



APRACA Newsletter

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



Delegates of the international training programme in Hyderabad, India during 19-21 July 2016

Activities of APRACA Secretariat

- International Training and Visit Programme on 'Innovations and Technologies in Rural and Agricultural Finance for Sustainable Development' Organized by BASIX, India

The 3-day Study Visit Programme, jointly offered by APRACA and B-A-LAMP of BASIX, was organized at Hotel Royalton, Abids, Hyderabad, India. Besides giving an overview of the programme, the schedule finalized covered the day-wise activities and their focus as well. This programme was organized from 19-21 July 2016 which was attended by 18 delegates from 13 organizations representing seven countries Bangladesh, Bhutan, India, Malaysia, Nepal, Sri Lanka, and Vietnam and 2 officials from APRACA, Bangkok, Thailand. The broad objective is to appreciate the best practices in the Innovations and Technologies in Rural and Agriculture Finance. The Specific objectives of the programme are to enable the participants to:

- ✓ have conceptual clarity about the approaches of organizations engaged in usage of Innovations and Technology for delivering Rural and Agriculture Financial services;

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Delegates visits Mulukanoor Women Dairy Cooperative in Warangal, India



Delegates Receiving Certificate of Participation

- ✓ comprehend the methods through which the above models deliver their services for sustainable development;
- ✓ understand, through field visits, the practical approaches of select organizations; and
- ✓ consolidate the learning made to formulate the framework of an action plan.

The highly qualified resource persons and facilitators were drawn from the professional organizations and practitioners with extensive experience in the related sectors, engaged the participants in formal and informal discussions during the training programme. Concerted efforts were made by the facilitating team in the matter of collation of materials for the handbook and reference material, its layout, designing and printing, arrangements for field visits, logistical arrangements, and overall coordination. The programme involved experience-sharing, exposure visits and interactions with facilitators, resource persons, professionals and practitioners both in classroom and field. Towards the



Mr. P.C. Rao, Chairman Police Recruitment Board, Hyderabad Attended as Special Guest of Honour

end, the participants were encouraged to formulate an action plan from the Learnings they made from the programme.

■ International Conference on Best Practices in Rural and Agricultural Finance and Training of Trainers on Agricultural Value Chain Finance in Kigali, Rwanda

The AFRACA organized the International Conference on 'Best Practices in Rural and Agricultural Finance' held on 1-3 August 2016 in Kigali, Rwanda. The Conference was hosted by the Development Bank of Rwanda with support from the EU-Technical Centre for Agriculture and Rural Cooperation (CTA) and International Fund for Agricultural Development (IFAD). The Conference theme was Fast tracking replicability of Functional Models in Rural and Agricultural Finance acknowledges the availability of functional models in Agri-Finance and prompts rapid delivery of similar models across the

continent to ensure increased access to finance for rural communities. To clarify, the concept of 'replicability' within the context of rural finance does not necessarily entail wholesome 'cut and paste' approach; but adopting key success elements of functional models. Just to cite one example are the innovations surrounding Mobile and Agency banking, which for almost a decade now, has shown great potential in promoting financial inclusion among the unbanked population. Unfortunately, the technology is still at infancy stage in most developing countries in dire need of such systems.

The conference therefore aimed to bring together, international, regional, local experts and practitioners in rural and agricultural finance to share their best practices and experiences. To enrich the discussions and to bring in different perspectives from around the Globe, AFRACA was joined by its sister-networks and member institutions namely, Asia-Pacific Rural and



Dr. Prasun Kumar Das Speaking on the International Conference on Rural Finance Best Practices Held in Kigali, Rwanda During 1-3 August 2016



Delegates at the International Conference on Rural Finance Best Practices Held in Kigali, Rwanda

Agricultural Credit Association (APRACA), Association of Latin American Development Finance Institutions (ALIDE), Confédération Internationale de Crédit Agricole (CICA) and the Near East-North Africa Regional Agricultural Credit Association (NENARACA). There were 145 delegates and experts participated in the conference from all over the globe to make it successful.

■ Exposure Visit Programme to Thailand by the high level delegates from the Government of Swaziland, Africa



Swaziland Delegates Meeting with the Officials from BAAC, Thailand

The Micro Finance Unit (MFU) in Swaziland is a semi-autonomous wing of the Ministry of Finance (MoF) with a mandate to facilitate access to finance for the micro and small business through the creating of enabling environment for business start-up and growth. The MFU is implementing the Rural Finance and Enterprise Development Programme (RFEDP) co-funded by IFAD and the Government of Swaziland, is collaborating with the Ministry of Agriculture to develop and implement Agriculture Market Value Chains, as well as support the development of a Value Chain Mechanism to better focus and coordinate agriculture commercialization and diversification through the value chain linkages.

APRACA Secretariat organized a study visit programme of the Micro Finance Unit, Swaziland to Thailand during 18-24 September 2016 which was led by the Permanent secretary of Ministry of Agriculture and attended by the Director, Agriculture; Director, Livestock and other MFU Officials. The objective of the study visit Programme was to provide exposure and capacity on the operation of the Agriculture Value Chain for the Ministry to internalize the current process to embrace the approach for the local farming.



High Level Delegation From Swaziland Meeting with Department of Agriculture, Government of Thailand

Activities of IFAD Grant Project “RuFBeP”

■ Phase-2 of RuFBeP Project: Pilot testing of Rural Finance products and services

During the months of May-July 2016, the CBRC could finalize the institution, geographical location and the best practices they will pilot test in the country under the RuFBeP project. They identified the Huainan Rural Commercial Bank (HRCB) of Anhui Province to undertake the pilot testing. HRCB is a leading rural financial institution in Huainan Prefecture of Anhui Province with its operation covering all the four districts and 1 county in the prefecture. The Bank is also the largest shareholder of another smaller RCB in the prefecture. Following discussions within the CBRC and consultation with the relevant banks and the consultants, Huainan Rural Commercial Bank (HRCB) has been selected to undertake the pilot project to replicate the case of micro-finance lending downscaling conducted by the urban and rural commercial banks in China. The HRCB together with the CBRC of Anhui Province (the financial supervisor of Huainan RCB) will be implementing the programme. It was also decided that the HRCB will take the support from the Nanjing Agricultural University for technical backstopping. During the pilot, the provincial CBRC remains responsible for monitoring and supervising the operation of Huainan RCB. The agreement was signed between APRACA and the HRCB on 9 September 2016 in presence of the IFAD country programme officer, China and other dignitaries.

A conference was held in Huainan City of Anhui Province on 9 September 2016. The conference was hosted by Anhui Huainan Rural Commercial Bank (HRCB). The participants to the conference include the representatives from Asia-Pacific Rural and Agricultural Credit Association (APRACA), International Fund for Agricultural Development (IFAD), the Provincial China Bank Regulatory Commission (CBRC), the People Bank of China (PBOC), and Rural Credit Cooperatives Union (RCCU). At the city, the representatives from Huainan City Financial Office and other financial regulators and agricultural value chain players joined the conference. Two scholars from Nanjing Agricultural University, representing the local consultant, also attended the conference and made presentation at the conference. This conference marked the beginning of the pilot project to replicate the case of micro-finance lending downscaling conducted by the urban and rural commercial banks in China. HRCB is a leading rural financial institution in Huainan Prefecture of Anhui Province with its operation covering all the four districts and one county in the prefecture. The pilot project is Phase II of APRACA project on ‘Documenting Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries (‘RuFBeP’ Project), pilot testing in China.



Signing of MOU with Huainan Rural Commercial Bank, China to Implement IFAD Project RuFBeP in Anhui Province



Mr. Fang Daoyi, Chairman HRCB and Dr. Prasun Kumar Das, Project Manager, RuFBeP Project Exchanging the MOU

Knowledge Series 3:

■ Financing Farmer Producers' Organization: Pathway for Inclusive Growth in Agriculture for the developing world¹:

Background:

The world's 450 million smallholder farmers², most of them in Africa, Asia, and Latin America, occupy an increasingly important segment of the global food market. They present a compelling opportunity for buyers, lenders, and other actors in the agricultural value chain. But tapping the smallholder opportunity will require addressing many obstacles. The chief obstacle is perhaps the large—and largely unmet—need for formal value chain finance. Over the past decade, impact driven smallholder agricultural lenders have pioneered models for lending to smallholders through producer organizations.

Increased access to finance combined with support from technical assistance organizations has increased smallholder productivity. Furthermore, commercial banks and multinational buyers have experimented with models to provide financing to smallholder farmers who are tightly integrated into sourcing value chains. These models have been successful, but they currently reach only a tiny portion of smallholder finance demand.

The social lending model in agriculture focuses on producer organizations. By working directly with producer organizations and other value chain actors, social lenders have been able to assess risk and evaluate collateral in novel ways that open up new avenues of financing for smallholders. Furthermore, social lenders have been able to catalyze additional sources of funding from commercial lending institutions. However, the social lending model has two important limits. First, it requires aggregating farmers into producer organizations or working with existing organizations, but only about 10 percent of smallholders currently belong to producer organizations. Second, 90 percent of existing social lending is for short-term export trade finance, but smallholders and producer organizations have comparable needs for long-term finance.

Financial services for smallholders:

The ability of agricultural enterprises and rural households to invest for the long term and make calculated decisions for risky and time-patterned income flows is shaped by an economy's financial services. Despite the rapid development of financial services, a majority of smallholders worldwide remain without access to the services they need to compete and improve their livelihoods. Broader access to financial services—savings and credit products, financial transactions, and transfer services for remittances—would expand their opportunities for more efficient technology adoption and resource allocation.

Financial services are delivered to rural populations by organizations that exist along a continuum from informal to formal, with the boundaries between categories often blurred. In general, formal financial institutions are licensed and supervised by a central authority. They include public and private commercial banks; state owned agricultural or rural development banks; savings and loan cooperatives; micro finance banks; and special-purpose leasing, housing, and consumer finance companies. Informal providers of financial services include rotating savings and credit associations, money lenders, pawn shops, businesses that provide financing to their customers, and friends and relatives. In between stand financial non-governmental organizations (NGOs), self-help groups, small financial cooperatives, and credit unions.

Producer organizations in a context of value chains and globalization:

A prosperous smallholder sector is one of the cornerstones of agriculture for development strategy. Yet, smallholders typically face high transaction costs and low bargaining power in factor and product markets. They have limited access to public services, and their voices are often not heard in policy forums where issues that affect their survival are being decided. In a world increasingly dictated by value chains and the rules of globalization, competitiveness is the condition for survival. To confront this situation, smallholders have formed various types of producer organizations to better compete. These organizations have expanded rapidly in developing countries, and there are dispersed

¹ Contributed by Prasun Kumar Das, Project Manager, IFAD-APRACA Regional project RuFBEP.

² "World Census of Agriculture," FAO and "Rural Population, development and the Environment 2007," UNDESA

successes on three fronts: markets, public services, and voice. However, the world of value chains and global market forces is creating new challenges for their organizations. The challenge for the organizations is how to respond; for governments and donors it is how to assist without undermining the organizations' autonomy.

Rapid growth of Producer organizations have in developing countries:

Producer organizations are membership based organizations or federations of organizations with elected leaders accountable to their constituents. They take on various legal forms, such as cooperatives, associations, and societies. Their functions can be grouped in three categories:

- Commodity specific organizations focusing on economic services and defending their members' interests in a particular commodity, such as cocoa, coffee, or cotton
- Advocacy organizations to represent producers' interests, such as national producers' unions
- Multipurpose organizations that respond to the diverse economic and social needs of their members, often in the absence of local governments or effective public services

In industrial countries, producer organizations have been fundamental to the success of the family farm, still the dominant form of organization of production today. In the United States, dairy cooperatives control about 80 percent of dairy production, and most of the specialty crop producers in California are organized in cooperatives. In France, 9 of 10 producers belong to at least one cooperative, with market shares of 60 percent

for inputs, 57 percent for products, and 35 percent for processing.

In the 1960s, many developing-country governments initiated cooperative development programme, often to ensure quotas for cash crops and distribute subsidized credit and inputs. Cooperatives were largely government controlled and staffed. So farmers considered them as an extended arm of the public sector, not as institutions that they owned. This form of cooperative was rarely successful. Political interference and elite capture resulted in poor performance and discredited the movement. For example, in the case of the Indian sugar cane cooperatives, large growers depress the price of sugar cane to the detriment of small farmers. This generates retained earnings within the cooperatives that large farmers can then siphon off through various means.

This situation changed radically in the 1980s. Political liberalization opened opportunities for producers to become active players through organizations of their own. Structural adjustment disengaged the state from many productive functions and services. Contrary to expectation, the dismantling of parastatal agencies led to only limited entry of private providers, mostly in high-potential areas. Smallholders thus turned to producer organizations to compensate for the withdrawal of state services and the lack of private alternatives. Where government interference in cooperatives prevailed, producers often sidestepped them and created associations.

The producers' organizations have spread rapidly in the developing worlds and it is estimated that 250 million farmers in developing countries belong to one. Producers are also organizing at the regional and international levels (Box 1). These organizations enable producers to participate in consultations with regional

Box 1: Producer organizations with international memberships

The International Federation of Agricultural Producers (IFAP) was founded in 1946. To meet the needs of farm organizations from developing countries, it created Agri-Cord in 2000, an alliance of agri-agencies that offer programme to strengthen farmer organization members of IFAP. Under Agri-Cord's capacity-building programme, farmer organizations from industrial countries help to strengthen their colleagues in developing countries. IFAP represents 115 national organizations from 80 countries, and developing countries now form the majority of IFAP membership. It is the only world forum for farmers from industrial and developing countries to exchange concerns and set common priorities. It has general consultative status with the Economic and Social Council of the United Nations and the CGIAR. Via Campesina, an international network of 92 federations or unions, was created in 1992 to coordinate organizations of small and midsize producers; agricultural workers; rural women producers; and indigenous communities from Africa, America, Asia, and Europe. It aims at influencing decision making by governments and multilateral organizations regarding the economic and agricultural policies that affect its members and strengthening women's participation.

Sources: www.ifap.org/en/index.html; www.viacampesina.org

and international bodies. Producer organizations engage in a broad array of activities. They also participate in trade negotiations and domestic agricultural policy making, improve the terms of access to output and input markets, support the generation and adoption of technological innovations and diversification into new activities, and contribute to natural resource management. They are a fundamental building block of agriculture-for-development agendas across the globe.

Among the better-known producer organizations are the Indian Dairy Cooperatives Network and the National Federation of Coffee Growers of Colombia. In 2005 the Indian Dairy Cooperatives, with 12.3 million members, accounted for 22 percent of the milk produced in India. Sixty percent of the cooperative members are landless, very smallholders, or women. (Women make up 25 percent of the membership). Created in 1927, the National Federation of Coffee Growers of Colombia has 310,000 members, most of them smallholders (less than 2 hectares), and it provides production and marketing services to 500,000 coffee growers.

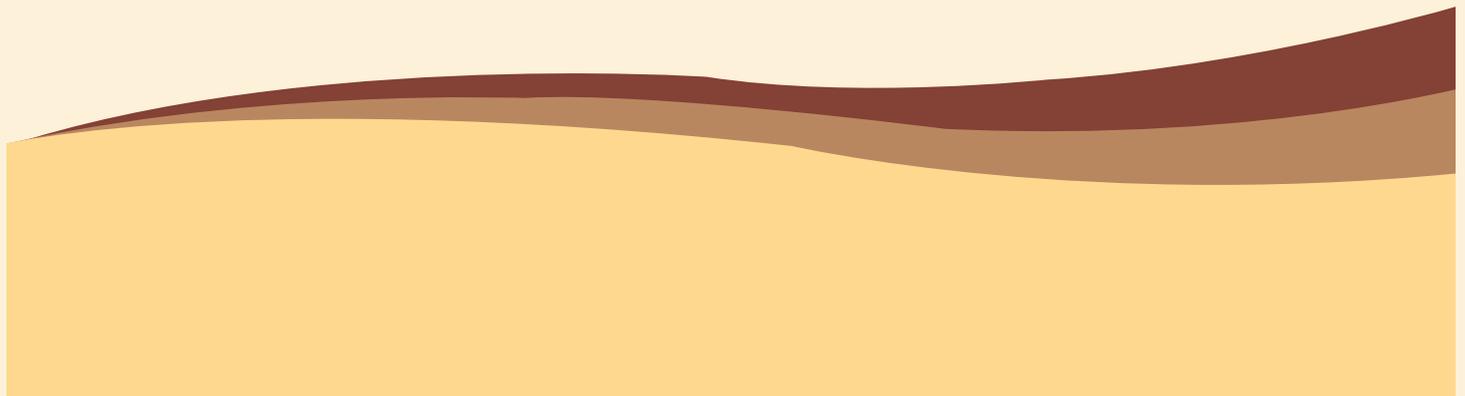
Producer organizations face many challenges:

Producer organizations have expanded rapidly, but existence does not guarantee effectiveness. For that, they need to face five major challenges, both internal and external to the organization:

1. *Resolving conflicts between efficiency and equity:* Producer organizations typically operate in the context of rural communities where they are subject to norms and values of social inclusion and solidarity. This may clash with the requirements of professional, business-oriented organizations that must help members compete to survive in the market place.
2. *Dealing with a heterogeneous membership:* Producer organizations have to represent the interests of an increasingly diverse membership. This creates a major challenge in achieving fair representation across a

widening spectrum of interests. Leaders tend to be older males, larger-scale farmers, and members of the rural elite. Yet, organizations have to ensure that the interests of smallholders, women, and young producers are fairly represented and their needs adequately served.

3. *Developing managerial capacity for high value chains:* Globalization and integrated supply chains place new demands on the managers of producer organizations. Managers must deal with more sophisticated national and international supply chains, with stringent and changing requirements. They must orchestrate members' supplies to meet the demands of these value chains—achieving scale and timing in delivery; satisfying sanitary and phytosanitary standards; and meeting the specifications demanded by agro-processors, exporters, and supermarkets.
4. *Participating in high-level negotiations:* Producer organizations participating in high-level technical discussions, such as global trade negotiations, need new technical and communication skills. In addition, experts that represent the organizations must remain true to national and local members' interests, a difficult challenge for apex organizations covering a wide range of interests. This requires maintaining open channels of communication with their memberships at the local, regional, and national levels.
5. *Dealing with a sometimes unfavourable external environment:* However effective they are internally in meeting the above four challenges, producer organizations cannot successfully promote the interests of smallholders without an enabling legal, regulatory, and policy environment that guarantees the organizations' autonomy. This requires changing the mind-set of policy makers and staff in government agencies about the role of the organizations





5th World Congress on Rural & Agricultural Finance

24 - 25 November 2016 | Dakar, Senegal



Organized by;



Contact Information

AFRACA Secretariat

African Rural and Agricultural Credit Association (AFRACA),

Located at Kenya School of Monetary Studies (KSMS),

Off Thika Super Highway, Noordin Road,

P.O. Box 41 378 - 00100 Nairobi - Kenya

E-mail : afraca@africaonline.co.ke

Telephone : +254 20 271 59 91



SAVE THE DATES (9-11 November 2016)

9 November 2016

Emerging Opportunities and Challenges of Financial Inclusion in Asia-Pacific Region*.

10-11 November 2016

67th Executive Committee Meeting and 20th General Assembly.

Venue: Kathmandu, Nepal

All the APRACA member institutions are hereby notified to save the dates mentioned above and book their travel arrangements accordingly. APRACA Secretariat will be sending the invitation and others details soon. In case of your queries please drop a mail to : sofia@apraca.org



Asia-Pacific Rural and Agricultural Credit Association

Acknowledged leader in rural and agricultural finance

Room A303, Bank for Agriculture and Agricultural Cooperatives (BAAC)

469 Nakhonsawan Rd., Bangkok 10300, Thailand

Tel: (662) 282-0693, 282-1365 Fax: (662) 280-1524

E-mail: apraca@apraca.org, sofia@apraca.org

WWW.apraca.org