

# Broadening access to sustainable agricultural lending and insurance

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# Presentation focus



- *Understand the finances that are available for agriculture lending and insurance;*
- *Criteria for a more enabling environment for lending and agri insurance;*
- *Credit availability for youth and women*

# Sustaining the business of farming: financing opportunities are inter-dependent with business opportunities

The conference themes are all important for financial access to small farmers:

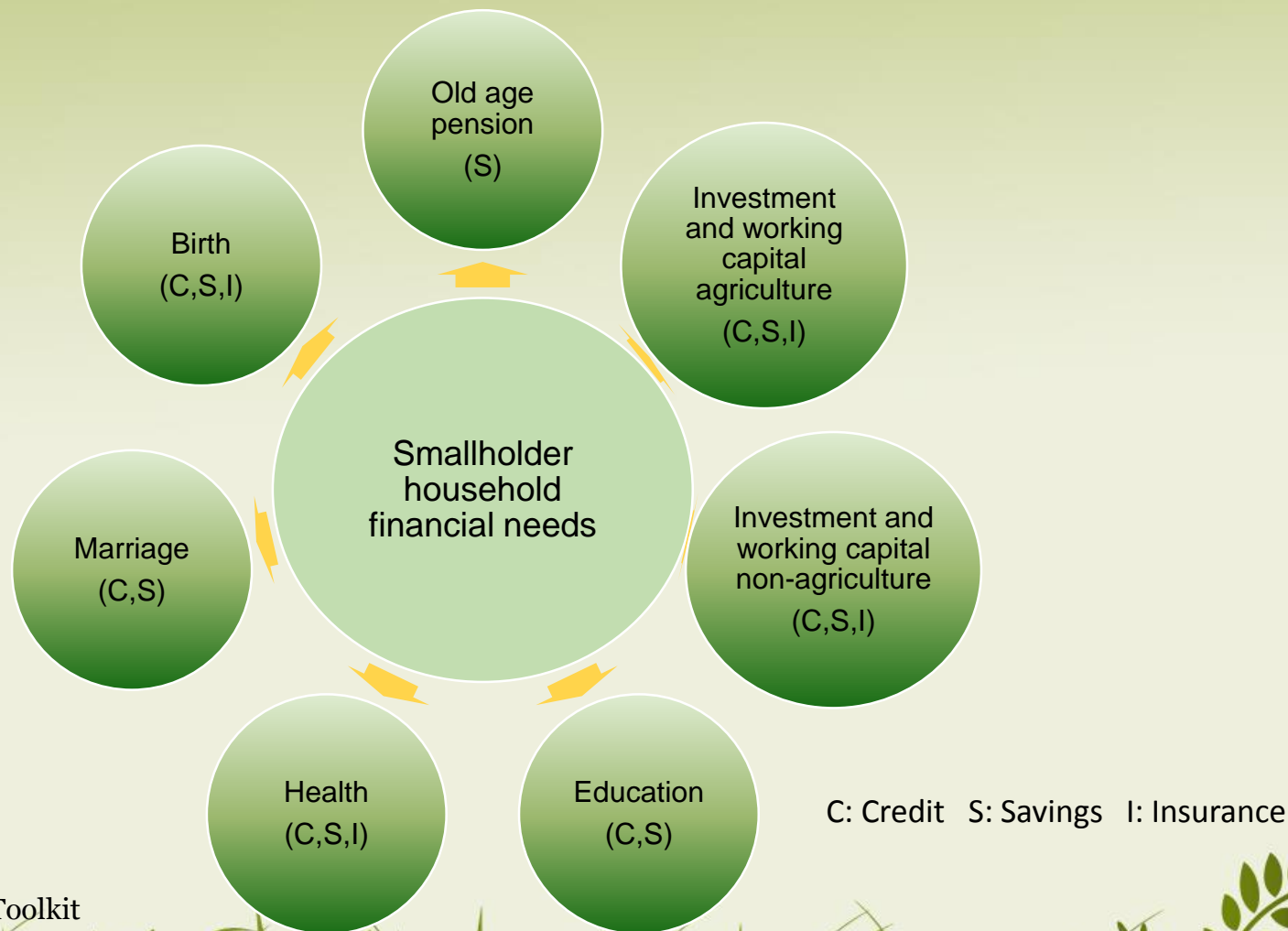
1. Clustering farmers for economies of scale
2. Linking farmers to competitive input and output markets
3. Having an enabling policy environment
4. **Broadening access to sustainable agricultural lending and insurance**
5. Infrastructure support for agricultural business
6. Linking farmers to information, knowledge, and technology

*There are many good and diverse financing opportunities when these are addressed.*

# Broadening access is much more than financial inclusion, additional loan products or insurance

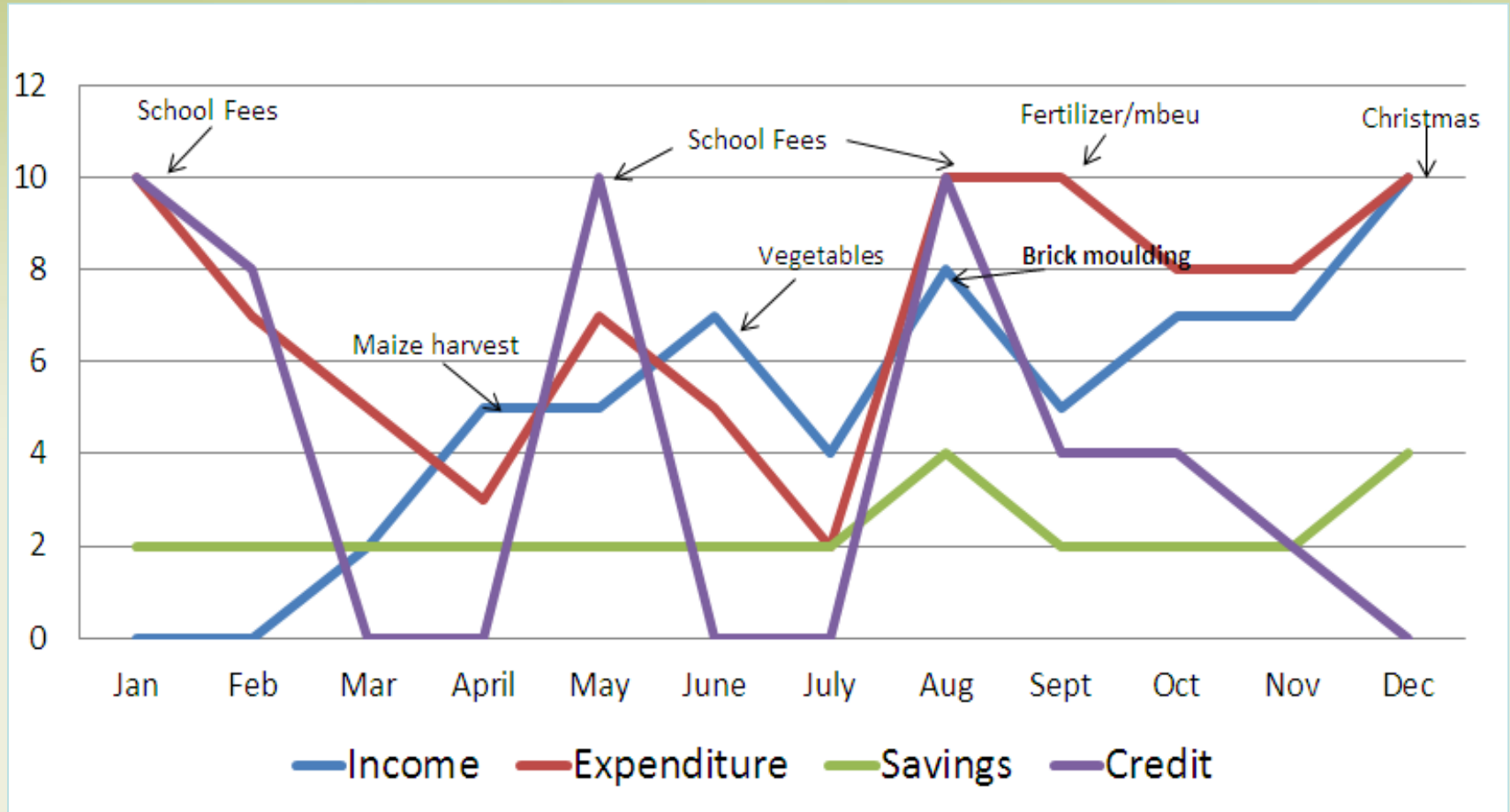
- Insurance, savings, markets, ICT, etc. are all critical components of accessible financial services
- Gender, age, education and culture are important constraints
- Wealth and assets, or a lack of them, are major bottlenecks for financing
- Risk perception and tools to deal with risk undermine access

# Access begins with understanding smallholder financing diverse needs



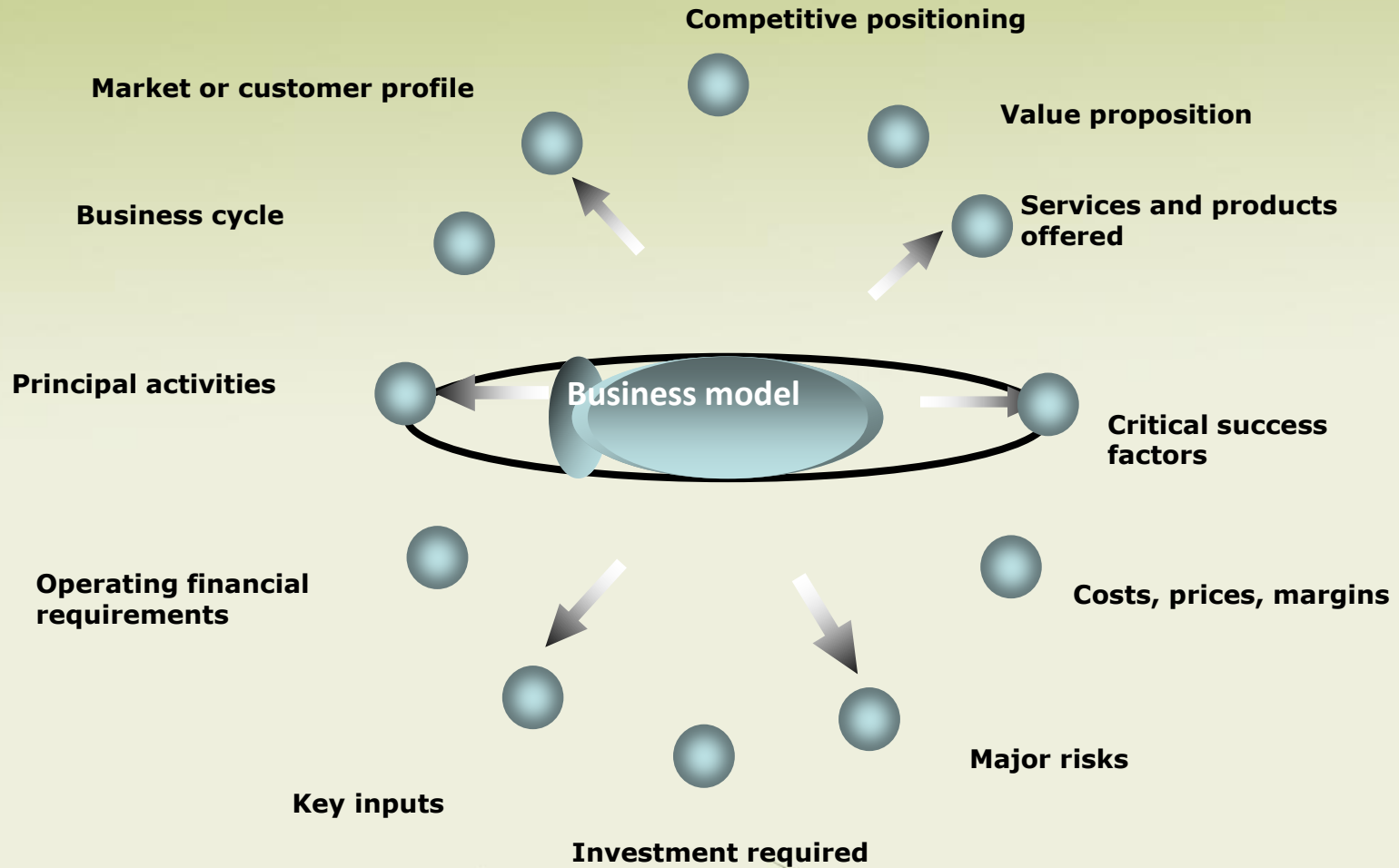


# Understanding small farm and household cash flow is essential for financial access



Source: FAO project report, 2014. Zimbabwe Livelihood and Food Security Programme.

# Understanding small farmers' business models



# Farming is a risky business

## Risks faced by small farmers

### Risks in production

- **Weather based risks**
- **Natural hazards risks**
- **Man-made risks**  
(e.g. agri practices, machinery breakdowns, war)

### Risks of price and market

- **Market information**
- **Market access**
- **Price fluctuations**
- **Supply/demand fluctuations**
- **Compliance and quality standards**

### Risks related to assets

- **Financial access**
- **Natural resources**
- **Management**
- **Theft**
- **Titles/ownership**



# Financial instruments for risk mitigation

Financial instruments suitable for reducing risk are often not available

## Production risks

- Insurance
- Term loans
- Financial lease
- Emergency loans

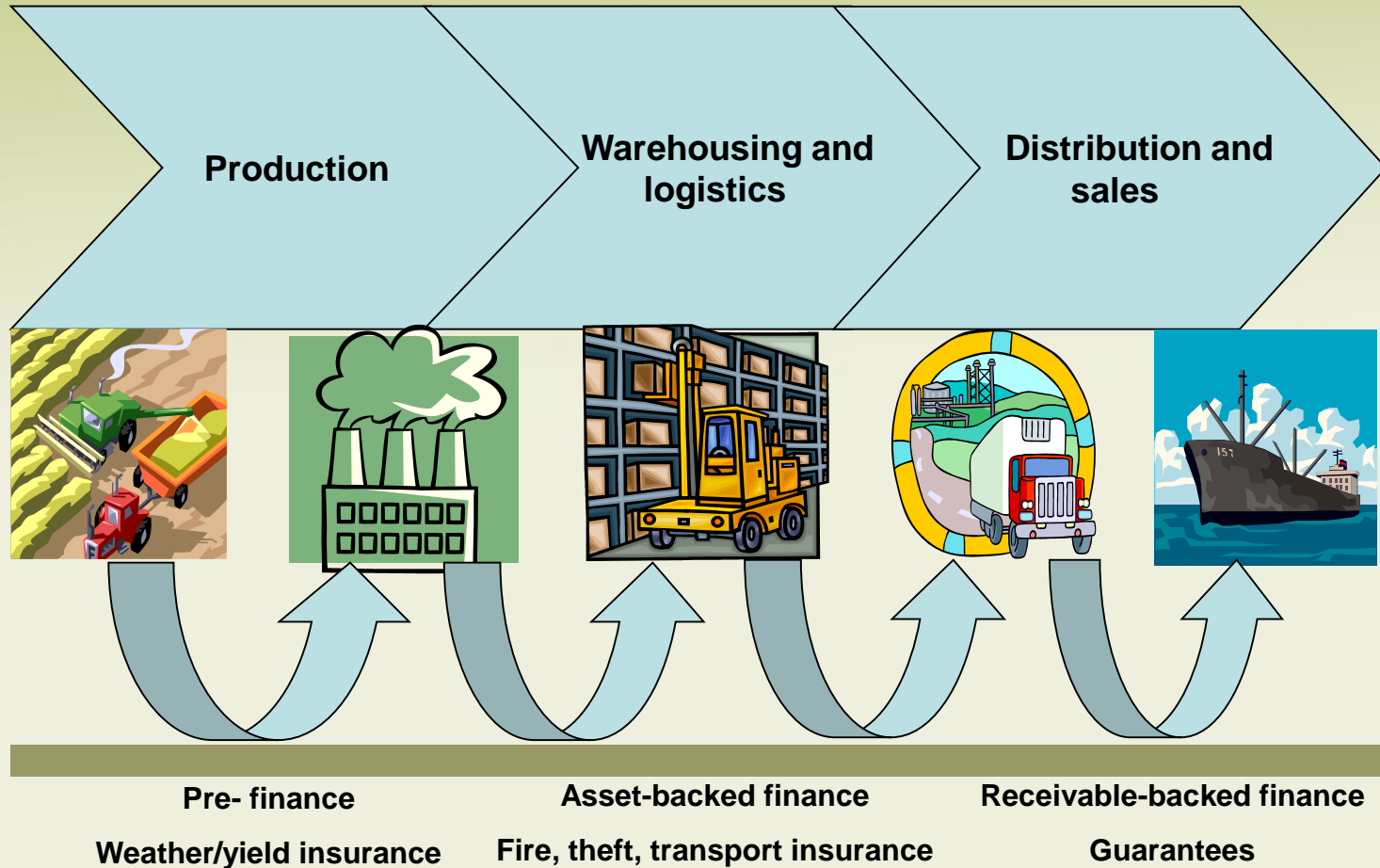
## Price and market risks

- Forward contracts
- Contract farming
- Warehouse receipt finance
- Farmer organization, participation & commitment

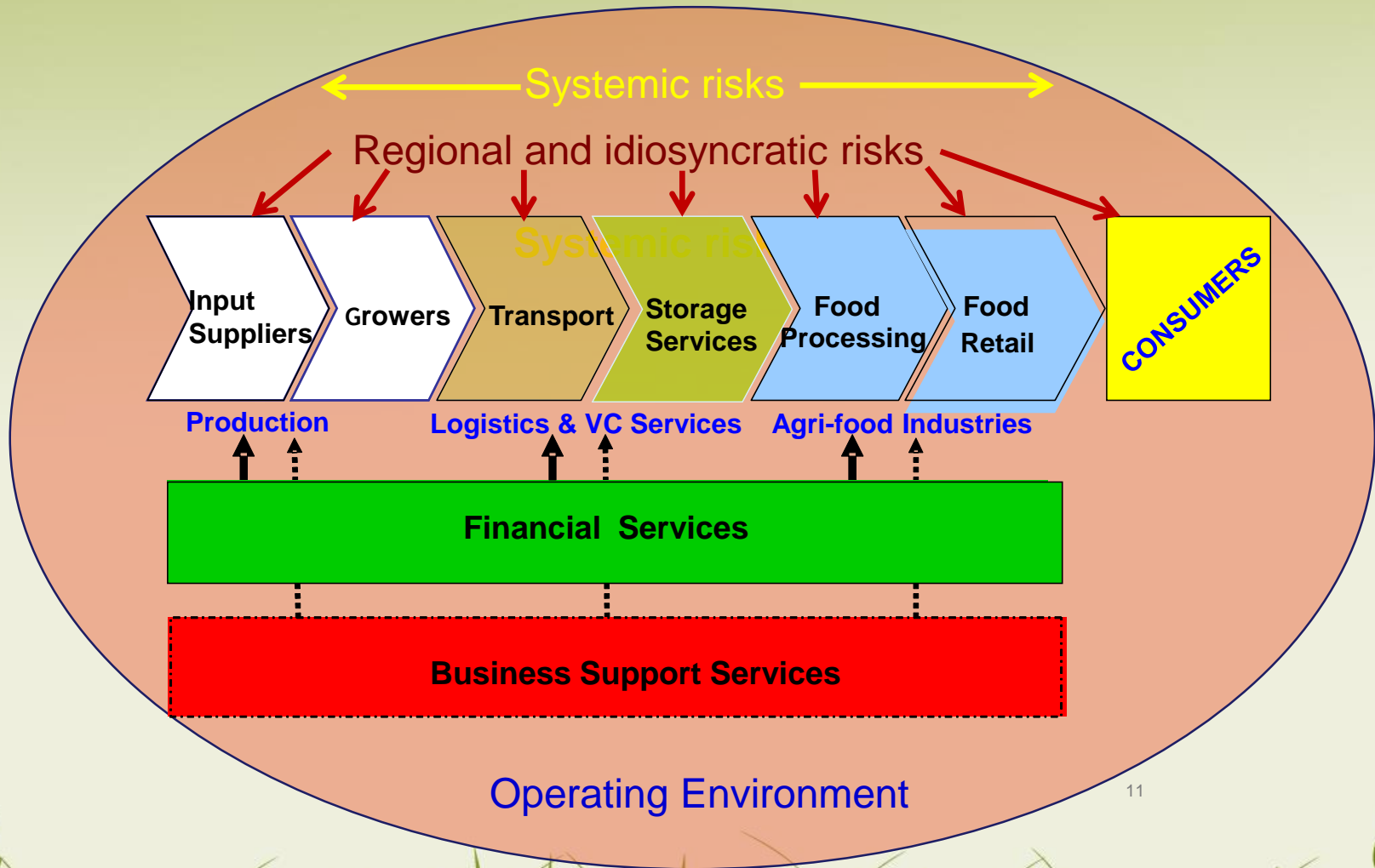
## Asset risks

- Secure savings
- Money transfers
- Health & property insurance
- Public cash transfers
- Training

# Linking finance to the value chain



# All agricultural stakeholders in a value chain have a role in risk management



# ICT is a game changer

- ICT can facilitate or break smallholder agriculture
  - Access to new markets or competitiveness in any market
  - Quality standard information, compliance and control
  - Technical support
  - Insurance and financial service delivery



***Has the research community invested enough attention toward small farm businesses and services?***

# Platforms exist but reliable data is a missing link for small farmer finance

- FAOSTAT:

<http://faostat3.fao.org/faostat-gateway/go/to/home/E>

Comparative country data on agricultural production by commodity, exports, investment, etc.

- FINDEX (global-financial-inclusion-database):

<http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=global-findex->

Country on use of loans and financial services, informal credit market, etc.

- Rural Finance and Investment Learning Centre:

<http://www.ruralfinanceandinvestment.org>

Information, research findings and training on rural and agricultural finance and innovations



# Recommendations

## 1. Financial institutions and investors:

- Adapt cash-flow based lending, efficient loan assessment and build data bases from this info for future
- Engage with producers and agribusiness firms to collaboratively design value chain financing models and other financial solutions
- Investors provide capital to grow or scale specialized financial services intermediary models

# Recommendations

## 2. Insurance providers:

- Invest in data, solid science, technology, and basis risk
- Target obstacles to improving farmer income;
- Integrate insurance with other development interventions
- Include farmers and ensure their voice in the design of products
- Invest in local capacity

Adapted from CGAP

# Recommendations

## 3. Use of Public – Private Partnerships to:

- Establish data infrastructure to get reliable and quality information timely
- Form or establish local/national reinsurance firm
- To create enabling legal and regulatory framework
- Incorporate insurance into financial portfolios and VC programs
- Devise smart agricultural insurance subsidy schemes creating a balance between efficiency and fiscal sustainability

# Recommendations

## 4. Agro-enterprises and VC actors:

- Involve financial institutions early to jointly develop value chain financing solutions with agro-enterprises
- Identify roles and responsibilities for each partner across the financial services value chain and incorporate enablers to reduce risk and maximize success
- Dialogue and coordinate with other agro-enterprises in the industry to better develop joint solutions

# Recommendations

## 5. Donors

- Provide support for technical assistance, training and product development
- Support innovations with shared risk and capital
- Support development of national weather services, infrastructure, data system and research
- Support data collection and analysis, impact studies and digital platforms
- Promote collaborative value chain financing models
- Support viable initiatives for greater inclusion of women and youth.



# Initiative for Smallholder Finance (ISF)

*Example*

The ISF is a multi-donor and investor platform for the development of financial services for the smallholder farmer market launched in 2013.

It's primary role is to act as a "design catalyst" to support closing the gap between the \$450 billion in smallholder financing demand and the current \$10-20 billion supply.

ISF website

# Recommendations

## 6. Producer Organization and their support organizations

- Focus on services that benefit members
  - E.g. access to inputs, technical assistance, storage, commercialization, and access to finance
- Set-up/ensure a strong management team with sound managerial capacities
- Use VC partnerships for direct access and payments and managing information of smallholders
- Partner with leading value chain actors that provide win-win arrangements

# Recommendations

## 7. Target groups – reaching women, youth, minorities...

- Women – dialogue/participatory research and development of services and products
- Youth – focus on the learning
  - Learn by doing – promote agri-business apprenticeships
  - Start slow – developing a savings culture, money and business management
  - Ensure “ownership” – develop programs with the youth rather than for them
- Minorities – understand their diverse cultures and needs and involve in the development and operations
  - E.g. <sup>21</sup> Islamic finance

# Research

The large gap between the supply and demand of formal financial services for smallholder farmers is caused in part by the lack of information available on potential clients and their business models.

Key areas for addressing their particular needs:

- More and better collaboration with non-traditional actors that have data on agricultural borrowers, such as technical assistance providers, agricultural and climate research institutes, and value chain aggregators.
- More digitization of data for efficiency and outreach of its use
- More context appropriate investment that is aligned to the longer product development and testing cycles in the agriculture sector
- More target group impact research to better address women, youth and minority needs

Adapted from ISF Briefing #11