For an operational rural and agricultural financing

Workshop // Microfinance

Moderator

Jurgen Hammer
Investments Director,
Grameen Crédit Agricole Microfinance Foundation

Speakers

Adama Ba
Operations director, UM PAMECAS-ADA-GRET

Adama Camara
Director, Soro Yiriwaso

Jean-Baptiste Cavalier
Programme manager, CFSI

Renée Chao-Beroff
Microfinance Department Director, CIDR
Managing Director, PAMIGA

Nicolas Hertkorn
Project leader, AFD

Dominique Lesaffre
Geographical manager, SIDI

Etienne Mottet
Operations manager, OXUS Afghanistan

Bernard Ornilla
Project manager, Alterfin

Marc Roesch
Researcher, Institute of Pondichéry

Executive summary

The rural world is faced with two major challenges: climate risk and market risk (problems with price fixing and fluctuations). There are also the issues of the difficult access to land ownership, travel difficulties, security questions and lack of technology and training. In this context, the rural and agricultural world requires specific financing and products: cash advances (pre-financing of harvests), insurance against climate risk, flexible repayment conditions, and warrantee schemes. Rural microfinance institutions are faced with the problem of agricultural profitability and the important costs to reach these populations (training and travel costs). However, the strong growth in emerging countries (emergence of a middle class in demand for agricultural products) and the improvements in access to technology represent a real opportunity for the development of the agricultural world.

The aim is to develop an agricultural microfinance suited to the circumstances, which takes into account the particular needs and challenges of rural populations. To limit risks, the MFIs must control all possible parameters and create training/education and incentive systems for borrowers and their partners. The management of interactions between the different actors of rural microfinance is one of the keys to the success of agricultural lending. Numerous social, financial, entrepreneurial and state actors are involved in agricultural financing. It is therefore important to favor a cooperative approach and knowledge sharing. As the rural world is very heterogeneous, agricultural microfinance must be conceived in an inclusive way, by favoring solid and well-diversified MFIs, aimed at all market segments. Inclusive microfinance requires working on all economical development needs simultaneously (urban, rural, micro-insurance etc). It is necessary to think about the type of agriculture to be supported by agricultural microfinance and how to share added value.

Synthesis

Rural and agricultural microfinance raises challenges due to the specific risks faced by the poor rural and agricultural populations.

Adama Camara, director of **Soro Yiriwaso**, a Malian rural microfinance institution, underlined four major challenges for rural and agricultural microfinance: vulnerability, operational, capacity, legal and statutory constraints. He underlined climate risk, limited access to credit, market fluctuations over which the country has no control, technical and training constraints (high illiteracy rates).

For **Adama Ba**, operations director at **UM PAMECAS-ADA-GRET** – a mutual savings and credit network in Senegal which has worked with the rural world for 8 years – rural microfinance requires different methods, adapted to the constraints of the rural world. She specifically underlined field constraints and the necessity for the institution to travel and meet the populations. In addition, it is necessary to rethink guarantee policies for the rural world.

Marc Roesch, researcher at the **Institute of Pondichéry**, underlined the fact that it is often about very small farms. According to **Marc Roesch**, farmers are faced with three main problems: how to find a land to farm and how to finance its purchase or rental, how to finance the workforce, and how to finance seeds and fertilizers. To address these three problems, farmers call on their families first, and on banks as a last resort. The major risks, according to **Marc Roesch**, are linked to the climate and to the profitability of the agricultural activities to be financed.

Jean-Baptiste Cavalier, program manager for the **Comité Français pour la Solidarité Internationale** (CFSI), underlined the problem of the access to the land and of land monopoles (example of the study carried out by the *Terres de liens* association to favor access to property for farmers). He also brought up the issue of climate risk and the necessity to ensure that small farmers do not bear all this risk. Consumer groups could accept to bear some of the risk (for example Rural Farming Associations (AMAPs), or local contractual agriculture associations…).

Etienne Mottet, operation manager for **OXUS Afghanistan**, also mentioned the climate risk, which is difficult to manage without insurance, and which is particularly important in Afghanistan with alternating periods of flooding and drought. He underlined the problem of the vulnerability of these populations, and of the actions in these areas where there are security problems and travel difficulties. Operational difficulties are also very present in these regions with a lack of technology and education (50% of the population is illiterate). While these risks are important and most of the population is made of farmers, it is then necessary to develop agricultural micro-financing.

Dominique Lesaffre, geographical manager at **Solidarité Internationale pour le Développement et l'Investissement (SIDI)**, raised several problems: climate change, unexpected interference, the emergence of so-called social investors seeking high yields, difficulties resulting from political causes… For example, by raising customs taxes, Malawi was able to stimulate family agriculture in the country. Conversely, regulations in Peru impose strict Portfolio at Risks (PAR), unsuitable for rural environments. In addition, the supply in financing does not match rural needs. The terms and conditions of aid systems are often opposing the needs of rural financing.

The rural world has therefore specific risks and constraints which imply specific financing needs. According to **Jean Baptiste Cavalier**, farming requires cash flows. He stressed two examples of cash advance systems. The AMAPs (rural farming associations), where consumers commit in the long run to purchase in advance crops from a farmer, and the warrantee system which enables farmers to obtain financing wagering some of their harvest as collateral.

Bernard Ornilla, project manager at **Alterfin**, spoke of the diversity of existing financial products: savings, credit, money transfers… He underlined the need to be flexible with payment methods in rural micro-financing. In addition, it is necessary for the MFIs, local government, producer associations, etc to be coordinated.

What are the main difficulties encountered when setting up offers matching these specific financing needs?

Renée Chao-Beroff, head of microfinance at the **Centre International de Développement et de Recherche (CIDR)** and Managing Director of **PAMIGA**, identified two main problems: the profitability of agriculture (with, amongst other considerations, price volatility) and the costs resulting from bringing the service as close as possible to borrowers (creation of offices, personnel training…). The question of the profitability of agriculture has evolved: the growth of emerging countries is favorable to the profitability of agricultural products. Cities are growing and we observe the emergence of a middle class with increased purchasing power that generates demand for agricultural products. Therefore the main risk today for farmers is to miss out on this emerging demand and fail to produce for this new market. The question of the costs incurred by institutions to reach rural populations can also be considered from a new angle: the outbreak of technology will upset the rural world by reducing the asymmetry of information between clients and enable them to have better knowledge of agricultural products' prices. In addition, technologies such as "mobile banking" will enable a reduction in transaction costs.

To manage the risks linked to agriculture and develop profitable financial products, **Etienne Mottet** thought that it is necessary to take all parameters into account before shelling out some money: the size of fields, the type of agriculture, seeds (origin, use), fertilizers… The central idea is that all parameters must be controlled to ensure the success of the agricultural loan. The financial product must be designed to incite the farmer to act in the interest of the MFI, i.e. the way that the institution wants the client to behave must be included in the loan product.

Jean-Baptiste Cavalier explained that a small farmer lives on what he produces. The choices he makes about his production model are, in general, well founded (risk mitigation strategy, response to environmental problems, etc). External constraints, like the ones evoked by **Etienne Mottet** to guarantee the success of agricultural loans, are often those which put in danger a functional production system, even if it is not always optimal. This vision centered on the profitability of the MFI's work is therefore very risky, particularly for the farmers.

UM PAMECAS-ADA-GRET has put several measures in place which are designed to address the specificities of rural and agricultural microfinance. They have reviewed the duration of loans granted in each line of business and created products that farmers require throughout the year, such as: seasonal credit, storage credit, collective loans, individual loans etc. They have also hired liaison officers, who help the MFIs to select lenders in rural areas and have set up several mobile cashiers to avoid complicated journeys. They have surrounded themselves with agricultural specialists and make cash disbursements according to agricultural seasonal peaks. Finally, they have allowed people to repay their debts in kind and are currently working with an agricultural insurance bank.

It is imperative to choose which type of agriculture the MFIs want to support. In **Renée Chao-Beroff**'s opinion, subsistence agriculture must change and eventually cease to exist. Farmers must be able to feed their families and contribute to the economy of their country. Modern agriculture does not only involve profitability-based crop growing, which is geared towards exportation. It is in fact possible to grow crops for local markets and make a profit. Loans financing self-sufficient agriculture would put people in debt in order to finance something which is not profitable. In **Jean-Baptiste Cavalier**'s opinion, the debate should focus on family agriculture and capitalistic agriculture, two methods of production whose contributions to the country's economy are radically different. Furthermore, it is important to rethink how added value can be redistributed across the value chain, from producers to consumers.

Dominique Lesaffre discussed the emergence of a kaleidoscope of players at the heart of the rural microfinance sector, coming from different social areas – for example farmers' organizations (FO), the Pan-African FO, which was recently created, cooperatives and associative groups, etc. –, financial areas – aid-funded MFIs, local NGOs that have developed a microfinance department, mutual savings and credit systems, MFI groups organized as Apex to attract local financial resources, continental networks such as FOROLAC and MAIN, etc. –, and entrepreneurs – production associations, social economy enterprises, etc.

In **Marc Roesch**'s opinion, the State plays an important role in certain countries in granting agricultural credit. This is the case in India especially. However, in a lot of countries the State will not support small farms, and leaves the financing of investments in the countryside to the sectors. This way, these sectors (cotton, sugar cane) play a substantial role in the financing of agriculture. Microfinance is a supplemental source of funding but it can also act as intermediary for the distribution of credit for these sectors (cotton in Cameroon or Benin, for example).

In **Adama Ba**'s opinion, national pricing commissions are major players in agricultural financing. Frequently, commissions set prices that are well below the production cost for the farmer. This means that a few key players do not operate in the financial sphere.

Dominique Lesaffre therefore suggested that Convergences 2015 should

encourage all players who are involved in agricultural microfinance and micro-insurance to work together.

In **Etienne Mottet**'s opinion, the key to the success of an agricultural product is the management of the interaction between the different players, as well as the way in which they will be trained and the incentives they will be given. The development of agricultural products must allow players to be trained. The client must have an interest in paying the loan back. Therefore, OXUS Afghanistan has been working with agricultural cooperatives that provide seeds to clients and are responsible for training them for an initial period of six months. These cooperatives are players of central importance, and it is necessary to implement a system of incentives so that the service that they provide to the clients is a quality service (for example a system of premiums). This system of incentives benefits OXUS as well as the cooperatives, which are encouraged to develop in an efficient and sustainable way.

In Mali, women run very small farms because they have no access to financing. Soro Yiriwaso therefore developed a rural product which is specifically designed for groups of women. These women are responsible for decide upon the beneficiaries and the amount of the loan, its follow-up and its repayment. The repayment rate is just short of 100% and the demand for this type of loan is very high. This type of financing has positive consequences for the whole family.

According to **Jürgen Hammer**, the distinction between products and services is very difficult to make, especially in the field of agricultural microfinance.

In **Renée Chao-Beroff**'s opinion, it is difficult in the agricultural sector to meet the needs of the market as producers have been left with their own devices, technically speaking, for several years: there is a lack of training and a lack of assistance, etc. Nowadays, the private sector is back into agriculture again (for example food-processing companies) in a much more integrated way. Companies are involved upstream by supplying technical help and input (enhanced seeds) and also downstream by guaranteeing that the production is bought under some conditions. Value chain finance is a new way of financing agriculture in a less risky way: contracts between producers and companies can serve as warranty for some financing.

In **Marc Roesch**'s opinion, scaling up rural financing is a big problem. The seasonality of the agricultural business and the volume of funds required (everybody borrows at the same time and pays back at the same time) make it difficult for the MFIs to manage their funds as this weighs on their costs.

Renée Chao-Beroff dealt with the question of inclusive finance. Targeting has to be ruled out. Rural areas are not homogenous so if we do not want to exclude certain categories of clients in rural areas, it is necessary to segment the market. It is necessary to recognize the different needs which exist and to work with the different segments separately. The crisis of microfinance is connected to targeting and single-product companies. A solution can be found in the diversification of MFIs. Tomorrow's rural and agricultural finance must be more inclusive, more varied, must take into account different circumstances and must provide for subsistence agriculture as well as more entrepreneurial agriculture.

Etienne Mottet shared this opinion: OXUS Afghanistan's objective is to develop a complete range of services, by including the broadest range of clients possible. Bernard Ornilla, on the other hands, reminded us of the necessity of improving savings and credit culture in rural areas and of offering accessible technology.

In **Dominique Lesaffre**'s opinion, it is necessary to take advantage of the set-up of Convergences 2015 so that in the field of rural finance a really ambitious and federative project could take place, such as the design and creation of an agricultural insurance system in one of the most vulnerable common interest areas (such as, for example, Sahel) and that can tie together our different organizations.

Official rapporteur:
Julien Sciau , *Grameen Crédit Agricole Microfinance Foundation*