MPEP SEMINAR SERIES

Exploring Frontiers in Inclusive Market Development

LATEST IMPACT FINDINGS ON FINANCING AFRICA'S SMALLHOLDER FARMERS

AUDIO TRANSCRIPT

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John Magnay, Opportunity International

Simona Haiduc, Opportunity International

GenzoYamamoto, Opportunity International

Lawrence Camp, USAID (moderator)

Presentation

Female: Good morning, everyone. Good morning, everybody. Happy Friday. Thanks for joining us. This is MPEP's Seminar Series number 9, the second one of 2014. Can you hear me okay? Good morning! Ah, there we go. Good morning, everybody. Happy Friday. I'm not sure if you guys heard that earlier, but thank you for joining us. We usually do these on Thursday, so thank you for coming out Friday morning. We have about 45 people on the webinar, so good morning to them. Thank you, guys, for joining us online from around the world. If you haven't done so already; I see everybody is munching, which is great.

We're gonna go ahead and get started with Lawrence Camp from USAID's MPEP Office. He's the Access to Finance Advisor. So, welcome, Lawrence.

Lawrence Camp: Thank you very much. We're pleased to be – I'm pleased to be here, and pleased we have such a great turnout of people here and in person as well, people online. We have a broad group of people from Vermont, D.C., Rwanda, Netherlands, Ontario, Canada, South Carolina, London, Boston, Baltimore. So we've got a broad group here. We're very excited today to hear about Opportunity International and their work in providing access to financing smallholder farmers in five countries in Africa, and the results of an impact in investment, our Impact Assessment study for their Agricultural Finance Program. The assessment was conducted in 2013 with financial support of the MasterCard Foundation, and it measures the impact of access to financial services in yields and overall production as well as more broadly in corollary benefits such as health, happiness, and food security.

So it's really fascinating, and I know we have strong evidence between the linkage between economic growth and access to finance. I think this really will break new ground in terms of the specific target group of access to finance for smallholders. Presenting will be John Magnay, head of Agricultural Finance and Simona Haiduc, who is the VP of International Business Development for Opportunity International. Available during the presentation and available for questions also will be Dr. Genzo Yamamoto, who led the research team.

Genzo is Opportunity International's Director of Knowledge Management. He oversees the oversees the research, evaluation, and knowledge generation related to many of Opportunity's programs. His research has cut across many different topics – microinsurance, housing finance, and agriculture finance, for example – across multiple countries in Africa, South America, and Asia. Genzo has a Ph.D. from Yale and a C.E.P. from The Evaluators' Institute at the George Washington University.

John Magnay has lived and worked in Uganda for the last 31 years. In private business, he has been involved in both the agricultural input and output markets. In 2001, he was the founder and chairman of Uganda Grain Traders Limited, a consortium of 16 companies formed to alleviate the Uganda maize crash in 2001 and 2002. In recent years he has been involved in lobbying locally and internationally on the issues related to strengthening the output markets in Africa. As a private consultant for WFP, FAO, and The World Bank, John has advised on agribusiness and output market development in Madagascar (rice), Malawi (tobacco), Rwanda (agribusiness), and Ethiopia (grain). This involves understanding the interaction between governments, donors, and the private sector.

Simona Haiduc, VP of International Business Development of Opportunity International is actively engaged in managing relationships and building business development strategies with government agencies, multinational donor institutions, and large foundations. Simona also manages the program management team; supervising the planning, funds placement and management, and the monitoring and evaluation processes for major grants from private and technical donors. Since joining Opportunity in 2003, Simona managed the microcredit program for the Open Society/Soros Foundation, Cluj Branch in Romania. She holds a Master of Science in management of international organizations from New York University. So with that, let me turn it over to Simona.

Simona Haiduc: Thank you very much, Lawrence. I think I'm going to actually use this microphone.

Lawrence Camp: Okay, great.

Simona Haiduc: Good morning, everyone, and good afternoon to some of our friends online. Thank you very much for the kind introduction, and thank you very much to USAID, Microenterprise, and Private Enterprise Promotion Office for the kind invitation for Opportunity International to be a part of this conversation, of this important conversation on financing smallholder farmers in Africa. We are delighted to be here today and share with you some of our experience to date over the past five years in financing smallholder farmers in Africa and the findings of a recent impact study that we did with the support from the MasterCard Foundation, as Lawrence mentioned. But before we dive into the conversation today, I thought it would be helpful for the audience to give just a brief overview on Opportunity International so that we put things in perspective into a global background and perspective.

So Opportunity International is a global network of financial institutions operating in 22 countries in the developing world through 45 microfinance institutions, financial institutions. We provide a full range of financial services, loans, savings, insurance, and training, financial training. We currently serve close to 5 million clients around the world, 2.8 million loan clients, 1.6 million savings clients, and over 4 million insurance clients. Of course, some of our clients overlap, and that's how we got to 5 million unique clients. So, just to give you a little bit of the scope and the size of our global outreach.

In 2009, we had a look back at our strategy and decided that we wanted to go to that next frontier and wanted to push the service delivery to rural areas in Africa. We had a hard, long look at what could be the most impactful type of intervention that we could have in rural areas in Africa? For us, that was a strategic focus on two key value chains: agriculture and education. So, with that, the conversation today is going to be focused on our agricultural finance effort and program that started in 2009, and with a particular focus now in 5 countries in Africa, but moving to new countries.

The conversation today is going to be focused on our agricultural finance program, as Lawrence and as we mentioned. We're going to look at the shape and the scope of our program. We'll then move to the research design and we'll share with you some of our findings from a recent impact study in three countries in Africa, look at some of the primary findings, and then to some of the secondary findings. We'll focus on some of the lessons learned and we'll spend some time on looking at what's next, what's next for us in this important work. We're going to have a tag team approach and my college, John Magnay, the head of Agricultural Finance at Opportunity International, is going to start with giving us a brief introduction to our agricultural finance program and the shape and the scope of our program. John?

John Magnay: Yeah, hi. Good morning and good afternoon everybody. I'm actually calling in from London today. So I'm gonna talk about the agricultural program. I think we all understand anybody who's been involved in this particular sector that probably one of the last frontiers for the delivery of financial services is actually to work in rural Africa. We see this as a challenge, but also there are many issues that make it a difficult challenge. The first thing is that we wanted to target the bottom of the pyramid and not just go and work in rural areas with larger commercial farmers. We recognize that the majority of the population in Africa are smallholders with very low levels of productivity. Therefore, they are the ones that need supporting if we're going to change the food availability across Africa and also change the situation in the rural areas.

So to be able to do this, we needed to be able to work with organized farmer's groups and farmers who are receiving good quality extension services. One of the issues that we find, and this may be a bit contentious, but one of the issues that we find is that the majority of extension services that are being delivered in rural areas in the past have been project-based. Very often, farmers are given the skills to be able to grow better crops, et cetera, but without access to finance, they cannot achieve the level of potential that they've gotten under their training. However, the extension services very often leave when the project funding runs out, and we are left with a situation where farmers are not supported and yet we are providing them finance for their crop production.

The second thing is that there is very little household data and farm data available. This might sound quite surprising, but the majority of smallholder farmers that we actually work with may tell you their land area, but actually when we measure that land area, it may not be the same as what they believe. This brings lots of issues to bear. We could actually be over-lending if the land size has been over-exaggerated. We could be under-lending. In each way, this is a risk both to our smallholder farmers and also to us as a bank. The other issues are to do with the high cost of delivery of financial services into rural areas and the ability to be able to monitor our staff and our clients and our partners.

The approach, which we have used, is based upon our rural model, and I think the most important thing is that whilst we are a financial institution, we recognize that we are only one of the key stakeholders operating in the rural value chain. Therefore, whilst our target audience will be the farmers and farmers groups where we wish to provide financial services, we need to link ourselves with the other stakeholders in the area. The ones on the left, the market information and the infrastructural services, these should be a given in the majority of rural settings today. However, it's important that they are there so that farmers can operate in the economic and a commercially active way.

So the three other key stakeholders that we link to when we are working in the rural areas is the extension services, the ones delivering technical support to farmers, the input suppliers, the ones who are supplying good quality inputs and support, and thirdly to the output market. So it is this key rural model that is key to how we put finance into the rural sector, and also how we get our finance back out of the rural sector. If you look at this value chain and the relationship, there was actually only two partners who are technically taking on risk, and that is the farmers in the middle and ourselves as a financial institution who are financing very often the production.

Now, another key part of looking at this model is that we could actually finance the input suppliers and we could finance the output market, but if we actually want to make a difference to the largest percentage of the population, we need to target the finance at a level of productivity.

This simple relationship that we saw in the previous slide becomes fairly complex, and I'm not actually going to go through this, but you will recognize that there is a lot of flow of information between all of the stakeholders and partners in this rural model. So, therefore, our challenge is not just to provide finance to the farmers and farmers groups. It's also to have flow of information, flow of funds, and flows of goods between all of the stakeholders in the rural model.

The other thing that we did when we started our program in 2009 is that we have designed the loan product not just to provide productive finance for our farmers, but also to recognize their cash flow. There are two factors, which I would say drove us. The first thing was that our belief that the average smallholder farmer is approximately 40 percent efficient in terms of his output compared to the resources that he has in terms of land and labor and water.

The second one is that because of the lumpy nature of income in the rural sector, it was important for us to not only provide finance for production, but also to provide finance to try and income smooth the household expenditure; because what we were finding is that farmers were pre-selling or side-selling their crops at massive discounts. Our estimation for this is that a traditional smallholder farmer could lose up to 50 percent of his gross income to activities involved around income smoothing. That would be resorting to money lenders or side-selling his crop early.

So our loan product is designed to provide finance when it's required for production, but also under item four, to provide top-up loans normally just prior to the harvest period that would assist with the household cash flow and assist him to be able to market his crops in a more orderly fashion.

So since 2009, we've delivered over 165,000 loans in 5 countries. We started with Malawi and Ghana and then very quickly moved into Rwanda, Uganda, and Mozambique. As you can see from the map, we have 3 new countries that are being started this year: Tanzania, Kenya, and the DRC Congo. What we are doing is we are bringing our design model for finance to those three new countries, and also bringing together all of the learnings that we have had over the last 4 years over how to handle this rural model relationship.

I think I'm going to hand back to Simona to talk about the research design that was done for the impact study that we carried out last year to identify whether we were on track or not.

Simona Haiduc: So we started our work in financing smallholder farmers in these 5 countries in 2009. In 2013, we wanted to have a look back and conducted a research study that has a key objective, to assess the impact that our program had on farmer's lives. We wanted to look at two key questions primarily. We wanted to understand what was the impact of our Agricultural Finance Program and the agricultural outputs for our smallholder farmer?. We also wanted to understand in what ways the program changed the lives of our clients on a day-to-day basis.

So, our research to get to the agricultural impact, we looked at socioeconomic indicators, land ownership and use, production of the selected crops. Then together the household and secondary impacts we sought to look at women's empowerment issues, children, education, access to health services, food security, whether there were improvements in less hunger days for our clients. We also looked at their financial activity to consider the scope and the use of financial services. That's where we started.

In terms of the research methodology that we used, we used a mixed method and we used a collaboration between our in-house research team and external researchers. Our in-house research team definitely led by Dr. Genzo Yamamoto, Director of Knowledge Management and Lawrence shared with use Genzo's background and his experience in leading these type of projects We gathered both quantitative data and qualitative data. We used retrospective baseline approach, and that's because we were lacking a baseline, but we made sure that our questions were sufficiently granular and we made sure that they were corroborating across multiple questions and indicators.

So now I'm not going to read all of the aspects that we looked at because this is something that's going to be available to all of us after the seminar, and its material that we can all look at later. But in terms of quantitative data, we looked at various aspects such as the land area, the harvest outputs, the income, and jobs created, changes in assets. In terms of qualitative data, we looked at factors of success and failures, and we used the focus group discussion for getting to some of this information.

At the core of our study, we used survey that had 225 questions. We covered 1,200 farmers in 3 countries: Uganda, Malawi, and Ghana. We achieved in general 95 percent confidence level and 10 point interval. I'm going to spend just a little bit of time on the sampling approach. So, we looked at the top 3 to 4 crops in our portfolios across these 3 countries. We then identified the locations where these main crops were in these countries and where the largest number of clients were in these 3 crops.

We then looked at the client farmers list and we systematically randomized the list and invited a sufficient number of these partners to be involved both in terms of our own farmers and then controlled groups. Then the control group farmers were farmers from the same communities that did not have access to loans. While the vast majority of the controlled farmers had not had access to a loan before, we included a small percentage of farmers that had accessed loans from other financial institutions just to make sure that we got a real world comparison for our average farmer size and smallholder farmers group size.

I am not going to spend a lot of time on the next three slides, but I just wanted to give you a sense on how we went about sapling in the three countries. In Uganda, for instance, we start by looking at the most dominant crops that bank our Opportunity Bank in Uganda had agricultural finance portfolio concentrated in. We looked at coffee, maize, cotton, and sugar cane, and then we identified that these smallholder farmers were based in this particular locations: Uganda, Masaka. Then we started sampling and identifying the list, and as I was explaining before, systematically randomized the list. It was pretty much the same approach with Malawi, Ghana.

Then we get to some of the primary findings, and we're not going to have time. I just want everyone to understand this is a 160-page in depth document with lots of data and graphs. I am sure that Dr. Yamamoto will be able to share more and we would be more than happy to share more with all of you. But we had to go with just the top, top findings. So, the average number of loans for our clients was close to two loans per client because again we're dealing with a short period of time, four years in the program.

The average loan amount for our clients is $505.00. Then we've learned that our clients, the smallholder farmers that we've been financing, they had increased access to agricultural inputs. This shows a significant different between our smallholder farmers, 68 percent used fertilizers versus 49 percent in the control group. We had up to 55 percent greater increase in crop yields for our smallholder farms compared to our control groups. Now, I don't want you to believe that all of our smallholder farmers achieved this type of increases in yields as a result of access to finance. That's why we put up to 54 percent, but some of them achieved quite amazing results and increases in agricultural yields.

We're going to talk in the next slides both about stories of success and failures because it's not a picture of across the board success. We had crops where we had issues. We had crops where things went extremely well. It's almost a combination of that kind of a story in each of the countries where we had crops that were widely successful and crops that, for various reasons and factors, the results were not the same.

Expanded crop production and significant percentage of our farmers were able to expand crop production because they were able to rent additional land. Some of them purchased additional land, which was quite significant for us. They were indicating that I had access to marketing channels, greater price transparency. Again, the extension services and the training that they received and the agricultural support definitely helped them modify their approach to farming. And 83 percent of our clients shared that they received training and extension services.

Another important piece for us was that access to finance showed that our smallholder farmers were able to hire additional labor, which is quite significant because that means jobs in the rural communities. That was being the organization that is looking for this type of impacts in the rural communities. That was quite important.

So, as I mentioned before, this is just a brief summary of our key learnings crop by crop in the three countries, trying to highlight some of the successes and challenges we had. Malawi, we could not avoid tobacco crop. That's the cash crop in the country. That was definitely a success story for us. Soybean, a story of failure and we're going to go into a little bit more details because we wanted to show you both a success story and a story where we did not succeed with our intervention.

Uganda, coffee definitely a success story. Sugar, temporary setback. Maize, a modest success. Cotton, external constraints, but we feel that there is a future in cotton in Uganda. Ghana with cocoa, successes and challenges. Maize, a success story. Chilis farmers very happy. Yes, a very technical term. *[laughter]* Now, in Uganda, this is definitely one of our success stories with coffee in Uganda where we can see how the jump in using the fertilizers among our clients produced and helped significantly increase the quantity and the outputs produced and the yields and the quantity that was marketed by our clients compared to the control groups.

I think the table shows the increase in yields per acreage for our clients compared to the control groups. At the end of the day, our clients achieved 40 percent higher yields than the control group, which for us was great news because this is what we were looking for, thinking that we would achieve at the end of the day. This is something that we learned at the end of the process.

John Magnay: Simona, can you hear me?

Simona Haiduc: Sure, John.

John Magnay: Maybe I could provide some background on these particular examples.

Simona Haiduc: Yes, yes.

John Magnay: I'll do the next three slides if you'd like?

Simona Haiduc: Yes, please, John.

John Magnay: Okay. So I think let's go back to the Uganda coffee story because I think this is a very important learning that has come out of this. Here is the example where we started to engage with an organization that was supporting smallholder coffee farmers. The organization was providing good training and good information to farmers on best practices in coffee. On their demo plots, they were doing very well in terms of the increase in levels of productivity by good husbandry and the correct use of agrochemicals and fertilizers, but this was not actually being manifested by their coffee farmers. The main reason was that the farmers didn't have finance to be able to access. So if you look at that situation, the farmers had the potential, but they could not realize the potential because of lack of cash flow to be able to achieve it.

So, whilst we're seeing very good results in terms of the performance of farmers who had access to finance, we should recognize that behind that was a technical partner providing good services. If you look at the control, whilst they both received the same information, the ones who didn't get financed were not able to improve yields over the three years. The second thing is, it was a very large amount of side selling of their coffee. So even though they were achieving yield, they were very often selling it up to a month early at a large discount. So, by encouraging farmers to access the formal markets and get better prices, not only were they getting better yields, but they were also getting better income.

The second story about soybean in Malawi, I would consider this to be a failure. The failure was the lack of strength with regards to the output buyer who is working with the farmer and also the technical support that those farmers received. Ironically, when we looked at this as a value chain to finance, we were actually very reluctant to be involved because of our assessment of both the extension services and the strength of the buyer. But we were encouraged to do it and we provided the finance, I believe, at the right time; but as you can see, because of not a coordinated activity with both the supplier of imports and the buying, it was not the success for either ourselves or our farmers. So I think this is a very good example of the importance and the strength of our rural model where you're working with strategic partners.

Simona, can I give you back the presentation?

Simona Haiduc: Sure, absolutely.

John Magnay: I think that's the two examples.

Simona Haiduc: I thought you were going to say something more, so yeah. I hope we gave you a good understanding of the primary impacts that we had on the agricultural input. So now we want to spend just a little bit of time on the secondary impact findings. These are, again, in our work very important because we want to know that at the end of the day what we do has significance in the life of our clients, in the life of the rural clients that we're seeking to serve in Africa.

So we want to know that at the end of the day as the result of our partnership, they experience a better quality of life. And at least we start to see some changes and the opportunity for a better chance for the next generation because we know that every mom in Africa or anywhere else where they achieve just a little bit more income, they immediately invest in education for their children. That's a general need and that's everywhere across the board what we're seeing.

So, for us, it was important to know that at the end of the day our farmers experienced improved cash flows as the result of increased production; and 52 percent report that they have a greater economic standing and ability to basic needs for their families. Again, through our mixed research, we got the finding that the smallholder farmers actually are able to invest the additional income in additional assets. So we see increases in assets. We see increases in income-generated activities. They constantly look for something else that they could do to increase income and basically continue to achieve prosperity. We already talked about access to education. We already talked about food security. Our clients did report less hungry days, which again is significantly very, very important to us in what we do.

I think, John, I'm going to turn it over to you to talk about the challenges and lessons learned from the program. We're getting to the end of our presentation. Two more slides for us.

John Magnay: Yeah, thanks very much. So here's some of the challenges and lessons learned. I think the first thing is that as a financial institution, we do not rely completely on the extension services to track and provide data on clients. We believe it's important for us to track data on individual farmers. One of the things I should say is that we lend finance to farmers operating in groups. We use traditional group methodology that we would use in urban lending in rural areas. Therefore, it is important to capture the data about not just the group as a whole, but the group as individuals as well to identify the strength and structure of that group.

The second thing is we feel very strongly about this, the importance of extension services. We believe that they should be in place on a permanent basis. We do not believe that the average smallholder farmer in Africa could actually make all of the decisions necessary for him to be able to operate season on season, year on year at optimal levels. Therefore, he must have a reference point. I saw one of the questions that came up on the side panel to say, "Should we train our own staff to be able to provide technical support to farmers?" We believe that we should train our staff in understanding in whichever value chain that they're working with, but we do not believe that as a financial institution, we should be the one training farmers and the one lending them money because under that circumstances, if anything goes wrong, all the blame returns to ourselves.

The third thing is that it is important – we have had cases where fake seeds and chemicals and fertilizers have been delivered to our farmers and, therefore, the certification and the prequalification of inputs dealers is also an important thing. This is something that we do normally with the farmers groups and the extension services that we're working with, what we feel is important to build a quality corridor of input dealers to support our programs. On the basis that input dealers are now receiving larger orders for their supplies, very often we find them very keen to actually work with us and keen to develop that relationship.

This question about farmers and farmers groups; I think there's a very important thing here. One of the things that we're starting to identify is the importance of social capital, that farmers groups should not just be put together so that they can borrow money. Very often to begin with, those farmers groups were put together to actually be trained by an extension service, but when you introduce finance into the equation, there can be some breakdown of those groups where farmers are prepared to learn alongside a fellow colleague, but they are maybe not prepared to provide the group guarantee that would be required to borrow money from us.

Finally, as far as the off-take is concerned, very often off-takers are harvesters. They will buy what farmers produce and very often unless it's a question of quality, they do not actually buy into increasing productivity. We could have a scenario where an off-taker will be prepared to buy 100 kilos of product from 1,000 farmers, whereas, we would prefer him to want to deal maybe with 100 farmers and buy 1,000 kilos each because what we're interested in is we're actually interested in increasing household incomes. Therefore, productivity per unit farmer is an important of those. Therefore, what we would like to see in the off-taker area is more buy-in, not just to increase the total quantity purchased, but to increase the level of productivity of individual farmers and farmers groups we're dealing with.

So, 2013 was a watershed for us. The impact study was an important part of us looking back on what we had done, but we are now looking forward as to how we can actually improve. I think the areas that we wish to improve is we need to improve the level of data gathering. We need to improve the access to our clients and as you can see from the slide, under our Tanzanian rollout, we're actually going to roll out our financial services to the rural sector there without any branches. This means that we are going to equip our staff with the technology to be able to carry out all the services that they would normally provide out of a branch, but to be able to do it closer to our clients without the need for either our clients or our staff to actually operate out of a branch.

So, we're making use of the mobile money platform and, in fact, we just distributed our first loans in Tanzania two weeks ago to our first client recipients more than 50 miles from the nearest town where all of the disbursements for the input supply were made direct to the input dealer over the mobile money network. And all of the cash disbursements to our farmer clients was paid into their mobile money account, and they were able to cash out through the local mobile money agents.

The second thing is that we are moving towards a more village-based extension service. We've been very fortunate to develop a relationship with the Grameen Foundation and the Community Knowledge Workers in Uganda. We are expanding that collaboration so that the extension services are not only supporting farmers, but also providing reporting and information back to us as a bank so that we can, (1) reduce the number of staff that we require, but (2) increase the amount of information and feedback that we get and know that the farmers that are receiving finance from us are receiving proper information from a well-equipped Community Knowledge Worker based very close to the farmers on a ratio of roughly between 1 CKW (Community Knowledge Worker) to between 100 and 200 farmers.

So they are actually able to have regular contact with them and identify issues with regards to their production and maybe issues with regards to their financial services. The other thing is that our own staff are now being equipped with tablets, so under our new rollout of technology, you can actually open a bank account and process a loan using digital methodology with our own staff actually using tablets.

Simona Haiduc: Great, and we get to the slide where we say, thank you. Thank you very much for joining us and for giving us this opportunity, and look forward to the dialogue and the questions.

Female: Thank you very much Simon and John, and I just remind everybody that we also do have Dr. Genzo Yamamoto via our webinar, who can come through the speakers just like John was. So we'll get started with a Q&A session. If you have a question, please raise your hand and we can –

Simona Haiduc: I just wanted to say that at Opportunity we have a great team and we do everything as a teamwork and team, so not only that, we have John on the line and Genzo Yamamoto on the line ready for your questions, we have Dennis Ripley, our Chief Business Development Officer and my boss in the room. So call a friend, lifeline, and all of the above. *[laughter]* Great support system and call a friend. Char Caldwell, our Vice President of International Business Development as well, so please.

QUESTIONS AND ANSWERS

Schafer Bomstein: Hi, thank you so much for the presentation. It was really interesting. My name is Schafer Bomstein, and I'm with the Aga Khan Foundation here in D.C. I'm working on a program right now in Mali that I think is fairly similar or would learn a lot from your experience as we're working with farmers and also finance at the same time, and looking specifically at the millet and sorghum value chain. One thing that we're similarly struggling with is the extension services and how to make those sustainable and how to make them not about the project, right?

Simona Haiduc: Mm-hmm.

Female: Not just Aga Khan Foundation's agents going out and training farmers or training other village agents. So I wanted to know if you or any of your colleagues on the phone had experiences where those extension services worked, they were part of the private sector or part of the government extension serviced linked up with your finance and how that all worked.

Simona Haiduc: Right. So I think this is a question for John because really John is our expert and guy on the ground who would be very familiar with this. John, would you like to take this one?

John Magnay: Sorry, Simona. I was actually replying to somebody in the chat box. Could I just quickly have the question again? I should be listening, I'm sorry.

Simona Haiduc: Sure. The question was on extension service providers and extension services and a similar experience that the Aga Khan Foundation has had in Mali, as they are trying to implement a similar project. The question for us is on whether we've had experiences in the countries where we operate with sustainable extension services that maybe belong to the private sector or the government that are there for the long-run rather than project-based?

John Magnay: Okay, thank you. Yeah, let's talk about government extension services. The only country where we are consistently working with government extension services is actually Rwanda. We've had actually fairly good success with the government extension services there. We've also had success with our loan portfolio in Rwanda, but it is a very sad indictment that I do not have a good experience with any government extension services in the countries where we operate apart from that. Apart from that, we have actually had good experience with some commercial operators who are keen on quality and keen on social responsibility where they have engaged heavily in supporting the farmers; the cooperation with us as a financial institution, where they are not only acting as the uptake buyer, but also the extension service providers and in certain cases also the input supplier.

We've had good experience with that, but those particular value chains are fairly limited to organized sectors like the tea sector, the sugar sector, and tobacco. Apart from that, we've been very heavily reliant on project-based extension services with all the problems that I've recognized about project-based extension services.

Female: Thank you so much, John. We have about 118 people in our webinar this morning, so we're going to take a question from them. Yeah, there's a lot of people chattering on the webinar chat box. It's quite exciting. There's a couple of people who had questions around gender. I apologize if I mispronounce your name, but Getal asked did the study provide information on gender disparities in terms of access to credit and performance? Anna Brown from the Canadian Cooperative Association asks, "There seems to be very little gender dis-aggregation of the findings given that 70 percent plus of smallholder farmers in Africa are women. This is important. Did you look at differing impacts on men and women farmers? What percentage of loans and services go to men and women?"

Simona Haiduc: Yeah, a great question, and we do think a lot about the gender disparity. I think this is a question that maybe Genzo can help us with because he's definitely the one that's dwelled on the data and has looked at the data closely.

Genzo Yamamoto: Hello? Am I online?

Simona Haiduc: Yes, we can hear you.

Genzo Yamamoto: Okay, great. So that's a great question. I am sure that there's more data mining that we can do to actually draw out answers to some of these questions that I've seen in the chat box on gender. Questions about access, we haven't actually drawn out. What we have tried to do is to see if we can dis-aggregate by gender the impact of our work compared to control. We actually do have some interesting findings. So, for example, when we use questions, various kinds of questions; some were self-perceived location on kind of an economic progress ladder. Another one was their ability to pay for food expenses and ability to pay for health expenses, clothing expenses, and education expenses.

What we find that in 2009, control and clients all pretty much are grouped together, but in fact we find that in general; although I can show you some interesting graphs, but in general, male head of household clients and female non-head of household but borrower clients did better. Female head of household clients did slightly less better and then you have controls, who may have improved their situation, but not quite as well as the clients. What this does raise is why is it that female non-head of household clients actually did better than female head of household clients?

Of course, we have various kinds of theories that we can come up with, but our research itself didn't produce answers on that issue. So that's just to give you a taste of the kind of findings that we've discovered from dis-aggregating issues of gender. There's more that can be said, but maybe that's a beginning of an answer.

Female: We're taking another question from the webinar, and this one comes to us from Jeffrey Chalmers of ACD Boca. He asks, "What have you seen in terms of success and failure in kind of inputs, lending models versus those that lend cash to farmers, even though you may have links and relationships with the input dealers?"

Simona Haiduc: Unfortunately, I couldn't hear the question very well, but hopefully John can hear the question or see the question. John, did you understand the question?

John Magnay: I did. I did. Okay, so this is a question about the fact that a lot of the disbursements that we do under our loan products is direct to input dealers. We actually have a mix of both cash disbursement and input finance disbursement. If we are providing finance for field cultivation or labor for weeding or labor for harvesting, then this is actually a cash disbursement done at that time. But with regards to the main disbursements for seed, fertilizers, and chemicals, we very often make those disbursements direct. I don't have any sort of negative feedback with regards to us making disbursements direct to the input dealers because we are financing a particular crop or a mixture of crops.

Therefore, the loan is actually designed for them to be able to optimize the production of those crops. So I don't have any negative feedback about us doing input, but in the cases where we have just distributed cash, we have had issues where that cash has not been utilized, so for productive purposes and has been used for consumption. We've had problems with repayment.

Female: Thank you so much, Genzo. We'll take a couple from in the room.

Allison Moore: Hi, my name is Allison Moore, and I'm wondering if you could tell me, explain a little bit about how you came up with your baseline figures. I'm trying to understand how you can do that with accuracy? Thanks.

Simona Haiduc: *[break in audio]* Genzo and ask for an answer on this. I think we mentioned in the beginning when we were talking about the research methodology that because we did not have a baseline for our research in 2013, we went with the mixed methodology approach. Genzo is going to provide a little bit more detail on that moving forward. Because we intend to continue this work through the work that we did in 2013, we now have a baseline with this data that we gathered. We're going to go back a 3-year period and we're going to look again at this work. We're actually going to do this through again a mixed methodology approach in-house research and external research with a university that is going to come and help us in this. But I'm going to let Genzo explain more about this.

Genzo Yamamoto: Sure. So, as many of you know, I suppose a retrospective baseline approach is not necessarily the best approach. On the other hand, in the evaluation community, at least it's recognized as a valid approach and if done right, we can still get a rough sense of change. And in our case, we tried to mitigate the weakness in two ways. At least in one way, we tried to come up with granular questions to try to make sure that we encourage careful memory, careful recall. In the second way, we also ask the same questions of control as well. So at least we have a sense, even if it's retrospective, but at least we're comparing control memory to client memory.

In terms of numbers, we simply dealt with the actual numbers that were in our client portfolio and then statistically just tried to achieve a sufficient sample size so that we can make reasonably confident and generalizations of the total population. Now, understandably, if the question was asking how would a baseline be established going forward? As many of you would know, you need to calculate in retention and attrition rates going forward. That's going to be a big challenge for us, I think, going forward.

Female: We'll take one more from inside.

Kenneth Dehn: Okay. My name is Kenneth Dehn, and I'm from Cameroon originally. So my question is regards which other countries are you planning to expand to because some countries may be overlooked. For example, Cameroon provides agriculture and food security to many other African countries in the sub-region and I didn't see that. Then the next question pertains to the fact that right now there's sort of like a trend with the African Diaspora whereby people like us who have lived here for over 20 years are in different areas like I'm a computer scientist. We're interested in going back to some of the land and property, which we had, and we're looking for financing to either grow different crops like palm oil and in several other areas. So what is your interaction with the African Diaspora out here? Thank you.

Simona Haiduc: *[break in audio]* culture finance program and financing to smallholder farmers has definitely been to introduce this new almost product line for us within the banking institutions that we have on the ground. So, as John was trying to show on the map, we currently are in five countries in Africa: Ghana, Malawi, Uganda, Rwanda, and Mozambique. This is where we've been working with smallholder farmers for the past four years and a half, and we're expanding to Tanzania, Democratic Republic of the Congo, and Kenya. Thank you. That's primarily because that's where we have our existing banking operations.

In terms of – at this point, I really cannot answer the question on expansion beyond these countries because our current strategy, global strategy involves going deeper in these communities and really getting to the unserved markets in these countries rather than expanding in other countries. That's at least for the time being. The second question was on the interaction with the African Diaspora. It's definitely been a discussion point for us, but we haven't necessarily reached out proactively to the African Diaspora. That doesn't mean that we wouldn't be interested in having conversations and understanding if that would be a connection point for us. Definitely, getting in touch with our operations on the ground, I think, would be the entry point.

Female: We have a question from the webinar that says, "Do you have any observations on whether the participating farmers proved to be users of other financial services at the Opportunity International Finance Institutions? So, did they and/or their household members save more, borrow from other enterprises?" This comes to us from David, FHI 360.

Simona Haiduc: Very interesting. I'll turn it over to Genzo because this is another in-depth question looking at some and involving some data mining.

Genzo Yamamoto: Sure. The first question was about the number of loans taken by other clients or our clients or our control. Let me just check to see if there's an earlier slide. Ah, okay. Oh, I'm sorry. Maybe it's not there. Yeah, so what we found was that within our – let's see. Among the control group, we actually found that about 85 percent of the clients, perhaps around 80 to 85 percent of the clients did not have access to any other loan. We did find that there were clients who had just begun a loan with Opportunity, but we actually counted them as control not as clients because they hadn't finished the loan cycle. So their outputs were not actually – don't depict any impact of any loan.

There were probably about 10 percent who had found loans from other banks or other financial institutions, and we included them in the control. We left them in the control since we wanted real-world comparisons with what happens somewhat naturally among farmers out in the field. I don't know if that quite gets at the question, but.

Simona Haiduc: So we've been talking about the impact of finance and then the result for our smallholder farmers, but we haven't touched at all the savings behavior occurred with the improvements in yield and then improvements in incomes. We, at Opportunity, developed a number of savings accounts to go hand in hand with the loan products that we developed, so that we were aiming at helping farmers to put away funding and lock those savings accounts, so that they would not spend it right away. And they would have the funding available during the next season or during the lean periods when usually the hungry days kick in. We call those Commitment Savings Accounts and we've tested them, piloted them in Malawi. We're definitely looking at expanding this type of saving products. I had some very interesting learnings and some very interesting results.

We did a separate study funded by the Bill and Melinda Gates Foundation on Commitment Savings Accounts with some very interesting learnings, but that's a whole other topic and a whole other – I just wanted you to know that we do pay special attention to that and savings is a major area for us.

Female: Are there any additional questions in house? Sure.

Laura Meissner: Hi, Laura. Is this on? I don't know. Laura Meissner from USAID's Office of Foreign Disaster Assistance. I'm curious and I don't know if the data is there to tease it out, but because the study looked at farmers who were growing the main crops in the main growing regions, if it would be possible to try and figure out if there's something about them that makes them better able to use agricultural finance? Is it different if you're growing a less common crop or in a region that's less suitable for it? You know, if your land holdings are too small, that you don't qualify for financing. I don't know if there was any kind of thought to that for the future so that we can think about to whom agricultural financing is best directed.

Simona Haiduc: We're definitely thinking about all of the above and all of the aspects that you just mentioned. Just to be very clear, Opportunity is currently working with farmers who have the potential to be or become commercial. So, we're focusing on this layer that through access to extension services, access to inputs, and access to training, definitely they have the potential to become commercial and increase their incomes. We're trying to work with them because these are the farmers who would meet the criteria for finance.

At the end of the day, we're financial institutions and we need to mitigate risk. We didn't get into the conversations between John and our risk people, but those are very interesting conversations *[laughter]* with John always wanting to do more and take a little bit more risks. Our risk manager is telling us, "Well, hold on a second.

We're already at 30 percent of our portfolio in Malawi in agricultural finance. We cannot go more than this in our overall portfolio." And questions back and forth of that nature, but we're definitely looking for ways of going down and working with farmers and bring farmers forward.

In general, I think John can correct me if I'm wrong, but between 20 and 30 percent of the farmers that are already in farmer groups and are our perspective clients actually qualify for loans, meet the criteria for finance, so.

John Magnay: *[break in audio]*

Female: Michael from One Acre Fund asks in the Malawi example, are there any specific lessons regarding working with partners for the extension work, which you would take from these experiences? Also interested in your thoughts on loan officers being given that technical knowledge to plug this gap?

Simona Haiduc: I think that is a question for John, and I think he could answer it.

John Magnay: I think I said it before that I'm a little reluctant for loan officers to take on the role of extension services. (1) We don't have the granularity to be able to support the majority of our clients at the level that they may require in terms of their extension services, and (2) if we as a financial institution take on the responsibility of doing primary farmer and farmer training, then we're doing two things. We're providing training and we're providing finance. When everything goes wrong, it ends up with our – where the blame sort of sits very fairly and squarely with us.

So we like to work with a technical partner and not be the primary source of extension services. We feel that the extension services are very important and I have some example, by the way, where farmers organizations can actually be the ones to provide technical support to their farmers. So, that is another method of delivering extension services where an umbrella organization working with a larger group of farmers can agree to be the primary source of training, knowledge, and development of any particular value chain. So that's another possibility.

The experience in Malawi was that the technical support to those farmers was actually very shallow, very, very small, and did not answer all of the problems that come up during the growing season. I mean I believe that in this particular case, a good extension officer would have actually advised farmers not to plant because (1) there was an issue with rain and (2) there was an issue with late planting. Anybody who knows the soybean value chain knows that late planting can have a dramatic impact on potential yield.

Male: Thanks. Actually, I wanted to just expand on a previous question. So, could you specifically define your definition of a smallholder, smallholder farmer? And I wasn't completely clear on the strata that you work or target, commercial, subsistence, food insecure, so forth. Could you expand on that just a little bit?

Simona Haiduc: Sure. Would you like to expand on the definition of smallholder farmers?

Dennis Ripley: Simona, shall I take that? *[Laughter]*

Simona Haiduc: I thought I would give you a ____, Dennis, since you're here. We're gonna turn it over to John.

John Magnay: A definition of a smallholder farmer; I think when you sort of take all of the data about an individual household, there are some sort of criteria as to whether the labor, household size, and land area could actually get that farmer to a level where he would be economically and commercially active. If I use my rule of thumb that the average smallholder farmer is 40 percent efficient, if we could see a mechanism by which through technical training and access to finance, we could double his productivity; that doubling of productivity would give him the surplus that would take him through his base food security to a level where he could be considered to be economically and commercially active.

We are providing commercial loans to smallholder farmers. You saw in the study that our average loan size was $500.00, but our entry point can be as low as under $100.00. The one thing I would say is that if you lend a client $100.00, what you're possibly likely to do is to increase his output with the use of that $100.00 to maybe $250.00. So what we would actually like to do is we'd like to see a scenario where our clients are getting maybe $200.00 or $250.00 and that $200.00 or

$250.00 is giving them an income of one to one and a half times that particular value.

So we believe it's possible to push farmers past their current level of subsistence to an economic and commercially active way by increasing their productivity, improving their quality, improving their access to market. So, I believe that what we can do when we normally enter a community, the figure that Simona gave you is between 20 and 30 percent of farmers would be eligible, but I believe with multiple loan cycles, it possible for them to push through that and a larger number of the people within the community.

By the way, another aspect of us introducing financing into the rural sector is that we actually can create employment around the direct access that we have for our farmers. I have seen this in several examples where the introduction of finance has meant that paid employment can be created within the community. So for people whose land area may not be sufficient to support their families in an economic way, they can actually find extra work and paid work through the interventions of finance.

Male: Okay. Well, this has been a terrific, terrific presentation. Really, I thank Simona, John, Genzo, the whole Opportunity Team for what I thought was just a terrific presentation. I know I learned a great deal. I really enjoyed understanding more about the Opportunity model, the lending model. Really a lot of meat there, a lot of things to work on, to think about. I particularly enjoyed as well hearing more about the compelling evidence in the Opportunity MasterCard study on the relationship between access to finance to smallholders and production level as well as other indicators of household and life quality as well.

I want to thank as well the terrific group of attendees. I have to give a shout out to those who managed to come and brave this awful weather. They get a lot of extra credit for that as well as for the many online participants. We really appreciate so much your involvement in this ongoing conversation. Finally, I need to give particular thanks to KDAD for a remarkable performance in bringing in multiple parties into this webinar and again handling it in a highly professional and seamless manner. So, thank you very much and we look forward to participation in future webinars.

[Applause]

[End of Audio]