



# Financing Smallholder Farmers

to Increase Incomes  
and Transform Lives in  
Rural Communities



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## EXECUTIVE SUMMARY

Africa is home to a quarter of the world’s farmland, yet it generates only 10 percent of all crops produced globally.<sup>1</sup> Opportunity International’s (“Opportunity”) own experience in Africa indicates that **most farmers are operating at just 40 percent of their potential capacity.**

Crop production remains low in Africa because the majority of food producers are smallholder farmers who lack access to financial services, farming inputs (including improved seeds and fertilizers), agricultural training and fair crop markets to optimize their productivity and increase their earnings. Low crop yields keep farmers’ incomes small, preventing them from providing collateral to a financial institution so they can receive a loan, purchase inputs and transition from subsistence farming to economically and commercially active farming.

Without financial access and sufficient yearly earnings, **many farmers also lose up to 50 percent of their annual potential income because they must gain quick access to cash to afford household expenses all year.** In the time leading up to harvest, farmers often experience a “hungry season” in which they struggle to pay for family necessities including food. To make ends meet until their crops are ready to be sold, many farmers are forced to borrow from unregulated moneylenders at exorbitant interest rates or sell their future harvest early at a reduced rate to receive the cash they need to buy clothes, feed their children and survive. To address these challenges, Opportunity’s agricultural finance initiative provides small-scale farmers with all of the tools they need – including a full range of financial services – to sustainably improve their crop yields, reduce hunger and food insecurity and meet the growing worldwide demand for food.

1 Jayaram, K., Riese, J. & Sanghvi, S. (2010). Agriculture: abundant opportunities. *McKinsey Quarterly*, Summer 2010.

2 United Nations Development Program (2012). *Africa human development report: toward a food secure future.*

3 Hazell, P., Poulton, C., Wiggins, S., & Dorward, A. (2007). The future of small farms for poverty reduction and growth. International Food Policy Research Institute.

4 Isa, M. (2013, May 6). Food production faltering in sub-Saharan Africa. *Business Day Live.*



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## STRATEGY

More than one in four Africans are undernourished.<sup>2</sup> Additionally, smallholder farmers comprise half of the world's undernourished people and a majority of people living in absolute poverty.<sup>3</sup> Experts estimate that food production in Africa must increase by 50 percent to feed an estimated population of 1.3 billion by 2030.<sup>4</sup>

Opportunity is dedicated to equipping Africa's small-scale farmers with the tools they need to reduce hunger and food insecurity within their communities while also meeting growing worldwide food demand. Our goal is to maximize the potential of farmers by equipping them to afford high-quality seeds and fertilizer, learn improved farming techniques, grow and connect with the best local crop buyers. Opportunity initially launched an agricultural finance pilot in 2005 in Malawi. Today, we are providing a full range of financial services to smallholder farmers across Ghana, Malawi, Mozambique, Rwanda and Uganda and are preparing to replicate the initiative in Tanzania, Kenya and the Democratic Republic of the Congo.

# 1

## Strategy Component 1: Engage the entire value chain to invest in the long-term success of farmers.

Opportunity believes that engagement of the entire agricultural value chain is critical to increasing food security and ensuring the sustainable development of farming communities in Africa. As a result, we carefully manage the value chain for each crop we finance, from seed to market, while at the same time helping each farmer's land thrive.

Opportunity's banks play an essential role within the value chain by providing loans for improved crop production and facilitating more efficient buying and selling relationships. We also collaborate with the main stakeholders in each value chain, including input suppliers, extension service providers and output market buyers, to ensure that each component of the value chain is functioning properly. These strategic alliances also provide farmers with all of the services they need to sustainably improve their yields, including high quality seeds and fertilizer, training in modern agricultural practices and access to viable local crop markets.

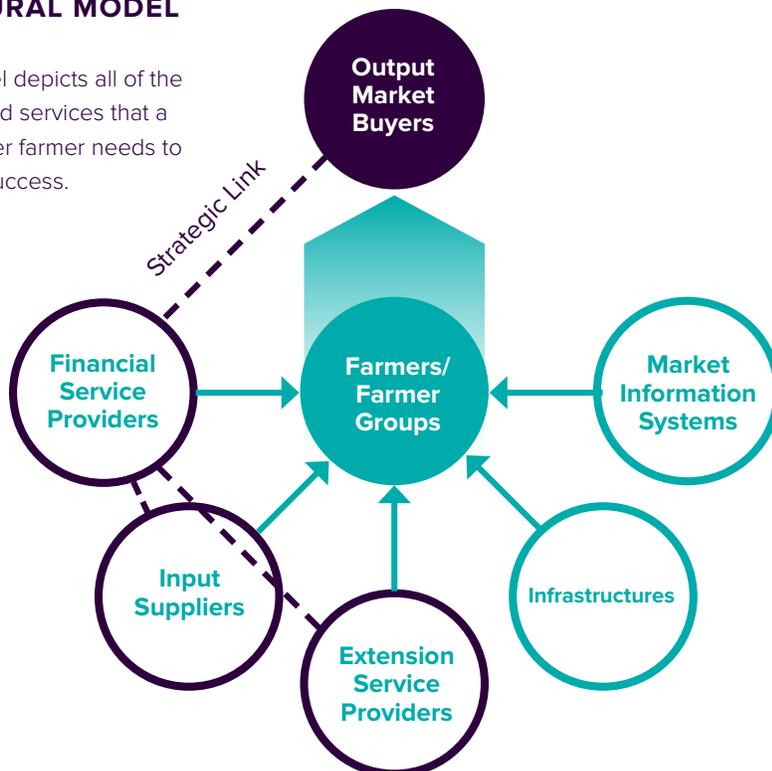
**Input Suppliers.** One of the key reasons that Africa cannot feed itself – though 48 percent of its population works in agriculture<sup>5</sup> – is because farmers lack access to farming inputs like seeds, fertilizers, insecticides, fungicides and other agricultural resources. Research shows that African farmers use significantly fewer inputs on their farmland than their low-income counterparts in Latin America and South Asia.<sup>6</sup> Partnering with trusted local input suppliers enables Opportunity to not only make certain that farmers have access to fertilizer and improved seeds to use on their land, but also to ensure that the inputs they are receiving are high quality and locally sourced.

**Extension Service Providers.** Good extension service providers are one of the foundations of a successful agricultural intervention, as they teach farmers how to improve their business skills and farming to increase the total yield and quality of their crops. Opportunity builds relationships with extension service providers who form associations of 500 to 5,000 farmers and then train them in key topics such as agricultural best practices, farm management and financial literacy.

**Output Market Buyers.** Opportunity facilitates contractual arrangements with agribusinesses to purchase our client farmers' crops, transport them to the best markets, store them for future sale or enhance with value-added processing. This ensures that the farmer receives fair crop prices, providing enough income to cover loan repayments and key household expenses such as nutritious food for growing children.

### THE RURAL MODEL

This model depicts all of the entities and services that a smallholder farmer needs to achieve success.



<sup>5</sup> New Partnership for African Development (2013). African agriculture, transformation and outlook.

<sup>6</sup> Crawford, E., Jayne, T., & Kelly, V. (2006). Alternative approaches for promoting fertilizer use in Africa: agriculture and rural development discussion. World Bank. Paper 22. Washington, DC.

# 2

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## **Strategy** **Component 2:** **Offer a full suite** **of banking services** **to farmers to meet** **all of their financial** **needs.**

Through market research and many growing seasons of experience, Opportunity has learned that under-resourced farmers who cultivate small plots of land need not just one or two, but an array of financial tools—including savings—to make their farming operations economically and commercially viable.

Because many rural families do not have a safe place to store their money, Opportunity is dedicated to providing savings products that meet farmers' unique needs. With income only coming in once or twice a year after harvest, farmers who use a savings account are better able to pay for household expenses throughout the year without resorting to selling their crops early at a below market price or working with costly local moneylenders.

Our experience in Africa indicates that once rural clients understand the advantages of opening a savings account, the demand for these services can be at least five times higher than the demand for loans. However, unlike in urban areas, rural clients often have no prior knowledge of how savings accounts work. Opportunity's financial institutions

have developed educational tools such as DVDs, TV and radio segments, comic books, games and role playing activities to help farmers with limited educational backgrounds improve their basic financial knowledge.

In addition to loans and savings, Opportunity provides clients with insurance products, bill pay services and money transfer services, which help ensure the ease and safety of their financial transactions. Many of Opportunity's money transfer services are available via mobile technology, allowing clients to conduct transactions anywhere with cellular reception. Insurance helps ensure that unplanned events such as weather-related crop failure, a family death or a medical emergency do not send our client farmers deeper into poverty. It also reduces the risk for our banks, enabling them to lend to low-income households based on the assurance that their investment is protected.

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**Innovative bank delivery channels provide an affordable way to bring banking services to sparsely populated regions.**

# 3

## **Strategy Component 3: Use technology to cost-effectively identify potential client farmers, assess their households for financing and provide them with information and banking services.**

Opportunity uses high-technology, low-cost banking solutions to efficiently and cost-effectively deliver financial services and agricultural information in hard-to-reach communities. When used together, the technologies support each key component of serving smallholder farmers, including client identification, registration, service delivery, ongoing support and impact evaluation.

Innovative bank delivery channels provide an affordable way to bring financial services to sparsely populated regions. Opportunity employs a “hub-and-spoke” strategy tailored to the local conditions in each country. This approach involves opening hub branches in market centers near rural areas and then using low-cost structures and technology to reach the smaller surrounding communities. Over the past four years in Africa, Opportunity has deployed more than 650 technology-based financial access points and launched mobile phone-based banking initiatives in six countries. Because Africa is the second largest market for mobile phones and also the fastest growing market<sup>7</sup>, mobile-based services are a critical component of our efforts to sustainably serve rural communities. In many regions, even the poorest households have a mobile device or at least a SIM card that allows them to use a friend’s or neighbor’s mobile device.

Data capturing technology allows our loan officers to remotely access the core banking system with an Android tablet. Field staff use the technology in remote agricultural communities to register new clients, open savings accounts, map the size of a small farm using GPS technology and geo-tag the location of clients’ farmland, complete loan applications and collect client data to measure impact. GPS land-mapping and geo-tagging are especially critical for determining the appropriate amount of inputs the farmer needs to increase his or her crop production.

Opportunity is collaborating with Grameen Foundation to identify new agricultural clients and provide client farmers with technical farming assistance. Grameen Foundation employs leading local farmers as community workers who use mobile technology to collect household and farm-level data from smallholders and provide them with up-to-date agricultural information and support services that they struggle to attain elsewhere. This includes crop-specific market prices, linkages to local crop markets and input suppliers, weather forecasts and technical farming assistance. Partnering with Grameen Foundation allows our bank staff to focus on meeting clients’ needs rather than gathering data for all farmers, including those who do not have the capacity or desire to receive a loan.

7 Agence France-Presse (2012, November 13). Africa fastest growing mobile market. *News24*.



## ACHIEVEMENTS

Through working with strategic partners including the Bill & Melinda Gates Foundation, The MasterCard Foundation, The Caterpillar Foundation, Citi Foundation, John Deere and a variety of other philanthropic foundations and generous families, Opportunity has:

- Disbursed 164,000 agricultural loans totaling more than \$32 million
- Provided financing to farmers working in more than 20 crops
- Opened 618,000 rural savings accounts
- Achieved a compound annual growth rate of 69 percent in agriculture loans, 26 percent in rural savings accounts and 34 percent in financial access points



In 2013, Opportunity conducted extensive research in Uganda, Malawi and Ghana to investigate the impact of the agricultural finance initiative on the lives of our client farmers. The research methodology involved quantitative and qualitative data collection, including a survey of our client farmers, with over 200 questions completed by a random sampling of clients and a control group totaling 1,200.

The assessment revealed that our agricultural services have had a measurably positive impact on thousands of rural families. Through attaining access to banking services and agricultural resources provided through Opportunity, smallholder farmers have improved their cash flow and increased their quality of life by growing their agricultural production, yields and access to viable local crop markets. Families reported greater access to necessities including food, education and health care after working with Opportunity.

This survey shows that Opportunity's agricultural programs are having a measurable, positive impact on the lives of our clients, their families, and the communities where they grow and sell their crops.



## Vision

Our vision is a world in which all people have the opportunity to achieve a life free from poverty, with dignity and purpose.

## Mission

By providing financial solutions and training, we empower people living in poverty to transform their lives, their children's futures and their communities.

## Values

**Commitment** to our clients and their transformation.

**Humility** a spirit of serving in all that we do.

**Respect** 360 degrees of consideration and teamwork.

**Integrity** living our values with transparency and consistency.

**Stewardship** accountability, innovation, and urgency.

**Transformation** our ultimate goal in ourselves and others.

## Method

We support local microfinance organizations that provide innovative financial solutions to empower people, create jobs and build vibrant communities.

- We create innovative partnerships to provide complementary services to our clients.
- We seek to impact the lives of our clients, staff and supporters.
- Our products, services and training enable clients to develop businesses, to save and to insure against an uncertain future.
- We strengthen and influence value chains to benefit our clients, connect them to viable markets and drive economic progress.

**Discover more at [opportunity.org](https://opportunity.org)**

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Opportunity International provides access to savings, small business loans, insurance and training to more than 5 million people working their way out of poverty in the developing world. Clients in more than 22 countries use these financial services to start or expand a business, provide for their families, create jobs for their neighbors and build a safety net for the future.

Opportunity International is committed to using your donation in the most effective way possible. When combined with gifts from others, your donation is multiplied throughout the developing world, providing the greatest number of opportunities for people living in poverty to transform their lives.