

# Impact of the Food and Financial Crisis on the Refinancing of Rural/Agricultural Financial Institutions and Agricultural Production Co-operatives

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# High Food Prices

- **Jacques Diouf, FAO Director - General:**  
“This is a unique moment in history: for the first time in 25 years, a fundamental incentive – high food commodity prices – is in place for stimulating the agricultural sector”

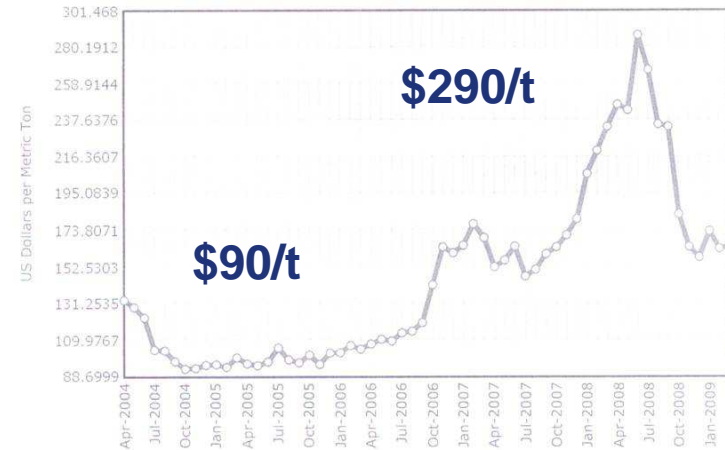
**(June Summit on Food Security 28.5.2008)**

# Prices 2004 - 2009

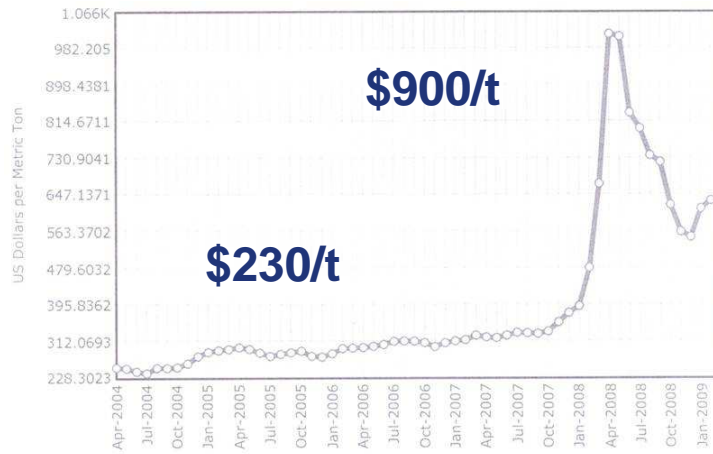
## Wheat



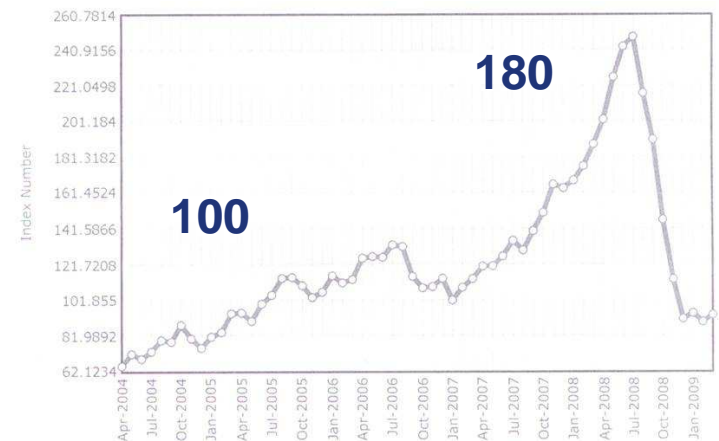
## Maize



## Rice



## Fuel Index



# Prices for agricultural crops and inputs

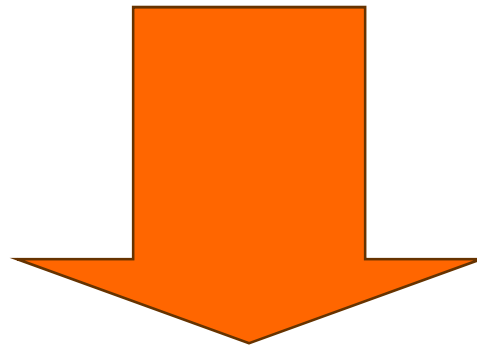
- **High food prices hit poor and hungry people in low income countries hardest**
  - Urban net food buyers
  - Rural non food producers
- **Farmgate prices for small farmers increase less than world market prices**
  - Lack of access to markets
- **Volatility of prices has increased**
  - Planning investments is difficult (dairy in CEE)

# Influence factors for price increases

- **Poor harvest due to variable weather – climate change**
- **Increased consumption of meat + dairy products in emerging countries (China)**
- **Increased use of biofuels**
- **Speculation on the commodity markets**
- **Historically low levels of stocks**

# Climate Change

- **Larger rainfall variability (time and location)**
- **More frequent extreme weather**
- **More frequent floods**
- **More frequent droughts**



Weather difficult to predict

→insecure planning

→lower harvests and losses

# Increased food prices. Will they benefit the poor?

- **Inputs shot up faster than food prices**
- **Small farmers also buy food from the market**
- **Some poor countries are net food importers**
- **Beneficial for large farming units – chance for cooperatives**
- **Expansion of supermarkets in CEE and Latin America, they need**
  - large quantities,
  - uniform quality,
  - standardized packaging,
  - food certificates

# The small-scale farmer

- **43 countries depend on one commodity for 20% of total export revenues, most in sub-saharan Africa**
- **Many least developed countries have become net importers of agricultural products**
- **the poorest countries are net losers of trade-liberalization**
- **Small scale farmers need:**
  - seeds, fertilizer; infrastructure irrigation; know-how to improve product quality; reduce losses
  - Larger units to produce more efficiently
  - Access to markets



# The World Financial Crisis

## Impact on MFIs

- **Demand for microloans drops**
- **PAR increases but less in rural areas**
  - Drop in turn-over of microentrepreneurs
  - Drop in remittances from US, EU, Russia
  - Job losses, rising unemployment
  - Devaluation of local currencies
  - Increase of interest rates on microloans
- **Refinancing of MFIs more difficult**
- **Interest rates to MFIs increase somewhat (LIBOR - Margin +)**

# The World Financial Crisis

## Impact on Agricultural Cooperatives

- **Banks hardly make loans at all**
- **Local interest rates increased a lot**
- **Fair Trade demand in EU / US of some products (flowers, bananas) dropped extremely.**
- **Agricultural subsidies are delayed**
  - **Investments are delayed**

# Snapshot Latin America

- **Southern Part**
  - No large inflation
  - MFIs have steady PAR
- **Northern and Central Part**
  - MFIs difficulty refinancing
  - Microentrepreneurs affected by US crisis
  - small farmers okay



# Snapshot Asia

- **Philippines**
  - Double digit inflation
  - High input cost offset high food prices
  - MFIs, difficult to refinance, PAR slightly higher
- **India**
  - Low inflation
  - Middlemen benefit from high prices
  - Crop failures and overindebtedness increased farmer suicides



# Snapshot Africa

- **Eastern Africa**
  - Double digit inflation
  - High food prices, high input prices
  - Many small farmers want to stop farming
  - MFIs, difficulty refinancing, PAR is increasing
  - Demand for microloans dropping



# Snapshot Central and Eastern Europe

- double digit inflation
- High prices benefit large farms + cooperatives
- MFIs, difficulties refinancing and much higher PAR
- Demand for microloans dropping
- Remittances dropping

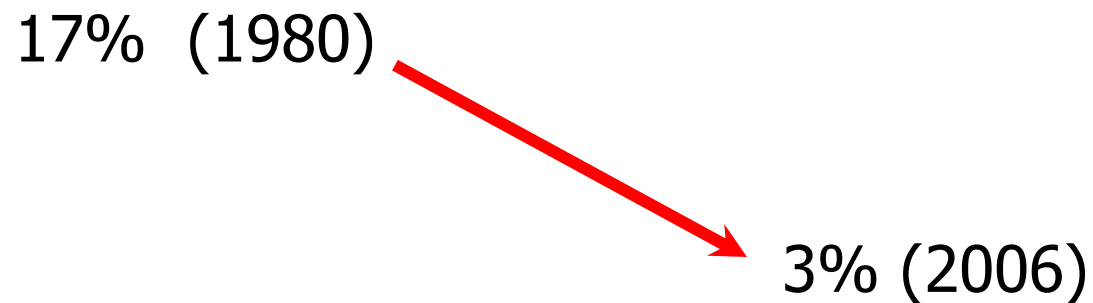


# Future Challenges

- **Demand for food will double within the next 25-50 years, primarily in developing countries**
- **We need sustained growth in the agricultural sector to**
  - feed the world
  - enhance rural livelihood
  - stimulate economic growth
- **In an environmental and socially sustainable way**
- IAASTD (International Assessment of Agricultural Knowledge, Science and Technology for Development, South Africa, April 2008)

# Rural Development is neglected

Share of rural development of total official development aid



(FAO, 7/2008)



# How does Oikocredit support MFIs

## ✓ CAREHOLDER VALUE

- Continue making loans to partner MFIs
- Increase equity of MFIs if necessary
- Refocus mission on „microentrepreneurs“
- Provide TA to struggling MFIs within our limited means

# How does Oikocredit support Agricultural Cooperatives

## ✓ CAREHOLDER VALUE

- **Self-organisation of small farmers is crucial – size matters**
- **Link to market, access to finance**
- **Increase financing of ag. production cooperatives (25% goal!!)**
  - Higher risk
  - Smaller loans
  - More work

# Summary

- **Rural Finance (loans, deposits, money transfers) increases in importance to support rural livelihood and reduce poverty**
- **Donor organizations should redirect focus on rural finance and help through**
  - Technical assistance to coops / rural MFIs
  - Seed capital for budding rural MFIs
  - Building adapted regulatory frameworks
- **Consumers should support Fair Trade**

# Thank You

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