

# Key Challenges and Good Practices in Refinancing Rural/Agricultural Financial Institutions and Agricultural Production Co-operatives

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# Importance of Financial Services to Rural Areas

- **Farmers need for farm + family budget**
  - loans,
  - safe deposit and
  - money transfer possibilities
- **Agricultural inputs, transport marketing processing becomes more expensive**

# Challenges to deliver Financial Services to Rural Areas

- **High information and transaction cost because of poor infrastructure (Kenya reaching a farm)**
- **Seasonality of agriculture income**
- **Inherent risks in farming (weather, pests, price fluctuations, market access)**
- **Risk of political intervention (India, debt forgiveness, interest rate caps)**
- **Weak institutional capacity of rural finance providers**

# Oikocredit: Our Experience

Investors: Private Individuals & Churches

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Production Projects

MFIs

21 %  
259 projects

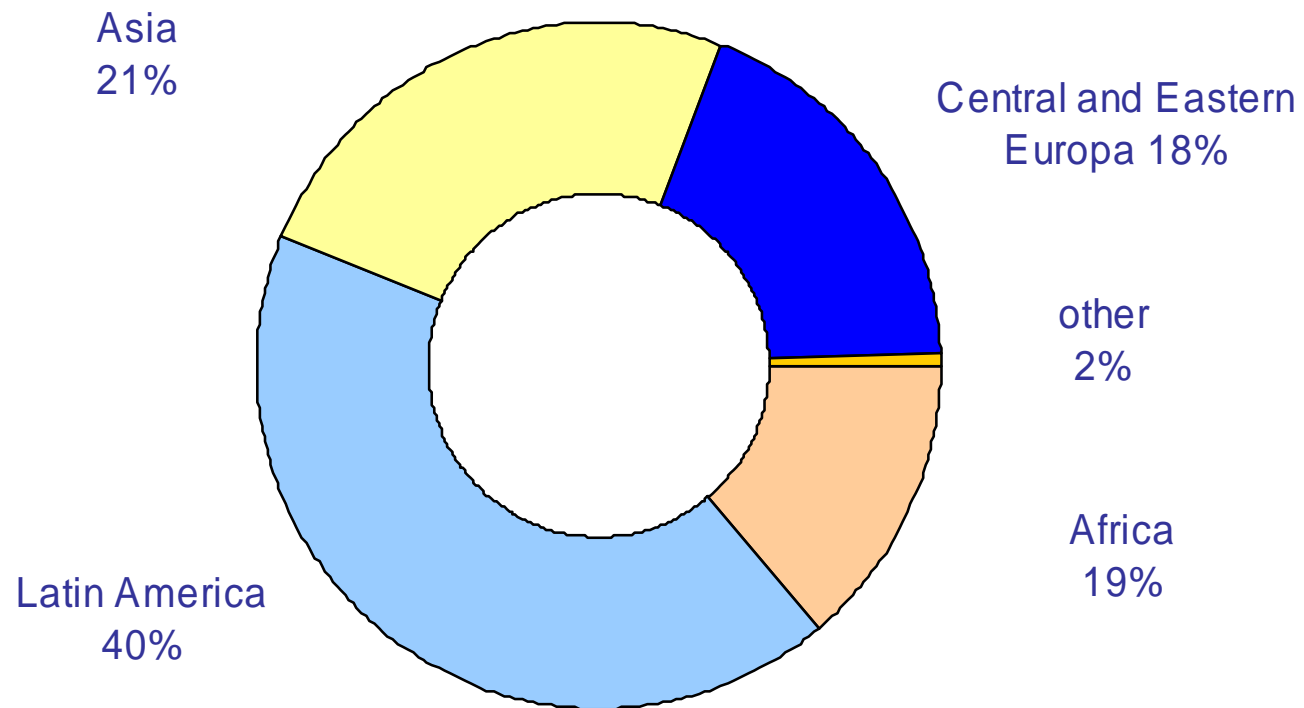
79 %  
480 projects

- Portfolio of EUR 363 million
- Majority is rural or mixed



# Oikocredit Portfolio

(31.12.08)



# Types of MFIS

- **Deposit Taking Institutions**
  - Cooperatives
  - Banks
- **Non Deposit taking institutions**
  - NGOs
  - Companies
  - Non bank financial institutions (inbetween)

# Microfinance providers in rural areas?

- **Asia – Mainly NGOs and NBFIs**
  - High population density
  - Low transaction cost
  - Reaching many microentrepreneurs
  - Share, India → Covering many regions
- **CEE – Mainly Credit Cooperatives**
  - Low population density
  - High transaction cost
  - Reaching few microentrepreneurs
  - Credit Cooperative, Russia → One village

# High Growth MFIs

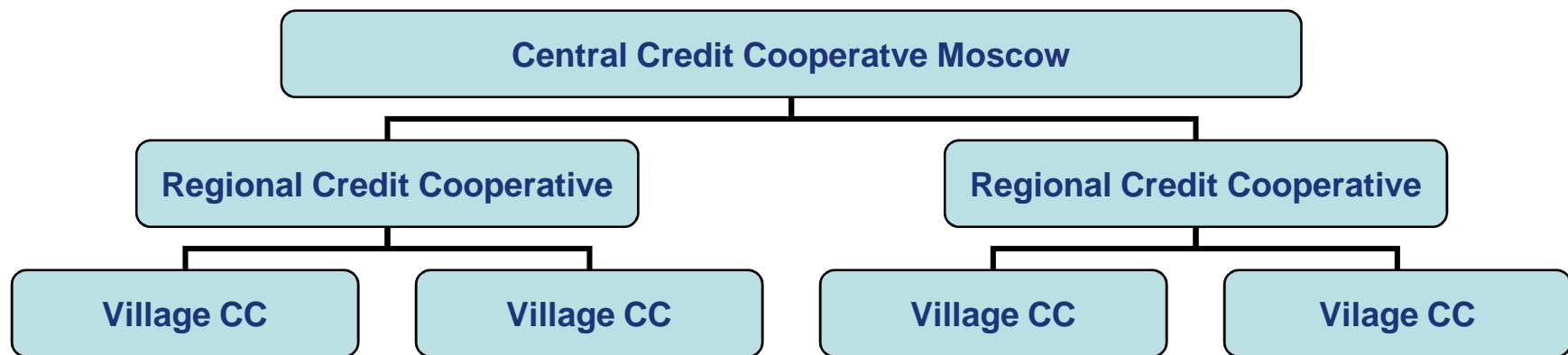
- **SHARE, India** ~ \$ 85 / loan
- **CARD, Philippines** ~ \$ 140 / loan
- **Grew fast (50 – 120% p.a.) and maintained focus on poor people**

	1996	1999	2003	2007	2012
<b>Number of Borrowers (thousand)</b>					
<b>CARD</b>	6.7	28.5	60.0	437.4	
<b>SHARE</b>	2.0	29.4	132.0	989.6	6,000.0
<b>Outstanding gross loan portfolio (million USD)</b>					
<b>CARD</b>	0.7	3.7	13.2	47.0	
<b>SHARE</b>	0.2	2.6	11.0	148.2	890.0



# Countrywide Integration of Financial System

## ➤ Russian Rural Credit Cooperative Network



# Russian Rural Credit Cooperative Network

- **Village Cooperatives**
  - Very simple operations, sometimes no computer
  - Finance all rural business, e.g. small and large farms
- **Second-tier cooperatives provide to above**
  - Training
  - Finance
  - Monitoring
- **Central Credit Cooperative**
  - Credit Policies and monitoring
  - Refinancing national and international
  - Lobbying Government

# Microloans for small farmers

- **Loan analysis and repayment based on all household income + expenditure**
- **Use of simple crop / livestock budget models**
- **Access to deposit and payments services (remittances)**
- **Use of lending groups and associations**
- **Well-organized farmer associations**

# Greenfielding New Rural Finance Institution

- **State Agricultural banks failed**
- **Private organisations develop microbanks**
- **Greenfield creation of sustainable rural MFIs**
  - Pro Credit, Access Holding (urban based)
  - FIDES Holding (rural based)
- **Local ownership?**

# Finance for agriculture co-operatives

- **Bulgarian + Romanian agricultural cooperatives (Investment Loans)**
  - Finance 100%, not only a part
  - match repayment plan to farming cycle
  - Farm should be stable, not many debts
  - Make conservative projections
  - Don't finance politically connected people
  - Take good securities

# Importance of financial and technical advice

- **Provide financial advice.**
  - Can farm safely repay loan?
  - Is it a good investment?
- **Provide technical advice**
  - Is the project technically sound
  - Is the staff sufficiently trained
- **Always respect competence of Partner.  
He knows best and ultimately  
responsible to repay loan**

# What are smart subsidies?

## ✓ **Agriculture Subsidies**

– Why not? But how!

## – **Subsidies for Products or Goods**

– State loans + interest rate subsidies crowd out private lenders

– Price subsidies – distort markets, costly, regressive

– Export subsidies – destroy production in poor countries

## ✓ **Subsidies for Innovations**

✓ Partial grants for machines - help farmers, banks and machinery producers

✓ Subsidies for organic farming / fair trade

✓ Subsidies for greenfielding

# How to reduce currency risks?

- **Reduce devaluation risk**
- **Use local currency loans, but high interest rates today**
- **Finance basic internationally traded commodities (grain, coffee)**



# Transparency and Good Governance

- ***Githunguri Dairy Farmers Cooperative, Kenya***
  - Established 1965
  - 11,846 cooperative members and families
  - 227 employees
- **Started with milk collection and entered milk processing and marketing**
- **Elect management and supervisory committee**
  - Regular rotation
  - Specialists involved in committees
- **Annual General Meeting**

# ***Integration – Helping small farmers reach the market***

- ***Alter Trade Group, Philippines***
  - **1984, collapse of world sugar prices, typhoons, hunger and famine for 3 million sugar workers**
  - **1,689 small farmers organized in 23 associations**

# Integration - Value chaine

- **Production, processing, packaging, marketing, export of organic products**
  - Mascobado sugar
  - Balangon bananas
- **Continued innovation**
  - Upgrading processing plant
  - Improving packaging
  - Diversifying export (8 countries)
  - Providing loans to growers
  - ISO and organic farming quality certifications
  - Producing organic fertilizer

# FAIR TRADE – Integration to Markets

- COPELLANOBONITO,  
Costa Rica
- “Coffee with human face”
- One of the best coffees of Costa Rica  
and in the world.
- Founded in 1972 by 189 small coffee  
farmers, in order to improve
  - milling and commercialization of  
coffees and
  - Get higher prices than from the  
coffee intermediaries.



## FAIR TRADE – Integration to Markets

- Nowadays 579 members, 27% women.
- Small producers, up to 1.5 ha.
- 26% live in poverty.
- 39% of members have US\$ 129 per month.
- 80% of the coffee is exported.
- **Only 30% for Fair Trade**
- 100% of the production is certified,



# FAIR TRADE – Integration to Markets

## Impacts perceived from Fair Trade

+

- Improvements in school and roads infrastructure
- Increase of revenues of the producers.
- Fair Trade saved Coopellanobonito during the coffee crisis (2000 - 2004).
- Members of the FT supply chain are considered partners, compared to a 100% business approach of conventional supply chain.

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- Fair Trade not attractive when prices are high. For example, FT is paying US\$ 131 per quintal, however they can sell this year more than \$150.
- “Delays in payment, transnational pay better
- Not enough roasters support Fair Trade.

## FAIR TRADE – Integration to Markets

- “Thanks to the FT, now we are direct sellers of coffee”
- The current challenges of Coopellanobonito are:
  - Members do not deliver all harvest to Cooperative.
  - Increase participation of women in different cooperative bodies
  - Have own roasting plant.
  - Reduce number of intermediaries between Cooperative and consumers of US and Europe.
  - Increase capacity of milling plant.

# Technological Innovation

- ***Mobile Phones (M-PESA Kenya)***
- **Money transfer person to person by mobile**
  - Early adopters urban educated
  - Send money to rural poor women
  - Women withdraws money at local shop
- **Since March 2007 – 3 million users**
- **Reaches very rural locations**
- **Less travel to bank branch**
- **Lower transfer cost**
- **Additional business for small shop owners.**
- **Payments of utilities, insurance, microloans possible**



# Microentrepreneur



# Thank You

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