Contents

I. Introduction

This briefing focuses on government, private sector and third sector / development assistance interventions relevant to the BCI Enabling Mechanism which seeks to promote equitable access to responsible finance for small farmers.

There are some initial points of note. Firstly, given that the BCI Enabling Mechanism on access to finance is targeted exclusively at small farmers, and that small farmers are almost entirely located in developing and emerging economies, this research focuses on rural and agricultural finance in the context of under-served producer communities. Often, where financial services are available, these are accurately described as 'microfinance'. However, this report does not focus exclusively on rural microfinance, recognising that other forms of financial services – including value chain finance – are vital to the cotton value chain, and that microfinance has yet to gain real ground in the risky sphere of agricultural financing.

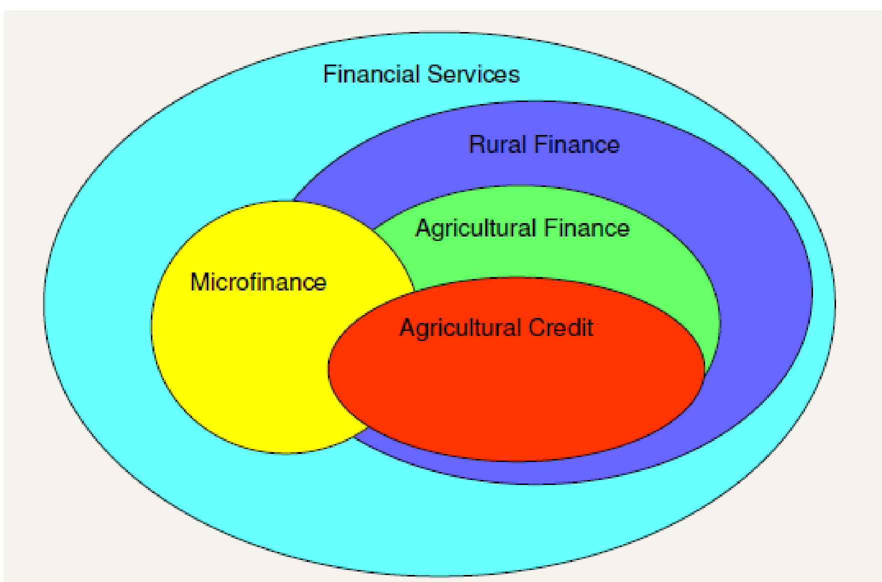
Nor does this study seek to analyse governmental policy toward agricultural financing, vital though this is to the 'enabling environment' necessary for sustainable change in access to finance for rural communities. Rather, following the logic of BCI, it seeks to foreground interventions and activities with which BCI could potentially engage – as partner, promoter or (co-)funder.

The rationale for undertaking an analysis of 'global' best practices is that there may be much to learn from experiences in the cotton sector – and similar agriculture sectors – outside BCI focus countries. This is particularly the case for Tajikistan, where development finance institutions (DFIs such as ADB, IFC and EBRD) already have significant experience in developing sustainable structures to promote access to finance for under-served cotton farming communities. This review, then, aims to point to key trends and issues, best practices, important actors and institutions. Furthermore, it seeks to offer a particular perspective not often at the heart of the (voluminous) literature on access to rural finance – namely, the potential role of 'access to finance' as part of a sustainable commodity initiatives, in order to assist in beginning to answer the question of what should be BCI's role in 'promoting access to finance'.

However, it is recognised that microfinance, rural finance and agricultural finance constitute a complex and growing area which holds huge challenges. It is also noted that, in some instances, BCI's focus on cotton may not speak directly to producer communities financial needs –which may lie well outside crop finance, and relate to household or non-agricultural activities. Similarly, finance is often subsumed to 'credit'. This review notes that this abbreviation is unsubstantiated and often unhelpful in understanding financial needs. Finally, this study suggests that, while access to finance is evidently a key part of the economic sustainability of cotton cultivation, it is but one part of the broader picture. It is impossible to ignore the critical role played by market price.

Defining terms

Rural finance encompasses the range of **financial services** offered and used in rural areas by people of all income levels. It includes **agricultural finance**, which is dedicated to financing agriculture-related activities such as input supply, production, distribution, wholesale, processing and marketing – predominantly but not exclusively through **agricultural credit** provision – and **microfinance** which provides financial services for poor and low income people by offering smaller loans and savings services, while accepting a wider variety of assets as collateral. The following diagram illustrates the overlapping relationships between these different terms.



Source: adapted from FAO / USAID training materials

Brief background

The approach to agricultural finance adopted by most developing country governments during the 1950s-1970s – *agricultural finance V1.0*[1] – was based on developing country governments' desire to facilitate access to rural finance. However it broadly failed to address the constraints impeding rural financial intermediation. Instead, governments focused on reducing the *effects* (defined narrowly in terms of lack of access to credit) through various targeted credit programmes. By the end of the 1970s it had become evident that these interventions had failed to improve rural productivity and livelihoods. This system was costly and unsustainable, due to poor rates of repayment, and ultimately did not have the desired effect on the development of agricultural production (Meyer, 2007)[2].

By the 1980's, the failure of government-led credit supply gave way to a new paradigm and a renewed approach to rural and agricultural finance in developing countries. State-owned development banks closed, financial sectors were liberalised and microfinance evolved. The new rural finance paradigm redefined the roles of the various actors involved in providing financial services, especially governments. Public subsidies were redirected towards creating new microfinance institutions (MFIs) that were supposed to achieve financial sustainability thanks to cost-covering interest rates.

Despite the great hopes associated with the strong growth of the microfinance sector, it soon became clear that the supply of microfinance for agricultural activities was marginal at best and poorly adapted. At the same time, with the liberalisation of the financial sector, commercial banks did not pick up the slack of former government-led interventions in rural areas. Many banks actually closed their rural branches (Zeller, 2003)[3]. The overwhelming failure of state development banks, then, combined with scant rural penetration by risk-averse commercial financial institutions, and the generally urban and peri-urban orientation of microfinance institutions, has led to a widespread dearth of agricultural credit in most regions.

The *status quo* – why are talking about 'access to finance' in the context of sustainable cotton?

An established body of research shows that in many of the least developed countries the rural financial market is often unable to meet the finance needs of the rural population, especially for investing in agriculture. This is not only because of weaknesses in the financial institutions, but also because of constraints in the rural financial

[1] See Uwww.bouldermicrofinance.org/bergamowiki/index.php?title=Main_PageU
[2] Meyer, R., 2007, U"Microfinance services for agriculture: opportunities and challenges"U presented at FARM conference "What Can Microfinance Contribute to Agriculture in Developing Countries?"
[3] Zeller M., 2003, "Models of Rural Financial Institutions", Paper for international conference: Paving the Way Forward for Rural Finance, USAID

environment. These include disparities in ability to access information (between lenders/banks and farmers/businessmen) and high and covariant risks[4] in rural areas, especially in agriculture.

Rural households often lack the resources they need to mitigate risk. Rural borrowers therefore present a high credit risk and this, combined with the high administrative costs of service delivery, make the rural market unattractive to formal financial intermediaries.

Rural households in developing countries are therefore still largely reliant on informal sources for their finance needs[5]. In BCI focus countries like Pakistan and Cameroon, for instance, less than 5% of the amount borrowed by poor rural households was obtained from formal lenders, including banks and microfinance institutions[6].

Specificities of agricultural finance

Evidently, the agricultural sector is different from other economic sectors in a number of ways. Activities are generally located in isolated areas with low population density and poor infrastructure. They are dependent on weather and production cycles; income is seasonal and monetary income is limited. Agricultural prices are notoriously volatile and few farmers can offer guarantees that are legally or financial acceptable. The financing of agricultural activities reflects these specific characteristics and constraints – factors that explain that *microfinance institutions have to date experienced great difficulty in meeting the demand for agricultural finance*.

Summary: Key differences between agricultural finance and microfinance	
Different loan terms	Loan terms are different. Agricultural producers tend to require medium- and long-term loans, rather than short-term ones.
Increased risk	Agricultural production is generally much riskier than urban trade or services – the main economic activities of clients of microfinance institutions (MFIs). Risk diversification requirements for rural and agricultural finance institutions, and their resultant portfolio at risk, may thus be higher than for MFIs.
Transaction costs	Transaction costs for financial services in rural areas are higher than in urban areas due to the generally poor state of rural infrastructure.
From: GTZ Rural Finance Program, Donor Program Review, Paving the Way Forward for Rural Finance: An International Conference on Best Practices, Washington DC, June 2 – 4, 2003	

Vitally, farming households also have financial needs which are not related to crop or broader agricultural finance. These include: family needs (personal, durable goods, housing), savings, and insurance. This is to say, rural finance involves *more than providing agricultural loans*. For many communities, mobilising savings – and exploring weather-

[4] 'Covariant' risk relates to a peril that affects a large number of borrowers at the same - eg climate, rainfall, pest infestation or several risks that consistently occur together.
[5] UN Department for Economic and Social Affairs, Division for Sustainable Development, Trends in Sustainable Development 2008-2009: Uwww.un.org/esa/sustdev/publications/trends2008/ruraldevelopment.pdfU
[6] World Bank (2007), World Development Report 2008

indexed insurance – may be a more appropriate and sustainable means to begin to respond to real financial needs.

"The time has passed to just add credit lines and a bit of technical assistance to rural and multi-sector projects and expect that this will result in the sustainable provision of financial services to rural households and enterprises."
Meeting Development Challenges: Renewed Approaches to Rural Finance, Agriculture and Rural Development Department, World Bank, 2005

II. Key institutions involved in agricultural finance – research and tools

The problem of rural finance, and supplying finance for agriculture in particular, is re-emerging on the development agenda as a pressing issue. Agencies like the World Bank and the Inter-American Development Bank (IADB) have developed new rural finance strategies during the past two years, while the FAO and GTZ have cooperated significantly, including the publication of the 'Agricultural Finance Revisited' series.

In 2008, CGAP (Consultative Group to Assist the Poor) completed its first survey of major cross-border funding for microfinance (including rural finance and agricultural finance). The CGAP survey[7] brings together information on where money for microfinance comes from, how is it used, and where it goes. The 54 funders included in the survey committed $11.7 billion to microfinance, of which $2.5 billion was disbursed in 2007. The six largest funders—ADB (Asian Development Bank), KfW (German development finance), World Bank, IFAD, IFC, and EBRD—contributed more than 50% of the overall funding.

Top five microfinance funders by region

	Institutional Type	*% of Total Funding in region*
	Sub-Saharan Africa (SSA) ***BCI focus region***	
AfDB	Multilateral Agency	17%
IFAD	Multilateral Agency	15%
KfW	DFI (Germany)	7%
GTZ	Bilateral Agency	7%
DCA USAID	DFI (USA)	6%
	Eastern Europe and Central Asia (ECA)	
EBRD	DFI	31%
KfW	DFI (Germany)	18%
IFC	DFI	12%
World Bank	Multilateral Agency	6%
AECI	DFI (Spain)	6%
	East Asia and the Pacific (EAP)	
ADB	Multilateral Agency	19%
KfW	DFI (Germany)	13%
IFAD	Multilateral Agency	12%
World Bank	Multilateral Agency	10%
GTZ	Bilateral Agency	9%
	Latin America and the Caribbean (LAC) ***BCI focus region***	
AECI	DFI (Spain)	28%
OikoCredit	Individual Investor	11%
KfW	DFI (Germany)	11%
IFC	DFI	11%
FMO	DFI (Netherlands)	6%
	South Asia (SA) ***BCI focus region***	
ADB	Multilateral Agency	47%
World Bank	Multilateral Agency	20%
DFID	Bilateral Agency (UK)	7%
IFAD	Multilateral Agency	7%
CIDA	Bilateral Agency (Canada)	6%

Source: CGAP

[7] Presentation of survey available at Uwww.cgap.org/gm/document-1.9.7448/2008%20Funder%20Survey-resource%20presentation%20final.pdfU

Multilateral agencies

IFAD (International Fund for Agricultural Development)

www.ifad.org

The International Fund for Agricultural Development (IFAD), a specialised agency of the United Nations, was established as an international financial institution in 1977. Rural finance is considered by IFAD as a vital tool in poverty reduction and rural development. Most of IFAD's target groups are small producers engaged in agricultural and non-agricultural activities in areas of widely varying potential. Two thirds of IFAD's current projects have a rural finance intervention. IFAD experience has shown that direct access to financial services affects the productivity, asset formation, income and food security of the rural poor.

Innovation case study: IFAD and Financial Services Associations (FSA)

IFAD has developed the model of the Financial Services Association (FSA) as means to promote access to finance for rural communities. This innovative model was first developed by IFAD in 1997 (in Benin) and has been replicated elsewhere in Africa and beyond. Under the model, FSAs are established at community level, and are owned and managed by community members that buy shares in the FSA. In terms of outreach, FSAs operate in 'non-banked' rural communities that would not be viable for many other forms of financial services organizations.

Source: Scouting and Sharing Innovation in Western and Central Africa - Financial Services Association, IFAD: http://fao08.fidafrique.net/Fiche29-IFAD-FSA.pdf

IFAD's interventions to promote access to rural finance are summarised below. Of particular note is IFAD's approach to Finance Interventions in West and Central Africa. Historically, in West and Central Africa, IFAD's portfolio contained mainly integrated rural development projects with agricultural credit components. Experience in this region has led IFAD to change this approach and entrust the rural finance project components to operators or decentralised financial systems, as well as to support the institutional transformation of rural finance partners into formal, decentralized financial systems. The new generation of IFAD projects in West and Central Africa can be classified in two categories: Projects to Support the Emergence or Development of a Decentralized Financial System; and National Microfinance Sector Support Programmes.

Type of models and approaches promoted in IFAD Rural Finance (RF) portfolio

IFAD RF projects are very diverse, and the approaches used vary greatly between regions. The table below presents a brief summary of the types of institutional models reflected in IFAD RF interventions:

Asia ***BCI focus region***

- Pilot programs with state owned rural development banks (RCCS in China)
- Self help group – bank linkage model: India, Nepal, Indonesia
- Grameen replication: the Philippines

Western / Central Africa ***BCI focus region***

- Specialized NGOs as operators
- Financial Services Associations (Benin, Mauritania, Guinea)
- Rural Banks: Ghana

Eastern / Southern Africa

- MFIs: Ethiopia & Kenya
- Savings –Credit organizations of Sacco type: Tanzania, Kenya
- Financial NGOs
- Large programs to link together different types and levels of rural financial institutions

Eastern Europe / CIS

- Savings and Credit Associations: Moldova, Albania
- Commercial Banks (including large state controlled ones): Romania
- Credit Unions: Armenia

North Africa / Middle East

- State-owned Rural Development Banks
- Grass roots organizations (sanduq in Syria)
- Saving and Credit Associations (Lebanon), with refinancing from local commercial banks

Latin America ***BCI focus region***

- Commercial banks: as second-tier institutions of direct lending to targeted groups
- Savings and Credit Cooperatives, Cajas rurales (Central America)
- Civil Associations: Venezuela
- FSA type institutions: Haiti

A key resource developed by IFAD is the series of 'Decision tools for rural finance' (www.ifad.org/ruralfinance/dt/index.htm) specifically designed to support programme and project formulation and monitoring. These are covered in detail under programme design.

FAO

www.fao.org

The FAO Rural Finance Group is dedicated to promoting improvement in rural financial services in developing and transition countries. Details of their work and publications can be found at www.fao.org/ag/AGS/subjects/en/ruralfinance/index.html.

FAO Rural Finance activities

- Support to member governments through normative work and technical assistance
- Building capacity through the Rural Finance Learning Centre
- Financial sector linkages
- Value chain finance
- MicroBanking IT System for financial institutions
- Risk management and insurance
- Inventory credit, leasing, contract farming projects

A wide range of information and resources relating to rural finance can be found in the Rural Finance Learning Centre (RFLC) which is managed by the FAO Rural Finance specialists. The RFLC is the single largest repository of tools, training, good practice and research relating to rural finance around the world.

Following the 1975 World Conference on Agricultural Credit, FAO promoted the establishment of regional agricultural credit associations (RACAs) consisting of financial institutions providing financial services to small farmers and rural people in general.

African Rural and Agricultural Credit Association	AFRACA
Asia Pacific Rural and Agricultural Credit Association	APRACA
Near East - North Africa Regional Agricultural Credit Association	NENARACA
Latin American Association of Development Financing Institutions	ALIDE

In recent years, FAO has worked closely with German development cooperation agency GTZ to develop a clearer understanding of good practice in agricultural finance. Lessons based on the *Agricultural Production Lending Toolkit*[8] published by FAO and GTZ in 2004 (written by Bankakademie) are available here (see also GTZ below).

CGAP (Consultative Group to Assist the Poor)

www.cgap.org

CGAP is a microfinance platform housed at the World Bank, and is in many ways the World Bank's microfinance arm, but operates as an independent entity to the Bank. CGAP's members are bilateral and multilateral development agencies, regional development banks, private foundations, and international financial institutions.

CGAP uses its convening power to 'forge consensus on lessons learned and to develop good practice standards to move the industry forward'. A recent example is the publication by CGAP of 'Good Practice Guidelines for Funders of Microfinance', which provide practical guidance on how to best interact with, and support, the various actors in microfinance. The Guidelines comprise thirty years of lessons learned, translated into operational advice for development agencies, foundations, social and commercial investors, international NGOs, and others that help build financial systems that work for poor people. The Guidelines are based on the 'Key Principles of Microfinance' endorsed by the Group of Eight (G8) in 2004.

Bilateral development agencies

GTZ

www.gtz.de

GTZ has developed considerable experience and expertise in the field of agricultural and rural finance in the past two decades. GTZ products and services and type of interventions focus on:

- Institution building in rural areas
- Policy advice
- Training in rural and agricultural finance (eg joint FAO- GTZ training aids for rural financial institutions, including toolkit on agricultural credit risk management).
- Agricultural bank reform and networks of agricultural financial institutions

8 Available to order from UAGS-Registry@fao.orgU

Importantly, GTZ points out that it shares GTZ shares the widely accepted notion of "credit *and* savings" in rural finance, both for agricultural and non-agricultural production: ie rural finance must be more than just agricultural credit. In order to provide sustainable services, financial institutions in rural areas must mobilize deposits and should provide credit for activities other than agricultural production. Poor people in rural areas in numerous countries have proved their ability to save and, in many cases, that they prefer savings products rather than debt.

GTZ - three most important things to avoid in rural finance:

1. The *Ministry of Agriculture should not be relied upon* only as counterpart for your activities. In many cases central banks are the more appropriate and useful players in rural finance.
2. Designing *isolated credit programs should be avoided*. If possible, do not work exclusively with one financial institution, but open technical assistance towards financial sector development service providers, such as training institutions, credit bureaus, banking associations and apex bodies which have more leverage and are able to provide services to all the relevant rural financial institutions.
3. Pure rural finance programs are not the most effective form – try to *complement financial sector activities with non-financial services.* However, take care that your implementing institutions do not mix both services, since both require different attitudes and business styles. Do not focus exclusively on financial institutions but try to improve the financial management skills of your target group (the clients of financial institutions) as well.

From: GTZ Rural Finance Program, Donor Program Review, Paving the Way Forward for Rural Finance: An International Conference on Best Practices, Washington DC, June 2 – 4, 2003

USAID

www.usaid.gov

USAID is a significant donor funder of various development interventions to promote access to finance for rural communities.

Of particular note is the Rural and Agricultural Finance Initiative (RAFI), a joint effort of USAID's Office of Agriculture and Microenterprise Development office, and offers a variety of resources on the topic of access to finance for farming communities. The website – www.microlinks.org – includes the 'RAFI Notes'. These comprise a series of case studies, technical notes, and practical guides and tools, and training materials on rural and agricultural finance. The resources explore two separate but complementary approaches to rural and agricultural finance. The first approach takes the financial sector as the starting point, emphasising the important role of financial institutions in facilitating access to a broad range of financial services. The second, the value chain approach, takes the production "chain" as the starting point, emphasizing the financing that is supplied within the agricultural value chain (input suppliers, processors, intermediaries and buyers.) The RAF Initiative and the RAFI Notes series propose a complementary approach that builds off of an understanding of the different actors in the value chain, while highlighting the current and potential roles that financial institutions play.

Full USAID training materials ('training for trainers') on Rural and Agricultural Finance are available from www.microlinks.org/usaidraf

Development Finance Institutions

World Bank

http://go.worldbank.org/5QYK61VVU0

In 2007, World Bank published 'Finance for All? Policies and Pitfalls in Expanding Access'. The report takes stock of current knowledge in the area of access to financial services. It presents indicators to measure access to finance, analyzes its determinants, and evaluates its impact on growth, equity and poverty reduction, drawing on research utilizing data both at the firm and household level. It discusses the role of government in advancing financial inclusion and concludes with policy implications and a research agenda for future work.

The Agriculture and Rural Development Department conducts annual reviews of rural finance projects approved in a given year that are either exclusively focused on rural finance or have components or activities directly related to rural finance. However, the majority of rural finance projects are components of larger projects and tend to focus on support for service provision, where credit is the predominant service being provided.

IFC

www.ifc.org

IFC, as the private sector arm of the World Bank, is a key investor in private FIs – including MFIs – which seek to serve under-banked communities. While IFC agriculture sector investments tend to be in larger-scale agribusiness, FI investments include on-lenders which may seek to serve rural farming communities.

As of end 2008, IFC had 7 active Agri-Business Finance Projects worth $8.8 million[9]. IFC is also beginning to develop cost/benefit analysis of its agri-advisory projects, with the following process:

IFC agri-advisory cost/benefit process steps
1. Identify and quantify the project's direct and indirect beneficiaries.
2. Estimate quantity of output produced.
3. Estimate total units of cultivation.
4. Estimate costs of inputs with & without project.

[9] For more information, see: 'Private Sector Development in Agriculture: How does M&E support Smallholder Farmers?' IFC presentation at Uwww.gmfus.org/doc/PrivateSectorDevelopmentinAgricultureHowdoesMEsupportSmallholderFarmersbyCRichards.pptU

5. Estimate prices of outputs with & without project.

6. Estimate number of buyers and their market shares, with & without project.

7. Identify (a) project-relevant factors, and (b) external factors that may affect productivity, costs, prices, and other considerations, with & without project.

8. Collect these data at the baseline (at project-start), and throughout program implementation.

Source: 'Private Sector Development in Agriculture: How does M&E support Smallholder Farmers?' www.gmfus.org/doc/PrivateSectorDevelopmentinAgricultureHowdoesMEsupportSmallholderFarmersbyCRichards.ppt

Moreover, IFC has developed several sustainability-oriented business lines, including the Sustainable Supply Chain credit line housed within the Financial Markets Sustainability program. This is of particular interest in the context of access to finance as a 'tool' to enable small farmers to access higher value 'sustainable commodity' markets (see *Access to Finance and Sustainability Initiatives* below).

The full IFC product range relevant to financing agriculture is summarised below:

Senior Debt
- Term Loans
- Acquisition Financing
- Warehousing Facilities
- Syndicated Loans

Structured Finance
- Partial Credit Guarantees
- Risk Participation Facilities
- Securitization

Mezzanine Finance
- Convertible Debt
- Sub Debt

Straight Equity
- Common Shares
- Preferred Shares

Global Trade Finance
- US$1 B Program
- Bank Guarantees
- 62 Issuing Banks
- 740 Guarantees Issued
- US$ 780 million

Advisory Services
- Agribusiness, Agricultural SMEs & farms
- Agri-Insurance
- Ag Leasing
- Corporate Governance

Sustainable Finance
- Cleaner Production
- Energy Efficiency
- Renewable Energy
- Sustainable Supply Chain

'Access to Finance' (A2F) is the name used as an umbrella for IFC's advisory services work which aims to create a broader, deeper, and more inclusive financial system for the underserved in emerging economies. IFC's A2F advisory services are provided at two levels, namely, building bank and non-bank financial institutions, and improving financial infrastructure such as credit bureaus and payment systems. IFC delivers A2F advisory services mainly through Private Enterprise Partnership (PEP) programs or facilities located in the regions, with about 150 dedicated staff. IFC also coordinates these services with the World Bank to deliver policy advice and joint interventions.

Case study: IFC Promoting Access to Finance for Cotton Farmers in South Tajikistan

After 1991, so-called 'investors' dominated the Tajik cotton market, providing often the sole source of financing to the country's cotton farms. Investors sold and financed inputs such as seeds and fertilizer at high prices, and then purchased the cotton output for low prices. As a result of this unsustainable system of financing, Tajik cotton farms are nearly $420 million in debt, according to recent estimates. With roughly 75% of the rural population employed in the cotton sector, finding solutions to this problem has been a priority for IFC's work to raise living standards in Tajikistan.

Sugd-AgroServ (SAS), a pilot initiative of IFC and the Swiss State Secretariat for Economic Affairs (SECO), was created in 2002 as a farmer-owned cooperative that provides financing, inputs, and marketing services to cotton farmers in the Sugd region of northern Tajikistan. SAS was established with an initial loan of

$250,000 from IFC, a grant of $250,000 from SECO, and $2,000 from the farmers themselves. Having developed the lending methodology in the north, IFC expanded the project to Kurgan-Tyube and other regions of southern Tajikistan in partnership with financial institution, Tojiksodirotbonk (TSB). As of the end of June 2008, the South Tajikistan Cotton Lending Program, supported with funds from the Canadian International Development Agency (CIDA), has helped its partner banks to approve nearly $2.7 million in loans to 138 cotton farms, which have benefited more than 7,800 people – 78% of them women. All 14 loans issued in 2007 have been repaid in full by the farmers.

Source: Access to Finance: Highlights Report 2008, IFC, October 2008
www.ifc.org/ifcext/media.nsf/Content/A2F_Report_Nov08

African Development Bank (AfDB)

www.afdb.org

The African Development Bank focuses its assistance efforts in rural finance on helping rural households and enterprises to mobilize their own savings and on creating sustainable rural financial institutions and apex organizations, which can form the base for a new generation of financial systems.

Provision of AfDB funds to private sector financial institutions and selected viable agricultural development banks is based on objective evaluations of their institutional capacity and long-term financial viability. Lines of credit include development of performance and implementation standards (including ILO labour standards[10]), and identification of areas needing special assistance.

European Bank for Reconstruction and Development (EBRD)

www.ebrd.com

EBRD invests in 29 countries from central Europe to central Asia. It is owned by 61 countries and two intergovernmental institutions. But despite its public sector shareholders, it invests mainly in private enterprises, usually together with commercial partners. Through local banks, the EBRD mobilises funding for projects that are too small for it handle directly. A variety of financing instruments are used, from supporting SME orientated banks with equity investments to providing financing through SME and micro credit focused programmes. In addition to working with existing banks, the EBRD helps establish microfinance banks and non-bank micro finance institutions. To maximise the leverage of its funding, the Bank also provides technical assistance which focuses on institution building.

[10] See AfDB Agriculture Policy p.29 (Uwww.aec.msu.edu/fs2/africanhunger/agripolicy.pdfU): "Bank lending will be guided by the ILO Declaration on Labor Standards, which are also endorsed by the OAU Labor and Social Affairs Commission. The main elements include: freedom of association and collective bargaining, elimination of forced or compulsory labor, abolition of child labor and the elimination of discrimination in employment. Small holder agriculture contributes close to 90 percent of agriculture output and relies heavily on household labor, which is a critical input for its survival. With such systems, the risk of abuse of child labor is relatively minimal compared to large-scale commercial agriculture. The Bank would, therefore, pay particular attention to this issue when appraising large-scale agro-industrial projects of commercial nature."

The EBRD Technical Cooperation Funds Programme provides funding to improve the preparation and implementation of the EBRD's investment projects and to provide advisory services to clients. It is funded by governments and international institutions and managed by the EBRD. Each year the programme provides about €80 million to finance a wide range of activities of consultants and other experts.

The agribusiness team works in close co-operation with FAO via a joint Fund for Special Assistance. The fund can finance consultants for anything from a sub-sector study to hands-on consultancy for a specific project (eg Tajik cotton).

Asian Development Bank (ADB)

www.adb.org

Microfinance (urban and rural) plays a significant role in ADB's overarching goal to reduce poverty in Asia. In 2000, ADB established a Microfinance Development Strategy, which aims to ensure permanent access to institutional financial services for the region's poor people and their small businesses.

ADB case study: Microfinance for Farmworker Poverty Reduction (formerly Increasing Sustainable Incomes for Women Cotton Farm Workers)
Location: Tajikistan, cotton growing areas
Sector: Finance /Microfinance
Total funding: US$ 2,000,000.00
Description: Grants will be provided to up to four registered microfinance organizations for issuance of microloans of up to 10,000 poor clients in the project area. Funds will be provided to the microfinance organizations based on a competitive process to finance loans only, with bids evaluated on the basis of (i) organization legal status, financial/management soundness, and capacity to deliver services; (ii) innovation and realism of products and services to be offered in target areas (where cotton is grown and poverty is most severe), particularly to farmworker households in cotton growing areas; (iii) financial projections of this expansion and its effects on the proposing MFI; (iv) system for monitoring client household poverty reduction due to participation; and (v) proposed exit strategy. Microloans of a maximum of $1,500 and an expected average of $190 will be provided to participating clients on a demand basis. Target clients are farmworkers in cotton growing areas who are living at or below the poverty line. Funds once repaid will be used to provide either repeat loans to existing area clients or loans to new clients in the area. A consultancy will be provided for MFI selection and confirmation of this arrangement with both MFIs and the Government, with another consultancy provided to facilitate M&E for the contracted MFIs.
Objectives and Scope: To reduce poverty by increasing sustainable incomes of poor farmworker households in the cotton-production raions of Tajikistan. The objective will be achieved by increasing household access to microfinance services to expand and deepen income generation options.
Benefits and Beneficiaries: Farmworkers in cotton-growing areas: access microfinance and related training services on a demand basis. Selected microfinance institutions: provide microloans and new products, and possibly savings and other services to eligible clients. Receive access to additional funding for loan portfolio expansion, enhancement of revenue base. Rural women in project areas: receive access to microfinance, opportunities to work with other women to improve household conditions and improve levels of confidence.
Reference: www.adb.org/Documents/Profiles/GRNT/38603022.ASP

Key research centres

Ohio State University Rural Finance Program (RFP)

http://aede.osu.edu/Programs/RuralFinance/

The OSU RFP program is a recognised world leader in the analysis of rural financial markets and other finance and development questions, particularly those concerning the design and implementation of financial reform programs, the establishment of prudential regulation and supervision frameworks, and the provision of financial services to difficult clienteles (small farmers, rural and urban microenterprises, the poor, women) in developing countries.

The RFP program implemented the global Financial Resources Management (FIRM) Project, in cooperation with USAID. OSU has also implemented a series of sub-sector case studies on the financing of agribusinesses.

Boulder Institute of Microfinance

http://bouldermicrofinance.org

The Boulder Institute of Microfinance is a non-profit organisation founded in 2004, to 'create a platform for dialogue and critical thinking in microfinance'. In 2008, Boulder organised the Boulder-Bergamo Forum on Access to Financial Services: Expanding the Rural Frontier: www.bouldermicrofinance.org/bergamo/index.htm

Boulder-Bergamo Rural Finance Forum: 'Developing the Model' Working Group
Propositions
• Important to distinguish between production needs and other needs by the households.
• Rural sector is not only agricultural.
• Traditional farmers are now taking on new activities other than just cultivating their fields. Therefore should we change the way we think about agricultural finance to include new activities conducted and production processes in which the household is involved.
• Agricultural credit should also address the needs of the rural household beyond the needs for farming. Agricultural production is only one of the needs of the typical rural household. We need to understand the large framework under which the household operates, and include services to address this in the package
www.bouldermicrofinance.org/bergamowiki/index.php?title=Developing_the_Model_Working_Group

FARM

www.fondation-farm.org

Access to finance for rural communities has been identified by FARM and its founders (private and public sector) as one of the priorities of the Foundation, which also has a strong focus on cotton. This includes micro-credit but also more generally access to agricultural financing in all its forms. FARM is undertaking research in order to produce innovative propositions for the conception, improvement and expansion of agricultural financing in the developing world. This involves disseminating the results of successful projects, identifying projects worthy of support, propose methods for starting new projects, professionalising the structures that exist already, and defining the role of FARM and other donors in these projects.

Main issues for FARM research on access to rural finance:

- What are the financial instruments needed by agricultural activity? Seasonal credit, farm equipment, risk coverage? Which ones are proven to work? What remains to be invented?
- What is the outlook for micro-credit growth? How does a producer become more professional and gain access to conventional banking systems?
- How can rural credit projects be launched or re-launched in developing countries and what form should they take? Micro-credit, agricultural financing, cooperatives? What are the conditions that make for lasting structures?
- How can agricultural credit systems manage public external funding? For what activities and with what guarantees? What returns should be expected on loaned funds? What sort of guarantees and controls should be associated with grants? How is risk addressed?
- What are the priority projects for FARM participation and by what criteria should projects be selected? What forms should priority projects take?
- What studies should FARM undertake in order to formalise and disseminate its methods and to integrate credit with funding in a systematic approach to supporting agricultural and related activity?

FARM research study will result in:

- lessons learned from current micro-finance experience by comparing results and by identifying socio-cultural factors that add to or detract from a project's chance of success;
- a series of actions and recommendations aimed at a more effective accompaniment of agricultural credit institutions, including ensuring their financial and legal sustainability while helping them adopt effective governance procedures for continued growth and advancement;
- clear ideas about the means by which micro-insurance can be incorporated into rural credit systems;
- uses for new information and communication technologies.

Reference: www.fondation-farm.org/spip.php?article370

In December 2007, FARM and the Institut de la Gestion Publique et du Développement Economique (IGPDE) organised a conference in Paris entitled *« Quelle microfinance pour l'agriculture des pays en développement ? »*.

CERISE (Comité d'échanges, de réflexion et d'information sur les systèmes d'épargne-crédit)

www.cerise-microfinance.org

CERISE is made up of French organisations that specialise in studying, setting up and supporting microfinance institutions in the South.

- CIDR, Autrêches –International Centre for Development and Research
- CIRAD, Montpellier –Centre for International Co-operation in Agronomic Research for Development
- GRET, Paris –Group for Research and Technical Exchange
- IRAM, Paris –Institute for Research and the Application of Development Methods

- IRC, Montpellier – (formerly CNEARC) Institute for Tropical and Subtropical Agriculture

CERISE is working with CIRAD to examine how microfinance can provide a sustainable response to the volume and specificity of needs for finance in the family agriculture sector. At the same time, CERISE 'recognises that fair trade allows certain agricultural sectors which are orientated towards the export market to develop and generates a higher stable income for some producers'. CERISE is therefore working with Agrofine/Max Havelaar France to develop innovative relationships between importers, farmers' organisations, MFIs and brands to provide sustainable finance for agriculture and increase the role of fair trade in local development.

CERISE has also collaborated with FARM to produce an operational guide in 2008: « Organisations professionnelles agricoles et institutions financières rurales : construire une nouvelle alliance au service de l'agriculture familial »

III. Good practice in global agricultural finance

A. Agricultural microfinance

Microfinance is the provision of sustainable financial services to low-income people. Sustainable means that those services can be accessed over the long-term, when and if people need them.

Microfinance is often subsumed to 'micro-credit', its most widely recognised aspect. While credit is important, it is by no means the sole service provided by micro-finance institutions (MFIs), and it may not respond to the primary financial needs of intended beneficiaries (see below).

Potential microfinance services				
Credit	**Savings**	**Insurance**	**Payment Services**	**Leasing**
• Income generation • Housing • Education • Daily needs, emergencies	• General purpose • Specific purpose • Current savings • Term savings	• Loan insurance • Life insurance • Health / disability insurance • Crop insurance	• Payment services (inside country) • Remittances (between countries)	• Financial lease • Operational lease • Hire-purchase

The microfinance sector currently serves some 100 million people around the world, but it is still vastly more concentrated in urban areas (India is a considerable exception to the rule).

Where there are significant levels of activity in rural areas, micro-finance is rarely used to fund investments in agriculture, particularly through producer organisations. Most micro-finance in these areas is directed into rural micro-enterprises, commerce and food processing rather than agricultural activities, which carry higher risks and require the kind of medium- and long-term investment that micro-finance cannot always provide, given the short-term nature of most of its resources. Furthermore, producer organisations are often seen as unreliable entities with poor credit background and questionable internal management.

i. Appropriate micro-financial products for cotton farming communities

As observed throughout this study, while much has been made of the credit aspects of microfinance and rural finance (and 2005 was indeed International Year of Micro-*Credit*), there is large and growing consensus that lending services are not necessarily those which respond best to the priority financial needs of rural communities, nor those which provide the most sustainable footing for financial service provision.

Moreover, many of the financial needs of farming communities may not related directly to their agricultural activities. Indeed, in some cases – such as West African cotton – crop finance (in the form of input pre-finance) may be the only source of available credit, and credit and resources derived from input pre-finance may be diverted to more pressing, non-commercial ends.

Vitally, the thrust of much research – encapsulated by Pearce (2005) [11] – is that the problem of access to agricultural finance is not only a supply-side challenge (in terms of extending the provision of financial services) but also, primarily, one of reducing risks and operating costs to make rural clients more attractive to financial intermediaries. This is an important insight for BCI, as this is in line with what the BCI and the Production Principles set out to do, by promoting more effective, sounder farming practices.

For instance, Pearce (2005) notes the value of exploring the feasibility of financial products that combine input credit with weather-indexed insurance and produce marketing using warehouse receipt systems (as suggested by Bryla, 2003)[12]; this is being piloted on a very small scale in Zambia with funding from DFID and the World Bank.

A World Bank pilot project in India (Hess, et. al., 2003)[13] is another example of a risk reduction strategy. This demonstrates the potential of micro-insurance to help rural borrowers leverage agricultural finance, through reducing the risk of default arising from adverse weather. As Pearce notes, it is uncertain, however, whether this scheme can be replicated in Africa.

Weather-index based insurance for agriculture

Weather-indexed risk management products represent an innovative alternative to the traditional crop insurance programmes for smallholder farmers in developing countries. Insurance pays out directly to farmers (India, Ukraine) or to Governments and/or humanitarian agencies that in turn support the affected farmers (Ethiopia, Malawi). Payments are linked to a weather proxy for crop losses like rainfall deficit, eliminating the need for monitoring actual losses.

References: J. Syroka and E. Bryla (2007), "Developing index-based insurance for agriculture in developing countries", Innovation Briefs, No. 4, March, www.un.org/esa/sustdev/publications/innovationbriefs/no2.pdf

Similarly, successful pilot initiatives have promoted widely accessible and sustainable warehouse receipt systems that allow agricultural inventories to be used as collateral. Major implementation challenges (eg a disabling policy environment) have made it difficult to address the problem of lack of collateral. Systems like this one not only

[11] Making rural finance count for the poor, Doug Pearce, DFID 2005, Uhttp://dfid-agriculture-consultation.nri.org/summaries/wp3.pdfU

[12] Bryla, E. (2003). The use of price and weather risk management instruments. Paper presented at Broadening Access and Strengthening Input market Systems - Collaborative Research Support programme (BASIS–CRSP) Conference on Paving the Way Forward for Rural Finance, 2–4 June 2003, Washington DC, USA.

[13] Hess, U., K. Richter and A. Stoppa (2002). Innovative financial services for rural India: monsoon indexed lending and insurance for smallholders. Agricultural and Rural Development Working Paper 9. The World Bank: Washington DC, USA.

address this problem but also help improve produce marketing, thereby providing an increased and more predictable household income, which, in turn, makes rural borrowers a better credit risk. Such interventions are often not regarded as essential when promoting financial sector development and tend to be marginalised by policymakers and donors when designing financial sector policies and programmes.

Warehouse receipting: overview

Warehouse Receipts Systems bring together:

- Producers and traders who deposit commodities in warehouses
- Warehouses that provide secure storage and issue receipts to depositors certifying possession of the commodity
- Lenders who accept the receipts as collateral for loans
- Inspection services that certify the fact that warehouses meet basic standards
- Insurance providers that insure deposits against losses

Research in Zambia suggests that access to a combination of trader credit and higher prices earned through a warehouse receipts system can make the difference between fertiliser use being profitable and unprofitable for smallholders (Onumah, 2003)[14].

ii. MFI governance

The idea that one organisational model is particularly well-adapted to financing agriculture does not hold up in reality. Institutional structure does not appear to be a determining factor of financial access. For instance, the 2007 FARM conference discussions identified a variety of models that have proved successful in financing agriculture: Self-Help Groups, Development Banks (such as NABARD in India), Cooperative (mutualist)-type MFIs or MFIs funded with private capital.

While no one MFI model is better suited to agricultural lending than any other, it is clear that systems that foster feelings of 'ownership' among their members (such as credit unions (CUs), cooperatives and village banks) enjoy a higher success rate than others, and contribute most strongly to agricultural financing. This derives from closeness to their members.

A number of credit unions and cooperatives were created by farming populations in order to meet their financing needs (eg Federation of Agricultural Savings and Credit Unions in Benin; Kafo Jiginew in Mali), and the decentralised loan disbursement and monitoring procedures make it possible to know borrowers well and treat applications individually. However, such MFIs, especially when they are small and very local, remain highly vulnerable to covariant risks. Conversely, entrepreneurial MFIs are less present in the agricultural field.

[14] Onumah, G. (2002). Facilitating Smallholder Access to Warehouse Receipt System in Zambia: Review of Options Report Prepared for the Zambian Agricultural Commodity Agency Ltd. NRI, UK Uwww.nri.org/projects/wrs/zambia-smallholder-wr-model.docU

IFAD & CGAP: Emerging lessons in agricultural microfinance

In 2005, with IFAD funding, CGAP identified a shortlist of institutions actively engaged in agricultural finance that showed the potential to achieve scale and sustainability. These were published as 'Emerging lessons in agricultural microfinance: Selected case studies': www.ifad.org/ruralfinance/pub/case_studies.pdf The principal lessons identified in the cases are:

For microfinance providers:

- A diversified portfolio that complements agricultural loans with other loan products, such as business and mortgage loans, can better serve the needs of borrowers, while simultaneously reducing institutional risk and improving operating margins. A rural portfolio provides an opportunity for market expansion and can help offset losses in an urban portfolio during an economic recession.
- Adapting practices that have proven effective in traditional agricultural finance, such as incorporating crop-income-cycle models into loan analysis and tailoring repayment schedules to household income flows, can assist MFIs to expand into agricultural lending.
- Flexible, high-quality technical assistance can help financial institutions successfully adapt their product offerings to rural client needs and market opportunities.
- Lenders should not assume that a loan product intended for agriculture will necessarily be used for agriculture and should take into account all household income sources and expenditures in loan analysis, not only those related to agriculture.
- There is substantial demand for savings by rural households, provided that savers are offered the right combination of security, convenience liquidity and positive return. Access to deposit services is important for agriculture-dependent poor people, as these services help smooth seasonal agricultural cycles and meet large or unexpected expenditures.
- The high cost of reaching rural clients and operating in remote areas remains an obstacle. Strategies to overcome this obstacle include the use of technology, lending groups or associations, and flexible delivery mechanisms. It is frequently necessary to invest in product design and an underlying management information system, which underpin the performance and utility of technology, before developing more sophisticated technological solutions (such as personal digital assistants, mobile phone banking, or automated teller machines).
- Farmer groups and associations can reduce client analysis and selection costs for lenders, as well as enhance the access of farmer clients to agricultural inputs and markets. Bringing small farmers together in well-organized farmer associations or locally run village banks can make them more attractive and cost-effective borrowers, leading to the greater availability of rural credit from financial institutions and agribusinesses.
- Financial institutions can be profitable even when half of their loan portfolios are in agricultural activities.
- Interest rates to end-clients should not be subsidised, nor should donors try to force institutions to focus exclusively on agricultural lending.

For donors:

- Long-term donor commitment (greater than five years) in the form of technical assistance and financial investment has been a crucial ingredient of success for many of these institutions.
- Flexible, high-quality technical assistance can help financial institutions successfully adapt their loan and savings products to rural client needs and market opportunities.
- Donors need to avoid taking actions that would distort the market, particularly when working to improve supply chains. Instead, they should focus on building the capacity of local players to work with and influence change within the system.
- An independent technical service unit can provide ongoing fee-based financial monitoring and assistance to community finance models and should be created early to avoid dependence on an expensive external NGO or technical partner.
- A decentralized structure with largely autonomous, locally managed operations can provide sustainable financial services in rural areas. However, the cost and effort to establish such a structure can be significant, and rigorous preliminary cost-benefit analysis is advisable to ensure that the resulting outreach justifies the required investment.

iii. Innovations in agricultural microfinance

"In general, agricultural finance can be developed by MFIs on a larger scale only if farming itself becomes a more profitable and less risky economic activity."

IFAD Decision Tools for Rural Finance

The early successes in microfinance were almost all *outside* the sphere of agriculture. However, the microfinance sector, motivated in part by the broader trend towards financial inclusion, *is* changing. New actors are emerging alongside the 'traditional' ones (NGOs, governments, development banks, producer organisations). In addition to commercial banks, there is increasing involvement of specialised microfinance funds, international guarantee funds, agro-food industries, as well as other agricultural value chain stakeholders.

Innovations in agricultural microfinance: Linking formal finance institutions to informal organisations

- In India, a partnership between ICICI Bank, the country's second largest commercial bank, and a leading microfinance institution has been successful in linking the formal financial sector with poor microfinance clients. The approach is based on having microfinance institutions bear the responsibility of monitoring and recovering loans from individuals and self-help groups, while the commercial bank supplies credit and shares the risk.
- In Rwanda, CARE is helping mobilize the rural poor into village savings and credit associations and linking them to the existing network of credit unions in the country.

References: Aeschliman, F. Murekezi and J.-P. Ndoshoboye (2007), "Extending the outreach of Rwandan Peoples' Banks to the rural poor through village savings and credit associations", case study prepared for the Food and Agriculture Organisation of the United Nations (FAO) and M. Harper (2005), "ICICI Bank and microfinance in India", case study prepared for the Food and Agriculture Organisation of the United Nations (FAO)

Certain innovations in securing agricultural loans seem particularly promising, including agricultural warrants, loan delegation, jointly managed guarantee funds and mutual guarantee associations. These security mechanisms make use of new types of contracts between the various partners in agricultural activities: producers, farmer organisations, processors, traders.

Overall, as suggested below, most new partnerships revolve more around *innovative processes than innovative products*.

Current trends in partnership to promote access to agricultural finance

1. *Financial services: funding, guarantees and dissemination*

- Whether a producer organization or MFI, guarantees are necessary to access financial markets.
- FOGAL (*Fonds de Garanties pour l'Amérique Latine*) was created precisely to meet this need. Created with support from the Belgian cooperation agency and European Commission, the fund is invested in a European bank and guarantees loans taken by actors in Bolivia, Equator and Peru.

2. *Non-financial services: technical assistance, information*

- The effectiveness of financial services partly depends on the non-financial services offered to improve agricultural production.
- One successful way to better support rural and agricultural populations is to create alliances with other actors (NGOs, governmental entities, producer organizations, etc.) to set up complementary services like training and technical assistance (TA). Training possibilities are endless, ranging from management or financial advisory services to farmers to capacity building for elected representatives of MFIs.
- The agricultural package model of DECSI (Debit Credit and Savings Institution) in Ethiopia is an example of an institution offering TA, market information and producer networking services along with its financial services.

3. *Market access: processing and distribution channels*

- In recent years, linkages between the microfinance and agro-industrial sectors have become increasingly common, in order to consolidate the comparative advantages of each and encourage exchange.
- Several initiatives aiming to strengthen interaction between these two sectors are underway. The objective is to build long-term relationships and reduce risk for the different actors: producers, borrowers, buyers and processors.
- There are recent examples of value chain actors playing the limited role of "virtual guarantor", in which case a producer's mere association with a large buyer or processor, for instance, serves as a sign of creditworthiness in the eyes of financial institutions. The value chain actor may also be directly involved in financial transactions, providing producers credit services, a more traditional approach.

Reference: FARM Conference Workshop 2: Comment répondre aux besoins financiers de l'agriculture : produits et procédures innovants ?

Some services developed to meet agricultural finance needs have been successfully provided by MFIs. However, they are usually focused on specific activities that bring strong added value to producers, and are being used in contexts where the predictability of incomes derived from such agricultural activities is quite high (cash crops in irrigated areas).

For example, post-harvest credit provided by credit union (CU) networks in Madagascar has helped producers to almost double the value of their crop by enabling them to store it for sale three to four months after the harvest season.[15]

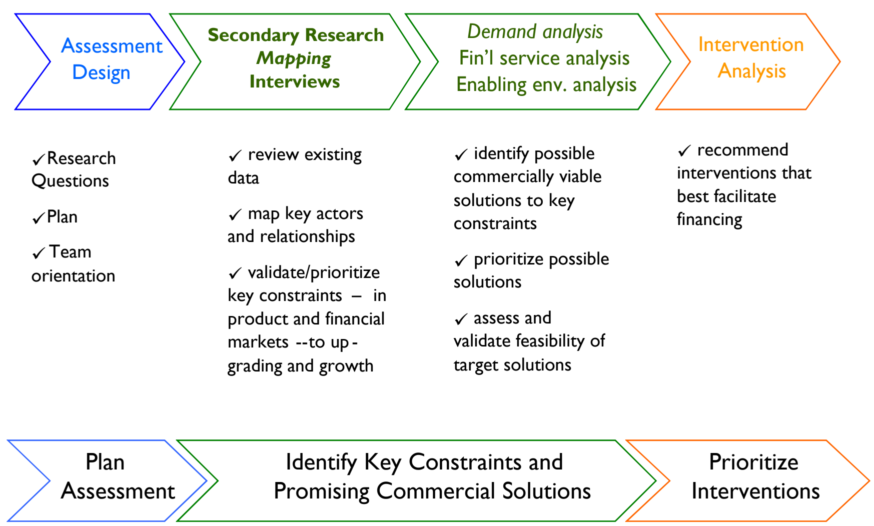
[15] IFAD Decision Tools for Rural Finance, Appendix 3: Financing medium-term investment: lessons learned from CECAM (Madagascar) and ANED (Bolivia) leasing, Source: Work by CIRAD–(Cerise) Thematic Action Programme (TAP) and Dakar seminar Uwww.ifad.org/ruralfinance/dt/full/ap3.htmU

B. Needs assessment

i. Market assessment

USAID (RAF) has developed practical guidance on undertaking initial, participatory needs assessment for rural/agricultural finance interventions. Based on the objectives and emphasis of the needs assessment, one (or both) of two frameworks can be used to assess the need for and availability of rural and agricultural finance: the value chain lens, and the financial sector lens. (In practice, these are not exclusive.) In terms of cotton cultivation, the most useful of these approaches is the 'value chain lens'.

USAID: Framing a Rural & Agricultural Finance Market Assessment – the Value Chain Lens



Source: USAID Training Materials Module 3: From Market Assessment to Project Design

ii. Programme design

A key resource as regards design of rural finance interventions is the IFAD 'Decision tools for rural finance'. The Decision Tools translate the IFAD Rural Finance Policy into concrete operational recommendations. The manual has been specifically designed to support programme and project formulation and monitoring. It is intended to be a useful reference tool for professionals seeking advice on technical operational issues related to rural finance.

The USAID RAF guidance on needs assessment also includes practical steps on programme design, commencing with a matrix to identify the key constraints and promising solutions, on the basis of secondary research, mapping, and interviews, demand, supply, and enabling environment analyses. An illustration of the matrix is presented below.

Actors	Constraint	Potential Solution
Input Supply	Need for higher-quality seed grown by smallholders, and provision of inputs on credit to producers	Increased inventory financing
Small-holder Production	Need for outgrower schemes through producer associations, and contract farming with technical assistance	Ease association registration and access to inputs
Commercial Production	Need for production of higher-value products	More access to credit for expansion of production
Processing	Need for processing of higher-value products, and oilcake processing	Access to equipment financing, leasing, and trade financing
Financial Institutions	Disincentives for banks to lend	Liberalize T-bill market, pilot product for lending, design effective training
Enabling Environment	Registration of associations very difficult, Weak judicial system undermines value of collateral	Revise requirements, brokers link small-holders to key services, legal/judicial reform
Source: USAID Training Materials Module 3: From Market Assessment to Project Design		

C. Value chain finance

As noted above, other value actors are vitally important in financing cotton cultivation. While the power relations between farmers and value chain actors may give rise to – and perpetuate – inequities in access to finance and to markets, more innovative forms of value chain finance are being actively promoted as a means of improving access to markets, knowledge and finance for farming communities.

Agribusinesses play an important role in providing input credit and financing commodity trade in rural areas, but their operations tend to be hampered by unfavourable market conditions. These are sometimes attributable to government interventions and weak contract enforcement, especially when side-selling (where a farmer sells produce to a buyer other than the provider of input credit with whom s/he has a sales agreement) is widespread.

Potential benefits of trader credit and outgrower schemes as sources of finance		
Benefits	*Trader credit*	*Outgrower schemes*
Cost Effective Screening of willingness and ability to pay	Though personal relationships	Through contractual relationships
Expanded Collateral	Future product	Future product/contract
Appropriate Terms/Conditions	Timing tied to product transactions; in-cash and in-kind	
Increased Yields	Via increased inputs	Via increased inputs; technical & marketing assistance
Lower Costs	Through the bulk purchases of Inputs	
Higher Product Prices	-	Increased quality/ bulk sales of high-value products

Standards and Efficient Sales	-	Through agreements
Market Access	Informal	Formal
Potential limitations of trader credit and outgrower schemes as sources of finance		
Limitations	*Trader credit*	*Outgrower schemes*
Larger Producer Bias	Preference for larger volume producers due to economies of scale required for many high-value crops	
Expanded Outreach	Reliance on personal contacts; relationships takes time	Limited to high-value producers
Monopoly/Unfair Pricing	Traders have bargaining power over producers (may be checked by trader competition)	Captive relationship, checked
Side-Selling	Frequent, creating high default risk	Less options for side-selling; closer monitoring
Enabling Environment	-	Enforceable contracts
Source: USAID RAF Rural Agricultural Finance Specialty Topic Series		

Trader credit, contract farming & outgrower schemes

Trader credit involves short-term or seasonal loans between buyers and sellers of inputs or products. It is typically provided in value chains involved with commodities, such as cotton. Relationships between the buyers and sellers are often more temporary and more price-driven than in the case of outgrower schemes (also known as 'contract farming').

Under ***outgrower schemes***, loans are tied to purchase agreements. Sellers are in a more formal or captive relationship with the buyer, who in turn commits to providing additional services, such as marketing and technical assistance. This increased level of commitment is more appropriate for buyers and sellers of high-value, specialty products.

Case study: Supply chain financing – Clark Cotton, Zambia

Cotton in Zambia is structured around the operations of two very strong commercial intermediaries, Dunavant and Clark Cotton, which perform all of the important integrated services of traders in the physical chain: transportation, handling and storage, processing, sales and marketing. Both companies also provide high-quality inputs to supplier farmers on credit.

Innovation: Integrating finance of inputs into supply chain activities is rare in the developing world because of the lack of strong commercial intermediaries with a focus on the physical trade and optimizing financing, production, quality, logistics, storage, processing, and risk management functions in between. Successful commercial intermediaries with integrated supply chain management recognize that a profit-making opportunity exists in continuously working to lower cost, increase efficiency, and optimize these value-added activities together in the middle of the chain. Cotton Clark finances growers through a structured loan package that provides inputs on credit. The growers participating in the scheme have no assets and cannot use land as collateral because it is communal and held in a trust by a chief. There are two main requirements for participation in the scheme: a grower must have a ½ hectare of land as a minimum and be 18 years of age. The input loan package includes:

- Planting seed, which is disbursed at the beginning of the season
- Insecticide, which is disbursed after verification by field staff that the seed has been planted
- Fertilizer, which is provided at same time as insecticide
- Plastic knapsack sprayer for application of the pesticide for farmers with 1 hectare, or those

organized into small groups.

The total value of the package without sprayer is approximately 250,000 Zk per hectare, or US$.088 per kilogram With a sprayer, the package value is 520,000 Zk per hectare, or US$0.18 per kilogram. The inputs are high-quality, standardized products that would not be available to the farmer without such a program. The input package also includes provision of wool bags for storing the cotton. After harvest, physical farmers move the cotton by hired oxcart to various buying points (there are 1,440 of them in the cotton growing areas) and the farmers receive payments at that time. The final payment received by the farmers at time of delivery subtracts the costs of the input package received. In prior years, the input loan included cash to pay for labour, but that practice was disbanded because the cash was frequently used for non-productive purposes.

Contract enforcement: In this arrangement there is a contract between the grower and Cotton Clark, but because contracts are not generally well respected or enforceable, the system relies on trust and strong commercial incentives on both sides to honour the business relationship. Participating growers receive an identity card that establishes an account number and the transaction is carefully tracked through a complex, paper-based monitoring system at the company's main office in Chipata. In order to make sure that the inputs are used most effectively and ensure that Cotton Clark receives the quality of production expected by the investment, Cotton Clark makes training an essential component of this program. Growers are provided with training at the beginning of the season, and supported throughout the season by a strong network of Clark field staff that includes 120 permanent workers and others performing functions in the field and at buying stations. Training covers issues such as proper application of pesticide in addition to care and maintenance of sprayers.

Performance: One of the best indicators of the success of this program is the strength of the relationship that has developed between Cotton Clark and its growers. The company organizes performance-based incentive programs, growers are loyal to the company, and there are strong indications of a sense of mutual cooperation between the company and its suppliers. Cotton Clark started operating in 1996 after divestment of the parastatal Lint Company of Zambia. At that time, annual sales volumes were 8,000 - 14,000 metric tons, but they have now risen to 42,000 metric tons. Yields have increased from 600 kilograms per hectare to an average of 1,200 kilograms per hectare, sometimes reaching 2,400 kilograms per hectare. The target for repayment of loans is 7.5 percent, but actual rates have been 94 percent in 2000, 95.35 percent in 2001, 95.5 percent in 2002, and 97.02 percent in 2003. In 2003, Clark provided inputs for 62,334 farmers, of which one was 354 kilometers away from the gin.

Sustainability and Replicability: The key to the successful growth and sustainability of this program over the years has been a strong relationship between growers and the company. Other keys to success for Clark Cotton are: Investing in careful identification of the borrowers; Creating a system that monitors financial accounts for each of the 623,000 growers; Strict controls on the quality and variety of seed; Education on the whys and hows of proper pesticide application. There are two main challenges to the sustainability of the program. First, in 1999 - 2000, similar programs throughout Zambia ran into trouble when world market prices were falling. Because the input schemes do not involve any mechanism for shielding price risk from the producer, they will be tested during periods when world market prices are low. The second main challenge to the program is a typical free rider issue that results when short-term opportunistic traders enter the market. When these free agents buy cotton independently without being involved in the other activities of the supply chain (ie input provision, logistics, and ginning), it undermines the sustainability of Clark's model. If Clark cannot obtain sufficient volumes of physical cotton for the investment in inputs, the company runs the risk of incurring significant losses. Currently, the tension between wanting to encourage competition while at the same time protecting the existing input credit programs from pirate buyers is a major challenge for the sector. The business model used by Clark is replicable for other successful physical traders and processors who see a value in downward integration that allows them to optimize a wider range of commercial intermediary functions. Financing, when it can be done with minimal risk, is an important enhancement to more traditional trading and manufacturing roles. There is rarely a one-sized fits all model for this kind of integration in the supply chain, but ginners are in a position to tailor solutions to fit the unique characteristics of the market in which they operate.

Rerference: Rural Finance Innovations: Topics and Case Studies April 2005, World Bank

D. Impact assessment

From the early stages of microfinance development, donors have stressed the need to understand what the impact of microfinance is on the designated client base. In the same way, if BCI is seeking to promote equitable access to responsible finance, BCI will need to develop tools to establish the extent to which this goal has been met.

Over time, several approaches to impact analysis have been tried. Based on lessons learned from earlier experiences, impact assessments today increasingly seek to identify how MFIs/RFIs can serve their clients better. In addition to providing knowledge, impact assessments – in their various forms – are becoming tools to steer the policies and innovations (on new products and outreach mechanisms, for example) of microfinance institutions (MFIs)

Recently, several new impact methodologies have emerged. These models include:

1. Consultative Group to Assist the Poorest (CGAP) client poverty assessment tool
2. Microcredit Summit's poverty measurement tool kit
3. Microsave's participatory rapid appraisal
4. United States Agency for International Development's (USAID) assessment tool and AIMS tool
5. the Institute for Research and Implementation of Development Methods/Centre for International Studies and Research impact analysis model

All of these methodologies and models are discussed in more detail in the IFAD 'Decision Tools'. They are summarised in Annex 1.

E. Access to finance and sustainability initiatives

Perhaps the most relevant experience for BCI to assess – in seeking to promote access to finance in the context of moving toward the more sustainable production of an agricultural commodity – is that of other 'sustainability initiatives'. While the shift from 'code-imposition' to 'capacity building' in this sphere is still in its relative infancy, there are some useful examples to bring to bear, not least where access to finance has proven a useful tool in promoting goals seemingly unrelated to the financial sphere – be it Decent Work, IPM or biodiversity.

In this way, promoting access to finance can be seen as part of 'sustainability toolkit', and a vital partner to achieving change – by allowing *investment in change* – in smallholder agriculture. Moreover, as noted above, BCI should recognise that the relationship between sustainable finance and sustainable agriculture works both ways: by working with farming communities to promote sounder, more effective farming practices and build stronger ties to global markets, BCI can work to shape an agriculture which is a lower risk, higher value investment from the financial perspective.

It is also worth noting that the close links between rural finance providers – who may provide ancillary business development services – and farming communities potentially represents an interface for BCI to explore further with regard to oversight and impact management / assessment. Indeed, some of the environmental and Decent Work examples given below point to a role for rural finance providers – in using their lending relationships – actively to promote more sustainable farming practices.

An interesting example of an organisation working to provide small-scale capital to poor farmers in order to assist them to access higher value 'sustainable commodity' markets is Root Capital. Root Capital lends to small grassroots businesses that are locked out of the local banking system – ie too small and risky for mainstream banks and too large for microfinance – and have few alternatives for affordable credit. Root Capital provides financing for both short-term working capital loans and longer-term investments. Moreover, Root Capital seeks to make links between loan clients and higher value markets – such as Fairtrade and organic. Root Capital has commenced primarily in the coffee and cocoa sectors and does not currently have any cotton farming clients.

Root Capital: moving beyond traditional approaches to collateral

For many of its loans, Root Capital uses future sales contracts from buyers like Green Mountain Coffee Roasters, Marks & Spencer, Starbucks, and Whole Foods as a form of collateral. When natural products are shipped, the buyer pays Root Capital directly for interest and principal payments. Because of this factoring model, Root Capital can be confident that a loan will be repaid (indeed, Root Capital claim a repayment rate of over 99%).

Reference: www.rootcapital.org/what_our_approach.php

Another relevant effort to link agricultural lending to sustainable commdity production is the Sustainable Supply Chain product within IFC Financial Markets Sustainability programme. This new product entails IFC lending to a financial intermediary whose recipients are involved in primary production (eg farmers). IFC works with the local financial institutions to offer financing packages designed to improve supplier business performance and credit risk, while generating attractive portfolio returns from an untapped market. With the finance made available, farmers can invest in sustainable change and thereby develop access to markets increasingly focused on sustainability. This credit line currently focuses on Commercial Lending to Protect Biodiversity and Commercial Lending to Improve Commodity Production.

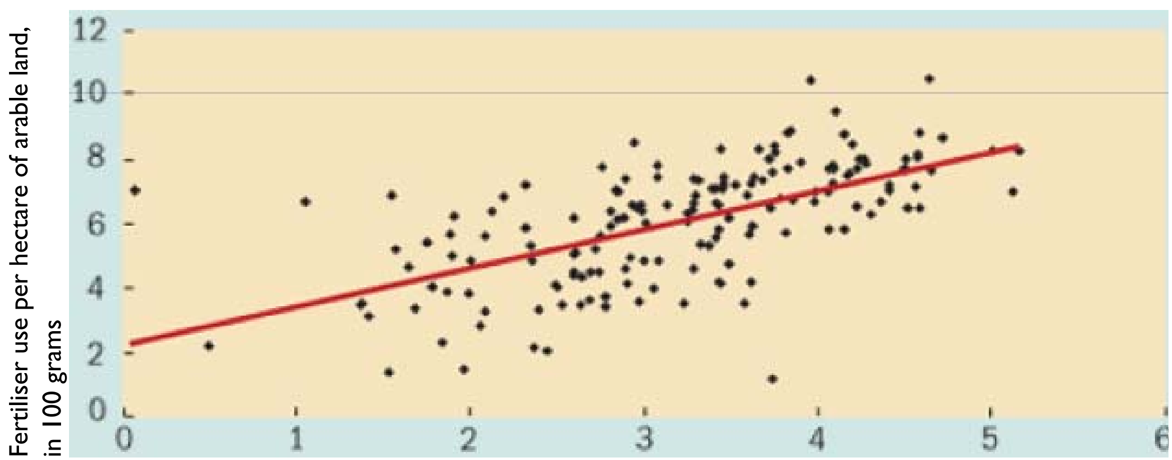
Below are some avenues to explore linkage between the enabling principle of access to finance for smallholder cotton farmers and other parts of the BCI approach – Production Principles in particular.

i. Access to finance and environmental principles

It should be made clear that there is several potential links between improved access to agricultural finance and environmental impacts of cultivation, and not all positive. Indeed, it is clear that increased access to finance entails potentially increased input use. At the same time, the promotion of less input intensive practices should lead to reduced (crop) financing needs.

In some contexts – for example, relating to soil health in West Africa – increased input use as a result of improved credit access this may be a wholly positive and necessary step. And indeed FAO (2007) reports that private credit is a vital platform to enable increased fertiliser use, as demonstrated in the graph below.

As private credit increases, so does fertiliser use



Private credit to GDP, percent

References: World Bank World Development Indicators (2005), interpolated in: *Microfinance and Agricultural Development*, Maria Pagura, FAO: presentation made at FARM Conference: What Microfinance for Developing Countries' Agriculture? 4-6 December 2007 Paris, France

In other contexts – and without accompanying information and guidance – it is possible that improved access to credit can result in increased ability to purchase and use potentially ineffective, redundant, expensive and harmful inputs. Furthermore, in some regions – such as francophone West and Central Africa – it is arguable that access cotton inputs on credit can be linked to both re-sale and (potentially egregious) misuse of these inputs. However, as noted above, there is strong potential 'push' factor in aligning BCI smallholder interventions with activities lending institutions who are committed to promoting environmental sustainability in their investments. Moreover, due diligence and monitoring preformed by rural financial institutions may provide vital data to BCI. A summary of issues relating to environmental for MFIs and rural finance institutions is available at www.gdrc.org/icm/environ/environ.html.

ii. Access to finance and Fairtrade

The provision of trade finance, or pre-financing, is one of the key requirements of Fairtrade buyers in their relationships with producer groups. Under the FLO Seed Cotton Standard, for instance, Fairtrade producers are eligible for up to 60% pre-finance for their crop.

In preparation their for work with Max Havelaar (France), CERISE has drafted a concept note on ‘Building partnerships between fair trade and rural micro-finance: Improving access to financial services for producer organisations and family farms associated with fair trade’. CERISE notes that, while Fairtrade commodity chains are addressing the issue of limited access to finance by providing producer organisations with temporary financial assistance, the needs of producers in these supply chains exceed current levels of pre-financing from the fair trade sector. Furthermore, lack of information and poor timing prevent many producer organisations from making full use of the limited funding available, while some importers are reluctant to pursue this option due to risks involved – potential problems with liquidity, insufficient forms of guarantee, and concerns about the management of producer organisations.

CERISE further notes that coordination with MFIs can guarantee importers good management, enable a diversification of funding sources and help finance needs not covered in the fair trade relationship.

iii. Access to finance and Decent Work

Broadly speaking, there are two areas in which microfinance can make a significant contribution to Decent Work promotion: income generation and risk management. Conditional loans, credit with education, incentives like interest rate rebates, as well as the provision of micro-insurance, conditional cash transfers or health care can be effective ways to reduce ‘Decent Work deficits’, decrease vulnerabilities, raise awareness and create incentives to improve working conditions.

Of particular note, ILO Social Finance programme has recently launched an action research study to analyse how microfinance institutions can promote Decent Work through core and non-core activities. Several of the participating MFIs are located in BCI focus regions with cotton-farming clients.

Access to finance and gender

One important cross-cutting impact of microfinance is the empowerment of women. Experience has shown that targeted microfinance can improve women’s representation and position within households and communities, particularly where land title and other socio-economic factors militate against access women’s access to conventional finance.

ILO Social Finance Programme – Action Research on Microfinance for Decent Work

The ILO Social Finance Programme (SFP) is the focal point in the ILO for microfinance. SFP has recently launched an 'Action Research Programme on Microfinance for Decent Work' – in partnership with MFIs interested in promoting Decent Work. With coverage from Burkina Faso to Mongolia, this research will seek to address key questions such as:

- How can microfinance institutions (MFIs) help improve working conditions?
- How can they contribute to job creation?
- And how can MFIs help reduce child labour?
- Should MFIs have an interest in addressing these and other decent work deficits?
- Could this even be done cost effectively and to the benefit of the institution as well as its clients?

SFP has commitments from 25 MFIs worldwide to participate in this action research. In a first phase, household surveys of 200 units will be performed at each of the 25 MFIs to establish the nature and depth of Decent Work deficits. SFP has selected six Decent Work deficits where change is more readily measurable: child labour, working conditions, informality, vulnerability, job creation, and discrimination. SFP will bring the participating MFIs together in February 2009 for a practitioner exchange on what can be concretely done by a MFI to address any of these deficits: add a product, reshape a service, combine products, embed with non-financial services, external partnership, differentiate in pricing. After the baseline survey (March 2009) SFP will undertake a six-monthly impact assessment. By 2011, the researchers aim to be able to draw some stable conclusions as to what works in orienting microfinance towards Decent Work outcomes for their clients.

Reference: www.ilo.org/public/english/employment/finance/arp.htm

Bonded labour – the inter-linkage of labour and credit markets

Bonded labour is an extreme illustration of how indebtedness can result in dependence upon exploitative labour relationships, with vulnerable workers bonded to their employers as they work to repay loans. Since bonded labour results primarily from the inter-linkage of credit and labour markets, access to appropriate financial services is a fundamental prevention strategy. For instance, in the ILO PEBLISA Project on Prevention and Elimination Bonded Labour in South Asia (India, Pakistan, Nepal and Bangladesh), the ILO partnered with local MFIs to test a range of financial services tailored to the needs of households at heightened risk of falling into debt bondage. Such families need financial services and previously used employer credit. ILO experience from the project indicates the need for four core financial services, with the emphasis on savings mobilisation rather than credit, at least in the first instance:

Financial services to address bonded labour	
"Contractual" savings: emphasising savings and asset building to create a buffer for the household to fall back on in times of emergency. MFI clients "contract" to save a fixed amount of money on a regular basis.	**Liquid savings**: providing a safe place to store small amounts of surplus cash, where it is accessible in times of need, but not so accessible that the temptation to spend is hard to resist.
Income-generating loans: aiming to avoid exacerbating recipients debt situation by offering: very small loans; penalty-free repayment holidays; tailored repayment schedules and individualised tenor and terms,	**Emergency loans**: sometimes given in parallel with an income-generating loan.
Alongside the core financial services, the project has also tested micro-insurance, debt consolidation loans and land leasing.	

In principle, the ILO does not provide credit to bonded households for repayment of their debt as this undermines the implementation of the law, and would also risk creating a market for bonded debts. In practice, however, the situation is not clear-cut. (Some NGOs in the region intentionally provide loans to bonded labourers to buy their freedom.) Micro-finance services can therefore be important both for reducing the dependence of workers on wage advances from their employers, and for effective rehabilitation of released bonded labourers.

However, as the ILO concedes, micro-finance is not sufficient to *prevent* bondage, although micro-finance can provide poor workers with an alternative credit source. Moreover, the socio-cultural dimension of exploitative labour contracts can significantly limit the scope of micro-finance interventions, particularly where exploitative relations contain a putatively 'protective' aspect.

Access to finance and child labour

Microfinance may contribute to the progressive elimination of child labour according to two key needs:

Income-generation: Poverty and lack of income are generally acknowledged as root causes of child labour. Many projects seeking to eradicate child labour therefore include an income-generation component, where the loan is used to facilitate the self-employment of parents to replace the child's earnings. As a result, the overall economic condition of the household should not decline when the child leaves work and goes to school. Typically the loan is conditional— access to a loan only if your child goes to school. For instance, in Kyrgyzstan access to credit conditional upon non-use of child labour promoted by ECLT (Eliminate Child Labour in Tobacco)[16] has spread into other sectors; moreover, participants in ECLT-funded micro-credit schemes moved from the officially designated `very poor category` to 'poor' and 'average' categories.

Risk-management: Microfinance to manage risks and smooth consumption in a poor household may be more important in combating child labour than income-generating loans. Through appropriate risk-managing financial services (as outlined earlier), microfinance helps poor families to weather the storms of unpredictable expenses and income droughts – crop failure, climatic shocks, family strains – without resorting to child labour.

ILO Lessons learned – Decent Work and microfinance
"It is better not to do microfinance than to do it unsuccessfully." [ILO-IPEC, 2004]
• In the context of labour rights remediation, microfinance should always be considered as one component within a comprehensive strategy also using other approaches, including non-financial services.
• Microfinance services may be for both productive and protective purposes. Sustainable impact in promoting Decent Work requires access to both. Moreover, borrowing money is a risk. Projects should never *require* participants to take loans, and savings facilities may be the most pressing financial

[16] ECLT notes concerns regarding Kyrgyz project that "Credit institution misbehaving; ECLT filed a complaint, 82% of the initial credit fund was recovered and is available today; a new credit agency was identified (Ayil bank)"

need.

- Group methodologies, such as a self-help group (SHG), cooperative or village bank, are generally the most appropriate method for delivering microfinance in the context of Decent Work. These lower the costs and risk of default, making it possible to provide financial services to persons who would otherwise not have access. Collective organisation also has considerable benefits, including leadership and business skills development, and creating peer pressure – for instance, to keep children in school.
- Projects should be designed to guarantee long-term access to financial services. In terms of funding streams, it should be noted that the *IPEC Guidelines on Microfinance* recommend that IPEC projects partner with financial institutions that can continue to provide financial services after ILO interventions.
- Targeting should not be undertaken at the cost of community integration. While the target group should be the main clientele of the project, access should be also available to others.
- Addressing Decent Work deficits through micro-finance can be a win-win situation for clients and MFIs. Increased productivity among clients can lead to increased lending (and profitability) for the MFI, while improved working conditions and enhanced social protection among clients is likely to reduce the clients' credit risk.

References: www.ilo.org/public/english/employment/finance/index.htm
http://white.oit.org.pe/ipec/documentos/microfinance_guideline.pdf

iv. Access to finance and producer organisation

The BCI Enabling Mechanisms of Producer Organisation and Access to Finance are linked in several ways. The difficulties faced by producer organisations (POs) seeking funding for agriculture are catalogued in various studies undertaken in West Africa, Madagascar, South East Asia and Central and Latin America since the late 1990s[17]. Many of these organisations are ill-equipped to secure funding, as they have no information on financial institutions, lack the capacity to formalise their funding needs, find it difficult to make contact with financial institutions and prepare funding applications, have poor management capacity and governance skills, and face a lack of equity or assets to offer banks as warranties.

Producer organisations have put significant effort into the rural financial services sector, developing three main strategies to gain access to financing by:

- providing financial services for their members
- creating their own financial institutions
- developing partnerships with rural micro-finance institutions.

Of these three, the 'partnership strategy' appears the most common among producer organisations in Africa and Latin America, and is worth exploring further.

Partnerships between POs and financial institutions, especially MFIs, offer great potential for agricultural finance. But in practice, relationships between producer organisations and MFIs are difficult. Cost of services, for instance, remains a point of contention between the two. To achieve sustainability, MFIs have no choice but to charge cost-covering interest rates. Farmers consider these rates too high, however,

[17] See UFARM conference workshop 4U: What role for agricultural professional organizations in microfinance ?

given the low profitability margins of their agricultural activities. Strengthening partnerships between producer organisations and MFIs thus requires both parties to overcome a certain number of challenges, not the least of which is determining the type of governance structure to set up, given the diversity of actors involved. Producer organisations and MFIs work with populations whose expectations and capacities differ.

Moreover, several studies emphasise the importance of non-financial services in the development of agricultural activities by producer organisations. That is, a mix of non-financial production factors is required for finance to be successful (see FARM Workshop 6, particularly Ratohiarijaona). The question that is still unanswered is: *who should pay for them?*

CERISE operational guide to strengthen PO/MFI partnerships

Generally speaking, capacity building of the various actors—elected officials, managers and extension officers—is a critical success factor for PO/MFI partnerships. This observation incited the development of an operational guide to help strengthen such partnerships). The guide is being finalised by members of the CERISE network (see above) with the financial support of FARM Foundation.

The guide has been designed on the basis of three hypotheses:

- Partnerships between POs and financial institutions (FIs) can improve outreach of agricultural finance;
- Due to the distance between these two types of entities, partnerships are not spontaneous and must be actively built;
- Consolidating the knowledge and skills of the two institutions can help foster partnerships.

The specific objectives are:

- To improve POs' and FIs' capacities to analyse the financial needs and constraints of Pos and their producers;
- To help POs choose efficient and viable ways to access financial services;
- To give POs and FIs the tools to build partnerships and improve POs' access to financial services.

Although building partnerships between POs and MFIs represents progress, a number of issues remained unresolved: finding ways to mobilize resources adapted to agricultural finance, especially equipment needs; managing agricultural risk; developing financial services in particularly isolated zones and addressing what are perceived to be relatively high interest rates, compared to profitability levels.

None of these issues can be effectively or equitably resolved by the market or negotiations between economic actors.

Reference: CERISE, 2008, *Organisations paysannes et institutions financières rurales : construire une nouvelle alliance au service de l'agriculture familiale. Un guide opérationnel*, CERISE/Institut des Régions Chaudes – SUP/AGRO Montpellier (forthcoming)

Useful links

Information Portals
Microfinance Gateway
Alternative Finance Website
Development Gateway

Networks
SEEP
World Council of Credit Unions
Women's World Banking
Banking with the Poor

International Development Banks
Inter-American Development Bank
Asian Development Bank
African Development Bank
European Bank for Reconstruction and Development

Other Organisations
Gesellschaft für Technische Zusammenarbeit (GTZ) – Financial systems section Go to...
International Fund for Agricultural Development (IFAD) – Rural Finance pages Go to...
The World Bank Group – Agriculture Investment Sourcebook Go to... & Financial Sector pages Go to...
USAID - MicroLINKS microenterprise knowledge sharing platform Go to...
Agence française de développement, activités microfinance
CARE International
Department for International Development (DFID)
Natural Resources Institute
Ohio State University Rural Finance Program
United Nations Capital Development Fund
International Labour Organisation Social Finance Programme
Consultative Group to Assist the Poorest
Institute of International Finance
Basel Committee on Banking Supervision
Freedom from Hunger Technical Resource Site
MicroSave - Rural financial services Go to... & Financial Services Training Resource Centre Go to...
PlaNet Finance
ACCION
Microcredit Summit Campaign
SafeSave

Annex 1: Access to Finance Impact Assessment Methodologies

1. Consultative Group to Assist the Poorest (CGAP) client poverty assessment tool

Assessing the Relative Poverty of Microfinance Clients: CGAP Operational Tool	
Origin	CGAP
Objective	A rapid, reliable, simple and inexpensive tool to asses the relative poverty of MFI clients; it determines the standard of living of households that have access to MFIs, compared to that of non-clients.
Method	• Comparing new MFI clients to non-clients in the same area. • Elaborating a relative poverty index that shows the poverty status of households in relation to the sample as a whole. • Various dimension of poverty are taken into account: family structure, food, housing, other goods.
Implementation mode	• Rapid surveys of a sample of clients and non-clients. • Data analysis using Statistical Package for the Social Sciences™ software (multivariate statistical analysis).
Who can conduct the survey?	• Assessors from outside the MFI. • Local researchers. • Possibly the MFI itself, if it has staff trained in statistical analysis.
Duration	Two months for the survey, six months to obtain results.
Cost	USD 10,000 to 15,000.
Comparative advantages	• Simple, rapid, inexpensive, easy-to-use (manual available on CGAP Web site). • Makes it possible to take into account several dimensions of poverty. • Makes it possible to assess the MFI's poverty outreach in the given area.
Limits	• Applies to new clients only and not to the MFI's entire client portfolio. • Gives a view of relative poverty compared to the national average (comparison between different areas is difficult).

2. Microcredit Summit's poverty measurement tool kit

Micro Credit Summit Poverty Measurement Tool Kit (PMTK)		
Origin	Micro Credit Summit	
Objective	Identify the 'poor' target population; and distinguish different categories within the 'poor' population ('very poor', 'medium poor', etc.).	
Method	Implemented in a given village, with two indexes used to place the households in the village within a local poverty scale.	
	Cashpoor House Index for Rural Asia	**Participatory Wealth Ranking**
Implementation mode	• Index elaborated for a given area, based on a 'housing quality' criteria. • Different characteristics of houses are taken into account (size, quality of the material used for the roof, walls, etc.). • Each household is graded according to the quality of the home. The households with well-off homes are excluded by an initial selection. The households with poor homes are then the object of a rapid survey of their production means (land, equipment, means of transportation, etc.).	• Index elaborated for a given village through an assembly of resource persons, assisted by facilitators: • Establishes a map of the village. • Lists the households in the village. • Ranks the households according to wealth categories. • An index is calculated, based on the criteria used by the group to rank poverty.
Who can conduct the survey?	MFI team, with a supervisor (branch manager level) and loan agent facilitators. Initial training is required in using the method.	
Duration	Example: Poverty wealth ranking survey of a 500-household village requires 1 supervisor + 3 facilitators (7 person-days).	
Cost	7 person-days + USD 50.	

Comparative advantages	• Makes it possible to quickly draw up a list of the poor. • Low cost, and can be used by the MFI.	• Poverty ranking elaborated locally with the population. • The preparatory work with the groups makes it possible to generate a great deal of information on the area.
Limits	• Very local criteria, so impossible to compare different zones. • Not applicable in areas where housing is not an investment, or areas that have benefited from housing support programmes. • Does not take into account the non-material aspects of poverty.	• It is a local poverty ranking, so impossible to compare different zones. • Group discussion facilitation is fundamental; poor facilitation can compromise fully the reliability of results.

6. Microsave's participatory rapid appraisal

Participatory Rapid Appraisal for MFIs developed by MicroSave-Africa	
Origin	MicroSave-Africa
Objective	Allow practitioners to understand the complexity of households' financial, economic and social environments, and to better understand households' demands and constraints, how the MFI is seen by users and non-users, etc.
Method	Qualitative method based on discussions with groups of resource persons.
Implementation mode	The Participatory rapid appraisal tool provides discussion guides for 15 subjects, including: – seasonal nature of income, expenses, savings and credit; – seasonal nature of migration, temporary work, goods and services provided by the poor; – life cycle profile to define cash needs over time; – Venn diagram analysis on groups and organizations, and their roles; and – poverty ranking.
Who can conduct the survey?	Specific training by MicroSave-Africa is needed to implement these tools.
Duration	Example: A survey implemented in Bosnia required 4 people for 10 days + significant time for preparation and training.
Cost	Person-days + cost of MicroSave training
Comparative advantages	Makes it possible to generate high quality qualitative information rapidly, with the proviso that the staff are well trained and have mastered the group discussion techniques.
Limits	• It is not a tool intended for improving impact. • Considerable investment in training is needed, but not wasted for the MFI, because such methodology can be used on a day-to-day basis and integrated into the MFI's steering tools.

7. United States Agency for International Development's (USAID) assessment tool and AIMS tool

USAID Assessment Tools for Microfinance Practitioners	
Origin	AIMS – USAID, in collaboration with Small Enterprise Education and Promotion (SEEP) Network.
Objective	Impact and clientele analysis tools to prove impact and improve MFI programmes.
Method	A combination of five tools focusing on: Main impact; Reasons for exit; Loan use and savings strategies; Client satisfaction; Client empowerment (women).
Implementation mode	• Tool #1: Main impact - 37 questions make it possible to test impact hypotheses. The questionnaire is submitted to two groups (one client group and one comparison group). The comparison group consists of people who have joined the programme (characteristics similar to those of clients) but not yet received loans. • Tool #2: Reasons for exit - Quantitative tool applied to clients who have left the programme. The goal is to identify when and why these clients chose to exit the programme and to identify the programme's strengths and weaknesses. To be used regularly in the framework of the information system or occasionally during assessments.

	• Tool #3: Loan use/savings strategies – Qualitative tool, in-depth individual interviews regarding loan use. The goal is to compare how loan use and allocation evolve over time and obtain data on impact at individual, household and collective levels. • Tool #4: Client satisfaction – Qualitative tool, focus group discussions to obtain better understanding of clients' opinions of the programme and their suggestions. • Tool #5: Client empowerment (women) - Targets women through in-depth interviews to assess the impact of women's participation in the programme. The five tools can be used together or separately.
Who can conduct the survey?	• Local teams with experience in surveys and data analysis. • MFI staff with experience in surveys and data analysis.
Duration	250 to 300 person-days are needed, with results obtained in approximately three months.
Cost	Approximately USD 18 000 for a complete assessment by a strictly local team; higher cost when international assistance is used.
Comparative advantages	• Provides an overall approach to impact (tool #1) and in-depth analysis of several themes. • Relatively easy implementation at limited cost. • Accessible for practitioners.
Limits	• Generic tools that need to be adapted to specific contexts and MFIs. • The goal of 'proving impact' is not reached, due to classical methodology difficulties.

8. Institute for Research and Implementation of Development Methods/Centre for International Studies and Research impact analysis model

CERISE Impact Analysis Based on Population Typologies	
Origin	French approaches to impact within Comité d'échanges de réflexion et d'information sur les systèmes d'épargne-crédit (CERISE), comprising the Institute for Research and Implementation of Development Methods, CIDR, the International Cooperation Centre on Agrarian Research for Developmentt (CIRAD) and the Research and Technological Exchange Group (GRET).
Objective	The purpose of these studies is to gain a better understanding of the impact of an MFI on the various population categories in a given area and to analyse the ways in which these groups use loans.
Method	• A combination of approaches, including household and institution survey. • Survey of member and non-member households; systematic analysis of household operations (strategies, constraints, etc.); data treated by population typology. • Institutional analysis.
Implementation mode	• Survey of a large sample of the population in areas that are representative of the diversity of the MFI's area of intervention. • Population typology defined based on a combination of levels of wealth and activity systems (multivariate analysis). • Comparison between access to and use of financial services by the various population categories can be combined with: • qualitative surveys of a smaller sample of households to deepen analysis of household strategies, constraints and credit use; and a monograph on the MFI. • Possibility of deeper study using repeat surveys at regular intervals to follow a reduced sample of households (monitoring household budgets, cash flows, etc.).
Who can conduct the survey?	Local teams that are skilled in surveys and data analysis.
Duration	Varies according to the combination used. For the basic survey, data collection = 60–80 person-days; analysis = 60–80 person-days.
Cost	Approximately USD 20 000 for a strictly local team.
Comparative advantages	Enables detailed analysis by population category, and provides deeper understanding of household strategies and use of the MFI's services as a function of specific local constraints.
Limits	Does not help in improving impact. Regular repeated monitoring is a way of extending methodological limits, considering fungibility and attribution.