Knowledge Primer

Driving Impact through Agricultural Finance Interventions

USAID FROM THE AMERICAN PEOPLE

Objectives of this Primer

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

Related documents:

- USAID Agricultural Finance Tools (Knowledge Primer)

Why is agricultural finance important for economic development?

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

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

Agricultural finance interventions can unlock massive private sector capital. *The private sector may be able to provide 75% of the estimated USD 480 billion global demand for agricultural finance*[2] *in order to achieve the UN's Sustainable Development Goals.*[3] *When done well, agricultural finance interventions can prime a self-sustaining financial ecosystem that facilitates credit and persists long after USAID programs have ended.*[4]

A farmer harvesting maize in East Africa.[5]

What are specific examples of impact?

	Agricultural finance interventions can …	Examples of impact
Reduce poverty	…facilitate higher-income employment	A USD 7 million loan helped build a cold storage facility in **Morocco** and created 380 jobs.[6]
	…elevate rural income and rates of asset accumulation	A micro-loan provision to **Colombian** farmers increased monthly growth in assets by 25%.[7]
Strengthen food security	… improve smallholder productivity through higher-quality farm inputs	Loans for better fertilizer, equipment and seeds improved production efficiency for farmers in **Rwanda** and **Nepal** by 17% and 19%, respectively.[8, 9]
	…increase yield through better cultivation or management	USAID support enabled **Malian** farmers to increase maize yields by 71% and reduce fertilizer use by 58%.[10]
Prime a financial ecosystem	…facilitate new loans that would not have occurred otherwise	A USAID loan guarantee lowered collateral requirements in **Cambodia** by 50% to enable USD 15 million in new loans.[11]
	…initiate a pattern of lending that continues after programming ends	93% of 1,000 **Ghanaian** farm loan recipients reported confidence in acquiring subsequent loans from banks.[12]

Case studies demonstrating the development impact of agricultural finance interventions

Securing Loans and Livelihoods,[13] Colombia

Focus: Poverty alleviation

Background: Due in part to decades of internal conflict, Colombia's agricultural sector remains financially under-served with weak connection to markets, limited availability of credit and low levels of private sector investment. Limited access to financial services constrains productivity and exacerbates inequality for the 84% of Colombia's four million farmers who have never received a loan.[13]

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

How the agricultural finance intervention was applied:

- **Guarantee**: **USAID** provided two loan portfolio guarantees to Colombian microfinance institution **Bancamía** to de-risk commercial loans given to rural smallholders, valued together at USD 60 million.[13]
- **Loans: Bancamía** provided USD 60 million in low-collateral loans to 146,000 smallholders over five years to micro-enterprises to increase their income and employment.[7]

Rural Colombian farmer[13]

Impact of the agricultural finance intervention on development:

- 99% of borrowers accessed loans for the first time, 41% of whom were women.[13]
- Average monthly sales for borrowers increased 19%.[7] Some borrowers reported an increase in income of as much as 30% as a consequence of accessing loans.[13]
- 44% of **Bancamía's** poor clientele exited poverty within two years of accessing financial services.[7]

Yaajeende Agricultural Development Program,[14] Senegal

Focus: Food security

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

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

How the agricultural finance intervention was applied:

- **Grant: USAID** through its Feed the Future program partnered with the **Yaajeende Agricultural Development Program (YAPD)** to make USD 40 million available over five years for micro-loans aimed at development. Within three years, approximately half of it (USD 18.6 million) was utilized.[15]
- **Technical assistance: USAID funds** and staff helped train smallholder famers in applying new technologies (e.g., improved irrigation) and management practices to increase yields.[15]

Maize fields, with and without YAPD[15]

Impact of the agricultural finance intervention on development:

- 22% decrease in 6 to 23 month-old infants consuming a minimal acceptable diet within two years[16]
- Improved productivity: Increase of 54% for maize, 66% for rice, 30% for sorghum [15]
- An estimated 400% increase in total grain production for the regions impacted [15]

Concluding thoughts

- **Investment in agriculture can be a tremendous way to achieve impact**, 3-4 times as effective in alleviating poverty as non-agricultural investments.[1] As shown in the examples in Colombia, Senegal and Morocco, agricultural finance interventions can improve childhood nutrition, grain production and local employment.
- **Agricultural finance interventions catalyze private sector investment**, which is very much needed to both meet GFSS objectives and fill the financing gap of USD 200 billion to meet the Sustainable Development Goals.[3] Agricultural finance interventions can also help create a self-sustaining financial ecosystem that continues after USAID programming has ended.
- **At the same time, an agricultural finance intervention is not a silver bullet** – it often needs to be combined with other interventions. More information on combining USAID tools can be found in the "USAID Agricultural Finance Tools" knowledge primer.

Maize farmers in Senegal enjoy a greater harvest with USAID support[17]

USAID helps empower women through gender-inclusive financial interventions[17]

Sources

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