

About Mercy Corps

Mercy Corps helps people in the world's toughest places turn the crises of natural disaster, poverty and conflict into opportunities for progress. Driven by local needs and market conditions, our programs provide communities with the tools and support they need to transform their own lives. Our worldwide team of 3,700 professionals is improving the lives of 14.5 million people in more than 40 countries.

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Central African Republic — Jenny Vaughan/Mercy Corps



Guatemala — David Evans/Mercy Corps

Developed by the Agricultural Development Unit of Mercy Corps.

Agricultural Development Learning Study

Summary

Combining high-impact¹ value chain development with access to financial services

Focus of the study

Increasingly, Mercy Corps has combined multiple program approaches in recognition of the need to ensure farmers' access to investment capital and other financial services, increase farmer productivity, increase the competitiveness of the agricultural market chains. Mercy Corps has also been working to combine two major areas of Mercy Corps' core agricultural capacity, namely, **high-impact value-chain development and increased access to financial services**. After several years of program implementation Mercy Corps undertook a study to analyze whether this combined approach is in fact more effective than focusing on each element separately.

Information was collected from a variety of stakeholders (microfinance institution staff, smallholder farmers, traders, government representatives and Mercy Corps team members) and a variety of sources (case studies from Kyrgyzstan and Nepal, program results from Guatemala, Central African Republic and Indonesia, survey data from 12 countries, analysis of a multi-country program, and reviews by Mercy Corps technical experts).

The full report of this study can be found at (www.mercycorps.org/resources/agdevstudy).

Challenges and opportunities in agricultural development

Nearly half of the world's workforce relies on growing food for their livelihoods². That equals two billion people in the developing world — 400 million smallholder³ farmers and their families — who are dependent on agriculture. Smallholder farmers grow crops and raise livestock to contribute directly to household food security, and to sell their products in the marketplace, earning the income they need to provide for their families.

Despite the importance of small-scale agriculture, smallholder farmers remain some of the poorest people in the world. Most live on less than \$2 a day. Farmers must contend with poor infrastructure, unfavorable governance, limited access to

¹High-impact investments are those that a) reach a large number of participants; b) sustainably create high economic returns; and c) fulfill locally specific social and environmental indicators

²World Bank Development Database

³Smallholder farmers are typically defined as those operating a farm of 2 ha or less

Useful definitions

Value chains are the full range of activities required to bring a product or service from its conception to final consumers and disposal.

Value chain development is the process by which businesses are linked to growing markets.

Financial services are the wide array of formal and informal services used by households and enterprises including savings, loans, insurance, remittances and leasing services.

Market systems are an arrangement of people, trading structures and rules that determines how a particular good or service is produced, accessed and exchanged.



Kyrgyzstan — Andrea Mottram/Mercy Corps

business services, and a range of daunting laws, regulations and standards. These tough challenges limit their ability to successfully compete in the marketplace, resulting in limited opportunities to raise themselves out of poverty.

Effective agricultural development gives smallholder farmers the boost they need to make their labor more profitable and increase standards of life for their families. It also has benefits that extend far beyond the farm, helping to address such global challenges as hunger, climate change and international security.

Recognizing this vital role across a spectrum of challenges — from household food security to large-scale economic development — Mercy Corps invests significantly in agricultural development; currently \$145 million in more than 80 projects assisting over 700,000 smallholder farmers. The organization works with smallholder farmers, agricultural businesses and governments to reduce hunger, increase incomes and mitigate the environmental impact of crops and livestock..

A combined high-impact value chain and access to financial services approach

The study demonstrated that developing value chains while improving access to financial services is effective because the approach helps smallholder farmers simultaneously **1) more productively invest in improving their businesses; 2) acquire technical information so they can maximize investments and increase productivity; and 3) access more profitable and sustainable markets that enable them to earn higher incomes.**

In addition, with the improved technical capacity gained, farmers become less risky clients for the financial institutions, increasing the likelihood that these institutions will develop appropriate agricultural loan products and encourage farmers to borrow from them. By working together on many levels, the various stakeholders build knowledge, trust, and more profitable business relationships as a result of their participation and greater “shared values”.

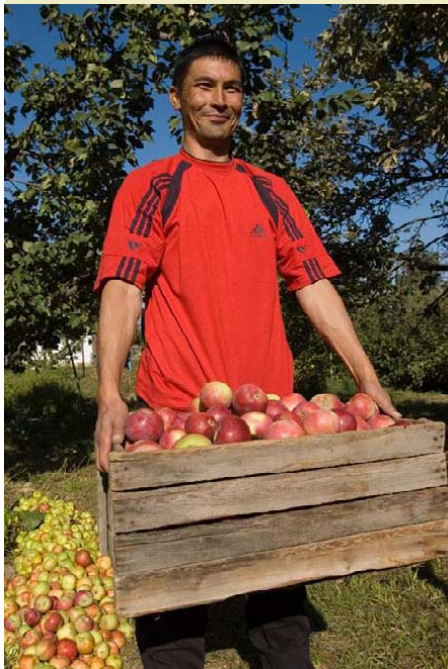
Under a financial services-only model, both farmers and institutions take on more risk. Farmers may obtain a loan — but without the technical knowledge and market access to make best use of it, they are less likely to capitalize on opportunities to increase profits. Under a value-chain-only model, farmers remain trapped in borrowing cycles that often carry high interest rates, limit where they can sell their goods, force them to settle for low prices, and hinder their ability to expand their businesses.

Recommendations for the combined approach

Four elements are essential to the success of a combined high-impact value chain and access to financial services approach to agricultural development:

1. ***High-impact value chains must be selected and defined within each context at a local country level.*** In most cases, particularly in short time-frame projects, only those commodities that farmers already have some knowledge of and only those that already contribute substantially to farmers’ household incomes, should be identified as high-impact.

“The EcoSad loan [specific loan product combined with technical knowledge] makes us spend the money on things we need for our apple business like seedlings, and we have knowledge from the trainers on where to buy seedlings from”
– Participating farmer from the EcoSad training and loan group, Kichy Jargylchak, Kyrgyzstan



Kyrgyzstan — Jason Sangster for Mercy Corps

2. **Public, private and civil society stakeholders must be mobilized from the outset.** These relationships form a foundation that enables the more challenging activities to take hold, such as collective purchasing and marketing, greater learning and technical understanding, increased advocacy for smallholder farmers and improved access to markets. This practice aligns seamlessly and is guided by Mercy Corps’ Vision for Change (see www.mercycorps.org/node/15368 for more on the Vision for Change).
3. **Access to technical knowledge and agricultural, business and financial services needs to be facilitated in a sustainable manner through existing market players.** Technical services systems have to be developed that incorporate existing market players, rather than the development organization providing those services directly. Examples include: the provision of technical services through input suppliers; a financial institute providing both financial and agricultural technical services delivered through one product. These services need to be developed for smallholder farmers and other actors across the entire value chain.

Microfinance institution (MFI) partners that provide financial services to smallholder farmers must already be sufficiently sound and sustainable enabling them to ride out any shocks associated with adding agriculture lending products. They must also take on a commitment to make agriculture lending a key part of their activities.

When MFI partners open new branches to reach smallholder farmers, operating subsidies can be offered for a limited time period, but they should also be structured to encourage MFIs to reach profitability and plan for long-term sustainability.

Where there are no MFIs, informal lending groups such as village savings and loan associations (VSLAs) can be supported — with the understanding that loans are limited to members’ capacity to save, and cannot provide for all credit needs of small-holder farmers. Informal borrowing can be a good stepping stone toward more formal borrowing, as long as MFI options are eventually available.

4. **Farmers’ access to markets has to be improved through an understanding of the wider market system.** There should be a clear understanding of market participants (buyers and sellers), support functions (infrastructure and financial services), rules and norms (formal and traditional) and the other players (private, public and civic) that collectively constitute the market system. Linkages should be facilitated between different players in the value chain and across the market system to facilitate farmers’ access to varied markets. Activities such as group marketing and facilitating pre-season contracts between farmers and buyers can help such access. At the same time other constraints in the market system such as advocating for a more enabling regulatory environment must also be addressed.

The full *Agricultural Development Learning Study: Understanding the effectiveness of combining high-impact value chain development with improved access to financial services* can be found at:

www.mercycorps.org/resources/agdevstudy. Alternatively copies can be requested from Keith Polo, Director, Agricultural Development (kpolo@hq.mercycorps.org) or Anna Young, Director for Strategy and Learning (ayoung@mercycorps.org)



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Recommendations for project design and management

Based on the study, the following program design and management recommendations are crucial to achieving sustainable, high-quality results:

1. ***From the outset, plan and fund detailed value chain and wider market research assessments with local stakeholders.*** Assessments, implemented with local stakeholders, ensure good understanding of the commodity and financial markets and help identify constraints and multiple leverage points from different stakeholder perspectives. Ultimately, the profit potential of any investment in value chains or financial institutions must be quantified in order to design effective programs and compelling fundraising.
2. ***Design project interventions according to available timeframes.*** Proposed optimum timeframes are: one year for pilots with direct farmer intervention; two to three years for annual crops, livestock and commodities with some level of organizational development; five to six years for perennials and minimal levels of organizational development. When donor limitations only allow short-term projects, such projects must be designed to build on others and integrate into a clear country-wide strategy. The key to innovation and impact is flexible, multi-year programs; this needs to be advocated to donors.
3. ***Use different funding sources to target different levels of scale.*** Although traditional donors still contribute that largest percentage of funding, foundations and the private sector are increasingly providing alternative funding sources. Smaller but more flexible funds are effective for developing concepts and testing models; larger funds can then take successful pilots to scale.
4. ***Ensure efficient monitoring and evaluation.*** Measuring program results and impact at a global level requires consistent application of a standard set of indicators across all programs, such as the utilization and incorporation of Mercy Corps' recommended agricultural indicators. Incorporation of explanatory variables is also critical to understanding performance, to make informed recommendation about future projects, and to detect global trends that may otherwise be missed.

Conclusion

Mercy Corps' approach to agricultural development should continue to combine high-impact value chain development with increased access to financial services, rather than focusing on just one or the other. To be effective, programs should ensure that wider market-system constraints and opportunities are understood and addressed, not just for farmers but for other market players as well. If Mercy Corps takes this approach, working in partnership with the private sector, public sector and civil society, it can help smallholder farmers make significant progress in their quest for greater food security, higher incomes and a better standard of living.

