dynamics, environmental and socio-cultural changes, and technological innovations. All of these trends present opportunities to increase flows of financing to the agricultural sector, but also create new needs, additional constraints, and challenging environments that require adaptation and innovation

Macroeconomic factors affect borrowing needs and lending behaviors



Policies and regulatory frameworks affect how agricultural finance can, and should, flow between actors and across borders

Technological advancements push the boundaries of what's possible within the sector

Environmental and sociocultural changes (e.g. climate change, migration) contribute to broader changes in the drivers of agricultural finance

SOME ECONOMIC TRENDS WILL CONSTRAIN AGRICULTURAL FINANCE, BUT SECTOR GROWTH COULD ATTRACT MORE COMMERCIAL CAPITAL

A

ECONOMIC TRENDS		IMPACT ON GAP
Increasing capital flows and innovative financing for development	Private capital flows to developing countries, including for agriculture, are increasing. This is partly due to the emergence of blended finance mechanisms, where concessional funding is used strategically to catalyze commercial capital. These mechanisms include GAFSP's Private Sector Window and the Africa Agriculture and Trade Investment Fund. However, the agricultural sector is relatively under-represented in blended finance deals, representing ~13% of total number of deals to date vs. 26% for the energy sector[1]	↓ Large
Positive but unequal growth prospects in developing countries	Developing countries will continue to grow faster than developed countries, which is likely to lead to more interest from foreign private investors. However, Sub-Saharan Africa's growth will be slower than other countries (3.5% in 2019 vs. 5% and 6.5% for emerging and developing Europe and Asia, respectively), which could lead to smaller private investment flows into Sub-Saharan Africa relative to other regions[2]	↓ Medium
Low but rising global interest rates	Low central bank interest rates in the U.S. and EU have increased the amount of money in circulation in these regions; but the financial crisis has constrained inter-regional credit, including to developing countries. Economic recovery in the U.S. and EU might push interest rates upwards, and further constrain credit and liquidity financing of commercial banks in developing countries, thereby reducing local financing of agriculture[2]	↑ Small
Increasing public debt in developing countries	Public debt in Sub-Saharan Africa has been increasing over the past decade (representing 20% of GNI in 2016). Increasing public debt leads to higher sovereign credit risk (i.e. the likelihood that a government is unable to pay back its loans). This may deter commercial investors from investing in developing countries, and in particular in the agricultural sector which is already considered to be risky[3,4]	↑ Small
Global financial vulnerabilities	In recent years, investors have sought higher-risk, higher-return opportunities to make up for the smaller returns from low interest rates. In its 2018 World Economic Outlook, the IMF warned that these investment patterns could lead to the "build-up of financial vulnerabilities" in the medium-term. If this were to happen, global credit supplies might slow down, thereby reducing flows to agriculture in developing countries in particular[2]	↑ Medium

↓ Trend will likely reduce agricultural financing gap

↑ Trend will likely increase agricultural financing gap

Sources: [1] Convergence, "Blended finance trends and case studies," June 2019. [2] IMF, "World Economic Outlook," 2018. [3] The Economist, "Increasing debt in many African countries is a cause for worry," 2018. [4] Financial Times, "African nations slipping into new debt crisis," 2018.

ENABLING POLICIES CAN SPUR PRIVATE INVESTMENT BUT POLITICAL TRADE DYNAMICS MAY DRIVE A NEED FOR INCREASED FINANCING

B

POLITICAL AND REGULATORY TRENDS		IMPACT ON GAP
National development plans for agriculture	Many developing countries are integrating agricultural transformation efforts into their national economic development plans. For many, this has led to the launch of agricultural development agencies that focus on overcoming systemic barriers to financing, structuring investment opportunities, and attracting investors. While many still require additional resources and appropriate enabling policies, emerging successes include: • Malaysia's Performance Management and Delivery Unit (PEMANDU) • Ethiopia's Agricultural Transformation Agency (ATA) • The Southern Agricultural Growth Corridor of Tanzania (SAGCOT)	↓ Large
Increasing trade openness in developing countries	Many developing countries are opening their local markets to international trade. In Sub-Saharan Africa, the value of trade rose from 44% to nearly 60% of GDP between 1960 and 2017, while South Asia experienced an increase from 13% to 39%.[1] More open trade means that local producers and processors need to be more competitive and, as such, are likely to demand financing to increase productivity. They may also need international trade finance and risk management solutions (e.g. letters of credit, currency hedging)	↑ Medium
Decreasing trade openness in developed countries	Since the early 2010s, there has been a slowdown in trade openness in developed markets, with fewer free trade agreements signed, slower reductions in tariffs, and rising protectionist measures.[2] As such, agricultural exporters in developing countries are likely to face more constraints when accessing developed markets and may have a greater need for relevant financial services (e.g. trade finance, export credit or guarantees)	↑ Medium

↓ Trend will likely reduce agricultural financing gap

↑ Trend will likely increase agricultural financing gap

Sources: [1] World Bank. [2] European Central Bank, "Implications of rising trade tensions for the global economy," 2018.

CLIMATE CHANGE AND POP GROWTH WILL INCREASE DEMAND FOR FINANCE; GENDER-FOCUSED INVESTMENT MAY INCREASE SUPPLY

C

ENVIRONMENTAL AND SOCIO-CULTURAL TRENDS		IMPACT ON GAP
Increasing focus on gender and minorities	Impact investors and donors are increasingly targeting underserved or vulnerable communities, many of whom rely on agriculture for their livelihoods (for example, women constitute an important share of the agricultural labor force in small-scale and subsistence farming). Applying a gender/minorities lens to their investment strategies could result in an increasing supply of agriculture-specific financing	↓ Medium
Climate change	Climate change will continue to affect agricultural productivity and increase exposure to extreme weather events. This will increase the need for inputs that are adapted to these conditions (e.g. drought-resistant seeds, irrigation) and insurance products (e.g. yield or weather index insurance). However, financing facilities such as Green Climate Fund and Adaptation Fund, that focus on improving resiliency to climate change may help to increase the amount of financing available for agricultural systems in developing countries	↑ Medium
Rural-urban migration	Rural-urban migration will likely reduce the size of the agricultural labor force, thereby increasing demand for farming technologies that can drive higher productivity and, as a result, the demand for related asset finance. Increasing urbanization in developing countries may also lead to increased need to invest in processing, distribution, and retail as urban populations demand more processed food	↑ Medium
Population growth and changing diets	With the global population set to reach ~10 billion by 2050, more investment will be needed in food production.[1] Changing dietary patterns will also require increased food production as people eat more food, and importantly, more higher-calorie foods such as animal proteins. Between 1960 and 2010, global per capita food consumption increased by 20%, while per capita consumption of animal products increased by over 40%.[2] Going forward, these trends are likely to be more pronounced in developing countries given they will experience the largest increases in their population size, an increasing number of middle-class people, and a greater availability of diverse food options[3]	↑ Large

↓ Trend will likely reduce agricultural financing gap

↑ Trend will likely increase agricultural financing gap

Sources: [1] United Nations Department of Economic and Social Affairs, "World population projected to reach 9.8 billion in 2050, and 11.2 billion in 2100," 2017. [2] International Center for Tropical Agriculture, "The Changing Global Diet". [3] IFPRI, "2017 Global food policy report," 2017

INNOVATIONS IN FINANCIAL SERVICES MIGHT INCREASE ACCESS; CUSTOMER SUPPORT AND PROTECTION WILL BE KEY TO SUCCESS

D

TECHNOLOGICAL TRENDS		IMPACT ON GAP
Digital delivery models of finance	Financial services are increasingly being provided through digital platforms (e.g. mobile money). Digital delivery models have increased access to financial services in agriculture and reduced the costs to financial service providers, such as MyAgro and DigiFarm, of reaching customers, particularly those in rural and remote areas. However, low literacy among many agricultural producers has limited the use of digital financial services. Going forward, uptake of digital finance products can be increased through more customer-centric approaches in product development and delivery	↓ Large
Use of big data in financial services	Finance and insurance providers are increasingly using big data in their decision-making processes (including agriculture-specific data on weather, land, and inventory). This enables them to make more accurate risk assessments and increases their visibility on customers' assets and ability to pay, therefore enabling them to price services more accurately and affordably. While big data can reduce information imbalances between finance providers and seekers and incentivize the provision of financial services, there is also the risk that these technologies (e.g. alternative credit scoring systems) might discriminate against specific customer segments due to built-in biases	↓ Large

↓ Trend will likely reduce agricultural financing gap

↑ Trend will likely increase agricultural financing gap

Sources: CGAP, "Customer-centric guide," 2017; CGAP, "Doing digital finance right: the case for stronger mitigation of customer risks," 2015

CONTENTS

USAID HAS FOUR MAIN TOOLS TO HELP CATALYZE AGRICULTURAL FINANCE IN PARTNER COUNTRIES

GRANTS

Direct funding to a recipient (e.g. financial service provider) tied to specific interventions or programs, with no expectation of a financial return. The disbursement of grants can sometimes be conditional on the demonstration of results by the recipient; this is called results-based financing

TECHNICAL ASSISTANCE

In-kind support provided to help recipients (e.g. finance providers, agricultural SMEs) build their capacity in specific areas of their operations or improve existing processes (e.g. development of agricultural finance products, credit assessments, financial management and reporting)

POLICY ADVOCACY

Efforts to promote specific policies or regulations that will enable more investment into the agricultural sector. This may include advocating for changes to existing policies (if they constrain agricultural finance or are not supportive enough), developing new policies and regulations alongside local actors (if there are not any currently in place), or conducting cost-benefit analyses of different policy options

CONVENING

Efforts to bring different actors within the agricultural finance system together to raise issues and common challenges; share best practices and ideas; and create opportunities for dialogue, collaboration, and investment

THESE TOOLS HAVE SPECIFIC USE CASES AND CAN BE APPLIED INDIVIDUALLY OR IN CONJUNCTION TO SUPPORT AGRICULTURAL FINANCE

Which tool should I use?

Each tool can be used to address specific barriers to agricultural finance. These include supply-side barriers (e.g. high risk, high cost to serve customers, low expected returns), demand-side barriers (e.g. limited financial literacy, lack of collateral, informal financial management), and cross-cutting ecosystem barriers (e.g. lack of financial infrastructure).[1] See "*Section V: USAID's Toolkit*" for more details and examples on when each tool should be used

How can I use these tools to be "catalytic"?

As well as using financial tools to directly catalyze agricultural finance from the private sector, USAID staff can use non-financial tools to support structural reform of the agricultural finance markets and indirectly catalyze additional capital. For example, USAID staff can build relationships between non-financing partners, identify the best partners for blended finance mechanisms, and create an enabling environment for private investment into agriculture. Additionally, using a combination of relevant tools is often more effective, and leads to more sustainable results, than using a single tool, particularly when trying to address different barriers to agricultural finance

Are some tools better suited for some agricultural finance products?

Some tools are more flexible than others. For example, grants are applicable to a broad range of financial products (e.g. as first-loss capital in an equity fund; or as a subsidy to reduce the cost of bank lending to agricultural SMEs)

Notes: [1] Ecosystem barriers refer to those related to the policy and regulatory framework, financing infrastructure, and stakeholder dialogue, among others.

IN ADDITION, USAID CAN USE TOOLS OF OTHER U.S. GOVERNMENT AGENCIES TO CATALYZE AGRICULTURAL FINANCE (1/2)

	U.S. International Development Finance Corporation (USDFC)[1]	U.S. Department of Agriculture (USDA)	Export-Import Bank of the United States (EX-IM Bank)
Tools	• Guarantees to share credit risk with finance providers in developing countries (formerly DCA guarantee) • Debt finance to private companies • Support for private equity funds • Political risk insurance (PRI) to protect assets of U.S. investors operating in developing countries	• Facility guarantee program to support the development of agricultural infrastructure (storage, processing, handling, distribution) in developing countries	• Finance for U.S. sponsors of infrastructure projects • Loans and loan guarantees for international buyers of U.S. products
How USAID can use tools for agricultural finance	• Facilitate access to guarantees that can reduce the risk of investing in the agricultural sector • Facilitate access to debt and equity financing for agribusinesses • Co-structure agri-focused investment funds • Facilitate access to PRI for U.S. investors to de-risk investments into the agricultural sectors of developing countries	• Facilitate access to guarantees to reduce risk of lending to downstream actors (processors, retailers) • Facilitate access to guarantees for developers of agricultural infrastructure	• Facilitate access to financing for agriculture infrastructure projects • Facilitate access to debt financing for local agricultural actors looking to buy U.S. products (e.g. machinery for production or processing)
USAID examples	• Cambodia Agriculture Loan Portfolio Guarantee • Agriculture Loan Portfolio Guarantee in Mozambique	• USDA Pakistan Agriculture Programs • Western Highlands Integrated Program in Guatemala • "International Food Assistance and Food Security" conference	

Note: USAID examples are non-exhaustive. [1] From October 2019, the USDFC will consolidate the Development Credit Authority (DCA) of USAID and the Overseas Private Investment Corporation (OPIC)

IN ADDITION, USAID CAN USE TOOLS OF OTHER U.S. GOVERNMENT AGENCIES TO CATALYZE AGRICULTURAL FINANCE (2/2)

	Millennium Challenge Corporation (MCC)	U.S. Trade and Development Agency (USTDA)	U.S. African Development Foundation (USADF)
Tools	• Grants to partner countries for rural and trade infrastructure development (irrigation, storage, transportation, roads), capacity development (farmer training), and policy support (property rights and land policy)	• Feasibility studies and technical assistance grants to support project sponsors in developing countries to design investment opportunities that can generate returns that are attractive to investors	• Operational assistance grants to improve financial, managerial, and technical capacity of small enterprises, farmer associations, and cooperatives; and to finance working capital needs • Enterprise expansion grants to support established enterprises to grow and improve market access
How USAID can use tools for agricultural finance	• Co-finance investments in rural and agricultural trade infrastructure • Facilitate access to grants that support policy reforms or that create an enabling environment for the provision of agricultural finance	• Facilitate access to USTDA support for project developers in agriculture, rural, and trade infrastructure	• Facilitate access to technical assistance for agricultural MSMEs that want to access existing local financing options • Facilitate access to grants for working capital and growth needs of agricultural MSMEs in FTF countries that are eligible for USADF funding[1]
USAID examples	• Development of Women's Empowerment in Agriculture index • Development of the "Impact Evaluations of Agriculture Projects" issue brief		• USAID-USADF co-interventions as part of the Power Africa initiative

Note: USAID examples are non-exhaustive. [1] FTF countries that are also eligible for USADF funding: Ethiopia, Ghana, Kenya, Mali, Niger, Nigeria, Senegal, Uganda

WHEN DESIGNING AGRICULTURAL FINANCE INTERVENTIONS, IT CAN BE HELPFUL TO KEEP IN MIND KEY SUCCESS FACTORS

1. Clearly diagnose barriers to agricultural finance and pick relevant tool(s)

The first step is to identify the demand-side, supply-side, or ecosystem barriers that are preventing the flow of agricultural finance. To help diagnose these barriers, consider mapping the separate steps of the value chain and the actors that play key roles within them. It is also crucial to speak to many stakeholders to agree on the largest and most urgent challenges to tackle. The final choice of tool(s) should be based on this diagnosis, noting that using a combination of tools may be more effective when trying to tackle multiple barriers

2. Tailor interventions to local contexts

While past USAID experiences in agricultural finance are a helpful resource for identifying potential risks and success factors, new interventions should be based on a deep understanding of the local context (e.g. types of local smallholders and agricultural value chain actors, sources and gaps in financial flows, local regulatory framework and institutions, etc.)

3. Demonstrate impact for learning and replicability

It is important to define measurable targets to monitor and evaluate your intervention against. This will help to strengthen the evidence base for agricultural finance interventions and help USAID and other actors better design and implement future interventions. These targets could include, for example, the number of agricultural producers or SMEs with access to financial services or the size of financial flows to specific segments of the agricultural value chain

4. Aim for additionality and be wary of unintended consequences

Try to ensure that the intervention attracts finance that would not have otherwise been directed to the agricultural sector, does not duplicate efforts led by other actors, and does not create unintended disincentives (e.g. finance providers might think that a specific group of customers is only attractive in the presence of donor grant funding)

5. Identify suitable partners early

As you design the intervention, try to engage potential implementing partners at an early stage to ensure they are bought into the solution. Talking to partners might also expand the tools and resources available for the intervention. Implementing partners may include local NGOs with extensive smallholder networks, national banks, regional investment funds, and other donors that have existing agricultural finance expertise and networks that may be complementary to USAID's

CONTENTS

GRANTS

What is this tool?

Grants are direct funds from a donor to a recipient that are tied to specific interventions or programs, with no expectation of a financial return for the donor. The disbursement of grants can sometimes be conditional on the demonstration of results by the recipient. This is called results-based financing

When should this tool be used?

If finance providers lack incentives to finance agriculture due to high risk, high cost, or competing priorities, then …

- Grants can de-risk private investments in agricultural SMEs or funds by taking on first losses for specific transactions and overcoming first-mover resistance (i.e. the reluctance of finance providers to be the first to invest in a particular sector or customer segment)
- Grants can reduce upfront costs for finance providers, for example, by covering the fees to structure and manage an agricultural investment fund
- Grants can increase the potential returns of agricultural finance investments, for example, by using results-based financing to reward finance providers for supplying financial services to target beneficiaries

If investments in agricultural finance infrastructure are under-financed, then . . .

- Grants can support the development of shared agricultural finance infrastructure that no single actor can, or wants to, finance alone. Investments in shared infrastructure strengthen the overall agricultural finance system and may include systems that enable the use of digital financial solutions or the sharing of data on the financial track record of agricultural SMEs

What are the different forms of this tool?

1. Grants as first-loss or seed capital for agricultural investment

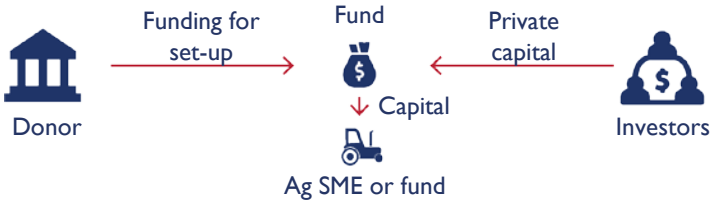
Grants can be given to agricultural SMEs or agri-focused funds to reduce the risks for commercial investors, for example, by taking the first loss on a transaction if the borrower(s) cannot repay their loans

2. Grants for finance providers (traditional or results-based)

Grants can be given to finance providers to incentivize delivery of financial services to target beneficiaries. These can be provided via results-based financing where the amount of money that USAID provides is based on, for example, coverage rates

3. Grants to structure agricultural investment vehicles

Grants can be used to pay for the design and structure of agri-focused investment funds, including blended finance funds



4. Grants to develop agricultural finance infrastructure

Grants can (co-)finance the development of agricultural finance infrastructure such as data-sharing platforms between banks

GRANTS

SPOTLIGHT: Rural Finance Initiative in Colombia

Background: Access to credit and other financial services in rural areas of Colombia is limited. Only 16% of the country's four million farmers have ever received a formal loan. This prevents them from making investments to improve productivity and exacerbates inequality

Problem: Financial institutions lack incentives to serve rural clients, do not offer products that are adapted to their needs, and lack the distribution networks needed to reach them

Solution: USAID and the Colombian government launched the Rural Financial Initiative (RFI) in 2015. RFI aims to reach 200,000 smallholders with loan and insurance products. USAID provided results-based grants that rewarded financial institutions for lending to agricultural actors, supported the development of new financial products, and expanded delivery channels

Results: As of 2017, RFI has mobilized around ~$200M in commercial capital from partner financial institutions, reaching over 146,000 smallholders in 197 municipalities. It has led to the issuance of over 49,000 loans, 15,000 insurance policies, and the opening of 82,000 savings accounts

Other examples of past use by USAID

- Economic Prosperity Initiative in Georgia
- Improving Value Chain Financing in Central America
- Building an Angel Investor Network in Ethiopia
- Financing Ghanaian Agriculture Project (FINGAP)

What are the success factors?

- Make sure grants are scoped adequately to ensure the cost-effective use of USAID funding
- Be clear on the share of grant dedicated to agricultural finance if the grant is part of a larger intervention
- Consider additionality i.e. whether grantees might have been able and willing to finance interventions in the absence of USAID grants
- Ensure clarity and alignment on success metrics among relevant actors, when using results-based grants
- Be wary of unintended consequences such as the potential crowding out of market actors or distortion of markets by potentially signaling to private investors that projects lack commercial viability

What should I do next?

- Define barriers to agricultural finance that you would like to address
- Identify the type of grant most suited to your situation
- Define detailed scope and objectives of the grant, and set budget
- Identify potential partners (e.g. financial institutions, investors, implementers) and engage them to align on objectives
- Identify complementary interventions (e.g. technical assistance) that will help to achieve success and sustainability
- Track performance, measure success, and share learnings

TECHNICAL ASSISTANCE

What is this tool?

Technical assistance (TA) is provided to help recipients build their capacity in specific areas of their operations or improve existing processes (e.g. development of agricultural finance products, credit assessment of agricultural SMEs, financial management and reporting by agricultural SMEs). Technical assistance can also be broader than an individual recipient and can be used to develop the agricultural finance system by building knowledge and sharing information (e.g. publishing a study on investment trends in the sector or mapping active investors in specific value chains)

What are the different forms of this tool?

The scope and format of technical assistance will depend on the needs and capacities of the recipient. Technical assistance could, for example, include:

- Providing in-house advisory on targeted issues
- Delivering technical trainings on specific skills
- Providing access to external sources of information and/or expertise
- Contracting an external consultant

When should this tool be used?

If the current capacity of agricultural, financial, and public-sector actors is limiting the supply and uptake of agricultural finance. For example:

- Local financial institutions may not know how to provide agricultural finance. For example, there may be no agricultural finance expertise within the institution or no efforts have been made to adapt products and services to the specific needs of agricultural actors. TA can support these institutions to develop tailored products and services and adopt credit assessment tools
- Investors, including fund managers, may not have a nuanced understanding or adequate investment processes for the agricultural sector. TA can help to build their capacity on, for example, how to conduct due diligence on agricultural SMEs
- Value chain actors may be providing informal and ineffective financing solutions to other value chain actors due to lack of financial expertise. TA can help to build their risk management capacity and their knowledge about how to set pricing, terms, and conditions
- Agricultural producers and SMEs may not be financially literate, may not be aware of existing sources and forms of agricultural financing, and/or may have limited or no financial management capacity. TA can help them to navigate the available financing options, and successfully secure financing by building financial literacy and providing management support (e.g. how to report revenues and profits, and produce financial statements)
- Local public sector actors may have limited capacity to identify, and effectively address, systemic barriers to agricultural finance. Additionally, responsibilities may not be clearly assigned between key stakeholders such as the Ministry of Finance and the Ministry of Agriculture. TA can help them to assess the local agricultural finance system, identify bottlenecks, and introduce or change the relevant policy/regulatory levers to catalyze private financing flows

SPOTLIGHT: New Tools and Expanded Services for Small Rural Businesses in Nicaragua

Background: Many small agricultural actors in Nicaragua (e.g. small-scale dairy producers and coffee plantations) lack access to credit from local financial institutions such as banks and microfinance institutions (MFIs)

Problem: Commercial banks do not view rural agricultural loans as attractive options for their business. While MFIs do cater for some agricultural actors, they typically charge high interest rates, which recently led to a mass of loan defaults, as part of the "No Pago" movement – a movement advocating for the non-payment of loans

Solution: USAID developed a credit scoring tool to build the capacity of commercial banks and MFIs to accurately and cost-effectively assess the risk of potential SME borrowers in the agricultural sector

Results: 17 financial institutions adopted the credit scoring tool; several commercial banks established new SME departments; and financial analysts were trained on rural agricultural value chains. As a result, the average size of loans provided by MFIs increased; and $38.8M was provided in lending to over 6,700 agricultural SMEs

Other examples of past use by USAID

The majority of USAID interventions in agricultural finance to-date have involved some form of technical assistance as a complement to other forms of USAID support

What are the success factors?

- Ensure a clear understanding of key capacity gaps among relevant stakeholders within the agriculture finance system
- Tailor technical assistance to local contexts and needs
- Secure buy-in from the organizations that are receiving technical assistance to ensure that new tools, processes, and skills continue to be used after the technical assistance and that the organizations have planned for relevant resourcing in the long-term
- Partner with local providers of technical assistance, where possible, to avoid crowding out local markets and to ensure sustainable provision of technical assistance

What should I do next?

- Identify gaps in the current capacity of relevant agricultural, financial, and public-sector actors within the agricultural finance system, including the current causes of bottlenecks
- Identify specific targets for technical assistance within these organizations and refine your understanding of their capacity needs through discussions
- Design and scope technical assistance intervention including the format and delivery channel. For example, will the TA be provided by USAID staff or local external contractors? Where relevant, you may need to first build the capacity of local technical assistance providers
- Track performance, measure success, and share learnings

POLICY ADVOCACY

What is this tool?

Policy advocacy includes efforts to promote specific policies or regulations that will enable more investment into the agricultural sector. This may include advocating for changes to existing policies (if they constrain agricultural finance or are not supportive enough), developing new policies and regulations alongside local actors (if there are not any currently in place), or conducting cost-benefit analyses of different policy options

What are the different forms of this tool?

1. Formal conversations with local policymakers

USAID staff can directly engage with policymakers to share perspectives on the local policy and regulatory frameworks and how they could be improved to increase the supply and uptake of agricultural finance

2. Policy briefs

USAID staff can draft short briefs that analyze the local policy and regulatory frameworks that are relevant for agricultural finance. These briefs could include, for example, cost-benefit analyses on different policy options or recommendations on how to create environments that will help increase the flow of agricultural finance. These briefs can be developed in partnership with external policy analysts and should be distributed through appropriate channels to ensure they are delivered to the most relevant audiences

When should this tool be used?

If agricultural finance is not a priority for local policymakers that are in charge of agricultural development, then . . .

- Policy advocacy can raise awareness among local policymakers of the importance of agricultural finance for economic and social development
- Policy advocacy can raise awareness among local policymakers of the local bottlenecks in the supply of, and access to, agricultural finance services
- Policy advocacy can help to better define the responsibilities of key public sector stakeholders, such as the Ministry of Finance and the Ministry of Agriculture, so that there are clear political champions of agricultural finance and agricultural development

If local policy and regulatory frameworks are not conducive to the provision of agricultural finance, for example, due to a lack of incentives or built-in disincentives, then . . .

- Policy advocacy can drive change in local policy and regulation that creates a more enabling environment for both providers and seekers of agricultural finance. This may include sharing international best-practice on policy and regulation for agricultural finance

POLICY ADVOCACY

SPOTLIGHT: Improving the Investment Climate for Agriculture in Ethiopia

Background: The Government of Ethiopia has identified private investment as an important driver of growth for its agricultural sector. However, most investments in agro-processing (i.e. the processing of agricultural products) are small or medium scale; 95% of investments are smaller than $1M

Problem: There is limited interest from private investors in agro-processing due to macroeconomic challenges related to foreign exchange shortages and currency overvaluation, among others. For example, there are restrictions on the amounts investors can borrow from the Development Bank of Ethiopia (DBE) and long delays in accessing foreign exchange

Solution: USAID designed a program to improve the policy environment and thereby reduce barriers to private investment in agriculture. USAID also supported the Ethiopian Investment Commission (EIC) and the National Bank of Ethiopia (NBE) to identify potential policy reforms. These reforms related to investment incentives, access to foreign exchange, land acquisition, and the investment support ecosystem

Results: USAID's support to EIC and NBE led to the adoption of a new policy to improve access to foreign exchange. The policy allowed exporters to retain up to 30% of their export proceeds indefinitely in their foreign exchange accounts, up from 10% previously. NBE also relaxed the conditions for borrowing from DBE by increasing acceptable leverage ratios

Other examples of past use by USAID

- Economic Prosperity Initiative in Georgia
- Driving New Investments into Agriculture in Tanzania's Edible Oils Sector

What are the success factors?

- Focus the scope of policy advocacy on priority issues to maximize the likelihood that policymakers will adopt your recommendations
- Ensure best practices are tailored to local contexts to formulate policy recommendations, rather than simply replicating international best practices
- Provide technical assistance as follow-up support on policy issues to ensure effective implementation

What should I do next?

- Identify the major policy issues by engaging multiple stakeholders in the agricultural finance sector
- Identify key decision-makers and champions among local policymakers and regulators to ensure that advocacy efforts on the identified policy issues are targeted to the right people
- Identify the most relevant form and approach to policy advocacy
- Prepare targeted policy suggestions in consultation with other stakeholders and lay out a clear rationale for change to policymakers
- Track performance, measure success, and share learnings

CONVENING

What is this tool?

Convening includes efforts by USAID staff to bring different agricultural, financial, and public-sector actors within the agricultural finance system together to raise issues and common challenges, share best practices and ideas, and create opportunities for dialogue, collaboration, and investment

What are the different forms of this tool?

1. Match-making convenings

Convenings that allow investors to identify investment opportunities and maintain a pipeline (e.g. annual agricultural investment forums at the national or regional level) and allow agricultural producers and SMEs to meet with financial institutions (e.g. commercial banks) or other value chain actors to get exposure to potential financial services and partnership opportunities (e.g. local or national agricultural fairs)

2. Policy dialogue convenings (finance providers and policymakers)

Convenings that allow private investors and financial institutions to raise concerns or make suggestions to key public sector policymakers that will help to increase the provision of agricultural finance. These could turn into regular meetings organized by the national agency in charge of agricultural development (if any) and can be used to regularly monitor and address challenges around provision of agricultural finance

3. Policy dialogue convenings (value chain actors and policymakers)

Convenings that allow value chain actors (both from the demand- and supply-side of finance) to raise concerns, share needs and expectations, and make suggestions to the public sector to increase the provision of agricultural finance. These could lead to the organization of the sector into "industry associations" that are able to speak in one voice and advise policymakers on issues related to agricultural finance

When should this tool be used?

If there is limited or no dialogue between finance providers, finance seekers, and local policymakers and regulators, resulting in limited collaboration and understanding and potentially missed opportunities, then . . .

- Convening can raise awareness and encourage dialogue among key stakeholders on issues, needs, and solutions (e.g. terms and conditions of financial products, applicable regulations and policies)
- USAID support can help to overcome funding or logistical barriers associated with convenings such as a lack of venues (formal or informal, virtual or in-person)

If investors that are willing to invest in the sector are unable to identify investment opportunities and generate investment pipelines, then . . .

- Convening can create networking and match-making opportunities between finance providers and finance seekers

If the local agricultural finance system is underdeveloped, then . . .

- Convening can support industry-led efforts to shape and advance the system by, for example, setting industry standards and best practices
- Convening can help the sharing of information and knowledge among financial service providers on technologies, approaches, business models, and new ideas for developing and delivering agricultural finance products. Convening can also help to raise awareness of key trends in the sector (e.g. new needs and segments, emerging risks and opportunities)

SPOTLIGHT: Improving Value Chain Financing in Central America

Background: Many small agricultural producers in Central America lack access to export markets due to an inability to meet buyer requirements on quality and volume. Limited access to commercial capital is one of the main constraints that limits their ability to increase their capacity for production, storage, and marketing

Problem: Limited financing to the sector is partly due to limited connections between smallholder farmers and potential finance providers. In addition, finance providers have a limited understanding of the financing needs and investment requirements of finance seekers

Solution: As part of the Regional Trade and Market Alliances project in Central America, USAID organized a Financing Forum in El Salvador, Guatemala, Honduras, and Nicaragua to match-make value chain actors with financial institutions and investors. As a follow-up to the forum, USAID facilitated visits by financial institutions to agribusinesses and provided a method for borrowers and lenders to work together to identify financing needs and define repayment and risk management mechanisms

Results: In the months following the forum, participating financial institutions and investors provided $1.2M in loans and lines of credit to eight agricultural associations to cover their working capital and investment needs. Over half of these were first-time loans between borrowers and lenders

Other examples of past use by USAID

- Economic Prosperity Initiative in Georgia
- Agriculture Loan Portfolio Guarantee in Mozambique
- Rural Finance Initiative in Colombia
- Agriculture Financing Forum

What are the success factors?

- Target outreach to relevant agricultural finance stakeholders that have the ability to drive change at scale (e.g. financial institutions, investors, large value chain actors). This may also include key government actors, for example, from the Ministries of Agriculture or Finance
- Define clear objectives and targeted agenda for the convening event and share agenda with participants in advance
- Make sure to follow-up with participants to track progress against objectives (e.g. development of partnerships or investment opportunities, policy dialogue) and avoid loss of momentum
- Offer technical assistance to participants to support the development of partnerships or investment opportunities, for example, to help with the development of an agriculture-focused investment fund

What should I do next?

- Assess the current level of dialogue between agricultural finance stakeholders, for example, through targeted interviews
- Identify key gaps in the current dialogue, for example, the actors that are involved or the topics being discussed
- Determine the best way to convene relevant actors on selected topics
- Plan and deliver the convening event, including with help from external contractors, where necessary
- Share key learnings from the convening event with participants to ensure alignment and provide opportunities for follow-up actions

GUARANTEES

What is this tool?

Guarantees are commitments from one actor (the "guarantor") to cover the financial liabilities of another actor (e.g. an agricultural SME) if they are unable to repay the money they owe to a third actor (e.g. bank). They can be used to cover many different financial instruments from loans to leases to bonds, and can cover individual financial obligations or entire portfolios

When should this tool be used?

If finance providers perceive the risks of providing financial services to agricultural producers and SMEs to be too high, which results in limited or costly provision of agricultural finance, then . . .

- Guarantees can reduce the risk taken by finance providers by guaranteeing repayment of agricultural loans or other financial liability. This can increase the likelihood of lending, for example, by reducing the level of collateral demanded by finance providers

If investors perceive there to be a high risk in broader investments in agricultural infrastructure, then . . .

- Guarantees can reduce risk taken by private investors when financing agricultural projects (e.g. establishing a processing plant)

If financial institutions find it difficult to raise capital for agricultural finance investments, then . . .

- Guarantees can give funders of financial institutions (e.g. bondholders) the security that agricultural finance investments will not result in losses

How can USAID staff use this tool?

Different U.S. Government agencies provide different forms of guarantees that are relevant to agricultural finance. These include OPIC guarantees (loan guarantee, portable guarantee, loan portfolio guarantee, lease portfolio guarantee, bond guarantee), USDA guarantees (export credit guarantee, infrastructure facility guarantee), and EX-IM Bank loan guarantee

SPOTLIGHT: Cambodia Agriculture Loan Portfolio Guarantee

Background: The majority of people in Cambodia (~70%) rely on agriculture for their livelihoods. However, limited access to agricultural finance hinders productivity and growth in the sector

Problem: Cambodia's agricultural sector is highly vulnerable to environmental and climate shocks, which makes providing financing risky for local financial institutions. To compensate for this, they ask potential borrowers to provide high levels of collateral, which limits the ability of agricultural producers and SMEs to access financing

Solution: USAID structured a loan portfolio guarantee with two local microfinance institutions and a leasing institution to reduce the risk on their portfolio of loans to agricultural actors

Results: The guarantee led to a reduction in collateral required for borrowers from 200% to 100% of loan amount, leading to $15M in new loans and leases. As part of the conditions of the portfolio guarantee, half of these loans were extended to women farmers or women-led agricultural businesses

What should I do next?

- Identify key perceived or real risks that prevent finance providers from extending financial services to the agricultural sector, and assess whether a guarantee could overcome these risks
- Liaise with U.S. Government agency with relevant guarantee authority to develop the tool in coordination with finance providers
- Identify complementary interventions (e.g. technical assistance) that could help to increase likelihood of success and sustainability

ADDITIONAL RESOURCES TO CONSULT

How should I select a tool?

- USAID, "Catalyzing Finance and Investment for Agriculture Training. Module 2.4 – Selecting the Most Effective Tool(s)"
- USAID, "How to engage with finance providers on agricultural programs"

How do I use these tools?

- USAID, "Catalyzing Finance and Investment for Agriculture Training. Module 2.1 – Core Agriculture Finance Tools"
- USAID, "An overview of USAID's Credit Guarantees"
- USAID, "Catalyzing Finance and Investment for Agriculture Training. Module 2.3 – Emerging Agriculture Finance Tools"
- USAID, "Knowledge Primer: Using Blended Finance to Mobilize Capital for Agricultural Development", 2018
- World Bank, "Enabling the Business of Agriculture" which provides examples of regulations that can improve the efficiency of agricultural markets
- USAID, "Global Food Security Strategy Technical Guidance. Finance: Unlocking Capital Flows" 2017
- USAID, "Global Food Security Strategy Technical Guidance for Private Sector Engagement" 2017
- USAID, "FS Series #5: Value Chain Finance" 2009
- Committee on World Food Security, "Principles for Responsible Investment in Agriculture and Food Systems", 2014
- FAO and Committee on World Food Security, "Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security", 2012

How else has USAID catalyzed agricultural finance?

- USAID, "Knowledge Primer: USAID Agricultural Finance Tools"
- USAID, "Knowledge Primer: Driving Impact Through Agricultural Finance Interventions", 2018
- USAID, "Knowledge Primer: Case Study: Improving the Investment Climate for Agriculture in Ethiopia", 2018
- USAID, "Knowledge Primer: Case Study: Driving New Investments into Agriculture in Tanzania's Edible Oils Sector", 2018
- USAID, "Finance Vignette Handbook," 2017
- USAID, "Council on Smallholder Agricultural Finance (CSAF) Financial Benchmarking", 2018

How have other organizations catalyzed agricultural finance?

- IFC, "Innovative Agricultural SME Finance Models," 2012
- Dalberg, "The Economics of Agri-SME Lending in East Africa", 2018 – Summary document and Full report

CONTENTS

TYPES OF FINANCE PROVIDERS (1/3)

Commercial-focused financial institutions

Commercial actors that typically seek market-rate returns

	Added value in agricultural finance	Examples
Banks	Have large outreach capacity among formal SMEs and larger scale actors, and offer a wide spectrum of financial services (general and agriculture-focused)	• Private banks (e.g. Equity Bank Kenya) • State banks (e.g. Commercial Bank of Ethiopia)
Microfinance institutions	Have unique positioning in terms of geographic presence and product offering to reach informal and smaller-scale actors in agricultural value chains (e.g. smallholders, MSMEs)	• BASIX, India • Grameen Bank, Bangladesh • FINCA
Non-bank service providers	Use innovative technology and business models (e.g. mobile money) to provide financial services to larger pools of actors in the agricultural sector and typically at a lower cost	• Digital finance providers (e.g. MyAgro) • Insurers (e.g. PlaNet Guarantee) • Hedging solutions providers (e.g. TCX Fund)
Commercial investors and funds	Have capacity to mobilize large amounts of capital and take more risk than other finance providers (e.g. commercial banks). They are sometimes involved in the management of companies they invest in, and can therefore provide technical assistance and support	• Private equity firms (e.g. Phatisa) • Venture capital firms (e.g. Factore) • Pension funds

TYPES OF FINANCE PROVIDERS (2/3)

Impact-focused investors and institutions

Actors that typically seek a balance of financial returns and social impact (in different ratios)

	Added value in agricultural finance	Examples
Development Finance Institutions	Have capacity to provide long-term and low-cost financing to agricultural actors or projects. They generally have agriculture-specific expertise and are able to provide technical assistance to actors they support	• Bilateral (e.g. CDC Proparco) • Multilateral (AfDB, ADB, World Bank Group) • National (Tanzania Agricultural Development Bank)
Impact investors and funds	Have the scale and capacity to support innovative, high-impact projects or actors that find it difficult to obtain funds from purely commercial finance providers due to higher risk and/or lower potential returns	• Root Capital • AgDevCo • responsAbility • Incofin
Governments	Have the capacity and mandate to finance public goods (e.g. agricultural and trade infrastructure, R&D) that other actors cannot, or lack the incentives to, finance. They also provide financial and technical support (e.g. extension services for farmers, subsidies for cooperatives, cash transfers, safety nets)	• Ministry of Agriculture • Ministry of Finance
Donors and foundations	Have a large spectrum of financial and non-financial tools (e.g. grants, guarantees, concessional debt, patient equity, technical assistance) to provide to agricultural actors, with the objective of filling market gaps, supporting innovation, building knowledge, and catalyzing additional investment in the sector	• USAID • BMZ (Germany) • JICA (Japan) • Bill and Melinda Gates Foundation • Mastercard Foundation

TYPES OF FINANCE PROVIDERS (3/3)

Informal financial institutions

Non-regulated actors that provide agricultural finance

	Added value in agricultural finance	Examples
Local moneylenders	Benefit from trust and geographic proximity to finance seekers (particularly smaller-scale actors)	• Family members and relatives • Local shops
Savings and credit cooperatives	Benefit from trust and geographic proximity to finance seekers, and typically have good understanding of financing needs of their members	• Rotating Savings and Credit Associations (ROSCAs) • Savings and Credit Cooperatives (SACCOs) • Village Savings and Loan Associations (VSLAs)
International remitters	Provide timely cash transfers to finance seekers (particularly smaller scale actors) either regularly or to deal with specific economic shocks	• Family members and relatives, through platforms like Western Union and MoneyGram

Non-financial actors

Typically value-chain actors that provide financing or risk management solutions

	Added value in agricultural finance	Examples
Local input suppliers or buyers	Have direct relationships with agricultural value chain actors and have an understanding of their businesses and needs. They typically provide in-kind support, cash advances, or credit lines	• Input suppliers • Off-takers and aggregators • Out-grower schemes • Retailers and importer
Multinational consumer goods companies	Have financial/technical capacity to support a large number of actors, including entire value chains in a given region. They provide in-kind support or credit as part of their commercial operations, but may also provide grants as part of CSR efforts	• Diageo • Nestle • Starbucks

EXAMPLES OF FINANCE PROVIDERS
KEY PROVIDERS OF COMMERCIAL AGRICULTURAL CREDIT IN FTF COUNTRIES

NON-EXAUSTIVE

FTF country	Main providers of commercial credit to agri-focused businesses		
Bangladesh	Grameen Bank	Dutch Bangla Bank	HSBC
Ethiopia	Commercial Bank of Ethiopia	Cooperative Bank of Oromia	United Bank
Ghana	Zenith Bank of Ghana	Ecobank	Barclays Bank
Guatemala	Banco De Guatemala	Banco Industrial	Banco G&T Continental
Honduras	Ficohsa Bank	Banco Atlantida	HSBC Honduras
Kenya	Barclays Bank	Stanbic Bank	CBA
Mali	Banque Nationale de Développement Agricole (BNDA)	Ecobank	Banque Malienne de Solidarité (BMS)
Nepal	Nepal Investment Bank	Nepal SBI Bank	Everest Bank
Niger	Ecobank	BSSIC	Banque Atlantique
Nigeria	Guarantee Trust Bank	Stanbic Bank	First Bank
Senegal	Ecobank	United Bank for Africa	Société Générale de Banques au Sénégal
Uganda	DFCU	Stanbic Bank	Centenary Bank

Note: Data is accurate and relevant at time of publication

EXAMPLES OF FINANCE PROVIDERS
IMPACT INVESTORS AND FUNDS

NON-EXAUSTIVE

Funds or fund managers	Scale of global agricultural financing[1]	FTF countries within portfolio	Programmatic or financing focus
Barak Fund Management	~$1.1B total fund size	Ethiopia, Kenya, Nigeria, Uganda	Market development, trade finance for agricultural commodity supply chains
Phatisa	$550M total fund size	Kenya (and others in Sub-Saharan Africa)	Market development[2], infrastructure, agricultural finance
Old Mutual Alternative Investments	$500M total fund size	Ghana, Kenya, Nigeria	Market development
GAFSP	$300M invested to-date through the Private Sector Window	Bangladesh, Ethiopia, Mali, Nepal, Niger, Senegal, Uganda	Market development, access to finance
EXEO Capital	$230M total fund size	Ethiopia, Kenya, Uganda	Market development across the value chain
Incofin	$280M total fund size	Ghana, Guatemala, Honduras. Kenya, Uganda	Market development, smallholders and SMEs, access to finance
ResponsAbility	$200M total fund size	Ghana, Honduras, Kenya, Uganda	Market development across the value chain, infrastructure
Food Securities Fund	$150M target fund size	*TBD*	Access to finance (through aggregators)
AATIF	$142M fund size	Ghana, Kenya, Nigeria	Market development
Root Capital	$100-250M fund size	Ethiopia, Ghana, Guatemala, Senegal, Uganda	Market development, technical assistance, smallholders
AgDevCo	$130M fund size	Ghana, Uganda	Market development, smallholders, SMEs
Africa Food Security Fund	$120M target fund size	Mali, Senegal	Market development

Notes: Data is accurate and relevant at time of publication. [1] High-level estimates of agriculture-specific financing. For fund managers, figures shown represent the aggregated size of relevant funds with a focus on agriculture. [2] Market development refers to capital investments across the agricultural value chain.
Sources: WEF, "Insights from Blended Finance Investment Vehicles and Facilities," 2016; ISF, "The fund manager perspective: moving the needle on inclusive agribusiness investment," 2017; FAO, "Agricultural investment funds in developing countries," 2010; EMPEA database.

EXAMPLES OF FINANCE PROVIDERS
DEVELOPMENT FINANCE INSTITUTIONS AND FOUNDATIONS

NON-EXAUSTIVE

Main funders	Scale of global financing	FTF countries supported	Programmatic or financing focus
Development finance institutions			
IDA (World Bank Group)	~$1.2B invested in 2016	All FTF countries except Guatemala	Agricultural infrastructure, smallholders, technical assistance, market development
IBRD (World Bank Group)	~$790M invested in 2016	All FTF countries	Market development, infrastructure, research and development, policy
Asian Development Bank	~$370M invested in 2016	Bangladesh, Nepal	Market development, infrastructure, policy and technical assistance
Foundations			
Bill and Melinda Gates Foundation	~$400M invested in 2017	Ethiopia, Ghana, Kenya, Nigeria, Senegal	Research and development, policy, market development, smallholders
Mastercard Foundation	~$160M committed in 2017	Ethiopia, Ghana, Kenya, Uganda	Rural and agricultural finance
Rockefeller Foundation	~$560M invested since 2006	Ethiopia, Ghana, Kenya, Mali, Niger, Nigeria, Senegal, Uganda	Market development, smallholders, post-harvest loss, policy

Note: Data is accurate and relevant at time of publication
Sources: Donor Tracker, "Agriculture," 2017; FAO Stat; BMGF, "Annual report 2017," 2018; ISF, "Getting smarter on subsidy: the role of grant funding in smallholder finance," 2018; Institutional websites.

1300 Pennsylvania Ave NW
Washington, DC 20523
www.usaid.gov