



AGRICULTURAL FINANCE

The Opportunity Difference



Opportunity International

EXECUTIVE SUMMARY

Africa is still not producing sufficient food to provide a balanced diet to the population, despite its natural resources of land and water. The majority of smallholder farmers across the continent have adopted, by default, a low input/low output farming system. Only farmers who can provide collateral to a financial institution are able to access the finance needed to purchase improved seeds, fertilizers and chemicals to optimize their productivity. Lack of collateral excludes the majority of farmers from financial services.

Opportunity International launched an agricultural finance pilot in 2005 by conducting research on options for providing weather-indexed crop insurance in Malawi in conjunction with the World Bank. Today our banks provide a full range of financial services to smallholder farmers in five countries in sub-Saharan Africa: Ghana, Malawi, Mozambique, Rwanda and Uganda.

Opportunity's agricultural finance initiative equips farmers with the services they need to move from subsistence to economically and commercially active farming, thereby increasing household incomes and food security throughout Africa. Our strategy includes four key components that are designed to increase success rates for both the farmer and the bank:

- 1) Determine if a farmer has the potential to transition into commercially active farming based on household profile and land size
- 2) Engage with the critical players in the value chain—input suppliers, smallholder farmers, warehousing/bulking agents and offtakers—prior to providing the farmer with financial services
- 3) Provide a full range of financial products tailored to farmers' needs
- 4) Protect the bank's investment and increase sustainability by deploying low-cost delivery channels, diversifying our savings portfolio, securing credit guarantees and tailoring the agricultural model to the needs of farmers in each country

Past efforts by other organizations to finance agriculture in Africa have generally failed due to inappropriate lending policies, a disregard for external and internal market influences, a lack of understanding of farmers' household pressures and a lack of coordination among key stakeholders. These projects were often focused on improving specific parts of the agriculture system, but the impact of these point interventions has been limited by the weakest links in the value chain. For example, smallholder farmers may have access to extension services, but not to appropriate financial services that enable them to implement new techniques they have learned through training. They may receive a loan for an input, yet lack access to the training necessary to make their land more productive and thereby increase their yield. While the farmer's household cash needs may be known, the financial institution will rarely lend in the lead-up to harvest to reduce the risk of side-selling. Agricultural value chains require interventions that bring together all of the necessary components on a sustainable basis to serve the complex needs of farmers.

Opportunity is committed to providing affordable, convenient financial services to Africa's farm families, working in conjunction with strong partners throughout the entire value chain. By doing so, Opportunity will help increase food security and improve the regional and international export capability of small-scale producers. Not only will this initiative help struggling farmers and their families, but improved harvests will also help feed their villages and their nations.

“Helping poor farming families grow more crops is the world’s single most powerful lever for reducing poverty and hunger.”

– ROGER THUROW, author and Senior Fellow of Global Agriculture & Food Policy, Chicago Council on Global Affairs



With an initial loan of \$40 from Opportunity Malawi, farmer Augustin Kamanga (left) nearly doubled his harvest of groundnuts. “We are food sufficient now, which makes our lives better,” said Augustin, who has further expanded his farm by adding dairy cows, using fertilizer to increase production and hiring two workers from his village.

OPPORTUNITY’S STRATEGY:

1: Evaluate the farmer’s commercial potential

To determine if farmers are economically and commercially viable, Opportunity is implementing innovative practices for household profiling and land mapping using two technologies: GPS and a Customer Relationship Management system (CRM).

After an initial screening process, an Opportunity loan officer maps the farmer’s land using a GPS hand-held device to determine the location and exact land area available for farming. The loan officer collects information on up to three major crops being grown by the farmer, and the land sizes of each. GPS technology has proven effective in mapping the amount of land a farmer owns, which helps determine with greater accuracy the appropriate amounts of inputs (seed, fertilizer, etc.) for the farmer. The data is also provided to extension service partners, facilitating cooperation with another important supporter of the value chain.

Opportunity’s assessment of the farmer’s ability to go from subsistence to commercial operations continues with a detailed profile of the household. A simple household

questionnaire identifies demographics such as the number and gender of family members and laborers, and the type and depth of their skills, as well as the household cash flow needs adjusted for seasonality. In addition, Opportunity’s agricultural loan officers research each potential crop to understand the direct and indirect costs involved in production, as well as to assess the expected yield, demand and market value.

All of this information is fed into our CRM software which enables the loan officer to determine the farmer’s capacity to feed the household and run an enterprising farm. Where such capacity exists, Opportunity proposes a total farm plan, including a range of financial services, which reflects the appropriate mix of food and cash crops to maximize the farmer’s production and household income.

As part of our learning agenda, Opportunity is analyzing both mapped and non-mapped farmers to compare the quality, reliability and usefulness of the information obtained for lending purposes.

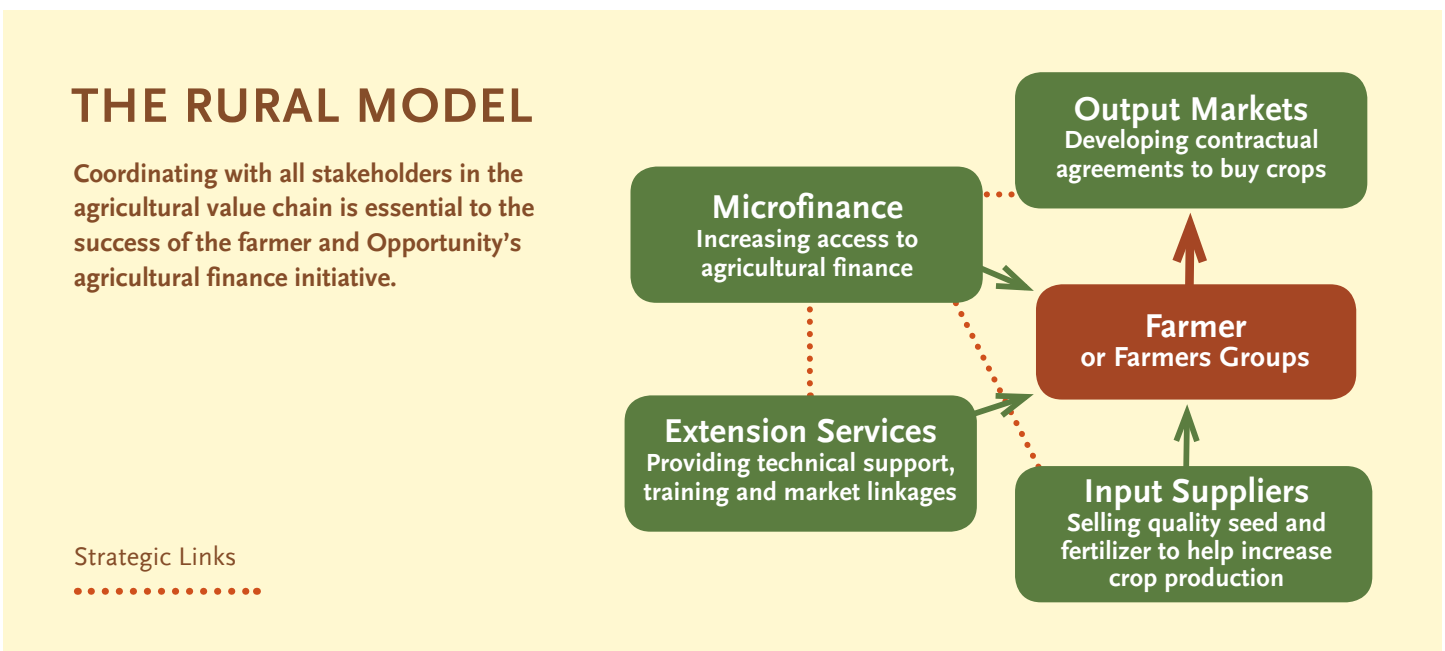
2: Engage the entire value chain

In traditional microfinance, the financial provider does not need to understand or manage the entire value chain for a client's business. However, Opportunity believes the key to helping farmers is the engagement of the entire value chain. Opportunity carefully manages this at a macro-level, while at the same time helping each individual farmer thrive at the micro-level.

Opportunity's banks play an essential role by infusing capital into the value chain, and especially the production process, and by facilitating capital flow within the market more efficiently. For the value chain to function smoothly, every link must function properly. Therefore, Opportunity partners with local suppliers to provide quality seed and fertilizer, and with NGOs and farmer groups to provide financial literacy

education as well as training in maximizing output through good agricultural practices.

In order to reduce costs and better manage the value chain, Opportunity builds relationships with extension service providers who coordinate associations of 500 to 5,000 farmers. High quality extension services are one of the foundations of successful agricultural loans as they increase the yield and price of a farmer's crop, as well as income earned. Opportunity also helps facilitate contractual arrangements with agribusinesses to buy the farmers' crops, which reduces price risk and enhances production quality. As repayment flows from the agribusiness through Opportunity to the farmer, Opportunity can be more assured that loan repayments will not be diverted.



“Too often our investments have resulted in a collection of projects that fail to transform the value chain and leave a lasting, market-oriented agricultural system.”

– RAJIV SHAH, Administrator, USAID, at Chicago Council Symposium on Agriculture and Food Security, May 20, 2010



Our mobile bank in the Rwamagana District of Rwanda serves remote clients.

3: Provide a full range of financial products

Through market research and several 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 active.

The lack of a safe place to keep their money represents a significant obstacle for the rural poor. Opportunity's experience in Africa indicates that the demand for savings products can be at least five times higher than the demand for loans. Small-scale farmers especially need savings to manage their cash and support their household during the “hunger season” prior to the next harvest. Without savings, they are caught in a destructive boom and bust cycle, and are often forced to sell their harvest too early at a very low price, or borrow from informal money lenders at interest rates of 40 to 50 percent per month, to meet their immediate cash flow needs.

Savings products that meet the unique needs of farmers are a major component of Opportunity's agricultural finance initiative. Unlike in urban areas, rural clients often have no prior knowledge of how formal savings products work. For this reason, financial literacy training is especially important. Opportunity banks have developed a number of education tools such as videos, comic books, games and role play, as well as one-on-one field-based training with farmers.

In addition to loans and savings, Opportunity may provide payment, money transfer and remittance services, as well as insurance products in rural areas. Having life, property and health insurance means that a single event will not send our farmer clients deeper into poverty. Crop insurance reduces the risk for our banks, enabling them to lend to farmers based on the assurance that their investment is protected in case of weather-related crop failure.

4: Protect the bank's investment

Opportunity protects our banks' investment and works toward sustainability by:

- Deploying low-cost delivery channels
- Diversifying our savings portfolio to include non-agricultural savers
- Securing credit guarantees
- Tailoring the agricultural model to the needs of farmers in each country

Deploying low-cost delivery channels

Opportunity employs the latest technologies and cost-effective delivery channels to bring the bank to the people.

Hub branches. Utilizing a “hub-and-spoke” strategy, Opportunity locates hub branches in market centers near rural areas and then uses lower-cost structures and mobile vans as “spokes” to reach the surrounding smaller population densities.

Satellite branches. Satellite branches are a less expensive way to provide a full range of services to clients in their communities, outside of the dense urban setting. These structures staff approximately five to 10 loan officers and five to 20 tellers, depending on demand in the area.

Kiosks. Converted from a shipping container or fabricated from low-cost materials, these mini-satellite branches enable Opportunity to provide banking access quickly and cost-effectively in remote areas. These structures are often upgrades from a mobile van stop as demand is cultivated in rural villages.



Opportunity’s point-of-sale device brings banking services to clients at this agricultural supply store in Malawi. Owner Rafik Latiff (left) is shown with Webster Mbekeani, chief marketing and research officer for Opportunity Malawi.

Cell phones. Opportunity will permeate countries virtually by using cell phone technology to reach both clients and non-clients. With a cell phone, clients can check their account balances, transfer money between accounts, send money to others, buy airtime, and pay utility and other bills.

ATMs and point-of-sale (POS) devices. With ATMs and POS devices deployed in rural markets, clients are able to make transactions and withdraw funds without the need to travel to a full-service branch. This saves money and time for both the client and the bank, as many teller transactions are those that can easily take place using an ATM or POS.

Open Sky technology. In remote areas, far from the nearest brick-and-mortar bank branch, many Opportunity clients can now make real-time transactions using Enterprise Open Sky (EOS). Built by Opportunity’s MIS Services, EOS is a set of computer programs that works seamlessly in conjunction with the core banking system provided the loan officer can connect to the internet via Wi-Fi or an in-country cell phone provider.



An Opportunity Mozambique loan officer uses Enterprise Open Sky technology to set up accounts for farmers and rural families residing in the bush.

Mobile vans. The mobile van is often the first opportunity for individuals in rural areas to access financial services. These armored vehicles, with nearly all the capabilities of a bank branch, enable customers to do banking within walking distance of their homes and businesses when the mobile unit comes to their community. This bank-on-wheels typically covers four to eight call points, including two to four primary locations, on a given route, which it will take once or twice a week, depending on the demand and coordinated with local market schedules. In some areas, mobile van stops have been converted to permanent banking structures to meet client demand.

Biometric technology. A bank card embedded with a client's fingerprint provides secure access to finances—even for those who lack formal identification.

Diversifying the portfolio

Opportunity spreads the risk of lending to the agricultural sector among a variety of crops and regions, as well as to non-agricultural sectors. This approach is key to diversifying cash flow and risk as well as reducing reliance on a single crop buyer. Expansion of savings to all demographics benefits not only the savers, but helps finance loans to rural communities and small-scale farmers. Critically, in order to limit reliance on agricultural savings to finance its agricultural loan portfolio, Opportunity mobilizes substantial deposits from non-agricultural savers and diversifies its loan portfolio across all sectors. This also makes the bank less dependent on contributions to sustain operations over the long term.

Securing credit guarantees

Loan guarantees also provide coverage for some of the risk in the agricultural sector in the short term. This is helpful as financial institutions venture into a territory replete with uncertainty and challenges. All five countries in Opportunity's agricultural finance initiative utilize USAID Development Credit Authority guarantees to mitigate the risk of lending to the sector. This four-year loan guarantee takes 50% of the credit risk for loans going to the rural farming community. However, loan guarantees will not become a mitigating factor for long-term risk as Opportunity anticipates making agricultural lending a sustainable enterprise with risk mitigants embedded in the long-term strategy.

Tailoring the model to each country

Whereas the fundamentals remain the same and can be easily transferred across borders, Opportunity customizes its services, delivery methods and lending policies in each country. For instance, the strategy for Malawi and Rwanda, where population densities are higher and hectares per household are limited, differs substantially from Mozambique, where land is ample and population density is low. Further, each country's export and import markets differ, as do the characteristics of the crops supported. In some countries, there may be a wide variety of crops that can be supported; in others, there may only be a few options. Weather patterns and drought risk also differ by country, thereby varying the need for weather-indexed crop insurance. These factors and others, including cultural differences, are considered when designing each country's agricultural finance services offered.



Dorothy Makupe of Mulanje, Malawi, with her biometric bank card, which gives her—and no one else—access to her account and control over her family's finances.



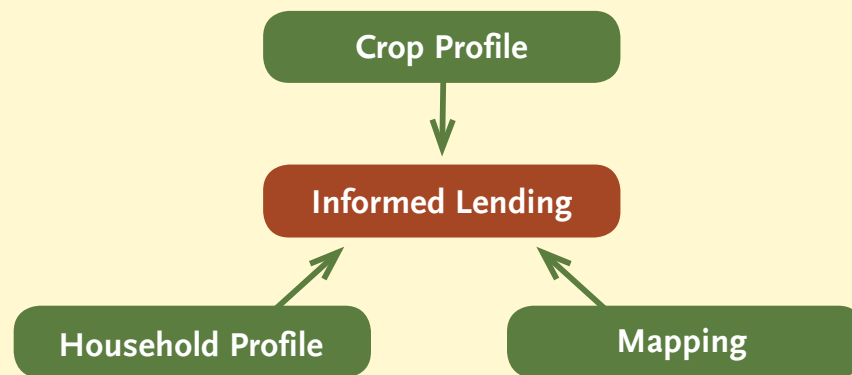
International Finance Corporation, a member of the World Bank Group, partners with Opportunity to expand weather-indexed crop insurance into Rwanda, where Agricultural Finance Officer Jean de Dieu Kampayana (left) works with farmer Niserata Twabagize.

CASE STUDY: FINANCING COCOA FARMERS IN GHANA

Opportunity Ghana has launched an agricultural finance program with the initial focus on cocoa farmers in the Ashanti, Western, Eastern and Brong Ahafo regions.

To begin, Opportunity developed a detailed cocoa crop profile to understand the direct and indirect costs associated with the production cycle, as well as to assess the expected yield and market value. With the cocoa crop profile complete, Opportunity began registering farmers and completing household profiles. Understanding the household cash flow and demographics enables Opportunity to determine how best to maximize production yields and prevent vulnerable households from falling into additional difficulties. Lastly, mapping ensures accurate plot size, which means inputs are used in the correct amount and the anticipated yields can be calculated more accurately.

Opportunity Ghana also builds relationships with high-quality input suppliers such as CalliGhana, MOFA and COCOBOD to help farmers increase the quantity and quality of their crops. Working with high-quality extension services, Opportunity’s agricultural loan officers are providing technical assistance and education along with strategic partners TechnoServe and the UN Millennium Village Program.



CROP PROFILE	HOUSEHOLD PROFILE	MAPPING
<ul style="list-style-type: none"> • Seed rate, variety and costs • Fertilizer and chemical needs and costs • Tools, equipment and labor needs • Pest and disease threats/mitigation tactics • Expected yields under various conditions and optimal planting period • Historic and current market prices 	<ul style="list-style-type: none"> • Number of family members • Family demographics • Breakdown of current farm enterprises: crop and land use • Other sources of income or debt 	<ul style="list-style-type: none"> • Plot boundaries • Position of the house • Altitude • Access to water/irrigation

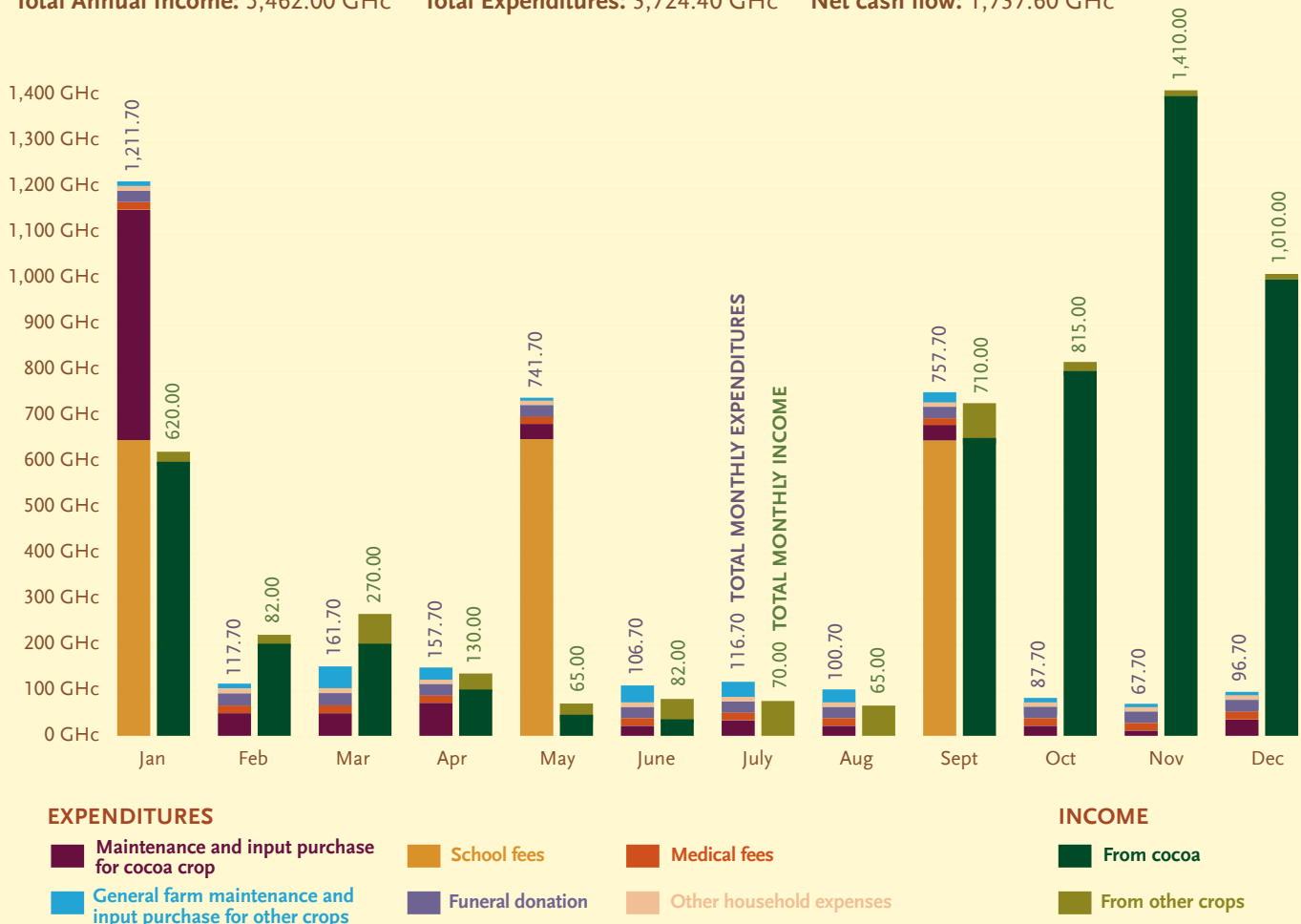
“Opportunity International’s strategy goes beyond simply providing agricultural credit. We’re creating a model designed to increase the farmer’s chance for success while mitigating his or her personal risk.”

– JOHN MAGNAY, Senior Agricultural Advisor, Opportunity International

Cash flow of a Ghanaian cocoa farmer client

Client Francis Annin owns a five-acre farm in Adagya, Ghana. The farmer manages a household of six, sends three children to school and has 11 dependents. The exchange rate is \$1 : GHc 1.5.

Total Annual Income: 5,462.00 GHc Total Expenditures: 3,724.40 GHc Net cash flow: 1,737.60 GHc



Cocoa program successes

At the end of 2010, Opportunity Ghana had disbursed 536 agricultural loans under the Cocoa Livelihoods Program (CLP) and Millennium Village Program (MVP). Each farmer received a three-acre package worth approximately \$300 per plot that included fertilizer, pesticides and protective clothing. For plots that were larger than three acres, farmers were asked to use the materials on only three acres. With the aid of mapping, subsequent loan clients received inputs based upon the actual acreage of their farm plots to maximize impact. High repayment rates—100% for the MVP farmers’ group and 99.4% for the CLP farmers’ group—in the first round of cocoa loans demonstrate the effectiveness of the profiling technique.

As of Dec. 31, 2011, Opportunity had disbursed 3,572 loans with an average size of \$552 to Ghanaian cocoa farmers. All loan clients receive training, credit life insurance and access to savings. The credit life policy covers the death or illness of the primary account holder or a family member for the full amount of the outstanding loan, bringing peace of mind to clients. Additionally, all farmer loan clients receive training in financial literacy, Good Agricultural Practices, and the Sustainable Tree Crop Program. Combining financial resources with the means to hedge against risk, and training clients on best practices in agriculture enables cocoa farmers to maximize their output and profits, and achieve greater sustainability.

POTENTIAL RISKS AND CHALLENGES

Rural finance is a risky business with long (seasonal) lending periods and a variety of factors affecting the production and price of crops, in addition to rural household pressures. Low population densities, lack of infrastructure and greater spatial dispersion of production also add to the risk. This explains why banks and other traditional for-profit financial intermediaries often limit their activities to more densely populated and affluent areas where operating costs are lower and loan sizes can cover fixed transaction costs.

Providing appropriate financial services to rural areas requires modifying traditional microfinance strategies and incorporating new technical knowledge of agricultural value chains. This approach involves numerous risks and challenges, including:

- High transaction and monitoring costs
- Poor credit culture due to government and donor provision of free inputs, or micromanagement of the agricultural sector
- Lack of an established financial track record among small-scale farmers
- Inadequate network of input dealers, as few farmers can afford to purchase quality seeds, fertilizers, etc.
- Climatic risk resulting in the lender taking on the risk of low yields based on weather conditions
- Long loan periods with single repayments, which leaves little chance for farmers to develop repayment discipline since they do not receive a regular monthly income
- Price risks due to volatile and weak output markets
- Even less collateral than is typical of urban microfinance clients and far less recourse to property rights due to informal land ownership in rural areas

The lack of development in Africa's agricultural sector poses a threat to the survival of farmers and the continent as a whole. A key factor is the absence of available knowledge and financial services for farmers. In this context, farmers focus solely on current needs, making it impossible to achieve consistent growth and plan for their futures.



“The IFAD Poverty Report 2011 makes clear that it is time to look at smallholder farmers and rural entrepreneurs in a completely new way—not as charity cases but as people whose innovation, dynamism and hard work will bring prosperity to their communities and greater food security to the world in the decades ahead.”

Opportunity partners with IFAD to help combat hunger and poverty in three districts in rural Malawi. Pictured here is Jennifer Chiwallo, a banana vendor in Mulanje.

– KANAYO F. NWANZE, President, International Fund for Agricultural Development

“Opportunity’s technology-driven microfinance services help create a sustainable framework to increase food production and bring access to financing for thousands of hunger-afflicted people.”

– ROBERT W. LANE, former Chairman and CEO, Deere & Company

OUR COMMITMENT

With the support of institutional and private partners, Opportunity International is committed to helping farmers in sub-Saharan Africa move from subsistence to economically and commercially active farming through an innovative and sustainable approach to agricultural finance. Opportunity’s products and services are designed to achieve the financial sustainability necessary to ensure an ongoing contribution to poverty eradication and economic development in underserved rural communities.

By supporting farmers with comprehensive financial tools and managing partnerships throughout the value chain, Opportunity is providing a successful example of how to improve farm productivity and alleviate rural poverty. We are also helping to increase food security and improve the regional and international export capability of agricultural producers in Africa, transforming the continent’s hunger and poverty landscape.

OPPORTUNITY’S AGRICULTURAL FINANCE TEAM FOR AFRICA

COLIN MCCORMACK, Managing Director, Africa, joined Opportunity in August 2006. His responsibilities include managing the expansion of Opportunity’s microfinance banks in sub-Saharan Africa, coordinating the work of the CEOs, overseeing strategy development, reviewing and advising on product development, and assisting with new initiatives. Colin held a number of senior positions with Barclays Bank including Managing Director of Barclays Bank of Egypt (which under his leadership was voted “Egyptian Bank of the Year” in 2003); Executive Director of Barclays Bank of Zimbabwe; and Director of Corporate Credit for Barclays Bank Plc, UK. Prior to joining Opportunity, Colin served as Managing Director of DFCU, a development and commercial banking group in Uganda, where he managed their restructuring and development.

JOHN MAGNAY, Senior Agricultural Advisor, has lived and worked in Uganda for 35 years. He has successfully developed businesses supporting the agricultural sector as an input supplier of seed, tools and fertilizer, builder of processing plants and buyer of crops for trade and processing. As a private consultant for USAID, WFP, FAO, EU and the World Bank, John advised on agricultural business and output market development in several African countries. In 2001, he was founder and Chairman of Uganda Grain Traders Ltd, a consortium of 16 grain traders that exported the Uganda surplus maize to Zambia. Since joining Opportunity in 2008, John has developed strategies for supporting the rural sector using a range of savings, loans and insurance products, and recruiting and training technical staff to support rural activities.

IAN TOWNSEND, Agricultural Finance Director, joined Opportunity’s agricultural finance team in 2010. He assists in the development of agricultural lending products in response to client needs; monitors operational budgets and the profitability of products; and coordinates the training of agricultural loan officers. Prior to joining Opportunity, Ian was a consultant and CEO for Inicjatywa Micro, a microfinance institution in Poland.

FLEUR DE VRIES, Director of Savings Product Development, joined Opportunity in November 2009 to help develop, market and evaluate Opportunity’s savings products, primarily for its rural outreach and agricultural finance initiative. Prior to that, Fleur was a marketing consultant for Opportunity Malawi, where she developed a new savings account for children’s education and provided oversight for positioning, branding, product awareness and image. She has also served as Marketing Manager for CBS Outdoor in Amsterdam.

RON JENKINS, Manager of the Customer Relationship Management System for Agricultural Finance, also brings management best practices to Opportunity banks to keep the work focused on defined goals within budget and timeline constraints. Before joining Opportunity in January 2009, Ron was Senior IT Manager for Quantum Corporation overseeing the project management, asset management, desktop technologies and help desk functions worldwide.



Opportunity International

Our vision is a world in which all people have the opportunity to provide for their families and build a fulfilling life.

Our belief is that small-scale entrepreneurs can be big change agents in overcoming global poverty.

Our mission is to empower people to work their way out of chronic poverty, transforming their lives, their children's futures, and their communities.

Our method is to provide microfinance services, including lending, savings, insurance, and transformational training, to people in need. To do this, we build and work through sustainable, local microfinance institutions.

Our motivation is to respond to Jesus Christ's call to love and serve the poor.

To learn more, visit us at opportunity.org

Opportunity International is a 501(c)(3) nonprofit and serves all people regardless of race, religion, ethnicity or gender.



Agricultural finance client Elizabeth Afrakome owns a three-acre cocoa farm in Adagya, Ghana. She and her husband, Kwametome, were able to produce and sell enough cocoa to live on until he suffered a stroke three years ago. As the family's sole provider, Elizabeth struggled to pay the bills. Now, in addition to agricultural loans and training, Opportunity International provides her with access to a safe place to save and life insurance to protect her family.

"Now I can manage my whole life better," Elizabeth says. "I like knowing that my children are secure financially and that if they need anything, I can now afford it. I am also able to help others in my community and hold my head high."

Elizabeth is grateful to God that she can provide her children with the education she never had. "I left after middle school because my parents didn't have enough money to keep me there." As her relationship with Opportunity International thrives, Elizabeth believes that she will continue to grow as a person and to achieve her life goals.

Front cover: Ghanaian cocoa farmer Elizabeth Afrakome is counseled by Opportunity Agricultural Loan Officer Abena Agyakowa Nketha Sarpong.