

# BRIDGING THE RURAL FINANCING GAP

## LWR's Tripartite Model



Photo by Beth Woody

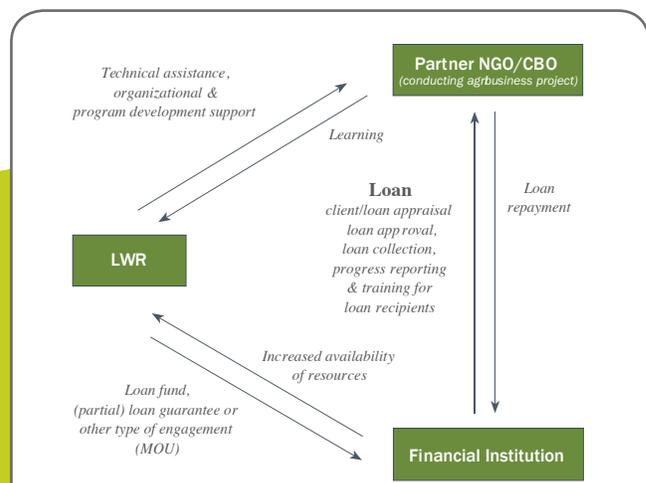
### BACKGROUND: THE AGRICULTURAL FINANCING GAP

Farmers in Africa, like farmers around the world, need access to seeds, tools, fertilizers and pest control for optimal production, but they lack working capital to purchase these key production inputs. Lacking collateral, living in remote and often marginalized areas, and having distinct credit needs, African farmers face severe barriers to formal financial services. Formal credit opportunities are rare in rural areas as most banks and microfinance institutions (MFIs) are located in larger towns, and many farmers do not qualify for loans due to collateral requirements or rigid lending program guidelines, forcing them to turn to informal local lenders who charge usurious rates.

### LWR'S APPROACH: INNOVATIVE FINANCIAL PARTNERSHIPS

With its Tripartite Rural Financing Model, LWR bridges the gap between financial institutions and community agricultural initiatives that are currently denied the financing critical to success. LWR's model creates a three-way partnership among LWR, local farmers'

organizations and the financial institutions that were previously beyond their reach. LWR provides the "missing link" to connect these smallholder farmers with lenders by providing an initial, partial loan guarantee to the financial institution as incentive to lend to the farmer. This allows the financial institution to have more adequate and stable funds to make larger, longer-term loans, and connect with clients that were previously excluded. At the same time, LWR strengthens the capacities of local farmers' organizations to ensure successful harvest and sale of production surpluses, through technical skills building, market analysis and negotiation, feasibility studies, post-harvest storage improvements and production innovations. These farmers' organizations develop a relationship with a lending institution while also increasing their capacity to manage and successfully repay loans, allowing farmers and their organizations to build a credit history to ensure long-term access to credit.



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700 Light Street  
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800.597.5972 lwr.org

LWR's dual investment strengthens the financial and technical components of the project, while building long-term relationships between farmers and financial partners. As the financial institution's confidence in the model grows it no longer needs the same level of guarantee, freeing LWR resources for other projects.

LWR's Tripartite Model is flexible and has taken a variety of forms based on farmers' identified needs. This has ranged from individual loans for small irrigation equipment, to in-kind lending for collective procurement of seeds or fertilizers, to cooperatively-managed cash loans for rented farm implements. Farmers have also accessed credit to purchase equipment and services to increase their members' participation in the agricultural value chain, such as harvesting machines, seed processing equipment, oil presses, and transportation to new markets. In some cases, the model supports cooperative-based warehouse financing, purchasing and storing farmers' crops at harvest to re-sell later when the prices are higher. These interventions — all made possible by the new relationship with their financial institution — have significantly improved farmers' terms of trade, and ultimately their income and wellbeing.

## RESULTS FOR FARMERS

LWR has implemented more than 20 Tripartite Model projects, reaching from 80 to 6,400 people per project. These projects have benefited smallholder farmers in six African countries: Mali, Burkina Faso, Niger, Kenya, Uganda and Tanzania. By creating linkages that ensure sustainable access to credit, the model increases farmers' participation in the agricultural value chain, increasing farmer incomes and combating poverty.

Overall, loan repayment under LWR's Tripartite Model is 98% or higher, often reaching 100% — higher than that of the financial institutions' typical agriculture loan portfolio.<sup>1</sup> In addition to measuring the number of people accessing credit who were previously overlooked by financial institutions and tracking loan repayment rates, other measures of the innovation's impact include: the number of new relationships formed between local farmers' organizations and financial institutions; increases in lending volume to the organizations; increases in farmer savings rates; and increases in production and incomes of farmers participating in Tripartite Model projects.

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1. African Development Bank tracks repayment agricultural credit repayment rates of 92–97% in West Africa. ([http://www.rdfs.net/linked-docs/RDC/Annexe12\\_African\\_Development\\_Bank.doc](http://www.rdfs.net/linked-docs/RDC/Annexe12_African_Development_Bank.doc)); other reports on agricultural loan repayment are much lower, from 25%–50%.

## PROGRAM HIGHLIGHT – MALI

At first the bank was unwilling to provide loans to LWR's partners due to the risks and high loan default rate often associated with agricultural production. Based on LWR's confidence in the approach used with local organizations to strengthen agricultural production, LWR offered to guarantee these first loans at 100%. When the first group repaid all of their loans early, the bank gained confidence in LWR's methodology. Today, confidence is so high that farmers are able to leverage larger loans without LWR's support. In addition, the model has increased the bank's client base to the point that they have now opened a branch in the farmers' community.

The partnership has already yielded significant results for farmers. Increased access to credit helped a 6,400-member organic sesame growers' federation increase annual production and marketing from 59 to 268 tons per year — an increase of 354%. The federation has been able to sell sesame to international buyers at a price 68 percent higher than the local market. When the federation needed additional credit to expand their operations, the partnering bank did not hesitate to lend additional funds (over \$100,000) to the group.

