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**Two years ago, Eunice Wanjiru Kinyua and her colleagues in the Wamumu Umoja Rice Growers Self-Help Group in the foothills of Mount Kenya had to rely on lenders who charged them 100 percent interest on loans to purchase seed and fertiliser – and sometimes to pay school fees.**

Things are different now. Eunice has two children in secondary school and a third in primary. Joseph Kamau, her neighbour, has been able to buy his first dairy cow, and Esther Muthoni Gacheru, who also lives nearby, is building a new house.

Their fortunes changed less than a year ago when the Self-Help Group took out a low-interest loan to buy high-yielding rice seeds and fertilisers. The loan was the result of a unique partnership between AGRA and Equity Bank, one of the youngest and most dynamic banks in Kenya. The partnership gave birth to Kilimo Biashara, a \$50 million low-interest loan programme for smallholder farmers and small- and medium-sized agricultural businesses.

Programmes like Kilimo Biashara bring opportunities to millions of smallholder farmers and thousands of small businesses, and enable Africans to apply the technologies and knowhow that will energise agriculture and transform African economies. With affordable loans, smallholder farmers can purchase good seeds and fertilisers, increase farm productivity and invest in sustainable growth. African entrepreneurs can invest in businesses that add value to farmers' produce and increase their access to markets.

Until recently, such loan programmes were unheard of in Africa, where agriculture receives only 1 percent of commercial lending, despite accounting for 50 to 70 percent of national

incomes. Although such lending is low, its risk is seen as high. Smallholder farmers lack usable collateral, and they are vulnerable to unreliable rainfall, crop pests and diseases and price fluctuations. Rather than risk unacceptable losses, even banks with excess liquidity have hesitated to lend to Africa's farmers and the small businesses that could help them.

### **Linking partners to unlock credit**

AGRA and its partners are changing this. Innovative new financing programmes are bringing hope to farmers, strengthening market access, increasing rural employment and providing pathways out of poverty.

The concept is simple. AGRA and other partners set up "loan guarantee funds" which leverage large low-interest loans from commercial banks. The guarantee funds lessen the risk of lending by covering a portion of any losses due to defaulted loans. They help in other ways as well, such as providing business training to farmers, agro-dealers and managers as well as assisting with loan applications.

Such programmes first demonstrated success in Uganda. In 2003, The Rockefeller Foundation





invested \$500,000 in the Centenary Rural Development Bank (CERUDEB), with an agreement to cover risk of first loss of up to 50 percent. As a result, CERUDEB lent \$1 million to farmers. Five years on, the total default and draw down on the guarantee has been only \$10,400. Meanwhile, the deposit has generated more than that in interest payments.

In less than two years, AGRA and its partners have begun building their own record of success:

- *In Tanzania, AGRA and the Financial Sector Deepening Trust provided \$1.1 million for a loan guarantee fund. The National Microfinance Bank (NMB) dedicated \$5 million for loans to farmers, agro-dealers and other agricultural businesses.*
- *In Kenya, AGRA and the International Fund for Agricultural Development provided \$2.5 million each as a loan guarantee. Equity Bank put up \$50 million for low-interest loans available to 2.5 million farmers and 15,000 agri-businesses. The Kenyan government provides millions of dollars in subsidies targeted at the country's most vulnerable farmers, who receive vouchers that they*

*redeem at agro-dealer shops in exchange for farm inputs. Agro-dealers return the vouchers to Equity Bank, which then credits their accounts, enabling the agro-dealers to purchase supplies.*

- *The Tanzanian and Kenyan programmes have so far distributed over \$4 million in loans and helped to certify more than 3,500 agro-dealers in Kenya, Malawi and Tanzania, who have sold tens of millions of dollars worth of inputs to smallholder farmers. In western Kenya, the programme has contributed to a 20 percent increase in maize yield.*

Such initiatives can break a vicious cycle in which the high prices of improved seed, fertiliser and other inputs prevent farmers from incorporating improved technologies to boost their yields. Low yields and incomes prevent farmers from accumulating assets that can serve as collateral.

Breaking this cycle is part of the comprehensive changes needed to transform smallholder farming from a poverty trap to an opportunity for individuals, communities, businesses and countries to prosper. These changes must extend across Africa's food production systems: from getting improved seed to farmers to improving soil health and market access; from developing infrastructure to expanding agricultural education and extension.

AGRA needs partners who will work together to leverage up to \$2 billion in low-interest loans, helping to catalyse a uniquely African Green Revolution that takes the continent into a new era of sustainable development, improves the lives of farmers and delivers greater opportunity, enterprise and prosperity.

**It is time to make history together, putting Africa's smallholder farmers first.**

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