

Financial Services

Access to financial services and finance

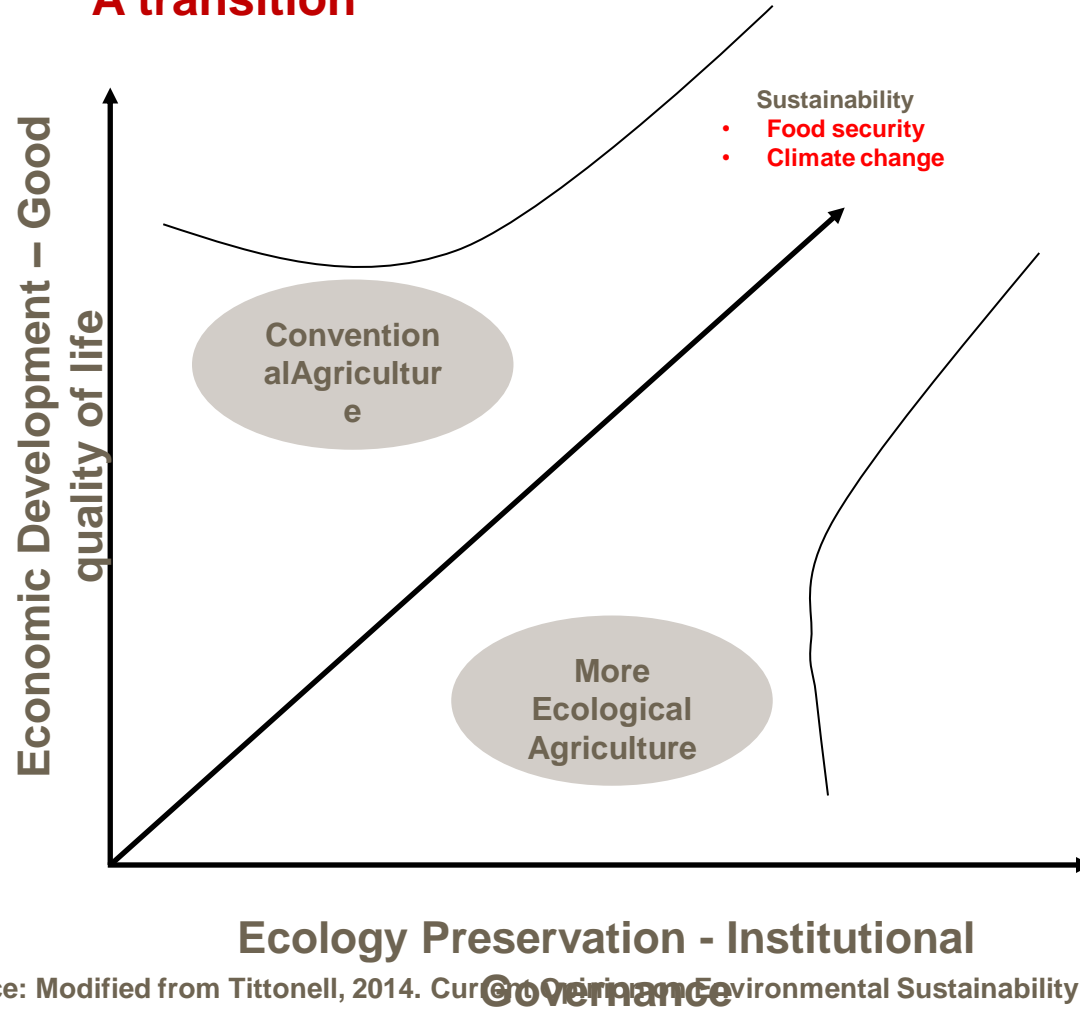


Key content of this module

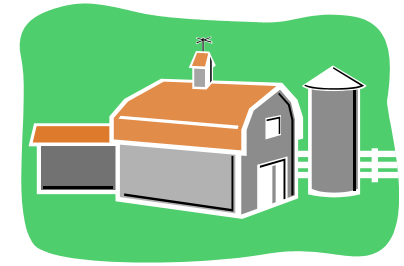
1. Introduction to access to financial services
2. Agricultural investments – Who invests in agriculture
3. What hinders the access to financial services and how can it be improved
 - a. Financial institutions (supply side)
 - b. Farmers (demand side)
4. Role of governments



A transition



Source: Modified from Tittone, 2014. Current Trends in Environmental Sustainability 8: 53-61



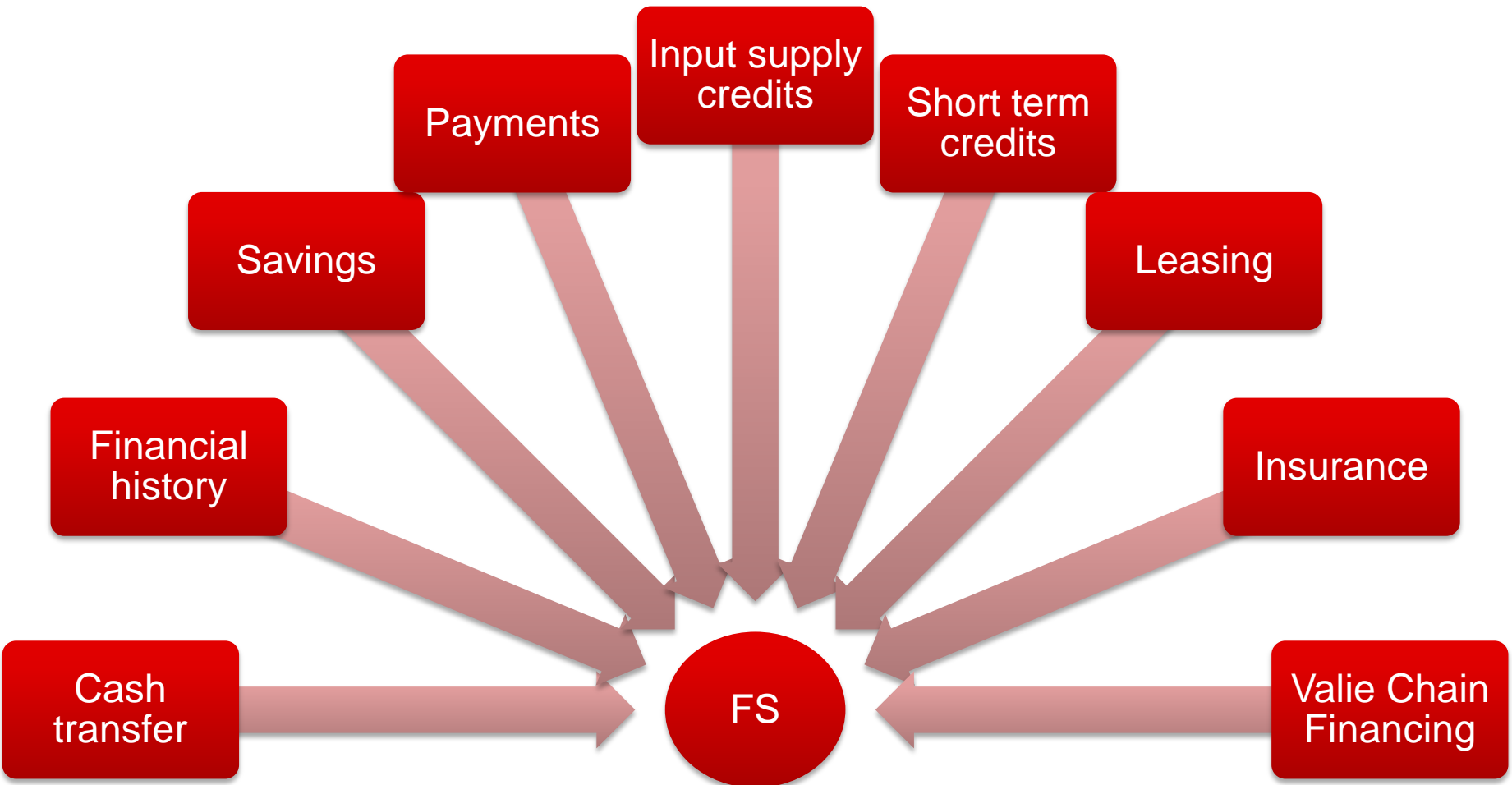
What is the difference between agricultural finance and rural finance?

What kind of financial services are required by an agricultural farm and farmer?

How would you differentiate between agricultural farm and farm household and their financial needs?

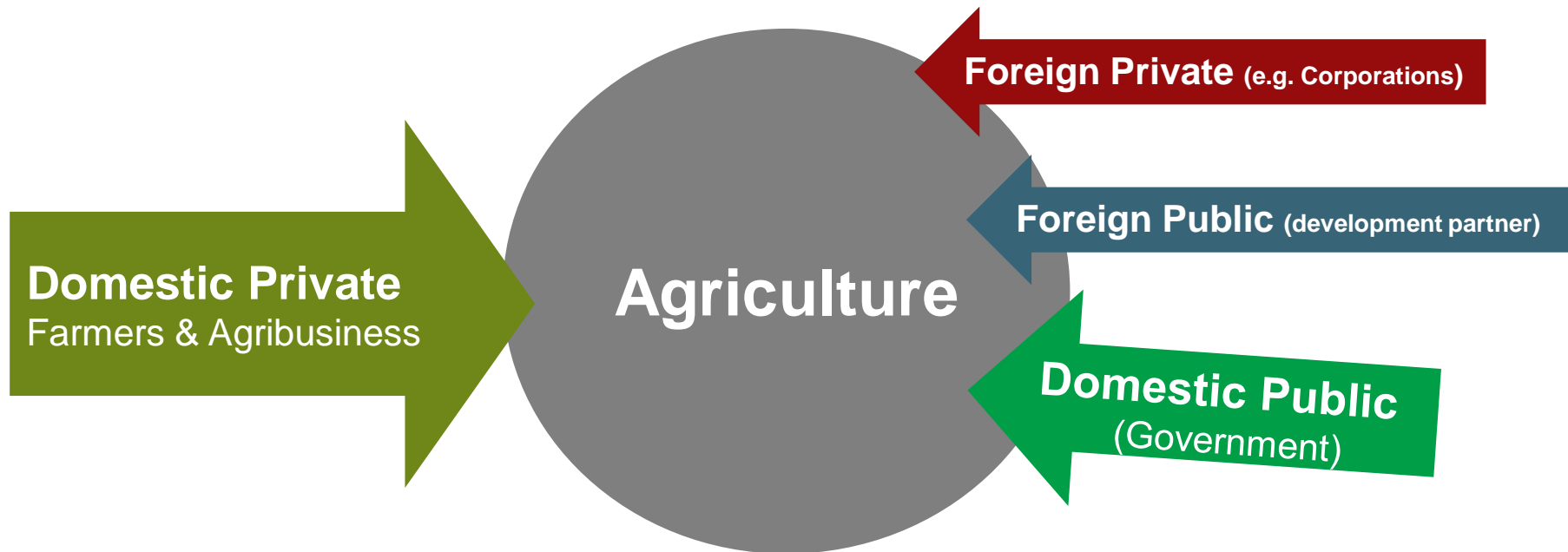


Financial services for agricultural farms – more than loans!



Who invests in Agriculture?

- 450 to 500 million smallholder farmers in the world; as many as 2 billion people live in smallholder farm households
- Total estimated demand for agricultural credit – 200 Billion USD
- Total estimated supply – ca. 56 Billion USD



Risks

High transaction costs

Little or no collateral

No credit history/bank account

Missing entrepreneurship

FI lack of understanding of
agriculture & food markets

Lack of customized & demand
driven financial products

Competition of informal
moneylenders (informational
advantage)



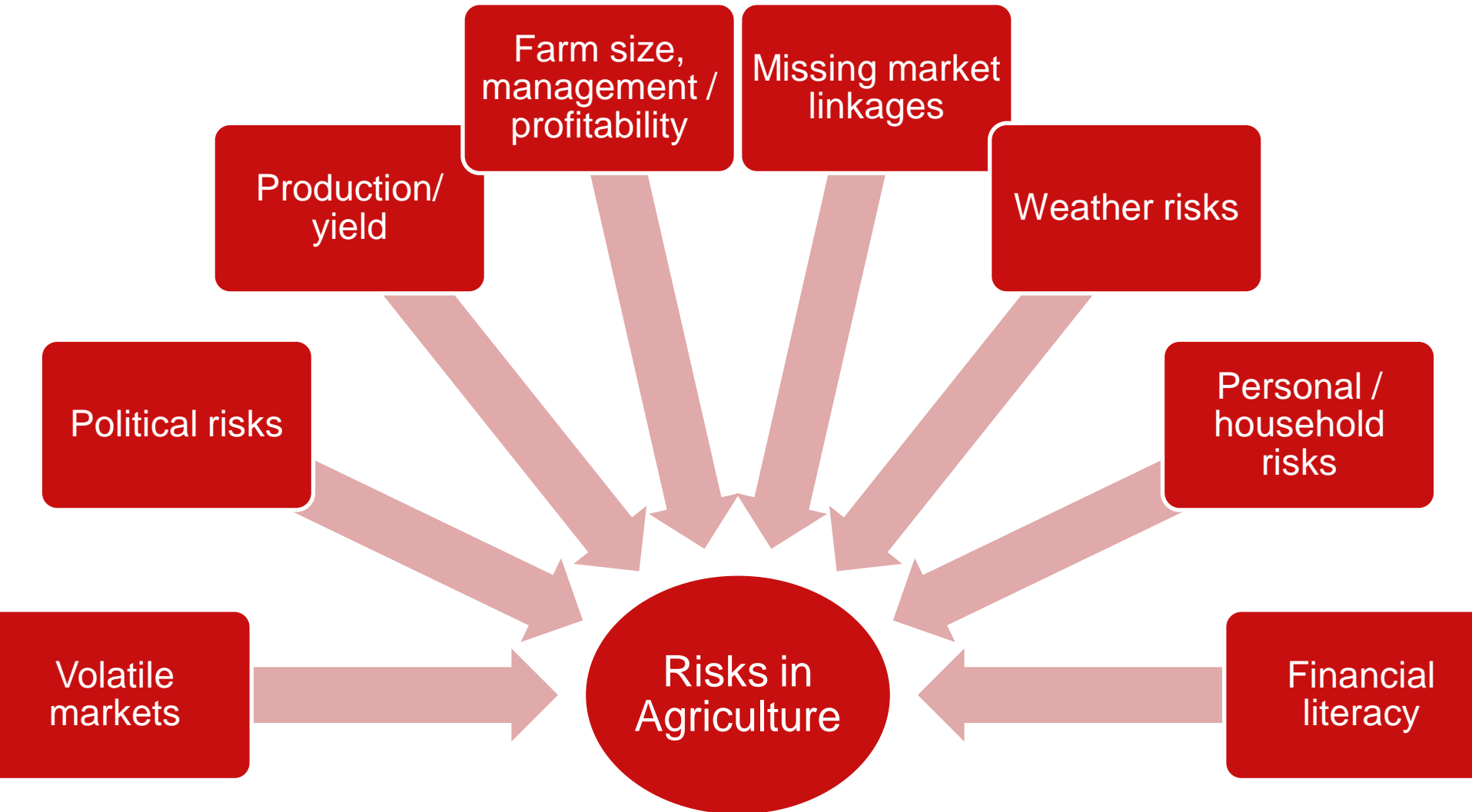
Agricultural Financing – Supply side perspective

**What is Agricultural Finance and
Why is it Different From Other Types of Finance?**

Risks	Risk minimization
High transaction costs	Efficient and innovative technologies
Little or no collateral	Movable goods, e.g. futures, warehouse receipt systems
No credit history/bank account	Value chain, business linkages & transactions for assessment
Missing entrepreneurship	Value added services, like business and production consultancy (extension services), Market information etc.
FI lack of understanding of agriculture & food markets	Training for bankers, agricultural loan officers
Lack of customized & demand driven financial products	Dedicated customer service
Competition of informal moneylenders (informational advantage)	Follow-up after disbursement, using mobile phones, offer fs through value chain actors

High risk and cost of lending – Farmers

What hinders access to finance? – DEMAND SIDE



The default risk– Example from Cocoa Production Nigeria

Weak bank savings

Target product not competitive

Loans without technical economic basis

Clients lack GAP

Clients lack business skills

Weak or absent producer organization

Markets and price volatility

Weather & climate change

Weak irrigation management

Delayed payment of product

Inappropriate reimbursement periods

Deficient input quality

Understanding of agriculture as a business

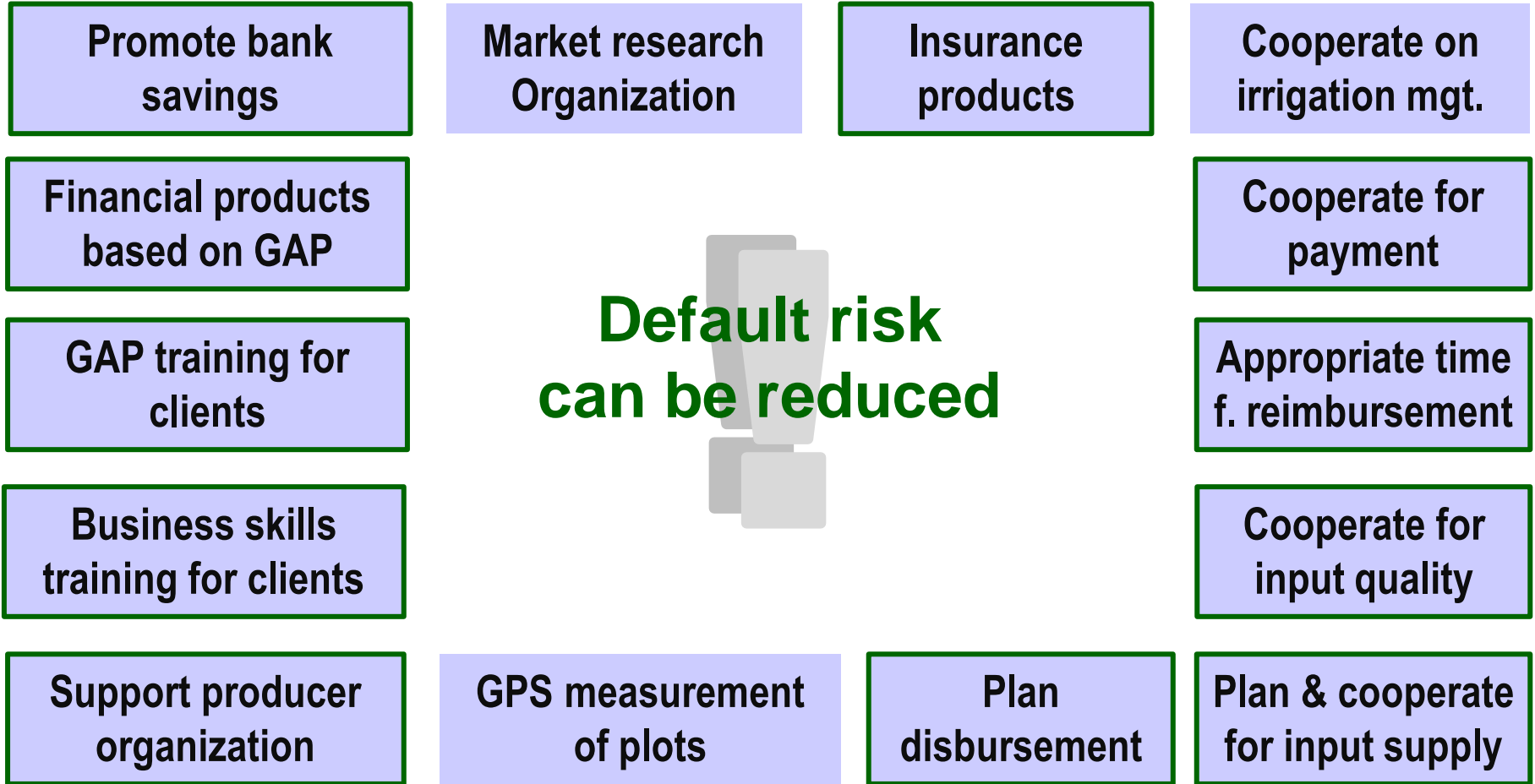


Uncertain size & existence of plots

Delayed credit disbursement

Delayed input supply

..... control as many causes of risk as possible





Please replace by ASEAN example

Mobile Layaway: myAgro helps small-scale farmers in West Africa pay on layaway for fertilizer, seed and training packages using their mobile phone, similar to how people buy talk-time for their phone in developing countries. Registered farmers can save easily by continuously “topping up” their myAgro account in flexible amounts (\$1 – \$50) by buying additional cards. In most cases farmers are expected to buy seed and fertilizer with one large payment, and almost unachievable task. The Mobile Layaway plan makes saving for these larger purchases as easy as buying a bar of soap or cup of oil.

About 5000 Farmers. The average 2nd year farmer saved an additional 27% and cultivated 12% more land with myAgro. This is how we can incentivize farmers to move beyond subsistence farming to grow for larger regional markets and THAT’s how we’re going to help farmers move out poverty.



UNDP Guidebook of Finance Tools: Sustainable Agriculture

International Guidebook of Environmental Finance Tools: A Sectoral Approach

Protected Areas, Sustainable Forests, Sustainable Agriculture, and Pro-poor Energy

CHAPTER 5: SUSTAINABLE AGRICULTURE

August 2012

United Nations Development Programme



Policy coordination between agriculture and finance ministries

Land policy and titles

Smart subsidies and investment support programmes

Capacity building

Market stabilisation – address market failures

Broaden the information basis e.g. credit information bureau

Agricultural index insurances and regional disaster risk facilities




Smart Subsidies

... do not cause (or only very minimal) market distortions,
have a very specific and well defined goal and target group
and a clear time-line for implementation as well as an exit-
strategy.



Take-home messages

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- Access to demand driven financial services is critical for smallholders
 - Challenges exist both on supply and demand side, but so do the solutions
 - A holistic approach is required focusing on both financial and agricultural sector constraints
 - Agriculture is risky but risks can be managed
 - Governments need to play an active role in ensuring provision of financial services in rural areas and especially to agricultural sector



Thank you for your attention!