AGRICULTURAL MICROFINANCE FOR SMALLHOLDER FARMERS
e-MFP UNIVERSITY MEETS MICROFINANCE ACTION GROUP

Moderator	**Sven VOLLAND**, PlaNet Finance / UMM
Speakers	**Daniela RÖTTGER**, University of Duisburg-Essen / Consultant for DEG-German Investment and Development Corporation
	Philippe GUICHANDUT, Grameen Crédit Agricole Microfinance Foundation
	Lisa PETERLECHNER, GIZ
	Patrick VAN DAMME, Ghent University

PRESENTATIONS

Sven VOLLAND opened this session by contextualising the role of the University Meets Microfinance (UMM) Action Group. The UMM Action Group gathers various players active in microfinance education and research such as academics, practitioners and development agencies so as to foster cooperation between academics and practitioners as well as to enhance education and research in microfinance.

Volland explained that agriculture has been a hot topic for the development community recently, as it is linked to a series of challenges such as a strong rise in food prices, increasing urbanisation rates and the effects of climate change. He noted that smallholder farmers are a vulnerable and high-risk group for MFIs, being subjected to volatile market prices, (unfavourable) climatic conditions and a lack of infrastructure. A recently published CGAP study estimates that 90% of smallholder farmers worldwide were not reached by MFIs.

Building upon this issue, Daniela RÖTTGER presented the results of her Master's thesis, in which she investigated agriculture finance for smallholder farmers in Uganda, Kenya, Benin and Cameroon. The specific focus of her thesis was on how MFIs changed loan features and lending procedures to mitigate risks and costs of lending to this target group.

In terms of loan features, Röttger observed that MFIs increasingly design comprehensive products which address value chain mechanisms, recognising that farmers are not operating in isolation. Additionally, MFIs changed repayment schedules according to harvesting periods, eliminated staggered disbursements within joint liability groups, linked loans with insurance or offered a

warehouse receipt system to reduce market price risks.

In terms of risk mitigation, Röttger noted that MFIs adopted, amongst others, a 6C-system: combining the 5Cs of credit (Character, Cash Flow, Collateral, Conditions and Capital) with a 6th C focusing on the agricultural Crop. Röttger also emphasized that having loan officers with appropriate agricultural knowledge improved effectiveness.

Speaking from a development partner's perspective, Lisa PETERLECHNER clarified that development partners can provide assistance to agricultural microfinance along two main lines: financial and technical. Within technical assistance, GIZ focuses on three different levels: 1) policy; 2) institution; and 3) client. At the policy level, Peterlechner highlighted the importance of coordination in agricultural finance. Development partners can play a pivotal role in this coordination, and in increasing knowledge and awareness. She also emphasised the need to bring actors along the agricultural value chains and financial institutions together, so as to reduce MFIs' reluctance to engage in agricultural lending which is often based on misconceptions of the sector.

At the institutional level, Peterlechner highlighted how GIZ engaged in various areas ranging from strategic advice on the establishment of an agricultural department of a bank to product development and specific training measures. At the client level, a more direct interaction is possible in terms of increasing financial literacy of farmers.

Philippe GUICHANDUT brought the funder's perspective to the panel, emphasising the importance of having an MFI which has agricultural microfinance embedded in its governance, instead of simply working in rural areas. Moreover, there are not many MFIs with a strong focus on agri-finance. Among the MFIs which Grameen Crédit Agricole Microfinance Foundation (GCAMF) supports,

around 20 - 30% are engaged in agricultural finance and a number of adaptations can be observed. In terms of repayment schedules, for instance, MFIs needed to balance client repayment capacity with its own liquidity. Another interesting adaptation was the extension of loan length.

Guichandut advised that diversification is a good strategy for an investor to diminish risks. Technical assistance is also key in mitigating risks, especially in agri-finance. GCAMF works with the French Development Agency to include technical assistance with its investments, in order to reach MFIs with a higher risk profile but financing agriculture.

Based on his experiences in Togo, Patrick VAN DAMME highlighted the need for an MFI to build on traditional knowledge. He emphasised that these MFIs often operate in areas which are distant from formal markets and therefore require alternative mechanisms for agricultural microfinance. In the case of Togo, building on the local peer system was especially relevant, given the pivotal role of elders. In addition, Van Damme revealed the need to adopt structures which begin with savings products, which build financial capabilities and subsequently allow for access to formal markets.

DISCUSSION

The session's discussion picked up from Van Damme's intervention, and addressed the prerequisites for an MFI to engage in agricultural microfinance. Röttger claimed that commitment from an MFI's management is crucial for its successful engagement in agricultural microfinance and that thorough value chain research supports the development of adequate agricultural loan products. In response to the latter, Guichandut revealed that research funds are not always available to MFIs, and reiterated the need for a strong Board commitment in this respect. Peterlechner also acknowledged the importance of commitment, but added that an MFI's quality is essential. For an MFI which has already problems managing its current loans, it would not be a good idea to engage with the agricultural sector. The necessary characteristics of an MFI to mitigate risks include a strong branch network and broad outreach.

Volland then turned the discussion to the importance of addressing the value chain in a comprehensive manner. Guichandut stated that working more directly with individual enterprises in inclusive value chains would improve impact, as the Foundation is doing by supporting social business enterprises. Van Damme added that a SWOT analysis can help to understand exactly what stakeholders in the value chain need, allowing MFIs to meet their needs properly. In this respect, Van Damme highlighted the potential for an MFI to go beyond financial services provision: a facilitating agency acting between farmers and the market, finding the balance between quality and price.

A member of the audience proposed that MFIs should concentrate their efforts on agricultural cooperatives instead of on smallholder farmers directly, a point which was opposed by Van Damme. According to him, informal group structures are more appropriate for smallholders, making it possible to take decisions and take on responsibilities jointly. Röttger noted that cooperatives can provide a good structure to facilitate cost-effective lending to smallholder farmers if they are well managed and organized which is often not the case.

A further discussion topic addressed long processing times for credit approval, which does not match the needs of agricultural schemes. Guichandut responded that investors sometimes have difficulties in adjusting to the reality of the MFIs, but need to have an open dialogue with their partners to adapt their offer (if possible).

Volland concluded the session by stressing once again that the agricultural sector presents specific risks, making it challenging for MFIs to serve smallholder farmers. He mentioned that in order to be successful, these institutions must adapt their products and procedures and seek concerted efforts with technical assistance agencies, investors and other value chain actors.