



THE INITIATIVE FOR  
**SMALLHOLDER FINANCE**



The MasterCard  
Foundation

Rural & Agricultural Finance   
**LEARNING LAB**

## **An inflection point in the era of “farmer finance” for the world’s smallholders**

*New study identifies innovative approaches to dramatically  
change growth trajectory in smallholder finance*

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A new study, “[Inflection Point: Unlocking growth in the era of farmer finance](#),” suggests that while current efforts to expand financial inclusion are not sufficient to meet smallholder demand, concerted efforts around customer centricity, progressive partnerships, and smart subsidy have the potential to change the sector’s growth trajectory to best serve the world’s smallholder farmers.

Currently, over 270 million smallholder farmers in Latin America, sub-Saharan Africa, and South and Southeast Asia require over USD 200 billion in financing to grow their businesses and improve their livelihoods. Formal financial institutions and value chain actors meet less than a sixth of this need today. Doubling projected annual growth (from roughly 7% to 14%) would allow these providers to meet more than half the need by 2025. To achieve this, this study presents a bold call to action for financial service providers and other actors to engage closely with customers to design and offer appropriate, desirable products through integrated partnerships, supported by more and smarter subsidy.

The new study, released today by the [Initiative for Smallholder Finance](#) (ISF) and [the Rural and Agricultural Finance Learning Lab](#) builds on the 2012 Dalberg-conducted study [Catalyzing Smallholder Agricultural Finance](#), which laid a foundation for understanding the size, nature and challenge of global smallholder financing.

In addition to presenting a more sophisticated picture of the state of smallholder finance, “Inflection Point” explains that we are undergoing a significant change in the era of “farmer finance.” Following decades of more singular approaches to providing smallholder farmers with financial services, the smallholder finance industry is now marked by a more diverse set of actors. A wide range of financial service providers, funders, market and research platforms, and technical assistance providers have yielded new approaches to collaboration and greater access to information and technology than ever before.

Matt Shakhovskoy, Executive Director of ISF, commented on the inflection point within the sector: “In the past five years we have seen a new focus and resolve around tackling the smallholder finance challenge; our task now is to work with this momentum to fundamentally shift the current growth trajectory of models that are working.”

The study’s new research was led by Dalberg Global Development Advisors under guidance from ISF, an initiative incubated by the Global Development Incubator (GDI), and the Rural and Agricultural Finance Learning Lab, which is jointly implemented by GDI and Dalberg. The MasterCard Foundation and USAID sponsored the study.

The study emphasizes that meaningful progress will require a concerted effort across the smallholder finance ecosystem to simultaneously resolve a number of constraints hindering smallholder access to finance. Rewa Misra, Senior Programme Manager, Financial Inclusion at The MasterCard Foundation, said, "this report makes visible opportunities for change and will guide our thinking on how we can help unlock financial access for 48 million smallholders in Africa with services centered on their needs and demands. We look forward to continuing to collaborate with an increasing set of public and private sector stakeholders to help achieve the vision set out in this report."

Drawing on interviews with representatives from nearly 80 different organizations and contributions from the study's collaborative research group, the study shares insights on opportunities to close the financial inclusion gap in smallholder finance. The study demonstrates that the smallholder finance industry must move towards a future in which financial service providers – including formal financial institutions, value chain actors, and informal or community-based organizations – engage in three main areas of opportunity to unlock smallholder farmers' access to finance: (1) customer centricity, (2) progressive partnerships, and (3) smart subsidy.

First, the study recommends that financial service providers must fundamentally change how they engage with clients to better understand who their clients are and to design offerings and interactions that increase demand and reduce risk. Jason Wendle, Director of The Rural and Agricultural Finance Learning Lab, commented, "Financial solutions that do not explicitly account for the distinct needs of smallholder farmers tend to meet limited uptake and usage by those farmers. Customer centered approaches not only increase financial inclusion among rural and agricultural households but will also improve business model sustainability."

Next, the study recommends that progressive partnerships, such as those between financial institutions and value chain actors, can enable cost and risk sharing. Ultimately, this reduces the need for direct subsidy of services and thus increases smallholder financial access and reach.

Lastly, the study finds that support from more and smarter subsidies can draw much-needed capital into the sector through blended capital models, where public or philanthropic funds enable the entry of investors seeking market-returns. To target these subsidies effectively, stakeholders must consider whether the subsidy required is catalytic or ongoing, and whether the business constraint targeted is risk or cost.

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**The Initiative for Smallholder Finance** is a multi-donor and investor platform for the development of financial services for the smallholder farmer market. The ISF's primary role is to act as a "design catalyst." The emphasis is on mobilizing additional financing for smallholders and seeding replication of innovative models in new markets.

**The Rural and Agricultural Finance Learning Lab** fosters knowledge creation, sharing and collaboration that leads to better financial solutions provided to more smallholder farmers and other rural

clients. The Lab is an initiative of The MasterCard Foundation pursuing a [learning agenda](#) that spans customer, provider, ecosystem and ultimately impact. For more information, please visit [www.rafllearning.org](http://www.rafllearning.org). Follow the Learning Lab at @RAFLearning on Twitter.

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**The MasterCard Foundation** works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest, independent foundations, its work is guided by its mission to advance learning and promote financial inclusion to alleviate poverty. Based in Toronto, Canada, its independence was established by MasterCard when the Foundation was created in 2006. For more information and to sign up for the Foundation's newsletter please visit [www.mastercardfdn.org](http://www.mastercardfdn.org). Follow the Foundation at @MCFoundation on Twitter.

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