APRACA FinPower Programme

COMPLETION REPORT:

APRACA FinPower Regional Forum-Consultation on Rural Finance Innovations and Emerging Issues

Documentor:
S.K. Chatterjee

An APRACA FinPower Publication with the Special Sponsorship of the International Fund for Agricultural Development (IFAD)

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MESSAGE from APRACA CHAIRMAN

The world has been witnessing a huge global meltdown. The developments on Eurozone and America are particularly disturbing especially for the Asia-Pacific region. It may affect the investment climate in the region. There is also a huge food inflation in various parts of the world. A combination of efforts and innovations particularly in agriculture and financial sector may help us to tide over this crisis.

APRACA has established a solid platform for systematic exchange of ideas and information amongst its member countries on various agriculture and rural finance services. APRACA also has taken up pilot projects to replicate innovative ideas, consultancy, publication, and research activities on various issues of common interest.

IFAD provided financial and technical support to APRACA on various programmes which have replicability. IFAD is also the strategic partner to APRACA under the FinPower Programme. It helps both the organizations to build on the strengths of each other. I acknowledge the contribution of IFAD to APRACA in its effort to reduce and eradicate rural poverty through various policy and product support. I wish to place on record my heartfelt thanks and appreciation to Dr. Thomas Elhaut, Director and Dr. Ganesh B. Thapa, Regional Economist of Asia and Pacific Division, IFAD for their continued support and guidance to APRACA, and the success of this programme goes entirely to them.

I wish to thank all the delegates, paper presenters, representatives of Central Banks of various countries for having attending the programme and sharing their ideas on developmental initiatives undertaken in their respective countries. BAAC need special thanks for making all arrangements for success of this programme.

I wish the presentations and ideas in this report will be useful to policy makers in the governments, banks, development practitioners and all others who are truly committed to rural prosperity.

Abdivakhob Tamikaev
Chairman
APRACA

MESSAGE from
DONOR-INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

The world population today is touching nearly seven billion. A majority of them resides in Asia and Africa. A majority of people in the region are poor with little access to basic necessities for leading a decent life. Food, safe drinking water, basic health facilities, primary education eludes a majority in this part of the world. Ensuring food security for its citizens is one of the priorities of the governments mostly in Asia and Africa, where we observe general mass poverty. It is therefore imperative for the governments to achieve food security for all as soon as possible. The World Food Summit, 1996 clearly stated 'Food security at the individual, household, national, regional and global levels is achieved when all people at all times have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life'.

A recent study by IFAD confirms the substantial contribution that agriculture can make to economic growth. It found that a one percent growth in agriculture results in a GDP (per capita) growth rate of 2.13 percent. It also showed that one percent growth in agriculture led to 2.73 percent reduction in poverty (US$1.25 per day). Given this study findings we cannot afford to ignore the importance of agriculture and its resultant impact on ensuring food security for all.

IFAD endeavors to create a client friendly and country specific conducive atmosphere for agriculture and rural upliftment and food security for all through constant dialogues, knowledge sharing, dissemination of information, replication and pilot testing. In its effort to do so IFAD requires regional partners like APRACA which has got a large network of members in its fold. This makes our intervention meaningful.

The present FinPower Programme aims at sharing rural innovations experiences across Asia Pacific. As I see from the programme schedules, there are some interesting and illuminating experiences to be shared by participants of different countries. This will make us rich in experience and help us in dealing with our mission more efficiently.

Ganesh B. Thapa Ph.D
Regional Economist
Asia and Pacific Division
International Fund for Agricultural Development (IFAD)

MESSAGE from APRACA MEMBER-HOST INSTITUTION

Rural finance and agriculture are closely connected to each other. Finance is one of the important ingredients in the agriculture production process. Food supply comes from agriculture while bank finance facilitates the production. But bankers view agriculture as a high risk portfolio. Rural finance practitioners have a challenge in their hands to balance between two classical conflicting goals of a maximum outreach in the rural sector and long-term financial viability of the respective institutions. The achievement would bring a more balanced income distribution to our society. This is a never ending process.

Present globalization process brings a great opportunity and at the same time serious concern. Food insecurity is a concern. Dietary habit of the population is changing partly due to affluence and partly due to changing people's tastes. Developing countries mostly relying on agriculture are vulnerable to climate change due mainly to the global warming effect. Land degradation due to poor agricultural practices has caused low agricultural productivity. Hedging across livelihoods is less feasible at present than ever before. These developments are unavoidable and indeed have made our task much more difficult and complicated. There may not be many soft options available with us than to meet these challenges with more local innovations, some of which is being discussed here today.

I would like to take this opportunity to call upon APRACA member institutions to be more focused on issues concerning poverty reduction, food security and global warming effects with continuous support from IFAD and FAO. This brings international exposure and solution to our efforts in fighting poverty and meeting the MDGs by 2015.

I sincerely wish that this FinPower consultation process by APRACA will help the stake holders in creating an atmosphere for better sharing, understanding and appreciating of different ideas from various parts of Asia Pacific, that are being presented in the programme.

Luck Wajananawat
President
Bank for Agriculture and
Agricultural Cooperatives (BAAC)

ACKNOWLEDGEMENT

The humanity now stands at a juncture when it needs cooperation among the nations more than ever before. Challenges facing the humanity are many. Population growth, poverty, illiteracy, global warming, etc., are some of the challenges which no single nation can face alone. APRACA endeavors to meet the challenges of rural poverty, through regional cooperation, especially in Asia-Pacific region. The process is through information sharing and dissemination.

With this aim in view, APRACA in association with IFAD has arranged a Forum-Consultation during December 13-16 in Bangkok, to share and discuss various rural innovations intended to ameliorate poverty in various Asia Pacific countries.

I wish to place on record my sincere thanks to IFAD for its support for organizing this interaction. I extend my sincere thanks to Mr. Luck Wajananawat, President of BAAC for his gracious acceptance to inaugurate the programme and also acknowledge the cooperation of BAAC in hosting the event. I am thankful to Mr. Man Ho So, of UN-FAO, Mr. Pal Buy Bonnang, Vice-Chairman of APRACA, Dr. Ganesh B. Thapa of IFAD and Dr. Geetha Nagarajan for sparing their valuable time and sharing their ideas.

The role of Central Banks of the countries cannot be undermined in framing policies directed to fighting poverty. I am thankful to Mr. S.M. Moniruzzaman of Bangladesh Bank, Mr. Edy Setiadi of Bank Indonesia, Mr. Kim Vada of National Bank of Cambodia and Mr. Syed Samar Hasnain for having participated in Governors Circle and discuss the philosophy, strategies and policies of respective Central Banks for fighting rural Poverty.

I also thank all the participants of Info market for providing and sharing information on their respective institutions.

My thanks are also due to NABARD, and Mr. S.K. Chatterjee, Director, BIRD, India, Ms. Damiana D. Exiomo, Chairman and President, KMBI, Philippines, Mr. Md. Fayzer Rahman, Executive Vice-President, ASA, Bangladesh, Dr. Arghavan Rarzin Mo'tamed of Bank Keshavarazi, Iran and Mr. Subodh Prasad Gautam of Agriculture Development Bank of Nepal in the CEO's panel for the enriching discussions which greatly enhanced the utility of the entire exercise.

I also thank Ms. Camille Severac of AFD, France, Mr. Waliul Islam Khan of NEDAC, UN-FAO, Mr. Hongpeng Liu of UN ESCAP and Mr. Shil-Kwan Lee of ICA for sharing international experiences on rural innovations in the International Development Partners panel.

I deeply acknowledge the efforts put in by Mr. Benedicto S. Bayaua, former Secretary General of APRACA, who has been a pillar of support to me in conducting this programme.

I acknowledge the support, cooperation and efforts of entire staff of APRACA Secretariat, without whom this event would not have been successful.

Won-Sik Noh
Secretary General
APRACA

ACRONYMS AND ABBREVIATIONS

APRACA	Asia-Pacific Rural and Agricultural Credit Association
AFRACA	African Rural and Agricultural Credit Association
ABI	Agriculture Bank of Iran
ASA	Association for Social Advancement
AFD	Agence Française de Développement
ADBL	Agricultural Development Bank Limited, Nepal
BAAC	Bank for Agriculture and Agricultural Cooperatives
BIRD	Bankers Institute of Rural Development
BB	Bangladesh Bank
BRAC	Bangladesh Rural Advancement Committee
BOAT	Build Operate and Transfer
BCH	Barangay Carpenter Hill
BDS	Business Development Service
CEO	Chief Executive Officer
CBEDP	Community Based Enterprise Development Program
CCRD	Credit Committee for Rural Development
CARD	Centre for Agriculture and Rural Development
CBOs	Community Based Organisations
CDM	Clean Development Mechanism
CER	Carbon Emission Reduction
DFG	Development Finance Group
DTI	Department of Trade and Industry
EMI	Ekphatthana Deposit Taking Microfinance Institution
ESCAP	Economic and Social Commission for Asia and Pacific
FAO	Food and Agriculture Organization
FFTC	Food and Fertilizer Technology Center
FIN	Financial Identity Number
FCI	Food Corporation of India
GDP	Gross Domestic Product
GTZ/GIZ	German Agency for Technical Cooperation
GHG	Green House Gases
IFAD	International Fund for Agricultural Development
ICA	International Cooperative Alliance
IMEP	Individual Microenterprise Program
ICT	Information and Communication Technology
KMBI	Kabalikat para sa Maunlad na Buhay
LMP	League of Municipalities of the Philippines
LGU	Local Government Units
MDG	Millennium Development Goals
MFI	Microfinance Institution
MRI	Mutually Reinforcing Institutions

MBA	Mutual Benefit Association
MMF	Members Mutual Fund
MSME	Micro Small and Medium Enterprise
MCS	Micro Credit and Support
MED	Micro Enterprise Development
MSP	Minimum Support Price
NGOs	Non-Government Organization
NEDAC	Regional Network for Development of Agriculture and Cooperatives in Asia and Pacific
NABARD	National Bank for Agriculture and Rural Development
NBC	National Bank of Cambodia
NAPC	National Anti-Poverty Commission
ODA	Official Development Assistance
OTOP	One Tambon One Product
PKSF	Palli Karma-Sahayak Foundation
PRA	Participatory Rural Appraisal
PP-PPP or 5Ps	Pro-Poor Public Private Partnership
PSF	Price Stabilisation Fund
RMFSP	Rural Microfinance Support Project
RDB	Rural Development Bank
RuMEPP	Rural Micro Enterprise Promotion Program
SBP	State Bank of Pakistan
SHG	Self-Help Group
SFDP	Small Farmers Development Programme
VAs	Voluntary Agencies
WFP	World Food Programme
ZTBL	Zarai Taraqaiti Bank Ltd.

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Part 1

Introduction to and Summary of the Forum-Consultation

1.1 Introduction to the Forum-Consultation

by Mr. Benedicto S. Bayaua (Consultant), Forum-Consultation Moderator

About APRACA

Since 1977, the Asia-Pacific Rural and Agricultural Credit Association (APRACA) has aspired to work for rural growth and development, with priority emphasis on the uplift of rural poor. It has pursued the promotion of efficient and effective rural financial systems and broadened access to rural financial services. It established among its members, a machinery for systematic interchange of information on sustainable rural and agricultural financial services, encouraged inter-country studies, provided forums to discuss matters of common interest in the field of rural finance, and provided training, consultancy, research and publication services.

The Collaboration with IFAD

APRACA, with its wide network of member rural financial institutions and central banks, has forged a strategic link with the International Fund for Agricultural Development (IFAD) to engage with senior policy makers and central banks in formulating key rural finance policies and client-friendly regulatory framework as well as with rural finance institutions in building stronger access and financial inclusion of their clients.

The goal of the International Fund for Agricultural Development (IFAD) is to reduce rural poverty through sustainable improvements in household food security and incomes. In order to contribute to this goal, one of IFAD's strategic objectives is to provide improved financial and related non-financial services in rural areas. In fact, two-thirds of the Fund's current projects have a rural finance component and approximately one-fifth of the Fund's resources are dedicated to rural finance. Hence, IFAD aims at providing sustainable access of the rural poor to financial services, to be enhanced by institutional diversity and a supportive rural financial infrastructure. IFAD's rural finance policies highlight four focus areas:

- building sustainable rural finance institutions with outreach to the rural poor;
- fostering stakeholder participation, including the poor, in the development of rural finance;
- building a diversified rural financial infrastructure; and
- promoting a conducive policy and regulatory environment.

IFAD provided financial and technical support to APRACA's five-year MicroServ programme from 1996 to 2001, wherein replicable rural finance models were disseminated to member institutions and to a wider audience. The programme showed that the replicability of innovative models was further enhanced when conducted through an organization with an existing, wide geographic network such as APRACA, thereby yielding more cost-effective results, broader geographic reach and assured project continuity.

In 2007, the International Fund for Agricultural Development (IFAD) again re-engaged APRACA with a five-year Technical Assistance Grant to implement the Regional Programme of Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations, dubbed as the APRACA FinPower Programme.

The five-year FinPower Programme's goal is to promote the financial empowerment of the rural poor in Asia-Pacific countries through policy dialogue, innovative pilot programmes, and knowledge-sharing among actors in the rural finance sector. The activities undertaken by the programme are expected to further consolidate rural finance knowledge and replicate successful approaches among beneficiaries in the Asia-Pacific region.

The three programme objectives correspond to the three central components of the FinPower Programme:

Component 1: Participatory Dialogue and Policy Forums
Component 2: Pilot Programmes, Exposure Visits and Documentation
Component 3: Training, Regional Study and Sharing of Innovative Practices

About the Forum-Consultation

Objectives

In line with Component 3, the forum-consultation intends to:

- provide an appropriate platform for discussion and information sharing among institutions, partners and agencies;
- extract lessons from the wealth of rural finance innovations and best practices that were pilot tested, nurtured and had blossomed during the FinPower Programme;
- discuss and seek workable solutions to emerging rural finance issues and developments; and
- recommend a feasible and realistic action plan for replication of rural finance innovations and best practices at the institutional, national and regional levels.

Venue and Date

The forum-consultation was held at the Pathumwan Princess Hotel, Bangkok, Thailand during December 13-14, 2011 while a field visit was conducted in the province of Chonburi, Thailand during December 15-16, 2011.

Hosting Organizations

The forum-consultation was hosted by the Asia-Pacific Rural and Agricultural Credit Association (APRACA) and the Bank for Agriculture and Agricultural Cooperatives (BAAC) with the special participation of the International Fund for Agricultural Development (IFAD).

Participants

The forum-consultation brought together the following participants:

- Governors and senior officers of central banks and other regulatory authorities
- CEOs, senior level and middle level officers of APRACA member rural finance institutions
- finance-related government agencies
- IFAD country portfolio managers and national project managers
- international and national development agencies
- NGOs and other partners
- financial and social investors

Local participants from BAAC, commercial banks with microfinance units and other rural finance partners were also invited to the event.

Confirmed participants from various APRACA member institutions and IFAD projects were drawn from the countries of Bangladesh, China, Cambodia, India, Indonesia, Iran, Japan, Korea, Lao PDR, Nepal, Pakistan, Philippines, Sri Lanka and host Thailand. Other participants and experts were also drawn from IFAD, Agence Fançais de Développement, UN ESCAP, UN-FAO, IRIS Center of the University of Maryland, NEDAC, ICA and FFTC of Taiwan. Delegates of the African Rural and Agricultural Credit Association (AFRACA), which intended to visit Thailand and the Philippines, also were invited to the opening ceremony of the forum and likewise were invited to discuss collaborative strategies with BAAC.

The recommendations of the Forum-Consultation are expected to address several thematic concerns, e.g., green financing, value chain financing and risk management as well as a few cross-cutting issues, such as focusing on women and rural youth as targets in rural/microfinance, in addition to the traditional focus on farmers and fishermen.

These recommendations are expected to target various levels of rural/microfinance polices and operations:

- At the regional level: To IFAD and APRACA and other international development partners in their continuing strategic partnership to further strengthen rural financial systems and enhance financial empowerment of the rural poor;
- At the national level: To national policy and decision-makers (central banks and other regulatory authorities) in designing client-friendly rural finance policy environment and regulatory framework; and
- At the institutional and project level: To APRACA member institutions, IFAD national projects and other rural financial institutions/projects in designing projects that involve public-private partnership, financial inclusion and broadening the target group (e.g. including rural youth), among others.

1.2 Summary of the Forum-Consultation and Recommendations

by Mr. S.K. Chatterjee, Director, Bankers Institute of Rural Development and Documentor

1.2.1 Conceptual Framework of Innovation

In every sphere of life, be it of organization or individual, innovation is no longer a choice. The new mantra is "to innovate or perish". This is as well applicable to rural financial institutions and other agencies engaged in the development of the rural sector. Innovation is defined as the process of "combining existing elements in new ways, to create value for customers". New ways of reaching the unreached call for innovation. The emphasis of innovation should be inclusive development of the people with particular focus on agriculture and other social sectors. The innovation should also look at the strengthening of the delivery institutions that takes the resultant benefit to the poor.

Eradication of poverty requires orbit shifting innovation, based on 'Aspiration Back' approach instead of 'Ideas Forward' approach. New things which have not been done before are required to be attempted. It also requires courage to challenge the established way of doing things. Innovation also requires to have seemingly impossible aspirations and then work backwards to achieve them. It requires a determined mind set to think out of box and keep going on the road when others call it a quit. This can be compared with the task of ship building without knowing the depth and vastness of the ocean. Working in rural development sector requires aspirations to deal with the vast ocean of poverty with small localized innovations.

1.2.2 Forum-Consultation Process and Highlights

As mentioned in the introduction to the Forum, IFAD has been in the forefront of fighting against poverty. In association with APRACA, IFAD has supported several innovative programmes empowering rural communities through its FinPower Programme in the Asia-Pacific Region. This Forum-Consultation on Rural Finance Innovations and Emerging Issues discussed various innovations presented by the APARACA member institutions and other partners.

The forum-consultation was held during December 13-14, 2011 followed by field visit in the province of Chonburi, Thailand during December 15-16, 2011.

There were four sessions on day one i.e. December 13, 2011. The first session was the **inaugural session** in which dignitaries from APRACA, IFAD and BAAC addressed the delegates. **Mr. Luck Wajananawat**, President, BAAC, in his welcome address dealt with food security, high food prices and its impact on a vast majority of the population. He cautioned that with low agriculture productivity and more and more land being taken away from farming there was a threat to world food security and poverty alleviation efforts. He said that rural financial practitioners have to bring back agriculture and rural finance to the top of the development agenda by encouraging environmental friendly practices and adopting local wisdoms in enhancing agricultural productivity.

Mr. Hiroyuki Konuma, Assistant Director-General and Regional Representative, FAO Regional Office for Asia and Pacific in his address (delivered by Mr. Man Ho So, Deputy Regional Representative) highlighted the need for investment in agricultural research for developing highly productive and sustainable technologies suited for different agro-climatic conditions. He emphasized on the need for enabling policy framework for conducive private sector investment in agriculture and to attract younger population to farming. He said that there is need to invest in technologies that mitigate risk in farming. He also mentioned that innovative concepts like MicroBanking supported by IFAD in Cambodia are needed to bring financial services to the masses.

In his address, **Mr. Pal Buy Bonnang** of National Bank of Cambodia (and Vice-Chairman, APRACA) highlighted the importance of comprehensive and supportive regulatory framework for a favourable growth of the microfinance sector. Citing the example of Cambodian regulations he said that the regulations should also grow along with the maturity of the sector.

Dr. Ganesh B. Thapa of IFAD in his address highlighted the role of IFAD in supporting successful innovative models of rural financing in the Asia-Pacific region. He said that gains of the FinPower Programme needs to be consolidated and mutual collaborations further expanded to address emerging issues in agriculture and microfinance. He also said that the recent financial crisis has given an opportunity for design of new products with better risk management strategies.

Two excellent papers were presented in the **second session**, one by Dr. Ganesh B. Thapa, Regional Economist, Asia and the Pacific Division, IFAD and the other by Dr. Geetha Nagarajan, Director, IRIS Centre, University of Maryland, USA.

In his paper **Dr. Thapa** indicated that a study by IFAD confirms that a 1 percent growth in agricultural value added per capita results in a GDP (per capita) growth rate of 2.13 percent. It also showed that a 1 percent growth in agriculture led to 2.73 percent reduction in poverty (US$1.25 per day), which is significantly higher than the impact of GDP growth on poverty (1.28 percent). He dealt with some IFAD assisted innovations which are broadly as follows:

- A credit project for small farmers and fishermen in Indonesia formed around 50,000 groups. The women in marginal areas transformed these small groups into larger self-reliant savings and credit associations.
- The Centre for Agriculture and Rural Development (CARD) in the Philippines changed from an unsustainable credit NGO to a viable rural bank with rapidly growing outreach to very poor women.
- In Pakistan, the Dir Area Support Project introduced a new system of Islamic Microfinance or *Murabaha* which was in line with Islamic banking principles. Instead of interest-based lending which is prohibited under Islam, the bank and the customer enter into a sale purchase agreement.
- In India, Self-Help Groups Bank Linkage Programme is a huge success and is the world's largest microfinance programme.
- In Nepal, small farmer cooperatives offer tailor made agricultural and non-agricultural loans, savings and insurance products to poor farmers.

He also mentioned weather index-based insurance, producers' organizations/associations, value chain financing/contract farming as some of the other rural innovations that have potentiality for replication.

The second paper by **Dr. Geetha Nagarajan** indicated rural innovations in the following four areas:

1. **Finance for rural youth**: There is a growing enthusiasm to innovate in financing youth. Efforts are focused on urban youth between 15 to 24 years of age. There is very limited focus on servicing rural youth in Asia and Africa. Youths require more banking services than simple access to savings products. Grants, loans and leasing are found to be essential for youth as innovative products

2. **Financing rural energy and water**: Grid electricity is expensive to provide in rural and remote areas. But, developing stand alone, cost effective off-grid solutions, using renewable energy sources is feasible for rural areas. Several financial mechanisms including loans to finance installation of solar home systems in partnership with solar kit manufacturers are provided to clients. Value chain finance is also promoted to ensure steady supply of solar energy devices. It is also common to find many failed rural water supply

schemes. Some initiatives combine grants, loans, and value chain finance in order to meet the demand for water finance in rural areas. Experiences show that successful business models for financing rural water initiatives involve careful planning in selecting the right partners, prioritizing among the various types of demand for water (irrigation, drinking etc.), and effective monitoring and assessment of investments.

3. **Insuring rural clients**: Rural insurance essentially at present, functions only as a safety net programme. But, new insurance products are now being developed and tested in Asia to insure rural populations. Some of them include weather indexed crop insurance, hybrid weather and yield indexed crop insurance, index based livestock insurance, community run credit insurance and nation-wide public health insurance for the poor.

4. **Responsible rural finance**: It is an evolving theme. Issues like relevance to rural finance, finding effective ways to regulate and supervise the financial sector players to ensure responsible finance, measuring and preventing over-indebtedness, developing newer and cost effective methods – preferably using ICT – to provide cost effective financial education to clients in rural and remote areas, and developing easy and cost effective metrics to help monitor the compliance by the financial service providers. To that end, the standards that are being developed by initiatives such as Smart Campaign need to be carefully studied to cost effectively integrate responsible finance into due diligence of and reporting by the financial service providers.

The next session was **Governors' Circle** and was attended by senior officers of Central Banks and regulatory authorities of Asia-Pacific countries. The list of participants is annexed.

The first presentation was on **Bangladesh Bank**. The Bank has taken several innovative measures for the promotion of agriculture and rural financing. Annual credit policy for agriculture is fixed for all the commercial banks. Savings bank accounts can be opened in state owned banks with less than 20 cents. Solar home system and solar irrigation is treated as agricultural/rural finance thus encouraging renewable sources of energy. Mobile banking facilities are available to the poor and the Bank's Special Refinance Scheme for providing finance to the share-croppers.

The next presentation was by **Bank Indonesia**. The bank has introduced Financial Inclusion Indicators under which the performance of other banks is measured. The bank has provided Financial Identity Number (FIN) to the people to track financial inclusion.

The presentation from the **National Bank of Cambodia** dealt with regulatory measures of Microfinance. The major innovations by the bank aim to strengthen the microfinance industry with suitable policy measures. The NBC has recently issued regulations on: Governance, Fit and Proper Regulatory Requirements, Internal Control, Liberalization of Interest Rate Setting, and Credit Reporting. The NBC has also launched an automated reporting system for the MFIs that allows MFIs to submit the regulatory reports online. The Cambodian MFIs have recently expanded their products on Mobile Phone Banking, ATM, and POS.

The presentation of the **State Bank of Pakistan** was focused on flexible and broad based financial inclusion measures adopted by the Bank. Pakistan's microfinance regulation is rated among the best in the world.

The next session of the day was **Infomarket**. APRACA member institutions and IFAD national projects were invited to highlight details of institutional and project innovations. Through infomarket, a method of simultaneous "buying and selling" of information, each presenter displayed their knowledge wealth and experiences in a visual extravaganza.

The first presentation was by **Ekphatthana Deposit Taking Microfinance Institution (EMI)** of Lao PDR. The major innovation was Mobile Banking Methodology which aims at improving access to finance for poor households and small-scale enterprises in rural areas by using mobile banking. The bank has introduced innovations in its loan product. These are: clients apply loan up to the ceiling amount; partially withdraw principal; interest calculation with balance amount; principle repayment at the end of cycle; and, charging of fee on each loan.

The presentation by **CARD MRI**, of the Philippines dealt with experiences of participatory approach of working together with community. CARD is providing services like credit with education on health, health insurance coverage through KaSAPI (a partnership with PhilHealth), Preferred Provider Programme – health service providers are invited as partners to provide discounted rates to CARD members. CARD in return offers its membership base and encourages the members to visit partners under the project. Affordable Quality Medicines Programme (AQMP) – aims to provide affordable quality medicines in the rural area. This is in partnership with Zuellig Family Foundation (ZFF) and CARD MRI clinics – clinics opened in selected areas of CARD MRI wherein health services are free for staff, members and dependents.

There was a presentation on the **Carpenter Hill Community** of the Philippines. The **KMBI** has implemented a Community Based Enterprise Development Program (CBEDP) geared at empowering poor communities especially those in the rural areas to become financially secure through participatory approach.

The presentation on The **Rural Micro Enterprise Promotion Program (RuMEPP)** in the Philippines which is a seven-year programme assisted by the International Fund for Agricultural Development (IFAD). RuMEPP aims to help poor entrepreneurs and rural families in the country by providing technical and financial support for micro enterprises, which, in turn, benefit other poor families through job opportunities. The programme consists of three components: (a) Microfinance Credit and Support (MCS); (b) Microenterprise Promotion and Development (MEPD); and (c) Programme Management and Policy Coordination (PMPC).

The presentation by **People's Bank of Sri Lanka** dealt with bank innovative programmes such as Microfinance Villages, Forward Sales Contracts, People's Fast, "Swarna Pradeepa" Cluster Based Lending with a Development Path, Linkage Banking, etc.

The presentation by **BAAC** dealt with innovations like, Village Bank, Strengthening of Farmers and Communities, Promotions of Marketing, Processing and One-Stop Agriculture Center, Support of Channels for Sales of Farm Produce, Marketing Support Project for Produce, Support the Process of Adding Value to Agricultural Produce, Toxic-Free Vegetables Packaging and Culling, Community Product Development Promotion, E-Auction for Agricultural Inputs Procurement Project, Chemical Fertilizer Bulk Blending Based on Soil Analysis for Maize Promotion Project, Eco-tourism Support Project and Client Farmer, Potential Recovery Project. The above projects were useful to the bank as well as farmers and all parties involved.

The Second day's programme started with the **CEOs' Panel** which dealt with sharing of experiences on experimentations on eradicating rural poverty through various rural innovations. The first presentation by the Documenter himself, where three experiments carried out in **India** was discussed. The three experiments are, developing a Cadre of Professionals to work in Rural Areas in India, setting up Grain Banks and linking them with SHGs, and Village Development through Convergence. The second presentation was from **KMBI** which implemented Community Based Enterprise Development Program (CBEDP). It offers two diversified products through Agriculture MF and Individual Microentrepreneur Program (IMEP). The presentation by **ASA** of **Bangladesh** dealt providing various savings, loan, insurance and remittance products which are client friendly. Some innovations are, abandoning of group liability approach, group as well individual lending model, flexible loan duration, shorter period for disbursing loan, flexible repayment – weekly, monthly and one time at the end of maturity, and easy access of savings.These have put ASA in good stead in microfinance market in Bangladesh. The presentation by **Agriculture Bank of Iran** explained the Islamic Banking system and some innovations by the bank. Those innovations broadly are: 1) Iran plan which offers more suitable deposit and loan services to female population; 2) Zeinab plan: a plan to provide financial support for rural female headed households; 3) Fatima plan: which provides financial supports with the goals of job creation, capacity buildings and welfare of the family; and 4) Young graduates in agriculture: which provides financial support to the educated youth in the field of agriculture.

The presentation from the **Agricultural Development Bank Limited, Nepal** (ADBL) dealt with their innovation in association with IFAD. The innovation was a Pilot Project Testing in Banepa (25 km east from Kathmandu) and implemented through Group Liability Model for credit as a replica of BAAC credit model. It also trained the groups for quality improvement, capacity enhancement under the training programmes of ADBL.

The next session was the **International Development Partners' Session** which was more a bird's eye view of the working of respective organisations. International organizations like the Agence Française de Développement (AFD), the Regional Network for Development of Agricultural Cooperatives in Asia and the Pacific (NEDAC), UN ESCAP and International Cooperative Alliance (ICA) participated in the programme.

The **Group Workshops** on the second day by the three sub-groups dealt with three ideas which are of contemporary relevance. The three sub-groups were on Green Financing, Value Chain Financing and Agricultural Financing and Risk Management. The sub-groups gave some valuable recommendations which are of great relevance in the present day context.

The partnership between IFAD and APRACA to organize the present Forum-Consultation is a step towards dissemination of various rural innovations carried out by different banks and civil societies is appreciable. The programme need to be arranged regularly for the benefit of rural development practitioners.

Detailed descriptions of all the presentations made in the Forum-Consultation are given in the following chapters.

Part 2

Inaugural Addresses

2.1 Welcome Address

by Mr. Luck Wajananawat, President, Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand

Good morning.

It is my great pleasure and honor to welcome you on behalf of Bank for Agriculture and Agricultural Cooperatives (BAAC) of Thailand to this highly prestigious and important gathering which brings together international participants under the umbrella of IFAD-supported APRACA FinPower Regional Forum-Consultation on Rural Financial Innovations and Emerging Issues.

I would also like to express my deepest gratitude to IFAD and APRACA for their trust and acknowledgment on the role played by BAAC in providing unfailing support and co-hosting IFAD-APRACA events such as this Forum-Consultation.

IFAD has been APRACA's foremost and distinguished strategic partner since 1996 under the five-year MicroServ programme. In 2007 IFAD re-engaged APRACA under the five-year IFAD-supported Regional Programme of Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific, through Rural Finance Innovations, viz., "APRACA FinPower Programme". The programme has been proven to be of benefit to rural finance practitioners and have helped create a network of learning and exchange of rural finance development among APRACA members and others. Given the wide network and active participation of APRACA members and finance-related government agencies as well as international development partners and the private sector, this forum will again highlight the rural financial innovations in the Asia-Pacific region and showcase the latest rural and agricultural financing models as we advance the frontiers of rural and agricultural financing knowledge.

Rural finance and agriculture have a very close connection. Supply of food comes from agriculture while finance has a role to facilitate the production. We as rural finance practitioners have been working hard to achieve two classical conflicting goals. The first one is to go for a maximum outreach in the rural sector and the second one we have to make sure that long-term financial viability of our respective institutions is secured. And we further believe that the achievement would bring a more balanced income distribution to our society. As a result, it would help alleviate rural poverty. This is of course our common and a never changing ultimate goal.

Looking at Thailand, our country has contributed much to world food supply. We produce 20 million tons of milled rice yearly. About a half is meant for domestic consumption and the rest goes to the world. Even though natural disaster hampered production, our country still has surplus to supply to the world. BAAC has been and will remain a key player in rural finance in Thailand. It has been known to world financial communities for its exceptional high outreach, self-reliance on fund raising and its financial viability. One of the most admirable structural changes in BAAC is on financial sources. I remember 30 years back when I first joined BAAC, the bank relied on government budget, borrowing from central bank, overseas and the legendary source so called "forced deposits from the commercial banks" under the rural credit policy of the central bank of Thailand. Later, BAAC has gradually built up its own deposit base and become self-reliant in fund raising. To pursue the mission of rural development, BAAC, has successfully amended its charter to expand its scope of business and target group coverage. Now, we are able to provide financial assistance to support non-farmer clients in the rural areas. However, a credit rationing policy has been imposed on the bank to support non-farmer clients with a limit of 20 percent of the total loan portfolio. BAAC is now in the process of transforming itself from an agricultural banking institution to be a full-fledged rural development bank.

Nowadays, with globalization comes great opportunity and at the same time comes severe danger especially in areas with limited immunities. In aftermath of the 1997 financial crisis I recalled a huge and unrealized loss in BAAC due to currency devaluation. Moreover, an adverse effect of the economic melt-down in that year caused a sharp increase in non-performing loans in its portfolio. In order to bring BAAC back on track, it took a lot of effort including proper financing as well as recapitalization plans. As part of the plans, BAAC has committed itself to a more balanced funding policy focusing on local saving mobilization and it has now adopted a risk management practice based on international accounting standards. It is also investing heavily to revamp its ICT platform. This is to enable a more effective decision supporting system and to be ready for future growth in a more intense competitive environment. These developments are unavoidable and indeed have made our task much more difficult and complicated. I urge all of you to be well prepared for these changes.

At the global perspective, food insecurity becomes a growing concern due to world population growth, natural disaster and oil crisis. Developing countries mostly relying on agriculture are vulnerable to climate change due mainly to the global warming effect. Land degradation due to poor agricultural practices has caused low agricultural productivity. Persistently high oil price has induced more and more land be taken away from food crops in order to give way to bio-fuel production. As a result, poverty still prevails and will become the most significant threat to world food security. This incidence calls upon rural finance practitioners like us to bring agriculture and rural finance back to the top of development agenda. We need to induce our farmer clients to invest loan proceedings in pro-environmental activities and to increase agricultural productivities through applying harmless local wisdoms. Only this new way of doing banking business would make our banks to be “A Bank With Difference”. I recognize the importance of regional cooperation.

So I would like to take this opportunity to propose that future cooperation among APRACA member institutions be fostered concerning issues on poverty reduction, food security and global warming effects with continuous support from IFAD and FAO.

Last but not least, as rural finance practitioners pursuing the common endeavor of rural development, all of us look for ways in which we can weave a stronger “social safety net” amidst a vulnerable and fragile economic environment. What we strongly believe in Thailand is His Majesty the King’s Sufficiency Economy Philosophy. In BAAC, the Philosophy helps to introduce the concept of moderation, reasonableness, and resilience to change to our new way of doing banking business. BAAC now goes beyond savings and loans to reach sustainable development. A concept of credit plus technical assistance has been implemented by BAAC to promote value addition activities in rural areas with knowledge dissemination. So BAAC is far more than happy to exchange views with all of you about the latest development in Thailand. Do not hesitate to let us know.

Finally, I highly appreciate your participation and contribution to this event. I wish you all a very successful Forum-Consultation, and a very memorable and pleasurable stay in Bangkok and Chonburi where you will have an opportunity to see the rural finance landscape of BAAC.

Thank you very much.

2.2 Address

by Mr. Hiroyuki Konuma, Assistant Director-General and Regional Representative, FAO Regional Office for Asia and the Pacific and delivered by Mr. Man Ho So, Deputy Regional Representative

Good morning to you all

First of all, I wish to express my thanks to APRACA for the kind invitation to address this regional consultation on rural financial innovations. It is my great pleasure to be with you and share some thoughts on the emerging issues and challenges on rural finance.

The Asia-Pacific region, has achieved dramatic progress towards reducing poverty and hunger in the past last three decades. Economic growth and per capita GDP growth in this region has far exceeded other regions of the world. More recently, the region's economic performance in the wake of the global financial and economic crisis has been one of the bright spots in the world's economic recovery.

However, let us not forget that the fruits of economic growth have not been shared equally across countries and among the people within the countries of the region. As a result, widening inequality and disparity is seen in many countries in this region. The Asia-Pacific region as a whole is more or less on track to halving the proportion of the population living on less than 1.25 dollars a day, but not the proportion of hungry which increased to 18 percent in 2009 as a result of the food and financial crises, and is now down slightly to 16 percent against the MDG target of 10 percent to be achieved by 2015. Moreover, the absolute numbers are very large: 947 million people still live in poverty in the region, down from 1.5 billion in 1990. 578 million people are still undernourished and nearly 100 million children under five years of age are underweight. Most of the poor and undernourished in this region live in rural areas and depend, in one way or another, on agriculture for a living. The problems of vulnerable populations, especially pregnant women and lactating mothers, children under age five and other disadvantaged groups call for special attention for targeted safety net interventions.

Moreover, according to the latest projections from the United Nations Population Division, the region's population will increase from 4.2 billion in 2010 to 5.1 billion in 2050. Globally, the population will increase from 6.9 billion in 2010 to 9.3 billion. In order to meet the food demand of this growing population with higher incomes, the world's food production needs to increase by 70 percent. Developing countries, as they will continue to have a larger share of population in the world, need to double their current level of food production.

Achieving such growth in production is a major challenge. There is a growing scarcity of land and water resources for agriculture; their quality has suffered from unsustainable intensification and farming practices; climate change is adversely affecting the agriculture sector; part of the cereal grains and oilseed production is diverted to biofuel production; food prices are high and volatile and projected to remain so in this decade; and the youth is leaving rural areas for non-agricultural jobs causing aging of the agricultural population. To address this challenge greater investment in needed in agricultural research to generate highly productive and sustainable technologies for different agro-climatic conditions. This should be complemented by substantial investment in appropriate irrigation facilities, and rural infrastructure and support services. Last, but not the least, an enabling policy framework for agriculture creating incentives for private sector investment in agriculture and making it more profitable and attractive for the young population is needed.

Achieving rapid and sustainable growth in food production is not enough to address the hunger and nutrition issues in the region. Access of the poor to the increased food supplies must be enhanced by ensuring that agricultural growth takes place in a pro-poor, inclusive and sustainable manner.

The above challenges mean that there is a role to play for many in both the public and private sector. For example, there is an important role to play for plant breeders and crop scientists who need to develop new varieties that can profit from climate change or that can avoid the hazards of climate change. There is also an important role to play for government and the private sector to expand storage capacities and infrastructure so that food stocks can be stored in larger quantities and moved from surplus to deficit areas faster and more efficiently. And there is an important role to play for the financial sector.

When looking at the farm level, climate change has already been affecting farmers in the region for a number of years. Two years ago, an un-seasonally late typhoon caused the Mekong river to rise again after first falling, forcing farmers to delay the planting of crops on the riverbanks, affecting the yield and their livelihoods. Last year, the same river was unusually low, not overflowing its banks at all in places where it normally should. This again threw the farming season off balance, because lack of soil moisture forced farmers to spend a lot extra effort on pumping water on their land for irrigation. This year in Thailand, Cambodia and Vietnam, unusually large areas of crops were lost due to excessive rainfall and long periods of submergence of many farmlands. Other parts of Asia have been similarly affected. Think for example of the terrible floods in Pakistan over the past two years.

The only way for farmers to protect themselves to some extent from such unpredictable weather patterns is by taking better control of their farming environment. Depending on the situation, this requires on-farm investments such as for small-scale irrigation and drainage systems, soil improvements and higher raised beds, plastic tunnels or plastic houses, shading houses, seedbeds protected by insect screens and many more. All these investments help to reduce the risk of farming because they help to better control the farmers' production environment. There is therefore a clear need for financial institutions to make medium-term credit available for such on-farm investments. Such credit not only increases the productive capacity of farmers, but it also helps to reduce the risks involved in agriculture production, and this again reduces the risks of the financial institutions themselves.

The role of FAO in rural and agricultural finance has in the past focused mainly at the institutional level. FAO is a leading partner in the rural finance learning centre (www.ruralfinance.org) which caters for rural finance practitioners. FAO also plays host to the Global Centre of Excellence for the FAO-GTZ MicroBanking System in Bangkok. Like the rural finance learning centre, it caters primarily for agricultural and rural financial institutions. FAO also operates many projects with agricultural and rural finance components, often through so-called "Group Revolving Funds" (GRFs).

Most recently, FAO expects to become a partner in an innovative IFAD-financed project in Cambodia where the FAO-GTZ MicroBanking System will be used to capacitate external service providers to provide services to Group Revolving Funds by carrying out recordkeeping, accounting and reporting services for the groups, against payment of an annual fee. For sustainability, projects need to be designed in a certain way to optimize the group size and the fund size and the groups have to be part of geographic clusters to ensure cost effectiveness. The model is expected to represent a considerable cost-savings over MFI and institutional models.

Innovations like this will be needed in order to bring financial services to the masses of small farmers in the Asia-Pacific in a sustainable way to help them meet the challenge of increasing food production by 70 percent in 2050. And this is the challenge that financial institutions are required to meet. Because not meeting this challenge is not an option.

Let me conclude by wishing you productive and fruitful deliberations over the next two days.

Thank you.

2.3 Address

by Mr. Pal Buy Bonnang, Assistant Governor and General Director of Banking Supervision, National Bank of Cambodia and Vice-Chairman, APRACA

Good morning.

It is my great pleasure and privilege to be here with all of you today. Before starting, I would like to express my deep sympathy to the people of Thailand who have struggled in such an unprecedented flooding disaster. We understand and share the feeling and difficulties of the victim who lost their properties, family members and other valuable stuffs in this catastrophic damage. My special thanks and appreciation go to APRACA secretariat for their tireless efforts in preparing this important forum during this difficult time.

The today's consultation forum laid on the topic of: "Rural financial innovations, emerging issues and challenges". And, the venue of this forum is meant for our memory to the emerging issues and challenges for microfinance sector which is not because of internal factors, but such a moment of natural catastrophe may also impact the microfinance's operations. As we realized that the flooding disaster in Thailand and other surrounding countries in the region have also posted a huge challenge for a number of people. And, the most impacted ones are those who have less recovery capacity. In this respect, microfinance community may also need to further broaden its outreach to address this issue.

On behalf of the National Bank of Cambodia, I would like to begin by expressing my appreciation to the today's regional forum, dedicated to the final review of the IFAD-APRACA FinPower Programme. As a matter of fact, the programme has significantly been contributive to the microfinance community in various forms. Since the programme has covered the entire Asian Pacific countries, Cambodia has also been benefited. I believe today's forum will allow us to openly bring up, share, and comment on the previous programme activities in order for further calibrating the next phase of the programme. Moreover, the new programme will not only bring new focused areas, but also further alter the programme delivery methods that will be more effective and efficient.

I would like to take this opportunity to appreciate the APRACA and its continuous support to the microfinance development. To me, the impact has not only benefited the members, but also, the community as a whole. This has been evident by today's forum that we are here to review the FinPower Programme. Furthermore, I would like to share with you our experiences and achievements derived from the programme implementation. Firstly, the FinPower Programme has really been supportive in a way that it helped to create a platform where the microfinance stakeholders, ranging from regulatory authority, microfinance institutions, development and financial agencies and the clients, have been voiced and shared their experience with each other. The discussion was not only helpful in resolving existing issues but also in addressing new ideas and creative ways of dealing and coping with the issues. This has been really rewarding for because they could generate better ideas.

Moreover, the exposure and study visit has also been found useful for knowledge sharing among the members and key successors. This has brought up innovation in which the successful lessons can be replicated in different places with a new application and minimal risk exposure. In addition, the policy dialogues have also been important during the programme implementation because it also helped to advocate and enhance supports among policy makers. This could help in arriving at a consensus and comprehensive directions for the practitioners in pursuit of heading cohesively to the same direction.

Allow me take this opportunity to touch a little bit on Cambodian microfinance development. In fact, most of Cambodian microfinance institutions were born from non-governmental organizations and their transformation and integration into formal financial system were really successful. The contributive factors have been the supportive effort of the government and various authorities as they understand the significant role of microfinance in rural and economic development for the country. Also, the accommodated regulatory framework has been conducive for the microfinance institutions to change from their NGOs mindset to the one that is more commercialized and focused on self sustainability. As a regulatory and supervisory authority, the National Bank of Cambodia has always been supportive to the growth and innovation of microfinance sector. By introducing our regulatory and supervisory framework, microfinance institutions were not only able to strengthen their institutional capacity, but also enhance their outreach and ensure the public and foreign funders' confidence. This has allowed microfinance institutions to better serve the clients in rural areas and also to provide a number of products to meet clients' demands.

With a proven record and maturity of Cambodian microfinance institutions, the National Bank of Cambodia issued license that allows eligible microfinance institutions to mobilize public deposit. This new license window has been issued with proper care of additional prudential regulations. Also, the supervisors have regularly performed their off and on-site inspection in order to ensure sound and efficient operations of microfinance institutions.

In view of diversifying products and services, microfinance institutions have spent their best effort to design products and services than can better satisfying the clients' needs in term of faster financial access, simpler products and services and importantly cheaper costs. In practice, some Cambodian MFIs have served as micro-insurance agents and payment outlets for mobile phone payment services. This has helped the clients whom microfinance institutions are their front door to gain more benefit. Although the services are at a preliminary stage, the National Bank of Cambodia does not restrict them from servicing the clients. However, the MFIs need to strengthen and calibrate the services in term of simplicity, better technical functionality, more accessibility, and so on. At the same time, the clients are also at the stage to learn and gain better understanding about advantages of service utilization whereby the clients' financial literacy should go hand in hand with this development.

I do believe that some countries still leave microfinance sector unregulated even though its operations have been increasingly important. By regulating microfinance sector, it is not a threat to their growth. However, the comprehensive and supportive regulatory framework is more favorable to their growth. As a regulator, there is an important need to understand their development pace, growing needs, and their capacity in fulfilling the regulatory requirements. Indeed, the Cambodian regulations are more on a gradual development, meaning, the regulators strengthen or tighten the regulatory requirements as the microfinance institutions are getting matured. What's more, the supervisory capacity is really important while the sector is supervised. These supportive factors require a good and ongoing care in pursuit of sustaining and stabilizing the sectoral growth.

International Fund for Agricultural Development (IFAD) has been technically and financially supportive to the existence of the FinPower Programme. The programme outcomes have been really fruitful and beneficial to the APRACA member countries as well as the microfinance community as a whole. To review the programme implementation, it is necessary to factor the previous experiences and further prospect of microfinance development. This allows us to synthesize for the best and applicable solutions that can work to the benefit of microfinance for the poor. We do understand that new challenges have continuously emerged while the outstanding issues have not really been resolved. This requires an actively collaborative effort and innovative solutions that can help dealing with potential risks and emerging challenges in the microfinance sector. Furthermore, the need to put the poor clients upfront is really necessary in order to have them benefit from the financial inclusion. Financial literacy and clients' protection are required. Importantly, the regulatory and supervisory capacity also requires ongoing training in order to support the growing microfinance sector.

On behalf of the National Bank of Cambodia, I would like to express further support to the next generation of the FinPower Programme. Cambodia will be hosting 18th APRACA General Assembly and a conference; I would like to take this opportunity to invite all APRACA members and partners to join this event which will be held in a historical province of Cambodia from 30th May to 1st June, 2012. I believe your participation will help to further strengthen the role of APRACA in regional microfinance development and beyond. To this end, I would like to wish distinguished guests, ladies and gentlemen success in all of your endeavors.

Thank you.

2.4 Address

by Dr. Ganesh B. Thapa, Regional Economist, Asia and the Pacific Division, International Fund for Agricultural Development (IFAD), Rome, Italy

It is my great honour to be invited to this important forum-consultation and to give opening remarks on behalf of the International Fund for Agricultural Development (IFAD) before this distinguished gathering of leaders of APRACA member institutions and other partner agencies. As many of you know, IFAD's collaboration with APRACA dates back to the mid-1990s when with IFAD's grant support, APRACA implemented the MicroServ programme between 1996 and 2001. Under this programme, APRACA disseminated replicable rural finance models in selected countries of the region. An important lesson of this programme was that innovative models can be replicated easily when they are implemented through an organization with a wide geographic network such as APRACA, thereby yielding more cost-effective results, broader geographic reach, and assured project sustainability.

We resumed our collaboration in 2007 with the implementation of a five-year programme whose goal was to empower the rural poor through rural finance innovations. The objectives of this programme, called FinPower Programme include fostering and enabling pro-poor policy environment and regulatory framework for sustainable rural financial systems; encouraging innovative approaches to rural finance; and sharing information and lessons from projects and programmes to promote replication of successful approaches in the region.

Between 20 August and 3 September of this year, IFAD had undertaken a review of the implementation of this programme through field visits and consultation with various stakeholders. This review found the overall achievements of this programme to be impressive. FinPower activities have contributed to greater knowledge sharing and policy dialogue among APRACA member institutions in rural and microfinance. Also, a number of innovative approaches and products were introduced in development projects through exposure visits, pilot testing and technical support. However, this review has also offered a number of recommendations to strengthen the implementation of innovative approaches, documentation and dissemination of generated knowledge, and promotion of partnerships beyond APRACA member institutions. Finally, this review recommended that the gains of this programme should be consolidated and mutual collaboration further expanded with a view to addressing emerging issues in rural and microfinance in Asia and the Pacific region.

The topic of this forum-consultation is very timely and important for several reasons. First, after many years of neglect, agriculture is back on the international agenda, thanks to the recent food crisis. This will imply, hopefully that rural and agricultural finance will receive increased attention among policy makers and leaders of financial institutions. Second, microfinance has recently come under deep scrutiny with some studies questioning the impact of microfinance in terms of poverty reduction, promotion of gender equality, and reduction in child mortality. This has led to an emerging perception that microfinance is oversold. Third, the financial crisis which started in 2008 has led to the contraction of credit and risk aversion of investors, which will put pressure on the flow of funds to rural areas. However, the crisis can also be seen as an opportunity to design new products and to institute better risk management strategies. I hope that this forum will provide a unique opportunity to discuss emerging issues in rural/microfinance and to share experiences in rural financial innovations.

I am very happy that a number of partner organizations such as AFRACA, AFD, FAO, ESCAP, ICA, and FFTC have joined us today. I am confident that this forum/consultation will provide a unique opportunity for mutual learning and knowledge sharing.

I wish the forum-consultation a great success. Thank you very much for your attention.

2.5 Address
by Mr. Millison Narh, Vice-Chairman, AFRACA and Deputy Governor, Bank of Ghana

It is a great pleasure to be present here on this special occasion which discusses rural financial innovations in various parts of Asia and Pacific region. I am grateful to APRACA and specially Mr. Won-Sik Noh, Secretary General APRACA for having given me this opportunity to share my thoughts with you.

Cooperative banking is about 30 years old in Africa and is playing a major role as a means of financial intermediation. Agriculture has been the backbone of Ghanaian economy since its independence in 1957. Efforts have been made over the years to increase industrial production and employment in the manufacturing sector. Agriculture contributes 25 percent of GDP of Ghana. Agriculture creates employment for about 60 percent of the population. Credit has a very important role to play in supporting agricultural production and investment activities in Ghana. However, the credit flow to agriculture sector by the banking system is not adequate. Banks shy away from agricultural financing because of some perceived risk in financing small and marginal farmers. The poor outreach of formal financial institutions is a serious issue and a major concern to the Bank of Ghana. It has taken certain policy decisions which will increase the credit flow to agricultural and rural sector. Financial innovations are required for the purpose. My participation here will help us in this regard.

APRACA is playing an appreciable role in its effort to exchange and disseminate information among its members. It helps in picking up new ideas for policy formulation and experimentation in development process. My experience here will be great help to me in bringing about changes in rural financial sector.

Thank you.

2.6 Vote of Thanks
by Mr. Won-Sik Noh, Secretary General, APRACA

Good morning.

On behalf of APRACA Secretariat, and as the organizer of this Forum-Consultation, I would like to extend my deepest gratitude to you all for your kind participation in this meeting.

In particular, I thank Mr. Luck Wajananawat, President of BAAC, for his devoted support for the success of the meeting in the middle of his efforts to fight the terrifying nationwide flood and its consequence.

I am most grateful to Mr. Man-Ho So, Deputy Regional Representative of UN-FAO Regional Office for Asia and the Pacific, for his presence and his excellent address.

Special thanks go to Dr. Ganesh B. Thapa, Regional Economist, Asia and the Pacific Division of IFAD, for his dedicated support to APRACA, not to mention, his sincere involvement in this meeting representing IFAD as co-host and a speaker.

I should like to thank H.E. Pal Buy Bonnang, Vice-Chairman of APRACA and Assistant Governor of National Bank of Cambodia, for his speech, representing all APRACA members.

I also wish to recognize the valued contributions by Dr. Geetha Nagarajan from University of Maryland, and all the distinguished speakers and participants in this meeting.

In addition, I would like to convey my heartfelt appreciation to Mr. Millison Narh, Vice-Chairman of AFRACA and Deputy Governor, Bank of Ghana and Mr. Saleh Gashua, AFRACA Secretary General, as well as 12 other delegates from African Rural and Agricultural Credit Association (AFRACA) for their sincere and friendly participation after long flights from African countries.

I also wish to welcome our delegates from IFAD national projects and strategic development partners including AFD, NEDAC, UN ESCAP, ICA, and FFTC.

Lastly, I would like to appreciate all the efforts made by Mr. Benedicto S. Bayaua, the former Secretary General of APRACA, as well as officers and staff members of BAAC and APRACA Secretariat for the successful preparation of the meeting.

Thank you very much.

Part 3

Papers Presented

3.1 Agricultural Investment and Rural/Microfinance for Smallholder Farming and Rural Poverty Reduction

by Dr. Ganesh B. Thapa, Regional Economist, Asia and the Pacific Division, International Fund for Agricultural Development (IFAD), Rome, Italy

Introduction

Although Asia and the Pacific Region has experienced massive reduction in poverty over the past three decades, the incidence of poverty remains high. The onset of fuel, food and financial crises has made meeting the Millennium Development Goal (MDG) of halving extreme poverty and hunger by 2015 a greater challenge. In addition, climate change has exacerbated the problem. Achieving sustainable growth and simultaneously reducing poverty is one of the formidable challenges faced by poor countries in the region.

Since the rural poor depend on agriculture for their livelihoods, any policy that aims to reduce rural poverty has to focus on agricultural intensification and diversification that are both market-oriented and sustainable. Both rising demand for and rising prices of food have created attractive investment opportunities in the agriculture sector. Despite new sources of economies of scale arising from technological changes, new markets, institutional changes, and public-private partnerships in the provision of public goods, the large farm advantage is due to market failure (e.g. credit), institutional gaps (e.g. weak extension services) and policy distortion (e.g. minimum support price). Elimination of such biases against smallholders would enhance their competitiveness and they would be able to increase productivity and also benefit from new agriculture dominated by high value chains.

This paper looks at the role of rural finance/microfinance in enhancing smallholder agricultural productivity and in reducing rural poverty and hunger in Asia and the Pacific. It also analyses the impact of financial crisis on rural/microfinance. Finally, it highlights some of the innovations that have the potential to help smallholders enhance their access to rural/microfinance, which will help them increase agricultural productivity, benefit from new market opportunities and deal with increasing risks and vulnerability.

Agriculture, Economic Growth and Poverty Reduction

A number of studies have shown the important role that agriculture can play in promoting economic growth and poverty reduction. A much-quoted study shows that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture (World Bank 2007). Major declines of rural poverty in India and China in the last three decades are attributed to rapid agricultural growth generated by technological and institutional innovations in these countries.

A recent study by IFAD confirms the substantial contribution that agriculture can make to economic growth. More specifically, it found that a 1 percent growth in agricultural value added per capita results in a GDP (per capita) growth rate of 2.13 percent (Imai, Gaiha and Thapa 2011). It also showed that a 1 percent growth in agriculture led to 2.73 percent reduction in poverty (US$1.25 per day), which is significantly higher than the impact of GDP growth on poverty (1.28 percent).

This study shows that Asia and the Pacific Region as a whole would need a 56 percent increase in agricultural official development assistance (ODA) in 2007-13 for achieving MDG 1 (US$2 poverty) (or a 16 percent increase for US$1.25 poverty): a 28 percent increase in agricultural expenditure for US$2 poverty (or an 8 percent increase for US$1.25 poverty); a 23 percent increase in fertilizer use (or no increase for US$1.25 poverty), or a 24 percent increase in agricultural investment for US$2 and

US$1.25 poverty ratios (but with varying sub-regional requirements) *over and above* the historical trends in the period 2007-2013 or 14.

There are considerable sub-regional variations in the amount of agricultural ODA, expenditure, fertilizers and investments required to meet MDG 1, at US$2 a day, by 2015. For instance, South Asia (or South East Asia) would need only a 5 percent (or 8 percent) increase in annual growth rate of agricultural ODA, 2 percent (or 4 percent) increase in annual growth rate of agricultural expenditure, 3 percent (or 4 percent) increase in annual growth rate of fertilizer, or 2 percent (or 3 percent) increase in annual agricultural investment in 2007-13 over and above the baseline scenario. The Pacific and Central Asia would need larger increases in most of these factors. In sum, agriculture is important not just for economic growth but also for poverty reduction.

Finance, Growth and Poverty Reduction

Lack of access to credit is a crucial constraint for farmers in developing countries, limiting investment in productivity-enhancing technology and inputs. Finance is also needed by rural producers, traders and agro-processors to raise their incomes through better marketing and raw material procurement. Financial institutions can offer rural producers and traders a variety of payment systems that allow them to benefit from modern commodity trading systems that offer better prices. Rural finance can also play an important role in reducing vulnerability of rural households. It helps them to smooth consumption and to build up assets greater than the value of the liability (Gonzalez-Vega 2003). This is very important for the rural households whose incomes fluctuate widely and could destabilize consumption if these households have no savings or credit to fall back on (IFAD 2003).

Financial sector development impacts agricultural development and undernourishment in different ways. First, savings and credit help consumption smoothening when there are income or other shocks. Second, access to financial services eases the financing of productive investment in, say, agricultural equipment, thereby raising yields and incomes of smallholders, and reducing undernourishment. Third, there may be an additional benefit to low income households – especially those without access to financial services – as higher yields translate into higher food output and lower prices. Thus private credit may reduce substantially undernourishment through higher GDP and/or agricultural productivity, in general, and higher livestock, crop and cereal yields, in particular.

A number of cross-country studies have analysed the relationships among finance, growth and poverty with valuable insights. Beck et al. (2007) examine the effects of financial development on poverty through two channels: aggregate growth, and changes in the distribution of income. Instead of examining the finance-growth link, they offer an assessment of the impact of financial development on changes in the distribution of income and changes in both relative and absolute poverty. Specifically, the variables considered are (i) the Gini coefficient of income distribution; (ii) income share of the poor, measured as the income share of the poorest quintile relative to total national income; and (iii) the share of the population living on less than US$1 per day. Greater financial development is associated with poverty reduction. In fact, 60 percent of the impact of financial development on the poorest quintile works through aggregate growth and 40 percent through reduction in income inequality.

Claessens and Feijen (2006) identify specific channels through which financial development impacts on undernourishment. Using data from 1980-2003, they show that private credit has a large negative effect on undernourishment through higher agricultural productivity in general and higher livestock, crop and cereal yields in particular. To a large extent higher agricultural productivity due to financial development is mediated by greater fertilizer and tractor use. Besides, the distribution of banking outlets makes a difference.

A recent study carried out by IFAD analysed the relationship between finance, growth and hunger based in a panel data from 9 Asian countries covering the period 1960 to 2006 (Imai, Gaiha and Thapa 2008). Although the results are mixed, depending on the specification and variables used, there is some evidence favouring a positive role of finance on growth of GDP and agricultural value added. The study also shows that financial development reduces income inequality measured by the Gini coefficient of income distribution. Although there is support for the view that financial development reduces hunger, the results are not so robust. Another major finding is that private credit broadly defined has a significant negative effect on undernourishment. This suggests that private credit which is broadly defined to cover formal and informal banking sectors plays an important role in reducing hunger. The negative and significant coefficient estimates of narrowly defined private credit (formal banking) further strengthens the poverty or undernourishment reducing role of finance.

Microfinance and Poverty – A Macro Perspective

Most of the recent studies of the impact of microfinance on poverty or income have relied on micro-level evidence based on household data or entrepreneurial data (Mosley 2001, Khandker 2005, Imai and Azam 2010). A few studies have attempted to investigate the relationship between the macro economy and microfinance activities and/or performance (Ahlin et al. 2010, Kai and Hamori 2009). These studies have either examined the environmental context in which microfinance operates or investigates the potential effect of microfinance on key macroeconomic variables such as GDP or inequality. The findings of a significant relationship between operations of microfinance institutions (MFIs) and the macro economy corroborates the recent evidence based on household data sets which posits that microfinance has a poverty reducing effect (Khandker 2005, Gaiha and Nandhi 2009, Imai et al. 2010).

However, this consensus over the impact of microfinance on poverty has come under deep scrutiny in recent randomised evaluations of microfinance (Banerjee et al. 2010, Karlan and Zinman 2009, Feigenberg et al. 2010). They have questioned the impact in terms of poverty reduction, promotion of gender equality, and reduction in child mortality. As a result, a perception that microfinance is oversold is gaining credibility. A recent study undertaken by IFAD examines whether a country with higher MFI's gross loan portfolio has lower poverty, after controlling for other factors associated with poverty (e.g. GDP per capita, an index of financial development and regional dummies) (Imai et al. 2010). This study using cross-country data (including a panel) confirms a robust poverty reducing effects of microfinance. The negative relationship between microfinance loans and poverty remains unchanged when the poverty headcount ratio is replaced by the poverty gap and squared poverty gap. This implies that microfinance not only reduces the incidence of poverty but also its depth and severity. Other factors that contribute to poverty reduction include GDP per capita and share of credit in GDP (as a measure of financial development of an economy).

This study also shows worsening of poverty in a mild recession scenario with small reductions in gross loan portfolio, GDP per capita and share of credit in GDP. This analysis is helpful in adding precision to anecdotal evidence about how setbacks to MFIs hurt the poor. Indeed, sustained flows to MFIs may help avert to some extent accentuation of poverty as a result of the slow recovery of the global economy.

Rural/Microfinance and Smallholder Agriculture

Recent increases in food prices have raised awareness about the need to increase agricultural production and have opened up opportunities for profitable investments for farmers, including smallholders. Rapid economic and income growth, urbanization and globalization are leading to a significant shift in diet in Asia and the Pacific region, away from staples and increasingly towards livestock and dairy products, fruits and vegetables, and fats and oils. The rising demand for these high-value agricultural products is creating opportunities for smallholders to benefit from new agriculture dominated by high value chains.

In order to benefit from these opportunities, farmers need access to capital which can come through debt or equity and both rely on financial service providers such as banks, MFIs to facilitate the flow of funds for loans, deposits, money transfers, insurance and other financial products. They enhance access to assets needed to increase agricultural productivity and higher incomes for farmers. However, providing financial services to agriculture and rural areas involves risks and high transaction costs. The access of smallholders to financial services is even more limited.

Historically, financial institutions have shown inadequate interest in agricultural finance for four reasons (Kloeppinger and Sharma 2010). First, financial institutions find it difficult to provide cost-effective and affordable services to farm households usually located in remote and widely dispersed locations. Second, agricultural households usually face same weather and climate risks, which makes it hard for financial service providers to hedge risks or operate profitable insurance pools. Third, mainly urban-based financial service providers do not know enough about the business of agriculture to develop profitable financial products. Fourth, there is lack of knowledge among small farmers about how modern banking institutions work.

In recent years, a number of innovative approaches have been developed and tried to expand financial services to rural areas. These include concepts like group liability, village banking, microinsurance and index-based insurance. However, these approaches have mostly helped finance non-agricultural microenterprises. Providing small-scale loans and savings can be particularly challenging in areas of low population density, where the distance between clients is great, transportation networks are often poor and low income levels tend to result in very small financial transactions. Since most rural people depend largely on agriculture for their livelihoods, these conditions make the prospects of running a self-sustaining, rural microfinance institution even more challenging.

Agricultural finance is inherently very risky. Farmers need credit to buy seeds and other production inputs, as well as to harvest, process, market and transport their crops. Although borrowing on the basis of anticipated crop production seems logical, such loans expose the lender to various production and price risks. These risks include natural disaster, a decline in market prices, unusually low yields, the lack of a buyer, or loss due to poor storage conditions. A fall in revenues from these factors often leads to high default rates. With the support from IFAD, the Consultative Group to Assist the Poor (CGAP) in 2002 undertook an analysis based on a number of case studies from five countries (Peru, Kyrgyzstan, Bolivia, Kenya and Mozambique) representing various regions of the world in order to identify promising agricultural lending operations (IFAD and CGAP 2006).

Although the financial institutions which were studied under these case studies were quite diverse, they faced some common challenges related to agricultural lending: (a) reaching rural clients efficiently and cost effectively; (b) maintaining liquidity in agriculture-dependent areas amid seasonal income cycles, economic crisis and regulatory constraints; (c) mitigating covariant agricultural risks; (d) adapting loan products to meet the specialized needs of rural borrowers; (e) overcoming poor lending precedents and improving repayment culture; and (f) developing technical capacity at the local level.

Generally speaking, most microfinance NGOs have largely limited their lending to functionally landless households owning under 0.5 hectare of land. Importantly, small and marginal farming households, owning between 0.5 and 2.0 hectares of land, continue to have very limited access to credit from both NGOs and banks. One of the most important gaps in the rural finance sector in developing countries is the absence of a viable system for delivery of financial services to small and marginal farmers. These farmers constitute an important segment of the farming population. For example, there are some 6.4 million such farmers in Bangladesh, and they operate 37 percent of the total agricultural land. With strong links between agricultural growth and the non-farm rural economy, and with overall poverty reduction dependent upon growth in rural areas, there is a strong rationale for introducing a viable system to service the financial requirements of the farming community.

A number of IFAD-funded projects have attempted to provide credit for small and marginal farmers in Bangladesh. The mechanisms for credit provision in these projects have faced difficulties both in direct lending by banks to farmers and in wholesaling funds from banks via NGOs. Recognizing the need for innovation in this area, IFAD has collaborated with the Palli Karma-Sahayak Foundation (PKSF), an autonomous microfinance apex institution, to design and implement a new institutional approach to delivering financial services to small and marginal farmers in Bangladesh (IFAD 2007).

The Microfinance for Marginal and Small Farmers Project implemented in Bangladesh between 2005 and 2011 with IFAD support has enabled PKSF partner organizations to successfully extended the reach of microfinance to the agricultural sector, including seasonal loans for crop production. This is now being scaled up by PKSF throughout the country. Seasonal loans are a major innovation, which has proved to be very popular with farmers, as they are more appropriate for the cash flow of many agricultural enterprises.

Two approaches to lending have been promoted by partner organizations. Some partner organizations provide all their agricultural loans as seasonal loans, i.e. loans are given at the beginning of an agricultural season and repaid in one installment after harvest. Other mode is to provide seasonal loan as a second loan. Seasonal loans amount to about 46 percent of the value of all loans disbursed by the project (IFAD 2010). Some farmers face problem in repaying a large sum in one installment. Overall, partner organizations are practicing weekly, monthly, quarterly and single installment repayment system. Sometimes, partner organizations do not want to change a practice, such as weekly payment, that has showed good results in the past.

Regular monitoring of the project has identified factors that are important for successful seasonal lending. These include: (i) selection of genuine farmers; (ii) matching loan amounts to cost production costs (type of crop, area of crop); (iii) not lending too much, with farmers contributing some costs as equity investment; (iv) ensure loans are utilized for the stated purpose; (v) avoid roll-over, with repayment of one loan being repaid by disbursement of the following loan; (vi) disburse loan at the required time to enable purchase seasonal inputs; (vii) maintain contact with the borrower through the growing season; (viii) remind farmers in advance of repayment coming due; and (ix) show a limited degree of flexibility in repayment dates (IFAD 2010).

The project has introduced a number of innovations. For example, to reduce vulnerability of already vulnerable people to emergencies, the project established a disaster reserve fund (IFAD 2008). The project's partner organizations use the fund to provide loans when natural disasters or family emergencies occur. If viable, the project may support the provision of crop and livestock insurance.

To ensure better price of crops, farmers are allowed to store their crops in a special storage facility for crops at the time of harvest and sell them in the post-harvest period when prices of crops are higher. Partner organizations are also providing technical support alongside their financial services, with a focus on a number of key technologies together with the development of market linkages.

The Impact of Financial Crisis on Rural/Microfinance

The financial crisis that started as early as September 2007 has put the strength of the financial markets across the world to a serious test. The channels through which the financial crisis impacted on growth and poverty in developing countries are diverse. These include changes in capital flows, commodity prices, remittances, interest rates, risk premia, and trade opportunities. The channels through which rural poor were impacted are even more complex, with linkages involving commodity prices, wage rates and employment likely to be particularly important.

There is little hard evidence on the impact of the current financial turmoil on microfinance. To the extent that there is contraction of credit, and the concomitant reduction in rural credit, the implications for the rural poor are likely to be serious. Even though interest rates have fallen to stimulate demand for credit, there is a strong reluctance to lend in an environment lacking trust. So, effectively, contraction of credit implies higher interest rates and shorter maturities. If these observations have general validity, it follows that the demand for credit would be reduced especially in the target groups of MFIs, and poverty may increase through financial constraints on raising agricultural productivity. Vulnerability of low income households may also get aggravated because of their failure to smooth consumption. On the other hand, the loan portfolio of MFIs may shift in favour of wealthier clients. Moreover, the financial viability may erode because of moral hazard and adverse selection. A major priority therefore is to inject more capital into the financial system-especially MFIs. That these concerns have emerged as major priorities is reflected in a recent survey conducted by the Microcredit Summit Campaign.

A recent IFAD study (Imai, Gaiha and Thapa 2009) showed that although emerging Asian countries (notably China and India) recovered quickly and helped prevent a global recession, the effects of credit contraction and deceleration of growth in Asia and the Pacific Region were in a few cases severe. The results suggest that finance contributes to both GDP and agricultural productivity growth, reduction in undernutrition/hunger, and a reduction in income inequality. Cambodia's experience during the financial crisis is illuminating (Box 1).

Box 1: Financial Crisis and Poverty in Cambodia

Cambodia grew rapidly and sustained it over an extended period of time. GDP per capita nearly tripled during 1994-2008 (rising from US$248 to US$739). The GDP growth averaged 10 percent per year during 2003-08, rising to 13.3 percent in 2005. However, growth slowed down in 2008 as the financial crisis turned into a recession in the advanced economies. The growth rate fell to 6.7 percent. There was a marked reduction in headcount index of poverty – from 47 percent in 1993 to 30 percent in 2007, a reduction of about 17 percentage points over a period of 14 years. Over the more recent period, 2004-2007, the headcount index reduced from 35 percent to 30 percent – a reduction of 5 percentage points. So, despite the marked reduction, a little under one-third of the population lives below the poverty line. The headcount poverty index relative to the food poverty line also decreased, but only from 19.7 percent in 2004 to 18 percent, due largely to rapid food price inflation.

With the onset of the financial crisis, the difficulties reported, especially in poor areas, include job loss/ reduction in income, lack of money to repay loans, and medical expenses. Many households reported switching to less preferred/cheap food, reduced daily food consumption, buying food on credit, or taking out more loans. Women frequently bore the brunt of the hardships as they reduced their consumption more so that there was more for men, and were also conduits for obtaining loans as they were considered more reliable for repayment of loans. A large majority of households raised livestock and a considerable number were forced to sell their livestock in the first 6 months of 2009.

A two-pronged strategy may be articulated for Cambodia: strengthening of social protection and safety nets to protect better the poor and vulnerable against economic shocks, while fiscal and monetary policies seek to stimulate a sluggish economy; and, in the longer-term, the focus will be on improving agricultural productivity, diversification and expansion of the economic base and its integration into the larger regional economy. As Cambodia is likely to remain a rural economy with agriculture as the main source of livelihood for a vast majority of its population, it is vital to increase substantially investment in rural infrastructure, extension, business development, food processing and trade expansion.

Source: Gaiha and Azam, 2011

An important message is that Asia-Pacific countries need change in the financial system to facilitate flow of funds/credit to small entrepreneurs and microfinance institutions (MFIs).

A more recent survey (CSFI 2009), based on 430 respondents from 82 countries, including observers, regulators, investors and practitioners, throws new light on many of these issues. Going by the aggregate of responses, the concerns about credit risk and too little funding moved centre-stage. The fact that much funding is in non-local currency has added to foreign currency risk owing to volatility in the foreign exchange markets. All these risks taken together are reflected in more serious concerns about erosion of profitability. "Many respondents saw a vicious circle here: the recession creating a worse business environment, leading to mounting delinquencies and shrinking markets, leading to declining profitability, loss of investor confidence, and cutbacks in funding , and so on" (CSFI 2009, p. 7).

Associated with the vulnerability of MFIs is the larger risk of mission drift and abandonment of their social objectives. There was a mixed response to how well prepared were the MFIs to handle these risks. Barely 5 percent of the respondents acknowledged that they were well prepared and 13 percent confessed that they were ill-prepared. The rest gave a mixed response. Among the Asian respondents, however, the concerns about these risks were more muted: liquidity and credit risks figured in their top ten, but not in the concentrated form of other regional respondents.

Some recent evidence on microfinance suggests that higher interest rates and lower maturity periods are likely to affect women and low income households more than others. The quality of loan portfolio of MFIs may also deteriorate with higher interest rates and drying up of funding sources. While microfinance has the potential to ameliorate some of the worst forms of deprivation, the contraction of credit in general and risk aversion of investors, together with a looming global recession, underlie gloomy prospects for the poor in this region.

Some Promising Innovations for Smallholders

- **Community-level Support and Access to Financial Institutions**

Microfinance contributes not only to poverty reduction and financial sustainability, but also to 'virtuous spirals' of economic empowerment, increased well-being, and social and political empowerment of women, thereby addressing the goal of gender equity (Mayoux and Hartl 2009). In Nepal, women who participated in the MFI programme were able to make small purchases of necessary items such as groceries independently (Shrestha 1998). 68 percent of women experienced an increase in their decision-making power in areas that were traditionally dominated by men – family planning, daughter's marriage, their schooling and buying and selling property (Ashe and Parott 2002). In the Philippines, women clients of Opportunity Microfinance Bank have gained leadership experience and confidence as leaders of their Trust Banks and have been elected as leaders (Cheston and Kuhn 2002). However, the negative aspects of lending to women cannot be ignored. For instance, findings from Bangladesh showed that, although the benefits of loans accrued to men and other household members, the responsibility and accountability for repaying the loans lay with the women clients, and this increased their stress and dependency (Kabeer 1998). Others have argued that such loans hardly pull women and their households out of poverty (Fisher and Sriram 2002) since women may often borrow from other sources to pay back loans, leading to indebtedness. When women borrow for themselves, they lack the means to repay because they generally invest in existing activities that are low profit and insecure (Mayoux 2006). Microfinance has been effective in increasing incomes and assets, although not in the poorest households. Women tend to spend income, when they do control it, on household consumption and 'security-related assets' such as homestead land, whereas male borrowers are more likely to invest in further productive activities (Kabeer 1998).

The critical factors for successful pro-poor interventions by financial institutions include adequate reach and coverage of the target group, availability of a large variety of services, low transaction costs, continued access to services over a long period of time and sustainability of the institution with minimum support from non-users or tax payers. Examples from IFAD-supported projects include:

- Under P4K, a credit project for small farmers and fishermen in Indonesia, the very poor formed around 50,000 small groups. They were provided credit from the government owned Bank Rakyat Indonesia. However, the credit turned out to be inadequate and timely availability was not assured. Later, the women in marginal areas transformed these small groups into larger self-reliant savings and credit associations. Similarly, The Centre for Agriculture and Rural Development (CARD) in the Philippines changed from an unsustainable credit NGO to a viable rural bank with rapidly growing outreach to very poor women.
- In Pakistan, the Dir Area Support Project introduced a new system of Islamic Microfinance or *Murabaha* which was in line with Islamic banking principles. Instead of interest-based lending which is prohibited under Islam, under a *Murabaha,* the bank and the customer enter into a sale purchase agreement.
- In India, self-help groups are the backbone of microfinance services. The number of self-help groups linked to banks has increased from about 500 in the early 1990s to more than 3 million in 2008 (IFAD 2009). In addition, some village self-help groups (SHGs) have also set up a fund that provides emergency loans for members to obtain health care services.
- In Nepal, small farmer cooperatives offer tailor made agricultural and non-agricultural loans, savings and insurance products to poor farmers. For instance, one cooperative in *Anandvan* extends rickshaw loans to the landless. Similarly, a cooperative in *Bhumistan* offers loans for purchase of buffaloes.
- Weather index-based insurance is usually offered to small farmers through their cooperative, input dealer, a microfinance institution or bank and can help mitigate the weather risks that they cannot manage. Weather index insurance was first piloted in India in 2003. In the first five years of its entry, the private sector has cumulatively covered more than 400,000 farmers against a range of weather risks. However, to widely expand index insurance, governments and donors need to play a proactive role (IFAD and WFP 2010).

Producers' Organizations/Associations

To overcome challenges related to high transaction costs, small farmers in many countries have formed producer organizations. These organizations are of various kinds, including cooperatives, associations and societies. The major benefit of producers' organizations is that they offer services to members at low cost, including bulk purchase of inputs, transportation, negotiation with companies, obtaining credit from financial institutions and enforcement of contracts. Producers' organizations have a good chance of success if the members share common economic interests and are committed to enhancing them. Governance is a major issue in such organizations; homogenous membership profiles and commonality of interests increase the efficiency of the organization. For instance, the Indian Dairy Cooperatives network comprises 12 million members, including landless labourers and women, and produces 22 percent of India's milk supply (Valdez et al. 2010). In China, a group of small scale growers, aided by the local government formed the Ruoheng watermelon cooperative, which then sold directly to wholesalers, retailers and supermarkets. Due to its timely delivery, quality, and marketing success, the cooperative's membership increased from 29 to 152, and its farmed area increased from 0.2 hectare in 1992 to thousands of hectares in 2005 (World Bank 2008). In Sri Lanka, the MA'S Tropical Food Company assists small farmers to organize into groups, streamlines their operations and logistics, provides training and access to markets, and thus enables them to become part of the high-value spice chain (Taylor 2008).

Value Chain Financing/Contract Farming

Increasingly, agriculture is being seen as a business, even in the context of smallholders. It makes more sense for financial service providers to lend where there is a market-linked business. Experience has shown that even smallholders can participate in the production and marketing of niche products with higher value added. Value chain financing in agriculture is an approach of assessing value chain, adapting finance to most efficiently fit the chain and its actors (Miller 2011).

Contract farming is a common buyer-driven value chain business model for linking finance to the value chain and securing inputs, technical assistance and markets. Contract farming allows farmers to obtain/deliver predetermined/negotiated quantities at specific prices and of specific quality within a specified time frame. Such contractors/firms normally bring a package of services to the farmers, including credit support, input supply, and technical knowledge. Guaranteed prices insulate producers/farmers from volatility in market prices. Provision by the buyer of other services in addition to financing significantly reduces commercial or production risk. These services help ensure that producers will deliver the required quantity and quality of produce. A modified version of this model includes not only a buyer and a producer but a financial institution as well (Llanto and Badiola 2010). The financial institution agrees to provide the funds for production once the contract between the producer and buyer is finalized; in effect, ensuring loan repayment (by the producer) because payment for the loan is immediately deducted by the buyer from the proceeds of the sale and remitted to the financial institution. In this case, the purchase agreement or contract between the producer and buyer serves as a collateral-like instrument. Another modified version is when a financial institution establishes a marketing corporation jointly with the farmers. The bank provides loans to the farmers or producers who, in turn, “pay in kind” through the marketing corporation which buys the farmers’ produce. The farmers, in this case, get technical assistance and supervision through agricultural technicians employed by the financial institution (Fanjul and Guerena 2009).

Contract farming is practised in many Asia-Pacific countries. The Export-Import Bank of Thailand, for instance, has been involved in financing such projects. In Nepal, a rural-urban partnership programme connects farmers with marketing centres. In Thailand’s San Sai district, a farmers’ group has found a lucrative market for its dried *longans* in China. Another important aspect of contract farming is in designing contracts to make provision for (or create incentives for) investment in high quality products. Some NGO’s hold an enviable track record in working with smallholders and agri-business firms to facilitate such investments. Two issues, however, cannot be overlooked. (i) Commercial partner, often with monopsony power, may renege on the contractual agreement once the crop is ready for delivery, offering a lower price or imposing higher quality standards. (ii) Sustaining the contractual arrangements over a longer period than stipulated (Byerlee et al. 2010).

Index-Based Weather Insurance

Index-based insurance products offer an attractive alternative for managing weather risk faced by farmers in agricultural production. Pilot programmes have been implemented to test these products in several developing countries like the Philippines, India, Malawi, Mexico, Mongolia, Tanzania, and Thailand (UN 2007). In index-based weather insurance contracts, financial losses are estimated on the basis of an index instead of on the actual losses of each policyholder. The index could be based on variables such as regional rainfall. The insurance provider starts compensating policyholders for losses when the index passes a predetermined critical threshold. Payments increase incrementally as the index deteriorates, and policyholders receive the maximum amount possible when a predetermined upper limit is reached.

The most important advantage of efficient weather insurance indexes is that they eliminate moral hazard and adverse selection, since the policyholders cannot influence the changes in the index, and both the provider and the policyholder have the same knowledge of the likelihood of the shifts in the index. In addition, monitoring and administration costs are reduced—since actual losses do not need to be calculated—and eliminate common risks. Pilots conducted in many developing nations have shown that they are affordable for poor farmers without need for subsidies.

However, index-based weather insurance contracts cover only a portion of the exogenous risks facing farmers. They do not cover price fluctuations and other risks such as unmanageable pests or availability of inputs. Also, easily accessible and reliable weather information is required to ensure its efficiency which could be a problem in developing countries. It should also be supported by substantial investments in information and technology.

The International Fund for Agricultural Development (IFAD) and the World Food Programme (WFP) conducted a review of 37 index insurance ventures in 15 countries, which identified a number of important lessons for its success (Hess and Hazell, 2009):

i) *There is a need to distinguish between two fundamentally different objectives affecting the design and delivery of index products*: schemes that aim to help poor people protect their livelihoods and assets which should be subsidized and implemented through special delivery channels aligned with relief (*protection insurance*); and schemes that are designed to promote agricultural development by helping households with viable farm businesses manage their risks which should be channeled through private intermediaries and can be sold on an unsubsidized basis (*promotion insurance*).

ii) *Focus on the real value proposition for the insured*. For protection insurance, products should be timely, credible and a fair relief in times of crisis; on the other hand, promotion insurance products should be able to catalyze access to credit, technology or new markets and help generate significant additional income which would make such products attractive to clients even without subsidies.

iii) *Find a champion or leader to overcome initial set-up problems and barriers*. There is a need for an outside agent that could act as a champion that would push for or motivate the implementation of a programme despite initial problems and barriers that would certainly be encountered at the outset. Examples of these champions are multinational agencies like the World Bank (for India, Malawi and Mexico) and the WFP (in China and Ethiopia) as well as NGOs (like Oxfam in Ethiopia) and brokers (such as MicroEnsure in Tanzania). These agents provided the push through the provision of missing public goods (e.g. weather stations and insurance regulations) and the establishment of reinsurance arrangements. They also facilitated the conduct of training for local brokers and insurers as well as of research to identify viable insurance products.

iv) *Develop efficient and trusted delivery channels*. Promotion insurance should be provided through institutions that are efficient, responsive and easily accessible and with a credible reputation for efficient and effective service.

v) *Develop weather data infrastructure*. In order to be sustainable and effective, players in the insurance market need to be supported with reliable data on risk as well as on index values.

vi) *Transfer risk to international markets*. It is crucial to have reinsurance support in the development and scaling up of index insurance. It was found that those insurance products that had reinsurance deals had greater outreach in terms of number of policies.

vii) *Train all implementation actors*. Index-based insurance programmes that have as component a training and capacity development programme have greater advantage over those that do not have. Making farmers understand the importance of index insurance as an investment in reducing risk would enable them have to have clear and realistic expectations about payments as well as greater familiarity with the product.

This study found that very limited spontaneous initiatives have been taken by the private sector to expand such programmes. As a result, governments and international organizations had to get involved in promoting this innovation. The study identified the following steps which are needed to scale up index insurance with the support from governments and donors:

- Building weather station infrastructure and data systems and making that data publicly available on a timely basis;
- Providing an enabling legal and regulatory environment;
- Financing agro-meteorological research to product design and making the results publicly available;
- Educating farmers about the value of insurance and workings of index-based products;
- Facilitating initial access to reinsurance;
- Supporting the development of sound national rural risk management strategies that do not crowd out privately provided index insurance;
- Subsidizing protection insurance where it is more cost-effective than existing types of public relief and using smart subsidies when needed to kick-start promotion insurance markets; and
- Supporting impact studies to systematically learn from ongoing index insurance programmes and to demonstrate their economic and social benefits.

Conclusion

Although Asia and the Pacific Region has made considerable progress in reducing rural poverty in the last three decades, the problem remains acute. The problem has been exacerbated by the triple-F (food, fuel and financial) crises and this has made meeting of MDG 1 of having extreme poverty by 2015 more challenging. Agriculture contributes substantially to GDP growth and poverty reduction. Since the rural poor depend on agriculture for their livelihoods, any policy that aims to reduce rural poverty has to focus on agricultural intensification and diversification.

Small farms have proved resilient over time and they continue to contribute significantly to agricultural production, food security, rural poverty reduction, and biodiversity conservation in Asia and the Pacific Region despite the challenges they continue to face with respect to the access to productive resources and service delivery. They are now facing new challenges of integration into new agriculture dominated by value chains, adaptation to climate change, and management of market volatility and other risks and vulnerability.

Specifically, it is difficult for them to access high-value crops even though they are labour intensive and more suited for their size. However, the large farms/farmers get advantage is due to market failure (e.g. credit), institutional gap (e.g. weak extension services) and policy distortion (e.g. unsustainable subsidies). If such biases are removed, smallholders can enhance their competitiveness. State interventions and collective action by producers' organizations would make a significant difference. Institutional innovations such as microfinance for agriculture, new risk-management instruments (e.g. index-based weather insurance), collective action by producers' organizations can enhance smallholders' access to finance, which will help them increase agricultural productivity, benefit from new market opportunities and deal with increasing risks and vulnerability.

3.2 Rural Finance in Asia – Emerging Opportunities and Challenges

by Dr. Geetha Nagarajan, Associate Director, IRIS Centre, University of Maryland, College Park, Maryland, USA

Over the past three decades, many policies and innovative approaches have been developed and tried with some success in many Asian countries to improve access, use and sustainability of rural financial institutions in order to broaden and deepen them to impact the rural poor. But, many challenges regarding access, costs and risk mitigation still persist. Of late, the rural financial markets are additionally challenged by the rising prices of food and fuel, and ripple effects of financial market meltdown. The rural finance arrangements, including rural microfinance, are shown to be inadequate to deal with the situation. Many Asian countries were less affected by the financial market meltdown and were able to manage the food crisis. But, some Asian countries experienced an explosive growth among microfinance institutions, over-indebtedness, high level of defaults and farmer suicides triggering government interventions to cap interest rates and an urge to regulate the rural and micro finance providers. In many Asian countries, the effects of climate change are reflected in increased incidence of natural disasters of large magnitude calling for effective policies and actions to effectively and efficiently manage systemic risks.

Nonetheless, efforts are now made to develop and test new financial products and services, especially through use of information and communication technology (ICT) and value chains, in order to provide cost effective and sustainable financial services in rural Asia. These innovations add value to the financial services by bringing a variety of financial products and services by several types of service providers to larger types of rural clients. There are now new opportunities opening up that are client centric to incorporate newer set of clients, chains, climate change issues, cell phones, consumers protection and consumer education to push the rural finance frontier in Asia and in other developing countries. These new avenues have the potential to help manage the old and new rural finance challenges to provide inclusive financial services in rural areas.

Focus Areas that present Opportunities in Asia

In this paper, four client centric focus areas are presented that are crucial for the Asia-Pacific region in which recent rural finance innovations are emerging and present huge opportunities for inclusive rural finance. They include:

1. Finance for rural youth
2. Financing rural energy and water
3. Insuring rural clients
4. Responsible finance

Under each of the four focus areas, some innovative financing mechanisms and emerging issues, specifically in Asia, are discussed. Within the four major focus areas, three cross cutting themes that can facilitate client centric inclusive rural finance viz. value chain finance, information and communication technology (ICT) and smart subsidies/grants have also been focused. For instance, ICT can be used to serve newer clients, help mitigate risks and also enhance inclusiveness within a value chain. These cross cutting themes depend heavily on issues like transparency, responsible pricing of financial products, product diversification and existence of an enabling environment. The above four client centric focus areas is expected to strengthening human capacity, leading to collaborative linkages of stake holders and put in place a result based monitoring and evaluation system.

Focus: Financing Rural Youth

While there is a growing enthusiasm to innovate in financing youth, most efforts are focused on urban youth between 15 to 24 years of age. In many parts of Asia and Africa there is very limited focus on servicing rural youth despite the fact that 57 percent and 59 percent of total youth, respectively, live in rural areas.

Youth unemployment rates are expected to increase through 2010 to an all-time high of 13.1 percent or 81.2 million. Several barriers exist for youth to get employed in formal sector and to be self-employed. They tend to lack business experience, skills and personal savings. They are particularly found to be constrained by limited access to financial, physical, and social capital. Many financial institutions avoid youth since they consider them to be risky and costly to serve. Therefore, less than 5 percent of young entrepreneurs in developing countries are currently supported through any type of financial service provider.

Savings accounts for youth are not new to Asian countries. Commercial banks have been offering child savings accounts (piggy banks) in India, Sri Lanka and the Philippines, to mention a few countries, for a long time. There is now a campaign for creating financial access at birth (FAB). But, youth are shown to require more than access to savings accounts. To that end, grants, loans and leasing are found to be essential for youth. Loan guarantees are observed to help relax collateral constraints. Financial education and substantial market research are found to be effective in ensuring the success of youth finance programmes. Many challenges, however, remain that include finding appropriate financial instruments and institutional arrangements to reach scale, clarifying the role of subsidies and impact of youth financing, and ensuring a sustained focus on youth.

Youth Products at Hatton National Bank, Sri Lanka

Singithi Kirikatiyo: savings accounts for children under five years of age *Singithi Lama*: savings accounts for children up to 12 years of age *HNB Teen/School Banking*: savings accounts for youth aged 12-18 through school banking units; this product also includes a financial education component *Gami Pubuduwa*: credit, insurance, money transfers, and training for rural youth; this product also includes a financial education component (Divi Saviya) *Youth Product for Older Youth Clients* (development underway): integrated package with savings, loans, and insurance, combined with financial education and skills training.

(**Source:** Lubwama and Rekogama, 2011)

Managing Resistance to Youth Finance – BRAC example

When BRAC in Bangladesh started lending to adolescent girls as young as 14, it was an unfamiliar concept and it faced tough resistance from the communities. The communities thought the girls were too young and unskilled to become entrepreneurs and handle loans. BRAC staff worked closely with the community members, parents of adolescent girls and the adolescent girls themselves to convince them of their livelihood potential and ability to manage finances and the resulting empowerment.

(**Source:** Making Cents International, 2008)

Financial Education for Girls

The Nike Foundation supports combining financial education to promote savings among rural girls in the Dominican Republic, Mongolia, Burundi, Kenya and Uganda. A consortium of MFIs or banks, schools and NGOs in each of these countries collaborated to design and implement an integrated programme combining financial education and savings opportunities with technical assistance from Microfinance Opportunities to customize it to suit each country context. While financial education was offered in Kenya to girls either in school or by NGOs outside of school, a local bank offered a special savings account designed for them. However, in Burundi, girls got access to financial education as members of CARE sponsored savings groups which provided their village savings and loan associations for saving.

(**Source:** Cohen and Nelson, 2011)

Focus: Financing Rural Energy

Improving access to clean and affordable energy is one of the Millennium Development Goals (MDGs) and 2012 is declared as international year for sustainable energy to make energy available and affordable for all by 2030.

Grid electricity is expensive to provide in rural and remote areas. Asia, similar to many developing countries, is experiencing the last mile challenge in bringing affordable, reliable and clean energy to rural and remote areas. About 92 percent of the people in South Asian countries who live without electricity are based in the rural areas. Even if available, flow of grid based electricity has been erratic, very costly and of lower strength in several Asian countries. Households spend a substantial portion of their incomes on inefficient energy sources.

But, many pilots are now showing that developing stand alone, cost effective off-grid solutions using renewable energy sources is feasible for rural areas. But, use of renewable and clean energy is limited primarily due to factors such as lack of funds to develop, distribute and install energy saving and clean energy devices, lack of supportive government policies and incentives, poor distribution, uneven service and after-sales support, lack of awareness among rural residents and funds for initial investment, and the small capacity of firms that produce and market these products. Most of the renewable energy initiatives involve high initial costs and access to external finance is required at all levels including end users, distributors and manufacturers to develop, distribute, install and buy such devices.

Several financial mechanisms are now being tested to finance rural energy needs, especially through solar power, in Asia. They include special loans to finance installation of solar home systems in partnership with solar kit manufacturers, and loans in combination with dedicated savings account to capture household savings that occur due to switching to solar from inefficient energy sources. Similar to the model of airtime purchases, pay-as-you go models for buying solar power are also being tested. Online microfinance intermediaries are also emerging to facilitate peer to peer lending for installation of solar systems. Value chain finance is also promoted to ensure steady supply of solar energy devices.

But, many issues need to be addressed as efforts are made to scale up energy finance. They include clarity on the role for smart subsidies/grants, carbon markets and carbon credits, identifying suitable institutional and partnership arrangements to improve access and use at reduced costs, and methods to develop regional cooperation to tackle larger issues such as climate change that are highly associated with use of energy.

Focus: Financing Rural Water

Rural water comprises of water for drinking and cooking purposes, human hygiene and sanitation services, farming, livestock production, irrigation and agro-processing. While Asia is on track to achieve the MDG target of halving the proportion of people without access to water by 2015, it still lags behind the target for poorest quintile of households and in rural areas. It is estimated that up to US$30 billion a year is required to finance development of water and sanitation facilities in order to achieve the MDG target in developing countries. The financial needs in the agriculture sector alone are estimated at US$9 billion a year. The number of potential clients in rural areas for investments in water supply is estimated to be about 5.0 million in East/Southeast Asia, 10.3 million in South Asia, and 3.1 million in sub-Saharan Africa. Initial investment and maintenance needs for rural water facilities are large, especially for irrigation purposes, and require external financing. The potential demand for water related micro-loans in Asia and Sub-Saharan Africa is estimated at US$1.5 billion for improving rural water supply. Currently, the formal rural financial markets meet only a very small portion of the rural water financing needs.

Assessing Rural Water Investments

Karnataka Watershed Development Project in India, known locally as Sujala, in partnership with several non-governmental organizations and the World Bank, uses satellite images taken at regular intervals from a height of 900 kms to collect data such as land use and land cover, groundwater prospects, soil characteristics for large water catchments and micro-watersheds. Geographical Information Systems (GIS) is then used to link this spatial data with rainfall, literacy rate to help technical experts and communities to prioritize works and together develop comprehensive action plans for each micro-watershed. The project also uses remote sensing, GIS mapping and Management Information System (MIS) with conventional ground based monitoring techniques to track progress and assess impacts of water based initiatives (World Bank – India, August 2011).

In the LIFELINKS project in Kenya, the use of M-PESA (mobile money platform) to dispense water was found to help monitor water use and revenues collected on a real time basis to prevent fraudulent use of funds and promote transparency in water management (Haas and Nagarajan 2011).

The Water Hackathon, a World Bank initiative, is promoting use of ICT to facilitate water access. In a recent 48 hours of marathon held in 10 cities worldwide, ICT specialists worked on creating easily deployable, scalable, and sustainable technological tools to help assessment and monitoring challenges. Some of their initiative involves development of low cost sensors attached to cell phones where the phones will serve as the medium for transmitting the water quality test results, and gathering the location details using GPS (The World Bank, October 2011).

Water footprint assessment is now piloted to evaluate and address impacts of water investments. This framework considers water consumption in the supply chain and operations; distinguishes between green water (rain water), blue water (surface and groundwater) and grey water (an indicator of water pollution); and specifies the water source(s) and the timing of water consumption to account for seasonal variations in water availability (IFC, July 2011). The Jain Irrigation in India, one of the largest producers of irrigation equipment and dehydrated onions, is now piloting the framework and finds that drip irrigation significantly improves—crop per drop and decrease water pollution associated with surface runoff and groundwater leaching.

In many countries, rural water supply often involves governmental subsidies and donor grants. It is common to find many failed rural water supply schemes after the subsidies and grants ended raising doubts about public investments in rural water. However, some innovative mechanisms are now seen that smartly combine grants, loans, and value chain finance in order to meet the demand for water finance in rural areas. Some new initiatives include performance based aid that could be combined with commercial loans, loan guarantees for commercial loans, soft loans from water companies combined with donor grants in order to install and maintain water facilities for a fixed period, and grants for capacity building of financial institutions to develop appropriate instruments to finance water initiatives. These efforts need careful examination for lessons to help with replication and adaptations.

Emerging lessons show that successful business models for financing rural water initiatives involve careful planning in selecting the right partners, prioritizing among the various types of demand for water (irrigation, drinking etc.) and effective monitoring and assessment of investments. Careful market research is essential to ensure that willingness to pay for water to support repayment exists, eligible and capable firms are available to provide support services such as repairs etc., and that the community based organization is well managed and governed and is capable of handling funds. But, more research is needed to understand the role of subsidies, ways to manage growth, and create local ownership.

Focus: Insuring Rural Clients

Rural insurance based on crop yield or revenue loss, and mortality of livestock is not new in Asia. But, most of these programmes are challenged by low uptake, high adverse selection and moral hazard issues, high administrative costs and an inability to cover covariant risks. Also, most crop insurance programmes depend on government subsidies to cover premium costs or indemnities. Therefore, they essentially function only as a safety net programme.

But, new insurance products are now being developed and tested in Asia to insure rural populations. Some of them include weather indexed crop insurance, hybrid weather and yield indexed crop insurance, index based livestock insurance, community run credit insurance and nation-wide public health insurance for the poor. In most of these new insurance products, ICT is extensively used in order to gather and quickly transfer accurate data from remote areas to help fix the premiums and settle claims, to reduce fraudulent claims, and to minimize the hassles in premium payments, to mention a few.

There is, however, still a huge need to improve client awareness and develop financial instruments to help the rural households buy insurance. Also, the role of smart subsidies needs to be clarified, especially to make complementary investments in basic methods of mitigating risk through low-cost irrigation, drought-resistant seed varieties, improved sanitation, and preventive health care. Rigorous evidence of impacts are lacking to demonstrate the effect of new index based insurance products in reducing household vulnerability, providing income protection, improving risk taking ability, farm level investments and enterprise diversification, and the ripple effects on the uninsured. To that end, it is imperative to develop creative and cost effective monitoring tools and evaluation methodologies to gather long term data from weather stations, insurers and clients, and for conducting rigorous impact evaluations that needs a control group. Rigorous studies could also help clarify the role for public subsidies to private insurers and need for public catastrophe insurance.

Focus: Responsible Rural Finance

Since 2008, a back lash is noticed against the financial service providers in many countries. The situation appears to be triggered by high interest rates and coercive lending practices by some microfinance providers, exorbitant profits made by some social investors through IPOs, lack of transparency among financial providers, weak credit information sharing framework and inadequate regulation. As a result, there is an impending threat of governmental regulations of financial sector in many countries, especially of the microfinance sector that is generally loosely regulated. Also, there is an urgency to meet the financial inclusiveness goal of MDGs by 2015. In addition, the recent entry of new non-financial players into the financial landscape – such as telecoms, water and energy companies – have also made it important to draw clear rules of the game to avoid major set-backs for the financial industry due to unethical practices. Therefore, a bright spot light is now turned on the issues of responsible finance.

Efforts to promote social performance have been gaining momentum in the past decade through initiatives such as Social Performance Task Force. But, the current discussions in many national and international forums go beyond social performance to also include banking ethics and banking code of conduct. There is now a call for instituting a seal of approval for financial service providers to incentivize the practice of responsible finance. Responsible finance focuses on responsible delivery of financial services to the poor through client protection and social performance. It revolves around transparent and responsible pricing, product diversity and appropriate environment to develop and nurture an inclusive financial sector.

It is commendable that a variety of stake holders have now voluntarily come together to engage in developing best practices for responsible finance to protect clients' rights and also to help them realize their financial capacities. Examples include the Client Protection Principles and the SMART Campaign, the Equator Principles and Global Alliance for Banking on Values, Financial Education initiatives supported by Master card and Citibank, and The World Bank Global Programme on Consumer Protection and Financial Literacy.

Responsible finance is an evolving theme. Therefore, many issues still need fine tuning in terms of conceptualization, implementation and evaluation of the results. Some of them, with relevance to rural finance, include finding effective ways to regulate and supervise the financial sector players to ensure responsible finance is practiced, measuring and preventing over-indebtedness, developing newer and cost effective methods – preferably using ICT – to provide cost effective financial education to clients in rural and remote areas, and developing easy and cost effective metrics to help monitor the compliance by the financial service providers. To that end, the standards that are now being developed by initiatives such as Smart Campaign needs to be carefully studied to cost effectively integrate responsible finance into due diligence of and reporting by the financial service providers.

The Microfinance Drama in India

In India, the early part of 2000s could be considered as a golden age for microfinance. The total demand for micro-credit was estimated to be around US$51.4 billion. A total of 27 million clients were served by MFIs with a total outstanding loan portfolio that grew more than there folds between 2007 to 2009 – from US$7.5 billion in 2007 to US$25.5 billion in 2009 (Intellcap, 2010; Bharat Microfin, 2010). With an explosive growth, the MFIs were rapidly expanding into rural and remote areas to disburse loans. The Initial Public Offering (IPO) by SKS microfinance bank was oversubscribed 13 times and raised over US$2.8 billion. But, the downward spiral for the sector began in the later part of the decade starting with the problems at SKS due to poor governance and lack of transparency from its management. In addition, the high interest charged and coercive recovery methods deployed by some MFIs to collect on over-dues were partly blamed for a series of farmer suicides by borrowers in Andhra Pradesh and became a political issue. The Andhra Pradesh state government intervened with an ordinance imposing interest rate restrictions on MFIs and threatening criminal proceedings against coerced loan recovery. The MFIs borrowed funds from banks at 9-14 percent, but, they charged interest rates between 32 and 42 percent to on-lend to their clients who were primarily the poor such as artisans, farmers and micro-entrepreneurs. The suicides also brought to light the growing indebtedness and multiple borrowings among MFI clients. The Malegam Sub-Committee, formed to inquire into the case in 2010 on client over-indebtedness, recommended a cap on loan size (US$500), an interest rate cap (24 percent), a limit on the number of MFIs that can serve one client (two), and the number of self-help groups that a person can be a member of (one). If passed into law, the recommendations would also require that 75 percent of every microfinance loan be used for income-generating activities. These recommendations could limit the ability for non-bank microfinancial institutions to provide individual loans or innovate with new products that are a bit costly but suitable and convenient for rural clients. The Indian central government also stepped in and mandated that the state-run banks cap the interest rates charged by MFIs in the range of 20-24 percent as a precondition to access bank finance. There are now talks of regulating the MFI sector that has been left out of the regulatory folds until now. With a slowdown in business and defaults, many MFIs could not raise funds by securitizing the loans due to poor credit ratings. Since the majority of loans (about 85 percent) lent by MFIs to rural clients come from bank finance to the MFIs, the top 5 MFIs – SKS Microfinance, BASIX, Spandana, Share Microfin and Asmitha Microfin – agreed in late 2011 for reducing interest rates to 24 percent to borrowers in Andhra Pradesh. There are now efforts to merge large MFIs in order to contain costs and break even within the subscribed interest rate of 24 percent per annum.

Cross Cutting Themes

Within the four major focus areas, there are three cross cutting themes that can facilitate client centric inclusive rural finance: Value chain finance, information and communication technology (ICT) and smart subsidies/grants. For instance, ICT can be used to serve newer clients, help mitigate risks and also enhance inclusiveness within a value chain.

Information and Communication Technology

Studies show that many innovative products and services are less used by the unbanked due to bottlenecks in delivery mechanisms that limit physical access. Of late, many rural finance innovations are observed among delivery channels, and most tend to use ICT to bring banking services closer to the unbanked at a reasonable cost, especially in remote and rural areas. Many strategic partnerships among financial, ICT and non-financial service providers are observed to achieve scale and scope economies to provide inclusive financial services in combination with essential non-financial services using various types of institutional arrangements. (Some examples: Collaborations between banks and telecommunication service providers such as in Telnor and Tameer bank in Pakistan, banks and insurance companies as seen in BASIX in India, banks with water and energy companies as seen in Cambodia and the Philippines, banks and education/training institutions as seen in India and Thailand to provide financial services in rural areas.)

Value Chain Finance

Value chain finance is a comprehensive approach that refers to flow of funds using various financial products through the chain and its associated links, and flow of funds that are facilitated by association with a value chain (Miller 2011). Value chain finance is now promoted in many countries to improve access to finance. Many consider that taking a holistic view of the value chains to identify the leverage points for finance and incorporate it at various points in the chain can help develop an inclusive rural financial sector. In paraphrasing Wenner (2007), an inclusive value chain could provide an enabling infrastructure for all actors involved in the chain, enhance competition among various stakeholders and increase choice within the chain, reduce vulnerability of all actors involved in the chain to increase their staying/bargaining/negotiating power, act as a catalyst and stimulate access to productivity enhancing technology and practices, facilitate access to markets and business development services, and enable channel improvement/upgrading in product, process, functional and channels.

Smart Subsidies and Grants

It's now well documented that rural finance that subsidized interest rates and used loan waivers and grants largely led to distortion of financial markets and insignificant improvements in client welfare. However, not all subsidies and grants are bad. There is now a growing literature to identify areas for smart or market-friendly subsidies in order to create public goods and support structures to strengthen an enabling environment for strong rural financial markets. Innovative ways that combine subsidies/grants with savings or loans or insurance services are emerging to promote financial inclusiveness and deal with systemic risks (Meyer 2011).

Conclusion

Meyer and Nagarajan (2001) In their study of several rural financial markets in Asia, concluded that "Rural finance in Asia is ill-prepared to face the 21st century". Since then, there have been many new developments in Asia that now leads to be cautiously optimistic about the future of rural finance in Asia. New set of service providers and new products, often enabled by technology, are seen to facilitate broadening access to financial services to new sets of clients in rural areas with some success. While most innovations are initiated and implemented by the private sector service providers, they are now encouraged and supported by many governments and donors.

However, many challenges continue to exist. There are impending threats of governmental interventions and reintroduction of interest rate ceilings in response to some irresponsible finance noticed in some places. ICT is beginning to show a lot of potential to provide inclusive financial services in rural and remote areas. But, the risks of technology based delivery systems in rural areas still needs to be carefully assessed in order to ensure that human touch and consumer centred banking is not lost due to heavy use of ICT. There exist many small countries in Asia (Pacific island countries) that may require different forms of innovations in rural finance. Some rural clientele may require other services in addition to finance.

Tackling the rural finance challenges would require development of human capacity that can boldly experiment, learn, and provide multiple services in an effective, sustainable, and efficient way. To that end, exploring strategic alliances and collaborative linkages among various suppliers of services in rural areas, including private sector participants, is important. These could involve longer time periods to realize results that may not be very transparent unless clear results-based monitoring is in place from the beginning. Patience and readiness to face some failures are essential virtues. Also, hard and informed choices need to be made in order to cultivate more-efficient and more inclusive rural financial systems. At government and donor levels, it could include whether and how to subsidize and regulate the rural finance sector; at provider level, it may involve whether and how to implement inclusive finance and product diversification in a sustainable and responsible way; and at client levels it should involve how to use financial services offered by various sources in a responsible way. There should be unwavering commitment to learning, improvements and long term development and to avoid use of quick fixes and band aid solutions.

"Some of the major unmet challenges in rural finance persist because an effective approach is not yet clear, while others may be understood but nonetheless persist because effective approaches are costly and time-consuming to implement" – Robert Vogel, 2006.

Part 4

Governors' Circle – Financially Inclusive Policies and Regulatory Frameworks

4.1 Recent Financial Inclusion Initiatives and Regulatory Frameworks in Bangladesh

by Mr. S.M. Moniruzzaman, Executive Director, Bangladesh Bank (BB)

Three-quarter of Bangladesh's people live in rural areas, and a significant portion of this population lives below the poverty line – making the rural sector central to the country's development. The overall economic development of the country is closely interlinked with the development of the agricultural/rural sector. Being one of the most densely populated countries in the world, food security is a recurrent issue for Bangladesh. Farming plays a major role in the rural economy and the sector employs 54 percent of rural workers and accounts for nearly 21 percent of national GDP.

Bangladesh is the birthplace of microfinance and the Lead Bank system is also in place since 1977 to provide financial support to the farmers. The agricultural sector is underserved by both banks and microfinance institutions. This happened for several reasons including lack of collateral by the tenant farmers making them less preferred by the banks. Agricultural operations, being seasonal in nature and bear risks, are also left out by the Microfinance Institutions who maintains weekly repayment mechanism.

Bangladesh Bank, the Central Bank of Bangladesh has been striving to increase financial inclusion and in the 5-year strategic plan has adopted financial inclusion as a priority target. The recent financial inclusion initiative by Bangladesh Bank includes:

- Inclusive annual agricultural/rural credit policies by Bangladesh Bank
- Opening of farmers account with Tk10 (less than 20 cents) only
- Agricultural/Rural credit made mandatory for all banks
- Effective use of Bank-MFI partnership
- Monitoring of Agricultural/rural credit at grass-root level using mobile phone
- Mobile Phone Banking
- Solar home system and solar irrigation treated as agricultural/rural finance
- Special refinance scheme with BRAC for providing finance to share-croppers/tenant farmers.

Annual Agricultural/Rural Credit Policy and Programme by Bangladesh Bank

Bangladesh Bank draws up annual agricultural credit policy and programme each year in consultation with the stakeholders. This policy and programme includes rules, regulations, priorities, disbursement and repayment schedule for common crops along with their cost estimation with a view to providing a guideline for banks involved in agricultural credit programme. The spirit of the policy is that the share-croppers and marginal farmers will get priority in getting agricultural credit. The policy also directs banks for providing collateral free credit to farmers who are cultivating a maximum of 5 acres of land against crop hypothecation. This policy provides emphasis that at least 60 percent of the agricultural/rural credit target of each bank goes to cultivation of crops with instructions for putting adequate priority to the other core sectors viz. fisheries and livestock as well as for various types of income and employment generating activities including agriculture allied activities in the rural areas.

Opening of Farmers Account with Taka 10 only

To increase banking access of the farmers recently more than 9.5 million accounts of farmers have been opened by the State-owned Banks with an initial deposit of Tk10/- only (<20 cents). These accounts were initially opened to provide Govt. agricultural input assistance to the farmers. Currently following activities are done using these accounts:

- savings mobilization
- credit delivery
- foreign remittance delivery
- local remittance transfers

Bangladesh Bank is monitoring the usage of such accounts on quarterly basis. Till now around 5 percent of these accounts are being used and it is a challenge for BB to increase this percentage to a considerable degree.

Agricultural/Rural Credit made Mandatory for all Banks

Since FY 2009-2010, Bangladesh Bank is bringing all banks including the private and foreign banks under the mandatory annual target declaration for agricultural/rural credit disbursement. Agricultural/rural credit target had been set based on the previous year's target of bank with a reasonable increase each year. Target setting has not been effective in achieving the disbursement of agricultural/rural credit as there were no remedial/punitive measures for any shortfall in achievement of target. And many private and foreign banks had been investing only a token amount as agricultural/rural credit or made no disbursement despite declaring a target. In the above backdrop Bangladesh Bank issued a circular on 15 May 2011 that, all private and foreign commercial banks have to disburse at least 2.5 percent of the total outstanding of their loans and advances as of end March of the previous financial year as agricultural/rural credit. For the first year the mandatory target has been relaxed and set at 2 percent of total outstanding loans and advances as of 31st March of the previous year instead of 2.5 percent. In failing to achieve this target the bank will have to keep the unachieved portion with Bangladesh Bank for a period of one year. BB will provide interest at bank rate for such deposit (currently 5 percent).

Effective Use of Bank-MFI Partnership

Bangladesh Bank allows banks with limited branch network to provide agricultural/rural credit in partnership with the microfinance institutions having license from the Micro-credit regulatory Authority. To ensure that the bank funds disbursed through MFI partnership goes in agriculture, it is considered as disbursement by bank only when the fund is disbursed to the actual borrowers and not the Microfinance Institutions (MFIs). With a view to increase banks' accountability for their agricultural/rural lending with MFI partnership; Bangladesh Bank has instructed the banks for field verification of at least 1 percent borrowers.

Interest rate cap for agricultural/rural credit for banks is currently 13 percent on reducing balance method. However, under this partnership programme with banks, MFIs can take fund from banks at maximum 13 percent interest rate while relending it at a maximum of 27 percent at reducing balance method at the ultimate borrower level. The MFIs are being regulated and supervised by the Micro-credit Regulatory Authority of Bangladesh.

Mobile Phone Banking

Almost half of the country's 160 million population use mobile phones. On the other hand the number of population having access to banking services is limited. Bangladesh adopted the concept of mobile phone banking few years ago. Some banks have already started remittance services by mobile phone. Very recently, the Central bank issued a guideline on mobile banking, covering core banking services. In the guideline, the central bank made it clear that mobile banking will be bank-led, not telco-led. It is expected that the move would help banks bring a vast number of unbanked people into the banking services through the mobile network operators (MNOs). Underprivileged and rural folks would benefit the most from the Mobile Phone Financial Services (MFS). Mobile phone banking is expected to gain fast popularity, thanks to its fast service and simplicity of usage.

Even before formal inauguration of mobile phone banking; Bangladesh Bank instructed all banks to collect the phone numbers of the agricultural/rural credit borrowers so that the Bank officials and the Bangladesh Bank Officials can monitor over phone whether the borrowers are facing any difficulties regarding banking matters.

Solar Home System and Solar Irrigation treated as Agricultural/Rural Finance

Around 70 percent people in Bangladesh are outside the electricity facility while around 90 percent are outside the natural gas network. Renewable energy, especially solar energy and biogas can provide a sustainable and environment friendly solution to reduce the above crisis. In order to encourage the use of bio-gas, solar energy in households and business institutions in rural areas and solar energy driven irrigation pumps in off-grid areas of the country and to encourage investment by the banks/financial institutions in the said sectors, a refinance scheme of Tk2 billion has been introduced by Bangladesh Bank in 2009.

Special Refinance Scheme for providing Finance to the Share-croppers

Despite all efforts from government, Bangladesh Bank and many other stakeholders, the access to finance for the share-croppers had not been up to the mark till the recent times. Bangladesh Bank took on a special refinance programme of taka 5 billion exclusively for the share-croppers/tenant farmers. This 5 billion taka fund is supposed to be disbursed among 0.30 million share-croppers across 150 upazilas under 35 districts of Bangladesh. BRAC, a reputed MFI is getting refinance from Bangladesh Bank under this programme upon disbursing credit to the share-croppers provided that 100 percent bank guarantee has been placed to ensure recovery of the central bank's fund.

As per terms, BRAC is providing mainly short-term credit to the share-croppers at an interest rate of maximum 10 percent while receiving refinance at the prevailing bank rate (currently 5 percent). The repayment schedule of this new initiative, an alloy of bank credit and micro credit model has been designed to adjust with crop harvesting pattern while maintaining an effective monitoring as well.

4.2 Financially Inclusive Policies and Regulatory Framework – A Case of Indonesia

by Mr. Edy Setiadi, Director, Directorate of Credit, Rural Bank and MSME, Bank Indonesia

Since independence, Indonesia has been trying its best to reach banking services to the poor. Poverty alleviation is a top priority for Indonesia and financial inclusion is an essential component of its poverty-alleviation strategy. In his keynote speech on the Global Policy Forum seminar in Bali, September 2010, the President of Indonesia has declared that Financial Inclusion shall become the national agenda. He said, "*Financial inclusion is a central theme for all of us because most of those in poverty do not have access to financial services—savings, loans, transfer payments, and insurance—at a reasonable cost. The exclusion of people will only perpetuate their poor lives*."

Conditions for Innovative Financial Inclusion

There are six essential conditions to be fulfilled for a successful implementation of innovative financial inclusion. They are: 1) Leadership; 2) Accountability and Coordination; 3) Diversity; 4) Innovation; 5) Relation with culture; and 6) Strong regulatory framework.

Level of Financial Exclusion in Indonesia

- 13.33 percent of Indonesians live below poverty line
- 64.25 percent of population live in rural areas
- 60 percent of the population are without any access to banking facilities
- 99.91 percent of total business units are MSMEs and 60-70 percent of MSMEs are not linked to banks.

Financial Systems in Indonesia

Indonesia's financial system is a bank dominated industry. Eighty percent of the financial system of Indonesia is dominated by banks. They play the most important role in financing to support economic growth of the country. Eight percent of the financial system is dominated by insurance companies. Finance companies, security companies, pension funds etc. constitute another 12 percent of the system. The role of other financial institutions (especially microfinance institutions/MFIs) cannot be excluded due to direct interaction with low-income communities.

As per a World Bank survey, only 52 percent use formal financial institutions and 31 percent use semi-formal or informal sources for their financial needs. Financial inclusion has to play very important role to reduce the rate of unbanked population.

The Strategy of Bank Indonesia on Financial Inclusion

Vision:

To create a widespread community access to the financial services in ease in order to support the qualify economic growth to promote people welfare

Mission:

- To increase the availability of banking services which are of quality, accesible, secure and convenient to the people

- To support the development and provision of banking services which are in line to people's need without compromising consumer protection
- To expand and promote people's understandingabout banking product and services

Five Pillars of Financial Inclusion:

- **Financial Education**: To promote people knowledge and understanding on financial service and product, including the aspect of consumer protection and financial management.
- **Mapping of Financial Information (Eligibility)**: To Increase the number of people who meet eligibility standards for financial services.
- **Facilitating Intermediacy**: To promote the outreach of formal financial system, especially bank, toward group of people without financial access.
- **Distribution Channel:** To create and expand the inexpensive yet safe distribution channel to reach out more poor and low income pople into the financial services.
- **Supportive Regulation**: To produce policy and regulation which support or eliminate the regulations that obstruct people access to financial system.

Under each of above pillars Bank Indonesia provides services relating to savings, credit, remittance, insurance and services for SMEs.

Successful Indicators of Financial Inclusion identified by the Bank are as follows:

- **In terms of usage level of banking services:**

  a. Number of saving accounts per adult people
  b. Number of accounts of Tabunganku and the like
  c. Number of SME debtors
  d. Number of minimal value of remittances transaction of migrant workers sent to Indonesia
  e. Value and number of issued/used e-money instruments
  f. Value of social fund channeled by or through Islamic banking

- **In terms of level of access to banking services:**

  a. Number of commercial bank and MFI (BPR/BPRS/BMT) involved in linkage programme as well as the value of linkage programme
  b. Number of population getting Financial Identity Number (FIN)
  c. The availability of infrastructure and the supporting regulation of FIN
  d. The availability of supporting regulation of branchless banking
  e. The availability of agent banking at limited banking services area (especially outside of Java)

- **In terms of level of financial literacy:**

  a. Number of school and people participating in financial education
  b. Number of universities having Islamic financial programme
  c. Number of schools and universities having central banking programme
  d. The increasing financial literacy rate

Of the above indicators, the bank proposes to use following 5 main indicators to measure the commitment of *financial inclusion*:

- **Financial Identity Number (FIN)**: with number of people having FIN as the target
- **The ratio of MSME credit to total of banking credit**: with an increasing ratio as the target (currently 21.6 percent)
- **Saving ratio** (number of saving accounts per 1.000 adult population)
- **Regulation on** branchless banking
- **An increasing number of schools** participating in financial education

Financial Inclusion Policy Issues

- For most large financial institutions dealing with many a large number of small customers is not profitable.
- Design and type of service do not fit the requirements of specific groups in the population.
- Lack of an enabling regulatory environment for the provision of innovative financial services represents another crucial barrier to be addressed.
- Demand-side barriers can include the lack of formal identification system, low levels of financial literacy, inability to track an individual's financial history and the absence of appropriate consumer protection mechanisms.
- For low income groups, dealing with financial institutions is generally seen as a difficult process.

4.3 Financially Inclusive Policies and Regulatory Framework – A Case of Cambodia

by Mr. Kim Vada, Deputy General Director, Banking Supervision, National Bank of Cambodia

Microfinance institutions in Cambodia started as NGOs in 1990s providing humanitarian aid in times of distress and taking up other welfare activities for the people. NGOs moved to financial intermediation progressively with receipt of foreign funds. However there was no control on their operations till the year 2000. Thereafter Government of Cambodia took a series of proactive steps to ensure that financial system is regulated properly to ensure an orderly growth and also finance reaches the critical rural areas for faster agricultural growth.

Government of Cambodia has adopted a series of policy measures, supported by international donors which are listed below:

- Establishment of the Credit Committee for Rural Development (CCRD) in 1995.
- Introduction of a framework in the Banking Law to enable eligible NGOs and other rural finance providers to become regulated microfinance institutions (MFIs).
- Creation of a unit in the National Bank of Cambodia (NBC) to supervise and monitor MFIs.
- Establishment of an apex institution to provide financing for MFIs, namely the Rural Development Bank (RDB).
- Cambodian Banking system started in the early 1990s when the government launched economic reform programme.
- With reform programme came in regulation and supervision of banks and microfinance institutions.
- The Financial Sector Development Strategy (FSDS) 2001-2010 identified rural finance as a critical sector requiring development and support.
- Five key areas have been highlighted in the FSDS 2001-2010 using a phased and sequencing approach for rural finance development. They are:
  – Implementing and enhancing rural credit policy;
  – Strengthening supervision and regulation;
  – Building financial infrastructure for microfinance;
  – Creating institutional capacity; and
  – Ensuring pro-poor orientation.
- The Financial Sector Development Plan (FSDP) 2006-2015 has updated the FSDP 2001-2010 and gave more impetus to "Rural Finance", to become more inclusive, and considered the sector as "Microfinance."
- This encourages the diversification of risks and growth of diverse products, as well becoming more inclusive for those in urban areas.
- The objective is thus a viable, pro-poor and effective microfinance system to provide affordable financial services to enable the poor to enhance income and reduce poverty.
- The FSDP 2006-2015 has just been updated to the FSDS 2011-2020. The reform is deemed appropriate to further develop the financial sector and enable the sector to better support economic growth and make finance more widely accessible and inclusive, thereby contributing to overall poverty reduction.
- The FSDS 2011-2020 is also broad enough to serve as a guide in going beyond traditional microfinance and in pursuing goals for more inclusive finance.

The goals for increasing financial inclusion for the next decade as identified by Government of Cambodia are:

At Macro Level

- Strong regulatory and supervisory framework supportive of financial inclusion; and
- Strong support system for consumer protection.

At Meso Level

- Availability of cost effective financial products and services for both clients and financial service providers; and
- A strong industry association contributes positively to sector development.

At Micro Level

- Diverse, quality financial services available to large numbers of people; and
- Poor people and those in more remote areas have access to financial services tailored to their needs and demand.

Microfinance Sector in Cambodia – Current Status

- Most rural financial operators in Cambodia have been transformed from NGOs that were involved with humanitarian work in late 1970s and have moved out of relief and rehabilitation works and redefined their roles in interventions in the MF development process.
- As of September 2011, Cambodian microfinance sector consisted of 29 licensed microfinance institutions of which 7 are deposit taking institutions. There are 28 registered rural credit operators.
- Loan outstanding was US$584 million, provided to more than 1.1 million clients. The growth rates of loan outstanding and clients were at about 33 percent and 13 percent, respectively.
- Deposits reached the amount of over US$90 million collected from 220,104 depositors. These figures showed increase of 115 percent and 52 percent, respectively.
- Further, the microfinance sector was able to maintain good portfolio quality whereby the non-performing rate was at 0.52 percent.

Microfinance Regulatory and Supervisory Framework in Cambodia

- The National Bank of Cambodia (NBC) is the sole authority to regulate and supervise microfinance sector.
- The MFIs have been regulated to avoid incompetence and unsound management, which can undermine the whole financial system.
- The NBC has issued regulations, rules, and circulars in order to regulate the microfinance sector.
- The Cambodian regulatory framework has been ranked first by the Economist Intelligence Unit (EIU) in 2009 and 2010.
- Regulatory Framework for Cambodian MFIs covers the following areas:
  - Licensing
  - Definition of Net Worth
  - Solvency
  - Operations
  - Liquidity
  - Accounting Rules
  - Reporting
  - Monetary Issues

Recent Development and Innovations

- To further strengthen the microfinance industry, the NBC has recently issued additional regulations on:
  - Governance
  - Fit and Proper Regulatory Requirements
  - Internal Control
  - Liberalization of Interest Rate Setting
  - Credit Reporting
- The NBC has also launched automated reporting system for the MFIs. The system allows MFIs to submit the regulatory reports online.
- The Cambodian MFIs have recently expanded their products on Mobile Phone Banking, Any Time Money (ATM), and Point of Sales (POS).
- The services allow MFIs' clients to have better and more accessibility.

Future Plan and Challenges

The following are the focused areas and require further supports and strengthening:

- Strengthening regulatory and supervisory framework and capacity;
- Expanding services;
- Improving outreach;
- Increasing consumer protection;
- Enhancing operational efficiency and soundness of service providers; and
- Strengthen industry support.

4.4 State Bank of Pakistan's (SBP) Innovative Rural Finance Policies and Conducive Regulatory Framework

by Mr. Syed Samar Hasnain, Director, Agricultural Credit and Microfinance Department, State Bank of Pakistan

The State Bank of Pakistan is the Central Bank of the country. While its constitution, as originally laid down in the State Bank of Pakistan Order 1948, remained basically unchanged until 1st January 1974 when the Bank was nationalised, the scope of its functions was considerably enlarged. The State Bank of Pakistan Act 1956, with subsequent amendments, forms the basis of its operations today. The responsibility of a Central Bank in a developing country goes well beyond the regulatory duties of managing the monetary policy in order to achieve the macro-economic goals. This role covers not only the development of important components of monetary and capital markets but also to assist the process of economic growth and promote the fuller utilisation of a country's resources. Ever since its establishment, the State Bank of Pakistan, besides discharging its traditional functions of regulating money and credit, has played an active developmental role to promote the realisation of macro-economic goals. The explicit recognition of the promotional role of the Central Bank evidently stems from a desire to re-orientate all policies towards the goal of rapid economic growth. Accordingly, the orthodox central banking functions have been combined by the State Bank with a well-recognised developmental role. The scope of Bank's operations has been widened considerably by including the economic growth objective in its statute under the State Bank of Pakistan Act 1956. The Bank's participation in the development process has been in the form of rehabilitation of banking system in Pakistan, development of new financial institutions and debt instruments in order to promote financial intermediation, establishment of Development Financial Institutions (DFIs), directing the use of credit according to selected development priorities, providing subsidised credit, and development of the capital market (Source: Website of State Bank of Pakistan).

I. Financial Inclusion in Pakistan

In Pakistan only 11 percent of the adult population has access to formal financial services. A very high, i.e., about 56 percent of adult population do not have access to any financial services and nearly 32 percent of them are served by informal sources.

Barriers to Financial Inclusion in Pakistan

Demand-side

- Lack of bank branches in remote/rural areas (Here, Brick and Mortar approach is not feasible)
- Inconvenience due to lengthy documentation/processes
- Lack of basic and financial literacy

Supply-side

- Institutional capacity issues of financial services providers
- Lack of interest by mainstream commercial banks to serve the lower end of the market – insufficient collaterals
- Lack of innovative and technology based products for low-income people
- High cost structures of microfinance providers posing challenge to sustainability
- Lack of effective implementation of Consumer Protection codes and policies
- Risk aversion of conventional banks to explore new markets

SBP's approach towards Financial Inclusion

- SBP's strategy is broad based and flexible
- SBP has adopted separate strategies for the promotion of rural finance through agricultural finance and microfinance
- Specialized Development Finance Group (DFG) has been created at SBP
- For operational support facilities, Development Finance Support Department has also been set up
- In order to bring synergies, Agricultural Credit and Microfinance Departments in DFG have been merged to a single department

II. Agriculture Finance in Pakistan

Agriculture contributes around 21 percent to GDP with around 8 million farm households. Earlier Agriculture Finance in Pakistan was dominated by cooperative banks. With the advent of commercial banks and specialised agriculture and rural development banks the scenario has changed.

Presently the key players in agriculture finance in Pakistan are Zarai Taraqiati Bank Ltd. (ZTBL) (formerly Agriculture Development Bank of Pakistan), five large commercial banks, 13 domestic private banks and the Punjab Provincial Cooperative Bank Ltd. (PPCBL). ZTBL accounts for 51 percent of the 1.9 million clients. This is followed by 5 large banks with combined share of 30 percent.

It is estimated that for the year 2010-11 as against agriculture credit requirement of Rs712.5 billion, formal sector was able to provide only Rs263.20 billion.

Agricultural Finance Policy Initiatives of SBP – Key features

Branch Network and Infrastructure

- 20 percent mandatory branches in rural areas
- Separate agricultural finance policy
- Dedicated agricultural lending branches

Product Development

- Revolving credit scheme
- Guidelines for financing to livestock, fisheries, horticulture and poultry sectors
- Guidelines for islamic agriculture financing
- Small farmers scheme on group based lending

Enabling Environment

- Indicative annual credit disbursement targets
- Crop loan insurance scheme
- Credit guarantee scheme

Capacity Building

- Training and awareness programmes
- Local and foreign study visits
- Specialized staff who are agricultural graduates

III. Microfinance Market and Potential in Pakistan

- A vast market of 30-40 millions potential clients
- However this is a under-developed Market

- Challenges in the MF market: Information Asymmetry, Illiteracy, social and economical Vulnerabilities etc.
- Opportunities: Huge business margin and good repayment behaviours
- Served by both regulated and unregulated players
- SBP regulatory and policy initiatives combined with Sector initiatives and innovation has allowed Pakistan's Microfinance Industry to grow in a sustainable and inclusive manner

In a recent study by the Economist Intelligence Unit (The Economist Magazine), Pakistan has been ranked:

- 1st along with Cambodia and Philippines with respect to Regulatory Framework;
- 5th for overall Microfinance Business Environment;
- 12th for Institutional Development; and
- 20th for Investment to Climate.

Government of Pakistan and SBP are actively involved in promotion of microfinance in Pakistan. Government of Pakistan initiated setting up of separate banks for microfinance with Kushhali Bank ordinance in 2000. This was followed by the all important MFI ordinance of 2001 which gave powers to SBP for regulating the MF sector in Pakistan. GoP has also set up a separate not-for-profit company, Pakistan Poverty Alleviation Fund (PPAF) which is involved in funding and promoting institutions involved in poverty alleviation programmes. SBP plays leadership role in microfinance in the country by being regulator for the sector. SBP's MF strategy involves growth combined with innovation.

Major players in Microfinance in Pakistan are

- 8 Microfinance banks whose combined share is 35 percent of the 2 million microfinance clients; in Pakistan;
- 4 Rural Support Programmes whose share is 31 percent;
- 8 Specialised MFIs whose share is 27 percent; and
- 8 NGOs

Emerging Challenges for the Rural Finance

- Sensitization of banks to adopt rural finance as viable business lines
- Floods/heavy rains catastrophes due to global climate change is expected to push people towards poverty and exclusion – Expected rise in NPLs
- Risk mitigation services like crop, livestock and microinsurance are required
- Limited funding sources and risk aversion of banks for rural finance
- Weak Institutional Development of banks in rural finance
- High operational cost
- Weaknesses in governance/management structures

Next Steps…

To promote market-oriented approaches, address market failures and industry bottlenecks through:

- Continuous Improvements in Regulatory Framework in line with market conditions
- Development of risk mitigating tools
- Innovative partnerships and use of technology led models to expand financial services
- Leveraging mobile phone technology and agents' networks
- Strong institutions with good governance standards
- Pro-consumers policies and practices
- Financial literacy and awareness
- Strengthening branchless banking

Part 5

Infomarket

Introduction: Member Institutions of APRACA and their partners in progress undertake various development initiatives either on their own or through collaborative efforts between them. These efforts throw up new insights into development models worth replicating with minor local modifications. There is a need to disseminate such information between the members for wider information sharing. As such, APRACA member institutions and IFAD national projects were invited to highlight details of institutional and project innovations, through an infomarket, a method of simultaneous "buying and selling" of information. Each presenter in the infomarket displays their wealth of knowledge in various development areas and experiences in a visual extravaganza. Important country specific presentations made in the infomarket were as follows:

5.1. Commercial Microfinance Institution – A case of Ekphatthana Deposit Taking Microfinance Institution (EMI)

by Mr. Chantha Mingboupha, Deputy Director, EMI Lao PDR

Local Geographical, Social and Economic Environment

Lao PDR is a landlocked country with inhabitants belong to a large variety of ethnic groups. Its landscape is characterized by mountain ranges, which cover nearly nine tenth of the country, and by the Mekong river and its tributary system. The Lao PDR is scarcely populated, with an average of about 25 people per square kilometer. It has a young population with a median age of only 19.2 years and a high (2.3 percent), but declining, population growth rate. The average number of births per female is declining, as are child mortality rates, while life expectancy is rising. It has a total population of 6.3 million (IMF, 2010) of which 70 percent was estimated living below the US$1 per day (UN, 2005). In 2006, ADB estimated the overall total population growth at 2.344 percent.

Lao Economic Performance and Prospects

Real GDP growth of Lao PDR is projected to grow at about 8.5 percent in 2010, up from 7.5 percent in 2009 because of major driving sectors such as natural resources, manufacturing, construction, garments and tourism. However, growth in agriculture (especially rice production) is expected to slow in 2010 due to early drought and recent floods in some provinces fueling food price increases in the country. FDI in resource and non-resource sectors has rebounded. Slower growth in the global economy is likely to have a relatively modest impact on Lao PDR, with growth projected to settle at about 7.8 percent over the medium term.

1. Emergence of EMI

Ekphatthana Deposit Taking Microfinance Institution (EMI) is the first licensed microfinance institution to operate in Lao PDR under the government's new microfinance regulations issued in 2005.

2. Products and methodology of EMI

Starting in 2008, EMI has been providing two main products: i) Savings (Passbook Savings, Time Deposits and Contract Savings); and ii) Loans.

Table 1. Loan Products and Features by Percentage Share of Clients

Product Features	Individual loan with Center Meeting (60 percent of the borrowers)	Individual Loan (30 percent of the borrowers)	Business Loan (15 percent of the borrowers)	Wholesale Loan (15 percent of the borrowers)
Collateral	No Collateral	Based on Risk weight	Based on Risk weight	Based on Risk weight
Number of People	Individual liability with Centre meeting 5-40 Members	One person	One person	One Village (member from 50-300 members)
Disbursement/ Repayment Location	EMI office/on site collection	EMI office/on site collection	EMI office/on site collection	On site collection
Maximum Loan Amount	1.5 million kip (US$150 USD)	1.5 to 5.5 million kip (US$150 to US$550 USD)	5.5 to 50 million kip (US$550 to US$6,000 USD)	30 to 102 million kip (US$3,500 to US$12,000 USD)
Term	24 to 40 weeks	1 to 12 months	1 to 12 months	1 to 24 months
Repayments	Equal weekly repayments of interest and principal. Advance capital repayment accepted without penalty.	Equal daily, weekly, monthly repayments of interest and principal. Advance capital repayment accepted without penalty.	Equal monthly repayments of interest and principal. Advance capital repayment accepted without penalty.	Interest monthly and principal at loan maturity date.
Monthly Interest Rate	Interest rate of 4 percent flat.	Interest rate of 4 percent flat. The best clients will get interest reduction to 3.5 percent	Interest rate of 4 percent flat. If the loan is more than 10 M, the interest will be charged in declining balance	Interest rate of 2 percent flat.
Target Clients	Small Traders, Shop owners	Individual traders, shop owners, Micro businesses	Small business owners or individuals	Village Development Fund

Savings products

It is important for both EMI and its clients to maintain a mutual trust. This is being achieved through continuous promotion of savings and furthering EMI's image and reputation. There are three main types of savings product as illustrated in the table below:

Table 2. Savings Products and Features

Product Features	Passbook Savings	Term Deposit	Smart Kids Savings Product	Smart Parents Savings Product
Minimum Balance	10,000 kip (US$1.2 USD)	100,000 kip (US$12 USD)	5,000 kip (US$0.7 USD)	10,000 kip (US$1.2 USD)
Interest Rate	8 percent p.a. (1-2 percent higher than commercial bank)	1-2 percent higher than commercial banks	10 percent p.a. (3-4 percent higher than commercial bank)	10 percent p.a. (3-4 percent higher than commercial bank)
Withdrawal Restrictions	Unlimited	Early withdraw earns Passbook rates Interest earned is withdraw able every month	Unlimited	Before School opens

Table 2. *(continued)*

Product Features	Passbook Savings	Term Deposit	Smart Kids Savings Product	Smart Parents Savings Product
Term	N/A	3, 6, 9, 12, 18, 24 months	N/A	N/A
Target Clients	Individuals who want to deposit small amount and practice their savings habit	Individuals who are looking for convenience and high return on deposit	Students from Grades 4-12 can deposit and withdraw anytime.	Parents who want to save money to prepare for the next year's school expenses.
Benefits	Can deposit small amount and can withdraw any time, higher return compared to the bank	High return and can withdraw interest every month	Students learn how to save money and that will be good for them in the future.	Parents mobilize enough money to pay for education expenses.

3. EMI Innovation

Mobile Banking Methodology: EMI aims at improving access to finance for poor households and small-scale enterprises in rural areas by using mobile banking methodology. As study shows how many Lao (of all ages) are using mobile phones. In the two year period from 2003-2005, the number of subscribers had increased sevenfold. By March 2005 there were more than 350,000 mobile subscribers nationwide. The number of subscribers is now growing at an annual rate of more than 80 percent.

A study finding shows that, out of 145 interviewees, 66 percent owned a mobile phone, 33 percent had fixed phone and 27 percent had both. Thirty-one percent of interviewees had no phone at all. In the urban and semi-urban areas almost everybody had a mobile phone. In urban areas and peri-urban more than 83 percent of the interviewees had mobile phone, in the rural areas only 33 percent. Nobody in the countryside had fixed phone installed, but 72 percent of urban and 37 percent of semi urban interviewees had.

Telephone ownership (percent)

Site	Mobile	Fixed line	Both	None
Urban	75	72	55	19
Periurban	88	37	33	8
Rural	33	0	0	61
All	66	33	27	31

Credit Line

In order to serve the unserved clients from commercial bank, EMI designed new product to meet these clients.

- Clients apply loan up to the ceiling amount
- Partially withdraw principal
- Interest calculation with balance amount
- Principle repayment at the end of cycle
- Fee charged on each loan

5.2 Rural Financing Innovations – CARD MRI Experience

by Mr. Ronald A. Inciong, Assistant Vice-President For Credit Risk, CARD SME Bank, Inc., San Pablo City, Laguna, the Philippines

I. Background

In December 1986, a group of 15 rural development practitioners organized the Centre for Agriculture and Rural Development (CARD), Inc. as a social development foundation, a concerted response to the growing poverty incidence in depressed communities in the Philippines particularly in the provinces of Laguna, Quezon, Mindoro Oriental, Mindoro Occidental, Marinduque, Masbate and the Bicol Region. Its vision has always been to establish a bank created for, owned and managed by landless rural women. In the words of CARD Founding President and now Managing Director, Dr. Jaime Aristotle B. Alip, "only by creating a vehicle for asset ownership, can we ensure that the poor will gain control over their own resources and over their own destiny."

CARD has twin goals of outreach and sustainability. Within ten years of its operations, CARD has successfully formalized its microlending operations by transforming itself into a formal financial institution, a microfinance-oriented rural bank, the CARD Bank Inc. CARD has now grown and branched out into nine (9) mutually reinforcing institutions currently known as the CARD Mutually Reinforcing Institutions (CARD MRI), providing a wide range of microfinance services, both financial and non-financial to different market niches.

Starting with a measly financial resource of Php20.00 in 1986, CARD MRI's financial resources has grown to Php11.44 million as of August 31, 2011.

II. Innovations on Rural Financing – CARD Experience

2011 marks a milestone for CARD MRI since it is celebrating its 25th year anniversary. The following are the major innovations which CARD MRI implemented for the past 25 years:

A. Transformation of CARD into 'CARD MRI' (Mutually Reinforcing Institutions) with complimenting Product and Services

From a social development foundation, CARD has transformed into a group of institutions that mutually reinforce each other's mission called "CARD Mutually Reinforcing Institution" (CARD MRI). CARD is composed of nine (9) mutually reinforcing institutions, as follows: CARD Inc. – the NGO expansion arm; CARD Bank Inc. – the formal banking arm regulated by BSP; CARD MRI Development Institute (CMDI) – the institute providing microfinance training services to internal, local and international external clients like NGOs, People's Organizations, donors, and individuals; CARD Business Development Services Foundation, Inc. (BDSFI) – the marketing arm responsible in creating forward and backward linkages for the clients in terms of access to more feasible markets and affordable raw materials; CARD SME Bank, Inc. – an acquired rural bank which is now rehabilitated to a thrift bank whose thrust is SME lending; CARD Mutual Benefit Association (MBA) – the micro insurance arm; CARD MRI Insurance Agency (CaMIA) – the institution providing non-life insurance services to clients; CARD Information Technology, Inc. (CMIT) – the institution providing the information technology being require by CARD MRI; and BOTICARD, Inc. – the institution providing quality and affordable medicines and other health care services to CARD clients.

B. Transition from Microfinance Non-Government Organisation to a Bank

On September 1, 1997, CARD Bank, Inc. opened its doors to the public. The event marked a first in the Philippine rural development landscape. CARD, Inc. is the first microfinance NGO in the country to transition itself into a bank. At the time of its transition, CARD, Inc. was on its 10th year of credit and savings operations, using a modified Grameen Bank methodology to bring financial services to landless rural poor women. As a strategy, matured clients of CARD NGO are being transitioned to become the microfinance clients of the bank.

The founding vision of CARD to create a bank owned and managed by landless rural women has become a reality with the establishment of the bank. In addition, it was able to provide a wide range of services to the microfinance clients which includes loans, savings and micro insurance and remittance services. It can be said that the microfinance operation of CARD has become more efficient considering that CARD Bank, Inc. is under the supervision of a regulatory body, the Bangko Sentral ng Pilipinas (Central Bank of the Philippines).

C. Development and Implementation of Micro insurance and other related Insurances

The development of micro insurance for its clients is one major product innovation instituted by CARD MRI in dealing with problems of fraud, moral hazard and adverse selection. It recognized the need for such financial services to respond to household needs to reduce their vulnerability while improving the results of existing credit and savings services.

Initially, the insurance product was a simple mutual fund called the Members Mutual Fund (MMF) which aims to address the problem of non-payment of loans in case of death of the member-borrowers. The primary purpose of the mutual fund is loan redemption. The strong support provided by the members who benefitted from the loan redemption scheme led to rapid growth of assets and membership. Thus, the MMF was later on used to cover death, disability and pension benefits. On October 29, 1999, the MMF was registered with the Securities and Exchange Commission as CARD Mutual Benefit Association (MBA). On May 29, 2001, the Insurance Commission granted CARD MBA a license to operate as a mutual benefit associate for client members.

The unique feature of CARD MBA is that client-members own and manage it. Management was entrusted to members in 1999 and the Board of Trustees is elected from the membership of the association.

The following are the products and services provided by CARD MBA:

- Life Insurance Programme
- Retirement Savings Fund
- Loan Redemption Fund
- Build Operate and Transfer (BOAT) Programme: A technical assistance programme for organized groups in putting-up their own mutual benefit association
- Non-Financial Services

It is noteworthy to point out the ingenuity of using a credit-insurance link to protect a lending institution and also a savings-insurance link to provide members a range of financial instruments for their surplus. CARD NGO has several thousand clients, a strong information base on clients organized into cohesive solidarity groups and regular and stable savings from members before it conceived of establishing the MMF and later on the MBA. The savings history was important in providing a good track record for clients. Today, the MBA members have savings accounts CARD Bank and CARD SME Bank and this helps in loan evaluation and establishing their credit worthiness.

In 2007, CaMIA, or CARD Micro Insurance Agency, was created to provide non-life insurance, such as housing insurance for catastrophic events, and funeral benefits for members. Presently, it offers 3-in-1 insurance package which covers personal accident, funeral benefits and residential house reconstruction start-up capital. Likewise, it offers health card for in-patient (hospitalization) card, out-patient (consultation) care and emergency care.

D. Establishment of a Development Institute

CMDI's primary function is to serve the internal training needs of CARD MRI and is the capacity building arm of the group. Referred to as the "School of Microfinance in the Southeast Asia Region", it also provides microfinance training services to local and international external clients such as NGOs, POs, donors, and individuals. CMDI tailor-fits its training and workshop sessions for the CARD MRI staff and clients. It launched the first ever masters degree on microfinance in partnership with the Southeast Asia Interdisciplinary Development Institute (SAIDI). It also has partnership with Southern New Hampshire University. CMDI also offers scholarships dedicated to the sons and daughters of members and to members themselves who wish to finish their high school and college education.

It is also under CMDI where the CARD Healthy Pinoy Programme is housed as an extension programme. The CARD Healthy Pinoy Programme which started as Microfinance and Health Protection Programme (MaHP) was a partnership with CARD MRI's long time partner, Freedom from Hunger (FFH). Under the programme, CARD MRI was able to provide a health protection product integrated to its microfinance products. These products are:

- Credit with Education on Health – members are educated during their center meetings on different topics on health.
- Health insurance coverage through KaSAPI (a partnership with PhilHealth).
- Preferred Provider Programme – health service providers are invited as partners to provide discounted rates to CARD members. CARD in return offers its membership base and encourages the members to visit partners under the project.
- Affordable Quality Medicines Programme (AQMP) – aims to provide affordable quality medicines in the rural area. This is in partnership with Zuellig Family Foundation (ZFF).
- CARD MRI clinics – clinics opened in selected areas of CARD MRI wherein health services are free for staff, members and dependents.

E. Establishment of a Bank for SME Lending for Graduating to Micro-enterprises

In 2007, the CARD MRI acquired the Rural Bank of Sto. Tomas (Batangas), Inc. (RBSTI), the first rural bank established in the municipality of Sto. Tomas, Batangas Province in 1963. The bank became a full member of the CARD MRI in February 2008 after the Bangko Sentral ng Pilipinas (BSP) approved the full transfer of ownership to CARD.

In July 2011, the BSP granted the bank the authority to operate as a thrift bank, a realization of CARD MRI vision of transforming it to an SME (Small and Medium Enterprise) bank that would serve the financing needs not only of the microfinance graduate-members but also non-CARD small and medium entrepreneurs. As such, RBSTI was renamed CARD SME Bank, Inc.

The bank started its SME lending operation in 2009. It received technical assistance from its foreign partners, International Finance Corporation (IFC) and the German Savings Banks Foundation for International Cooperation (GSBFIC). Their assistance enabled the bank to establish various loan products, which have become solutions to the various financing needs of the Bank's clients. It has developed a "Credit Scorecard", a tool/instrument to help control credit risk which will help management identify and mitigate the areas of risk involved in extending financing to its clientele.

The Philippine government recognizes that micro, small and medium enterprises (MSMEs) play a significant role in the economic and social development of the country. As such, it has exerted utmost efforts to promote, develop and assist the SMEs support and develop the sector.

However, CARD MRI recognizes that there is a financing gap for enterprises in between the micro enterprises and the SMEs, called the graduating micro enterprises. This type of enterprises, who have funding requirements higher than what microfinance institutions can give but lower than the loan floor of institutions catering to SMEs, shall be the focus of CARD SME Bank.

Further, the CARD MRI follows a business model of developing existing microfinance borrowers of the CARD MRI particularly of CARD SME Bank, Inc., CARD, Inc. and CARD Bank, and non-CARD micro-enterprises into graduating micros and eventually to SMEs.

As of August 31, 2011, the bank has a total SME loan portfolio of Php55.32 Million with 552 loan clients.

It has been 2 years since the bank launched its SME Lending Programme. Indeed, it will be early for CARD MRI to claim any success on this new endeavor. However, the bank is continually honing its operational systems and training manpower to help ensure success of the programme. There might be failures in the earlier operation of the lending programme but CARD MRI sees them as opportunities for innovations to further improve the bank's operation.

5.3 Rural Micro Enterprise Promotion Program (RuMEPP)

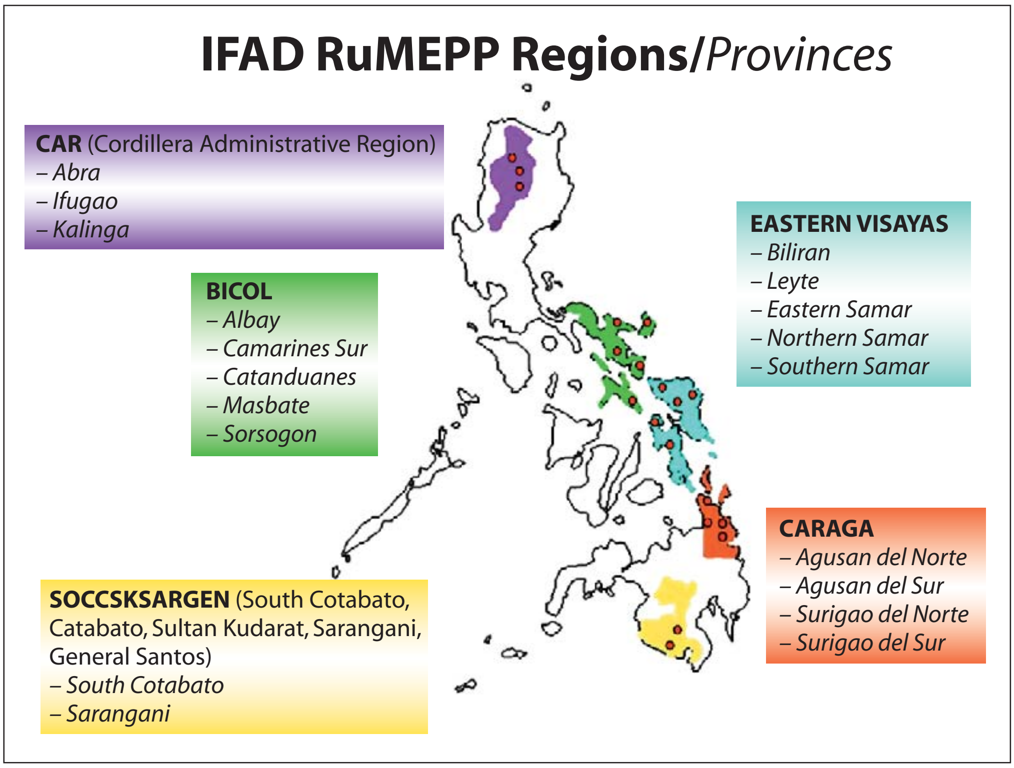
by Ms. Josefina P. Flores, Head, Fund Sourcing and Management Group, Small Business Corporation, the Philippines

What is RuMEPP?

The Rural Micro Enterprise Promotion Program (RuMEPP) is a seven-year, US$22,826 million programme assisted by the International Fund for Agricultural Development (IFAD) with Department of Trade and Industry as the lead implementing agency.

RuMEPP aims to help poor entrepreneurs and rural families in the country by providing technical and financial support for micro enterprises, which can, in turn, benefit other poor families through job opportunities.

Focus will be given to the 19 provinces in the five poorest regions namely: Cordillera Administrative Region (CAR), Bicol, Eastern Visayas, South Cotabato-Cotabato-Sultan Kudarat-Sarangani-General Santos (SOCCSKSARGEN), and Caraga.



It offers a variety of services to rural micro entrepreneurs thru business development services providers, enhancing microfinance institutions through capacity building, financing assistance and consultancies.

Goals and Objectives

The programme's development goal is to reduce poverty through increased economic development, job creation, and rural incomes for approximately 200,000 poor households. It will increase and expand the micro enterprises, and sustain profitable operation. The specific objectives of the programme are: (1) to increase the volume of finance available to micro enterprises; and (2) provide efficient, cost-effective and demand-responsive business development services to rural micro enterprises.

Programme Components

The programme consists of the following components:

A. Microfinance Credit and Support (MCS)

In order to enhance the volume of finance available to micro enterprises, the programme seeks to increase the resources available to micro enterprises and upgrade institutional capacity to make credit available to the sector.

As of 31 October 2011, about 113 percent or 39,442 out of the 35,000 target MEs were already given loans.

SBC was able to fully cater this year to the 19 RuMEPP provinces given the entry of MFIs in CAR (Abra, Kalinga and Ifugao) and Saranggani as well. The number of financial institutions participating in RuMEPP target is 75, of which 71 were reported accredited and availing loans during the Mid-Term Review. As of October 2011, the number of SBC-accredited MFIs and availing loans is 52.

B. Micro Enterprise Promotion and Development (MEPD)

This component provides business development services to existing and prospective micro enterprises in rural areas with potential for growth and employment generation. These services are to be provided by the private sector, non-government organizations and government agencies.

C. Programme Management and Policy Coordination (PMPC)

The objective of this component is a well-managed programme operating in a positive policy/regulatory environment for micro enterprises. This will be realized through an effective programme management capacity in head office and the targeted provinces.

Complementation with other DTI Programmes/Projects

The RuMEPP will complement the implementation of the One Tambon One Product (OTOP) programme implemented by the Department of Trade and Industry. Priority will be given to micro enterprises with products identified in the OTOP programme.

Also, some of the activities are linked to the implementation of the Gender-Responsive Economic Actions for the Transformation of Women (GREAT Women) Project.

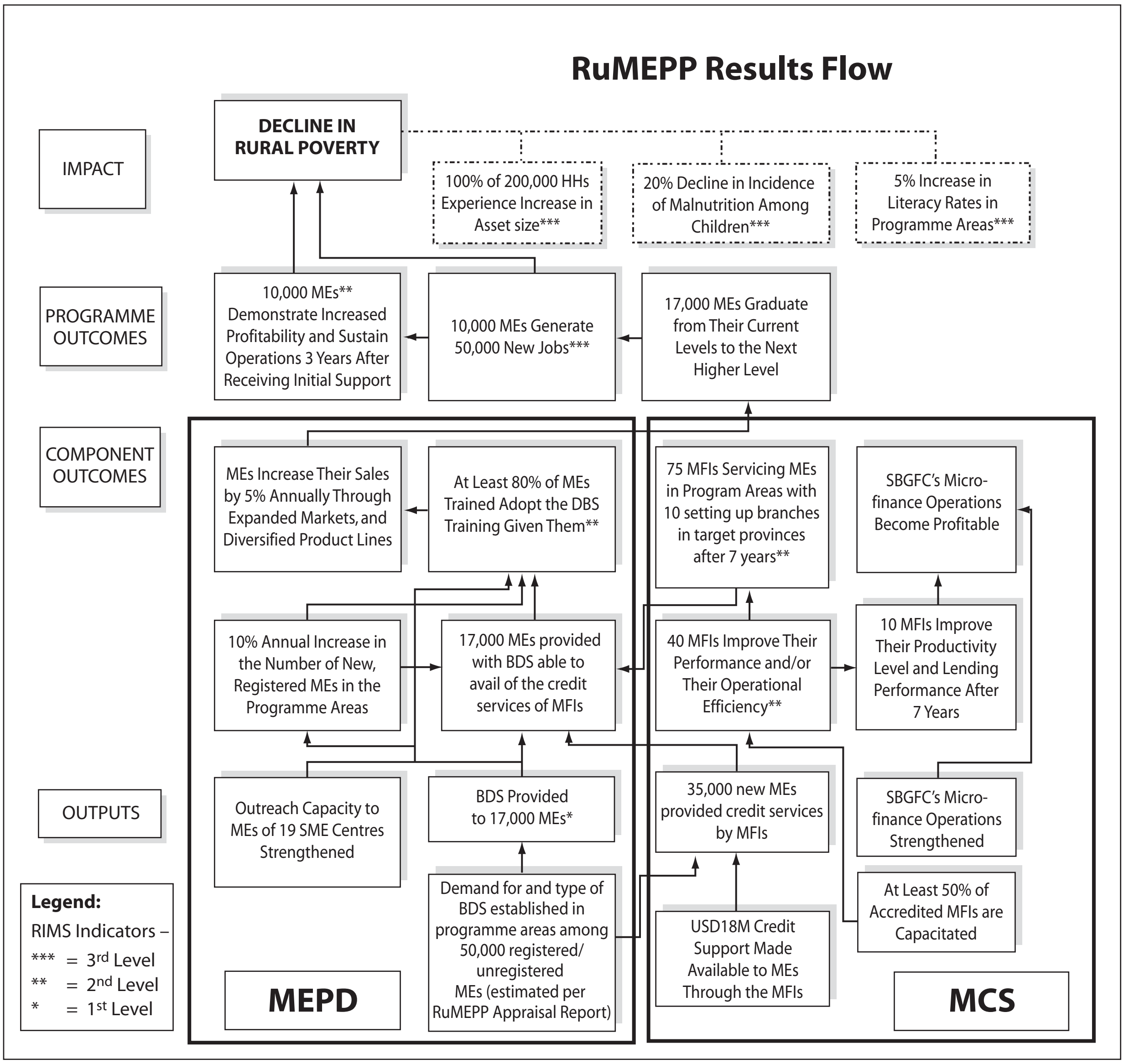
Expected Impact

The project is expected to uplift the economic conditions of the rural poor in the covered areas through micro enterprise development.

Partners and Stakeholders

The Department of Trade and Industry (DTI) is the lead implementing agency of the programme in partnership with the Small Business Guarantee and Finance Corporation (SB Corp.), International Fund for Agricultural Development (IFAD), and the United Nations Office for Project Services (UNOPS).

Other cooperating agencies and stakeholders are the National Anti-Poverty Commission (NAPC), Local Government Units (LGUs) represented by the League of Municipalities of the Philippines (LMP), Non-Government Organizations (NGOs), Microfinance Institutions (MFIs), Business Development Services (BDS) providers, and the Micro Enterprises (MEs).



RuMEPP Results Flow
IMPACT
PROGRAMME OUTCOMES
COMPONENT OUTCOMES
OUTPUTS
DECLINE IN RURAL POVERTY
100% of 200,000 HHs Experience Increase in Asset size***
20% Decline in Incidence of Malnutrition Among Children***
5% Increase in Literacy Rates in Programme Areas***
10,000 MEs** Demonstrate Increased Profitability and Sustain Operations 3 Years After Receiving Initial Support
10,000 MEs Generate 50,000 New Jobs***
17,000 MEs Graduate from Their Current Levels to the Next Higher Level
MEs Increase Their Sales by 5% Annually Through Expanded Markets, and Diversified Product Lines
At Least 80% of MEs Trained Adopt the DBS Training Given Them**
75 MFIs Servicing MEs in Program Areas with 10 setting up branches in target provinces after 7 years**
SBGFC's Micro-finance Operations Become Profitable
10% Annual Increase in the Number of New, Registered MEs in the Programme Areas
17,000 MEs provided with BDS able to avail of the credit services of MFIs
40 MFIs Improve Their Performance and/or Their Operational Efficiency**
10 MFIs Improve Their Productivity Level and Lending Performance After 7 Years
Outreach Capacity to MEs of 19 SME Centres Strengthened
BDS Provided to 17,000 MEs*
35,000 new MEs provided credit services by MFIs
SBGFC's Micro-finance Operations Strengthened
Demand for and type of BDS established in programme areas among 50,000 registered/unregistered MEs (estimated per RuMEPP Appraisal Report)
USD18M Credit Support Made Available to MEs Through the MFIs
At Least 50% of Accredited MFIs are Capacitated
MEPD
MCS
Legend:
RIMS Indicators –
*** = 3rd Level
** = 2nd Level
* = 1st Level

5.4 A Participatory Approach in Enhancing Rural Finance Inclusion through Community Based Enterprise Development Programme in Philippines – The Case of Carpenter Hill Community

by Mr. Rizaldy R. Duque, KMBI, Philippines, presented by Ms. Damiana D. Exiomo, Chairman, KMBI

Introduction

KMBI or Kabalikat para sa Maunlad na Buhay, Inc. was established with poverty alleviation through enterprise development in mind. Since 1986, KMBI has been helping poor Filipino women microentrepreneurs to have access to loans, insurance and capital build-up. From serving 37 clients, it now serves more than 265,000 women who belong to the entrepreneurial poor with its 71 branches and 1,300 staff. Each client of KMBI receives a three-pronged intervention of microfinance (capital), enterprise development services (capacity building), and values formation (character). In 2006, a plan to engage the poorest of the poor and create its own market through a community development programme was initiated by KMBI.

KMBI has implemented a Community Based Enterprise Development (CBED) Programme geared at empowering poor communities especially those in the rural areas to become financially secure through participatory approach.

The CBED Programme had its pilot implementation in Mindanao, particularly in Carpenter Hill (BCH), one of the villages in Koronadal City.

Why BCH and why in Mindanao?

Of the three major islands of the Philippines, Mindanao has the highest population growth rate, the lowest literacy rate, and the worst quality of living. The island's contribution to total poverty in the country is approximately at 8.079 million or 34.91 percent of the magnitude of poor population given that there are 23.14 million Filipinos living beyond poverty level. Of the 1.45 million Filipino families that could not meet food requirements, 40 percent is in Mindanao. Despite its extreme poverty, Mindanao accounts for 40 percent of the national income. It accounts for 33 percent of national cattle production, 56 percent aquaculture, 89 percent pineapple; and 100 percent rubber. However, many areas of Mindanao are still largely under-exploited due to the conflicts. Mindanao's potential exports could reach US$15 billion per annum. Currently, Mindanao exports reach below US$1 billion per year.

The CBED Programme

Framework

In 2006, KMBI, pursuant to its second and third strategic directions (i.e. delivering demand-driven and sustainable non-financial services for clients, and maintaining the NGO operation), started the CBED Programme in BCH. The pilot implementation was made possible in partnership with AusAID and Opportunity International Australia. CBED Programme was designed to address client-based and organizational-based issues.

The programme duration is flexible depending on the need/s of the target community which are identified and validated through a participatory rapid appraisal (PRA) procedure. For the pilot implementation in BCH, the programme has been running for three years and KMBI intends to continue the programme for the next one to two years for the purpose of learning and eventually tweaking the model for roll out.

CBED Programme Framework is composed of four phases, such as Pre-entry, Planning and Organizing, Capacity Building, and Project Management.

By the end of the implementation, CBED Programme-BCH is expected to deliver the following key results/outputs:

1. Increased rate of financial inclusion in the community through access to microfinance services;
2. Strengthened capacity of target groups in planning, marketing, financial and marketing systems at the household and community levels;
3. Established sustainable community enterprises to generate sustainable income sources for the community;
4. Decrease poverty incident in the community;
5. Sustained rural growth; and
6. Developed strategic linkages with local government units and academic institutions.

Pilot Implementation in Barangay Carpenter Hill (BCH)

The first community benefited by the project is BCH, one of the largest barangays in Koronadal City in Mindanao with a total population of 5,529. The residents of BCH are unfortunately included into the large percentage of poverty level in Mindanao. It used to be an agro-industrial center in the province of South Cotabato, now turned into Administrative Center. Ironically, the community struggles in terms of sustainable livelihood due to lack of access to financing, market, common infrastructure and support services.

Table 1. Profile of Barangay Carpenter Hill

QUICK FACTS...	
DISTANCE FROM KORONADAL CITY:	7 kilometers
TOTAL LAND AREA:	1,285.75 hectares
TOPOGRAPHY:	generally flat
MAJOR OCCUPATION:	farming
PRODUCTS:	corn, rice, copra, mango
TOTAL POPULATION:	5,529
TOTAL NUMBER OF FAMILIES:	1,245
TOTAL NUMBER OF HOUSEHOLDS:	1,186
ETHNIC GROUPS:	Ilonggo, Cebuano, B'laan
RELIGION:	Roman Catholic, Islam, Protestant

KMBI made sure that involvement of stakeholders is inherent in all phases of the CBED Programme. These include:

Beneficiary Consultation

The consultation with the beneficiaries of the programme, was conducted observing the following steps: information dissemination (one week), mobilization of participants (two days), and the consultation proper (one day). During actual mobilization of participants they were more cooperative than expected. One of the emphases in the information disseminated was KMBI's aim of helping the community establish community enterprises. KMBI took pride in ensuring that significant number of the community members would attend the consultation so as to easily facilitate programme ownership later on.

KMBI's Enterprise Development Services (EDS) unit head facilitated the one-day consultation with the beneficiaries. The processes observed during the consultation include introduction (KMBI organization, programme, goals and objectives, and programme framework), exchange of ideas, agreements and resolutions, recommendations, and endorsement. While the objective was to finish the activity in a day, it may be extended to a maximum of one day as the need warrants.

Dialogue approach was applied in consulting the beneficiaries of Carpenter Hill. During the consultation, the participants were frequently reminded of their commitments to actualize the agreements, and time management was always reinforced in order to complete the activity on time. The consultation was not an easy task as internal conflicts among the community members and outside pressure (i.e. local politics) were needed to be managed.

Rapid Appraisal for Situational and SWOT Analysis

The process of participatory rapid appraisal (PRA) was conducted. By community members to share, enhance, and analyze their knowledge of life and conditions, and eventually bring them to planning, acting, monitoring, and evaluating for continuous development. The members of the PRA team act as facilitators. This was done to enhance the community members' "ownership" of the results of the PRA activity.

The appraisal seeks to gain information about the nature and extent of the issues, different causes and insights of these causes; strategies in meeting the intended results, responses to the emerging needs, and constraints which have affected the implementation of the initiatives; and, determine who the stakeholders should be in the participatory planning workshop. By the end of the process, situational and SWOT analyses are drafted, including hypotheses of the identified issues. The two-week process (including training for the members of the Barangay Development Council as member of the PRA team) was supervised by KMBI's EDS unit head as a catalyst, a facilitator of processes within a community which is prepared to alter their situation.

Stakeholders Participatory Planning

After the appraisal, a three-day participatory planning was conducted. Barangay Development Council members, indigenous people, settlers and migrants participated in the planning. Courtesy calls/visits to community and local government leaders were conducted prior the actual planning. This was done to inform the aforesaid leaders of KMBI's intention to give intervention to the target community for its development and have initial approval. After courtesy calls/visits are done, information about the planning is disseminated and stakeholders are asked to confirm their attendance for logistical preparations.

In the actual planning, the results of the rapid appraisal, including concerns and issues and hypotheses, are presented and deliberated Issues are then prioritized and interventions to such are drafted and finalized. The interventions many times are limited to establishment of community enterprises. Once intended interventions, i.e. community enterprises, are identified, stakeholders or community members present are asked to choose two to three community enterprises which they are interested to join in. Before the workshop ends endorsements are made by way of reviewing all agreements and action points before the participants.

Some basic guidelines are also observed to ensure clear implementation of whatever plans the participants will come up after the workshop. These guidelines include:

- Clearly define the objectives, key result areas and success indicators of each intervention.
- Formulate strategies and plan of action in meeting the objectives.
- Draft plan of action identifying the activities and roles and responsibilities of the participants in the project.

- Identify and estimate resources needed.
- Establish a time table.
- Ensure that a monitoring and evaluation system is included in the project.

Proposal Making

The final phase of a planning exercise consists of writing up a project proposal. This two-day workshop is conducted as a preparatory activity conducted for purposes of resource generation and fund sourcing for the programmes and projects identified. Participants to this activity are limited to the elected enterprise presidents, secretaries, finance and audit officers.

To ensure that the feasibility essentials are taken into consideration, a guide for discussion of operational aspects is provided. Documented information related to the proposed community enterprise, if available, is also used as a starting point for discussions, as their technical content might include operational information applicable to the intervention being considered.

Stakeholders' Buy-in of the Project Proposal

From the beginning of the programme, KMBI already considered as essential component to success the community or stakeholders buy-in. Likelihood of success of the programme and the interventions identified is greater when the community is drawn in from the start. Experienced stakeholders are likely to remain involved, supporting the programme over its lifetime if they are on board with the programme's ideas. Buy-in, for the purpose of having a credible evaluation process, it is also important. Stakeholders (specially the primary stakeholders) being the direct beneficiaries by the programme in general and interventions in particular, and majority contributors in its success, are the certainly the primary resource of information.

In the process of buy-in, the approved community-based enterprise development programme, budgetary allocations, timetable, and key personnel and officers are presented to the community. Mention of their active participation in coming up with the programme and interventions is also done to emphasize that the programme and interventions are theirs and for their sake and therefore KMBI is expecting for their commitment in bringing the programme to actualization and the interventions (i.e. the community enterprises) into success.

Local development support is also a critical aspect of the implementation. Thus, during the first-phase or pre-entry stage, courtesy visit with various local government units to build relationship was a priority. Personalities and offices visited were:

- Provincial Governor's Office
- City Mayor's Office
- City Social Welfare and Development
- City Planning Office
- City Agriculture Office
- Barangay officials of Carpenter Hill

The idea of employing participatory approach and local development support is to create high level of ownership and promote empowerment. After a series of dialogues, consultations and workshops with the stakeholders, the following major issues were identified:

Provision of adequate health services and facilities

Medicine supplies are insufficient due to financial constraint. Usually, patients with major illnesses are recommended to the City Health Station or to the Provincial Hospital. Some residents resort to alternative treatments for temporary relief or illnesses.

Reduction of poverty incidence

Education is a potent tool in addressing poverty. BCH data show that only kindergarten and elementary education are available in the village. Secondary schooling is found at the City proper and in the next village, while college and vocational courses are offered in the City. There is a need to expand educational services, especially for the Indigenous People who have limited access to education, considering their poor economic condition and distance to school sites. Provision of other basic social services would greatly aid in providing access to education by some segments of the populace.

As to employment and livelihood, the labor force with ages ranging from 15 to 64 comprises 64 percent of the total population. Slim chances for employment restrict potential labor force group for economic opportunities. Low paying jobs and seasonal or contractual status of employment are prevalent. Permanent status of employment in white-collar jobs is attained by a few.

Basically, farming is the main source of livelihood. Plantation of crops and vegetables are common. Major crops produced by farmers are rice, corn, and coconut. Minor crops are vegetables, fruit trees, etc. Livestock-raising is done on small scale, normally in the backyard and usually poultry in nature. However, these farm produce are seldom sold at its maximum potential price due to the problem of farm to market road and availability of strategic trading center where they can sell their.

Conservation and protection of the environment

The rapid developments in the City and industrialization brought about deterioration in the physical condition of the environment. To address this, environmental preservation and protection must be given priority. Consequences of improper waste disposal and forest denudation are now felt.

Membership Outreach

The various livelihood enterprises created, has in its regular functions a policy of inclusive membership. This was reflected in the livelihood activity proposals created by each enterprise and which targets immediate local residents of BCH since there are a total of eleven (11) 'puroks' that comprises the said barangay or a total of 5,529 individuals.

Feasibility

The community enterprise proposals are deemed feasible since the approach was participatory in nature. Each group was guided to discuss among themselves what livelihood activities they prefer to take up. This was also done to put into effect to each member of the group a sense of ownership of the projects proposed which requires funding support. To fully safeguard the intention of making each livelihood project feasible, a project monitoring and evaluation system was also put in place.

Future Outlook

Once the local community has achieved its potential, the Organization shall offer its microfinance programme to each of these enterprises to further boost its economic standing and enable them to expand its membership/beneficiaries to other residents not included in the initial implementation. This stage signals the incorporation of the Koronadal Branch Staff to be not only aware of their contributions to regular programme members of the Organization (in terms of providing financial services), but also to serve an intricate part in facilitating successful local enterprises to be regular programme members of KMBI.

The implementation of various livelihood activities at BCH would generate a positive impact to the current socio-economic status of these residents and individually help train them to be empowered and responsible community members capable of leading other members of the community towards gradually eradicating the high incidence rate of poverty in the locality. And in the same, make them catalyst of spreading the benefits of community development wonders to neighboring communities that are mired outside the scope of the Organizational support but just the same, is suffering from long-standing poverty upheavals. The immediate result of the high incidence of poverty at Mindanao is the continued rise of poor families in the surrounding communities. There are no available options for livelihood source by virtue of not having the vast natural resources found across Mindanao tapped to supplement the needs of each family. This, in effect, is one more reason for the continued commitment of KMBI in finishing the CBED Project that it has started in 2006.

5.5 People's Bank's Innovative Approaches in Rural Financial Inclusion

by Mr. T.A. Ariyapala, Deputy General Manager, Cooperative and Development, People's Bank of Sri Lanka

1. Sri Lankan Economy and MSME

Sri Lanka has significantly improved its economic fundamentals following the end of decades-long civil war and now on the process of rebuilding the entire economy with Government's ten year horizon plan. Currently GDP is growing at a steady rate of 8 percent with a moderate inflation around 7 percent also aiming to double per capita income by 2016 from the current level of US$ 2025. The small and medium enterprises (SMEs), micro enterprises need to derive maximum benefits from the current economic strategy. The SMEs will be the future where there will be a home grown Sri Lankan economy free of poverty and SME driven. Tax concessions are extended to the SME sector with the expectation of making it a vibrant and viable sector to become the livewire of the economy. The focus is on SMEs for poverty alleviation and the vision is a poverty free society.

2. Financial System in Sri Lanka

The financial system in Sri Lanka is composed of the major financial institutions, namely the Central Bank of Sri Lanka, licensed commercial banks (LCBs), licensed specialized banks (LSBs), registered finance companies (RFCs), specialized leasing companies (SLCs), primary dealers (PDs), pension and provident funds, insurance companies, rural banks, merchant banks, unit trusts and thrift and credit co-operative societies; the major financial markets, such as the foreign exchange market, money market, capital market and the informal financial market; and the financial infrastructure which is the legal framework related to the financial system and the payment and settlement.

The Central Bank of Sri Lanka is actively engaged in rural finance development through its various refinance, interest subsidy and credit guarantee schemes for focus areas of lending. Agriculture, fisheries and livestock, small and medium enterprises, and micro sectors have been identified as the priority sectors.

3. People's Bank

Background

People's Bank was established in 1961, with a view to creating to the banking requirements of the rural sector. The bank over the five decades has evolved and expanded its scope of activities and its objectives are to develop and assist, (a) cooperative movement in Sri Lanka (b) rural banking (c) agriculture and industry and to carry on the business of a (a) commercial bank (b) pawnbroker (c) merchant bank. People's Bank has a wide outreach with 336 branches and 369 service centers dedicated to a customer base of 13 million across the country. All the banking outlets are interconnected with a core banking solution and it is supported with 360 ATM network. People's Bank is one of the two state commercial banks in Sri Lanka, apparently the second largest bank in terms of assets and the leading bank in terms of deposit mobilization. Bank has mobilized Rs490 billion (US$4.45 billion) worth of deposits while giving away Rs400 billion (US$3.63 billion) worth of loans to various sectors including strategically important growing industries in the country. Having an expansive corresponding banking network with 375 financial institutions in over 110 countries, Bank is aggressively involved in international trade business. Dedicated employees over 8,000 are always pleased to maximize the customer satisfaction, especially while reaching the doorsteps of rural mass in inculcating the habit of banking. Bank is fully owned by the Government of Sri Lanka and governed with an appointed Board of Directors managed by a professional corporate management with superior experiences in the industry.

Rural finance is delivered through the branch network with the coordination of Cooperative and Development Finance Department located at the Head Office. The Bank liaises with apex agencies like the Central Bank of Sri Lanka to pass the maximum financial benefits from the funding lines arranged for focused segments through unique delivery channels developed by the Bank. Microfinance, Microfinance Villages, Forward Sales Contracts, People's Fast Loan Scheme, Pawning Advance, Cluster Basis Lending, Linkage Banking and Value Chain Financing are the core solutions developed to ensure the effective Rural Financial Inclusion.

4. Innovative Approaches

Microfinance Villages

The Bank's innovative lending mechanism of lending through development of women and entrepreneur empowerment is targeted on developing one entrepreneur village attached to each branch so that the ultimate target is to develop 339 villages throughout the island. So far, the Bank has developed 40 such villages loaning Rs30 million (US$272,000). The loan size is around Rs50,000 to Rs250,000 (US$450 to US$2,275) depending on the credibility and the requirement. Loans are extended to various business purposes, but limited to the core business activity in operation in the subject village. Market, production techniques, supply of raw materials, labor etc. are within their control, but hampered with financial capacities. Bank's objective is to finance to enhance the production capacities while inculcating the savings habits among cluster members.

Forward Sales Contracts

A problem common to agricultural economics including that of Sri Lanka is the inability of the subsistence farmer to obtain a reasonable price for his grains and vegetables at the time of harvest. As a solution to this problem, Forward Sales Contract Scheme was introduced which benefited the farmer as well as the Small and Medium Scale Entrepreneur engaged in the produce of food products using agricultural produce as raw material.

People's Fast

"People's Fast" Loans Scheme for Micro, Small and Medium Scale Entrepreneurs is introduced with a backup of refinance schemes. Bank's intention is to accommodate prospective entrepreneurs with finance facilities with a competitive interest rate based on the cash flow of the business. Bank funds up to Rs25 million (US$227,000) with a longer tenor so that entrepreneurs can easily expand their businesses. Providing finance to those entrepreneurs who are commercially, technically and financially feasible and providing advisory services to such enterprises are the main characteristics of the loan scheme.

"Swarna Pradeepa"

People's Bank being the pioneer in pawning advance in Sri Lanka still retain a market share of more than 45 percent with a portfolio of Rs168 billion (US$1.5 billion) serving a large populace of around four million. It is a credit facility granted on the pledge of the customers' jewelry with the Bank. Most of these advances are for the rural sector mainly for agriculture, industries, consumption and housing purposes. The popularity remains high among the un-bankable community due to the simple process with least documentation. Due to the high demand, Bank has opened more outlets in addition to the main branches accommodating customers to easily access the service. Bank inculcates the habit of savings in addition, so that they could make use of those funds to redeem the articles that they pawned.

Cluster Basis Lending with a Development Path

In cluster based lending, group formation is critical and the success of the recovery depends on the teamwork of such clusters. The first three months of a newly formed group is very critical. It is during this initial period a group can even collapse due to ignorance and internal disputes. Five modules have been developed directing the critical success factors of the group. They are the Vision of the group, Future work programmes, Savings as a group, Group activities and Income generating activities. Effective implementation of these five modules in People's Bank has earned a successful recovery rate of more than 95 percent of cluster based lending while ensuring the sustainability of the groups and their businesses success. It is the experience of the Bank that women involvement is high in developing and maintaining effective clusters.

Linkage Banking

The concept of Linkage Banking is successfully implemented with commercial microfinance institutions who eventually engage in reaching the un-bankable mass in most of the rural areas. Linkage Banking is mainly used to expand the outreach through other avenues. Recovery rate and the purpose of disbursement of funds of linked microfinance institutions are closely monitored in order to ensure the purpose of linkage banking is achieved.

Awakening the North and Dawn of the East

Among the other initiatives are the Awakening of the North and Dawn of the East in order to rehabilitate the competent entrepreneurs who suffered due to the conflict, financing the value chain opportunities to get the customers' suppliers and easily sell their production also have contributed the success of the rural financing endeavor.

5. Challenges and Issues

Among many other issues and challenges, issues in mobilizing the target groups, information asymmetry, misuse of funds by the customers, rural indebtedness, lack of collateral and primitive technology used by the customers are the imperatives.

6. Conclusion

People's Bank's rural financial inclusion is always in line with Government's strategic initiatives. This is evident with a massive customer base of over 13 million out of the country's total population of little over 20 million. It maintained loan deposit ratio more than 80 percent. Bank's business model is to entertain micro customers and recognize their potential to migrate to the SME levels. Bank's target is to migrate at least 25 percent of such micro customers to SME level in each year, perhaps to the other high levels gradually.

5.6 Bank for Agriculture and Agricultural Cooperatives, Thailand

by Mr. Chamnong Siriwongyotha, Assistant Director, Management Department, BAAC, Thailand

Historical Background

The Bank for Agriculture and Agricultural Cooperatives (BAAC) was established as a specialised agricultural credit institution on 1 November, 1966. The bank was created out of the former Bank for Cooperatives which had operated for 45 years providing loans to only a few agricultural cooperatives for on-lending to their farmer members. The original charter was to allow lending only to farmers and farmer institutions and restricted the lending only to farming activities. In 1992, these restrictions were relaxed to allow BAAC to lend for agri related activities and also non-farm activities, though the borrowers must still be farmers. Since its inception BAAC has had the status of a State Enterprise under the Jurisdiction of the Ministry of Finance. The affairs and business of the bank are presently directed by a 1 member Board of Directors chaired by the Minister of Finance.

Objective

"To be a modern rural development bank concentrating on the uplift of the farmers' and the people's quality of life" BAAC's main objective is to promote the improved social and economic well being of Thailand's farming population through the provision of financial assistance in the form of loans for agricultural production, investment and marketing purposes.

Value

"Standing Side by Side and Recognizing the Value of People"

Mission

- Provide BAAC a new look as a modern and efficient organization
- Set the organization to be a constantly growing, stable and sustainable financial institution
- Build up and support the strength of the bank's clients and communities
- Develop and support a standardized quality of products for clients and the general public
- Systematically linkup production with marketing

Rural Innovations by BAAC

1. Village Bank

The Village Bank was established in accordance with government policy to change the village fund into a village bank with the goal of having communities learn about financial administration and management and banking by themselves. The government directed BAAC to oversee 16,224 village funds in the areas that are not covered by the Government Savings Bank branches. BAAC prepared a master plan to be used as a guideline to provide support to the Village Fund Programme. The 2 key goals of the plan were to strengthen at least 60,000 village funds and to support village funds with good administration and management practices into becoming village banks. Criteria in screening village funds to be promoted to become village banks were also set as follows: 1) being class 1 or class 2 village funds as classified by BAAC or of class AAA or AA as classified by an official agency; 2) making a net profit from operations; 3) providing both deposit and credit services to members; 4) have their own offices or rented other office facilities; and 5) set regular working hours for providing services to members.

2. Strengthening of Farmers and Communities

2.1 Promotions of Marketing, Processing and One-Stop Agriculture Center

BAAC's support of the process to link up the marketing activities of distributors of agricultural products has resulted in lower production costs and increased revenue from sales for farmers, community enterprises and farmer institutions. This has created an opportunity for the distributors to expand their market in selling farm output directly to the consumers and led to the formation of collective groups from the community with greater bargaining power through distribution channels including Agricultural Marketing Cooperatives (AMC) of BAAC's clients, cooperatives and Thai Agribusiness Co., Ltd. (TABCO).

2.2 Support of Channels for Sales of Farm Produce

BAAC assisted AMCs and TABCO in the collection of the main crop like sugarcane maize paddy, pineapples, rubber, cassava, seasonal fruit, such as rambutan, mangosteen, long-gong, langsad, lychee longan, etc.

2.3 Marketing Support Project for Produce

- BAAC conducted the "Thai help Thai Spirit Excellent Project" with cooperation from government and private agencies in distributing long-gong produced in the 3 southern most provices.
- BAAC also conducted "Low Crop Price Problem Solving Project" which involved the distribution of pumpkin grown in Nan province, langsad grown in Uttaradit province and rambutan and mangosteen grown in Nakom Sri Thammarat province.

2.4 Support the Process of Adding Value to Agricultural Produce

In Clean Cassava Chip Project, BAAC supported farmers and AMCs in carrying out the process of turning cassava fresh roots into clean cassava chips. The process added value to their products and linked up producers with consumers.

- **Toxic-Free Vegetables Packaging and Culling**
  System Arrangement under the Good Manufacturing Practice (GMP) Project was carried out at Phetchabun AMC. It applied the GMP system and added value to vegetables. The vegetables came directly from farmers and were sold collectively to supermarkets and in rural markets.
- **Community Product Development Promotion**
  Project aimed to help farmers come up with ways to add value to their products through the establishment of the Fresh Longan Processing Demonstration Pilot Project. Farmers from the provinces of Chiang Mai, Lamphun, Chiang Rai and Phayao participated in the project.
- **E-Auction for Agricultural Inputs Procurement Project**
  BAAC arranged a pilot e-auction for chemical fertilizers in cooperation with TABCO and AMC for the procurement of low – price and good quality fertilizer for farmers. This facilitated a collective purchase of fertilizer through TABCO, greater bargaining power against the sellers, a transparency in the purchase and a tangible reduction of the costs of production inputs for farmers. Additionally, the farmers received standardized fertilizer as required because of the strict inspection of the products.

3. Chemical Fertilizer Bulk Blending Based on Soil Analysis for Maize Promotion Project

In FY 2004, BAAC operated a pilot project on this account in a target area of 50,000 rai located in 6 provinces, Chiang Rai, Pethchabun, Nakhon Ratchasima, Saraburi, Lopburi and Sa Kaeo. The project aimed to help encourage maize farmers to use chemical fertilizer efficiently. The farmers used a soil test kit to check the volume of main element in the maize plots before planting. The soil test kit was a technology developed by Kasetsart University in conjunction with the Department of Land Development Some farmers checked the volume of main element by themselves and blended the chemical fertilizer bulk based on the soil analysis. This helped apply the appropriate amount of main element for the planted maize and resulted in higher yield of 800-1,000 kilograms per rai1, compared with 500-600 kilograms per rai previously and reduced production costs by at least 20 percent (1/2.2 rai equals to 1 acre).

4. Eco-Tourism Support Project

BAAC, set up this project for its concern about the deterioration of the environment stemming from the exploitation of natural resources. It aims to develop a channel for market expansion while at the same time generate more income for the community, AMC and farmers, by providing tourism services and selling One Tambon One Product goods and other products of the community. In addition, the project increased awareness among tourists and the communities regarding the need for environmental conservation. BAAC arranges conservation tours to guide interested parties to experience the natural environment found among its clients.

5. Community Learning Centre

BAAC helped farmers revitalize and develop their operations under the Debt Suspension and Debt Burden Reduction for Small-scale Farmers Project (commenced 1 April 2001 and ended 31 March 2004). The development process was continued via the Farmer Life Quality and Potential Development Project through offering several instructional courses. Some of the names of the courses offered were Strong Community and Group Creation, Life Creation, Leader Creation and Truthful Principles of Life. The whole process has led to the opening of community learning centers which aim to strengthen individual communities. A community learning centre is a place where knowledge, local wisdom and technical expertise of farmers are collected of BAAC's client farmers are sources of information as we as users of the centre. At present, BAAC continues to assist and support the budget for developing farmer' work potential and improving their quality of life.

6. Client Farmer, Potential Recovery Project

An important part of government's drive to eradicate poverty was the solving of the people's debt problems through a system of BAAC. During 2004, a large number of farmers were still faced with debt problems even though the Debt Suspension and Debt Burden Reduction for Small-scale Farmers Project had ended. BAAC, therefore, continued to conduct the Farmer's Potential Recovery Project by targeting client with overdue debts. The development guidelines were as follows:

- BAAC provincial offices survey the needs for development of the clients with overdue debts and propose projects for development.
- BAAC provincial offices design and conduct appropriate development courses for farmers with debt problem to improve their work potential. The main points in any course are the reducing of operating costs combined with directing debtors to give up vices under the motto "***wash mind before wash debts***". The second step involves increasing income and expanding market opportunities.
- After the development of individual farmers, the project was monitored continually on the setting up of collective groups, the strengthening of communities and the supporting of the formation of community enterprises in 3 levels: self-dependent enterprises, community enterprises and advanced enterprises which develop the production of One Tambon One Product goods.

The above mentioned project was useful to the bank as well as farmers and all parties involved (Source: Website of BAAC).

Part 6

CEOs’ Panel – Rural Financial Innovations and Emerging Issues

6.1 Rural Development Innovations – Indian Experience
by Mr. S.K. Chatterjee, Director, Bankers Institute of Rural Development, Lucknow, India

World over the Rural and Urban divide is becoming more and more glaring and more so in the developing countries. While both the urban and rural sector has continued to receive attention from both policy makers and practitioners, the rural sector seems to languish. Even Nobel Awards recognized the contribution of only two voices of the development sector in Asia viz. Mr. Amartya Sen (1998) and Prof. Mohd Yunus and Grameen (2006). Benefits of globalization have generally eluded rural communities in the Asia Pacific region.

Our efforts of balanced growth approach to agriculture and rural development have not generally worked. It is time to ponder whether "Unbalanced Growth" approach can work. Policies made with best of intentions failed in implementation due to several reasons. Development initiatives intended for the poor do not reach them. Last Mile Conundrums thwart progress. As a result rural areas fail to attract and retain youth in economically rewarding activities.

Father of Indian Nation Mahatma Gandhi considered the migration from villages to towns as the worst form of brain drain which affect the development of rural areas most adversely. The rural communities must have a place under the sun. Pressure of population is increasing and the average size of land holding is coming down especially in APRACA member countries. Unremunerative farming practices lead the farmers to indebtedness and therefore there is temptation to sell the prime farming land for non-agricultural purposes. Therefore, urban areas are growing fast at the expenses of rural areas. The assets of rural areas viz. land and water are being diverted for non-rural users. Agriculture as a profession is no longer so attractive. In India, over 45 percent of the farmers want to opt out of agriculture as a profession if given any alternative livelihood. Under the circumstances it is very important to persuade the rural folks to continue in the area by providing them attractive livelihood opportunities. This is possible by undertaking small localised innovations which positively affect the lives of the people.

Accordingly, innovations are needed in the following areas:

- Building sustainable rural financial institutions with outreach to the rural poor.
- Protective life sustaining infrastructure in the shape of roads, health, drinking water and primary education.
- Fostering stakeholder participation including the poor.
- Building a pro-poor rural financial architecture.
- Enacting a conducive regulatory Regime.
- Preventing extinction of rural skills and skill up gradation.
- Knowledge hierarchy set up to be inverted i.e. the most capable functionary could be posted in the forefront to directly come face to face with rural people.

The paper below is an attempt to narrate three Indian experiences in which the author was closely associated with.

The innovations viz., i) Developing a cadre of professionals to work in rural areas in India; ii) Setting up of grain banks in tribal pockets in India and linking them with SHGs; and iii) Village Development through convergence deal with author's firsthand experience in implementing various programmes of the organisation (NABARD/BIRD) with which he was associated. The highlights of the innovations are given below:

- **Developing a cadre of professionals to work in rural areas in India** is one of the experiments initiated by the author himself and his colleague in BIRD in the year 2011 and is currently under implementation in two states in India. The result of this experiment would take some time to establish its merits.
- The concept of **setting up Grain Banks and linking them with SHGs** was drawn from the author's experience of working in the KBK (Kalahandi, Bolangir and Koraput districts – one of the most backward regions of India) region of Orissa in the mid-nineties.
- The concept of **Village Development through Convergence** mode was also initiated by the author himself in 2007 during his stint in a very economically marginalized state in India. The idea of village development through convergence evolved through the experience that though there are large number of development programmes under implementation through the government agencies, banks and international/national donors, the benefit does not reach the real needy in interior areas as the people are generally unaware and even if they know about them, their powerlessness becomes a handicap in ensuring their own coverage thereunder. It was also seen that the impact of all these development initiatives is not visible mainly due to their scattered and weak implementation. The situation had led to a belief that nothing much can be done to improve or correct the situation. For this purpose a very backward village (Barpani) in very remote and backward district (Jashpur) was deliberately selected. With the mainstreaming of the programme by NABARD in the month of June/July 2007, this village came under NABARD's "Village Development Programme".

All the above innovations are intended to attain improved outreach and sustainable livelihood opportunities of the rural poor in India. The purpose of this paper is to share our experience in rural development for their possible replication by APRACA member countries.

Section I. Developing a Cadre of Professionals to Work in Rural Areas in India

Background

- A number of programmes and schemes of governments as well as other developmental agencies are under implementation in the rural areas. However, the rural people have not been able to take advantage of these interventions to the desired level due to various reasons such as lack of awareness of on-going programmes, low literacy, lack of extension support, lack of capacity to understand and take benefit and above all an absence of committed workforce with implementing agencies to guide and support them.
- Many of the on-going programmes are being implemented through the non-governmental organizations (NGOs), voluntary agencies (VAs) and community based organizations (CBOs). They too are facing a problem of high rate of attrition among its staff due to increasing demand for professionals in rural development sector. The better qualified and experienced staff of NGOs/VAs/CBOs frequently shift jobs affecting the implementation of on-going projects.
- Many a times, the sudden departure of the experienced staff of the implementing agency results in collapse of the programme as there is no other competent person to continue the implementation. Further, the local people for whom the programme is being implemented are largely unaware of the processes of implementation and often lack both the capabilities and competencies to take over implementation when the staff of implementing agency leaves mid way.
- it is often observed that the staff engaged and deployed by the NGOs do not have the desired experience of working in rural areas or lack the desired rural orientation and hence the quality of implementation of projects gets affected leading to time and cost overrun.

In the light of the above, it was felt essential to develop a cadre of professionals from among the local youth to work in rural areas so that the programmes do not suffer on any count. It was also considered essential to develop capacities of the people themselves to be in charge of their own destiny.

Course coverage

- Understanding of the issues in rural areas, issues in social sector development, gender issues, women development, awareness about rural psychology, etc.;
- Process of conducting PRA, plan preparation, social mobilization, participatory approaches to development, documentation, etc.;
- Details of various developmental projects of Government of India/State Governments (including guidelines);
- Detailed inputs on improved agricultural practices, systemic Rice Intensification (SRI)/SWI, etc.;
- The concepts, approaches and methodology of implementing NABARD's programmes in rural areas covered under farm sector, non-farm sector and microcredit;
- Detailed inputs on various stages of implementing watershed and wadi development projects;
- Organizing SHGs, farmers' clubs, joint liability groups, etc. and their roles in rural development;
- Awareness about financial inclusion measures, need for establishing linkages with banks, BC/BF models, etc.; and
- Various livelihood approaches and all aspects of working in rural areas.

Methodology

The three-month duration training would consist of two-month classroom and one month on-field exposure cum training in a village to get familiar with the rural way of life, understanding their problems, issues, cultural practices, rural psychology, etc. The attachment in a village would be for one week after every two weeks of classroom training. The village attachment would enable the participants to get practical inputs on conduct of various field level interventions such as conducting PRA, process of SRI, pre-plantation activities in a wadi project, stages in participatory approach to watershed including conduct of net planning, record keeping, conduct of meetings and above all, the process of social mobilization, etc.

Qualification criteria

Rural youth having completed 12^{th} class. Preference is given to local youth from the same district/state with fluency in the local language.

Implementing agency

The training programmes are conducted through an NGO under the overall guidance and supervision of BIRD.

Duration of training

The training programmes are of three-month duration including one month stay in villages. Two pilot programmes were launched in Orissa and Chhattisgarh ,two states of India.

Deployment of trained personnel

The trained professionals can be absorbed by different agencies engaged in implementing NABARD's projects in rural areas or can be provided placement with agencies implementing government sponsored programmes in rural areas. These professionals would be better equipped to implement these programmes more effectively. They would also be an asset to the local Gram Panchayat (Governing Councils) in implementing various Government sponsored programmes.

The above Pilot programme in two districts of India have been funded by NABARD.

Section II. Setting up of Grain Banks in Tribal Pockets and Linking Them with SHGs

The approach

At the core of the food security problem lies the issue of hunger and starvation and to address this, the concept of Grain Banks could be seriously considered. Grain Bank formation by the village community and its successful operation could be one way to tackle the food security problem.

Concept

Grain Bank or 'grain gola' is a kind of 'food storing' approach at the village or community level. The villagers/community members contribute a small portion of their own harvested cereals such as paddy, millets and maize to establish a village based fund in the form of grains collectively. The members of the grain bank draw grains at the time of need and repay the same along with interest in the form of grains.

Primitive practice

The system of grain banks was earlier practiced amongst the primitive tribal communities like Garba, Paraja, Bhumija etc. since time immemorial. It was prevalent in tiny villages, where the poor tribals mobilize their fellow-beings to contribute food stuff mainly paddy and millets to a common village fund. Such village based grain preservation system was called 'Kotha Panthi' or 'Kutumba Panthi' which means community fund. The institution could not flourish due to various reasons, management failure being one of them. Thus, while the tribals can be credited with the innovation of grain banks to address the problem of food security, the present day initiatives by various developmental agencies are merely the revival of the same old system.

Objectives

The programme as a means of food security is undertaken with the following objectives:

- to meet the consumption needs of the people during the lean season thereby checking death due to starvation and malnutrition and arresting the problem of forced migration;
- to overcome the food crises arising out of unforeseen calamities like famine, drought, etc.;
- to ensure availability of essential food items to the remote areas when supply get cut off during rainy season;
- to meet the seed requirement of the individual farmers during the time of sowing;
- to harness the buffer stock of grain as a community resource fund for the cause of community development initiatives in the succeeding years; and
- to reduce rural indebtedness, particularly among the poor tribals.

Operation

Members contribute food grains to the grain bank after harvest generally during December/January. Grains so collected are stored in one or two places in the village. The operation of the grain bank is managed by a committee. Usually, grains are lent to the members between end of May to October which is the most critical period for the villagers from food stuff availability point of view. After harvest, loan is repaid by the members along with interest in the form of grains.

Effective food security through the Grain Bank

The Grain Bank SHG Linkage scheme was conceptualized in 1999-2000 and implemented by NABARD in three tribal dominated states of India, viz., Orissa, Chhattisgarh and Jharkhand. Based on the experiences in implementation of the scheme in the above states, the salient features for possible replication in other countries could be as under:

i. Approximately USD2,000 is required to start a Grain Bank in one village.

ii. The initial corpus could be contributed by a development financial institution as a one time grant.

iii. To start with, the pilot project could cover around ten villages and after the successful running of the pilot for one crop cycle, the same could be repeated in the same village and extended to other villages. The total grant required for ten villages would be around USD20,000.

iv. In each village, there could be one Grain Bank. All willing villagers could be members of the Bank.

v. In the villages, an indigenous hut (locally known as PUDA, which is built with intertwined paddy straw) is built according to local custom and can serve as the actual Grain Bank building. The use of cowdung, neem leaves and sticks in the traditional method ensures that the Grain Bank is rodent and pest free.

vi. The storage of grain is basically required for 6-7 months i.e. from November/December to June/ July (in mono-crop conditions). The lean months from May to October, when the stock of cereals with the tribal/poor families gets depleted, either they have to borrow from money lenders to feed themselves, look at alternate livelihood option such as collection of minor forest produce, migrate to urban centres in search of wage employment or in an extreme case, simply starve. It is in such situations that the stocks in the Grain Bank come handy and can be used for lending to the poor and needy till their harvesting of agriculture produce.

vii. Each year, just before harvest, the members can decide the quantum of contribution each family has to make. It could be either by way of grain or free labour say for a day.

viii. Repayments of grain are made in kind with rate of interest as decided by the members.

ix. Even when the initial corpus comes as grant, the stocks are replenished by contribution from members. However, the whole process gets internalized after one crop cycle. Thus, stocks of the Grain Bank could be considered as savings and when SHG is formed the same could be used for obtaining loans from the banks.

x. Self-Help Groups (SHGs) and Grain Banks can be interdependent on each other. The successful operation of SHGs and their linkage with bank will help in making the Grain Banks financially more viable.

xi. Once the Grain Bank stabilizes, the Food Corporation of India (FCI), a Government of India-owned corporation which collects paddy and other cereals from the farmers could also directly link-up with them. While it is costly and time taking to have FCI warehouses at remote places, it will be relatively cheaper to have Grain Banks. Thereby FCI's objective of food security can be met without the hassles of transportation and distribution of food grains through Government channels.

xii. While for each village there may be only one Grain Bank, there could be 2-3 SHGs in each such village engaged in managing of the Grain Banks on a rotation basis.

xiii. The system of Grain Bank is intended to provide an alternative sustainable system of food security through community participation. The vulnerable sections of the tribal areas of India adopted the system to their advantage and fall back on the Grain Bank in the lean season of the year.

xiv. The additional advantage of Grain Banks has been to also serve as a seed bank. When the Grain Banks have created a substantial corpus, the farmers could also use the facility to draw grains for use as seeds instead of buying from the market through cash which is often not available with them.

Section III. Village Development through Convergence

A majority of the villages in India still face constraints such as lack of access to education, health facilities, drinking water, power, roads, credit, information and market. The objective of Village Development through Convergence is to develop the selected village through convergence of different agencies, programmes and people in an integrated manner, which would include economic development, infrastructure development and other aspects of human development i.e., education, health, sanitation, drinking water supply, etc., besides access to credit.

Need for implementing agency

For a holistic and integrated development of a village through synergy, convergence and coordinate, any willing Government/Non-government agency including Agricultural/Rural-based University, Krishi Vigyan Kendra Farmers' club, SHG, Village Development Committee, Individual Rural Volunteer (IRV), Cooperative Society, Post Office or bank branch, which is locally based and capable of mobilizing the requisite support from other stakeholders to deliver the intended results, may be identified and act as a nodal agency.

Broad roles and responsibilities of a nodal agency

- To create awareness in the village and play effective leadership role in building People's Organization/Groups for various developmental activities;
- To facilitate convergence/integration of various programmes of NABARD, State/Central Government and other agencies in the village;
- To help prepare a Village Development Plan to ensure socio-economic and livelihood advancement with enhanced credit support and financial inclusion of all families in the village;
- To identify capacity building needs of the villagers;
- To assist in infrastructure development in the village through participation of people/local institutions;
- To protect forests and preserve the village eco-system and conserve soil health and other natural resources; and
- To monitor progress of implementation of the plan.

Criteria for selection of villages

Selected village should have responsive panchayat (local government) machinery, with volunteers for higher level of participation/contribution is given priority. Preference is accorded to backward/remote villages which have better potential and greater need for development.

Broad activities under Village Development Plan

- Interface with village communities and assessing their varies needs through Participatory Rural Appraisal (PRA) techniques;
- Assessment of credit needs/formulation of projects for agriculture/rural development, meeting credit needs of poor though formation of self-help groups, joint liability groups and farmers' club initiatives;

- Creation of Infrastructure with the support of Government-sponsored programmes;
- Assessment of credit plus requirements, i.e. promotional needs including capacity building of personnel from banks, Government Departments and community based organizations;
- Coordination with Government Departments for social development, i.e. education, health, women and child development, youth, etc.;
- Implementation of development programmes envisaged under the Government Plan;
- Watershed development/multi-activity approach/livelihood-based activities;
- Development through "Wadi" approach (Wadi – An Agro-Horti-Forestry plantation scheme with a combination of minor irrigation and element of social upliftment in backyard/homestead of tribals in tribal dominant villages), off-farm/non-farm activities including Rural market, cluster development around the village, skills development, microenterprise development (MED), entrepreneurship development programme (EDP), marketing-related intervention and environment/ecology-related intervention; and
- Value chain management.

The success and sustainability of the Plan depends upon peoples' participation and ownership. Hence, at every stage, involvement of people is ensured.

Operational mechanism

The initiative was implemented as under:

- The concept was shared with the nodal agency, local bodies, Government agencies and banks to sensitize them and motivate them to work together.
- A set of underdeveloped villages in remote pockets, especially those largely untouched by the process of development so far, are to be selected.
- The nodal agency is to identify the problem areas and needs of the villages, such as infrastructure (roads, bridges, school building, primary health centre etc.), livelihood, credit, etc.
- The development plan for addressing the above was prepared in a consultative process involving all the stakeholders including the Government agencies and banks who have the schemes and the budget for the purpose.

The plan was initially intended for a period of 3 years.

The priority areas were decided as under:

- Ensuring 100 percent financial inclusion, i.e., bringing all the households in the selected villages under the fold of banking system. This enabled the families to access various banking facilities such as savings, credit, remittance, micro insurance etc.
- Ensuring development of agriculture for enhancing income levels of farmers through interventions such as soil testing, scientific application of fertilizers/manures, deciding cropping pattern based on suitability of soil/climate, promoting diversification in favor of commercial crops, increasing cropping intensity through promotion of second crop, creation and better management of irrigation facilities, storage, processing and marketing of produce.
- Promotion of livelihood through allied agriculture activities such as dairy farming, poultry farming, sheep/goat rearing, etc.

- Increasing employment opportunities in rural areas through training and capacity building in non farm activities to rural youth and women.
- Organizing rural women into self-help groups (SHGs), linking them with banks and promoting livelihood by helping them take up income-generating activities through credit support from banks.
- Awareness creation and capacity building of communities in different areas to make them capable of continuing the process of development even after the withdrawal of the implementing agency.

Convergence of programmes

NABARD, has a number of schemes/programmes targeted at the development of rural areas/poor. Government of India and the State Government, have also a large number of programmes aimed at agriculture and rural development. Through a coordinated approach, these agencies were mobilized and motivated to implement their programmes in the selected villages. This helped in creation of much needed infrastructure, drinking water facilities, improve connectivity, etc.

Many of the schemes/programmes had a subsidy element which became available to the rural people. They only had to then use their ingenuity and hard work to manage a sustainable livelihood.

One of the major roadblocks was the lack of awareness among the rural people. This was addressed through regular meetings at the village level where officials of various agencies would participate and enlighten the villagers about the schemes of their respective agencies and guide them in the process of availing benefits there from.

Similarly, for extending the banking facilities, the bank officials went to the villages in a pre-planned manner and helped the villagers in completing the formalities for opening of bank accounts, applying for credit facilities, etc.

Conclusion

The above three rural development innovations in India are only some of the models which have been field-tested and have resulted in noticeable improvement in the socioeconomic condition of the population. They have proved their innate strength in changing the livelihood pattern in the project areas. The village development plan model is being replicated in a big way in India, through a special initiative taken by NABARD.

6.2 Rural Financial Inclusion and Innovation Initiatives by Kabalikat para sa Maunlad na Buhay (KMBI), the Philippines

by Ms. Damiana D. Exiomo, Chairman and President, KMBI

KMBI is an MFI-NGO in existence for last 25 years. It has a client base of close to 270,000 women micro entrepreneurs through its 71 branches and almost 1,400 staff nationwide. KMBI adopts at three-pronged approach of Credit, Capacity Building, and Character Formation for overall development of its customers. It offers a single product and service (i.e. Group Loan or GLP) for 20 years, which runs very effectively in Philippines.

KMBI implemented Community Based Enterprise Development Program (CBEDP) four years ago. It also offers two diversified products through Agriculture MF and Individual Microentrepreneur Program (IMEP). All the programmes are also intended to extend financial inclusion to the excluded population. Brief highlights of the schemes are as under.

Financial Inclusion and Initiatives by KMBI

1. Community Based Enterprise Development Program (CBEDP)

KMBI has initiated the Community Based Enterprise Development Program or the CBEDP project, where KMBI allocates a certain percentage of its annual budget in building enterprises in poor communities in order to elevate the community to an entrepreneurial market. In CBED, KMBI tries to pinpoint communities that are poor, based on the World Bank's assessment on poverty tool. After this, KMBI sends officers to visit the community to listen to their needs and from there, designs and researches a programme to tailor fit the resources, skills and needs of the people living in that area.

Two inherent characteristics of the programme: (i) membership facility for community members; and (ii) product/service of the enterprise are complimentary to existing economic activities of the community.

Future Direction:

- Develop a more relevant system that will fast-track the establishment of community enterprise.
- Maintain integrity.
- Replicate the model into more areas.

2. Agriculture Microfinance

KMBI's Agricultural Microfinance Programme is an integration of financial and non-financial services sensitive to the dynamics of rural and agricultural communities. It recognizes that real progress is a product of concerted efforts of complementing and collaborative institutions, thus the model utilizes the value chain approach.

Staying true to its mission and vision, KMBI's strategy is to affect and influence farmer partners and their families through the delivery of microfinance, technical trainings and assistance, leadership and values formation.

Further, thru the Agri MF Programme, KMBI endeavors to realize the following objectives:

- Intensify its deepening and widening strategy: increase the scale and scope of KMBI's microfinance operations by offering products and services that will broaden financial inclusion,
- Contribute to national efforts towards food self-sufficiency,

- Improve the quality of life of farming/fishing households,
- Increase economic activities and employment creation,
- Promote environmental conservation: eco-friendly farming practices, agri-techniques and methods.

Prototype testing allows KMBI to have a more relevant and responsive financial product for small hold rice farmers

- Product features: (i) crop sensitive; and, (ii) capacity building and character formation

Future Direction:

- Implement a voucher-based disbursement.
- Engage with traders to reach scale.
- Provision of loan to meet household consumption.

6.3 Rural Financial Innovation – A Case of ASA, Bangladesh

by Mr. Md. Fayzer Rahman, Executive Vice-President (Operation), ASA, Bangladesh

Emergence of ASA

ASA was established in 1978 with a view to empower the oppressed through people's organization, mobilized for social action against exploitation and through legal aid to fight for poor people's right. In the 2nd phase of its operation in 1985, ASA included some developmental programme like health, nutrition, education and mini-irrigation project. ASA shifted its attention towards microfinance programme in 1992 with a view to operate this programme in a cost-effective, innovative and sustainable way to reach financial inclusion.

Financial Products and Services

ASA offers various types of loans, savings, insurance, and remittance services to its valued clients. At present, ASA has 3,177 branches functioning throughout Bangladesh. Out of them 91 percent are located in rural areas and these branches serve about 90 percent clients living in rural or village areas.

Loan Products

ASA's loan product has been categorized into two major types considering the size of the loan. These two types are – **primary loan** and **special loan**. Although ASA provides agriculture loan, education loan for client's children, solar energy loan and interest free disaster loan but these loan products are being treated as primary and special loan in view of their size and modalities.

Some Innovations/Flexibilities of ASA's Loan Products

- Loans are not disbursed based on group liability/group guarantee approach.
- Providing collateral-free loan. Loan size depends on client's capacity and viability of the scene.
- Flexible loan duration – 4 month, 6 month, 12 month, 18 month, 24 month and 30 month as per nature of scheme and choice of the clients.
- Mode of repayment-weekly, monthly and one time at the end of cycle, which are determined as per nature of scheme and choice of the client.
- Disbursement of loan – 7 days after enrollment and for next or subsequent loan; same day after full repayment of previous one.
- Loan installments are collected from door-step of the borrowers.
- Allowing partial or pause in repayment during emergency.
- No penalty for late payment.
- Up front deduction is strictly prohibited.
- Attendance of the group meeting is not compulsory for the client.

Savings Products

ASA has introduced two types of savings for its members:

1. Normal Savings: This savings is obligatory for all members, but members have easy access to withdraw at door-step by keeping a very minimum amount, but in case of any emergency the whole amount can be withdrawn. It may be mentioned here that although amount of normal weekly savings is Tk10 but due to free access; members usually deposit more as voluntary savings.
Note: 1 Taka = USD0.013 (as on June 2011)

2. **Long-term Savings Policy:** It is a contractual savings policy for 5 and 10 years and installments are deposited on monthly basis, which attracts high interest rate closed to fixed deposit rate. ASA has been operating this savings policy for last 7 years and it is only for ASA organized members. Some clients have been opened 2/3 accounts in the name of children with a view to bear the expenses of education and importantly, bear the cost of female child marriage.

Insurance

ASA has introduced two types of insurance policy for its members:

1. **Member's Security Fund:** This is another innovation of ASA's insurance service savings product and is quite acceptable for the poor people, as weekly premium is Tk10 only. It is a unique microinsurance service for the poor people and duration is eight years. This insurance covers 6 times of deposited amounts in case of savers death. Deposited amount with interest are refunded at the end of maturity, if the depositor does not expire within the specified period.

2. **Loan Insurance:** This is a loan linkage insurance and is considered as the best tool for client protection. This insurance gives the poor a sense of security and allows them to free from loan burden. A female client has to pay the insurance premium Tk10 against per thousand received loan amount and for male client per thousand Tk5. Regarding benefit, outstanding loans are waived in case of clients or husband death, but for male client, only cover the death of male client.

Remittance Service

ASA directs foreign remittance service to the people living in the rural areas of Bangladesh. 700 branches of ASA located in different remote places of the country catering this service since 2008.

Social Services Provided by ASA

Although ASA is a grant/donation free organization and interest of loan is only source of income but ASA has enormous dream to extend social services to the poor people. Some services are being provided by ASA as grants are as follows:

- **Primary Education Strengthening Programme:** ASA runs Primary Education Strengthening Programme for the students of the poor families. The main objectives of the programme are reducing drop out through enhanceing quality of education of the wards of the underprevillaged families and incresing student enrollment at primary level.
- **Providing Medical Facilities:** This is another form of insurance service without taking any premium. ASA allocates fund for the medical facilities for its clients on yearly basis considering the nature of diseases like cancer, heart diseases, brain tumor, kidney damage etc. Members of ASA who are suffering from these diseases eligible for receiving health assistance as grant from ASA. Health grants are provided subject to nature of diseases and treatment cost.
- **Disaster aid:** Members are provided interest free loan to face various kinds of natural disaster viz., flood, drought, cyclone, water logging, tornado and near-famine situation. This credit plays an assistance role to recover from disaster losses.

ASA's Intervention in Deepening Rural Financial Inclusion

Providing **loan in remote areas (i.e. areas not having branches of commercial banks):** With a view to provide financial services in the remotest areas, ASA has set up branches where there is no commercial bank or other financial institutions. ASA has to face lot of challenges for extending financial services in those areas like-provide extra allowances to the staff of those branches which are mostly located in coastal, hilly and flood affected areas, where law and order situation is bad, where snatching/robbery are rampant:

- **Opening outposts/mini branches in the remote and thinly populated areas, islands, hills etc.:** There are some places in island, coastal and hilly areas, where it is difficult to get required number of clients for opening a branch, ASA is committed to deliver its financial services to those areas by setting up out-post with the deployment of 2/3 staff members.
- **Providing assistance to some MFIs in rural areas through partnership approach:** In order to cover rural poor under financial services in a large scale; ASA extends it support to the local and small NGOs/MFIs both financial and technical through partnership approach.

Innovations to meet the Challenges of Financial Inclusion

- Abandoning of group liability approach
- Lending model – group as well individual
- Flexible loan duration
- Shorter period for disbursing loan
- Flexible repayment – weekly, monthly and one time at the end of maturity
- Easily access of savings

Challenges to provide Financial Services to the Poor People

- ASA has also initiated steps to finance people who are over indebted and had resorted to multiple borrowing

Innovations in ASA's Management

- **Dynamic leadership:** Quick and timely response, does not impose any decision, rather there is a practice to explore and accept new ideas through participatory process, does not hesitate to undertake a new programme if it seems viable.
- **Decentralization of authority:** ASA has delegated authority to the field level staff for opening of bank accounts, approval of loans by loan officers. Loan officer are recruited by field level supervisory staff.
- **Staff recruitment process:** ASA follows non-conventional staff recruitment process, which helps ASA to saves huge cost and time and enable the organization to achieve greater outreach.
- **Each one teach one approach of training:** ASA arranges training for the newly recruited staff following learning by doing process, and this training process helps ASA to save huge cost and time.
- **Self-explanatory working manual:** With a view to operating and implementing ASA's microfinance programme, ASA has developed and produced a self-explanatory working manual. It covers entire policies and procedures, role and activities of different section and staff, forms/formats of different sections, administrative section etc.
- **Branch office without accountant and cashier:** There is no accountant, cashier and office assistant at ASA branch offices due to innovative accounting system. Accounting and record keeping system has been developed in such a way that Loan officer and Branch manager can maintain their day to day accounts related activities by themselves easily.
- **Simple and small cost-effective branch structure:** Branch office is the center of all field level activities. The branch offices are furnished with minimum and simple furniture and constituted with 4-5 loan officers, a branch manager and a peon cum kook with no security personal.
- **Simple organizational structure:** ASA's simple organizational set-up is represented by its two tiers/layers office structure, i.e. head office and branch office. Although there are two layer-

region and district in between head office and branch, but these are supervisory and monitoring layesr. Region and district office is attached with branch office with no extra staff other than Regional Manager and District Manager.

- **Achieving self-sufficiency of a branch office:** The branch offices of ASA are the basic operational unit for providing microfinance services. A branch office attains self-sufficiency within 12 month of starting its operation due to ASA's innovative approach in designing product, unified cost ceiling structure and innovative initiatives of management.

6.4 Agriculture Bank of Iran and Best Practices in Microfinance

by Dr. Arghavan Farzin Mo'tamed, Manager, International Cooperation Department, Bank Keshavarzi, Iran

Introduction

Agriculture Bank of Iran (Bank Keshavarzi-e-Iran) is a specialized institution in rural development, financing agricultural sector and supporting rural population since its establishment in 1933. ABI is a full-service bank and offers modern banking services to its clients with about 2,000 branches all over Iran. Agriculture Bank of Iran with a full coverage of rural region through 476 rural branches and 500 branches located in small cities for the linkage between rural and urban areas is supporting rural population by providing 60 percent of required financial resources of agriculture sector.

The Bank has been serving micro, small and medium-size enterprises as well as large agriculture holdings. Based on the latest data 27 percent of Banks' clients have received up to Rls10 million (about US$1,000, micro) and over half of the recipients' financial support is in the range of Rls10-50 million (about US$1,000-5,000) As a result, over 80 percent of clients fell in the category of micro and small enterprises who have received over 30 percent of total financial resources disbursed by the Bank annually.

The three major services of ABI are as follows:

i. **Deposit services**: For mobilization of resources and diffusion of saving and planning attitudes and behaviors among clients.ABI uses core banking system to offer these services. E-banking services are introduced to rural population by designing a special debit cards for "Farmers" along with different incentives.

ii. **Loan services**: Offering loan services to all clients in the form of *small, medium and large loans*. To adjust this service to the client needs the Bank has categorized the clients by socio-economic attributes such as gender, ages, employment status.

iii. **Social responsibilities**: Bank offers support services to low income family's especially female headed households in rural areas. *Zeinab Kobra* plan has been implemented during the last 17 years by providing more than 280,000 loans. Lessons learned from the implementation of the plan have been applied in the development of new policies for the improvement of Bank's poverty eradication programme.

Bank's Initiatives in Supporting SMEs with Empowerment Approach

Iran plan: This plan offers more suitable deposit and loan services to female population. The long term objectives of the plan is creating job opportunities for women, socialization to banking system, easing their access to credit and improvement in the level of family's welfare.

Zeinab plan: a plan to provide financial support for rural female headed households. The goal of the plan is combating poverty in rural areas through capacity building and diversification of income sources of low income families.

Fatima plan: Based on latest census, due to migration of male population to the cities, the number of unmarried girls in rural area is gradually on an increasing trend. The bank is in the process of implementation of a pilot project specially designed for this social group. The plan provides financial supports with the goals of job creation, capacity buildings and welfare of the family.

Young graduates in agriculture: This plan delivers financial support to the educated youth in the field of agriculture. The main objectives of the plan are to provide job opportunities for the educated youth and to put in use the investment of the families and societies on higher education.

Joint cooperation plan: ABI has supported joint programmes with international development agencies and non-governmental institution of Iran in financing SMEs/MFIs.

Another successful initiative by the bank is the Rural Microginance Support Project (RMFSP). This is a joint project of Bank (ABI) International Fund for Agricultural Development (IFAD) and a NGO as implementing agency (TAK-international) ABI has supported the project by providing a credit line. IFAD have supported the project by grant and providing technical assistance. TAK has supported the implementation process.

The goal of the project is to expand the microfinance services in poor and deprived regions of Iran by leveraging the resources and institutional capacity of ABI in partnership with civil society. Target groups of the project are rural poor in general rural women and young adults in specific. As a pilot project it has been implemented in seven provinces (Ardebil, East Azerbaijan, West Azerbaijan, Kurdistan, Fars, Isfahan and Charmahal Bakhtiai). As per the latest report, the total number of RMFSP clients has reached 4,200, predominantly landless rural youth and women organized into 340 groups.

The Projects' Innovations

- The synergy through the cooperation of ABI, International agency (transferring their experiences) and civil society
- Experience of linkage banking for the first time
- Creating an intermediary between ABI and individual clients by supporting group formation.
- Decreasing the cost of transfer and workload of ABI's staff
- Supporting people to take responsibility and learn to work together

Project Achievements

- People have been empowered to form groups providing the needed supports
- Women have taken major part in the management of the groups
- Clients could create new employment opportunities by group borrowings
- Improvement in the quality of life

Future Programmes

ABI propose to continue its collaboration with the civil society through poverty eradication with the assistance of various UN agencies.

6.5 Agricultural Development Bank of Nepal (ADBL)

by Mr. Subodh Prasad Gautam, Chief, Branch Operation Division, ADBL

The Agricultural Development Bank of Nepal (ADBN) was founded under the Agricultural Development Bank Act of 1967. In 1968, ADBN had assumed the assets and liabilities of the Cooperative Bank and in 1973 absorbed the Land Reform Savings Corporation.

It was registered as Public Limited Company in 2005 it established the Small Farmers Development Bank Limited in 2001 as specialized microfinance institution, and handed over the SFCLs to SFDBL. It established the SME (Small and Medium Entrepreneur??) Division. It operates under the Bank and Financial Act (BAFIA) with the license of A grade commercial bank.

Vision

To be a mass-based complete Bank serving from Urban or Rural.

Mission

To deliver comprehensive banking solution strengthening its extensive network.

Objective

- To provide quality banking services
- To adopt market driven strategy
- To obtain sustained and competitive return on investment

Capital Structure

The authorised capital of the bank is NRs13.0 billion with issued capital of NRs9.6 billion, out of which ordinary share was NRs3.2 billion and Preference share was NRs6.4 billion. Paid up Capital was NRs9.4 billion with Ordinary Share of NRs3.2 billion and Preferred Share of NRs6.2 billion. Ordinary Share consists of Shareholders of ADBL 14.14 percent, General Public and ADBL staff at 30 percent and Government of Nepal share at 55.86 percent.

Current Business

- Credit delivery
- Deposit mobilization
- Treasury business
- FOREX
- Trade Finance
- Commission business

Credit Business

- Term loan
- Working capital
- Wholesale lending
- Corporate lending
- SME

Credit Portfolio (as of mid-July 2011)

Sector	Amount in billion	Percent
Agriculture	6.95	17.2
Production	4.81	11.9
Construction	2.36	5.8
Retail Business	13.07	32.3
Service	1.09	2.7
Consumer	2.48	6.1

Deposit Mobilization

The bank has mobilised deposit as follows as on mid-July 2011

Current	2.97 billion
Savings	17.97
Fixed	13.45
Total	34.39

Commission Business

The bank earns commission from remittances, guarantee and bill collection business.

Upcoming Products

The bank is in the process of introducing credit cards, debit cards, SMS banking, mobile banking, internet banking and ATMs for its clients.

Business and Client Base

The business of the bank stood at NRs72.84 billion with NRs40.43 billion of loan business and 34.39 billion of deposit outstanding. The client base was 170706 for loan and 713256 of depositors.

SME Business

SME is a major poverty alleviation programme in Nepal. The scheme was implemented by ADBL in 1975 under Small Farmers Development Programme (SFDP) with the support of government, FAO, UNDP and other donors.

Objective

To improve the socioeconomic status of small and landless farmer including women by providing them the basic inputs such as credit, technology and training in group basis.

Major Activities

- Income-generating economic activities
- Social and community development activities
- Community irrigation
- Environment conservation training
- Institutional development
- Saving mobilization
- Women development.

Some Innovations under IFAD and APRACA

- Pilot project testing in Banepa (25 km East from Kathmandu)
- Chosen 3 projects financed by ADBL
- Major task to implement Group Liability Model for credit as a replica of BAAC credit model
- Formation of groups
- Focus of production and market linkages for the product
- Initiate value addition of the product in terms of Packaging and quality improvement
- Train the groups for quality improvement, capacity enhancement under the training programmes of ADBL (4 training conducted)
- Organized training and exposure visit for ADBL staff, pilot testing groups in Bangkok (APRACA and FAO)
- Significant increase in internal resources (about 6 times more)
- Increase in participation of small farmers (actively participate in the production, marketing and value addition endeavor)
- Comparatively increase in women's involvement
- Construction of their own office building
- Provision of veterinary services
- Operation of consumer store and agricultural input marketing
- Support in dairy business
- Establishment and management of transport facilities.

Positive Outcomes

- Good team building
- Promoting funeral scheme, linkage with hospital for discount of group members, and other social activities specially for group members.

Part 7

International Development Partners' Panel

7.1 Agricultural Finance at AFD: An Integrated Approach

by Ms. Camille Severac, Rural Financing Specialist, Agence Français de Développment (AFD)

The Agence Française de Développement (AFD, or French Development Agency) is a public institution providing development financing. A specialized financial institution, AFD finances sustainable development projects carried by government local authorities, public companies, and the private and associative sectors in five continents—with primacy given to Africa which receives two-thirds of AFD commitments—and in overseas France. These projects focus on urban development and infrastructures, rural development, industry, financial systems, and education and health. AFD offers a range of financial instruments: subsidies, guarantees, shareholdings, and all forms of assisted and commercial loans—in response to each situation. Total commitment by AFD in 2010 was 7 billion Euro.

AFD's interventions aim to attain the Millennium Development Goals. AFD's strategy is guided by sustainable development. AFD develops financial and intellectual partnerships with other donors and contributes, in conjunction with its supervisory authorities, to the elaboration of public policies and to France's influence in the sphere of development.

AFD's Support to the Agricultural Continuum:

- One rationale
  - Sustainable agriculture growth for sustainable development
  - More jobs for the poor, Higher incomes for farmers and workers
  - Food security and better food for all
  - Less impact of agriculture on public goods
- Many beneficiaries
  - Smallholders and commercial farms
  - Farmers
  - Agro processing industry
  - Financial institutions and NGOs
  - Public institutions
- Large financial tool box
  - Public and private investments
  - Grants, Loans (from concessional to market conditions), Guarantee, Equity

AFD's Strategy for Agricultural Finance

AFD's objective is to ease and enhance the link between the financial and the agricultural sector. Its projects intend to have the following impacts:

- The agricultural sector becomes attractive to the financial sector through modernisation of the vaue chain, business development.
- The offer of financial services is adapted to the agricultural sector demand through support for sustainibility of agricultural development banks and development of capabilities/training of the financial sector, especially rural microfinance institutions and commercial banks.
- The risk existing on the agricultural sector is mitigated by appropriate mechanisms: e.g. value chain finance, warehouse receipts.
- New financial innovations adapted to agricultural finance: through research and pilot projects, support to index insurances, mobile banking.

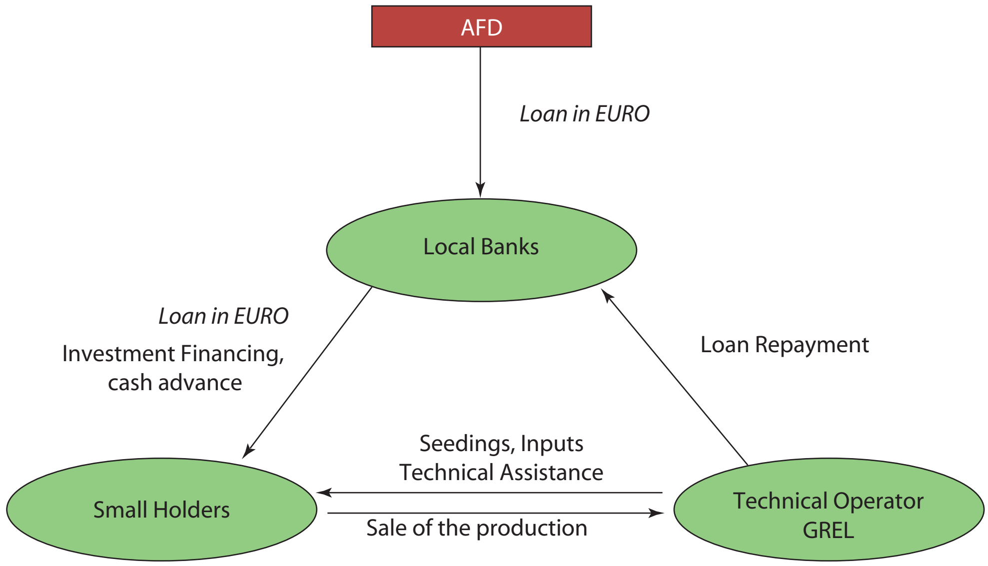
Some of Major Interventions by AFD are given below:

1. Ghana Rubber Outgrower Scheme

- Between 1986 and 1990 participated in the rehabilitation of rubber plantations in Ghana and creation of a new factory.
- Since 1995: Plantation Projects to Small Holders in 4 successive phases.

	Period	Finance by AFD	Area	No. of Small Holders	Production surplus
Phase 1	1995-2000	1.2 M€	1,200 ha	400	1,550 t/yr
Phase 2	2000-2005	5.9 M€	2,850 ha	500	3,250 t/yr
Phase 3	2006-2012	8.6 M€	7,000 ha	1,750	11,800 t/yr
Phase 4	2010-2015	14 M€	10,500 ha	3,500	17,850 t/yr
TOTAL	1995-2015	29.7 M€	21,550 ha	6,150	34,450 t/yr

Strategy adopted by AFD in Ghana Rubber Outgrower scheme is graphically depicted below:



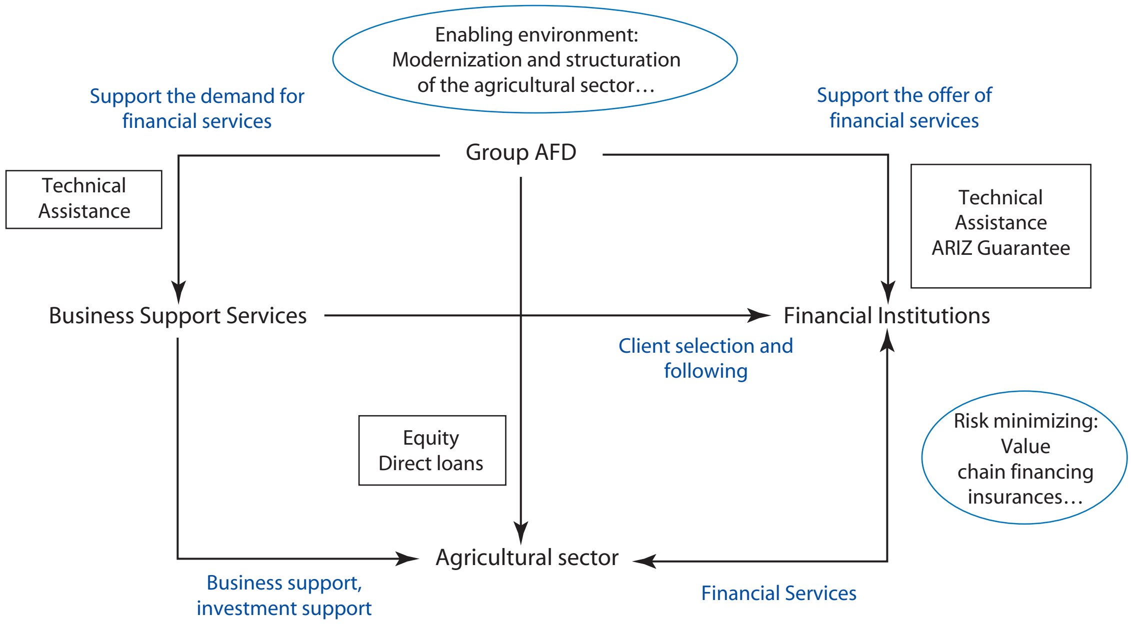
2. CECAM Madagascar: warehouse receipts and leasing

CECAM is a major microfinance network of Madagascar in terms of number of clients, branches and loan portfolio. AFD has supported CECAM since its creation through, grants, guarantees and a concessional credit line. CECAM offers specific products to cover agricultural sector's needs for financing:

- Warehouse receipts systems – Grenier Commun Villageois (GCV): credit granted to the farmers based on warehouse receipts, to cover their financial needs between two harvests.
- Leasing solution – Location Vente Mutualiste (LVM): CECAM owns the equipment untill the credit has been completely reimbursed.
- Harvests credits with possibility of in fine reimbursement.

These products account today for 90 percent of CECAM's loan portfolio and are strongly contributing to its growth (+17,4 percent in 2010).

Integrated approach adopted by AFD warehouse receipts and leasing is graphically depicted below:



AFD's tools to support agricultural finance

Objective	Tools
Provide funds to Financial Institutions and to their clients according to the needs of the agricultural sector andsupport their geographical expansion	Credit lines
Deepen FI's knowledge of the specificities of the agricultural sector and strenghthen their capacities to respond to the demand	Technical Assistance
Strengthen the financial structure and the business capacities of FI's clients from the agricultural sector: farmers, farmers' organisation, SMEs for transformation, distribution, etc.	FISEA (equity investment fund)
Support FI's clients from the agricultural sector in structuring their investments and evaluating their financial needs	Technical Assistance
Credit Risk Sharing for banks with growing agricultural finance activities	Garante scheme ARIZ
Financial innovation: research, pilot projects	

7.2 Mandate, Objectives and Activities of the Regional Network for Development of Agricultural Cooperatives in Asia and the Pacific (NEDAC)

by Mr. Waliul Islam Khan, Programme Adviser, Regional Network for the Development of Agricultural Cooperatives in Asia and the Pacific (NEDAC), UN-FAO

Background and Objectives

It was the ICA Conference of Cooperative Ministers held in 1990, which provided the platform for establishment of NEDAC by FAO-Regional Office (FAORAP), Bangkok. Being encouraged by the endorsement of the Cooperative Ministers in that Conference, the Regional Network for Development of Agricultural Cooperatives in Asia and the Pacific (NEDAC) was established by FAO Regional Office for Asia and the Pacific (RAP), Bangkok in December, 1991 in collaboration with ICA and ILO. The first meeting (foundation meeting) of NEDAC was attended by senior cooperative officials from 9 countries (Bangladesh, China, India, Indonesia, Malaysia, Philippines, Sri Lanka, Thailand and Fiji). The present membership of NEDAC is composed of 21 cooperative member organizations from 9 countries (Bangladesh, China, India, Japan, Malaysia, Nepal, Philippines, Sri Lanka and Thailand) as against 10 organizations in 1991. The membership is open to government department dealing with cooperatives, cooperative movement and any other organization/institution involved in research/education and training and development of agricultural cooperatives.

Mandate/Major aims and objectives of the network are:

i. To provide a forum for exchange/sharing of information and experiences on cooperative development and promote cooperation amongst member countries through joint efforts/field visits/workshops/seminars etc.;

ii. To promote cooperative policy frame works of member countries with focus on legal/legislative reforms, enterprise development, institutional capacity building/strengthening of agricultural cooperatives (agriculture includes fishery, livestock and forestry);

iii. To sensitize governments on the need for promoting the potential of agricultural cooperatives' role in development especially in agriculture and rural development sector aimed at increased food security and poverty alleviation;

iv. To strengthen the institutional capacity and professionalism of member organizations i.e. the capacity building in business planning, enterprise development, and management of agricultural cooperatives;

v. To stimulate the capabilities and training of human resources at all levels and thus help accelerate development through efficient utilization of human, physical and financial resources available;

vi. To establish and maintain close working relationship with FAO, ILO and other international and regional organizations particularly ICA Regional Office, New Delhi, India and other organizations pursuing similar objectives;

vii. To promote agricultural, fisheries, livestock and forestry based commodity production, value-addition and marketing at national and regional levels; and

viii. To document and disseminate success stories with regard to development of agricultural cooperatives.

NEDAC Membership

Membership is open to all countries of Asia and the Pacific region on voluntary basis upon payment of admission fee USD500 and regular membership fee USD2,000 as a Regular Member and USD1,000 as Associate member. Associate members have no voting rights and cannot become a member of the NEDAC Executive Committee (EXCOM) which is highest body for governance and monitoring of NEDAC activities.

What NEDAC does: Benefits of Participants/Members

- NEDAC provides the platform for discussions/exchange of information/experiences of cooperative experts/policy makers/leaders on various matters concerning agricultural cooperative development in the different countries of the region. Country information are thus circulated outside.
- NEDAC provides a cost effective institutional platform for policy dialogue and identification of institutions for capacity building in priority areas of staff professionalism and sharing technical expertise on cooperative development and promoting HRD through training.
- In order to gain field experience and assess cooperative development in various countries, NEDAC organizes study tours/exchange visits for policy makers/cooperative leaders/senior executives to study policies/programmes in different countries of the region which could be adapted in the countries of the study tour participants.
- NEDAC organizes workshops/seminars and round table consultations on thematic issues such as fair-trade, bio-fuel development, cooperative enterprise development and business planning, development policies etc. aimed at agricultural cooperative development.
- NEDAC is a non-profit organization and works on the principle of TCDC (Technical cooperation amongst developing countries/cooperatives). NEDAC activities are implemented in a very cost effective manner. The host country provides/meets the local cost including board/ lodging of the participants and NEDAC provides the international travel cost plus a token lumpsum to meet the out of pocket expenses of the participants such as taxi fare to come to the airport from home and vice versa.
- FAO-NEDAC collaboration/partnership in terms of using field experts on cooperatives has been very fruitful. NEDAC facilitates FAO to reach farmers in NEDAC member countries more easily and quickly due to co-operative structure up to the field/primary level.
- Sometimes, FAO/ESCAP/UNDP looks for experts on cooperatives and they ask NEDAC to provide names of such experts who could be considered by them for recruitment as consultant/ resource person. NEDAC thus facilitates use of cooperative experts by UN or other organization.
- NEDAC promotes documentation/dissemination of success stories in regard to agricultural cooperative development. Country studies are circulated to NEDAC members and other interested organization including FAO, ICA etc.
- NEDAC promotes networking amongst cooperatives within and outside the country on agricultural cooperative development activities in the region.
- NEDAC encourages active participation of NEDAC members in the NEDAC's programme of work and in various areas of cooperative development.

NEDAC members thus derive benefits from being an active member of NEDAC.

7.3 Financing Energy Access for Sustainable Rural Development – Pro-Poor Public Private Partnership

by Mr. Hongpeng Liu, Chief, Energy Security and Water Resources Section, Environment and Development Division, UN ESCAP

Millions of poor people in the Asian and Pacific region have no way of satisfying their basic needs of energy, healthcare, water and sanitation. While governments, have borne responsibility for the provision of such services, it is clear that in the face of competing priorities, they are either not always best placed to deliver what is necessary or lack the resources to do so. It is in this context that the concept of Public Private Partnerships (PPPs) have in recent years been widely promoted as an alternative means of combining the strengths of both for the provision of basic services – the authority and credibility of the public sector, and the financial and entrepreneurial skills of the private sector. In a major innovation, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) has added the 'pro-poor element' to the architecture and philosophy of PPPs, to bring the poor into the central focus of its work. ESCAP's approach to Public Private Partnerships has thus been renamed "Pro-Poor Public Private Partnerships" (PP-PPP or 5Ps); it engages the poor not just as passive recipients of benefits, but also as equal partners in the ventures.

5Ps Project Objectives

The project aims to support ESCAP member governments in strengthening their mechanisms and policies to deliver basic services, namely water, energy, health and bio-diversity, to the poor. It will also seek to demonstrate that the 5Ps concept represents a flexible solution to delivery of basic services and provides an alternative to the budgetary constraints on governments seeking to provide such services.

Why Is ESCAP Involved?

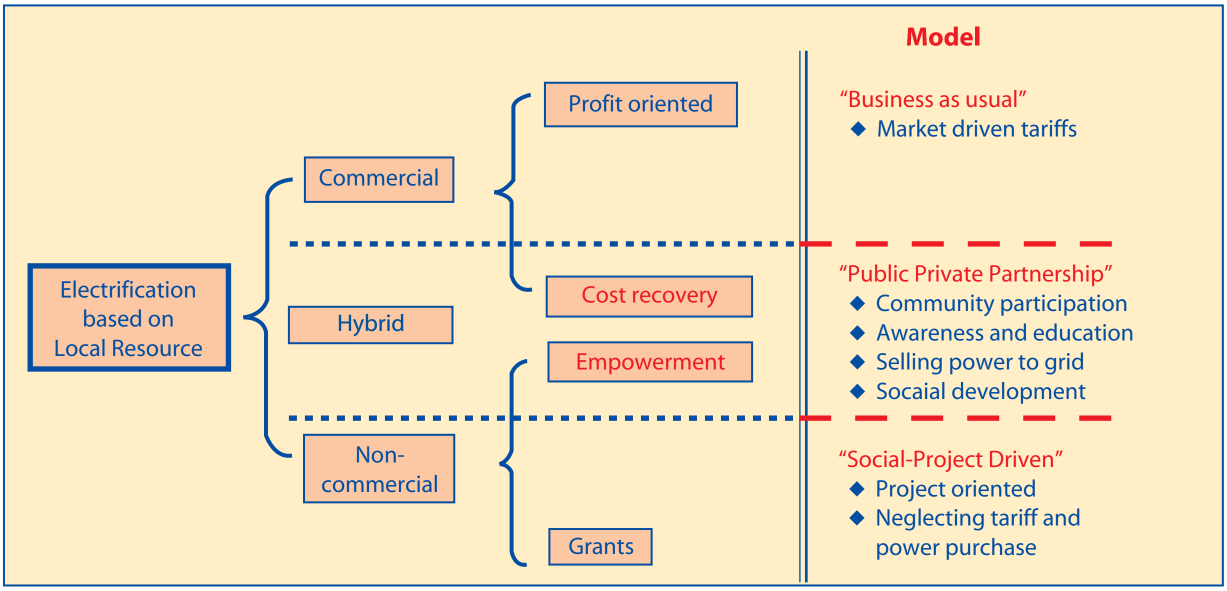
It is now well recognized that limited access to basic services is a key feature of poverty in the Asian and Pacific region. The 5Ps approach offers an alternative to government budgetary constraints in providing basic services. The concept of Public Private Partnerships in basic services is still relatively new in the region and ESCAP's initiative will help popularize the concept, with a pro-poor focus.

What Will The Project Do?

The project will enhance regional understanding of the 5Ps concept. It will also demonstrate that the 5Ps approach works in key sectors of sustainable development and make available 5Ps models for adaptation. Further, the project is expected to build institutional capacities in negotiation and application of the 5Ps concept in the region.

Pro-Poor Public Private Partnerships (5Ps)

- Explicitly target the provision of services to poor communities, which are often ignored by traditional PPPs since supplying the poor is not perceived as making business sense.
- Views the poor not only as consumers that receive benefits, but also as partners in business ventures.
- Expands beyond the private sector to including partners from development banks, equipment manufacturers, rural energy service companies, community based organizations, cooperatives, and households themselves.
- Relies on the locally available renewable energy resources.



Case: Cinta Mekar, Indonesia

This is a hydro power plant operational since 2004 under the ESCAP's 5Ps approach.

- Implementation Agency (Partnership): Private Sector, NGO and Community
- Generates about 72,000 kWh of electricity per month and uses a PPA
- Revenue used for social development (education, health, etc.)

Advantages of ESCAP's 5Ps Model

- Improve access to modern energy services for rural communities (daily life and productivity)
- Enhance policy-makers' awareness and capacity to develop policy options
- Create an environment conducive to the private sector/entrepreneurs for value creation
- Increase the use of locally available renewable energy resources
- Utilize international carbon markets

5Ps Project Components

Regional activities: Policy studies, policy dialogue and capacity building through organizing expert group meetings and seminars, as well as South-South cooperation.

National and local level: Specific training programmes and demonstration projects will be implemented Project Components:

- Assessment and Planning
- Capacity Building
- Implementation of Country Activities
- Evaluation and Knowledge Dissemination

7.4 Priorities and Activities of the International Cooperative Alliance (ICA)
by Mr. Shil-Kwan Lee, Senior Advisor, ICA Asia-Pacific

What is the ICA?

Founded in 1895, the International Cooperative Alliance is an independent, non-governmental organization which unites, represents and serves cooperatives worldwide. It is the largest non-governmental organizations in the world.

ICA members are national and international cooperative organizations in all sectors of activity including agriculture, banking, fisheries, health, housing, industry, insurance, tourism and consumer cooperatives. Currently, ICA has 267 member organizations from 97 countries, representing approximately 1 billion individuals worldwide.

What does ICA do?

- ICA's priorities and activities centre on promoting and defending the Cooperative Identity, ensuring that cooperative enterprise is a recognized form of enterprise that is able to compete in the marketplace.
- ICA raises awareness about cooperatives. It helps individuals, government authorities and regional and international institutions understand the cooperative model of enterprise. ICA is the voice of the cooperative movement.
- ICA ensures that the right policy environment exists to enable cooperatives to grow and prosper. It helps its members in their lobbying for new legislation and more appropriate administrative procedures that respect the cooperative model, its principles and values. It provides political support as well as technical expertise to enable cooperatives to compete on a level playing field.
- ICA provides its members with key information, best practice and contacts. Through its publications it ensures the sharing of information. It organizes meetings and workshops to address key issues affecting co-operatives and allows discussion among cooperators from around the world. ICA facilitates contacts between cooperatives for trading purposes and intelligence sharing in a wide range of areas.
- ICA provides technical assistance to cooperatives through its development programme. ICA promotes capacity-building and financial support, it facilitates job creation and supports poverty reduction and microfinance programmes around the world.

What is the Cooperative Difference?

Cooperatives are enterprises that put people at the centre of their business and not capital. Cooperatives are business enterprises and thus can be defined in terms of three basic interests: ownership, control, and beneficiary. Only in the cooperative enterprise are all three interests vested directly in the hands of the user.

Cooperatives are also enterprises that follow a set of principles and values – The Cooperative Principles. The Cooperative Identity Statement elaborated in 1995 by the ICA is the internationally recognized definition of the cooperatives, its values, and principles.

Type of Cooperatives

The cooperative model of enterprise can be applied to any business activity. They exist in traditional economic sectors such as agriculture, fisheries, consumer and financial services, housing, and production (workers' cooperatives). However, cooperative activity spans to large number of sectors and activities including car-sharing child-care, health and social care, funeral, orchestras and philharmonics, schools, sports, tourism, utilities (electricity, water, gas, etc.), and transport (taxis, buses, etc.). Cooperatives are significant economic and social actors.

All over the world, millions of people have chosen the cooperative model of business enterprise to enable them to reach their personal and community development goals. Cooperatives create and maintain employment providing income; they are responsible for producing and supplying safe and quality food and services to their members, but also to the communities in which they operate. By putting the Cooperative Principles and ethics in practice they promote solidarity and tolerance, while as 'schools of democracy' they promote the rights of each individual – women and men. Cooperatives are socially conscious responding to the needs of their members whether it is to provide literacy or technical training, or to take action against the HIV/AIDS pandemic. Through their varied activities, cooperatives are in many countries significant social and economic actors in national economies, thus making not only personal development a reality, but contributing to the well-being of entire populations at the national level.

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The cooperative principles are guidelines by which cooperatives put their values into practice.

1st Principle: Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6th Principle: Cooperation among Co-operatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

Part 8

Group Workshop –
Recommended Actions: Where do We Go from Here?

Group Workshop Recommendations

8.1 Introduction

Based on the observations and discussions of the distinguished speakers and guests on Rural Financial Innovations a group workshop was organized on 14 December 2011, on the second day of the FinPower Programme. The participants were divided into three groups were assigned three themes. The three themes were:

- Green Financing
- Value Chain Financing
- Agricultural Financing and Risk Management

After a threadbare discussion the groups prepared a matrix of recommendations which were presented by the group Chairman.

An attempt has been made here to capture those valuable recommendations. The recommendations on various burning issues related to agriculture development are expected to be of immense importance to the policy makers. IFAD, APRACA and other developmental partner agencies are expected to make use of the recommendations and influence the policies which affect rural policy environment positively. Based on the observations, suitable experiments could also be designed and tested in specific locations involving Public Private Partnership. The important group – wise recommendations were as follows:

8.2 Group 1: Green Financing

Chaired by Mr. Abhijeet Deshpande, Consultant, Energy Security and Water Resources Section, Environment and Development Division, UN ESCAP.

Observations

Clean Development Mechanism (CDM) means reducing Green House Gases (GHGs) through eco-friendly technologies and obtaining CERs (Carbon Emission Reductions) that can be traded for earning carbon credits. Any CDM or clean project or any project that promotes preservation/conservation of natural resources, reduction in CO emissions or absorption of CO from environment is a Green Project. Banks financing of such projects are called green financing. Climate Change has tremendous effect on agriculture productivity and rural development. Activities like forestry, agriculture and other allied activities, like dairy, soil conservation, energy use practices, use of renewable energy, etc. have enormous potential for reducing emission of GHGs. Financing of these activities are environment friendly. It protects bio-diversity of the area, and leads to sustainable agriculture. But the major area of concern in Green Financing is evaluation and measurement of the impact of financing. Presently there is no uniform yardstick across the nations. It is also a major concern to decide, who will pay for such evaluation. It may be difficult for the banks to convince the prospective customers to pay for such evaluation. Secondly, green products and green technologies are much more expensive in comparison to the available products available in the market. The Internal Rate of Return in investing in Green enterprises may not be very high. Therefore the mind-set of the entrepreneurs has to change for which a massive awareness campaign has to be initiated by the various national governments for the purpose. Further being a new area there is need for government support to banks as well as entrepreneurs.

Recommendations

- APRACA to take up Green Financing as a major issue. It may organise more workshops/forums, to identify best practices and take up awareness building and capacity building exercises.

- National governments may promote green financing by way of tax exemptions, incentives, subsidies, easy loans etc.
- Governments may also promote adequate certifying agencies for organic products
- Healthy and responsible competition in green financing needs to be promoted
- Technical assistance/capacity building of financial institutions and end users are to taken up to further improve green financing
- Put in place a system of development monitoring and evaluation at the local level.

8.3 Group 2: Value Chain Financing

Chaired by Dr. Jung-Sup Choi, Professor, Department of Food Resource Economics, Yeong Nam University, Republic of Korea.

Observations

Traditional agricultural production system was farmer centric. They have no role to play in the market and even could not dictate a price of their produce. They are also not in a position to face the consumers directly and to know their choices and preferences. However in the value chain financing process the farmers are linked to the consumers directly and are in a position to know their tastes and choices through a scientific backward flow of information. The small farmers especially are to be linked successfully with global agricultural value chain. The integration will benefit small farmers, the banks which finance them, the corporates which get goods directly from the farmers and the consumers who will get the commodities at lower competitive prices.

The whole process of value chain financing is based on market oriented demand driven rural financing. The feedback flows backwards from the consumer to the producer. The producer gets to know the market requirement. The financial channels also are aware of the cropping pattern and assess over all requirement of the system. The financing process is also in a position to finance every link in the value chain. Every link or segment is important in the chain. Financing in cropping season, pre-harvest investment and pre-export trade credit requirement, is taken care of in the system. The major problem in Southeast Asia is that farmers lack easy and hassle free access to credit. Banks assume risk in financing the farmers due to uncertainties and for various reasons including that of risk in marketing of produce. As value chain financing works on reverse feedback model and there is almost assured market for the produce bank financing to farmers becomes easy. Cooperatives have a major presence in the rural financing scene. Their strong branch network and closeness to the people and feel of the field make them a natural choice to come forward and take up the value chain financing in the rural sector.

Recommendations

- More sector specific studies: APRACA may initiate such studies to find out problems of financing of various segments in value chain financing. With opening of global economy, value chain financing will get more importance in the scheme of things.
- A holistic approach: What is required in value chain financing is end to end solutions and problems are to be dealt with in a holistic manner. The problems of the middle players are also to be addressed along with that of the farmers.
- Regulatory Improvement: Value Chain financing also covers contract farming system, trade credit, and financing against ware house receipts. Besides the farmer there are other stake holders like input suppliers, technology providers, financial services providers. The interest of all such providers are to be protected by way of a fair regulatory environment.

- Capacity building, awareness creation and knowledge sharing-Value chain financing is way for the future, for farmers, bankers, and other stake holders. It is therefore necessary that capacity building of the stake holders may be ensured by way of training, exposure etc. Experiences of more advanced economics could also be shared by APRACA among its member countries by organizing

8.4 Group 3: Agricultural Financing and Risk Management

Chaired by Mr. Ronald A. Inciong, Head Risk Management Department, CARD SME Bank, Philippines

Risk and uncertainties in agriculture production process, marketing, access to institutional credit go and in hand with agriculture. Small and marginalized farmers also face the difficulty of providing collaterals. Small and fragmented land holdings, age old traditional agri practices, very low level of mechanization coupled with natural calamities add to the risk of the farmers. Agriculture growth suffers inspite of robust economic growth in other sectors. Risk and uncertainties in agriculture production process, marketing, access to institutional credit are various risks faced by the farmers.

Risk Management in Agriculture

Agricultural risks are due to variety of factors, ranging from natural calamities, variations in weather, uncertainties in yields and prices, weak rural infrastructure, imperfect markets and inadequate financial services. These factors not only endanger the livelihoods and incomes of small farmers but also undermine the viability of the agriculture sector and its potential to become a part of the solution to the problem of the endemic poverty of farmers.

Framework of Agriculture Risk Management

- Direct initiatives by Government: Such as agricultural credit, input subsidies and calamity relief.
- Indirect initiatives by Government: insurance mechanisms covering crops, weather and livestock, micro insurance.
- Government and market-based approaches to mitigate price or income risks, which include minimum support prices, farm income insurance, a price stabilization fund, commodity markets, contract farming, etc.

A. Direct Initiatives

1) Agriculture credit

Credit requirements for agriculture are to be met by providing hassle-free timely finance to the farmers. Credit procedures have to be simplified, paving the way for small/marginal farmers to be able to access credit. Banks may create an Agricultural Risk Fund to mitigate their losses on account of poor rates of recovered loans during adverse crop years.

2) Input subsidies

Important input subsidies for agriculture sector are fertilizers; power; irrigation; credit; and agricultural price guarantees. Many researchers and economists feel that input subsidies are progressively losing their relevance and are becoming an unbearable fiscal burden. However, the present agriculture subsidy regime suggests that none of the arguments for input subsidization apply. Suggested actions include: (i) capping input subsidies; (ii) a phased programme of progressive withdrawal of subsidies; (iii) earmarking the amount saved from input subsidies so far as an addition to funds to be used for strengthening rural infrastructure, research and extension; (iv) well-defined and effective measures to improve efficiency and plug leakages in input supplies; and (v) involving users in the distribution of power and canal water, etc.

3) Calamity funds

India has one of the best Calamity/Disaster Relief mechanisms among developing nations. The Calamity Relief Fund (CRF) was created at the State level with contributions from both central and state Governments (3:1 ratio) and is used to pay for relief in the event of droughts, floods, cyclones, hailstorms, tsunamis, etc.

B. Indirect Initiatives on the Part of the Government

1) Crop insurance

The National Agricultural Insurance Scheme (NAIS) annually insures approximately 18 million farmers, or 15 percent of all farmers and approximately 17 percent of all farmed land. The Government has been considering improvements to the crop insurance programme for some time and review committees were set-up accordingly. The Government is expecting to double the penetration of crop insurance schemes by 2012.

2) Livestock insurance

Livestock forms a significant proportion of rural wealth and is an important source of rural livelihoods. In addition, livestock-related activities are the exclusive source of income for some rural community members. Livestock insurance offers tremendous prospects in terms of product scope, offers (particularly with respect to endowment policies) and control over claims, if only there is an effort to provide the requisite insurance awareness and education.

3) Micro-insurance

An insurer with a life insurance business has to offer life micro insurance products as well as non-life micro insurance products to poor households. Similarly, an insurer providing non-life insurance services may offer general micro insurance products as well as life micro insurance products. Most MI products on the market need to provide health insurance, along with insurance for assets, livestock, crops, etc.

C. Government and Market-based Approaches to Mitigate Price or Income Risks

- Minimum Support Prices (MSP) in India
- Price Stabilization Fund (PSF)
- Commodity markets
- Contract farming

Recommendations

- Formation of credit risk rating system sensitive to agriculture.
- Promotion of client protection/education, financial literacy, marketing support to farmers needs to be taken up on a large scale.
- Establish enhanced securities for agricultural loan both for farmers and banks.
- Flexibility in lending policies-repayment system vis-à-vis cropping cycle.
- Provide incentive schemes for farmers beneficiaries with good repayment track record.

Part 9

Emerging Issues and Recommendations

9. Emerging Issues and Recommendations

The two-day meeting of APRACA Regional Forum-Consultation and the field visit to Chonburi province, Thailand witnessed active and enthusiastic involvement of all delegates. The immensely useful presentations and discussions that followed showcased many innovations in the rural sector which are carried out in different parts of the world. The Forum has thrown up a number of issues that have been flagged by the delegates for further probing and possible implementation. The important recommendations and issues arising from the consultations are grouped under relevant headings and listed below.

9.1 Agricultural Development and Food Security

As discussed in Part 7 of this publication, risk and uncertainties in agriculture production process, marketing, access to institutional credit go hand in hand with agriculture. Agriculture growth suffers in spite of robust economic growth in other sectors. Agriculture suffers due to a variety of factors, ranging from weather variability, natural calamities, uncertainties in yields and prices, weak rural infrastructure, imperfect markets and inadequate and sub-optimal financial services. These issues relating to agriculture and risk management were discussed in the Forum and the major learnings that emerged are listed below:

i. Food insecurity is a growing concern world over due to population growth, climate change, natural disaster, land degradation, low productivity of farms and the oil crisis. Developing countries are the most affected as they mainly rely on agriculture. Land degradation due to poor agricultural practices has caused low agricultural productivity. Persistently high oil prices have induced more and more land be taken away from food crops in order to give way to bio-fuel production. Uncertainties in agriculture coupled with lack of alternative opportunities have made poverty in rural areas an equally important concern. Rural finance practitioners have to bring agriculture and rural finance back to the top of the development agenda. Farmer clients need to be induced to invest loan proceedings in pro-environmental activities and to increase agricultural productivities through applying harmless local wisdoms. APRACA can document such local wisdoms and share them among the members for experimenting and replication in their regions.

ii. At the core of the food security problem lies the issue of hunger and starvation. To address this, there is a need to store grains locally in the villages so that in times of need the same can be used in a mutually helpful manner. The concept of Grain Banks practiced in certain parts of India could be seriously considered. Grain Bank formation by the village community and its successful operation could be one way to tackle the food security problem. Grain Bank or 'grain gola' is a kind of 'food storing' approach at the village or community level. The villagers/community members contribute a small portion of their own harvested cereals such as paddy, millets and maize to establish a village based fund in the form of grains collectively. The members of the grain bank draw grains at the time of need and repay the same along with interest in the form of grains. The grain bank concept can also be dovetailed into the SHG-bank linkage programme for better synergy.

iii. Greater investment is needed in agricultural research to generate highly productive and sustainable technologies for different agro-climatic conditions. This should be complemented by substantial investment in appropriate irrigation facilities, and rural infrastructure and support services.

iv. There is an important role to play for plant breeders and crop scientists who need to develop new varieties that can profit from climate change or avoid the hazards of climate change. There is also an important role for government and the private sector in expanding storage capacities and infrastructure so that food stocks can be stored in larger quantities and moved from surplus to deficit areas faster and more efficiently.

v. An enabling policy framework for agriculture creating incentives for private sector investment in agriculture and making it more profitable and attractive for the young population is needed.

vi. Small farms have proved resilient over time and they continue to contribute significantly to agricultural production, food security, rural poverty reduction, and biodiversity conservation in Asia and Pacific Region despite the challenges they continue to face with respect to the access to productive resources and service delivery. They are now facing new challenges of integration into new agriculture dominated by value chains, adaptation to climate change, and management of market volatility and other risks and vulnerability.

vii. Specifically, it is difficult for small farmers to access high-value crops even though they are labor intensive and more suited for their size. However, the fact that the large farms/farmers corner more advantages is due to lack of adequate credit to small holders, institutional gap (e.g. weak extension services) and policy distortion (e.g. unsustainable subsidies). If such biases are removed, smallholders can enhance their competitiveness. State interventions and collective action by producers' organizations would make a significant difference. Institutional innovations such as microfinance for agriculture, new risk-management instruments (e.g. index-based weather insurance), collective action by producers' organizations can enhance smallholders' access to finance, which will help them increase agricultural productivity, benefit from new market opportunities and deal with increasing risks and vulnerability. Dr. Ganesh Thapa's paper presented in the Forum gives more insights into these issues.

viii. Several innovations have been tried out in the Asia-Pacific region itself to help small farmers. Some of the innovations like producers' organizations/association, value chain financing/contract farming, index-based weather insurance have been successful. IFAD and APRACA in association with member countries may try to introduce these concepts in their regions. These successful innovations help small farmers which in turn goes a long way in poverty alleviation efforts and food security issues. BAAC's comprehensive support for agriculture which includes marketing, processing and one-stop Agricultural Centre has resulted in lowering production costs and increased revenue for farmers. Such innovations need to be further documented and pilot tested in other countries. Another innovation is by the People's Bank of Sri Lanka called Forward Sales Contract Scheme which ensure reasonable and stable price for small and medium producers.

ix. Most microfinance institutions and NGOs have largely limited their lending to functionally landless households owning under 0.5 hectare of land. Importantly, small and marginal farming households, owning between 0.5 and 2.0 hectares of land, continue to have very limited access to credit from both NGOs and banks. One of the most important gaps in the rural finance sector in developing countries is the absence of a viable system for delivery of financial services to small and marginal farmers. IFAD in collaboration with the Palli Karma-Sahayak Foundation (PKSF), an autonomous microfinance apex institution in Bangladesh, has successfully introduced the innovative Microfinance for Marginal and Small Farmers Project which enabled PKSF partner organizations to successfully extend the reach of microfinance to the agricultural sector, including seasonal loans for crop production.

9.2 Rural Finance and Risk Management

The critical factors for successful pro-poor interventions by financial institutions include adequate reach and coverage of the target group, availability of a large variety of services, low transaction costs, continued access to services over a long period of time and sustainability of the institution with minimum support from non-users or tax payers. Rural finance is fraught with inherent risks. Risk management by rural financial institutions has to be done in such a way that access to finance by the rural poor is not choked. The recommendations and issues arising from the Forum-Consultations in respect of rural finance and risk management are listed below:

i. Like the AFD's strategy, governments also need to make efforts to ease and enhance the link between the financial and the agricultural sector:

- The agricultural sector becomes attractive to the financial sector through modernisation of the value chain and business development.
- The offer of financial services is adapted to the agricultural sector demand through support for sustainability of agricultural development banks and development of capabilities/training of the financial sector, especially rural microfinance institutions and commercial banks.
- The risk existing in the agricultural sector is mitigated by appropriate mechanisms: e.g. value chain finance, warehouse receipts, etc.
- New financial innovations are adapted to agricultural finance through research and pilot projects, support to index insurances, mobile banking, etc.

ii. Millions of poor people in the Asia and Pacific region have no way of satisfying their basic needs of energy, healthcare, water and sanitation. While governments have borne responsibility for the provision of such services, it is clear that in the face of competing priorities, they are either not always best placed to deliver what is necessary or lack the resources to do so. It is in this context that the concept of Public Private Partnerships (PPPs) have in recent years been widely promoted as an alternative means of combining the strengths of both for the provision of basic services – the authority and credibility of the public sector, and the financial and entrepreneurial skills of the private sector. UN ESCAP's "Pro-Poor Public Private Partnerships" (PP-PPP or 5Ps) which engages the poor not just as passive recipients of benefits, but as equal partners in the ventures is a recent innovation in this direction. Cinta Maker hydro power plant in Indonesia is a good example for UN ESCAP's 5Ps model.

iii. Cooperatives are enterprises that put people at the centre of their business. Cooperatives are people centered organizations that are owned, controlled and used by their members. Cooperatives are different from other forms of incorporation because of their member ownership, democratic structure and the use of funds for mutual, rather than individual, benefit. However in recent times, the strength of cooperatives has withered away due to various reasons. But cooperatives still remains one of the best vehicles for enhancing lives of the rural poor. UN has proclaimed 2012 as the 'Year of Cooperatives'. International agencies like ICA and NEDAC can play pro-active role in bringing back cooperatives to the forefront again by influencing the key policy makers through continuous dialogues.

iv. Rural finance practitioners pursuing the common endeavor of rural development have to look for ways in which stronger "social safety net" amidst a vulnerable and fragile economic environment can be developed. The problems of vulnerable populations, especially pregnant women and lactating mothers, children under the age of five and other disadvantaged groups call for special attention for targeted safety net interventions. The Agriculture Bank of Iran's socially oriented schemes like Zeinab Kobra and Fatima Plan targeting livelihood creation for rural women are successful innovations in this direction.

v. There is a huge demand for integrated financial services among rural youth and an untapped market exists in youth for rural financial institutions. But, several issues need to be considered as we expand into youth finance. Collaboration with several youth servicing organizations may also be needed in order to reach scale and effectively service youth in a sustainable way. Staff that service youth needs to be aware of youth specific issues and also their comfort with using new technologies to learn and apply in their livelihood activities. Youth represent a diverse group and may require cohort based approaches, newer methods to assess their credit worthiness and financial education to help them make informed and optimal financial decisions. Further there is a need for more impact evaluations of youth oriented projects so that financing agencies and donors can learn and innovate. Dr. Geeta Nagarajan's paper throws more light into these aspects.

vi. The only way for farmers to protect themselves to some extent from unpredictable weather patterns is by taking better control of their farming environment. Depending on the situation, this requires on-farm investments such as for small-scale irrigation and drainage systems, soil improvements and higher raised beds, plastic tunnels or plastic houses, shading houses, seedbeds protected by insect screens and many more. All these investments help to reduce the risk of farming because they help to better control the farmers' production environment. There is therefore a clear need for financial institutions to make medium-term credit available for such on-farm investments. Such credit not only increases the productive capacity of farmers, but it also helps reduce the risks involved in agriculture production, and this again reduces the risks of the financial institutions themselves.

vii. Though there are large number of development programmes in villages under implementation through the government agencies, banks and international/national donors, the benefit does not reach the real needy in interior areas as the people are generally unaware and even if they know about them, their powerlessness becomes a handicap in ensuring their own coverage thereunder. It was also seen that the impact of all these development initiatives is not visible mainly due to their scattered and weak implementation. Hence there is a need for a nodal agency which can coordinate and synergize the various programmes in a village so that optimum benefit can be derived from the programmes. Village Development through Convergence being implemented in India by NABARD is one such good initiative that can be replicated.

viii. Bank branches can involve in rural financing by adopting a village under their jurisdiction. Banks may involve in credit planning for the village and provide credit for expanding livelihoods of the villagers. Such planning and support may be comprehensive involving front-end and back-end linkages. Such villages adoptions are in practice in Sri Lanka and India.

ix. Cluster based lending where banks finance a cluster involved in common activity is another effective rural finance method for villages involved in predominantly one activity. The success of clusters depends on the homogeneity of activity adopted by the cluster and the availability of efficient front and back linkages.

x. CARD SME Bank of the Philippines focuses on those clients who are graduating to microenterprises. It recognizes that there is a financing gap for enterprises which are between the micro enterprises and the SMEs, called the graduating micro enterprises. This type of enterprises, who have funding requirements higher than what microfinance institutions can give but lower than the loan floor of institutions catering to SMEs. Nurturing and financing such institutions are essential for enhancing and stabilising income generating activities. The Rural Micro Enterprise Promotion Program (RuMEPP) is another excellent programme implemented by Small Business Corporation in the Philippines (assisted by IFAD). RuMEPP aims to help poor entrepreneurs and rural families in the country by providing technical and financial support for micro enterprises, which, in turn, can benefit other poor families through job opportunities.

xi. Rural financial institutions need to adopt internationally acceptable risk management systems. While doing so suitability of such systems to local conditions has to be kept in mind. Risk management practices should not be a hindrance to rural financial access. For example BAAC has successfully adopted a risk management practice based on international accounting standards. It is also investing heavily to revamp its ICT platform to enable a more effective decision supporting system and to be ready for future growth in a more intense competitive environment. BAAC now goes beyond savings and loans to reach sustainable development. A concept of credit plus technical assistance has been implemented by BAAC to promote value addition activities in rural areas with knowledge dissemination.

xii. ASA in Bangladesh has implemented innovative social security measures in the form of Member's Security Fund and Loan Insurance which are excellent innovations in risk management for clients as well as institutions.

xiii. New insurance products are now being developed and tested in Asia to insure rural populations. Some of them include weather indexed crop insurance, hybrid weather and yield indexed crop insurance, index based livestock insurance, community run credit insurance and nation-wide public health insurance for the poor. In most of these new insurance products, ICT is extensively used in order to gather and quickly transfer accurate data from remote areas to help fix the premiums and settle claims, to reduce fraudulent claims, and to minimize the hassles in premium payments, to mention a few. There is, however, still a huge need to improve client awareness and develop financial instruments to help the rural households buy insurance. Rigorous evidence of impacts to demonstrate the effect of new index based insurance products is lacking in terms of reducing household vulnerability, providing income protection, improving risk taking ability, farm level investments and enterprise diversification, and the ripple effects on the uninsured. To that end, it is imperative to develop creative and cost effective monitoring tools and evaluation methodologies to gather long term data from weather stations, insurers and clients, and for conducting rigorous impact evaluations based on a control group. Dr. Geeta Nagarajan's paper throws more light on this issue.

ivx. The recent financial crisis and global meltdown can also be seen as an opportunity to design new products and to institute better risk management strategies in the rural finance sector.

9.3 Rural Financial Inclusion

Bangladesh is the birthplace of microfinance and the Lead Bank system is also in place since 1977 to provide financial support to the farmers. Yet the agricultural sector is underserved by both banks and microfinance institutions in the country. This happened for several reasons including lack of collateral by the tenant farmers making them less preferred by the banks. Agricultural operations, being seasonal in nature and bearing risks, are also left out by the Microfinance Institutions who maintains weekly repayment mechanisms. As in Bangladesh there are many bottlenecks to successful financial inclusion in other countries also. Some of these are given below (Almost all these problems are common to all the countries in the Asia-Pacific region):

- For most large financial institutions dealing with many a large number of small customers are not profitable. Lack of sufficient collateral is another issue for large institutions.
- Design and type of service do not fit the requirements of specific groups in the population.
- Lack of an enabling regulatory environment (though this is not the case in countries like Bangladesh, Pakistan, Cambodia, Philippines etc.) for the provision of innovative financial services represents another crucial barrier to be addressed.
- Demand-side barriers can include the lack of formal identification system, low levels of financial literacy, inability to track an individual's financial history and the absence of appropriate consumer protection mechanisms.
- For low income groups, dealing with financial institutions is generally seen as a difficult process.
- Lack of bank branches in remote/rural areas (Here, the Brick and Mortar approach is not feasible).
- Inconvenience due to lengthy documentation/processes
- Institutional capacity issues of financial services providers
- Lack of low cost innovative and technology based products for low-income people
- High cost structures of microfinance providers posing challenge to sustainability
- Lack of effective implementation of Consumer Protection codes and policies
- Risk aversion of conventional banks to explore new markets

Many attempts are being made to overcome the above and other region specific barriers to achieve full financial inclusion. These innovations were presented in the Forum by representatives from various countries. Some of the important initiatives/innovations that were discussed in the Forum are listed below. These can be studied in detail by other countries and experimented in their regions. Some measures/ innovations may not be implementable in some countries. But there are other innovations which can be examined or modified according to local conditions. There is no single solution for financial inclusion. It has to be a combination of different methods for reaching the unbanked.

i. Bangladesh Bank allows banks with limited branch network to provide agricultural/rural credit in partnership with the micro-finance institutions having license from the Micro Vredit Regulatory Authority. To ensure that the bank funds disbursed through MFI partnership goes into agriculture, it is considered as disbursement by bank only when the fund is disbursed to the actual borrowers and not the Microfinance Institutions (MFIs). With a view to increase banks' accountability for their agricultural/ rural lending with MFI partnership, Bangladesh Bank has instructed the banks for field verification of at least 1 percent borrowers.

ii. Bangladesh adopted the concept of mobile phone banking a few years ago. Some banks have already started remittance services by mobile phone. Mobile banking will be bank-led and not telecom companies led. It is expected that the move would help banks bring a vast number of unbanked people into the banking services through the mobile network operators (MNOs). Underprivileged and rural folks would benefit the most from the Mobile Phone Financial Services (MFS). Mobile phone banking is expected to gain fast popularity, thanks to its quick service and simplicity of usage.

iii. For sustainability, income generating projects need to be designed in such a way that the group size and the fund size complement each other optimally. One way to do this is to have groups with similar or related activities to be part of geographic clusters to ensure cost effectiveness. This model being experimented in Cambodia is expected to result in considerable cost-savings over MFI and institutional models. Innovations like this will be needed in order to bring financial services to the masses of small farmers in the Asia-Pacific in a sustainable way.

iv. Use of 'FAO-GTZ MicroBanking System' an user friendly software may help MFIs and similar organizations in carrying out recordkeeping, accounting and reporting services in a cost effective manner. An innovative IFAD financed project in Cambodia empowers external service providers to provide services through the 'MicroBanking System' to Group Revolving Funds on payment of annual fee. This helps smaller organizations which may not be in a position to purchase the software or may not require all the modules of the software in managing their accounts in a cost effective manner.

v. In Cambodia MFIs have recently expanded their products range to ATMs and POS also. These are some of the many of the additional ways in which financial accessibility can be increased.

vi. In Bangladesh and Pakistan separate banks have been set up to cater to the needs of the microfinance sector. Pakistan has about 8 microfinance banks whose combined share is 35 percent of the total microfinance clients in the country. Ekphatthana Microfinance Institution (EMI) in Lao PDR has several loan and saving products catering to different sections of the population. CARD bank in the Philippines is another large bank catering to microfinance clients.

vii. Microfinance institutions have to spend their best efforts to design products and services that can better satisfy the clients' needs in terms of faster financial access, simpler products and services and importantly at cheaper costs. (e.g., MFIs can serve as micro insurance agents and payment outlets for mobile phone payment services). MFIs need to strengthen and modify their services in terms of simplicity, better technical functionality, more accessibility, and so on. At the same time, clients' financial literacy should go hand in hand with this development.

viii. The presentation on participatory approach in enhancing rural financial inclusion through Community based Enterprise Development (CBED) Programme in the Philippines (Case of Carpenter Hill Community or BCH) by KMBI showed how Participatory Rapid (or rural) Appraisal (PRA) in which the ultimate beneficiaries are actively involved in every process of consultation, analysis, planning, proposal making and actual implementation can be effectively used for financial inclusion and community development. Likelihood of success of the programme and the interventions identified is greater when the community is involved from the start. Experienced stakeholders are likely to remain involved, supporting the programme over its lifetime if they are on board with the programme's ideas.

ix. ICT is beginning to show a lot of potential to provide inclusion financial service in rural and remote areas. But, the risks of technology based delivery systems in rural areas still needs to be carefully assessed in order to ensure that the human touch and consumer centered banking is not lost due to heavy use of ICT. There exist many small countries in Asia (Pacific island countries) that may require different forms of innovations in rural finance. Some rural clientele may require other services in addition to finance.

x. Banks can also reach the unreached in remote areas by opening branches (where possible) by giving additional incentives to staff. They can also consider opening mini branches or outposts having only 2 to 3 staff and providing essential banking services in remote locations. Alternatively banks can also partner with MFIs in remote areas in reaching out to the unreached. ASA in Bangladesh is already implementing these methods of including the financially excluded.

9.4 Microfinance Regulation

i. In many countries, the microfinance sector is still unregulated even though its operations have been increasingly important. By regulating the microfinance sector, it is not a threat to their growth. However, the comprehensive and supportive regulatory framework is more favourable to their growth. As a regulator, there is an important need to understand their development pace, growing needs, and their capacity in fulfilling the regulatory requirements. Regulations should evolve as the microfinance institutions mature.

ii. Most of the Cambodian microfinance institutions were born from non-governmental organizations and their transformation and integration into formal financial system were really successful. The contributive factors have been the supportive efforts of the government and National Bank of Cambodia's accommodative regulatory framework which has been conducive for the microfinance institutions to change from their NGOs mindset to the one that is more commercialized and focused on self sustainability. By introducing regulatory and supervisory framework, microfinance institutions were not only able to strengthen their institutional capacity, but also enhance their outreach and ensure the public and foreign funders' confidence. This has allowed microfinance institutions to better serve the clients in rural areas and also to provide a number of products to meet clients' demands.

iii. APARACA may arrange to document the successful and highly appreciated microfinance regulations of Cambodia, Pakistan, Bangladesh and Philippines for wider dissemination and possible replication. Importantly, the emerging regulatory and supervisory role in microfinance sector requires adequate capacity building of stakeholders. APRACA members need to enter into dialogue with each other in order to support the growing regulatory environment in the microfinance sector.

9.5 Capacity Building, Training

i. It is often observed that the staff engaged and deployed by the NGOs in rural areas either do not have the desired experience of working in rural areas or lack the desired rural orientation and hence the quality of implementation of projects gets affected leading to time and cost overruns. It is therefore essential to develop a cadre of professionals from among the local youth to work in rural areas so that the programmes do not suffer on any count. It was also considered essential to develop capacities of the people themselves to be in charge of their own destiny. BIRD of NABARD in India is implementing one such scheme in India. ASA's highly successful and innovative recruitment and training process is also worth emulating.

ii. Tackling the rural finance challenges would require development of human capacity that can boldly experiment, learn, and provide multiple services in an effective, sustainable, and efficient way. To that end, exploring strategic alliances and collaborative linkages among various suppliers of services in rural areas, including private sector participants, is important. These could involve longer time periods to realize results that may not be very transparent unless clear results-based monitoring is in place from the beginning. Patience and readiness to face some failures are essential virtues. Also, hard and informed choices need to be made in order to cultivate more efficient and more inclusive rural financial systems. At government and donor levels, it could include whether and how to subsidize and regulate the rural finance sector; at provider level, it may involve whether and how to implement inclusive finance and product diversification in a sustainable and responsible way; and at client level it should involve how to use

9.6 Other Issues

i. Many pilot schemes are now showing that developing stand alone, cost effective off-grid solutions using renewable energy sources is feasible for rural areas. But, use of renewable and clean energy is limited primarily due to the factors such as lack of funds to develop, distribute and install energy saving and clean energy devices, lack of supportive government policies and incentives, poor distribution, uneven service and after-sales support, lack of awareness among rural residents and funds for initial investment, and the small capacity of firms that produce and market these products. Most of the renewable energy initiatives involve high initial costs and access to external finance is required at all levels including end users, distributors and manufacturers to develop, distribute, install and buy such devices. There is a need for more awareness creation on use of renewable energy. More research is required to bring out cost effective and affordable clean energy products. International funding agencies need to give more focus on developing renewable energy sources.

ii. Future cooperation among APRACA member institutions may be fostered concerning issues on poverty reduction, food security and global warming effects with continuous support from IFAD and FAO

iii. APRACA may arrange exposure and study visits to different countries where successful innovations have been implemented. These visits are useful for knowledge sharing among the members and key successors.

iv. Learnings from the models developed under the FinPower Programme may be consolidated and mutual collaboration between IFAD and APRACA be further expanded with a view to addressing emerging issues in rural and microfinance in Asia and the Pacific region.

The issues and innovations discussed above are those which were raised or presented in the Forum. The issues discussed in the group workshops are given in detail in section 8 of the report. Hence the same is not discussed here again. There are many other innovations in the Asia-Pacific region which are worth emulating. APRACA can arrange showcasing these in its future forums. Some of these are given below:

- Experiments like System of Rice Experimentation (SRI), a farming technique for traditional crops need to be propounded among the farmers. IFAD may take a lead in this regard.
- SHG Bank Linkage Programme being implemented in India is the world's largest community based microfinance programme. This programme will be completing two decades in February 2012. There are large number of success stories and innovations under the programme which can be implemented in other parts of the region.

- Technological and IT based initiatives in dealing with farmers problems need more focus. ICT interventions could lead to increase in farm productivity .This is the way to future. IFAD may bring in International experience in this field to Asia-Pacific region.
- Experiments in India on farm to market linkage like e-choupal, e-sagoo, Reuters Lite are successful. APRACA may take a lead to document the same to make it available to interested agencies of other countries.
- Uses of alternative energy in banking and agriculture need more sharing of information. Many interior and inaccessible rural banks in India run on solar energy. Other such experiments in other parts of the world need to be documented and shared. APRACA could do it, given it strength.

Part 10

Annexes

Annex I

Field Visit to Chonburi Province

On the last two days of the Forum, Bank for Agriculture and Agricultural Cooperatives (BAAC) arranged a field visit to small farmer financing projects in the province of Chonburi. The delegates visited The Community Enterprise which was involved in processing raw bananas to herbal banana crispies. The Community Enterprise was originally founded in July 1984. The idea of establishing the enterprise is to create extra income from raw material such as banana by processing it into crisp banana. This activity was additional source of income to farm activities to the farmer members. In 2002, after a study visit to another community enterprise, the group which was led by Ms. Praveena Vithhetham set up their business and started production of herbal banana crisp which later became a 4 star OTOP (one Tobon one product) product. Apart from banana crisp, the group has developed several new products which are best sellers. Products from the community enterprise are sold directly at the Pattaya floating market. The group presently has 45 members. They mobilise operating fund from members. Technical and financial support has been provided to the group by various organizations like Department of Agriculture Extension, District Agriculture Office, BAAC etc.

Goals of the enterprises are to,

- improve the production to meet consumers' need.
- introduce new products continuously as per tastes of the consumer.
- expand the existing market.

Strengths of the Community Enterprise Group are,

- collective wisdom of the group members is utilized for developing new products.
- sale of the products of the enterprise takes place through member's network.
- enterprise has acquired Good Manufacturing Practices norms and also standards set by Food and Drug Administration for its manufacturing process and safety of the products.

Annex II

List of Delegates

BANGLADESH

1. **Mr. Md. Fayzer Rahman**
Executive Vice-President (Operation)
Association for Social Advancement (ASA), Bangladesh
ASA Tower, 23/3 Khilji Rd.,
Shyamoli, Dhaka 1207, Bangladesh
Tel: (88 2) 8110934, 811 0935, 811 6804
Fax: (88 2) 8111175, 9121861
E-mail: fayzer.rahman@asa.org.bd, asa@asabd.org

2. **Mr. S.M. Moniruzzaman**
Executive Director
Bangladesh Bank
Head Office, Motijheel
Dhaka 1000, Bangladesh
Tel: (88 2) 716 6102
Fax: (88 2) 956 6212
E-mail: sm.moniruzzaman@bb.org.bd

CAMBODIA

3. **Mr. Pal Buy Bonnang**
Assistant Governor and Director General, Banking Supervision
National Bank of Cambodia
22-24 Preah Norodom Blvd.
Phnom Penh, Cambodia
Tel: (855 12) 808 719
Fax: (855 23) 426 117
E-mail: kimvada001@yahoo.fr, raden_seng@yahoo.com

4. **Mr. Kim Vada**
Deputy Director General
Banking Supervision
National Bank of Cambodia
22-24 Preah Norodom Blvd.
Phnom Penh, Cambodia
Tel: (855 12) 808 719
Fax: (855 23) 426 117
E-mail: kimvada001@yahoo.fr, raden_seng@yahoo.com

5. **Mr. Seng Youraden**
Deputy Section Chief
Off-site Supervision Department
National Bank of Cambodia
22-24 Preah Norodom Blvd.
Phnom Penh, Cambodia
Tel: (855 12) 808 719
Fax: (855 23) 426117
E-mail: kimvada001@yahoo.fr, raden_seng@yahoo.com

6. **Mr. Sidanith Bonnang**
Officer
National Bank of Cambodia
22-24 Preah Norodom Blvd.
Phnom Penh, Cambodia
Tel: (855 12) 808 719
Fax: (855 23) 426117
E-mail: kimvada001@yahoo.fr, raden_seng@yahoo.com

7. **Mr. Pech Sany**
Deputy Director General
Rural Development Bank of Cambodia
9-13, St 7, Sangkat Chaktomuk Khan Duan Penh,
P.O. Box 1410, Phnom Penh, Cambodia
Tel: (855 12) 950 867
Fax: (855 23) 224 628
E-mail: pech_sany@hotmail.com, rdb@online.com.kh

8. **Mr. Ouk Vuthirith**
Deputy National Project Coordinator
Project Support Unit
Ministry of Agriculture, Forestry and Fisheries
Tel: (855 12) 883 148
E-mail: oukvuthirith@yahoo.com

CHINA

9. **Mr. Sun Yinhong**
IFAD Country Programme Officer in China
No. 2 Liangmahe Nanlu, Beijing 100600
Tel: (8610) 85325228 Ext. 5251
Fax: (8610) 65324802
email: y.sun@ifad.org, yinhong.sun@wfp.org

INDIA

10. **Mr. S.K. Chatterjee**
Director
Bankers Institute of Rural Development
National Bank for Agriculture and Rural Development (NABARD)
Sector H, LDA Colony, Kanpur Road
Lucknow - 226 012
Tel: (0522) 2421954
Fax: (0522) 2421006
E-mail: directorps.bird@gmail.com

INDONESIA

11. **Mr. Edy Setiadi**
Director
Directorate Credit, Rural Bank and MSME
Bank Indonesia
Building D, 8th Floor,
Jalan M.H Thamrin No. 2
Jakarta, Indonesia
Tel: (62 21) 3817512
Fax: (62 21) 2310786
E-mail: edy_setiadi@bi.go.id

12. **Mr. Yufrizal**
Senior Analyst
Bank Indonesia
Building D, 8th Floor,
Jalan M.H Thamrin No. 2
Jakarta, Indonesia
Tel: (62 21) 3817512
Fax: (62 21) 2310786
E-mail: yufrizal@bi.go.id

IRAN

13. **Mr. Davar Mahikar**
Board Member
Bank Keshavarzi
247, Patrice Lumumba St., Jalal-al-Ahmad Exp.
Tehran 1445994316, Iran
P.O. Box 14155-6395
Tel: (98 21) 84892541
Fax: (98 21) 88253625
E-mail: icd@agri-bank.com,
shabanzad@agri-bank.com,
fshabanzad@gmail.com

14. **Mr. Hamid Reza Nematian Samani**
Manager
R&D Department
Bank Keshavarzi
247, Patrice Lumumba St., Jalal-al-Ahmad Exp.
Tehran 1445994316, Iran
P.O. Box 14155-6395
Tel: (98 21) 84892541
Fax: (98 21) 88253625
E-mail: icd@agri-bank.com

15. **Dr. Arghavan Farzin Mo'tamed**
Manager
International Cooperation Department
Bank Keshavarzi
247, Patrice Lumumba St., Jalal-al-Ahmad Exp.
Tehran 1445994316, Iran
P.O. Box 14155-6395
Tel: (98 21) 84892541
Fax: (98 21) 88253625
Email: icd@agri-bank.com

16. **Ms. Maryamossadat Mahdavi**
Deputy Manager
Economic Studies Department
Bank Keshavarzi
247, Patrice Lumumba St., Jalal-al-Ahmad Exp.
Tehran 1445994316, Iran
P.O. Box 14155-6395
Tel: (98 21) 84892541
Fax: (98 21) 88253625
E-mail: icd@agri-bank.com

17. **Mr. Mohammad Reza Sha'banzad**
International Cooperation Department
Bank Keshavarzi
247, Patrice Lumumba St., Jalal-al-Ahmad Exp.
Tehran 1445994316, Iran
P.O. Box 14155-6395
Tel: (98 21) 84892541
Fax: (98 21) 88253625
E-mail: icd@agri-bank.com,
shabanzad@agri-bank.com,
fshabanzad@gmail.com

JAPAN

18. **Mr. Takashi Yoshihara**
Senior Deputy Division Chief
Strategic Research and Public Relations Department
Agriculture, Forestry, Fisheries and Food Business Unit
Japan Finance Corporation
Tel: +81-3-3270-5494
Fax: +81-3-3270-2350
E-mail: watanuki-d@jfc.go.jp

19. **Mr. Daisuke Watanuki**
Deputy Division Chief in Charge
International Cooperation
Strategic Research Division
Strategic Research and Public Relations Department
Agriculture, Forestry, Fisheries and Food Business Unit
Japan Finance Corporation
Tel: +81-3-3270-5494
Fax: +81-3-3270-2350
E-mail: watanuki-d@jfc.go.jp

REPUBLIC OF KOREA

20. **Mr. Kim Hak Kyeun**
Chief, Planning Department
National Agricultural Cooperative Federation
75, 1-KA, Chungjeong-ro, Jung-ku
Seoul 100707, Republic of Korea
Tel: (82 2) 737 4415
Fax: (82 2) 3975290
E-mail: khkyeun@nonghyup.com

21. **Dr. Jung-Sup Choi**
Professor
Department of Food Resource Economics
Yeong Nam University
280 Daehak-ro, Gyeongsan-si
Gyeongsangbuk-do 712-749
Repubic of Korea
Tel: (82-10) 3709 7211
Fax: (82-2) 939 7969
E-mail: jsupchoi@naver.com

NEPAL

22. **Mr. Subodh Prasad Gautam**
Chief
Branch Operation Division
Agricultural Development Bank
Ramshah Path, Kathmandu, Nepal
Tel: (9771) 4262690, 4252359, 4252360
Fax: (9771) 4262929
E-mail: nakarmikrishna@gmail.com

PAKISTAN

23. **Mr. Syed Samar Hasnain**
Director
Agriculture Credit and Microfinance Department
State Bank of Pakistan
I.I. Chundrigar Road, Karachi, Pakistan
Tel: (9221) 99221241
Fax: (9221) 99212567

24. **Mr. Kamran Akram Bakhshi**
Senior Joint Director
Agriculture Credit and Microfinance Department
State Bank of Pakistan
I.I. Chundrigar Road, Karachi, Pakistan
Tel: (9221) 99221241
Fax: (9221) 99212567

LAO PDR

25. **Mr. Chantha Mingboupha**
Deputy Director
Ekphatthana Deposit Taking Microfinance Institution (EMI)
Haisoke Village, Souphanouvong Rd.,
Vientiane, Lao PDR
Tel: (856 20) 22005008
Fax: (856 21) 244428
E-mail: chantha.bp@emimfi.com
Website: www.emimfi.com

PHILIPPINES

26. **Mr. Ronald A. Inciong**
Assistant Vice-President
Risk Management Department
CARD SME Bank
Manila, Philippines
E-mail: jingle.perreras@cardbankph.com, baldeo@cardbankph.com, ronaldinciong@yahoo.com, deverna.briones@cardbankph.com

27. **Mrs. Damiana D. Exiomo**
Chairman and President
Kabalikat para sa Maunlad na Buhay (KMBI)
12 San Francisco Street, Karuhatan,
Valenzuela City, Metro Manila 1441, Philippines
Tel: +632 2911484 to 86
Fax: +632 2922441
Email: headoffice@kmbi.org.ph, ddexiomo@yahoo.com, aldyduque@kmbi.org.ph

28. **Mr. Rizaldy R. Duque**
Director
Research and Development OIC/RM&C
Kabalikat para sa Maunlad na Buhay (KMBI)
12 San Francisco Street, Karuhatan,
Valenzuela City, Metro Manila 1441, Philippines
Tel: +632 2911484 to 86
Fax: +632 2922441
E-mail: headoffice@kmbi.org.ph, aldyduque@kmbi.org.ph

29. **Ms. Rosaleeh A. Matienzo**
Head
Product Development Unit
Kabalikat para sa Maunlad na Buhay (KMBI)
12 San Francisco Street, Karuhatan,
Valenzuela City, Metro Manila 1441, Philippines
Tel: +632 2911484 to 86
Fax: +632 2922441
E-mail: headoffice@kmbi.org.ph

30. **Ms. Josefina P. Flores**
Head
Fund Sourcing and Management Group
(Micro Credit Services of RuMEPP)
Small Business Corporation
Philippines
E-mail: jflores@sbgfc.org.ph

SRI LANKA

31. **Mr. T.A. Ariyapala**
Deputy General Manager
Cooperatives and Development
People's Bank Staff Training College
38, D.R. Wijewardena Mawatha,
Colombo 10, Sri Lanka.
E-mail: secdhhrd@peoplesbank.lk

THAILAND

32. **Mr. Luck Wajananawat**
President
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180 Ext. 2361
Fax: (662) 280 0442, 282 1370, 280 1275
E-mail: luck@baac.or.th

33. **Mrs. Poonsook Musiklad**
Senior Executive Vice-President
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180 Ext. 2361
Fax: (662) 280 0442, 282 1370, 280 1275

34. **Mr. Adul Kanchananawat**
Senior Executive Vice-President
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

35. **Mr. Boonthai Kaewkhuntee**
Executive Vice-President
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

36. **Mr. Morakot Pitharat**
Executive Vice-President
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

37. **Mr. Apirom Sukprasert**
Executive Vice-President
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

38. **Mr. Arun Lertvilai**
Executive Vice-President
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

39. **Mrs. Rochana Khandhawit**
Senior Vice-President
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

40. **Mr. Chaisit Tantanarat**
Vice-President
Management Department
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

41. **Mr. Chamnan Sirikulthon**
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

42. **Mr. Chavarin Saila**
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

43. **Mr. Sappachai Nemidkanam**
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

44. **Mr. Kungwan Neumsuwan**
Assistant Vice-President, International Loan
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

45. **Mr. Chap Kongmon**
Assistant Vice-President, International Loan
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

46. **Mr. Montri Panichjirasin**
Assistant Vice-President, Treasury Department
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

47. **Mr. Thani Thitichowattanakul**
Team Leader, Treasury Department
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

48. **Mr. Sahaschai Yaowapankul**
Assistant Vice-President, Management Department
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

49. **Mr. Sunet Jailak**
Assistant Director Branch Administration Office, Chiang Rai Provincial Office
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

50. **Mr. Sakchay Thongchai**
Branch Manager, Chiang Rai Province
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

51. **Mr. Wutporn Kaikaew**
Assistant Branch Manager, Kamphaeng Phet Province
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

52. **Mr. Khowit Haoprom**
Director, Phang nga Province
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

53. **Mr. Sompong Aeumjoy**
Branch Manager, Rayong Branch
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

54. **Mr. Sutja Wongwaranurak**
Director
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

55. **Mr. Unnopth Suksakan**
Director
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

56. **Mr. Arnattapong Sakcharean**
Director
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

57. **Mr. Narong Ngamprinka**
Director
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

58. **Mr. Mongkolchai Muthawathi**
Business Promotion Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

59. **Mr. Supachoke Owarang**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

60. **Mr. Kosid Suwankeeree**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

61. **Miss Nopakraw Kijpanont**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

62. **Miss Atchara Taksasupakarn**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

63. **Mr. Tabkwan Homchampa**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

64. **Miss Udomluck Rohitsiri**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

65. **Mr. Chadin Rochnanon**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

66. **Miss Onnicha Sawangfa**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

67. **Mr. Kontee Nuchsuwan**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

68. **Mr. Kacit Sirison**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

39. **Miss Kuntikar Jirangpitakkul**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

70. **Mr. Patompong Ekwanichan**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

71. **Mr. Panithan Suksumran**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

72. **Ms. Kanyarat Boonprom**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

73. **Mr. Salakjai Jenjariyakosoln**
Official
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

USA

74. **Dr. Geetha Nagarajan**
Associate Director (Research)
The IRIS Centre, University of Maryland
3105 C, Morrill Hall, College Park, MD, 20742
Tel: (301) 405 3344
Fax: (301) 405 3020
E-mail: gnagarajan@iris.umd.edu, geetha.nagarajan@verizon.net
Website: www.iris.umd.edu

IFAD

75. **Dr. Ganesh B. Thapa**
Regional Economist
Asia and the Pacific Division
International Fund for Agricultural Development (IFAD)
Via Paolo di Dono, 44
00142 Rome, Italy
Tel: 39-0654591
Fax: +39-065043463
E-mail: gthapa@ifad.org

AFRACA

76. **Mr. Millison Narh**
Vice-Chairman, AFRACA and Deputy Governor
Bank of Ghana
P.O. Box 2674
Accra, Ghana
Tel: 233 24 4326210
E-mail: millison.narh@bog.gov.gh

77. **Mr. Chisha Mwanakatwe**
Southern Africa sub region
Bank of Zambia
P.O. Box 30080
Lusaka, Zambia
Tel: 260 211 228888
E-mail: CMWANAKA@boz.zm

78. **Mr. Saleh Usman Gashua**
Secretary General
AFRACA
P.O. Box 41378, 00100, Nairobi
Kenya
Tel: 254 20 2717911/2715991
E-mail: secretary.general@afraca.or.ke

79. **Mr. Stephen Makanga**
Programme Coordinator
AFRACA
P.O. Box 41378, 00100, Nairobi, Kenya
Tel: 254 20 2717911/2715991
E-mail: snmakanga@afraca.or.ke

80. **Mr. Oliver Ojow**
Finance and Administration Officer
AFRACA
P.O. Box 41378, 00100, Nairobi, Kenya
Tel: 254 20 2717911/2715991
E-mail: oliver@afraca.or.ke

81. **Ms. Caroll Bakang**
Relationship Officer
AFRACA
P.O. Box 41378, 00100, Nairobi
Kenya
Tel: 254 20 2717911/2715991
E-mail: annycaroll@afraca.or.ke

82. **Ms. Esther Kahinga**
Knowledge Management Officer
Rural Finance Knowledge Management Partnership
(KMP) IFADAFRICA
Tel: 254 20 2713702/04
Nairobi, Kenya
Email: mcherogony@ifadafrica.org, mcherogony@gmail.com

83. **Mr. Nijimbere Donatien**
Administrateur Directeur Général
Banque Nationale pour le Développement Economique
Av. du Marche
B.P 1620 Bujumbura
Burundi
Mobile: +257 79986450
E-mail: bnde@cbinf.com

84. **Mr. O.U Obuji**
Assistant Director
Federal Department of Fisheries
Nigeria
Abuja, Nigeria
Tel: +234 80 33 140866
Email: sodangilimited@yahoo.com

85. **Mr. Micheal A. Adeyemi**
Deputy Director,
Development Finance Department
Central Bank of Nigeria
P M B 0187, Garki Abuja
Nigeria
Tel: 234 8033299702
E-mail: maadeyimi@cbn.gov.ng

86. **Mr. Anthony C. Ogwu**
Assistant Director
Development Finance Department
Central Bank of Nigeria
P M B 0187, Garki Abuja
Nigeria
Tel: 234 7034993300
E-mail: jtobin@cbn.gov.ng, acogwu@cbn.ng

87. **Mr. Ahmed M. Abdulkadir**
Development Finance Department
Central Bank of Nigeria
P M B 0187, Garki Abuja
Nigeria
Tel: 234 8034532130
E-mail: amahmed@cbn.gov.ng

88. **Mr. Michael M. Mbulo**
Programme Manager
Rural Finance Programme
Ministry of Finance and National Planning, Zambia
P.O. Box 50845, Ridgeway
10101 Lusaka, Zambia
Tel: 260 211 254613
E-mail: michael.mbulo@ruralfinance.org.zm

89. **Mr. Arfang B. Daffe**
Director General
Caisse Nationale de Crédit Agricole du Sénégal (CNCAS)

AGENCE FRANÇAISE DE DÉVELOPPEMENT (AFD)

90. **Mr. Etienne Woitellier**
Country Director, AFD Bangkok
Agence Française de Développement
AFD - French Development Agency
35th Floor, Unit 3501 - 3502
388 Exchange Tower
Sukhumvit Road, Klongtoey
Bangkok 10110, Thailand
Tel: (662) 663 6090 Ext. 135
Fax: (662) 663 6077
E-mail: chogsrichank@afd.fr

91. **Mr. Aphichart Assakul**
Principal Investment Officer, AFD Bangkok
Agence Française de Développement
AFD - French Development Agency
35th Floor, Unit 3501 - 3502
388 Exchange Tower
Sukhumvit Road, Klongtoey
Bangkok 10110, Thailand
Tel: (662) 663 6090 Ext. 135
Fax: (662) 663 6077
E-mail: assakula@afd.fr

92. **Mr. Thomas Husson**
Investment Officer
Agence Française de Développement
AFD - French Development Agency
35th Floor, Unit 3501 - 3502
388 Exchange Tower
Sukhumvit Road, Klongtoey
Bangkok 10110, Thailand
Tel: (662) 663 6090 Ext. 135
Fax: (662) 663 6077
E-mail: hussont@afd.fr

93. **Ms. Julia De Pierrepont**
Investment Officer
Agence Française de Développement
AFD - French Development Agency
35th Floor, Unit 3501 - 3502
388 Exchange Tower
Sukhumvit Road, Klongtoey
Bangkok 10110, Thailand
Tel: 66 (0) 2663 6090 Ext. 135
Fax: 66 (0) 2663 6077
E-mail: depierrepontj@afd.fr

94. **Ms. Camille Severac**
Specialist, Rural/Agricultural Financing
Agence Française de Développement
5 Rue Roland Barthes - 75598 Paris Cedex 12 - France
Tel: 33-1-53-44 3131
Fax: 33-1-44-87 9939
E-mail: severacc@afd.fr

UN-FAO RAP, Bangkok

95. **Mr. Man Ho So**
Deputy Regional Representative
UN-FAO RAP, Bangkok
39 Maliwan Mansion, Phra Atit Rd.
Bangkok 10200, Thailand
Tel: (662) 697 4335
E-mail: ManHo.So@fao.org

96. **Mr. Waliul Islam Khan**
Programme Adviser
Regional Network for the Development of Agricultural Cooperatives in Asia and the Pacific (NEDAC) UN-FAO
39 Maliwan Mansion, Phra Atit Rd.
Bangkok 10200, Thailand
Tel: (662) 697 4356
E-mail: nedac@fao.org

UN ESCAP

97. **Mr. Hongpeng Liu**
Chief, Energy Security and Water Resource Section, Environment and Development Division
UN Economic and Social Commission for Asia and the Pacific
Rajadamnern Nok Avenue
Bangkok 10200, Thailand
E-mail: liu4@un.org

98. **Mr. Abhijeet Deshpande**
Consultant, Energy Security and Water Resources Section, Environment and Development Division
UN ESCAP
Rajadamnern Nok Avenue
Bangkok 10200, Thailand
E-mail: deshpande@un.org

ICA

99. **Mr. Shil-Kwan Lee**
Senior Advisor
International Cooperative Alliance (ICA)
9 Aradhana Enclave, R.K. Puram, Sector 13
New Delhi, India
E-mail: shilklee@hotmail.com

FFTC

100. **Mr. Ho-Kyum Lee**
Agricultural Economist
Food and Fertilizer Technology Center
5F, 14 Wenchow St., Taipei 106,Taiwan
Tel: (886 2) 2362 6239 Ext. 13
Fax: (886 2) 2362 0478
Email: agec@fftc.agnet.org

APRACA SECRETARIAT

101. **Mr. Won-Sik Noh**
Secretary General
Asia-Pacific Rural and Agricultural Credit Association
Maliwan Mansion, 39 Phra Atit Road
Bangkok 10200, Thailand
Tel: (66 2) 280 0195
Fax: (66 2) 280 1524
E-mail: noh@apraca.org
Website: www.apraca.org

102. **Mr. Benedicto S. Bayaua**
Consultant
Asia-Pacific Rural and Agricultural Credit Association
E-mail: Benedicto_b@yahoo.com

ORGANIZING STAFF – APRACA

103. **Ms. Thanawan Ampaipanvijit**
Administrative Officer
Tel: (662) 697 4360
E-mail: thanawan@apraca.org

104. **Ms. Unchana Steane**
Accountant
Tel: (662) 697 4363
E-mail: unchana@apraca.org

105. **Ms. Sofia Champanand**
Publications Assistant
Tel: (66 2) 697 4362
E-mail: sofia@apraca.org

ORGANIZING STAFF – BAAC

106. **Mr. Chamnong Siriwongyotha**
Team Leader
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

107. **Ms. Chatsiri Srichoo**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

108. **Ms. Sasitarn Nettranon**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

109. **Mr. Surasak Sompadung**
Assistant Director office of Customer Products and Marketing Development
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

110. **Ms. Cattaleeya Thongpeth**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

111. **Mr. Dhanyagrit Taweesuk**
Team Leader
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

112. **Mr. Korrakot Sukkhee**
Team Leader
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

113. **Mr. Wichai Pukhee**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

114. **Ms. Supaluk Rungsang**
Researcher
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

115. **Ms. Sirikorn Posakabutra**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

116. **Ms. Thanaporn Suriyapaithoon**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

117. **Ms. Chanitsara Thaveeprayoon**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

118. **Ms. Sabaithong Akshaaranugraha**
Assistant Director Office of Public Relation and Organization Communication
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

119. **Ms. Wanpen Sudruk**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

120. **Ms. Anongnat Juajian-ad**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

121. **Ms. Potjamom Potha**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

122. **Mr. Norrachai Kaewpralom**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

123. **Ms. Prapa Chotechoung**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

124. **Mr. Pongvarin Boranasathitvong**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

125. **Mrs. Sunan Yindeepphol**
Officer
Bank for Agriculture and Agricultural Cooperatives
469 Nakhon Sawan Road, Bangkok 10300
Thailand
Tel: (662) 280 0180
Fax: (662) 280 1370

Annex III

Programme Schedule

December 11, Sunday	
	Arrival of Participants
December 12, Monday	
	Arrival in Bangkok, Check-in at Pathumwan Princess Hotel
16:00-18:00	Early registration at Registration Counter
December 13, Tuesday	
08:00-08:45	Registration continues at Jamjuree Ballroom B
09:00-10:00	Opening Ceremony • Welcome Address by Mr. Luck Wajananawat, President, Bank for Agriculture and Agricultural Cooperatives (BAAC) • Address by Mr. Hiroyuki Konuma, ADG and Regional Representative, UN-FAO RAP, Bangkok • Address by H.E. Mr. Pal Buy Bonnang, Vice-Chairman, APRACA and Assistant Governor and General Director of Banking Supervision, National Bank of Cambodia • Address by Dr. Ganesh B. Thapa, Regional Economist, Asia and the Pacific Division, IFAD • Address by Mr. Millison Narh, Deputy Governor, Bank of Ghana and Vice-Chairman, AFRACA • Vote of Thanks by Mr. Won-Sik Noh, Secretary General, APRACA
10:00-10:30	Break and photo session
10:30-10:45	• Introduction to the Forum-Consultation by Mr. Benedicto S. Bayaua, Consultant and Forum/Consultation Moderator
10:45-11:25	• Agricultural Investment and Rural/Microfinance for Smallholder Farming and Rural Poverty Reduction by Dr. Ganesh B. Thapa, Regional Economist, Asia and the Pacific Division, IFAD
11:25-12:10	• Rural Finance in Asia – Emerging Opportunities and Challenges by Dr. Geetha Nagarajan, Associate Director, IRIS Centre, University of Maryland, USA
12:10-12:30	• Open Forum
12:30-14:00	Lunch
14:00-15:30	**Governors' Circle** – Financially Inclusive Policies and Regulatory Frameworks • Statement of Session Chairman: Mr. S.M. Moniruzzaman, Executive Director, Bangladesh Bank • Statement: Mr. Edy Setiadi, Director, Directorate of Credit, Rural Bank and MSME, Bank Indonesia • Statement: Mr. Kim Vada, Deputy Director General, Banking Supervision, National Bank of Cambodia • Statement: Mr. Syed Samar Hasnain, Director, Agricultural Credit and Microfinance Department, State Bank of Pakistan
15:30-15:45	Break
15:45-17:00	**Infomarket** • Mr. Chantha Mingboupha, Deputy Director, Ekphatthana Deposit Taking Microfinance Institution, Lao PDR • Mr. Ronald A. Inciong, Risk Management Head, CARD SME Bank, Philippines • Mr. Rizaldy R. Duque, Director, Kabalikat para sa Maunlad na Buhay (KMBI), Philippines • Ms. Josefina P. Flores, Head, Fund Sourcing and Management Group, Small Business Corporation, Philippines • Mr. T.A. Ariyapala, Deputy General Manager, Cooperatives and Development, People's Bank of Sri Lanka • Mr. Chamnong Siriwongyotha, Assistant Director, Management Department, Bank for Agriculture and Agricultural Cooperatives, Thailand

December 14, Wednesday	
09:00-09:10	• Review of previous day's sessions and infomarkets by Mr. Benedicto S. Bayaua, Consultant and Forum-Consultation Moderator
09:20-10:45	**CEOs' Panel** – Rural Finance Innovations and Emerging Issues • Statement of Session Chairman: Mr. S.K. Chatterjee, Director, BIRD (NABARD), India • Ms. Damiana D. Exiomo, Chairman and President, Kabalikat para sa Maunlad na Buhay (KMBI), Philippines • Mr. Md. Fayzer Rahman, Executive Vice-President (Operation), ASA, Bangladesh, • Dr. Arhgavan Farzin Mo'tamed, Manager, International Cooperation Department, Bank Keshavarzi, Iran • Mr. Subodh Prasad Gautam, Chief, Branch Operation Division, Agricultural Development Bank of Nepal
10:45- 11:05	Break
11:05-12:30	• **International Development Partners' Panel** – Statement of Session Chairman: Ms. Camille Severac, Rural Financing Specialist, Agence Français de Développment (AFD) – Statement: Mr. Waliul Islam Khan, Programme Adviser, Regional Network for the Development of Agricultural Cooperatives in Asia and the Pacific (NEDAC), UN-FAO – Statement: Mr. Hongpeng Liu, Chief, Energy Security and Water Resources Section, Environment and Development Division, UN ESCAP – Statement: Mr. Shil-Kwan Lee, Senior Advisor, International Cooperative Alliance (ICA)
12:30-14:00	Lunch
14:00-15:45	• Group Workshop – Recommended Actions: Where do We go from Here? – Green Financing, chaired by Mr. Abhijeet Deshpande, Consultant, Energy Security and Water Resources Section, Environment and Development Division, UN ESCAP – Value Chain Financing, chaired by Dr. Jung-Sup Choi, Professor, Department of Food Resource Economics, Yeong Nam University, Republic of Korea – Agricultural Financing and Risk Management, chaired by Mr. Ronald A. Inciong, Head Risk Management Department, CARD SME Bank
15:45-16:30	• Presentation of recommended Actions by Group Chairmen
16:30-17:00	• Synthesis and Conclusions by Mr. S.K. Chatterjee, Director, BIRD (NABARD)
17:00-17:20	• Closing Statements by – Dr. Ganesh B. Thapa, IFAD Regional Economist – Mr. Won-Sik Noh, APRACA Secretary General
December 15, Thursday	
08:00-11:00	Travel to Chonburi Province, Thailand
11:00-12:00	Field Visit
12:00-13:00	Lunch
14:30	Check in at Dusit Thani Pattaya Resort
18:30	Farewell Party hosted by BAAC
December 16, Friday	
A.M.	Check out and proceed to Bangkok
15:00	Arrival at Pathumwan Princess Hotel, Bangkok
December 17, Saturday – Departure for Home Country	

Annex IV

About the Documentor

Mr. S.K. Chatterjee, Director, joined Bankers Institute of Rural Development (BIRD), Lucknow on 2 January 2009. Mr. Chatterjee is a post-graduate in Economics from Utkal University, Bhubneswar, Orissa, India (1973) and has worked in the Indian Economic Service in 1975. Thereafter, he joined Reserve Bank of India and served in its Kanpur, Lucknow, Bhubaneswar and Bangalore offices. Mr. Chatterjee was in NABARD since its inception in 1982 and has worked in various capacities in its Orissa, Karnataka, West Bengal and Chhattisgarh Regional Offices. He has also worked in NABARD's Head Office in Mumbai for nearly a decade, during which period, he worked in Human Resources Management Department, Micro Credit Innovations Department and Corporate Planning Department. Before joining BIRD, Mr. Chatterjee was the Chief General Manager in the Chhattisgarh Regional Office of NABARD. Mr. Chatterjee has a rich experience in various aspects of rural development. He served as the District Development Manager in Kalahandi district of Orissa when the concept was introduced in 1989. He has pioneered the Self-Help Group – Bank Linkage Programme in Kalahandi district in 1990. He also headed the KBK (Kalahandi, Bolangir and Koraput) Cell set up in Head Office of NABARD to oversee the all round development of KBK region with special emphasis on SHG movement. Apart from the above, Mr. Chatterjee has also pioneered the concept of Individual Rural Volunteers Scheme and linkage of Grain Banks with SHGs based on his experience in the KBK region of Orissa. He also pioneered the concept of Village Development Plan by initiating the same in Jashpur district of Chhattisgarh in March 2007. Further, in 2011 he along with one of his colleagues in BIRD conceptualized the scheme of Developing a Cadre of Professionals to work in rural areas of India.

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ASIA-PACIFIC RURAL AND AGRICULTURAL CREDIT ASSOCIATION (APRACA)
39 Maliwan Mansion, Phra Atit Road
Bangkok 10200, Thailand

Tel: (66-2) 280 0195
Fax: (66-2) 280 1524
E-mail: apraca@apraca.org
Website: www.apraca.org