



APRACA Newsletter

Acknowledged leader in rural and agricultural finance | Vol. 3 Issue 2



Participants of Policy Forum on IFAD-APRACA Project 'RuFBEP' organized by ACPC in Manila, Philippines on 26 April 2016

Rural Finance Best Practices

Philippines Rural Finance Best Practices discussed in IFAD-RuFBEP and ACPC Forum

The Agricultural Credit Policy Council (ACPC) Philippines conducted the Policy Forum on Micro-Banking Offices (MBOs) and Micro-Insurance for the Rural Poor in the Philippines on 28 April 2016 in Cubao, Quezon City. The policy forum is a critical follow up to the study on "Best Practices on Sustainable Models of Pro-Poor Rural Services in the Philippines" commissioned by Asia-Pacific Rural and Agricultural Credit Association (APRACA) and completed in 2014. In the case of the Philippines, four case studies on best practices were documented. These are: (1) on micro-banking offices (MBOs) and how this recent innovation in microfinance has enabled CARD Bank to significantly expand its outreach even to hard-to-reach areas; (2) on how GM Bank, a rural bank, has used the government's loan guarantee scheme to lend to small farmers even without the benefit of collaterals; (3) on how the Kalasag Cooperative – an association of small onion farmers, a microfinance NGO, a government development corporation, a large private food company, a donor, and the local government successfully collaborated in using the value chain finance; and (4) on how micro-insurance grew and developed under a conducive.

The main objective of the policy forum is to present and discuss best practices in providing credit and other financial services to the rural poor through micro-banking offices (MBOs) and the development of appropriate micro-insurance

In this Issue....

Rural Finance Best Practices	1
Philippines Rural Finance Best Practices discussed in IFAD-RuFBEP and ACPC Forum	1
Activities of IFAD Grant FinServAccess Project	2
• APRACA-FSAP Supports CMA Human Resource Capacity Development Plan	2
• FinServAccess Project concludes to sustain financial strategies and practices application	3
• APRACA-FSAP supports the Academic and Research Institution RDE Programmes	3
• FSAP developed evolving financial replication framework to strengthen keyplayers' capacities	4
Activities of IFAD Grant RuFBEP Project	5
• Phase-2 of RuFBEP Project: Pilot testing of Rural Finance Products and Services – Policy Forum in Indonesia	5
Knowledge Series 2: State of Rural and Agricultural Finance including Best Practices and recent innovations in the sector: Asia-Pacific Perspective	6

products. Key points and innovative ideas that will emerge from the discussions will serve as inputs to the formulation of framework, policies, and programmes to enhance credit delivery services to small farmers and fisherfolk.

Session 1 of the policy forum focused on the presentations of the success of the CARD Bank and a microfinance cooperative rural bank in increasing outreach and serving the rural poor in hard-to-reach areas through MBOs. The regulatory framework, policies and guidelines in establishing MBOs was presented by the BSP while the Land Bank of the Philippines (LBP) shares its views on MBOs and present its experience in lending to the rural poor especially small farmers and fishers through their network of offices and conduits.

Session 2 focused on micro-insurance practices with the National Credit Council (NCC) of the Department of Finance (DOF) presenting the government's national strategy on micro-insurance while the Philippine Crop Insurance Corporation presents its agricultural insurance programmes and products. The RIMANSI Mi-MBA Association of the Philippines, Inc. and one of its members (i.e., CARD MBA) shares its initiatives and experience of the private sector in providing micro-insurance services for the rural poor. GM Bank, a private microfinance rural bank also shares its experiences in relation to micro-insurance. Congressman Agapito Guanlao from the House of Representatives took

part in the discussion and presented his proposed bill, which aims to strengthen agricultural insurance.

The policy forum was attended by 107 participants representing rural/cooperative banks, DA-Regional Field Units/Attached Agencies/Bureaus, Non-Government Organizations/People's Organizations/Farmers Organizations, APRACA representatives, ACPC officers and technical staff, other government institutions/agencies and media/press.



Dr. William Dar, President, InangLupa Movement; Ms. Jovita M Corpuz, Executive Director, ACPC and Dr. Prasun Das, Project Manager, RuFBEP project during the Policy Forum organized by ACPC in Manila, Philippines on 26 April 2016

Activities of IFAD Grant FinServAccess Project

■ APRACA-FSAP Supports CMA Human Resource Capacity Development Plan

Human resource development is one of the priority activities of APRACA for its members. This is evident in the APRACA Strategic Development Plan for 2017-2018. Under the FinServAccess Project, this is also one of the areas where it is given importance. The recent Cambodia National Microfinance Summit held on 13-15 March 2016 in Phnom Penh, Cambodia led to the idea of creating a countrywide development plan for its microfinance institutions. With the new leadership of Mr. Hout leng Tong, Chief Executive Officer of Hattha Kaksekar Limited, one of the top 5 MFIs of Cambodia, preliminary discussions were done on how to create such plan.

In view of this, APRACA through the FSAP initiated the development of Cambodia Microfinance Association (CMA) Human Resource Capacity Development Plan focusing on relevant and trendy trainings on financial management and development. The plan was developed with the help of the Development Academy of the Philippines (DAP) whose main role is to train top executives, managers and middle-level managers in any field related to development. Through DAP's graduate programmes particularly the Master of Public Development major in rural and microfinance, it is viewed that this will help the Cambodian MFIs to available a balanced, tailor-fit and ladderized programme for its members and other interested organizations.

The CMA proposed programmes will be jointly be done with strong Philippine APRACA Network members capable of training and sharing various field in financial policy advocacy, agricultural value chain finance, microfinance, risk management including agricultural insurance and guarantee system, ICT-based finance and banking and people empowerment to name a few areas of teaching-learning platform.

As soon as the CMA plan gets approved by the board, arrangements and logistic support will be done to field in technical experts from international and national agencies and partners will be commissioned to provide the needed capacitation activities. At the same time, the training and degree programmes encourage the learning of actual and practical cases supportive to the enhancement and strengthening of institutional capacities and human resource competencies working with rural people and communities. To date, the CMA is reviewing the plan which will be eventually be implemented as plan in the coming months to support also the implementation of the APRACA Strategic Development Plan which will commence on January 2017 under the new leadership of the APRACA Secretary General and APRACA Chairmanship of Nepal.

■ FinServAccess Project concludes to sustain financial strategies and practices application

The implementation to strengthen the capacities of financial institutions and its clientele has been the number one priority of the Asia-Pacific Rural and Agricultural Credit Association (APRACA) with regards to its members' development and projects. After three successful years of dedicated project implementation, the FinServAccess Project (FSAP) under the financial support given by the International Fund for Agricultural Development (IFAD) comes to a close in sustaining financial strategies and practices. These are available for exchange and application via the different publications released by APRACA.

The FSAP was implemented in Southeast Asia Cambodia and Myanmar and south Asia – Bangladesh and Nepal through a south-south cooperation mechanism with the technical expertise support of India, Indonesia, the Philippines and Thailand including national and international organizations working on the enhancement and strengthening of the rural finance sector.

The project aimed to enhance the access of the rural poor – particularly smallholder farm households and agri-related rural entrepreneurs, including women and rural youth to sustainable financial services through policy dialogues, replication of best practices, capacity building of different stakeholders and knowledge sharing in rural finance. It was officially completed on March 2016 providing an avenue for shared resources and technical expertise including delivery of pertinent outputs among the different key players and stakeholders towards its contribution in people empowerment, application of financial innovations, strategies and practices, and development of communities along agricultural value chain finance, green finance, risk management and knowledge management.

A total of 54 project activities (2013 – 10 activities, 2014 – 21 activities and 2015 – 23 activities) were satisfactorily conducted under the four components within the three-year period. These were complemented by support activities from other international (e.g. UN-ESCAP and Microcredit Summit Campaign) and national institutions' (e.g. Cambodia National Microfinance Summit and Nepal National Finance Forum) activities highlighting the contribution of the FinServAccess Project and APRACA's programmes.

Among the significant contributions of the project are 1.) Enhancement of the competencies of the institutional key players handling the delivery and provision of technical and financial services to rural poor and communities as a way to improve access, 2.) Development of two evolving techno-financial models for crops and livestock tested in Bangladesh and Nepal with the support of technical institutions like the Asian Vegetable Research and Development Centre – The World Vegetable Centre (AVRDC-WVC) and the Ministry of Agriculture and Rural

Development – Department of Livestock Development (MARD-DLD); 3.) Formulation of the replication framework for pilot testing of strategies and practices applied to value chain finance, microfinance, risk management and ICT-based financial strategies; 4.) Strengthening of partnerships between and among APRACA members and partners through technical expertise, professional exchange and knowledge sharing; and 5.) Institutionalization of dynamic and relevant capability building programme for institutional and capacity development of APRACA members and its partners.

Overall, the FSAP supported the exchange of emerging financial technologies including processes and practices that enhance the accessibility of products and services leading to empowerment, management and coordination for a more productive, profitable, secured an sustainable agricultural business enterprises. Through the efforts of all key players, it was notably observed that the FSAP shaped the minds of financial policy advocates and developers to be culturally sensitive, client-oriented and development-driven for the good of all.



Source: Stakeholders' view on the FSAP activities during the research documentation of AVCF strategies and practices of the target countries in 2014, ©MUAquino, 2016

■ APRACA-FSAP supports the Academic and Research Institution RDE Programmes

In an effort to continue strengthening the support to academic institutions research, development and extension management programmes, APRACA through the FinServAccess Project Manager, Dr. Marlowe U. Aquino actively served as resource speaker in various international academic conferences and seminars on "Responding to Regional Academic and Financial Research, Development and

Extension Management for sustainable Development and Competitiveness."

In a series of events, Dr. Aquino shared the experiences of FinServAccess Project (FSAP) in managing research activities and knowledge management through action research, process documentation and evaluation programme planning to academic heads, researchers, development managers, extension workers and planners. The activities were conducted in Thailand particularly in the Department of Agricultural Extension – Ministry of Agriculture and Cooperatives (DOAE-MOAC) for the Extension and Development Seminar (8 April 2016) Kasetsart University (20-22 April 2016) for the International Conference on Research and Development Management Conference, Yala Rajabhat University (24-26 April 2016) for the International Academic Conference on Education, Research and Development, respectively. In the Philippines, activities were conducted with the Bohol Island State University (9-10 June 2016) on strengthening research capacity through tourism development and technology commercialization strategies; Development Academy of the Philippines (DAP) (12 June 2016) on the finalization of the DAP-Cambodia Microfinance Association (CMA) comprehensive capacity building plan for 2017-2018; Benguet State University (17 June 2016) for the University Research Congress, University of Northern Philippines (23-24 June 2016) National Multi-sectoral Extension Services Convention; and Benguet State University (27 June to 1 July 2016) for the international training on research and development partnerships towards sustainable development.

Overall, the shared experiences of APRACA and FSAP in particular created interest and post areas for future collaborative work especially in improving the lives of rural people – farmers and fishers with the strong support of development-oriented institutions. It is hoped that APRACA management will open opportunities to academic and RDE institutions in their network membership very soon to strengthen other sectors supporting the development of the rural people and communities.

■ FSAP developed evolving financial replication framework to strengthen keyplayers' capacities

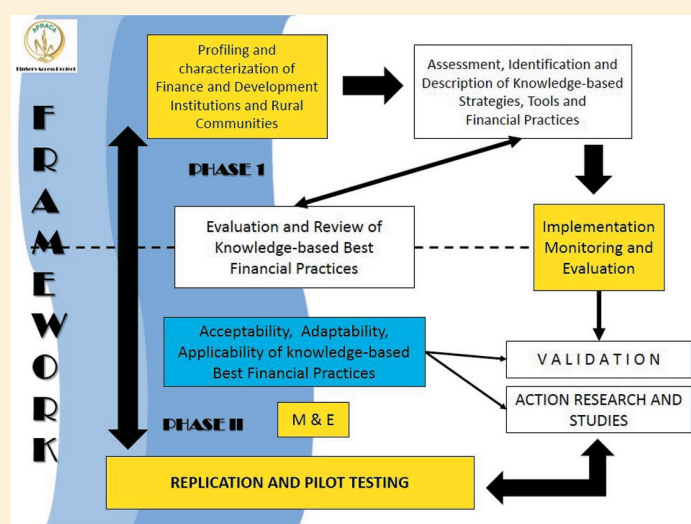
One of the important activities of the FinServAccess Project (FSAP) is to conduct of pilot testing and replication of proven innovations and practices on financial management in the different institutions of the target countries – Bangladesh, Cambodia, Myanmar and Nepal supported by other relevant institutions through partnership.

As a way to enhance the process of implementation, the FSAP supported the development of evolving replication framework to aid in the testing, monitoring, evaluation, validation and documentation of financial approaches,

innovations, strategies, and practices. The replication framework was developed initially to support the exchange of interventions between Bangladesh and Thailand on risk management strategies and tools, Nepal and India on small ruminant value chain finance, and Cambodia and India on the utilization of ICT-based strategies and tools in improving the financial management of institutions and service delivery to rural people particularly the poor and marginal groups.

Specifically, the replication framework dealt with the pivotal orchestration of innovations, strategies and practices applied in financial management and agricultural development. It was initially applied to the target countries and evaluated periodically to document lessons learned. It was presented as a working document for possible adaptation during the RuFBEP Project Inception Meeting held on May 2014 in Bangkok, Thailand. It was noted that the framework was adopted with some modifications based on resource, culture and development perspective of the users.

The featured processes include 1. **Assessment** – profiling of key players and stakeholders and characterization of the institutions and project communities; 2. **Identification, Selection and Prioritization of Strategies/Practices** – scooping and mapping and the analysis, integration, consolidation and synthesis; 3. **Validation and Demonstration** – community mobilization and organization, pre-testing and evaluation, implementation; 4. **Monitoring and Evaluation** – process documentation, wrap-up meetings, focus group discussions; and 5. **Documentation for Expansion** – scaling up including knowledge sharing and exchange as shown in the figure below.



Source: Adapted from FinServAccess Project 2013-2015, developed by ©MUAquino, 2014

In addition, the framework includes the key factors such as **PEOPLE AND COMMUNITIES** – include the roles and responsibilities; **PRODUCTS AND SERVICES** – description of the strategies and or practices and how to deliver;

PROCESSES AND SYSTEMS – identified stages and phases of implementation and operational activities; **TECHNOLOGIES** – includes resources both technical and financial to support implementation; and **POLICIES** – rules and regulations for the successful implementation of the identified strategies and practices for replication and pilot testing. All factors are required to support the productivity, profitability of the stakeholders and security and sustainability of the communities during implementation.

Finally, the replication framework is supported by indicators for sustainable strategies' and practices' implementation along social accessibility, technical feasibility, economic viability, environmentally sound and institutionally supported by the key players and stakeholders taking into consideration the culture of people and communities, availability of resources (infrastructure and soft systems/programmes); technical and financial technologies and the participating institutions.

Activities of IFAD Grant RuFBeP Project

■ Phase-2 of RuFBeP Project: Pilot testing of Rural Finance Products and Services – Policy Forum in Indonesia

MICRA, Indonesia the implementing partner of RuFBeP Project, alongside with Bank Indonesia as the leader of the Indonesia Country Working Group (CWG) teamed up to hold a series of policy forums from 23 May to 03 June 2016. The forums were aimed to get a third party perspective from related stakeholders about the framework of the programme that could support the activities under RuFBeP Project based on their own experiences. The participants in the forums includes the technical ministries, NGOs, insurance companies, banks, local buyers, microfinance institutions, farmer groups, fishermen groups, etc. To accommodate the urgency and needs of the discussion, the forums were organized in three separate sessions based on its objective. The national level of policy forum was held in Jakarta and hosted by Bank Indonesia. This sessions were attended by the country's level of ministries, heads of companies and NGOs. While the other two sessions are held in both of the study location: Lombok and Celebes, which attendees are the local level of government agencies, NGOs, MFIs, and business actors.

- **National Policy Forum:** In Jakarta the policy forum is hosted by the Bank Indonesia on Friday, 27 May 2016. As presented by Dr. Prasun Das from APRACA, the objective of policy forum aims to discuss the identified best practices for pilot testing and scaling up under their unique operating environment and their relationship with the global practices. The forum also seeks to formulate a working framework for piloting the best practices as accepted by the Country Working Group and forge strategic partnerships among the stakeholders at both country and regional level. The discussion was attended by thirty (30) participants representing fifteen (15) organizations. They are: Bank of Indonesia, IFAD, APRACA, the Ministry of Marine and Fisheries, the Ministry of Cooperative and MSME, the Ministry of Agriculture, NGOs, insurance



National Policy Forum at Jakarta: Representative of Bank Indonesia (Ms. Ika Tejaningrum & Mr. Noviarsano), IFAD (Ms. Sara Hassel), APRACA (Dr. Prasun Das) opening the discussion panel on May 27, 2016

providers. The discussion was led by MICRA and also attended by APRACA representative.

- **Policy Forum in Lombok:** In Sekotong the policy forum is hosted by the Agency of Fisheries of West Lombok on Thursday, 26 May 2016. The chosen MFI partner for Sekotong is KSU Bina Laut who will be implementing financial services best practice in the study location for fisheries sector. The discussion was attended by 23 people who representing nine (9) organizations including; Bank of Indonesia, the Agency of Marine and Fisheries, the Agency of Cooperative and MSME, Mataram's Fish Quarantine and Inspection Agency, producer groups, collectors, input provider, fishermen groups, and the financial institutions. The discussion was led by MICRA and also attended by APRACA representative.



Policy forum session in Lombok was attended by 23 people representing nine organizations. The forum was held in the function room of the Fisheries and Marine Agency of West Lombok on May 26, 2016

- Policy Forum in Central Celebes:** In Parigi the policy forum is hosted by KSP Sekartani Mandiri on Thursday, 2 June 2016. KSP Sekartani Mandiri itself is the chosen MFI partner to implement the financial services best practice in Parigi for agriculture sectors. The discussion was attended by 22 people who representing nine (9) organizations including; Bank of Indonesia, the

Agency of Agriculture and Estate Crop, the Agency of Cooperative and MSME, NGOs, producer groups, buyers, input provider, farmers and livestock breeder groups, and the financial institutions. The discussion was led by MICRA.



In the policy forum session in progress at Parigi Moutong. The forum was attended by 22 people representing nine organizations. The forum was held in the function room of the Titian Budi Luhur Foundation on June 2, 2016

Knowledge Series 2: State of Rural and Agricultural Finance including Best Practices and recent innovations in the sector: Asia-Pacific Perspective

It is widely recognized that the lack of access to a range of financial services is a major hindrance to lifting the typical rural smallholder out of poverty. Without access to financial capital, the poor farmer and small entrepreneurs are unable to buy the required inputs necessary to augment production and escalate income. Furthermore, the limited availability of credit in general has held back the rural and agricultural sectors of many countries within the Asia-Pacific region, which has negatively impacted the overall development of national economies. Yet the ability of many governments and rural finance services institutions to effectively facilitate/provide such services on a sustainable basis has proved elusive.

Different financial service providers outside of the formal financial sector have played a critical role in allowing an effective supply response to the growing demand for capital for the rural entrepreneurs including agriculture. Nevertheless, there is evidence that the equilibrium reached within rural and agricultural financial markets is sub-optimal from a social perspective, given limitations in the outreach, variety, flexibility and costs of the financial

products offered resulting in an inadequate coverage and the exclusion of an important part of the rural population that carries a genuine demand for different financial services. The reasons for the lack of success in delivering rural financial services and the risk associated with this are well researched and documented. Among others, high transaction costs to cater large rural population and the problems of providing collaterals by the rural clientele emerged as the major barriers to improve the impact of the pro-poor rural finance programme in the Asia-Pacific region. The risks associated with smallholder agricultural production include natural disasters, unforeseen declines in prices, low yields due to several factors etc. All of these factors can result into low revenue, which in turn may lead to high default rates on loans and a limited use of other services, such as savings and insurances aggravate the situation. Hence, many financial institutions are often reluctant to extend credit services to smallholder farmers and other rural entrepreneurs. Despite these barriers, innovative ideas, good practices are constantly being developed and tested which however achieved success in many countries of the Asia-Pacific region.

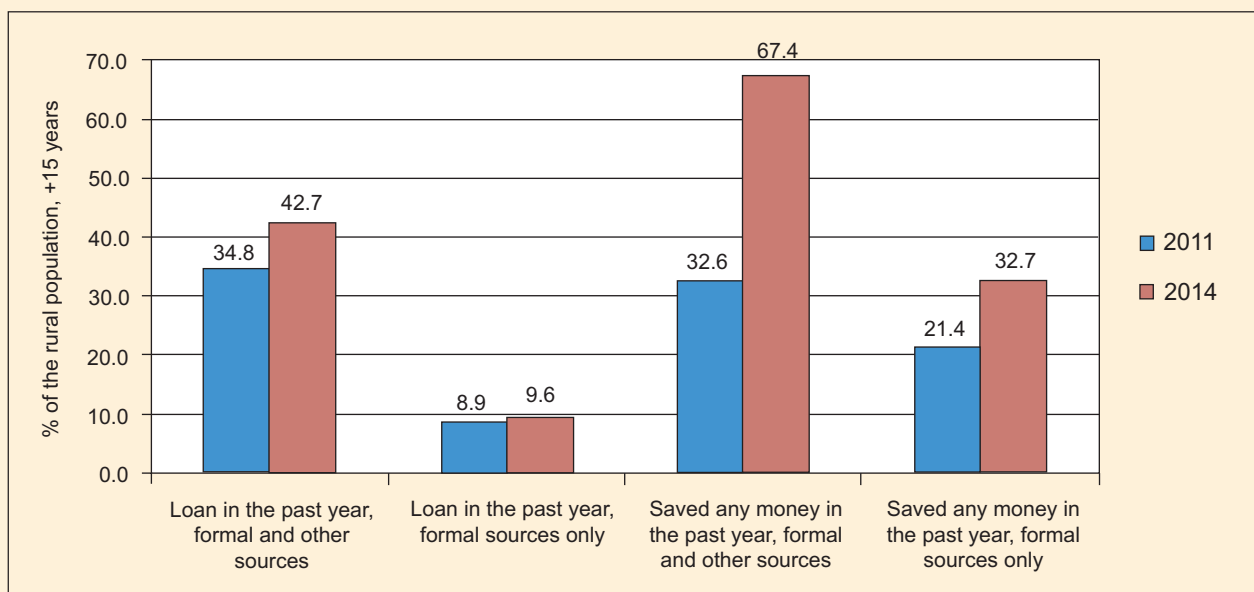
A new paradigm in Rural Finance began to emerge in the late 1980s and gained momentum during the mid-1990s in the Asia-Pacific region. The genesis was based on lessons from the old paradigm and the emerging microfinance revolution took place to bridge the gap between demand and supply of financial services in the rural areas of the region. The new paradigm reflects a financial systems approach, using market principles to deliver financial services aimed at facilitating rural development that, in turn, promotes asset creation and poverty reduction in the rural areas. The new paradigm is based on the principle that a commercial, market-based approach is most likely to reach large numbers of clients on a sustained basis. It also recognizes that innovative financial products and services could demonstrate desired impact to the rural socio-economic situations. The financial institutions are constantly developing new products and services to cater to the rural population their country context with some scale of success which however are not being disseminated to the right audiences across the continent. It was also seen that the national government has a role to play in establishing a favourable policy environment which also need more engagement and knowledge sharing to facilitate scaling up of the good practices and innovative ideas.

The rural financial markets in Asia have been struck by several major events during the past few decades. However, there is consensus that the financial sector in Asia has also improved its rural outreach during this period. What has been difficult to quantify in the past is the share of the rural financial market that the formal financial sector actually captures. Until recently, there has been an emergence of nationally representative surveys (e.g. the Global Findex and Finscope) from where we can estimate the market shares captured by formal and informal

financial service providers. The financial institutions catering to the rural populations in collaboration with the central banks and national governments in the region have tried their best to meet economic and social objectives, first to support the green revolution and, more recently, to aid in pulling the people out of poverty. The approaches of the countries in the region were also different ranging from massive inflow of subsidized funds (as in case of India, Indonesia and Thailand) to market led interest regime (in case of Philippines). There are emergences of new specialized development finance institutions (ADBC in China, NABARD in India, BAAC in Thailand, Land Bank in Philippines etc.) to deliver credit to targeted clients when commercial lenders failed to serve the rural clients adequately. There are instances where many of the institutions have failed, many have been recapitalized, and many of them became weak due to the accumulation of large nonperforming portfolios. Out of the five countries studied, almost all of them have strong, self-sustaining institutions with the capacity to serve large numbers of rural farm and nonfarm clients, including the poorest members of the rural economy.

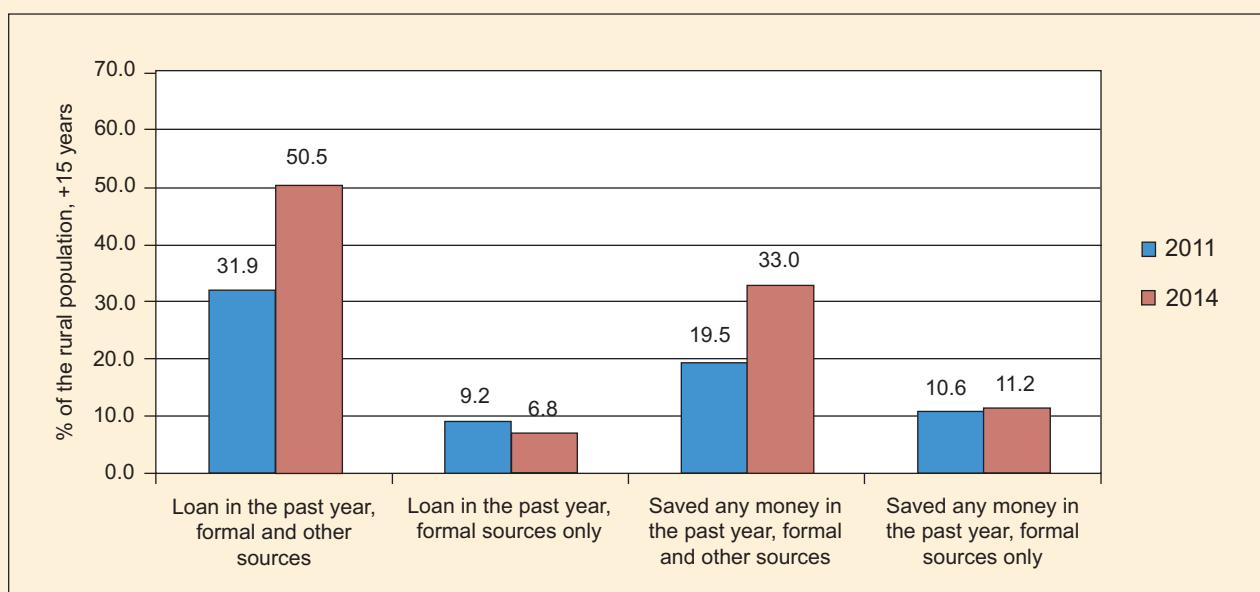
The emerging evidence shows that financial services used by the rural population are provided for the most part by agents who do not belong to the formal financial sector, such as rural enterprises in the commerce and service sector, agribusinesses active in specific value chain segments, informal loaners, community savings and loans groups, family and friends. Figures 1 and 2 shows how in the Asian region, from the total percentage of the rural population that actively makes use of credit and saving services, a minority share reports obtaining such services from formal financial institutions. The remaining percentage of the rural population, represented by the gap between the bars in the figures, has been provided by

Figure 1. Percentage of the rural population over 15 years in the East Asia and the Pacific (EAP) region (developing countries only) that made use of savings and credits service between 2011 and 2014



Source: Global Findex database, World Bank 2015

Figure 2. Percentage of the rural population over 15 years in developing countries in South Asia (SA) that made use of savings and credits service between 2011 and 2014



Source: Global Findex database, World Bank 2015

informal actors (i.e. not formally regulated as institutions that provide financial services) and represents the size of informal credit and savings markets. Although the coverage of financial services in rural areas by formal financial institutions has improved between 2011 and 2014, the percentage of the rural population that obtains financial services from informal actors has grown significantly more within the same timeframe, as represented by the growing gap between the pillars in the figures.

There are some interesting pattern differences to note between the EAP (East Asia and the Pacific) and SA (South Asia) regions when it comes to savings and credit markets during 2014. In the EAP region a greater percentage of the rural population makes use of credit services relative to savings, while the contrary occurs in the SA region, where there is a more predominant use of credit services. This is likely the result of more mature rural economies in the EAP region, where investment opportunities to make use of loans have been seized well and savings represent a service that more people find useful to manage their liquidity and fund investments.

Considering the relevance of agriculture within the diversity of economic activities in rural areas, it is worth to specifically focus on the performance of the formal financial sector in serving agricultural actors. Evidence suggests that in the majority of the countries within the region formal financial institutions have played a marginal role in providing credit to the agricultural sector relative to the ability of the sector to generate wealth in the overall economy. Despite the fact that agricultural sector financing is dependent on the intensity of the use of capital, the great imbalance observed in certain countries between the percentage of the national credit portfolio that belongs to agriculture, and the percentage of the GDP that derives from agriculture, suggests that the financial sector does

not serve the agricultural sector to an extent that is proportional to its capacity for generating wealth. This includes very poor countries with a high potential for agricultural development.



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