

Agricultural Based Communities and Access to Finance
July 22, 2014 Teleconference

NYSBA International, Microfinance and Financial Inclusion Committee (MAFIC)

Access to finance for agriculture-based communities presents unique challenges not addressed by commercial financial service providers or by traditional microfinance lenders. The International Finance Corporation, the lead technical advisor to the G-20 Global Partnership for Financial Inclusion's SME Finance Sub-Group, produced a 2011 report discussing the issues and challenges related to these communities. The report recommends countries have a recognized coordination body or leading agency (which may include the Ministry of Finance and Department or Ministry of Agriculture) responsible for policies and priorities in access to agricultural finance.¹ It also advises that credit bureaus include farmers and registered farmer-based organizations.² Furthermore, the G-20 recommends the use of movable collateral registries³ and consideration of secure land tenure systems.⁴ Farmers and their organizations can benefit from training in economics, finance, business management and other skills⁵ as well as improved legislation for registration of farmer organizations.⁶

One source of traditional finance is from commercial lessors of equipment used in agriculture, who often require high down payments for the use of their equipment.⁷ However, carefully crafted grants for this purpose, accompanied by technical assistance, can help the

¹ Christen and Pearce 2005 in Scaling up Access to Finance for Agricultural SME's Policy Review and Recommendations. www.IFC.org. G20 Agrifinance Report. Pg. 25

² Ibid pg. 46

³ Ibid pg. 7

⁴ Ibid pg. 28

⁵ Ibid pg. 58

⁶ Ibid pg. 31

⁷ Ibid pg. 70

poor by providing an income-producing asset.⁸ Increased development of agricultural insurance would further assist the sector.⁹

Trader credit provides short term or seasonal loans between buyers and sellers of inputs and products. Root Capital, a U.S.-based non-profit organization provides loans to grass roots businesses that are too small for regular banks and too large for microfinance.¹⁰

Developing countries must boost their sustainable agricultural production to achieve the Millennium Development Goal of 2015 of halving poverty and hunger.¹¹ One means of implementation is to “enhance the availability and effective use of finance for sustainable development.” The Commission on Sustainable Development lists these activities as: enhancing agricultural production; expanding public investment and incentives for small scale producers in developing countries; increasing the production of a wide spectrum of traditional of other crops and livestock; and the need for access to microfinance.¹² The Commission also determined to promote sustainable agriculture and rural development (SARD) in accordance with the principles of the Rio Declaration of Environ.¹³ The Commission invites governments and the international community, including the UN, to assist developing countries in creating strategies and implementing measures to attract private capital to SARD in a wider range of developing countries.¹⁴

⁸ Ibid Annex 1

⁹ Ibid pgs. 7 and 9

¹⁰ Promotion Practices Review Global Access to Finance, Pgs. 26 and 29

¹¹ E/CN.17/2009/19, United Nations Commission on Sustainable Development. Last visit July 6th, 2014

¹² Id.

¹³ E/CN.17/2000/20, Economic and Social Council, Agriculture Decision 8/14.

¹⁴ Ibid Last visit July 6th, 2014.

Agricultural Microfinance is the provision of financial services to low income rural households and small farmers for the production of agriculture, marketing and processing.¹⁵

Agricultural SME Finance is the provision of financial services to small and medium sized enterprises engaged in the production of agriculture and production related activities, such as input, supply, processing, trade and marketing at all levels.¹⁶

Rural Finance is the provision of financial services to both households and businesses in rural areas for both production and personal use, thus used “by all income groups for all activities.”¹⁷

SME Finance is the provision of financial services to small and medium sized enterprises. SMEs are typically defined based on the number of employees, sales, or assets and usually cover all firms with less than 250 employees (therefore including microenterprises.)

Value Chain Finance (VCF) is the use of financial transactions between interlinked actors, including financial flows between them (internal finance), flows from financial institutions into the chain, and the combination of both.¹⁸ Banks need help to strengthen these multi-party arrangements¹⁹. The greatest challenge to internal finance is controlling loan default caused by side selling, and lending from outside the chain and is typically restricted to short term working capital.²⁰

Warehouse Receipt Financing is a form of financing that permits inventory held in warehouses to be used as collateral and which can underwrite improved storage for crops.²¹

¹⁵ Christen and Pearce 2005, Ibid., Pg. 12

¹⁶ Id.

¹⁷ Id.

¹⁸ Ibid pg. 62 (Miller and Jones 2000).

¹⁹ Ibid pg. 56

²⁰ Ibid pg. 62

²¹ Ibid pg. 7