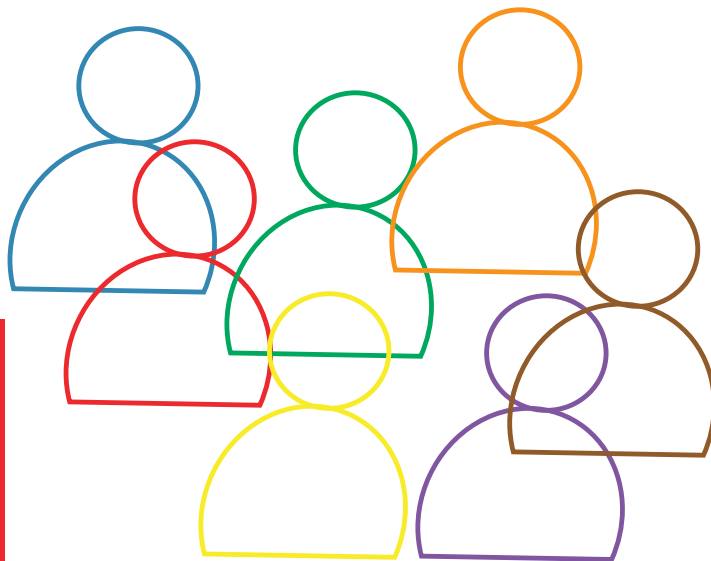


# People Empowerment and Community Development through Access to Finance of Selected Asian Countries





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# People Empowerment and Community Development through Access to Finance of Selected Asian Countries

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# Preface

The engagement of people and communities in development has ensued in the improvement of their lives and living conditions. Given their roles and responsibilities, these people jointly studied, analysed, identified and mobilized their resources and community to a higher ground. Based on these, it gave rise to their empowerment influenced either by their own strength or the orchestration of institutions.

In most of the countries in Asia, empowerment is viewed from the people's own perspective. Not to mention, it has expanded in various aspects as it combines development initiatives. In agricultural development, people empowerment is observed through the use of proven and acceptable technologies which improve productivity and profitability. Specifically, rural people engaged in agricultural activities are the best bearers of the notion and practice of empowerment.

As agriculture continuously take center stage in development, more and more people as well as institutions are drawn to closely intensify efforts in ensuring the practice of empowerment to greater heights. This is noticeable in research, development and financial areas where these provide avenues for improvement and challenging tasks.

In the rural finance sector which strongly supports agricultural development, empowerment is slowly gaining waves to the extent that it is strengthened in order that it is properly recognized and practiced. As several cases and practices are observed in Asian countries, people and institutions work hand in hand especially in agriculture including fisheries and livestock towards developing of communities. The inclusion of access to finance by individuals particularly the farmers, fishers, traders and entrepreneurs in rural areas provides a new dimension of learning. The things observed, studied and analysed in the consolidated and integrated report will certainly post several intellectual discourse as three interrelated thematic areas complement each other to describe and define the so-called people empowerment in this side of the world. People empowerment helps define the direction and achievement of one's own community development be it agriculture, environment and natural resources.

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- The general public as the direct users of this publication who will continue to exercise intellectual discussions as they inquire further and question ideas, perspectives and insights captured by researchers in this exciting and provoking document.

We thank you for all your wonderful work and let us continue to grow and strengthen our network through effective and efficient knowledge partnerships between and among keyplayers in the Asia-Pacific Region and the whole world.

# Acronyms

A2F	Access To Finance (Nepal)
ACPC	Agricultural Credit Policy Council (Philippines)
ADB	Asian Development Bank
ADBL	Agricultural Development Bank Limited (Nepal)
ADBN	Agricultural Development Bank in Nepal
ADS	Agricultural Development Strategy (Nepal)
ADS	Area Development Societies
AEC	Agro Enterprise Center (Nepal)
AEC	ASEAN Economic Community
AFCs	Agricultural Fishery Councils (Philippines)
AFPP	Agriculture and Fisheries Financing Program
AFMA	Agriculture and Fisheries Modernization Act of 1998
AIM	Amanah Ikhtiar Malaysia
AMP	Agricultural Microfinance Program
ANGRAU	Acharya N G Ranga Agricultural University
APBD	Local Government Budget
APBN	National Government Budget
APEDA	Agricultural and Processed Food Products Export Development Authority
APMC	Agricultural Produce Marketing Committee
APP	Agriculture Perspective Plan (Nepal)
APRACA	Asia-Pacific Rural Agriculture Credit Association
APRIGP	Andhra Pradesh Rural Inclusive Growth Project
ATM	Automated Teller Machines
ATMA	Agricultural Technology Management Agency
BADC	Bangladesh Agricultural Development Corporation
BAPPENAS	National Development Planning Agency
BAR	Bureau of Agricultural Research
BARC	Bangladesh Agricultural Research Council
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BER	Bangladesh Economic Review
BFI	Banks and Financial Institutions
BFRI	Bangladesh Fisheries Research Institute
BI	Bank Indonesia (the Central Bank of Indonesia)
BKAD	Inter-village Cooperation Body
BLDF	Business Development Loan Facility
BLM	Direct Block Grant to Communities
BM	Bank Mitra
BMT	Islamic Microfinance Institution
BNI	Bank Negara Indonesia
BOT	Balance of Trade (Malaysia)
BPD	Regional Development Bank

BPKP	State Development Finance Controller
BPR	Rural Bank
BPS	Central Statistics Agency
BRI	Bank Rakyat Indonesia
BRRRI	Bangladesh Rice Research Institute
BUMDes	Village-owned Enterprise
CAESC	Community Agricultural Extension Services Centers (Nepal)
CAP	Calamity Assistance Program
CAP-PBD	Credit Assistance Program for Program Beneficiaries Development
CBAP	Cooperative Banks Agri-Lending Program
CBC	Credit Bureau of Cambodia
CBRM	Community Based Recovery Mechanism
CBS	Central Bureau of Statistics
CCL	Cash Credit Limit
CDD	Community Driven Development
CDS	Community Development Society
CINADCO	The Center for International Agricultural Development Cooperation (Israel)
CMSA	Community Managed Sustainable Agriculture
COCAFM	Congressional Oversight Committee on Agriculture and Fisheries Modernization
CPAR	Community-Based Participatory Action Research
CRP	Community Resource Persons
CSO	Central Statistics Office
DA-ACPC	Department of Agriculture – Agricultural Credit Policy Council
DAE	Department of Agricultural Extension
DAHD&F	Department of Animal Husbandry, Dairying & Fisheries
DAM	Department of Agricultural Marketing
DAR	Department of Agrarian Reform
DARE	Department of Agriculture Research & Education
DBP	Development Bank of the Philippines
DCCB	District Central Cooperative Banks
DGHS	Directorate General of Human Settlements, Ministry of Public Works
DIPP	Department of Industrial Policy and Promotion
DOA	Department of Agriculture (Malaysia)
DoF	Department of Fisheries
DOF	Department of Fisheries (Malaysia)
DPAU	Department of Financial Access and MSME Development, Bank Indonesia
DPM	District Program Manager
DSP	Saving and Loan Unit of Bank Danamon
DUs	District Unions (Nepal)
DVS	Department of Veterinary Services (Malaysia)
EDC	Electronic Data Capture
EMI	Equated Monthly Installment
EO	Executive Order
FAI	Financial Access Indicator
FAMA	Federal Agriculture Marketing Authority
FAN	Floriculture Association of Nepal
FARMCs	Fisheries and Aquatic Resource Management Councils (Philippines)
FC	Farmers' Club
FDI	Foreign Direct Investment
FFS	Farmers Field School
FI	Financial Inclusion
FMDB	First Microfinance Development Bank (Nepal)
FNCCI	Federation of Nepalese Chamber of Commerce and Industry

FPMU	Food Planning Monitoring Unit
FSAP	FinServAccess Project of IFAD-APRACA
FSSP	Food Staples Sufficiency Program
FTP	File Transfer Protocol
FY	Financial Year
FYP	Five-Year Plan
GCMMF	Gujarat Cooperative Milk Marketing Federation
GDP	Gross Domestic Product
GED	General Economics Division
GIZ	Gesellschaft für Internationale Zusammenarbeit
GoB	Government of Bangladesh
GOCC	Government-Owned and Controlled Corporation
GOI	Government of Indonesia
GON	Government of Nepal
GOs	Government Organizations
GST	Goods and Services Tax
HDI	Human Development Index
HIES	Household Income Expenditure Survey
HYV	High Yielding Variety
IAs	Irrigators Associations
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	Islamic Development Assistance
IEC	Information, Education and Communication
IFAD	International Fund for Agricultural Development
ILO	International Labor Organization
IMF	International Monetary Fund
INGO	International Non-Government Organization
INGOs	International Non-Government Organizations
IRRI	International Rice Research Institute
ISCs	Irrigators Service Cooperatives
JICA	Japan International Cooperation Agency
JLG	Joint Liability Group
Kabupaten	District/Regency
KDP	Kecamatan Development Program
Kecamatan	Sub-district
KKP-E	Credit Scheme for Food Security and Energy
KPEN-RP	Credit Scheme for Bio-Energy Development and Plantation Revitalization
KPPN	Ministry of Finance Treasury Office
KUPS	Credit Scheme for Cattle Breeding
KUR	Credit Scheme for People's Business Development
Laku Pandai	Branchless Banking
LBP	Land Bank of the Philippines
LCAP	Livelihood Credit Assistance Program
LDKP	Rural Financial Fund Institution
LFP	Labor Force Participation
LFS	Labour Force Survey
LGUs	Local Government Units
LKD	Digital Financial Services
LKMA	Microfinance Institution for Agribusiness
LRP	Local Resource Person
MAD	Inter-village/Sub-district Consultations
MADA	The Muda Agricultural Development Authority
MARDI	Malaysian Agriculture Research Development Institute

MASHAV	Israel's Agency for International Development Cooperation
MCP	Micro Credit Plan
MDG	Millennium Development Goal
MDGs	Millennium Development Goals
MES	Merakyatkan Ekonomi Selangor
MFI	Microfinance Institution
MFIs	Microfinance Institutions
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MIS	Market Intervention Scheme
MOA	Ministry of Agriculture (Nepal)
MoA	Ministry of Agriculture
MOA	Ministry of Agriculture (Malaysia)
MoAD	Ministry of Agricultural Development (Nepal)
MOE	Ministry of Education (Malaysia)
MOF	Ministry of Finance
MOHE	Ministry of Higher Education (Malaysia)
MOU	Memorandum of Understanding
MS	Mandal Samakhya
MSMEs	Micro, Small, and Medium Enterprises
MSP	Minimum Support Price
MT	Million Ton
NABARD	National Bank for Agriculture and Rural Development
NAEP	New Agricultural Extension Policy
NAFC	National Agriculture and Fishery Council (Philippines)
NAFP	National Agro-Food Policy (Malaysia)
NAP	National Agriculture Plan
NAP	National Agricultural Policies (Malaysia)
NARC	Nepal Agriculture Research Center
NARC	National Agriculture Research Council
NARS	National Agricultural Research System
NATP	National Agricultural Technology Project
NBC	National Bank of Cambodia
NBRFIs	Non-Bank Rural Financial Institutions
NCF	National Commission on Farmers
NDDB	National Dairy Development Board
NEC	National Executive Committee
NEFSCUN	Nepal Federation of Savings and Credit Cooperative Unions Ltd.
NEFT	National Electronic Funds Transfer
NER	North Eastern Region
NFA	National Food Authority
NFP	National Food Policy
NFP PoA	National Food Policy Plan of Action
NGO	Non-Government Organization
NGOs	Non-Government Organizations
NHG	Neighborhood Groups
NIA	National Irrigation Authority
NLDC	National Livelihood Development Corporation
NPL	Non-Performing Loan
NPM	Non-Pesticide Management
NRB	Nepal Rastra Bank
NRLM	National Rural Livelihood Mission
NSO	National Service Organizations
OC	Oversight Committee
OD	Overdraft

OECD	Organization for Economic Cooperation and Development
OJK	Financial Services Authority
OTOP	One Village One Product
OTP	One Time Password
OVOP	One village one product
P2KP	Urban Poverty Program
PACS	Primary Agricultural Credit Societies
PACT	Project for Agricultural Commercialization and Trade (Nepal)
PAT	Provincial Action Team (Philippines)
PCARDB	Primary Cooperative Agriculture and Rural Development Banks
PCC	Project/Program Coordinating Committee
PCIC	Philippine Crop Insurance Corporation
PD	Presidential Decree
PEARLS	Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth monitoring, Credit Management as well as Information Communication
PEFACD	People Empowerment, Financial Access and Community Development
Perpres	Presidential Regulation
PG	Producer Group
PGSY	Pradhanmantri Gram Sinchai Yojana
PJOK	Local Project Manager at Sub-district Level
PKVY	Paramparagat Krishi Vikas Yojana
PMD	Directorate General of Village Community Empowerment, within
PMO	Project/Program Management Office
PMU	Project Management Unit
PNM Mandiri PUAP	PNPM Mandiri Development of Rural Agribusiness
PNPM Mandiri	National program for Community Empowerment
PNPM Mandiri BKPG	PNPM Mandiri for Villages in Nanggroe Aceh Darussalam
PNPM Mandiri Generasi	PNPM Mandiri A-Healthy and Bright Generation
PNPM Mandiri Green	PNPM Mandiri for Environment in Rural Areas
PNPM Mandiri P2SPP	PNPM Mandiri Participatory System Development Program
PNPM Mandiri Pamsimas	PNPM Mandiri Community-based Water Supply
PNPM Mandiri RIS	PNPM Mandiri Rural Infrastructure Support
PNPM Mandiri RISE	PNPM Mandiri Regional Infrastructure for Social and Economic
PNPM Mandiri Rural	PNPM Mandiri Rural
PNPM Mandiri Urban	PNPM Mandiri Urban
Podes	Village Potential
Pokja Pengendali	PNPM Mandiri Oversight Working Group at National Level
POP	Poorest of the Poor
POs	People's Organizations
PPP	Purchasing Power Parity
PPP	Public-Private Partnership
PSF	PNPM Support Facility
RESPEK	KDP scale-up with locally funded block grants in Papua and West Papua provinces
RFRDCs	Regional Integrated Fisheries Research and Development Centers (DA-Philippines)
RGC	Royal Government of Cambodia
RIARCs	Regional Integrated Agricultural Research Centers (DA-Philippines)
RIDF	Rural Infrastructure Development Fund
RLF	Revolving Loan Funds
RMDC	Rural Microfinance Development Center (Nepal)
ROA	Return on Asset
ROE	Return on Equity



Rp.	Rupiah (Indonesian Currency)
RRB	Regional Rural Bank
RSBSA	Registry System for Basic Sectors in Agriculture
RSRF	Rural Self Reliance Fund (Nepal)
RTGS	Real-time gross settlement systems
SACCOS	Savings and Credit Cooperatives Societies (Nepal)
SBN	The Youth Business Scheme
SBT	The Youth Agriculture Scheme
SCARDB	State Cooperative Agriculture and Rural Development Bank
SDS	Sustainable Development Strategy
SERP	Society for Elimination of Rural Poverty
SFYP	Sixth Five-Year Plan
SHG	Self-Help Group
SHPIs	Self Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
SKBBL	Sana Kisan Bikas Bank Limited (Nepal)
SKPD	Regional Administrative/Logistic Work Unit
SMEs	Small and Medium Enterprises
SNFI	National Strategy for Financial Inclusion
SRLM	State Rural Livelihood Mission
SSP	Sikat Saka Program (Philippines)
SSS	Social Security System (Philippines)
ST2003	Agricultural Census in 2003
ST2013	Agricultural Census in 2013
SUPERB	Skim Usahawan Permulaan Bumiputera (Malaysia)
TEKUN	The Economic Fund for National Entrepreneurs Group (Malaysia)
TERAJU	Unit Peneraju Agenda Bumiputera (Malaysia)
TKPK	Regional Coordinating Team for Poverty Reduction
TNP2K	National Team for Accelerating Poverty Reduction
TRIGP	Telangana Rural Inclusive Growth Project
TWG	Technical Working Group
UNCDF	United Nations Capital Development Fund
UPK	Sub-district Financial Management Unit
UPM	Universiti Putra Malaysia
UPP	Urban Poverty Project
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
VCA	Village Credit Agency (BKD in Indonesia)
VDC	Village Development Committee (Nepal)
VO	Village Organization
WEDD	Women Entrepreneurs Dedicated Desk
WHO	World Health Organization
WOCCU	World Council of Credit Union
YBUDR	Yayasan Bina Upaya Darul Ridzuan (Malaysia)
YUM	Yayasan Usaha Maju Sabah (Malaysia)
ZS	Zilla Samakhya (District Federation)

# Executive Summary

One of the most important aspects in development is the involvement of people in the different activities through planning, programming and implementation including monitoring and evaluation. As one of the growing and challenging activities, agriculture including fisheries and livestock management, people and communities continuously work and encouraged to improve their situation and living condition. Through these activities, people enhance and strengthen their capacity in order to be empowered and be confident in attaining a productive, profitable, stable and sustainable venture.

With the strong support of the International Fund for Agricultural Development (IFAD) through the FinServAccess Project under the Asia-Pacific Rural and Agricultural Credit Association (APRACA), seven analytical studies were conducted in Bangladesh, Cambodia, Indonesia, India, Malaysia, Nepal and the Philippines. These studies complement and share relevant experiences to the IFAD-APRACA FinServAccess Grant Project and the whole APRACA network.

The main objective of the study is to understand the process of people empowerment and community development through access of finance in various forms and strategies. The seven-country studies captured the experiences, issues and concerns and future direction of the further improving the conditions of rural people especially those engaged in the production and marketing of agricultural communities. Furthermore, the seven-country studies are based on projects and programs including strategies and approaches which have been contributed in developing communities more importantly farmers and fishers.

The seven-country studies followed a common research framework based on consultations with technical and financial experts in the fields of rural finance, agricultural development and community development in general and analysed to describe and integrate key points towards rural financial management and development.

Furthermore, the studies were conducted for a period ranging from 4 to 8 months highlighting the important contribution of access to finance on people empowerment and community development in specific areas which post for further inquiry and intellectual discussions among key players and stakeholders working together to achieve agriculture growth and financial literacy.

Notably, the seven countries presented descriptions of the financial sector emphasizing on rural finance and agricultural development. These are supported by the perspective, strategies, processes, and experiences of people empowerment and community development.

In Bangladesh, community-driven development is an integrated collaborated work of government and non-government organizations which are providing leadership in making people secured by providing conducive agricultural credit policies while helping farmers and fishers including small and medium enterprises at par with the growing sector of development.

In Cambodia, banks, except ACLEDA Bank, play an insignificant role in providing credits to smallholder farmers given the unfavourable climate and low profitability of the business and high costs inherent in the venture. However, MFIs play a significant role in the rural areas in Cambodia through developing the innovative products such as insurance and branchless mobile service to fulfil the needs of smallholder farmers. Rural finance creates the economic opportunities to rural smallholder farmers. Access to credit can contribute to the adoption of improved technology and productivity resources to increase the production and expand the business which; therefore, increase the incomes. However, there are still gaps between financial demand and supply. The challenges include farmers' inability to have collaterals, MFIs' high transaction costs and limited agriculture technical capacity of loan officers, accessibility of MFIs' branches, farmers' unwillingness to borrow and alternative choice. To tackle the challenge, MFIs should take certain actions including the strengthening of institutional capacity, loosening collateral policies, lower the interest rate, and new product development which benefits the rural smallholder farmers. At the same time, government should develop a specific policy as an incentive to promote the involvement of financial institutions to provide loans to small-scale business and enterprises and to promote the local funding sources.

The gradual slowdown of its agricultural growth and thereby marginal contribution to its overall growth rate while majority of its population are depending on agriculture is a worrisome factor for India. Small land holders, tenant farmers and sharecroppers are facing problems in accessing formal credit and arranging inputs needed in cultivation. The evolution of women Self-Help Groups, penetration of microfinance into remote rural areas and promotion of Joint Liability Groups to access bank credits are increasingly becoming successful in addressing credit related issues of small, marginal and tenant farmers all over the country. Community managed Sustainable Agriculture practices started in Andhra Pradesh and Telangana are spreading to different states, and resulting in cultivation of crops using locally available resources and without chemical pesticides. Agricultural Technology Management Agency (ATMA) at the district level and producer groups including their associations are expected to address the issues on technology and marketing associated with farming. In turn, these support the overall people empowerment and development of communities to be productive and profitable through financial supports within the Self-Help Groups and or Joint Liability Groups within a growing agricultural areas and farming communities.

As one of the strongest emerging economies in the world now, Indonesia is expected to have a more sustainable economic growth. One way to achieve this is by building strong economic fundamentals to create a variety of instruments and products in the financial sector and to create environment and liquidity in all of these products, widely known as the expansion of financial areas.

The expansion of financial access is required to provide financing to the micro, small to medium enterprises (MSMEs) including farmers that cannot be reached by formal financial services. Thus, access to the financial sector and the products could be beneficial for the poor through increased capital flows and allocations, so it will gradually reduce inequality. Of course, this would be more effective if it can have synergies and side by side with people empowerment and community programs for poverty alleviation that use community-driven development. Indonesia's people empowerment and community development are effective approaches combined with the provision of financial products and services to its key players in agriculture. The different cases and experiences show the process in which communities help sustain the economic growth of the country as well as maintaining the dynamic relationship of financial sector and agricultural development sector.

In Malaysia, the stable relationship of the financial sector and agriculture sector paved the way for a secured production of commodities for the growing populace. Banks including microfinance institutions play the big role in agricultural development like the Agro Bank Malaysia. Agro Bank as a government coordinated institution provides the needed support of local people for the production and management of agriculture, fisheries and livestock. Together with other institutions, continuous

capacity building activities are provided to ensure that all activities are coordinated and support the people and farming/fishing communities to be productive and profitable. The experiences and cases are highlighted as a way to showcase the Malaysian empowerment and development in most of the rural areas with an end view of a stable and growing economy.

Like any developing countries in the Asia-Pacific region, the access to finance in Nepal is possible through formal, semi-formal and informal aspect. Several villages and farmers in the country rely on these services particularly on cooperatives and other informal means. However, a good number of Nepali financial institutions is increasing and the provision of products and services are becoming farmer-friendly. On the other hand, product-wise cooperatives are also established which are very active in Nepalese rural areas complementing the full support and efforts of the Agricultural Development Bank, Small Farmers Development Bank and other regional development banks to farmers and communities.

Furthermore, the Nepal Rastra Bank has issued a new directive to strengthen the provision of financial services to both public and private institution that would continue to enhance the capacity of farmers and their accessibility to quality assured services while working with technical support institutions for the acquisition of relevant technologies. These partnerships have contributed much of the efforts on Nepal's development. As these activities and partnerships move towards sustainable gains, people and communities are also growing and expanding to greater heights of development. The cases and experiences presented show how dynamic and well-complemented the efforts of the financial and technical support services are for its people working in the agricultural sector.

Finally, the Philippines as it boosts its efforts to a more secured and profitable endeavour while sustaining agriculture and rural development, its programs giving importance on people empowerment and community development through access to finance have continuously shape the economic landscape of the country. Through the efforts and complementary programs of the government and non-government organizations, the Agricultural Credit Policy Council (ACPC) of the Department of Agriculture (DA) and the Land Bank of the Philippines (LBP), have concretized sustainable programs on these important themes. Using financial products and services plus the technical assistance, rural people especially the farmers and fishers gain the confidence to be productive, profitable and secured while making their community stable and sustainable in agriculture. The cases and experiences shared provide a description on the process of enhancing and strengthening the efforts on people empowerment and community development through rural and agricultural finance.

All of the seven-country studies provided a comprehensive description of the analytical evaluation of people empowerment and community development. As pointed out in all the studies, access to finance is still one of the common challenges but there is positive light on this aspect because all government and non-government organizations including public and private financial institutions place these two as their support service goal as well as the direction for a better partnership towards a sustainable development involving key players and stakeholders in agriculture, finance and rural development.

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PART 2:  
PEOPLE EMPOWERMENT, FINANCIAL ACCESS AND COMMUNITY  
DEVELOPMENT IN CAMBODIA

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# PART 3: PEOPLE EMPOWERMENT, FINANCIAL ACCESS AND COMMUNITY DEVELOPMENT IN INDIA

*Y.V. Raghunatha Reddy*

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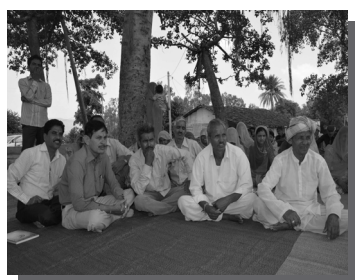
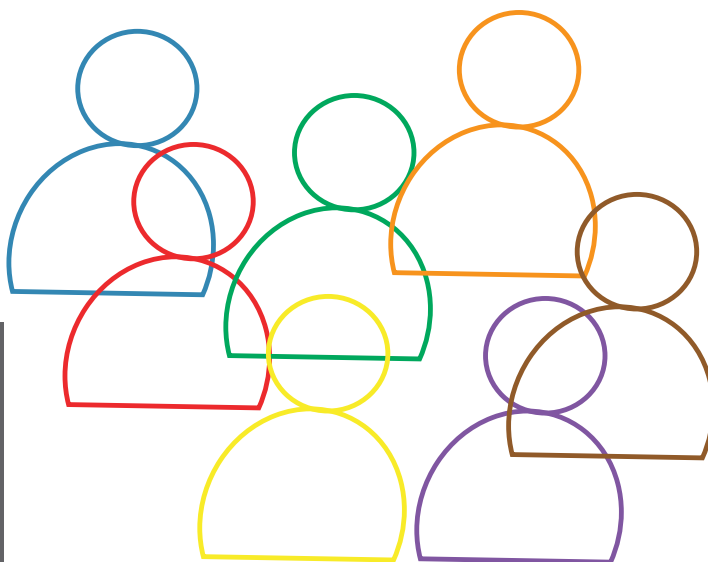
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## Part 1

# People Empowerment, Financial Access and Community Development in Bangladesh

Sayera Younus



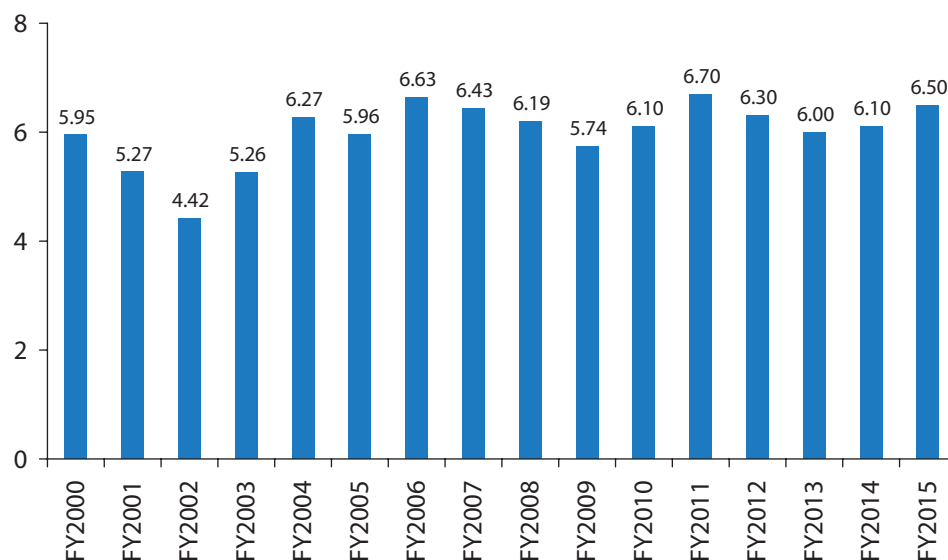


# CHAPTER 1

## Introduction

Bangladesh reached a lower middle economy status by attaining per capita income of USD \$1,314 in FY2015. In the World Bank standard, the graduation to the status of lower-middle income country is ensured if the per-capita income stands at \$1,045 on an average for three consecutive years. On the basis of this consideration, the World Bank has recognized Bangladesh as lower-middle-income country after 44 years of her independence. Bangladesh has been growing on an average six (6) percent over the last decade (Figure 1) aided by high industry, service, and agricultural sectors growth. The real GDP growth increased to 6.51 percent in FY2015 from 6.1 percent in FY2014. To reach upper-middle-income country status by 2030, Bangladesh needs to grow at a much faster rate of 7-8 percent with per capita income in between \$4,036 to \$12,475. The growth momentum of agriculture sector is critical along with the industrial and services sectors, in keeping the pace with the increased population in the country towards achieving all the Millennium Development Goals (MDGs) and, thereafter, Sustainable Development Goals (SDGs).

**Figure 1. Steady and Less Volatile GDP Growth**



Source: Bangladesh Bureau of Statistics.

Agriculture in Bangladesh plays a critical role regarding employment generation, food supply and overall livelihood of most people in the country. Hossain (2004) identifies agricultural development as a factor behind the poverty reduction in Bangladesh. Increased food supply reduces the price of the food that in turn confirms the access of low-income people to food. Sharmeen and Chowdhury (2013) found a positive correlation between the increased credit accessibility in the agriculture sector and rise in production yield. Mujeri, (2015) found that the poor and other disadvantaged groups are often deprived of access to the services because of the requirements of the financial institutions are difficult to arrange for the poor households. Perveen and Chaudhury (2009) found the strong positive relationship between the women empowerment and the access to finance (microcredit). Therefore, to have a better understanding, the access to finance strategy and practice need to be analyzed thoroughly.



The concepts of 'community development' and 'community empowerment' have become important aspects of the development activities. There is no universal definition of 'community development' (CD). It means different things to different people in different places, and it varies across countries and cultures. Experience has shown that poor people are usually the best judges of how their lives can be improved and how they can ultimately reduce their level of poverty. The process is more democratic and involves the larger community determining how they would be better off. Therefore, it would be worthwhile to examine the present strategies and scenario of the rural and agricultural development in Bangladesh.

## 1.1 Methodology

The paper is organized as follows: introduction, methodology, an overview of the agriculture sector. In Chapter 1 and Chapter 2 describes strategies, approaches, practices, innovations and initiatives on people empowerment through financial access and community development. Chapter 3 analyze the rural financial access. Chapter 4 discusses the issues of access to finance, economic empowerment, and community development. Chapter 5 contains challenges followed by the future directions in Chapter 6 and finally, conclusions.

Secondary data from various publications of concerned Ministries/Departments, Bangladesh Bureau of Statistics (BBS), Bangladesh Bank (BB) and developmental organizations including NGOs are used to explain the concept with the evidence. To support the analysis of the document, various Charts, Tables and standard statistical analysis are also used. Besides, some key informant discussions have been made with several NGOs, GOs, bankers, development workers, researchers and civil society leaders to get their views and idea about how to empower the people, improve the access to finance and community development issues. Also, extensive help has been taken from internet and others virtual resources.

## 1.2 An Overview of the Agriculture Sector

The importance of agriculture sector is immense as this sector remains the largest employer in the country. In Bangladesh about 47 percent of the total population directly and around 70 percent of the population indirectly depends on the agriculture sector for living (HIES, BBS, 2010). Agriculture is the main source of food for people through crops, livestock, and fisheries. Agriculture is also a vast source of raw materials for industry, timber for construction and foreign exchange for the country. Bangladesh earned of about \$586 million and \$568 million respectively by exporting agricultural products and fish (frozen fish and shrimp) to the rest of the world in FY2015. From the Labor Force Survey (LFS 2010), it is observed that the total employed person engaged in the agriculture sector was as high as 47.6 percent followed by the service (35.4 percent) and industry sector (17.5 percent) sector. For the males, the highest 41.11 percent was engaged in the service sector followed by agriculture (40.18 percent) and industry (19.60 percent) while, for the females, the highest 68.84 percent was employed in agriculture sector followed by service sector (21.89 percent) and industry sector (13.32 percent).

### 1.2.1 Sectoral Share and Growth of Agriculture

Despite larger importance of this sector, the relative contribution of the agricultural sector to GDP is gradually declining (Table 1) The percentage share of agriculture sector in total GDP decreased from 18 percent in FY2011 to 15.96 percent in FY2015. The growth of agriculture and forestry sector dropped to 2.7 percent in FY2015, which was 3.8 percent in FY2014 despite the favorable weather, continued Government support and higher disbursement of agricultural credit. In 1971, after the independence, the growth of agricultural production was at around 2 percent per year, which accelerated during the years of the 1990s and early 2000s to around 4 percent per year. However, over the last five years, the growth of agriculture sector was hovering around 2 to 4 percent.



**Table 1. Sectoral Share of Agriculture in GDP at Constant Prices**

(Base: 2005-06 = 100)

	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Agriculture and Forestry</b>	<b>14.27</b>	<b>13.70</b>	<b>13.09</b>	<b>12.81</b>	<b>12.27</b>
Crops and horticulture	10.50	10.01	9.49	9.28	8.83
Animal farming	1.98	1.90	1.84	1.78	1.73
Forest and related services	1.79	1.78	1.76	1.74	1.72
<b>Fishing</b>	<b>3.73</b>	<b>3.68</b>	<b>3.68</b>	<b>3.69</b>	<b>3.69</b>
<b>Total</b>	<b>18.00</b>	<b>17.38</b>	<b>16.77</b>	<b>16.50</b>	<b>15.96</b>

Source: Bangladesh Bureau of Statistics.

The main reason for the reduction in the share of agriculture in GDP is the fall in the growth of the crops and horticulture subsector (which comprises of 55.8 percent of the agriculture sector). The growth of this sub-sector declined from 10.5 percent in FY2011 to 8.83 percent in FY2014 (Table 2). The growth of fishery sector, however, maintained growth momentum with 6.41 percent growth in FY2015.

**Table 2. Sectoral Growth Rate of GDP at Constant Prices**

(Base: 2005-06)

	2010-11	2011-12	2012-13	2013-14	2014-15
Agriculture and forestry	3.89	2.41	1.47	3.81	2.07
Crops and horticulture	3.85	1.75	0.59	3.78	1.30
Animal Farmings	2.59	2.68	2.74	2.83	3.10
Forest and related services	5.56	5.96	5.04	5.01	5.10
<b>Fishing</b>	<b>6.69</b>	<b>5.32</b>	<b>6.18</b>	<b>6.36</b>	<b>6.41</b>

Source: Bangladesh Bureau of Statistics.

### 1.2.2 National Policies for People Empowerment

Realizing the higher importance of this sector, Bangladesh Government has undertaken several national policies, of which the National Agriculture Plan (NAP) is the strategic guiding document for implementation of development agenda for the sector. Besides, New Agricultural Extension Policy (NAEP) 1996, National Food Policy (NFP) 2006, National Fisheries Policy 1996 are also of note. To implement Millennium Development Goals (MDGs) and Five-Year Plans Bangladesh Government has been implementing national agricultural policies gradually to achieving higher growth in this sector. The 6<sup>th</sup> Five-Year Plan outlined a series agriculture-related goals to achieve an average of 4.5 percent real growth in an agricultural sector that include raising farm productivity and real income of farm families in rural areas on a sustainable basis. Attain self-sufficiency in food grain production along with crop diversification within cereal as well as toward horticultural crops. Expand application of technology and mechanized cultivation; ensure sustained agricultural growth through more efficient and balanced utilization of land, water, and other resources. Encourage research in adaptation to change and proper use of genetically modified technology in agriculture and promote non-crop agricultural activities related to forestry, livestock, and fisheries (source: GED 2014). The allocation of the crop in the SFYP was much higher than other sub-sector. As a result, Bangladesh achieves remarkable progress in self-sufficiency in the rice as well as aquaculture and vegetable production (Table 3).

### 1.2.3 Technological Innovations in Agricultural Development

Sixth FYP gave due emphasis on the importance of innovation and research for the escalation of agricultural production, diversification, and resilience to climate change. To increase productivity and for a better understanding of technology farmers' training plays a crucial role. The number of farmers trained by Department of Agricultural Extension (DAE) stood at 12.83 lakh, 12.78 lakh, and 13.34 lakh

**Table 3. Some Indicators of Agricultural Production**

Production	2009-10	2010-11	2011-12	2012-13	2013-14
Rate of growth in agricultural GDP in constant prices 2005-06	5.24%	4.34%	2.69%	2.17%	3.15%
Rice import dependency	3.31%	2.53%	2.37%	2.29%	0.94%
Share of rice in total cropped land	78.50%	77.00%	76.50%	76.00%	76.00%
HYV rice area as % total rice area	79.40%	81.50%	82.40%	82.80%	78.40%

Source: www.plancomm.gov.bd.

respectively in the year 2012-13, 2013-14, and 2009-10 indicating government strategies of educating farmers regarding better use, management menu and production in the agriculture sector. The supply of improved seeds for vegetables from Bangladesh Agricultural Development Corporation (BADC), DAE and private companies help to increased production to this crop significantly in 2013-14, while the supply of Rice, Maize, Pulses, and Edible Oilseeds were declined substantially in 2013-14 compared with the level of 2010-11. To address adverse climate conditions, the Government of Bangladesh (GoB) and its agencies developed 23 new rice varieties since 2009-10. Of these, some important ones are: saline tolerant rice variety BRRI Dhan 61, the world's first zinc-enriched rice variety BRRI Dhan 62, submergence tolerant BINA Dhan 11 and 12, water logging resistant BINA Dhan 14, BINA Dhan 13, three new stress-tolerant rice varieties (BRRI Dhan 55, 56 and 57) and one short duration (BRRI Dhan 58) rice variety. Five new varieties were developed for vegetables (Source: FPMU).

Among all the agricultural sub-sectors, the fisheries sub-sector performed better than others. The share of fisheries in agricultural GDP rose for the consecutive three years. Although since 2009-10 there was no new variety of fish were developed, according to FPMU, 2014 during 2012-13, the World Fish Center in collaboration with the Challenge Program on Water and Food (CPWF) developed one saline tolerant *Tengra* fish species.

**Table 4. Development in the Fisheries Sub-sectors**

Output	2009-10	2010-11	2011-12	2012-13	2013-14
GDP from fishery sector as % of agricultural GDP (excluding forest, at constant price 2005-06)	22.50%	24.18%	23.60%	24.53%	25.30%

Source: FPMU 2013, 2014 and 2015 &amp; BER (2014).

### 1.2.4 Plan Goals and Strategies for Fisheries Sub-Sector

The vision 2021 of the government targeted to achieve self-sufficiency in the production of fish and shrimp and to generate a surplus for export, along with improvement in food safety standard of fish production. These require achieving objectives of enhancing productivity, livelihoods security and equitable distribution of benefits. Besides, in the draft 7<sup>th</sup>, Five-Year Plan the target of conservation of potential fisheries resources and aquatic biodiversity of rivers, beel, haor, baor, flood plains and other water bodies are also the goals of the government (Mid-Term Review of Sixth Five-Year Plan, GED, 2014).

Despite a better performance in this sector, there are challenges still need to be addressed. As indicated in the national policies research in the arena of the fisheries need to be upgraded to continue the flow of technology generation. Quality assurance in fish harvesting, processing, marketing, and export need to be especially emphasized. For effective coordination among the related ministries and government bodies, a legal framework needs to be formulated.

## CHAPTER 2

# People Empowerment and Community Development

Although since her independence in 1971, Bangladesh shows strong commitments in the National Constitution to uphold gender parity through the advancement of girls/women's education, improved health, economic and better-quality social life this approach, in the direction of gender equality, has grown since the Fourth Five-Year Plan mainstreaming gender and women's empowerment in the overall development process. The succeeding five-year plans and the poverty reduction strategies have more and more incorporated strategies and measures for promoting gender equality and empower women. In 1997, the Government articulated in its first women's development policy (WDP), updated in 2011. Government framed two National Action Plans (NAP) in 1997 and 2013 respectively for its implementation.<sup>1</sup> Along with the other international organizations, Bangladesh also has committed itself to the goals and targets of the MDGs where one of the objectives is to promote gender equality and empower women. The Government of Bangladesh has regularly reviewed progress and reported on the attainment of the MDGs and other international commitments.

As a result, the participation of women in the labor force participation (LFP) increased from 29.2 percent in 2005/6 to 36 percent in 2010. Women's LFP has been growing at a faster rate compared to that of men, but women are mostly in low-end jobs. The readymade garment sector continued to be the largest sector employing women, though mainly as frontline unskilled workers. The increase in male internal and external migration, their shifting to non-agricultural activities, and higher crop intensity have resulted in increased women's participation in the agriculture sector. Women are more concentrated in crop production and post-harvest activities rather than in agribusiness and at higher levels of the value chain. Women participate in wide range of agricultural activities including crop cultivation, livestock and poultry rearing, homestead gardening and fisheries.

Women in business are also growing rapidly in Bangladesh as Bangladesh initiated conducive policies to develop women's entrepreneurship. Bangladesh Government and Bangladesh Bank with other women chambers and NGOs supporting the women to increase entrepreneurial capacity. Access to finances such as quota provisions for women in the allotment of plots in BSCIC industrial estates, bank finance and business development services have been provided to the women entrepreneurs to create a multiplier effect.

People empowerment and community development is the precondition of social cohesion and thus for sustainable development. Bangladesh Government has been supporting policies for this opportunity of empowerment include policies to boost spending on health, education, gender equality, and worker safety and other well-being. The Small and Medium Enterprise (SME) sector have been declared as a priority area in the Government's industrial policy various measures in Bangladesh, the potentiality of small and medium enterprises (SMEs) in providing employment, source of income, and contribution to poverty alleviation is enormous. SMEs provide alternative employment for farmer and provide an opportunity to shift from informal non-farm enterprises to more productive and profitable formal business in both rural and urban areas. In recognition of the strategic importance of the development of women entrepreneurs in SME sector Bangladesh Bank defines SME as for female entrepreneurs by issuing various circulars/circular letters from time to time.

<sup>1</sup> [www.plancomm.gov.bd](http://www.plancomm.gov.bd)

- To increase participation of women entrepreneurs in SME sector Bangladesh Bank has formulated a guideline named “Small and Medium Enterprise (SME) Credit Policies and Programs.” The major policies are as follows:
  - The interest rate for women entrepreneurs would be at the Bank Rate (which is at present 5 percent) plus maximum 5 percent, i.e. not more than 10 percent per annum.
  - Banks and Financial Institutions may provide a maximum loan facility of Tk. 2,500,000/- against personal guarantee when the borrower is woman or majority of the owners of the enterprise are female
  - Each bank is advised to establish a separate Women Entrepreneurs Dedicated Desk (WEDD) with necessary, and suitable manpower provides them training on SME financing and *suitably appoint a lady officer as chief of the dedicated desk.*

A separate SME policy has been declared by the Government and the Bangladesh Bank to provide entrepreneurs with necessary guidance and strategic support in respect of the establishment of SME industries all over the country. From FY2010 to FY2015, the banking system of Bangladesh disbursed SME loan to 2,376,687 entrepreneurs of about 363,250.19 crore loan to service trade and manufacturing sector.

**Table 5. Total Disbursement of SME credit including Women Entrepreneurs**

Year	No. of Entrepreneurs	Amount Disbursed (Tk. in Crores)
2010	308,950	53,543.93
2011	319,340	53,719.44
2012	462,513	69,753.42
2013	744,228	85,323.25
2014	541,656	100,910.15
<b>Total</b>	<b>2,376,687</b>	<b>363,250.19</b>

Source: Bangladesh Bank.

**Table 6. Disbursement of SME credit to Women Entrepreneurs**

Year	No. of Women Entrepreneurs	Amount Disbursed (Tk. in Crores)	% of Total
2010	13,831	1,804.98	3.37
2011	16,696	2,048.45	3.81
2012	17,362	2,244.01	3.22
2013	41,695	3,346.55	3.92
2014	42,730	3,938.75	4.00
<b>Total</b>	<b>132,314</b>	<b>13,382.74</b>	

Source: SME Department, Bangladesh Bank.

As a result, a total of 132,314 women entrepreneurs received Tk. 13,382 crore that hovered around 3-4 percent of total SME loan. These loans created a multiplier effect on the economy by generating employment opportunity and income for the rural and urban people.

## 2.1 People Empowerment and Community Development: Government Organizations (GOs)

Bangladesh Government adopted a strategy of community development through Ministry of Social Welfare. The major activities of them are development in social and economic affairs of the community

of poor and vulnerable group mainly they focus on health, education, and other social activities through a social safety-net program of the Government. In 1990, the Government of Bangladesh (GoB) had established the Palli Karma-Sahayak Foundation (PKSF) as a 'not-for-profit' organization under the Companies Act 1913/1994. The main objective of PKSF is to assist reduce poverty through employment generation.

The PKSF has diversified its portfolio over the years through microcredit programs. These programs aimed at serving the poor to get access to finances and training that them to undertake income generating activities, mostly creating self-employment. Most of the districts of Bangladesh are covered by the Partner Organizations (POs) of PKSF. These POs are responsible for implementing the operational activities of the Foundation. As of June 2012, the total number of POs is 271. Since its initiation, PKSF has been extremely careful to select its POs and it follows strict procedures to ascertain the potentiality of an organization before its enrollment as a PO. The members of the POs are at the core of all kinds of field level operations of the Foundation, who are within some clusters or groups.

On financing, the PKSF has lent about Taka 136.48 billion to 271 POs until now covering more than 6.64 million borrowers, of which 91.5 are women. As of FY2011-12, the total number of female members was 7.85 million, which is 90.10 percent of the total members. Borrower members take a loan under various mainstream programs or projects of PKSF. As of FY2012, the total number of borrowers is 6.65 million, which was 8.23 million in FY2011. Among the borrowers, the number of women borrowers is 6.08 million (91.53 percent).

### **Case Study: Stories of Smile: A Success Story of PKSF Borrower**

Kulsum represents the strong a woman with courage and determination to change her life with the help of PKSF involvement. She was married early and not surprisingly to a poor person and then the burden of the family further increased as three children were born to them. They got entangled in a web of hardship. She felt motivated to become a member of Koli Mohila Samity, an association of PKSF PO. Later, she discovered that she could harness benefits from Learning and Innovation Fund to Test New Ideas (LIFT), a PKSF program. The specialized land lease program of LIFT is designed for the ultra poor or miserable marginalized people of the disadvantaged char areas with concentrated litheness. LIFT provides a soft loan, and PKSF POs offer the useful guidance. In addition to land leasing, Kulsum invested some funds in jute production. That again paid off and encouraged her to make intelligent calculations to buy a few cattle. Kulsum now finds a meaning in life and work. Now she lives in a house that has been renovated and has improved latrine facility. The days of the old sufferings are now just memories. Kulsum's success has earned her elevated status in the locality. Her future promises greater happiness as she looks from her promising agricultural plots at her children going to the school with faces glowing with smiles. Source: PKSF



The Government of Bangladesh (GoB) established the Social Development Foundation (SDF) in 2000 as an autonomous organization not-for-profit body.<sup>2</sup> SDF's Community Driven Development (CDD) approach encourages the village community to identify and place their demand for their village development with the financial assistance from SDF. The GoB, has been implementing the Social

<sup>2</sup> <http://sdfbd.com>



Investment Program Project (SIPP) with the help from IDA. The SDF is mandated to improve the lives of the poor and hardcore poor, empowering women, and fostering a bottom-up approach to economic development. This project was carried out since its beginning in 2003, in about 943 villages of the most poverty prone areas of Jamalpur and Gaibandha district. SDF has brought a phenomenal success to the livelihoods of the poor and hardcore poor through its Social Investment Program Project (SIPP).



## 2.2 Economic empowerment and community development: The role of Non-Government Organizations (NGOs)

Historically, the non-government organizations (NGOs) started shortly after the 1971 war of liberation, initially providing relief services and rehabilitation assistance to war-ravaged victims. These NGOs then shifted their development programs and strategies towards community development, giving special preference to the poor and the vulnerable segments of Bangladeshi society (Food and Agriculture Organization of the United Nations (FAO UN), 1994). Undeniably, there is now a proliferation of NGOs in Bangladesh. NGOs are playing a significant role in access to finance, community development and economic empowerment of a country.

### 2.2.1 Activities of Grameen Bank (NGO)

Grameen Bank commenced its operation in 1976, in a village named "Jobra" in Chittagong district, Bangladesh. The project was examining the scope of designing a credit delivery system to provide banking services targeting rural poor. The endeavor got started with providing a small amount of loan of US\$ 27 to a group of 42 families. The money used as a start-up money so that they could make items for sale, without the burdens of high interest under the conventional lending system. From that little step, Grameen Bank goes across 81,389 villages of Bangladesh, which covered 93 percent of the country's landscape ending 2013. Till 2005, Grameen Bank outlined the global image of microfinance, and there were 46 direct Bank, who replicated operating method in 20 countries, including the US, as well as poorer countries. Grameen Bank won Nobel Peace Prize in 2006 for its tremendous contribution in poverty eradication.

Grameen Bank disbursed credit for housing in given years at a flat rate of 8 percent that worked as an important factor for reducing poverty among loan receivers. Till June 2015, a total number of Grameen Bank branches reached to 2,568. The total cumulative amount of loan disbursed up to June 2014 is TK. 1,015.12 billion, out of which Tk. 927.39 billion has been repaid. The rate of recovery is 91.36 percent. About 96 percent of borrowers of Grameen Bank are women which has played a refulgent role to empower underprivileged rural people (women).

### 2.2.2 BRAC, (NGO) Initiatives on economic empowerment and community development

BRAC is a development organization (NGO) which started its journey in 1972 following the Liberation War of Bangladesh in Sunamganj District of the country by Sir Fazle Hasan Abed. Currently, BRAC is contributing to the development of 135 million people in 11 countries with its 0.012 million workforces. It is one of the fastest growing non-government organization in the world. BRAC's community empowerment program began to provide counseling to the rural poor in Moulvibazar, Sylhet using mobile phones in collaboration with its radio service, Radio Pollikontho. Mentally depressed people get help to cope with their problems from this initiative. Rural population, especially women, are encouraged to talk to psychologists through the radio when they undergo any form of anxiety. BRAC

has also introduced innovation fund for mobile money. BRAC's has community development initiative through community empowerment program (CEP) which empowers the poor, especially women, through mobilizing communities to translate awareness into action. BRAC provides women with necessary tools to claim their entitlements, avert exploitation, and play an active role in public life. A total of 13,802 community-based organizations named as polli shomaj with 756,645 members participated in local community development activities of BRAC. These activities cover grassroots women's leadership promotion, preventing violence, particularly against women and political participation in Bangladesh.

### **2.2.3 Agriculture Processing and Marketing Industry: Contract Farming**

The transformation from subsistence to a more commercially driven rural sector will require on-farm capital formation and increased demands for working capital, as well as investments in supporting markets (input and output marketing, agro-processing, etc.). Contract farming is found to be of high potential for linking smallholders with the markets through processors and other enterprises. In Bangladesh, contract farming has widely been practiced for quite some time both in private and public organizations. It seems to be a promising option. In the private sector, commercial contract farming gained momentum in sourcing their raw materials/seeds. Farmers also look for ways to sell their produce at desired price levels.

The commodities that are mostly being grown under contract farming are Aromatic rice, potato, tobacco, sugarcane, mung bean, peanut, mango, tomato, spices, maize, cassava, mustard, dairy, poultry, and cattle fattening. Considering the perishable nature of growth and its' economic importance, these commodities can be categorized into different groups. This grouping helps enterprises to manage the risks in the distribution of commodities under contract farming. Furthermore, this will educate the contract farmers and staff for management practices and warehousing of the commodities. These commodities are grouped under 4 (four) categories such as high value, highly perishable, difficult in production and high capacity utilization.

In Bangladesh, Prime Bank, United Commercial Bank Ltd., Standard Chartered Bank, Uttara Bank, National Bank, Bangladesh Krishi Bank, Dutch-Bangla Bank, Mutual Trust Bank and Mercantile Bank provide loan to Natore Agro Ltd., Pran Foods Ltd., Ispahani Agro Ltd., Paragon Poultry, Kazi Farm, and Aftab Group under contract farming agreements. The retail chain stores are also growing and stores like Nandan and Agora, Mina Bazar, Sapna, are doing limited contract farming to ensure a constant supply of high-quality fresh vegetables for their customers.

## CHAPTER 3

# Rural Financial Access and People Empowerment: The Role of the Banking Sector

The importance of the agricultural sector in employment generation and poverty alleviation is undeniable. In Bangladesh, the financial system consists of financial intermediaries providing financial services. Broadly, financial market comprises of three categories: formal financial market includes financial institutions and banks; semi-formal market includes microfinance institutions and cooperatives, and informal market implies money lenders, traders, friends, and relatives. Financial institutions in the country include commercial and development banks including agricultural and industrial development banks. There are also non-bank financial institutions. The network of both formal and semi-formal institutions has expanded enormously over the years. Not only the number of branches has increased, some deposits mobilized, and some loans have also grown exponentially over time.

Bangladesh Bank has been pursuing combinations of unconventional and conventional monetary policies by adopting financial inclusion drive to include unserved and underserved poor people in the financial system that gain its pace since 2009-10. Allied with Government's efforts, Bangladesh Bank (BB) also enunciated its vision for sustainable development by providing conducive credit policies for the sector. Bangladesh Bank each year declared its annual agricultural and rural credit policy and program to expand banking services to rural areas by the incremental disbursement of agricultural and rural credit. The target for disbursement of agricultural credit has been fixed at Taka 155.5 billion in FY2015 that is 6.5 percent higher than the target of Taka 146.0 billion in FY2014. This policy support is expected to continue stimulating the agricultural production and help to reduce rural poverty. The achievement against this target was 109.9 percent marked by the remarkable participation of private sector banks through their branches as well as through linkages with Microfinance Institutions (MFIs).

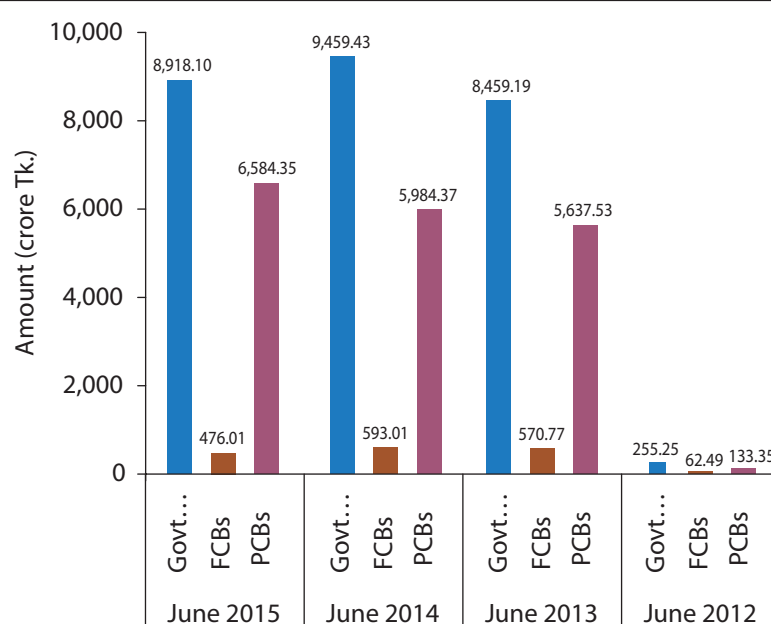
Bangladesh Bank (BB) made it mandatory for all commercial banks domestic and foreign to disburse at least 2 percent of their total loan and advances, which is 5 percent for newly licensed banks in Bangladesh. BB has set up a Taka 2 billion revolving refinance scheme to support lenders to green financing initiatives. Under this system, banks can claim to refinance facility from BB at the bank rate (5 percent) against their direct finance at 9 percent for green products and 11 percent in case of funding through MFI linkage. Bangladesh Bank has taken an innovative refinancing scheme of Tk. 5.0 billion revolving fund with BRAC in 2009-10 at 10 percent interest (flat rate) for the neglected sharecroppers who are marginal farmers and have hardly any formal access to finance. Under the Credit Program for the sharecroppers starting from FY2009-10, Tk. 18.23 billion has been disbursed to 1,087,000 sharecroppers up to June 2015. The BRAC has been operating this program in 250 Upazilas of 48 districts across the country.

During the past five to six years Bangladesh Bank has brought 13.5 million people under banking service that includes farmers, hardcore poor population, unemployed young men/women, freedom fighters, beneficiaries of the social security program, small life insurance policy holders, schools students, garments workers, city cleaning staffs, street children, etc. Other than farmers' Tk. 10 accounts, 3.6 million accounts have been opened to distribute financial aid to different social security program beneficiaries, unemployed young men/women, hardcore poor, freedom fighters, destitute beneficiaries under Hindu Welfare Trust, Small life insurance policy holders, and school students. 47 banks have launched school banking schemes reaching out to young school students. Up to December 31, 2013, a total of 286,479 students have opened accounts with savings of Tk. 3.04 billion.



An amount of Taka 0.8 billion has been disbursed at 4.0 percent concessional rate for the production of certain crops like pulse, oilseed, spices and maize for which the country relies on import. More than Taka 0.8 billion was disbursed only at 5.0 percent interest rate among 18,097 tribal farmers in the 3 Hill Tract districts. Taka 179,212.8 and Taka 32.2 million have been disbursed to the solar energy driven irrigation pumps, integrated cow rearing and biogas plant, and solar home system respectively during FY2014. Policy level support has been given on concessional refinance against agricultural, SME particularly women entrepreneurs and green financing; Area cluster based support packages for Micro Small and Medium Enterprise; Rural bank branch expansion; Off branch agent-based financial services delivery using MFIs and mobile phone/Smart card based banking; No-frill accounts for farmers and other disadvantaged people. Up to December 2014, a total number of 14,960,938 bank accounts have been opened to serve unserved and underserved poor through State Owned Commercial Banks and Specialized Commercial Banks in Bangladesh.

**Figure 2: Agriculture Credit Disbursement Bank Group-wise**



Source: Bangladesh Bank.

### 3.1 Microfinance Institutions (MFIs)

There are a large number of microfinance institutions are operating in Bangladesh. The access to financial services through the MFIs is remarkable in Bangladesh. A total of 649 MFIs (registered with MRA) were operating in Bangladesh with 14,674 branches throughout the country (mostly in the rural areas) in 2013 having 24.60 million clients of whom the vast majority are women. Total savings mobilized by the MFIs rose to Tk. 93.99 billion in 2013 from Tk. 50.61 billion in 2009, while total loan disbursement stood at Tk. 257.01 billion in 2013. Also, there are thousands of small NGOs not registered with the MRA.

**Table 7. MFIs in Bangladesh**

	2009	2010	2011	2012	2013
No. of licensed MFIs	419	516	576	590	649
No. of branches	16,851	17,252	18,066	17,977	14,674
No. of employees	107,175	109,597	111,828	108,654	110,734
No. of clients (million)	24.85	25.28	26.08	24.64	24.60
No. of borrowers (million)	18.89	19.21	20.65	19.31	19.27
Loan outstanding (billion Tk.)	143.13	145.02	173.80	211.28	257.01
Amount of savings (billion Tk.)	50.61	51.36	63.30	75.21	93.99

Note: Figures refer to June of each year. The statistics cover those NGO-MFIs that are registered with the MRA.

Source: Microcredit in Bangladesh, MRA website.

## 3.2 The Cooperatives Sector<sup>3</sup>

Despite the significant potential, the cooperatives sector does not have a notable presence in the financial market in Bangladesh. In 2009-10, the number of members was 132,550 for central cooperatives and 8.7 million for primary cooperatives that have marginally increased to 133,288 for central cooperatives and 9.2 million for primary cooperatives in 2011-12. These show that much of the potential of the cooperatives sector remain untapped, and a renewed and refocused approach to the cooperatives sector is needed to transform the sector into a dynamic and vibrant route to expanding the access to financial services to the poor.

**Table 8. Trends in access to financial services vis-à-vis growth in cooperatives and its members**

Year	Population per bank branch (thousand)	No. of bank deposit accounts (million)	Deposit accounts as % of adult population	No. of members in MFIs (million)	No. of members in cooperatives (million)	Cooperative members % of adult population
2008	20.6	37.60	43.8	23.53	8.4	9.8
2009	19.7	38.97	42.3	24.90	8.6	9.4
2010	19.0	48.68	51.5	24.94	8.8	9.3
2013	17.7	66.68	67.1	24.60	9.3	9.4

Note: The figures need to be interpreted with caution since these are not corrected for multiple accounts held by single individuals or multiple memberships in NGO.

Source: Mujeri (2015).

<sup>3</sup> www.plancomm.gov.bd

## CHAPTER 4

# Issues on Access to Finance, Community Development and People Empowerment

Although some notable progresses are made in terms of people empowerment particularly women, education, health, improved maternal and child health there still exists huge gap between male and female in the access to finance, people empowerment and community development in Bangladesh. Male dominance together with the perception of the women as risky borrowers hinders their right to any form of financial access and thus preventing their economic and social empowerment. Lack of education and knowledge about technological progress mostly remain unreachable for the women engaged in the agriculture, marketing products, and increased productivity. Lack of access to resources, land and property, etc. are the limiting factors in the participation of women in greater economic activity in Bangladesh.

The access to credit for the farmers from the banking system is significantly low about their contribution to the GDP. Evidence show that urban household had more access to any financial services than rural ones. Mujeri (2015) finds that regarding savings, only around 57 percent households have access to any savings and 28 percent to formal savings. The overall access to a share of the total population increased from 44 percent in 2005 to 56 percent in 2010. Mujeri (2015) showed that despite the substantial expansion of bank branches and increase in the membership of MFIs and other financial institutions, a significant share of the country's adult population remains financially excluded. A large section of the population who do not have any physical access to banking services lives in the rural and remote areas. Inadequate banking infrastructure hinders the high number of financially excluded people in Bangladesh.

## CHAPTER 5

# Challenges

Attaining average real GDP growth rate of 7.4 percent per year along with the reduction in the poverty headcount ratio by 6.2 percentage points over the current FYP period would be challenging. Increased gender equality is a necessary condition for the sustainable development that in turn will decrease income inequality to the target level from the current level of 0.45. Community development through the corporate social responsibility of financial institutions and social safety net programs of Government for the social protection need to be enhanced to raise a female to male ratio in tertiary education from current 70 percent to 100 percent for economic empowerment through more women in the labor force and new jobs. Encouraging female enrollment in technical and vocational training is also necessary to prepare them ready for the growing job markets. Spending on social protection as a share of GDP need to be increased to at least 5 percent of GDP.

The environmental vulnerability is a major concern for a developing country like Bangladesh. The scarcity of resources including the availability of required fund is a major concern in Bangladesh. Although the amount of green finance is growing, it remains modest compared to the scale of Bangladesh's environmental, energy and industrial development imperatives. Need to increase productive forest coverage to 35 percent. Environmental, climate change and disaster risk reduction considerations need to be integrated into project design, budgetary allocations, and implementation process. Bangladesh has located in a natural disaster prone area. Any community development initiative in Bangladesh can result in the dust because of a natural disaster. For instance, littoral community development initiatives in Bangladesh always face the menace of natural calamities like cyclone, high tide, etc.

Nature dependent agriculture is another challenging area of community development in Bangladesh. The consumption and production diversification are required to promote nutrition, reduce instability of production. The arable land of agriculture is decreasing every day. Therefore, minimizing the loss of arable land, increasing resource use efficiency, maintaining food safety and quality, expanding irrigation and farm mechanization, and developing resilient climate variety are required. Weak infrastructure, limited economic opportunities, and associated high transaction costs is another bottleneck for rural development in Bangladesh.

Fisheries sub-sector has the potential to grow faster. This sector faces challenges of growth and development of open water fisheries management, inland aquaculture through maintaining the purity of clutch stock of local fish species, shrimp, and coastal aquaculture, and that of marine fisheries. Improved high technology to catch fish also needs to be developed in place of old, time-consuming techniques of catching fish. Access to finance in thus sub-sector encouraged strongly by the central bank through various schemes of the commercial banks. Contact farming in this area may prove handy to increase production in this sector. Therefore, to have self-sufficiency in this sector significant investment from the private and public sectors are needed.

The absence of good governance and the risk of political intervention can negatively influence the overall moral of community development service providers including cooperatives, NGOs/MFIs, banks and other stakeholders. Lack of proper education and awareness of most of the rural people not allowing them to generate demand for community-based services like healthcare, sanitation, safe drinking water supply, basic education and so forth.

## CHAPTER 6

# Future Directions

The GDP contribution of the rural household engagements in the agriculture, micro, small and medium enterprises is significant. Government's various development strategies and the role of other regulatory authorities like Bangladesh Bank in sync with Government's outline perspective plan for facilitating rural development are essential. The overall rural community development across the country is yet to be elevated to the expected level. There are a lot of things to be done for better rural and community life, of which the following are worthwhile to look at:

**Increasing access to finance:** Bangladesh Bank led financial inclusion campaign in the financial sector can further be enhanced the rural community's participation, widening the existing financing areas. A digitized financial inclusion agenda along with current MFS for the rural community upliftment can be searched out in line with government's ongoing various initiatives rural and agricultural development.

**Modernization of agriculture:** Beside sporadic employment options in the micro, small, and medium enterprises, agriculture is the principal employment option for the rural population. Ensuring easy access to the production and harvesting inputs, and providing them the fair price of the production outputs at the end are a must for sustaining agricultural growth. Modernization of the agriculture through providing latest technology production and harvesting materials can reap the best outcome; however, in this case, some training may be necessary, which can be provided by agricultural development related government and privately owned organizations including NGOs.

**Align banks and other financial institutions in using their CSR fund to community development:** The corporate social responsibility of the banks and financial institutions should focus their attention to the rural community development. In this case, there can be some regulatory directives from Bangladesh Bank to allocate the CSR funds in some prioritized rural community areas under current CSR allocation guidelines. After some progress, all of the financing sources can be aligned with other government-funded rural development programs for better utilization.

**Climate vulnerability related measures for mitigation and adaptation:** The geological position of Bangladesh has posted her climate change threat naturally. An anthropogenic reason from the developed countries has exacerbated the risks. Bangladesh has been facing repeated environmental and climatic shocks since the beginning. Protection measures to cushion the cyclone and flood calamities are inevitably warranted for Bangladesh while institutions like the UN, the WB, and the IMF can play a significant role to mitigate global greenhouse gas emission since as a low-income economy it has a limited role in influencing the high carbon emitting developed economies.

**Ensure proper coordination and cooperation among various local, international, government and non-governmental organizations:** While working with different groups, coordination among groups is essential to track the progress of the work. The government may come up with the best policy supports while the NGOs have some settings for the rural community development. For funding and technological support, the private and international organizations may play the significant role in providing technical assistance.

**Improve rural infrastructure:** Weak infrastructure and widened poverty prevalence are the most common features of developing. Rural infrastructure development will undoubtedly bolster the economic growth and ease the lives of rural people. Ensuring water and energy infrastructure with efficient transport and communication systems in the rural community are required for sustainable national economic development.

## CHAPTER 7

# Concluding Statements

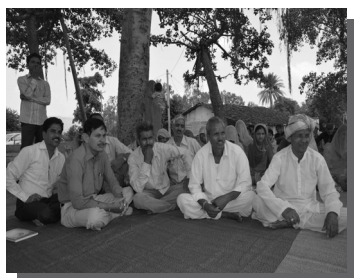
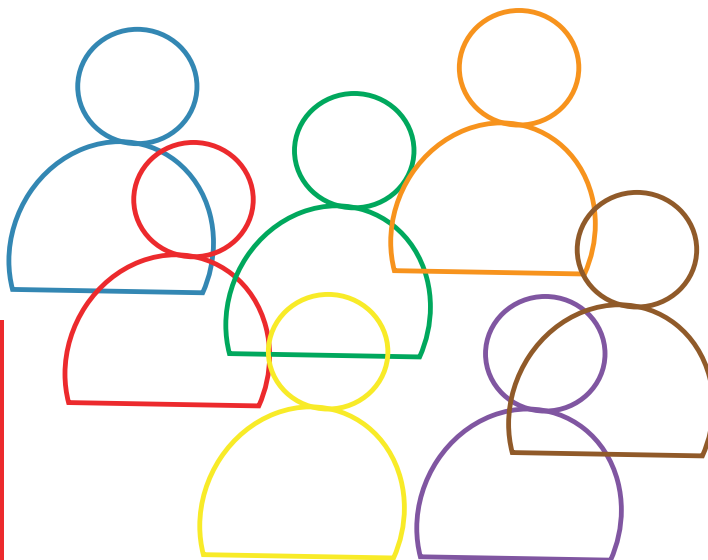
To reach middle-income countries and meet up food demand of 160 million the development of the agriculture sector necessary. The improvement in agricultural productivity that is a precondition for sustainable development is needed rigorously. Bangladesh should focus more on increase productivity that in turn would allow resources such as labor to be accommodated in the non-agricultural sectors, including agro-food industry. Total factor productivity (TFP) increase implies the improvements in technology as well as investments in rural infrastructures. Therefore, to achieve a higher return from innovations in agriculture, increasing average farm size and promoting crop diversification are essential to increase TFP growth. Investment in higher value chain product is one of the important factors to grow at a higher rate. In this context contact, farming strategies could be an instrument to have a higher growth path. For providing financial services more efficiently at lower costs and at the shorter time especially in remote areas, recent technological innovations in the ICT sector has been playing a significant role. Therefore, improvement of this sector can expand overall economic activity by receiving information on time.

Finally, the to have sustainable development we need to mobilization of funds to the productive sectors, increase access to finance to the unbank and underserved people, to have higher productivity modernization of agriculture is essential, align banks and other financial institutions in using their CSR fund to community development, climate vulnerability related measures for mitigation and adaptation, align NGOs/MFIs for community development activities, promote public-private partnership in various community development issues, ensure proper coordination and cooperation among various local, international, government and non-governmental organizations, specific budgetary allocation for improving rural infrastructure, need to ensure primary and secondary education of the rural people.

## Part 2

# People Empowerment, Financial Access and Community Development in Cambodia

Chan Sokyeng and Ek Sopheara







# CHAPTER 1

## Introduction

### 1.1 Background

In Cambodia, agriculture and rural development is one of the most important sectors. There are more than 78 percent of its population residing in rural areas and 64 percent engaging in agriculture sector.<sup>1</sup> In 2014, the agriculture sector contributed significantly (28.7 percent) to the gross domestic products (GDP) although its share has decreased over the last 5 years (MAFF, 2015). Within the sector, crop production accounted for nearly 60 percent and paddy rice is a predominant crop, accounting for nearly 40 percent of the crop production. Despite the contribution of the agriculture sector to the economic growth, rural livelihood and poverty reduction, a number of key constraints to agriculture and rural development are prevailing, and one of them is the access to finance (ADB, 2012).

The access to finance for rural households is mainly from informal sources including relatives, acquaintances and moneylenders who charge high interest rate, while the access to credits from formal banking sector is still limited given limited outreach and capacity to meet the loan acquisition requirements. The loan portfolio to agriculture sectors by commercial banks was 10 percent and by microfinance institutions (MFIs) was 36 percent (NBC, 2014). When the smallholder farmers are those in need of finance for production improvement and expansion, they normally remain underserved.

### 1.2 Research Rationale

The access to finance for smallholder farmers is essentially important for livelihood, especially agriculture production and business expansion. In addition, the financial services help the rural households to deal with emergencies including incidences of natural disasters. In the long run, the returns will be invested in education and health of the children and households. If properly in place, financial inclusion can be of great asset to “unlock the economic potentials of the rural areas.”<sup>2</sup> Therefore, an analysis of the financial access for the people empowerment and community development will be of great importance to outline the current context of rural finance for agriculture in Cambodia. The analysis will lay out a basis for the financial support services and interventions as a necessary means in strengthening the rural people and communities to be more productive, profitable, secured and sustainable in order to improve their livelihood and attain their development well-being.

### 1.3 Research Objectives

The main objectives of the analytical research of people empowerment, financial access and community development in Cambodia are to:

- Provide an overview of the country’s rural and agricultural development with emphasis on rural finance;
- Identify strategies, approaches, practices and innovations in people empowerment, financial access and community development including influencing factors towards rural financial service delivery system; and
- Analyze these influencing factors necessary for adaptive and applied people empowerment, financial accesses and community development in the context of rural finance.

<sup>1</sup> NIS. 2013. Cambodia Inter-Censal Population Survey 2013.

<sup>2</sup> ILO’s rural policy brief on empowering rural communities through financial inclusion.

## 1.4 Research Methodology

To achieve the objectives of the study, a literature review of the existing studies and the data from relevant government institutions and other agencies was undertaken. The analysis of the literature provided the background to fill the literature gap, as well as to update on the current situation of rural finance in the context of people empowerment and community development in Cambodia. In addition, interviews with key informants from a number of financial institutions and farmer groups (as shown in Tables 9 and 10) were also conducted in order to obtain information on their current products and strategies in rural finance, people empowerment and community development, including factors contributing and constraining rural financial service delivery.

**Table 9. List of Interviewed Financial Institutions**

No.	Organizations	No. of Branches
1	Angkor Mikroheranhvatho (Kampuchea) Co., Ltd. (AMK)	139 offices in 25 provinces
2	Prasac Microfinance Institution Limited	176 offices in 25 provinces
3	Amret Co., Ltd.	137 offices in 25 provinces
4	LOLC (Cambodia) Plc.	54 branches in 22 provinces
5	Aceda Bank Plc.	253 branches in 25 provinces

**Table 10. List of Interviewed Saving Groups**

No.	Organizations	Province
1	Saving group	Kompong Chhnang
2	Saving group	Kampot
3	Saving group	Pursat

## 1.5 Research Scope and Limitation

The research covered key features of financial access for people empowerment and community development on rural and agriculture in Cambodia. The rural and agriculture finance especially on the strategies, practices and innovations on financial access for people empowerment and community development were documented. The key features including contributory factors were examined in viable and feasible rural and agricultural finance strategies, approaches, practices and innovations necessary in people empowerment, financial access and community development.

The term of community development is very broad; thus, the study was examined it from the economic perspectives. Also, the study only examined the linkage between rural finance, people empowerment and community development for smallholders.

## CHAPTER 2

# People Empowerment and Community Development in Rural and Agriculture Development

## 2.1 Definition of Community Development and People Empowerment

In the context of inclusive rural development, three different yet interrelated dimensions are central to the improvement of the life of all members of the rural community in economic, social and political aspects (Fernando, 2008). As a smaller unit within the rural society, community development is seen as a process where community members act collectively to generate solutions to common problems (Gilchrist, 2004). Through this, the people within the rural community play an important role for development to take place, while the empowerment of the people is the key to reap the most out of the development outcomes.

Empowerment is the process of developing the capacity of individuals or groups to make decisions and benefit from the desired outcomes as a result from their decisions (World Bank, 2002; Roy, 2008). In other words, the empowered people have “freedom of choice and action” on issues affecting their life. Under the empowerment framework of the World Bank (2002), there are four elements: access to information, inclusion and participation, accountability, and local organizational capacity. When turning to practice, the core areas of empowerment cover the provision of basic services, improved local governance, improved national governance, pro-poor market development, and access to justice and legal aid. To make market development pro-poor, there need to be business development support services for the micro, small, and medium enterprises (MSMEs), access to financial services, and ability to manage vulnerability.

In a similar essence, the International Funds for Agriculture Development (IFAD) defined empowerment as “the ability of people, in particular the least privileged, to (a) have access to productive resources that enable them to increase their earnings and obtain the goods and services they need; and (b) participate in the development process and the decisions that affect them.”<sup>3</sup> For the rural poor, financial resources are of foremost importance, in addition to other resources like land, technology and agriculture inputs and infrastructures. It is mostly reflected in the interventions of IFAD to enable the poor rural people to overcome poverty in Uganda through community-based financial services,<sup>4</sup> and to empower the poor rural households in Nigeria through the strengthening of microfinance banks, financial NGOs and financial cooperatives, and enhancing outreach to poor rural households.<sup>5</sup>

On the other hand, the International Monetary Fund (IMF) sees empowerment through financial inclusion as a key link between economic opportunity and economic outcome. “By empowering individuals and families to cultivate economic opportunities, financial inclusion can be a powerful agent for strong and inclusive growth.”<sup>6</sup> For the poor with improved financial access, families can make ends meet for consumption, increase investment in livelihood as well as in education and health, insure

<sup>3</sup> <http://www.ifad.org/events/past/hunger/empower.html> (accessed 3 Sep 2015).

<sup>4</sup> Under the IFAD-funded Project for Financial Inclusion in Rural Areas (2014-2020) in Uganda.

<sup>5</sup> Under the Rural Finance Institution Building Program (2010-2017) funded by IFAD.

<sup>6</sup> Christine Lagarde (Managing Director, International Monetary Fund), Empowerment Through Financial Inclusion. Address to the International Forum for Financial Inclusion in Mexico, June 26, 2014.

against unfavorable events, and avoid falling deeper into poverty. For entrepreneurs, especially small and new ones, access to finance can encourage investment in new and more productive technologies for expansion.

In this study, the people empowerment refers to the access to productive resources and use of them for production improvement and expansion and ability to cope with vulnerability. In this context, the productive resources refer to the financial resources. Also, the study adopts Gilchrist (2004)'s definition of community development and applies it from the rural financial perspective. The study examines the economic development measured by the income as the community development approaches. To put it simply, rural finance is used as the means for the empowerment of smallholder farmers and rural community development.

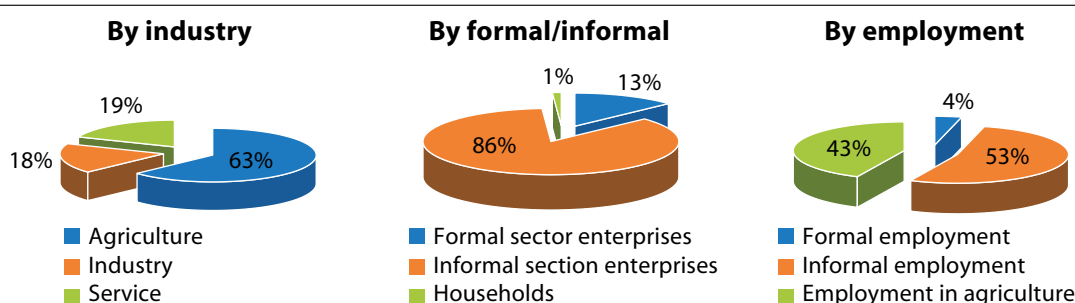
## 2.2 Overview of Agriculture and Rural Development in Cambodia

Over the past decade, Cambodia has had a significant growth, and agriculture has continued to play a key role among the other main sources of growth. In 2014, the sector contributed around 28.7 percent to GDP (MAFF, 2015). However, data on the contribution of the rural sector to economic growth are not available since rural agro-industry and manufacturing are not separated out from the industrial sector and trading of agriculture produces in rural areas is included in the service sector. In addition to primary involvement in agriculture, rural households are mainly engaged in micro, small, and medium enterprise (MSMEs), which are mostly of unregistered farmers and agricultural enterprises. Among these, rice milling is the most common activity (ADB, 2012).<sup>7</sup>

According to the Census of Agriculture in Cambodia 2013 (NIS, 2014), there were approximately 1.9 million agriculture holdings on a total land area of 3.1 million hectares. The agriculture holders, of which 27 percent are female, were smallholders cultivating an average land size of 1.63 hectare per household. More than 92 percent of the cultivated land was under temporary cropping mainly dominated by paddy rice, and followed by corn, cassava, sweet potato, soybean and sugarcane. The main purpose of agriculture production was for home consumption for nearly 73 percent of the farmers.

The economic activities in the rural areas were dominated in agriculture sector employing the majority of the employed population (63 percent). The nature of the employment was mainly in informal sector. About 86 percent of the rural labor force was with informal sector enterprises, and more than 90 percent were in the form of informal employment (53 percent) and agriculture employment (43 percent).

**Figure 3. Employed population in rural areas in 2012**



Source: NIS & ILO, 2013.

<sup>7</sup> Quoted by ADB (2012), the Ministry of Industry and Handicraft (formerly known as Ministry of Industry, Mining and Energy) showed that there are a total of 23,103 small rice-milling enterprises, of which only 47.0 percent have obtained operating licenses.

## 2.3 People Empowerment and Community Development in Cambodia

In Cambodia, more than 80 percent of population live in rural areas. The majority of them involve in the agriculture subsistence and most families do not have access to the basic facilities. Rural people lack necessary education and have always been practicing their traditional way of life, which sometimes cannot be met with the fast changing society. Also, they lack land and capital to run their own business. Because of lack of finance to support their daily lives, the poor households sell their family land in exchange for their survival. This leads to increase a number of landless families which are the high risk of poverty.

So far, many NGOs have worked on the people empowerment and community development in Cambodia through the capacity building, saving groups initiative, agriculture technical skills, farmer group formation, etc. However, there are a number of challenges facing the rural households to access to productive resources. Basically, the rural households and especially smallholder farmers follow traditional way of agriculture with limited, if not at all, adoption of technology, coupled with poor infrastructure including roads, irrigation, and other logistics. This is not to mention the challenges as a result from their informal nature of business. Not ruling out other factors, the rural households are facing a pressing issue in accessing finance for production and business improvement and expansion. When the rural households need to spend, they usually consider the most immediate sources like their current income and savings (if any), sales of livestock, or loans from family and acquaintances, which is limited in size and regularity of the finance. Otherwise, they need to look for other financing means including moneylenders who always charge high interest rates. If for the formal financial institutions, they need to have valuable collateral for the loan application.

Within the context of empowerment discussed above, financial access is one of the key solutions to broad-based agriculture and rural development in Cambodia. Making the financial access work in the rural community can help create great opportunities for smallholder farmers for several purposes. For agriculture related purposes, the rural households need finance to acquire production inputs including seeds, fertilizers, pesticides, and labor, to deal with production seasonality, or to expand businesses. However, there are also incidences of obtaining loans for consumption needs, health or other emergencies, and non-agriculture activities. The availability of finance at reasonable rates enables farmers to improve their capacity and adopt new farming techniques and technology or to scale up their production, and therefore contribute to farming income growth. Furthermore, access to financial services like deposit and insurance “encourage the accumulation of financial assets and enable the rural population’s capacity to better manage their risks and reduce vulnerability” (Fernando, 2008).

In Cambodia, access to immediate sources of finance from the family and acquaintances are very common among smallholder farmers and rural community. In addition, some farmers also take loans from small traders or input suppliers. This type of finance, based on trust and relationship, helps farmers with their working capital through advanced payment by traders or credit supply of inputs by input suppliers. Access to credit from microfinance institutions (MFIs) has become popular for a number of smallholder farmers and households in rural areas. The MFIs have increased its coverage reaching out the major districts, communes and even villages (ADB, 2012). On the other hand, community-based financing has been introduced and popularized by the community development program implementation of NGOs (Men et al., 2014). Groups of farmers are formulated, contributing an agreed amount of savings to a community account for the provision of microloans to the group members to purchase, for example, agriculture inputs. Such saving-led credits are close to the community and meant to provide more opportunities to rural poor people in accessing basic financial services.

## 2.4 Related Policies and Regulations

To date, the Royal Government of Cambodia (RGC) has adopted many laws, regulations, policies and strategies in order to enhance the development of agriculture and financial sectors. The Rectangular Strategy Phase III and the National Strategic Development Plan (2014-2018), which are national blueprint for the sustainable development and economic growth in Cambodia, outline the enhancement of the value addition of agriculture through the promotion of value added production of rice, rubbers, and agriculture production. Also, they aim at improving the agriculture productivity and strengthening modernizations and commercialization. Special programs including the access to finance and non-financial services for agriculture farmers, access to market, and “a regulatory framework for crop-based collateral borrowing” are promoted by focusing on the establishment of agriculture land law and technical code in using the agriculture land. In order to contribute to the development of rural economy and the expansion of credit to the rural areas, the National Bank of Cambodia (NBC) supports the expansion of the microfinance services with affordable prices, good terms and conditions for the poor farmers. In addition, NBC continues to strengthen and promote the mobilization of savings and expansion of the services of the microfinance institutions (MFIs) in the rural areas, including low-interest loans to the poor households.

In 2010, the RGC developed a “Policy on the Promotion of Paddy Production and Rice Export in order to promote Cambodia to be a main rice-exporting country. The policy aims to achieve an export of 1 million ton of milled rice, a surplus of paddy rice of over 4 million tons, and an international recognition of Cambodian rice by 2015. In order to fulfil the financial gap, the short-term strategies include recapitalization of the stated-owned bank, double increase in the capital of the Agriculture Development and Support Fund, and incentives to commercial banks to increase loan portfolio for the agriculture sector and to the processors and small and medium enterprises (SMEs). In the medium run, the policy focuses on the development of the Agriculture Development Bank and the Export-Import Bank. Moreover, it establishes and strengthens farmer organizations and contract farming to ensure credits for their members. The policy also addressed some mechanisms for credits for rice farmers and millers through the enforcement of the Law on Financial Leasing in order to diversify the types of collateral and scope of financial operations.

In 2013, Law on Agriculture Cooperatives was adopted in order to assist the implementation of the Sub-decree on Contract Farming which was approved in 2011, aiming at “strengthening the responsibilities and building trust” between farmers and buyers based on the “equality and justice” principles. In addition, it aims at ensuring prices and the supply of agriculture products in both quality and quantity and “improving purchasing, processing, and exporting of agriculture products.” So far, 556 cooperatives, mainly rice cooperatives, have been established. However, the Agriculture Cooperation Development Fund has not yet been established as planned.

In addition to the policies related agriculture sector, there is a Financial Sector Development Strategy (FSDS) 2011-2020, aiming at developing a sound financial sector in order to increase the economic growth and the access to finance by the poor. The government has promoted MFIs as a tool to mobilize savings in rural areas and will develop mechanisms to facilitate the cooperation between MFIs and “pro-poor organizations” in order for them to develop appropriate services and to expand credit access for the poor. NBC is in the process of developing a *Prakas* on credit cooperatives or financial communities in order to promote the mobilization of savings from both MFIs registered as NGOs and licensed by NBC.

Other regulations and policies also include a regulatory framework for a pawn business, which utilize information technology in order to promote the professionalism among regulators, operators, and relevant stakeholders in this sector. At the same time, the Credit Bureau of Cambodia (CBC), under the support of NBC, was established in 2011, serving both banks and MFIs in recording and maintaining the



credit history of clients and assessing the creditworthiness of clients. Also, related lending issues are outlined in some laws like Civil Code and Law on Secured Transactions.<sup>8</sup> In 2009, the Financial Lease Law was enacted aiming at providing a framework for the development of banking and financial system which enables the lessors and lessees to engage in equal, safe and effective financial leasing activities. The law has set the rights of the parties and mechanisms to protect their rights and will only apply to financial leases of moveable assets in Cambodia.

## 2.5 Key Stakeholders

Many development partners have worked in the development of agriculture and financial sectors in Cambodia. The main development partners actively involved the agriculture and financial sectors include Agence Française de Développement (AFD) which supports both agriculture and microfinance. So far, it has intervened in the development of agriculture products in Cambodia and in the provision of technical supports to MFIs and Cambodia Microfinance Association (CMA) and has worked with the RGC on the development of financial regulations. Moreover, the International Financial Corporation (IFC) has supported the improvement of microfinance sector, the review on the Law on Secured Transactions to address its inconsistency with the Civil Code, and the development and supports of the CBC – extending its function from recording individual borrowers to corporate ones. The Asian Development Bank (ADB) has also supported a credit facility project for rice sub-sector. Furthermore, the International Fund for Agriculture Development (IFAD) has financed US\$80 million for capitalizing saving groups through the provision of capacity building on group management and bookkeeping. Under IFAD's grant, seed capital is provided to the farmer groups.

<sup>8</sup> The Civil Code was promulgated in 2007 and has been used for the sale, purchase, transfer of ownership, land lease right, and/or setting of mortgage on land. Under this law, lenders acquire collaterals as a security and require go to the court before taking over the collaterals if borrowers are in default. On the other hand, the Law on Secured Transactions was adopted in 2007 and the Ministry of Commerce, a governing body, has developed a registry for secured transactions in order to protect the interests of creditors. The purpose of the law is to promote the credit and economic activity through securing lenders their credits. Under this law, lenders acquire collaterals as a security and entitle to take over the collateral without having any court action when the borrowers are in default. These two laws are contradicted in terms the collateral issues.

## CHAPTER 3

# Rural Financial Access

Rural finance refers to the provision of financial services such as credit, saving, payment transfer, leasing etc. offered by the formal and informal financial service providers in the rural areas.

### 3.1 Overview of Financial Sector in Cambodia

The financial sector in Cambodia has experienced significant growth during the past years. As of December 2014, there were 35 commercial banks, 9 specialized banks, and 39 MFIs registered with the National Bank of Cambodia (NBC, 2014). The number of banks and registered MFIs was doubled from 2007 to 2014 and the number of borrowers was 300,000 in 2012 and doubled between 2005 and 2012 (World Bank, 2013). From 2013 to 2014, the loan size from banks increased 34 percent when it increased 52 percent for MFIs (NBC, 2014). There are only 7 MFIs offering deposit services to clients. In 2011, there were 1.5 million account holders and the number increased about 10 times between 2004 and 2011 (World Bank, 2013). In Cambodia, banks and MFIs provide various products and play an important role for financial transactions. There has been emerging new technology, mobile banking services, serving financial services and transactions.

### 3.2 Demand and Supply of Agriculture Finance

Cambodia is an agrarian country, and farming activities are mostly in small scale given limited capital and other resources for expansion. Micro and small farmers dominate not only in farming but also processing and trading in Cambodia. In order to modernize farms, capital to acquire high value inputs and machineries is needed for production or business expansion (Chan, 2014). The demand for finance from farmers is to cover the production costs including seeds, fertilizers, pesticides, and labor and to purchase necessary equipment, machinery, and land. The financial demand in agriculture sector is seasonal, be it during pre-harvesting and harvesting seasons, and the demand varies from farmers to farmers depending on their frequency of farming.

The majority of people live in the rural areas; however, fewer than 20 percent of the rural adults accessed to financial services (Duflos, 2014). According to the interviews with the MFIs and farmer groups, the majority of farmers and traders obtain credits for working capital purpose, while the minority of them requires capital for the investment in equipment and land. To illustrate, only 3.23 percent of borrowers of Prasac MFI get credits to purchase land for agriculture production and expansion. However, the amount of loans for the investment in equipment and land is larger than those for the working capital purpose. The majority of smallholder farmers need capital to buy inputs such as seed, fertilizer, pesticide, and agricultural tools when the large-scale farmers and processors use capital for the investment in equipment and land.

In Cambodia, banks and MFIs provide a low level of credits to agriculture sector. Loans to the agriculture sector in 2014 were only 10 percent (US\$953 million) of banks' total loans and 36 percent (US\$746 million) of MFIs' total loans. On average, loans to agriculture sector in Cambodia accounted for 23 percent of the total loans from banks and MFIs (NBC, 2014).

The top 8 MFIs represent 90 percent of the microfinance sector (see Table 3.2). Prasac is the lead MFI in Cambodia and has the largest loan amount to the agriculture sector. However, the share of the agriculture to its total loans was only 33 percent in 2014. Loans from the top 8 MFIs to the agriculture sector accounted for 44.4 percent of the total loans.



**Table 11. Loan amount from the top 5 banks in 2014**

No.	Name of Financial Institutions	Total Loans (Million USD)	Loans to Agri. (Million USD)	Share of Agriculture Loans
1	Acleda Bank Plc.	2,012	394	19.56%
2	Canadia Bank Plc.	1,409	175	12.40%
3	Foreign Trade Bank of Cambodia	377	82	21.67%
4	Bank of Investment and Development of Cambodia Plc.	446	48	10.68%
5	Rural Development Bank	53	46	86.76%

Source: NBC's Annual Report, 2014

**Table 12. Loan amount from the top 8 MFIs in 2014**

No.	Name of Microfinance Institutions	Total Loan (Million USD)	Loan to Agri. (Million USD)	Share of Agriculture Loans
1	Prasac Microfinance Institution Limited	581	191	32.90%
2	Amret Co., Ltd.	288	138	47.94%
3	Sathapana Limited	311	97	31.29%
4	LOLC (Cambodia) Plc. <sup>9</sup>	115	70	60.35%
5	Hattha Kaksekar Limited	250	65	25.83%
6	Vision Fund (Cambodia) Ltd.	91	63	69.66%
7	Angkor Mikroheranhvatho (Kampuchea) Co., Ltd.	96	54	55.79%
8	Kredit Microfinance Institution Plc.	100	32	31.41%

Source: NBC's Annual Report, 2014

### 3.3 Financing Strategies, Practices and Innovations

As illustrated above, rural finance in Cambodia is mostly provided by MFIs when banks play a minor role. In addition to the formal financial institutions, NGOs, saving groups, and moneylenders also contribute significantly to rural financing.

#### 3.3.1 Banks

Commercial banks play an insignificant role in providing loans to the agriculture sector in Cambodia. They are reluctant to offer credits to the agriculture sector because the agriculture farming is prevalent to high risks and low return given farming activities heavily depend on climate. According to the World Bank (2013), the average gross margin of agribusinesses in 2011 was 11 percent which was estimated to be insufficient to cover the interest rate. Also, banks, except Acleda Bank, are interested in providing loans to large agriculture farms and are located only in urban and peri-urban areas with limited number of branches.

Bank loans are mostly provided to potential and main agriculture sub-sectors including rice, rubber, cassava, pepper, and sugarcane. In providing credits, banks require fixed assets such as land and buildings as collaterals and financial records from borrowers. The loan size provided by banks to borrowers is between US\$30,000 to millions US dollars for large-scale farms or trading companies, and less than US\$3,000 for small loans. On average, the annual interest rate to large companies is between 8 percent and 12 percent and from 22 percent to 36 percent for small borrowers. The loan maturity for the investment on equipment purpose is 5 to 6 years which is longer than that for the working capital purpose which lasts from 6 to 12 months. On the other hand, some banks provide loans to MFIs which,

<sup>9</sup> Former Thaneakea Phum.

in turn, offer credits to rural people. Banks lend to MFIs in two different ways such as direct loans and deposit. The required collateral include the fixed assets, outstanding loans of MFIs, or cash. However, loans without fixed assets as collateral tend to have higher interest rate.

### 3.3.2 Microfinance Institutions

In Cambodia, “the microfinance sector is quite mature, and most agriculture credits are provided by MFIs or microfinance banks, for instance, Acleda Bank” (AFD 2012, p. 15). Smallholder farmers find it easier to access to loans from MFIs than banks because MFIs have smaller loan size and wider coverage areas including urban, peri-urban, and rural areas. The services provided by MFIs in Cambodia include individual, group, seasonal, agriculture, home improvement, and small and medium enterprise (SME) loans. The annual interest rate of MFIs is between 22 percent and 36 percent and it varies depending on type and size of loans. The loan maturity is from 3 to 60 months for the investment in equipment and 3 to 36 months for the agriculture and seasonal loans. The majority of MFIs’ clients, accounting for more than 80 percent, are women who involve in agriculture, service, and industry sectors. The purposes of loans are mainly for the purchase of inputs such as seed, fertilizer, and for labor employment. The minority of farmers obtain loans from MFIs for expansion investment.

According to the interviews with MFIs, the provision of loans to the agriculture sector is prevalent to high risk as the agriculture farming is still depending on the traditional techniques and climate, and the production suffers from the low profitability. One of the risk aversion strategies of MFIs is that farmers could easily access to credits unless they have the additional sources of income. Another strategy is that farmers can form a group of 5 to 6 people in order to access to the group loans. The group loan, with the amount up to US\$600, does not require the collateral but the guarantee from group members.<sup>10</sup> In addition, few MFIs have had other innovative strategies in penetrate the market through offering health insurance to their clients and others have operated mobile payment services and plan to provide weather-index insurance for some specific agriculture crops.

### 3.3.3 Digital Finance

Digital finance services in Cambodia has been served by telecommunication companies and financial institutions. So far, companies providing such services include Wing (specialized bank), AMK (MFI), E-Money (Telecommunication Company), True Money, Asia, etc. In addition to these, Acleda Bank also provides the mobile banking services called “Unity”. The services of these institutions and companies include local remittance, repayment of bank or MFI loans, payment for electricity and water bills, and mobile phone top-up services. The mobile banking services cover nationwide and the presence of the services helps reduce the transaction costs and commuting time for farmers, especially smallholder farmers, who live far away from MFIs or who live in the areas with the absence of MFIs’ offices. However, the service providers faced challenges as the majority of smallholder farmers are illiterate and those who could read and write also found it hard to use the mobile banking services because the functions and feature of phones could not display in Khmer, the Cambodia’s language (Mattern and Tarazi, 2015).

### 3.3.4 Informal Lending

Given the limited availability of capital and limited access to the financial markets, many rural smallholders finance their farming activities and businesses with their own sources of capital and financial supports from their relatives or friends. Some of them go to moneylenders who charge high interest rate, accounting for 60 percent to 120 percent a year. At the same time, many NGOs have supported farmers by providing them seed capital and technical supports in developing farmer groups

<sup>10</sup> The amount varies from MFIs to MFIs. The loan size of some MFIs is smaller than US\$600.

**Case Study: Financing Strategies, Practices, and Innovations of AMK**

AMK, a social oriented MFI, has been operated in Cambodia since 2003. It covers over 86 percent of total villages in Cambodia with its 139 branches. As of December 2014, there were 410,142 clients, most of whom are poor and vulnerable people and of which more than 86 percent of them used group loans and the remaining was individual loans. Its products include loans (business expansion, seasonal, credit line seasonal loan, agri-equipment, emergency, home improvement, motorcycle loan, and easy loan), deposits, payments, branches banking, and micro insurance. In 2014, AMK ranks the 4<sup>th</sup> in providing loans in Cambodia and loans to the agriculture sector.

In 2014, it launched its mobile banking services aiming at easing rural households with trading and transferring transactions. Since 2015, it has launched the micro insurance on health and accident, partnering with Forte Insurance, to its borrowers with the premium of US\$6 per year. In addition, it was launched the agri-equipment loan with the maximum loan size of US\$3,000 in October 2015. AMK's customers generate income from many activities. On average, each household involve in 4.2 activities, of which 1.9 from farming when 1.8 and 0.4 from non-farming and other activities, respectively.

Source: Interview with AMK and its Annual Report, 2014

and/or saving groups in their target operating areas. Saving groups have played an important role in providing a narrow range of credits to smallholder farmers who are the members of the groups. In addition, other NGOs also offers credits to peri-urban and rural people. These NGOs function as MFIs but are operated without license from NBC.<sup>11</sup> Generally, NGOs and saving groups in Cambodia lack the capacity or expertise to increase the size of their services. The loan amount from NGOs and saving groups, less than US\$300, are small with an interest rate of around 24 to 36 percent per year.

Financing along the value chain plays a significant role in supporting farmers, especially smallholders, in Cambodia. Some farmers are not interested in bank or MFI loans because the trading partners provide them with capital, chemical inputs, and/or seeds. Some traders provide cash advance to farmers for input acquisition, which will be deducted from their sale amount. In another case, input suppliers sell inputs to farmers on credit with either interest rate or additional charges, and the collection is made either before or after the harvesting.

### **3.4 The Impact of Rural Financing to People Empowerment and Community Development**

Rural finance addresses the financial needs of the rural population which form the majority of the population. "Like other types of financial services, rural finance is a facilitator rather than a creator of economic opportunities. Where economic opportunities already exist, access to credit facilities can contribute to faster and more extensive adoption of improved technology which is consistent with raising the level of productivity and therefore the level of incomes" (Samuel et al., 2004, p. 3).

Limited access to capital prohibits farmers to apply high technology in agriculture production. The majority of rural farmers rely on savings, capital from friends, relatives, or moneylenders for the start-up and operations of the agriculture farming and businesses (IFAD, 2010). The presence of financial services helps farmers participate more effectively in the markets. The access to credit provides funds to famers to make productive investment in technologies and other inputs such as fertilizers or seeds, which, in return, increase the agriculture productivity and improve livelihood of farmers and further

<sup>11</sup> In mid-2015, NBC adopted a new regulation to monitor unlicensed MFIs or NGOs by requiring them to register with NBC instead of the Ministry of Interior.

increase in the demand for capital. Finance is also required for the commodity marketing and inventory procurement which offer rural farmers, traders, and processors the opportunity to improve household income. Also, the financial products could help farmers to cope with the risk of agriculture production and other unexpected expenses (Nosiru, 2009, Abedullah and M Khalid, 2009, Saboor et al., 2009, and Coulter and Onumah, 2002).

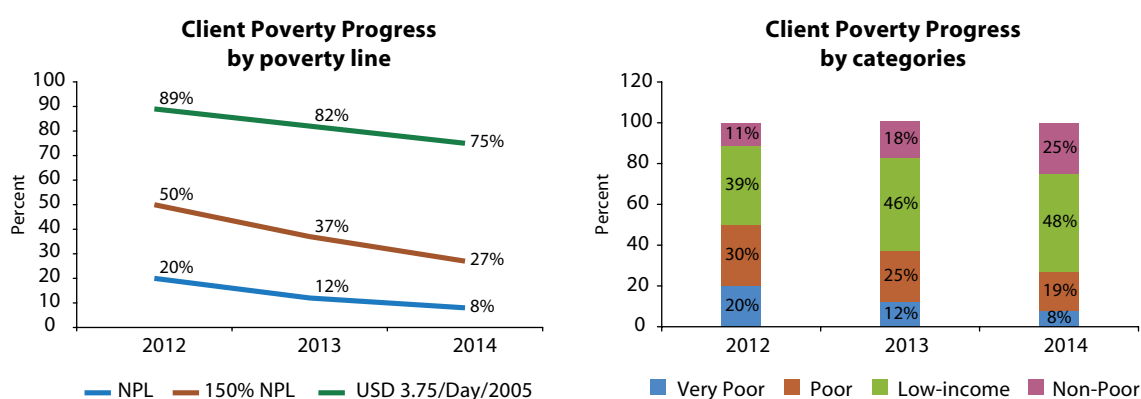
Rural finance plays an important role in reducing the vulnerability of smallholders as it helps them to smooth their consumption and build up their assets (Gonzalez-Vega, 2003). Financial services such as savings allow smallholders to maintain precautionary balances against shocks and to easily access to credit with their savings or assets as the collateral (Marr and Onumah, 2004). Also, access to payment services of the financial institutions allows rural and smallholder farmers, processors, and traders to take part in the modern and efficient trading systems. Therefore, financial access is one of the key solutions to broad-based agriculture and rural development in Cambodia. Making the financial access work in the rural community can help create great opportunities for smallholder farmers for several purposes.

Moreover, rural farmers in Cambodia access to the community-based saving groups in order to finance shortage of working capital. Although the loan size is in a narrow range, farmers could get credits in order to buy agriculture inputs such as poultry, seed, and fertilizer. The formation of saving groups provides an opportunity to smallholders to work collectively to address challenges as members of the groups reside in the same village and rely on the same farming activities. As a result, they could generate income which was used for the children education and household expenses and for saving. In addition to the saving groups, some of them form a group of 3 to 6 in order to access to the group loans offered by MFIs. By participating in the groups, farmers could at the same time share information about new farming technologies, markets, and prices of products.

To sum up, access to finance creates the economic opportunities to rural smallholder farmers as it can contribute to the adoption of improved technology and productivity resources to increase the production and expand the business which leads to the increase in incomes. Although rural finance has a significant impact on people empowerment and community development, there are a number of challenges in reaching out to the smallholders in rural areas.

### Case Study: The Impact of LOLC's Loans on Farmers' Improved Livelihoods

LOLC, formerly known as Thaneakea Phum, is committed to serve and empower entrepreneurs and low-income families. By end of 2014, 98 percent of the total borrowers live in rural areas; 84.58 percent of them are women and 60 percent are engaged in agricultural activities. Since 2012, LOLC has used the Progress out of Poverty Index (PPI), developed by the Grameen Foundation, to track the impact of its operations on its clients. According to the PPI survey with more than 92,590 new clients in 2014, majority of them were living below US\$3.75 per day, and 8.75 percent of them were living below the national poverty line. Continual tracking of PPI for all new clients enables LOLC to remain focused on serving marginalized populations. Since 2012 the poverty likelihood of randomly selected clients has been monitored and surveyed from one year to another. LOLC has monitored those clients in 3 consecutive years and clients' poverty improvements can be estimated, as shown in the graph below.



Several cases on the impact on individual farmers were documented.

Ms. Kan Phoan, whose husband is a migrant worker in Thailand, has accessed to 5 loan cycles from LOLC since 2008. In addition to her husband's monthly salary of US\$ 100, she can earned US\$ 1,200 per year from crops and US\$ 1,500 every 4 to 5 months from pig raising. At the same time, she has improved her house, built a bathroom, brick ladder, water tanks, and stone bench. More importantly, she can buy piglets, and she has also bought a motorbike with her earnings. She plans for her son's tertiary education. Ms. Phoan is also very active in supporting the village chief, and organizes other women in the village to attend training sessions about reproductive health and gender issues.

Since 2012, Ms. So Soth has been an LOLC's client for 2 loan cycles. With these loans, she can buy fertilizer in large amount which make the prices cheaper, and she dug several wells and bought a new pump for her rice field irrigation. With the income she made from improved farming, she was able to buy a motorbike for her husband so he can travel to work and to the field. Higher income from farming allows Ms. Soth to focus on her family. She even plans to resume her pig raising business and set up a gasoline stall and grocery store in front of her house when her baby grows up. When it is time to expand her business, Ms. Soth plans on taking a loan from LOLC for additional capital.

Ms. Ty Yorng has been an LOLC's client for 8 loan cycles with no late payments. She uses the loan to buy fertilizer, pesticides and other farming inputs. After her husband passed away, her family encountered a very hard time. Ever since obtaining a seasonal loan from LOLC she could recovered the hard time. Within two years, she could pay off all debts and had some money left to marry off her son. In addition to earning US\$ 20,000 annually from their 10-hectar land which was farmed 2 times per year, she earns income from different sources such as fees from plowing, goods transport, water pumping, and battery recharging. Last year, she had her wooden house renovated.

Source: LOLC's Annual Report 2014, and <http://www.lolc.com.kh/> (accessed 10 December 2015)

## CHAPTER 4

# Challenges for Rural Financial Access for People Empowerment and Community Development

There is an evidence that the demand for rural agriculture finance remains unmet. Rural smallholders have the advantage of an effective microfinance sector; however, the majority of them remain excluded. As a result, agriculture productivity in Cambodia is lower and even much lower than that in the neighboring countries. Smallholder farmers have to overcome the financial hurdles in accessing to finance since they do not have land and other fixed assets as collaterals. The value chain survey conducted by SNV, the Netherlands organization, in Svay Rieng province (2012) illustrated that only a small number of farmers borrowed from MFIs when the majority of them used their own capital to buy inputs and equipment for rice production. Moreover, some farmers are not interested in getting loans from MFIs because they are afraid of being indebted, while others have obtained from more than two MFIs at the same time. In addition, smallholders are concerned that their properties may be seized by MFIs if they could not repay the debts by the due date. In addition, they are reluctant to access credits from MFIs because of the uncertainty inherent with the agriculture sector, the low return from the investment and the fluctuation in prices when they have to pay high interest rate to MFIs.

Another challenge is the accessibility of MFIs. Although MFIs offer credits in the rural areas, its offices are somehow located far from their clients. The asymmetric information is also one of the challenges for rural finance. When information of borrowers are impeded by the limited infrastructure and system.<sup>12</sup> Furthermore, some rural smallholders could not access to the available financial information and still do not understand the products. With the low level of education and financial knowledge, the loan takers tend not to be capable of managing their finance efficiently. Some smallholders do not get credits from MFIs because they have other alternatives such as saving groups, NGOs, and moneylenders. Loan procedures from these lenders are less complicated and require no collateral; however, the loan size is in a narrow range that may not be able to meet their business expansion and investment needs.

On the other hand, banks and MFIs are reluctant to provide loans to the agriculture sector, especially smallholder farmers and traders as it is involved in high risks given the fact that the agriculture farming in Cambodia heavily depends on the climate. Moreover, transaction costs in rural areas, especially in remote areas, are high due to low population density, lack of infrastructure (communications, electricity, and transportation) and small average loan amounts, which makes financial services expensive. MFIs have sourced funds from abroad and limited local sources of funds. This results in high costs of capital which leads to high interest rate. Also, MFIs have limited staff who have knowledge on agriculture sector or agriculture techniques to evaluate the agriculture loans and to some extent the ability to assess the profiles of multi-credit borrowers despite the existence of Credit Bureau of Cambodia (CBC).

<sup>12</sup> The system of Credit Bureau of Cambodia (CBC) is helpful in tracking borrowers' profile. However, MFIs sometimes are challenged in tracking the records of borrowers as some of them also borrow from other MFIs but under their partners' names.



## CHAPTER 5

# Future Direction

Many other actions should be taken in order to fulfill the gaps of financial demand and supply. These include the strategies for MFIs themselves and the capacity building to borrowers.

- The institutional capacity of MFIs should be strengthened. The agriculture technical skills should be further provided to the loan officers. Also, MFIs should frequently conduct need assessment and follow-up researches on the use and impact of loans on the livelihood and business development of borrowers.
- Banks or MFIs should accept the movable assets as the collateral for credits to rural smallholders.
- Smallholder farmers are vulnerable to income shocks because of unpredictable climate and price fluctuation. Thus, the micro insurance on crops or weather should be developed in order to assist smallholders mitigate risks.
- Local sources of funds at low costs should be promoted and motivated in order for MFIs to lower interest rates. This could be done through the promoting of local savings and the wide practices of lending from the commercial banks to MFIs and the lending from MFIs with the surplus of capital to MFIs with shortage of capital.
- As farmers do not understand the services of MFIs and do not select the best MFIs for their choice, there should be mechanisms, such as the increase in the product promotion and campaign offered by MFIs and the financial literacy and matching between smallholder farmers and MFIs organized by NGOs, that farmers should be aware of the services provided by MFIs in their areas or communities in order to reduce the asymmetric information on the choice of MFIs. Also they should know which MFIs provide the best terms and conditions for them and offer seasonal loans agriculture productions and trading and loans for the investment on the equipment.
- In order to ensure that smallholder borrowers use loans effectively and efficiently, financial literacy on how to manage capital in agriculture production as well as business operation and knowledge on financial records should be offered to them to improve their profitability and to avoid debt trap.
- Since loans to the agriculture sector is prevalent to high risk, the implementation of the agriculture farming and business should be improved and challenges of farming such as the limited technical skill, price fluctuation, shortage of water, access to market, and low profitability should be addressed. By doing so, it may attract more attention of banks and MFIs to provide credits to the sector.
- The specific policy to incentivize MFIs to provide credits to the agriculture sector, especially small-scale agriculture activities, should be developed.

## CHAPTER 6

# Conclusion

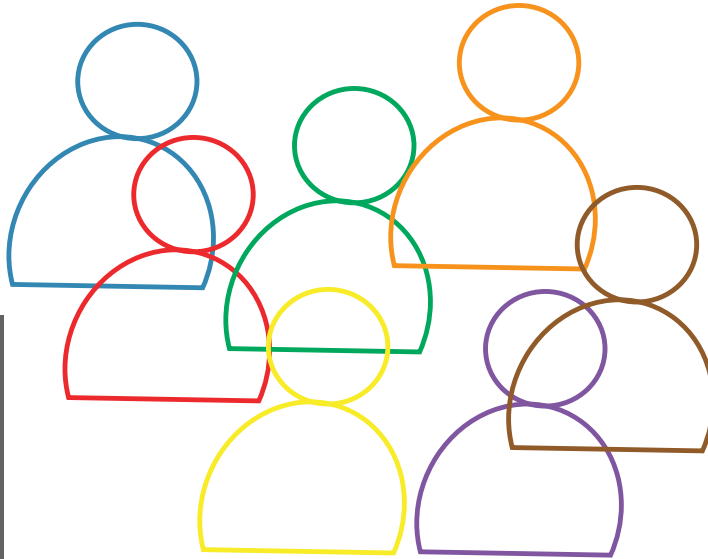
In conclusion, rural households and especially smallholder farmers who adopt traditional agriculture techniques with limited technology, and poor infrastructure usually invest in their agriculture farming and trading with their savings and immediate sources from family and acquaintances. The presence of community-based saving groups, NGOs, and moneylenders provide additional sources of finance for the rural smallholder farmers. Commercial banks, except Acleda Bank, are reluctant to provide loans to rural farmers given the unfavorable climate and low profitability of the business and high costs inherent in the venture. However, MFIs play a significant role in the rural areas in Cambodia. Rural finance creates the economic opportunities to rural smallholder farmers. With the presence of policies and supports from many development partners, rural finance has been improved; however, there are still gaps between financial demand and supply. The challenges include farmers' inability to have collaterals, MFIs' high transaction costs, limited agriculture technical capacity of loan officers, accessibility of MFIs' branches, farmers' unwillingness to borrow and alternative choice. To tackle the challenges, MFIs should take certain actions including the strengthening of institutional capacity, loosening collateral policies, and new product development which benefits the rural smallholder farmers. At the same time, the government should develop a specific policy as an incentive to promote the involvement of financial institutions to provide loans to small-scale. Last but not least, financial literacy should be more widely and continuously provided to borrowers.



**Part 3**

# **People Empowerment, Financial Access and Community Development in India**

Y.V. Raghunatha Reddy





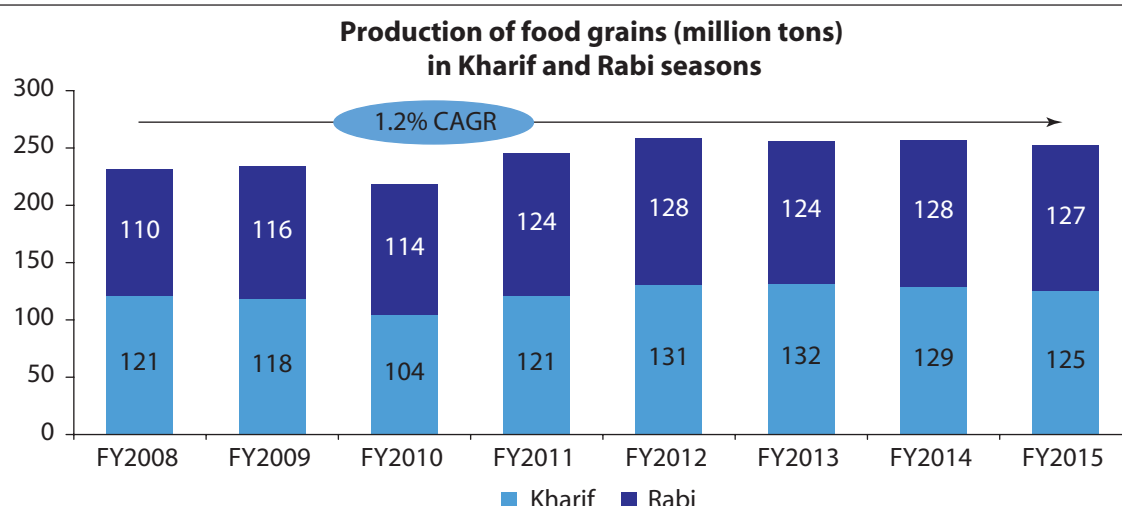
# CHAPTER 1

## Introduction

India is the world's second most populous country. It is also the world's largest democracy. It was only in early nineties that the Government shifted to a more open economy with greater reliance upon market forces, a larger role for the private sector including foreign investment. The country has a burgeoning urban middle class and has made great strides in fields such as information technology. Its large, skilled workforce makes it a popular choice for international companies seeking to outsource work. But economic progress is hampered by corruption, widely regarded as endemic and engulfing every level of politics and society.

There are two major agricultural seasons in India: Kharif and Rabi. Kharif season lasts from April to September (summer), and rice (paddy) is the season's main crop. Rabi season lasts from October to March (winter), and wheat is the season's main crop. Total food grains production in India reached an all-time high of 257 million tons FY2014. According to 3<sup>rd</sup> advance estimate for FY2014-15 by Ministry of Agriculture, total food grains production is estimated to be 251.12 million tons in FY2015.

**Figure 4. Annual food production**



Source: Finance Ministry, Ministry of Agriculture, TechSci Research

Note: \* 3<sup>rd</sup> Advance Estimates

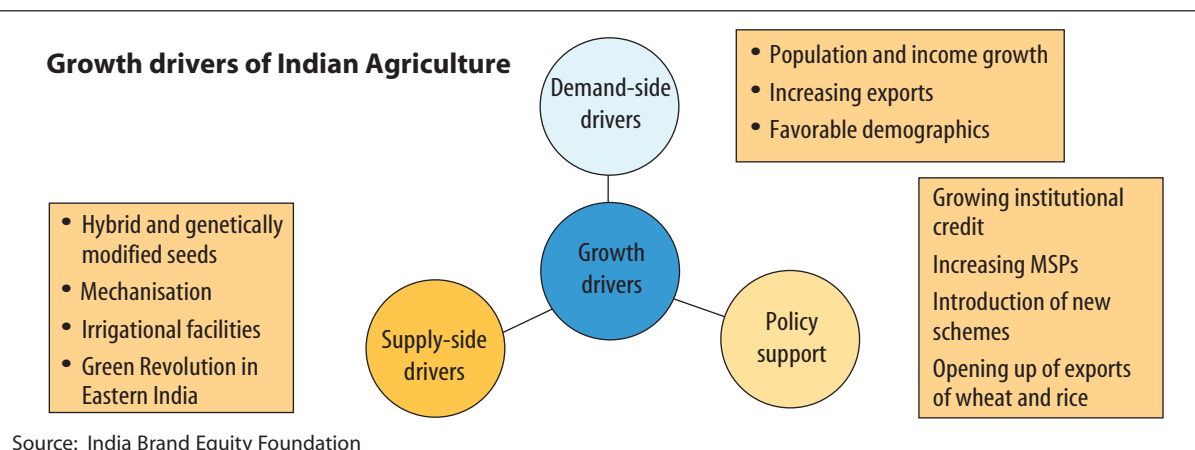
Agriculture plays a vital role in India's economy. Over 58 percent of the rural households depend on agriculture as their principal means of livelihood. Agriculture, along with fisheries and forestry, is one of the largest contributors to the GDP. As per estimates by the Central Statistics Office (CSO), the share of agriculture and allied sectors (including agriculture, livestock, forestry and fishery) was 16.1 percent of the Gross Value Added during 2014-15 at 2011-12 prices. The country is the largest producer, consumer and exporter of spices and spice products. It ranks third in farm and agriculture outputs. Agricultural export constitutes 10 percent of the country's exports and is the fourth-largest exported principal commodity<sup>1</sup>. The agro industry in India is divided into several sub segments such as canned, dairy, processed, frozen food to fisheries, meat, poultry, and food grains. The Department of Agriculture and Cooperation under the Ministry of Agriculture is responsible for the development of the agriculture sector in India. It manages several other bodies, such as the National Dairy Development Board (NDDB), to develop other allied agricultural sectors.

<sup>1</sup> Agricultural and Processed Food Products Export Development Authority (APEDA).

Over the recent past, multiple factors have worked together to facilitate growth in the agriculture sector in India. These include growth in household income and consumption, expansion in the food processing sector and increase in agricultural exports. Rising private participation in Indian agriculture, growing organic farming and using information technology are some of the key trends in the agriculture industry.

As per the 3<sup>rd</sup> Advance Estimates, food grain production is estimated at 251.12 million tons (MT) for 2014-15. With an annual output of 138 MT, India is the largest producer of milk. It also has the largest bovine population. India is the largest producer and importer of pulses at 19.0 MT and 3.4 MT, respectively. India, the second-largest producer of sugar, accounts for 14 percent of the global output. It is the sixth-largest exporter of sugar, accounting for 2.76 percent of the global exports. Spice exports from India are expected to reach US\$ 3 billion by 2016-17 due to creative marketing strategies, innovative packaging, strength in quality and strong distribution networks. The spices market in India is valued at Rs. 40,000 crore (US\$ 6.42 billion, Exchange rate used: INR1= US\$ 0.016 as of 8 July 2015) annually, of which the branded segment accounts for 15 percent<sup>2</sup>.

**Figure 5. Growth drivers of Indian Agriculture**



## 1.1 Importance of People Empowerment

Empowerment strategy nowadays has emerged as a unique Indian response to the challenge of gender equity and development. For women empowerment, it is essential to provide them access to information, knowledge, resources and power to make decisions. Empowering women at all sphere of life plays a vital role and is crucial in sustainable development of the nation. The analysis of conditions leading to their powerlessness, need implementation of suitable managerial skill trainings, motivation to decision-making with persistence for accomplishing basic objectives will lead them empowered women in agriculture<sup>3</sup>. Agriculture is the back bone of India. More than 70 percent of the people engaged in agriculture and it is the livelihood occupation for majority of the people. The role of women in this field is highly substantial. More than eighty percent of the work has to be performed by women. They are working as laborers involved in different agricultural operations. Women have a bright future in the field of agriculture as it is the evergreen profession and involves much scope for future. Science and technology in agriculture is of very noteworthy dimension and will strengthen the women in performing agriculture<sup>4</sup>. Women who were illiterate/less educated were less empowered. Education plays an important role in bringing about awareness on women's rights. Education and employment are

<sup>2</sup> The Economic Survey 2014-15

<sup>3</sup> Sharma A 2011 Women empowerment: Milestones and challenges. Kurukshetra, 59(11): 10-15.

<sup>4</sup> Agriculture – A Tool for Women Empowerment, P.V. Satya Gopal and B. Vijayabhinandana - Indian Research Journal of Extension Education Special Issue (Volume I), January, 2012.

better described as “enabling factors” or “sources of empowerment”. Hence, the education should be major motive for holistic empowerment of rural women<sup>5</sup>.

## 1.2 Rural Finance Description

The Government of India initiated several policy measures to improve formal and intuitional credit access to farmers. Government emphasized on timely and adequate credit to all farmers, particularly to small and marginal farmers and weaker sections of the society. The credit flow to agriculture after the introduction of financial sector reforms in early-nineties, increased from Rs 285,146 crore during the Ninth Plan (1997-2002) to Rs 691,739 crore (243 percent) during the Tenth Plan (2002-07). Credit disbursement during the Eleventh Plan (2007-12) further shot up to Rs 1,920,400 crore (277 percent). As against annual average disbursement of Rs 57,029 crore, Rs 138,348 crore and Rs 384,080 crore during previous three plans the disbursement during 2012-13 alone was Rs 607,375 crore, exhibiting significantly high growth of credit year after year<sup>6</sup>. Progress in agricultural credit flow is given below:

**Table 13. Annual agriculture credit flow**

Year	Amount (Rs Billion)
2004/05	1,253
2005/06	1,805
2006/07	2,294
2007/08	2,547
2008/09	2,871
2009/10	3,845
2010/11	4,683
2011/12	5,110
2012/13	5,899
2013/14	6,694
2014/15	7,700

**Financial Institutions:** Agricultural credit is disbursed through several formal financial institutions consisting of Commercial Banks, Regional Rural Banks (RRBs) Cooperatives and Micro Finance Institutions (MFIs). As on March 31, 2013 there were 93,042<sup>7</sup> village level Primary Agricultural Credit Societies (PACS) with 180 million members apart from District Central Cooperative Banks (DCCBs) State Cooperative Banks (SCBs) providing primarily short-term and medium term agricultural credit in the country. The long term cooperative structure consists of State Cooperative Agriculture and Rural Development Banks (SCARDBs) and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs), which are catering to the requirement of investment credit. Besides, there are rural and semi-urban branches of Commercial Banks (around 50 thousands), branches of RRBs (around 15 thousands) and several MFIs.

**Programmes:** The financial institutions generally provide credit to individual farmers and rural entrepreneurs. However, tenant farmers, sharecroppers and the poor might find it difficult to access formal credit in the absence of property title deeds in their name. Due to consistent efforts of the NGOs and the government, such persons are mobilized into SHGs and JLGs. Banks have evolved a special package for such affinity groups, where there is no collateral security. MFIs are also providing credit in rural areas through their JLGs formed exclusively for the purpose of credit delivery.

<sup>5</sup> Empowerment of Rural Women in Agriculture: A Socio-psychological Analysis by Kiran, Dipak De, B.K. Gupta, D.K. Pandey and A.D. Upadhaya – Stud Home Com Sci, 6(3): 139-144 (2012)

<sup>6</sup> Amrit Patel – Issues facing Agricultural Credit in India, India Microfinance, eAGRIBUSINESS, July 28, 2014

<sup>7</sup> National Federation of State Cooperative Banks Ltd. – Performance of Primary Agricultural Credit Societies (April 1, 2013 to March 31, 2014)

**Refinancing agencies:** Commercial Banks can claim refinance on their term loans to farm sector from the National Bank for Agriculture and Rural Development (NABARD). Cooperative and Regional Rural Banks are eligible for refinance on their term loans as well as crop credit from the NABARD. Similarly, Small Industries Development Bank of India (SIDBI) refinances banks on their finance to small scale industries.

## CHAPTER 2

# People Empowerment and Community Development

### 2.1 People Empowerment and Community Development in Sustainable Rural and Agricultural Development

The Government of India and state governments alike have increasingly realized the importance of devoting attention to the economic betterment and development of rural women in India. Key instruments for supporting women's empowerment are self-help groups, whereby 10-20 rural neighborhood women with similar socio-economic background meet either weekly or fortnightly or monthly for saving and internal lending. Self-help groups are generally facilitated by NGOs, and increasingly advise and train members in a variety of on- and off-farm income-generating activities. In recent years state governments have created separate departments to promote SHGs. Women development corporations and very recently, the State Rural Livelihood Missions (SRLMs) under the umbrella of National Rural Livelihood Mission (NRLM) have been actively promoting SHG concept in rural India. The SHGs are financed by banks under the programme called SHG Bank Linkage. Annual credit flow to SHGs from formal banking sector is around US\$ 4 billion.

The SHG Bank Linkage has been proved to be successful in providing access to financial services from the formal Banking Sector to the poorest of the poor. In order to develop effective credit products for small/marginal/tenant farmers, oral lessees and share croppers, as also entrepreneurs engaged in various non-farm activities, the scheme for Joint Liability Groups (JLG) was launched<sup>8</sup>. The objective was

1. To augment flow of credit to farmers, especially small, marginal, tenant farmers, oral lessees, sharecroppers/individuals taking up farm activities,
2. To extend collateral free loans through JLG mechanism
3. To build mutual trust and confidence between Banks and the borrowers
4. To minimize risk in the loan portfolio for the banks through group approach, cluster approach, peer education and credit discipline
5. To provide food security to vulnerable sections by supporting the cause of enhanced agriculture production, livelihood promotion

Andhra Pradesh state promoted Rythu Mitra (Friend of a farmer) concept. Over 230 thousand Rythu Mithra Groups were formed in the state by the end of 2010 to work on SHG lines to enable tenant farmers, share croppers and oral lessees to obtain finance from Banks and to serve as a conduit for technology transfer and facilitate access to market information. Each Rythu Mitra Group was formed with around 15 members consisting of Small, Marginal and Tenant farmers in the state. However, these groups have stopped functioning effectively in recent years.

NABARD promoted Farmers' Clubs across India. The objective of the programme is "Development through credit, technology transfer, awareness and capacity building". The emphasis of the programme is on increasing the income of the farmers by increasing the production and productivity by adopting appropriate technology, good agricultural practices, and proper use of credit and marketing skills.

<sup>8</sup> Union Bank of India – guidelines on JLGs



During 2013-14, 16,279 new Farmers' Clubs (FCs), were sanctioned taking the total number of Farmers' Clubs across the country to 1.43 lakh with membership in the range of 15 to 20 per club. Apart from facilitating farmers in accessing credit, extension services, technology and markets, some Farmers' Clubs function as Self Help Promoting Institutions (SHPIs) and Business Facilitators/Business Correspondents. The region-wise distribution of clubs indicated that the Central region had the highest share (28 percent), followed by the Eastern (23 percent), Southern (21 percent), Western (14 percent) and Northern (11 percent) region, while North Eastern Region (NER) accounted for (3 percent) in formation of clubs. Under the approach adopted for the year 2014-15, the focus of the programme is strengthening, capacity building and training of the stake holders and up scaling the successful Farmers' Clubs to form Farmers Producers' Organizations.<sup>9</sup>

## 2.2 Key Features of People Empowerment and Community Development

Community empowerment refers to the process of enabling communities to increase control over their lives (WHO). For the rural poor, land and financial resources are of foremost importance, but technology, seeds and fertilizer, livestock and fisheries, irrigation, marketing opportunities, and off-farm employment are also essential (IFAD). In order to access credit and other resources required for cultivation, Government of India as well as state governments have been promoting affinity groups in the form of JLGs and SHGs. These groups are discussed in detail in the paper.

## 2.3 Descriptions and features uniquely people mobilization, organization, coordination including processes and procedures for development

### a. Scheme for Joint Liability Groups (example: Union Bank of India)

The SHG Bank Linkage has been proved to be successful in providing access to financial services from the formal Banking Sector to the poorest of the poor. In order to develop effective credit products for small/marginal/tenant farmers, oral lessees and share croppers, as also entrepreneurs engaged in various non-farm activities, the scheme for Joint Liability Groups was launched. The salient features of the scheme are as under.

Objective:

- To augment flow of credit to farmers, especially small, marginal, tenant farmers, oral lessees, sharecroppers/individuals taking up farm activities
- To extend collateral free loans through JLG mechanism
- To build mutual trust and confidence between Banks and the borrowers
- To minimize risk in the loan portfolio for the banks through group approach, cluster approach, peer education and credit discipline
- To provide food security to vulnerable sections by supporting the cause of enhanced agriculture production, livelihood promotion

A Joint Liability Group (JLG) is an informal group comprising preferably of 4 to 10 individuals of similar socio-economic background coming together for the purposes of availing bank loan either singly or through the group mechanism against mutual guarantee.

<sup>9</sup> NABARD website – [https://www.nabard.org/english/fs\\_FarmClubProgramme.aspx](https://www.nabard.org/english/fs_FarmClubProgramme.aspx)

## JLG Models

- Model A – Financing Individuals in the Group:
  - Each member of the JLG should be provided an individual UGC. The financing branch should assess the credit requirement, based on the crop to be cultivated, available cultivable land and the credit absorption capacity of the individual
  - All members would jointly execute one inter-se document (making each one jointly and severally liable for repayment of all loans taken by all individuals in the group)
  - There has to be mutual agreement and consensus among all members about the amount of individual debt liability that will be created. Any member opting out of group or joining the group will necessitate a new loan agreement

### Model B – Financing the JLG as a Group:

- The group would be eligible for accessing one loan, which could be combined credit requirement of all its members

### b. Self-Help Groups (SHG) – SHG Bank Linkage Process

SHG is an informal affinity group of 10 to 20 members of the same socio-economic background. They meet regularly – either weekly, bi-weekly or monthly, to save certain amount money, borrow from the group and repay the borrowed amount. They keep records of all the transactions that happen in the meeting. SHGs do maintain Savings Bank accounts in banks and deposit their surplus funds in it. SHGs are formed and nurtured by NGOs and state governments through several programmes. At the apex level, National Rural Livelihood Mission (NRLM) is supporting the formation of women SHGs and their federations through State Rural Livelihood Missions (SRLMs).

SHG, which has been following “Panchsutras” like regular savings, periodical and regular meetings, proper maintenance of accounts, internal lending and recovery in the last six months, is linked to the Bank for loan. Banks are considering overdraft facility or Cash Credit Limit (CCL) while providing credit facilitates to the SHGs. The CCL is arrived for a period of 3 to 5 years with varying Drawing Powers (DP) based on the SLBC guidelines or the savings multiples, whichever is advantageous to the SHG. The higher DP may be considered by banks based on the Micro Credit Plans (MCP) submitted by the SHGs. The MCP takes into account all the credit needs of its members including investment in income generation activities, health, and education of children and even retiring high cost debt.

### c. Micro Finance Institutions (MFIs)

There are several MFIs across the country providing credit to rural households. They promote JLGs for the purpose of extending credit. The rate of interest is varying between 18 percent and 30 percent per annum, which is exorbitantly high compared to banks, whose rate is varying between 7 percent and 12.5 percent per annum. However, MFI services are better than that of moneylenders, who do charge anywhere between 24 percent and 60 percent. The rural lending of MFIs is significant and very close to SHG Bank Linkage.

## 2.4 Country Perspective on people empowerment

“From a developing country perspective, empowering women using enabling technologies can be a game changer if harnessed and applied to its full potential,” India’s Permanent Representative to the UN Asoke Mukerji said. In the recent years the local self government has been playing a vital role. These local bodies not only provide services to the communities but also act as an instrument of democratic self government. Besides the local self government has become an essential part of the national

government structure. This level of local government is now recognized by the people as it is close to them and involve them in the decision making process<sup>10</sup>. Village level governance is very successful in some states, particularly in Kerala, where literacy rate is high. Kudumbashree was conceived as a joint programme of the Government of Kerala and Nabard implemented through Community Development Societies (CDSs) of Poor Women, serving as the community wing of Local Governments. The grassroots of Kudumbashree are Neighborhoods Groups (NHG in short) that send representatives to the ward level Area Development Societies (ADS). The ADS sends its representatives to the Community Development Society (CDS), which completes the unique three-tier structure of Kudumbashree. Today, there are 2.58 lakhs NHGs, over 19,700 ADSs and 1,072 CDSs in Kudumbashree. It is this network that brings women to the Grama Sabhas and helps them bring the needs of the poor to the attention of the local governments. The Community Development Societies are also very active in Government programmes and play significant roles in development activities ranging from socio-economic surveys and enterprise development to community management and social audit. Though its efforts to engage women in civil society in development issues and opportunities, Kudumbashree in association with the local self government of Kerala is charting out new meaning and possibilities for local economic development and citizen centric governance<sup>11</sup>.

## 2.5 Policies supportive to people empowerment and development

Minimum Support Price (MSP) is the price fixed by Government of India to protect the producer – farmers – against excessive fall in price during bumper production years. The minimum support prices are a guarantee price for their produce from the Government. Minimum support prices are currently announced for 24 commodities including seven cereals (paddy, wheat, barley, jowar, bajra, maize and ragi); five pulses (gram, arhar/tur, moong, urad and lentil); eight oilseeds (groundnut, rapeseed/mustard, toria, soyabean, sunflower seed, sesamum, safflower seed and nigerseed); copra, raw cotton, raw jute and virginia flu cured (VFC) tobacco. Similar to MSP, there is a Market Intervention Scheme (MIS), which is implemented on the request of State Governments for procurement of perishable and horticultural commodities in the event of fall in market prices<sup>12</sup>.

The National Commission on Farmers, chaired by Prof. M.S. Swaminathan, submitted five reports through the period December 2004 – October 2006. The report focused on causes of farmer distresses and the rise in farmer suicides, and recommends addressing them through a holistic national policy for farmers. The findings and recommendations encompass issues of access to resources and social security entitlements. Timely and adequate supply of credit is a basic requirement of small farm families. In this regard NCF suggests<sup>13</sup>:

- Expand the outreach of the formal credit system to reach the really poor and needy.
- Reduce rate of interest for crop loans to 4 percent simple, with government support.
- Moratorium on debt recovery, including loans from non-institutional sources, and waiver of interest on loans in distress hotspots and during calamities, till capability is restored.
- Establish an Agriculture Risk Fund to provide relief to farmers in the aftermath of successive natural calamities.
- Issue Kisan Credit Cards to women farmers, with joint pattas as collateral.
- Develop an integrated credit-cum-crop-livestock-human health insurance package.
- Expand crop insurance cover to cover the entire country and all crops, with reduced premiums and create a Rural Insurance Development Fund to take up development work for spreading rural insurance.

<sup>10</sup> Biswajit Mohapatra: Local Self Governance and People's Empowerment – Challenges and Perspectives

<sup>11</sup> <http://www.kudumbashree.org>

<sup>12</sup> Commission for Agricultural Costs and Prices – <http://cacp.dacnet.nic.in/>

<sup>13</sup> Parliament report summary

- Promote sustainable livelihoods for the poor by improving (i) Financial services (ii) Infrastructure (iii) Investments in human development, agriculture and business development services (including productivity enhancement, local value addition, and alternate market linkages) and (iv) Institutional development services (forming and strengthening producers' organizations such as self-help groups and water user associations).

Government has accepted many of these suggestions, and implementing several of them.

## CHAPTER 3

# Rural Financial Access

### 3.1 Strategies

The emphasis of the Government of India policies has been on progressive institutionalization for providing timely and adequate credit support to all farmers with particular focus on small and marginal farmers and weaker sections of society to enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. The Policy lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region-specific strategies and rationalization of lending Policies and Procedures. These policy measures have resulted in the increase in the share of institutional credit of the rural households.

### 3.2 Practices

We can notice three post-independence phases in rural credit provision: first, during the 1950's up to the mid-1960's the cooperatives were the institutional vehicle of choice; second, in the 1970's and 1980s, attention shifted to commercial banks and regional rural banks and third, the reform period in the early 1990's saw the re-structuring of the banking system, the emergence of Self-Help Groups, and a growing number of Microfinance Institutions (MFIs)<sup>14</sup>. However, at present, the major player in rural lending is the formal banking sector. SHG Bank Linkage is a bank led programme. Informal credit is still persisting and that is often driving farmers to commit suicide.

### 3.3 Innovations

There are several innovations in rural credit emerging. They are:

1. Kisan (farmer) Credit Card: Kisan Credit Card Scheme aims at providing need based and timely credit support to the farmers for their cultivation needs as well as non-farm activities and cost effective manner and to bring about flexibility and operational freedom in credit utilization.
2. Cash Credit Limits to SHGs: Hitherto SHGs were getting only term loans. Now, they are getting cash credit limit for a period of 3-5 years with varying drawing powers arrived based on their savings.
3. JLGs for tenant farmers, Share croppers: Explained in details, elsewhere.
4. Interest subvention to farm loans: Government of India assumes the burden of interest charged by banks on crop loans in excess of 7 percent per annum for loans up to Rs 300,000. Some state governments like Andhra Pradesh and Telangana have literally made crop loans to farmers interest free by assuming the rest of the interest payable by the farmers.
5. Micro ATMs, BCs: Micro ATMs will allow customers to perform basic financial transactions using only their Aadhaar number (Unique Identification Number) and their biometric/OTP as identity proof. Unlike an ATM, the cash-in/cash-out functions of the micro ATM will be performed by a Business Correspondent (operator), thus bringing down the cost of the device and the cost of servicing the customer. This is facilitating banking operations like withdrawal from and repayment into their overdraft accounts apart from their savings bank accounts in remote locations without visiting the bank branch in far-off locations.

<sup>14</sup> Thomas Fisher (Editor) and M.S. Sriram (Editor): Beyond Microcredit: Putting Development Back into Microfinance

### 3.4 Insurance

In agriculture, particularly for the poor farmers, insurance is to cover not only the crop failure but also the assets like pumpsets, livestock, bullocks, carts and farm machinery. However, assets like pumpset, tractors, agriculture machinery and livestock can be easily insured by commercial insurance companies, whereas crop insurance is handled by specialized insurance companies.

National Agriculture Insurance Scheme in India<sup>15</sup> which is being implemented by Agriculture Insurance Company of India Limited, wherein all farmers including sharecroppers, tenant farmers growing the notified crops in the notified areas are eligible for coverage. The Scheme covers on a compulsory basis, all farmers growing notified crops and availing seasonal agricultural operations loans from Financial Institutions i.e. Loanee Farmers and on a voluntary basis, all other farmers growing notified crops (i.e., Non-Loanee farmers) who opt for the Scheme. Comprehensive risk insurance will be provided to cover yield losses due to non-preventable risks, viz.:

- a. Natural Fire and Lightning
- b. Storm, Hailstorm, Cyclone, Typhoon, Tempest, Hurricane, Tornado etc.
- c. Flood, Inundation and Landslide
- d. Drought, Dry spells
- e. Pests/Diseases etc.

There are insurance companies which are providing weather insurance products. ICICI Lombard offered weather insurance for several crops. HDFC ERGO is another insurance company which offers weather insurance.

### 3.5 Investments

Prompted by the Indian government's initiatives, there have been various investments in the Indian agricultural sector. The Indian agricultural services and the agricultural machinery sectors have cumulatively attracted foreign direct investment (FDI) equity inflows to the tune of US\$ 2,182 million in the period April 2000 – May 2015, according to the Department of Industrial Policy and Promotion (DIPP).

Some of the major investments and developments in agriculture in the recent past are as follows<sup>16</sup>:

- IVRCL Ltd.'s irrigation and water divisions have won orders worth Rs 1,255.67 crore (US\$ 201.58 million). The company is based out of Hyderabad.
- The Oman India Joint Investment Fund (OIJIF), a joint venture (JV) between State Bank of India (SBI) and State General Reserve Fund (SGRF), has invested Rs 95 crore (US\$ 15.25 million) in GSP Crop Science, a Gujarat-based agrochemicals company.
- Israel based world's seventh largest agrochemicals firm ADAMA Agrochemicals plans to invest at least US\$ 50 million in India over the next three years.
- Tafe Motors and Tractors Ltd. (TAFE) has invested around US\$ 140 million by way of equity in the US-based AGCO Corporation, a worldwide manufacturer and distributor of agricultural equipment.
- Rabo Equity Advisors, the private equity arm of Netherlands-based Rabo Group, raised US\$ 100 million for the first close of its second fund – India Agri Business Fund II. The fund plans to invest US\$ 15-17 million in 10-12 companies.

<sup>15</sup> <http://www.aicofindia.com>

<sup>16</sup> Source: India Business, Ministry of External affairs, Govt. of India, Investment and Technology Promotion Division and India Brand Equity Foundation

- Belgium-based Univeg recently collaborated with Mahindra and Mahindra to develop a fresh fruit supply chain.
- Companies from the US, Canada, Australia, Israel, the Netherlands and other European countries have shown strong interest to transfer the best practices, linkages between scientific institutes, agriculture storage, cold-chain management, market access, and productivity enhancement such as the introduction of new technology in seed and plant biotech.

### 3.6 Cases

#### Case 1: Community Managed Sustainable Agriculture (CMSA)

Methods promoted under Community Managed Sustainable Agriculture (CMSA) are the blend of scientifically proven technology, local wisdom, and farmers' innovations. Over a period of time these methods are building good ecology where there is a balance between friendly insects and crop pests, and this is leading to reducing the costs on pest management to 'zero'. Principle underlying Non-pesticide Management (NPM) is that pests can be managed by understanding their behavior and lifecycle. The emphasis is on prevention rather than control. A comprehensive strategy is evolved for pest management. These include deep summer ploughing, community bonfires, seed treatment, bird perches, border crops, trap crops, yellow and white plates, intercrops, light traps, pheromone traps, delta traps in ground nut, alleys in paddy and cutting off the tips in paddy at the time of transplantation. The above practices are 'non-negotiable' and mandatory for all NPM farmers. The application of botanical extracts is only as a last resort.

At the end of April 2013, nearly 2 million farmers in the state of Andhra Pradesh participated in CMSA.

#### Evolution of the programme (Chronology of events)

The Community managed sustainable agriculture programme has gone through several phases since its beginning in 2004. The table below summarizes the key features of each of the phase of the programme over the last 8 years:

**Table 14. Key features of each of the phase of the CMSA programme**

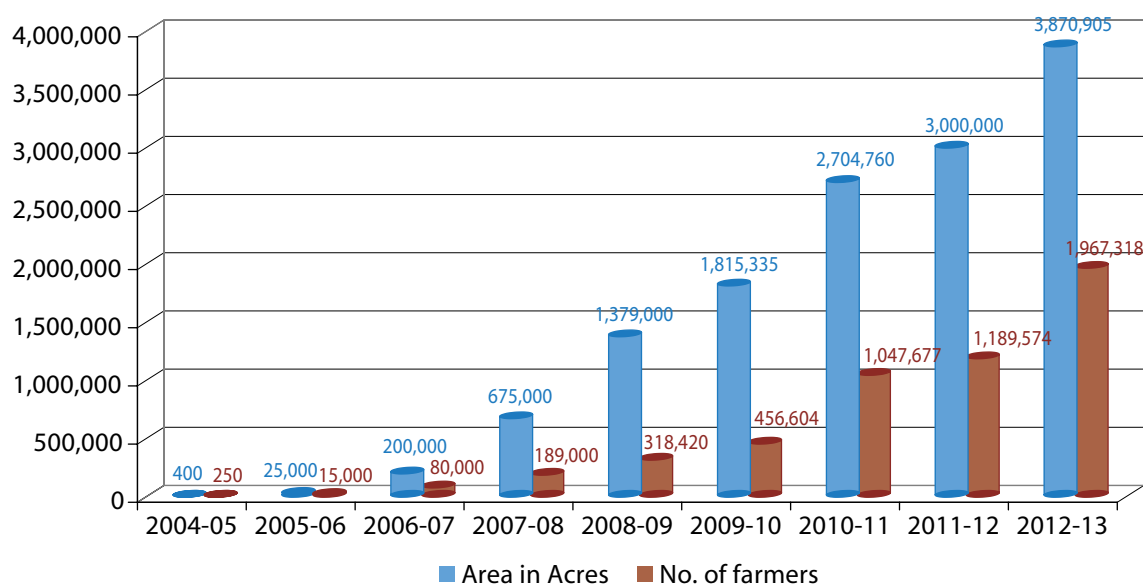
Period	Phase	Main features
2004	Piloting NPM	<ul style="list-style-type: none"> <li>• Piloting proof of concept</li> <li>• Farmers used botanical extracts</li> <li>• Technical support is provided by NGOs</li> <li>• 250 farmers</li> <li>• 400 Acres</li> </ul>
2004-07	Incubation period	<ul style="list-style-type: none"> <li>• Focus on NPM</li> <li>• Farmers used mostly botanical extracts</li> <li>• Technical support provided by NGOs</li> </ul>
2008-10	Exponential scaling up	<ul style="list-style-type: none"> <li>• Non-negotiables for pest management were standardized and moved towards comprehensive soil fertility management</li> <li>• Owning up by Samakhya, gradual withdrawal of NGOs</li> <li>• Radical soil moisture conservation works</li> <li>• New interventions like the 36 by 36 models, SRI and PoP strategies targeted for the small and marginal farmers were introduced</li> <li>• Farmer field schools stabilized</li> <li>• Strengthening of samakhya for management of the programme, IT tools for monitoring and convergence for multiplier affect</li> <li>• Focus is on food security and providing regular incomes</li> <li>• Samakhya were assisted by Professionals</li> </ul>



**Table 14.** (continued)

Period	Phase	Main features
2010-11	Stabilization period	<ul style="list-style-type: none"> <li>• Group certification through PGS</li> <li>• Focus is on allied activities to increase incomes particularly in rain fed areas</li> <li>• Scaling up interventions like 36 by 36 models, SRI and PoP strategies targeted for the small and marginal farmers</li> <li>• Strengthening Infrastructure for sustainable agriculture at village level</li> <li>• Scaling up of human mediated video films for effective transfer of technology</li> <li>• Pilots on integrating livestock and marketing models</li> <li>• Focusing on drudgery reduction through 6,156 NPM shops and 556 custom hiring centers</li> <li>• Leveraging convergence with Nedcap, IWMP, MGNREGA, Marketing and cooperatives, Horticulture and social forestry around Rs 25 crores leveraged through convergence</li> <li>• Piloting different marketing models</li> </ul>

The results of the intervention have been so beneficial to the farmers that there has been an exponential increase in the area under sustainable agriculture. **It is an expansion driven by the positive experience of the farmers.** There are no predetermined targets. SERP initiated this programme in 2004 with about 250 farmers and 400 acres and now it reached to more than 1 million farmers and 3 million acres. Following graph shows the exponential scaling up:

**Figure 6.** Graph showing exponential scaling up of CMSA programme

## 1. Impact

### Increased yields

Third party evaluation done by ANGRAU (Acharya N G Ranga Agricultural University) reveals that CMSA methods enabled the farmers to increase their yields. Increase in yields ranges between 1-2 quintals.

### Increased savings

Farmers adopting CMSA methods are able to save considerable amounts by avoiding chemical pesticides and reducing chemical fertilizers. Our internal studies reveal that savings are ranges between Rs1,200/Acre to Rs16,000/Acre, based on the crop.

### Increased net additional incomes

ANGRAU study in 300 villages in 18 districts reveals that CMSA methods increased net additional incomes to farmers. The net additional incomes range between Rs 3,000 to Rs 7,000 per acre based on the crop.

### Reduced Health Risks

Farmers report a noticeable drop in pesticide related health problems. Women who have traditionally performed the task of spraying the crops and suffered numerous health problems due to the resultant high exposure to pesticides are now strong advocates of the NPM/CMSA movement. A quick survey of three districts has shown that the number of cases of hospitalization due to pesticide poisoning has reduced from 242 cases per year before adoption of NPM to 146 cases per year—a 40 percent drop. Farmers who have adopted non-pesticide management agriculture have been totally free of pesticide related hospitalization.

### Increased access to food

Achieving self – reliance and self sufficiency in food production at community level are very important aspects of CMSA. CMSA ensures year round food security. Crop diversity and multistoried cropping systems ensures nutritional security to farm families. Perennial species such as redgram, moringa, guava and papaya take care of very critical nutritional requirements for the family throughout the year. Pesticide free produce is integrated into the existing food security scheme.

Poorest of the poor (POP) strategy enabled 5,000 land less labor to access irrigated land and adopted SRI method of Paddy cultivation. This strategy increased availability of food grains at household level. Further CMSA methods enable the farmers to reduce expenditure on food grains.

**Table 15. Policy Impacts of CMSA programme**

Sl. No.	GO. MS. No.	Importance
1	Convergence with MGNREGA for development of lands belongs to Poorest of the poor (GO. Ms. No. 392)	<ul style="list-style-type: none"> <li>• Radical soil and moisture conservation works through MGNREGA</li> <li>• About 25,000 acres of land belongs to POP were treated with soil and moisture conservation works</li> <li>• 25,000 acre were adopted improved cropping pattern</li> <li>• Average net incremental income for these farmers ranges between Rs 5,000 to 10,000/- acre</li> </ul>
2	Mainstreaming CMSA activities through Agriculture Technology Management Agency (Go. Ms. No. 121)	<ul style="list-style-type: none"> <li>• Convergence with Agricultural Technology Management Agency (ATMA)</li> <li>• CMSA methods will be mainstreamed</li> <li>• CMSA farmers can access funds for infrastructure development</li> </ul>

**Table 15.** (continued)

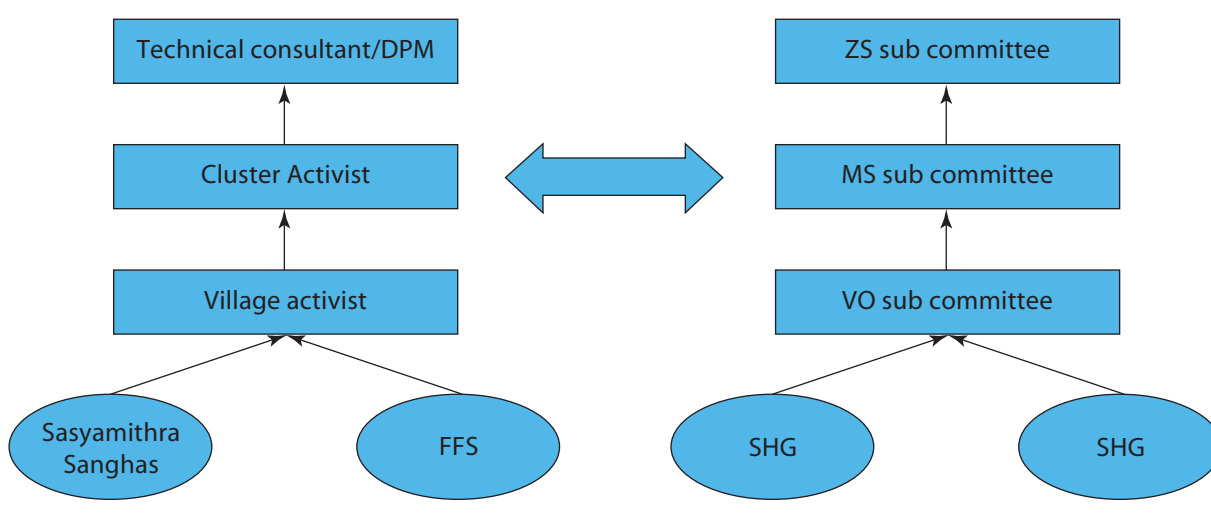
Sl. No.	GO. MS. No.	Importance
3	Productivity enhancement and Entrepreneur promotion in Watershed (Go. Ms. No. 110)	<ul style="list-style-type: none"> <li>Convergence with Integrated Watershed Management Programme (IWMP)</li> <li>CMSA methods are promoted in Cultivable area under watersheds for productivity enhancement</li> <li>Support is provided for Entrepreneur promotion</li> </ul>
4	Mahila Kisan Saskthikaran Pariyojana (MKSP) centrally sponsored programme	<ul style="list-style-type: none"> <li>Upgrading skills of women farmers in sustainable agriculture</li> <li>Increasing net incomes of the women farmers</li> </ul>

### Institutional Model

The program management is in the hands of the women organizations. Separate sub committees with CMSA practicing SHG women, farmers, at village, Mandal (Sub district) and district level are formed to monitor the day to day activities. All these sub committees meet once in a month to review the programme. Budget is provided for sub committee's field visits and review meetings. Sub committees will review the performance of Village activist (VA), cluster activist (CA) and District Project Manager on a monthly basis. The Samakhyas attend FFS meetings, make field inspections, pay salaries of VA/CA. Communities are involved in decision making process. The final word in programme management lies with the VOs and MMSs.

The transfer of technology is through community based local best practicing farmers. Farmers field school (FFS) is the key activity for transfer of technology and sharing of best practices. Farmers upgrade knowledge by sharing, observations and experiments. 20-25 farm families formed into a group known as "Sasyamithra Sanghas" and these sanghas are assisted by a Village activist (a practicing farmer) and a Cluster activist (for a group of five villages, he is also a practicing farmer) who facilitate the knowledge sharing processes. They are paid by the SHG federations, the VOs and the MSs to work as para extension workers, and, they are completely accountable to them.

For every four to five mandals there is a technical consultant (agriculture graduate) who provides professional support to samakhyas. District level programme is anchored by District Program Manager (DPM).

**Figure 7. CMSA is now owned and managed by community**

## Case 2: SHG Bank Linkage in Andhra Pradesh

Accessing credit on time and adequately by the SHGs from the Banks for their members' investments and other needs is the primary goal of the Bank-Linkage programme. The other important responsibility is to ensure that credit accessed is at low cost so as to make every enterprise of the SHGs and their members financially viable.

### 1. Process

SHG, which has been regular in savings and other meeting processes in the last six months, is linked to the Bank with a first dose of Rs 50,000 repayable in 12 months. After repaying the loan in regular monthly installments over a period of 12 months, the SHG becomes eligible for the 2<sup>nd</sup> linkage with enhanced limit of Rs 100,000. Similarly, after a year and a half, SHG becomes eligible for the 3<sup>rd</sup> linkage (minimum Rs 3 lakhs) based on a Micro Credit Plan (MCP). The MCP takes into account all the credit needs of its members including investment in income generation activities, health, education of children and even retiring high cost debt.

### 2. Progress

The Programme had a humble beginning with less than Rs 100 Cr linkage in 1999-2000, and the achievement in 2012-13 is Rs 10,698 Cr (Rs 3,954 Cr as term loans and Rs 6,744 Cr as Cash Credit limits). For the current year (2013-14), the achievement planned is cash credit line of Rs 11,074 Cr. The per capita linkage has grown steadily from a meager amount of Rs 17,000 to Rs 241,000 last year.

### 3. Interest Subvention

With a view to incentivize prompt payment and to make the rural enterprises more remunerative, Government of AP started the interest subvention programme (popularly known as Pavala Vaddi) under which interest on all Bank loans over and above 3 percent per annum was sub-vented post facto directly to SHGs. From 1<sup>st</sup> January 2012, this scheme is converted into 'VaddilLeniRunalu' under which total interest reimbursement is being made by the Government to further strengthen the viability of rural enterprises. From July 2012 onwards, SHGs are asked to pay only the principal portion, called SHG portion of the EMI, and the rest of the EMI is credited directly by the Government into loan accounts of SHGs. The SHG portion of the EMI is arrived at by dividing the loan amount by number of installments.

The whole process is technology driven with banks sharing transactional information of all SHG loans in the state on a monthly basis using FTP and SERP picks relevant info from this dump to generate not only the reports on performance and delinquency but also on the eligibility of SHGs for their interest subvention. The interest subvention is paid directly into the loan accounts of SHGs through NEFT/RTGS and for which SERP maintains adequate amount in escrow accounts opened for this specific purpose.

### 4. What made it happen?

- Core beliefs
- Strong institutions of the poor – SHG – VO-MS-ZS
- Sensitive support mechanism – SERP (SPMU), DRDA (DPMU)
- GoAP support
- Micro Credit Plans from SHGs
- Community Based Recovery Mechanism (CBRM)
- Community Resource Persons (CRPs)
- Bank Linkage Sub Committees
- Bank Mitra (friend)
- Mentoring
- Web Based Monitoring system

**Core Beliefs:**

- Poor have a strong desire and innate ability to come out of poverty
- Poor have a strong spirit of volunteerism
- Social mobilization – to unleash their innate abilities
- Poor can come out of poverty only through their own institutions
- Social mobilization – not automatic, needs to be induced

**Sensitive support mechanism:**

SERP/SPMU – Strategic support, Overall monitoring and replication, Functional support and Training needs identification

DPMU/ZS – Coordination, operational skill support (DPMs/PMs) and Training and capacity Building

MS/VO/SHG – Implementation, Mapping needs vs. Action

Bank Linkage Sub Committees: Two members from the VO/MS/ZS chosen as BL Sub Committee members at respective level. VO BL Sub Committee members are also members of CBRM. They supervise bank linkage performance – Target vs. Achievement, utilization and repayments. Sub committee members are trained by the project.

Bank Mitra (friend): Bank Mitra is an interface between the bank branch and the community. She is an educated person from the community, who will assist SHG members in their banking transactions. She also helps the manager in documentation.

CRP strategy: One CRP team shall be allotted to 2 Bank branches for providing continuous member education on credit discipline-imparting financial literacy training to SHG members, training members in the preparation Household Livelihood Planning and Micro Credit Planning. She also helps in recovery of dues.

Target and Achievement: It is bottom up approach – from SHG to the State level. Targets are fixed for SHG and that is aggregated at the level of village, block, district and state. Similarly, targets are fixed for Branch and Bank. Targets are also worked out for project staff. Targets are system driven based on SHG's eligibility and entitlement.

Delinquency Management: The information system is in place. Community is involved in repayment (CBRM/Committees). Community Based Recovery Mechanism (CBRM) is in place at all branches. All newly formed CBRM members will be trained. There will be a team of CRPs for every two branches. Teams will be deployed on a priority in villages where repayment is poor the information on delinquency is made available to the project staff at all levels – from the state to the district to the mandal to the VO.

**Case 3: Bank Linkage – Case study of SHG member**

- |                                      |                             |
|--------------------------------------|-----------------------------|
| • Name of the member                 | : Lakshmi                   |
| • Name of the husband                | : Thippa Swamy              |
| • Social category                    | : Backward Community        |
| • Name of the SHG                    | : Sri Siddeswara SHG        |
| • Village                            | : Amarapuram                |
| • Mandal and District                | : Kamalapuram, Ananthapuram |
| • Total Members in the family        | : 4                         |
| • Children                           | : daughter and a son        |
| • Date of joining as a member of SHG | : 13.03.2000                |

Status of the Member before joining the SHG:

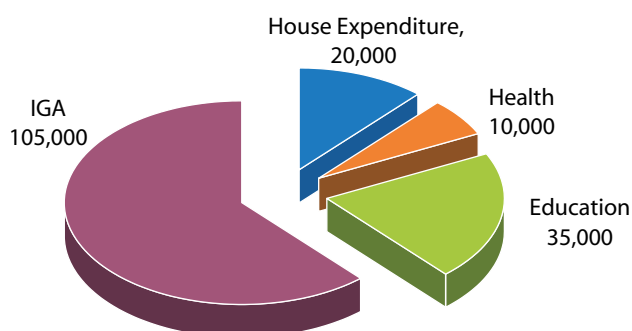
1. She was an agriculture laborer,
2. Husband was a tailor,
3. She was not even well versed with the local language, Telugu- her mother tongue is Kannada,
4. She was not aware of SHG concept.

Member's credit history:

- 1<sup>st</sup> loan – Rs 5,000
- 2<sup>nd</sup> loan – Rs 5,000
- 3<sup>rd</sup> loan – Rs 20,000
- 4<sup>th</sup> loan – Rs 40,000
- 5<sup>th</sup> loan – Rs 45,000

Where did she use the credit accessed?

**Figure 8. Credit usage by the member**



Income Generating Activities:

She established a button stitching shop as well as a tailoring shop in the nearest market.

Current Status:

Her family is, at present, earning Rs 15,000 per month from button stitching and tailoring activities. She constructed a good house. Children are studying in corporate colleges.

She currently has an asset base of over Rs 10 lakhs!

Button stitching shop	: Rs 300,000
Stock in the shop	: Rs 100,000
Housing Site	: Rs 400,000
Jewelries	: Rs 240,000
Total	: Rs 1,040,000

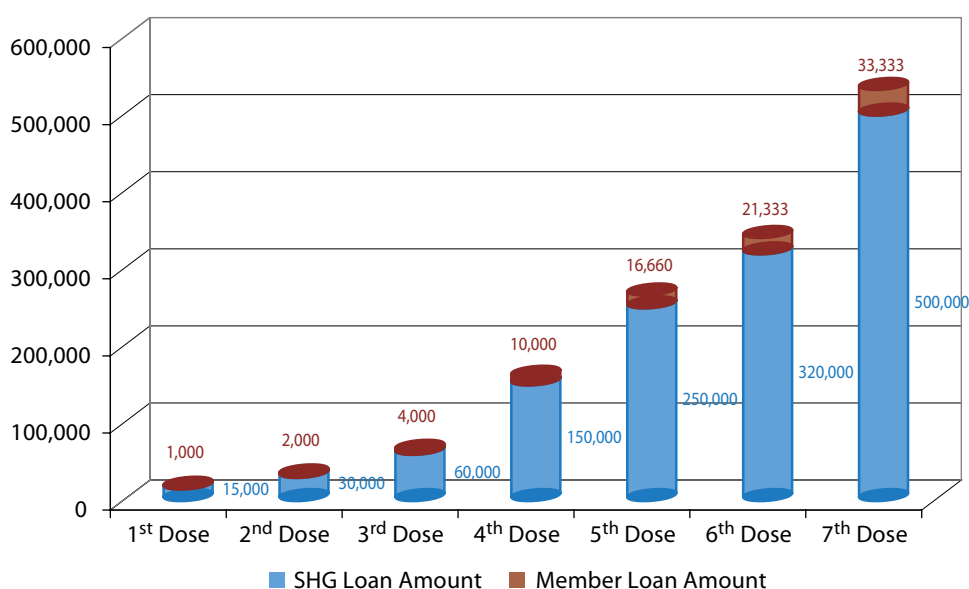
#### Case 4: Bank Linkage – Case study of SHG member

Name of the member	: Padmavathi
Social category	: BC
Age	: 53 years
Name of the SHG	: Mahatma Gandhi 1 SHG
Year of joining as a member of SHG	: 1999

Bank and Branch	: Andhra Bank, Pamarru
Village	: Peda maddali
Mandal and District	: Pamarru, Krishna district
Total members in the family	: 6
Children	: Four daughters

Member's credit access:

**Figure 9. Loans availed by the member**



#### Progressive dosage of loans and multiple livelihoods

- With the second dose of loan she started rice business in a small scale
- With the fourth dose she started selling clothes
- Later, she purchased a she buffalow and started milk vending
- By the time she availed 6<sup>th</sup> dose of loan she had possessed 4 she buffaloes
- With the 7<sup>th</sup> dose of loan she got her house repaired and remodelled
- She took 4 acres on lease started farming
- She also started catering – supplying mid-day meals at a local school.

#### Socio-economic Progress

- Padmavathi could get her children educated. Out of 4 children 2 could pursue up to 10<sup>th</sup> class and got trained in tailoring in Nimmakuru Mahila Pranganam. The remaining 2 children could pursue education up to degree level.
- The government sanctioned 2 sewing machines at free of cost to the first two daughters. They are able to make a living on the machines at their inlaws' places.
- The third daughter was married with Rs 75,000 dowry to an employee in a private company!
- The fourth daughter could get a police constable job and was married to a police constable.
- All the four daughters are happy with their husbands. Mrs. Padmavathi keeps expressing gratitude to the group members, bank and government.



## CHAPTER 4

# Issues and Concerns Related to People Empowerment, Financial Access and Community Development

It is estimated that about 40 percent of the farming community in the country fall into the category of Tenant farmers, Sharecroppers and agricultural laborers – the group owns very small and uneconomical land holdings, often without proper records, accessing credit from non-institutional sources<sup>17</sup>. The average size of holdings was 2.28 hectares in 1970-71 which was reduced to 1.82 hectares in 1980-81 and 1.50 hectares in 1995-96. The size of the holdings will further decrease with the infinite Sub-division of the land holdings<sup>18</sup>.

Organic manures are essential for keeping the soil in good health. The country has a potential of 650 million tons of rural and 160 lakh tons of urban compost which is not fully utilized at present. The utilization of this potential will solve the twin problem of disposal of waste and providing manure to the soil. The government is subsidizing chemical fertilizers and as a result of this initiative farmers are using chemical fertilizers indiscriminately. Pesticide application has gone up to an extent that it is becoming difficult to get pesticide free food.

Agriculture mechanization has been progressively increasing throughout the country. Strenuous efforts are being made to encourage the farmers to adopt technically advanced agricultural equipments in order to carry farm operations timely and precisely and to economize the agricultural production process.

Marketing and storage are also issues in some parts of the country, though they are getting stabilized. Credit is not an issue any more with widespread banking and mandatory lending to the sector. Apart from lending to landed farmers, there are also schemes for lending to tenant farmers and sharecroppers. 'Poorest of the poor' farmers access credit being members of SHG or JLG. The crux of the problem is not availability of formal credit; it is the inability of the farmer to repay the loan when crop has failed. That forces him to go to unscrupulous moneylenders.

### ***Farmers' suicides***

Agricultural investment in India is a big gamble. Farmers usually take bank loans to buy seeds, fertilizers and pesticides, to acquire farm machinery and pump sets and to drill bore-wells. Local moneylenders often take the place of banks and boost interest rates year after year, creating a debt-trap for the farmers who rely on crop success – and prayers – for loan repayments. Long droughts, poor yields, and unseasonal rains contribute to the struggles that lead to suicides, which do not absolve the rest of the family from paying back a loan. The suicide rate among Indian farmers was 47 percent higher than the national average, according to a 2011 census. Forty-one farmers commit suicide every day, leaving behind scores of orphans and widows. According to figures from the Ministry of Agriculture, the total of number of suicides committed by farmers for agrarian reasons in the last three years stands at 3,313. The five States — Maharashtra, Telangana, Karnataka, Andhra Pradesh and Kerala — accounted for 3,301 of them.

<sup>17</sup> Flow of Credit to Agriculture Sector With Special Reference to Tenant Farmers, Oral Lessees and Agricultural Laborers, Indian Banks' Association, Department of Social Banking – IBA Sub-Committee on Flow of Credit to Agriculture

<sup>18</sup> Puja Mondal: 10 Major Agricultural Problems of India and their Possible Solutions

## CHAPTER 5

# Challenges

### 5.1 Sociological

The vast mass of the rural population remains impoverished. Their lives continue to be influenced by the ancient Hindu caste system, which assigns each person a place in the social hierarchy. Discrimination on the basis of caste is now illegal and various measures have been introduced to empower disadvantaged groups and give them easier access to opportunities – such as education and work. Rural development must also benefit the poor, landless, women, scheduled castes and tribes. Moreover, there are strong regional disparities: the majority of India's poor are in rain-fed areas or in the Eastern Indo-Gangetic plains.

### 5.2 Technological

Major reform and strengthening of India's agricultural research and extension systems is one of the most important needs for agricultural growth. These services have declined over time due to chronic underfunding of infrastructure and operations, no replacement of aging researchers or broad access to state-of-the-art technologies. Research now has little to provide beyond the time-worn packages of the past. Public extension services are struggling and offer little new knowledge to farmers. There is too little connection between research and extension, or between these services and the private sector<sup>19</sup>.

### 5.3 Economic

Agriculture and allied sectors like forestry, logging and fishing accounted for 17 percent of the GDP and employed 49 percent of the total workforce in 2014<sup>20</sup>. Agriculture's contribution to GDP has been steadily declining over a period of time, yet it is the largest employment source and a significant piece of the overall socio-economic development of India<sup>21</sup>. Though crop yield per unit area has grown international comparisons reveal that the average yield in India is generally 30 percent to 50 percent of the highest average yield in the world.

Economic Survey 2014-15 has highlighted various challenges and reforms in the agriculture sector. According to the survey, GDP declined to 15.2 percent during the Eleventh Plan and then further decreased to 13.9 percent in 2013-14. There also has been decrease in the number of cultivators from 127.3 million (Census 2001) to 118.7 million (Census 2011). With 60 percent of the total food grains and oilseeds produced being grown in the kharif season, and with just about 35 percent of arable area being irrigated, Indian agriculture is still dependent on rainfall. Currently, India is in an anomalous situation of being largely self-sufficient with large stocks of food grains on the one hand and registering high food inflation. On domestic and international marketing, the plethora of government interventions that were used to build a marketing set up have actually served as barriers to trade. Removing market distortions will create greater competition in markets, promote efficiency and growth and facilitate the creation of a national agricultural market.

<sup>19</sup> Feature Story – India: Issues and Priorities for Agriculture, World Bank, May 17, 2012

<sup>20</sup> "Indian Economy at a Glance". Retrieved 2015-10-09

<sup>21</sup> Economic Survey 2010, p. 180.

## 5.4 Environment

In parts of India, the over-pumping of water for agricultural use is leading to falling groundwater levels. Conversely, water-logging is leading to the build-up of salts in the soils of some irrigated areas. In rain-fed areas on the other hand, where the majority of the rural population live, agricultural practices need adapting to reduce soil erosion and increase the absorption of rainfall. Overexploited and degrading forest land needs mitigation measures. Deterioration in soil quality due to indiscriminate use of subsidized chemical fertilizers is a cause of concern. Usage of chemical pesticides has abnormally increased in certain parts of the country, whose cost in cultivation has gone beyond 20 percent of the total expenditure.

## 5.5 Political/Institutional

The problem lies primarily in Indian culture. The country is not good in execution of plans. In a democratic setup that allows a lot of bureaucracy creeping into the system. Cooperatives are not functioning well, except GCMMF and a few other milk cooperatives. The solution probably lies in education. NAFED (National Agriculture Cooperative Marketing Federation) has not really been successful in its role. On its own it has done very little for agricultural marketing, processing and production. This is largely because such initiatives involve trading and establishing a competitive market. This requires highly qualified people who can make quick decisions. NAFED is ill equipped when it comes to quality personnel<sup>22</sup>.

Imperfect market conditions and restrictions on the movement of agricultural commodities are not letting the farmers to realize the true value of their produce, whereas it is causing the consumer to pay a much higher price than warranted. The linking of small and fragmented farms with large-scale processors and retailers remains a challenge in the high value sector. With a view to overcome this shortcoming and to bring in private sector investment and techno-managerial efficiencies, government is promoting Public Private Partnerships (PPP) in infrastructure development through 'viability gap funding' support<sup>23</sup>.

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<sup>22</sup> Gopal Naik, Indian Agriculture – Issues and Reforms, Tejas, IIM, Bangalore (<http://tejas.iimb.ac.in/interviews/12.php>)

<sup>23</sup> National Academy Agricultural Sciences (NAAS): Critical analysis of the overarching issues in Indian agriculture – State of Indian agriculture report (2011-2012)

## CHAPTER 6

# Future Directions

Given the importance of the agriculture sector, the Government of India, in its Budget 2015-16, planned several steps for the sustainable development of agriculture. The government has already taken steps to address two major factors (soil and water) critical to improve agriculture production. Steps have been taken to improve soil fertility on a sustainable basis through the soil health card scheme and to support the organic farming scheme 'Paramparagat Krishi Vikas Yojana'. Other steps include improved access to irrigation through 'Pradhanmantri Gram Sinchai Yojana'; enhanced water efficiency through 'Per Drop More Crop'; continued support to MGNREGA and the creation of a unified national agriculture market to boost the incomes of farmers.

The central government recognizes the importance of micro-irrigation, watershed development and 'Pradhan Mantri Krishi Sinchai Yojana'; thus, it allocated a sum of Rs 5,300 crore (US\$ 830 million) for it. It urged the states to focus on this key sector. The state governments are compelled to allocate adequate funds to develop the agriculture sector, take measures to achieve the targeted agricultural growth rate and address the problems of farmers.

The Department of Agriculture and Cooperation under the Ministry of Agriculture has inked MOUs/agreements with 52 countries including the US. In addition, the Department of Agriculture Research & Education (DARE) and the Department of Animal Husbandry, Dairying & Fisheries (DAHD&F) under the Ministry of Agriculture have signed MOUs/agreements with other countries, taking the number of partnerships with other countries to 63. These agreements would provide better agricultural facilities in areas such as research and development, capacity building, germ-plasm exchange, post-harvest management, value addition/food processing, plant protection, animal husbandry, dairy and fisheries. The agreements could help enhance bilateral trade as well.

Given the correlation between improvement in agriculture and the development of the country, the Government of India adopted several initiatives and programmes to ensure continuous growth. It allocated Rs 25,000 crore (US\$ 3.9 billion) for the Rural Infrastructure Development Fund (RIDF), Rs 1,500 crore (US\$ 234 million) for the long-term rural credit fund, Rs 45,000 crore (US\$ 7.03 billion) for the short-term cooperative rural credit finance fund and Rs 25,000 crore (US\$ 3.9 billion) for the short-term RRB refinance fund. It also marked an ambitious target of Rs 8.5 lakh crore (US\$ 132 billion) of agriculture credit during 2015-16.

Some of the recent major government initiatives in the sector are as follows:

- The National Dairy Development Board (NDDB) announced 42 dairy projects with a financial outlay of Rs 221 crore (US\$ 35.47 million) to boost milk output and increase per animal production of milk.
- The government planned to invest Rs 50,000 crore (US\$ 8.0 billion) to revive four fertilizer plants and set up two plants to produce farm nutrients.
- The Ministry of Food Processing Industries took some new initiatives to develop the food-processing sector that would enhance the income of farmers and export of agro and processed foods, among others.
- Israel increased contribution to Indian agriculture and helped farmers multiply their income with better practices and yields. It also helped choose the right crops or vegetables to make this a success story, which is strengthening bilateral ties.

- The Government of Telangana allocated Rs 4,250 crore (US\$ 682.31 million) for the first phase of the farm loan waiver scheme. The scheme is expected to benefit 3.6 million farmers who took loans of Rs 100,000 (~US\$ 1,600) or below before March 31, 2014.

## 6.1 Approaches, strategies, tools used in implementing programmes, projects, activities and services

The agriculture sector in India is expected to generate better momentum in the next few years due to increased investments in agricultural infrastructure such as irrigation facilities, warehousing and cold storage. Factors such as reduced transaction costs and time, improved port gate management and better fiscal incentives would contribute to the sector's growth. Furthermore, the growing use of genetically modified crops will likely improve the yield for Indian farmers<sup>24</sup>. The 12<sup>th</sup> Five-Year Plan estimates the food grains storage capacity to expand to 35 MT. Also, a 4 percent growth would help restructure the agriculture sector in India in the next few years.

At 157.35 million hectares, India holds the second largest agricultural land in the world. With 20 agri-climatic regions, all 15 major climates in the world exist in India. India is the largest producer of spices, pulses, milk, tea, cashew and jute; and the second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton and oilseeds. Further, India is 2<sup>nd</sup> in global production of fruits and vegetables, and is the largest producer of mango and banana. It also has the highest productivity of grapes in the world. Total food grains production in India reached an all-time high of 251.12 million tons (MT) in FY2015 (as per 3<sup>rd</sup> Advance Estimates). Rice and wheat production in the country stood at 102.54 MT and 90.78 MT, respectively. India is among the 15 leading exporters of agricultural products in the world.

The Government of India has introduced several projects to assist the agriculture sector. They are Pradhanmantri Gram Sinchai Yojana: The scheme aims to irrigate the field of every farmer and improving water use efficiency to achieve the motto 'Per Drop More Crop'. Overall the scheme ensures improved access to irrigation. Paramparagat Krishi Vikas Yojana (PKVY): The scheme aims to motivate groups of farmers to take up organic farming. Government of India has released a new subsidy for the establishment of 988 Farm Machinery Banks during 2014-15 under Sub-Mission on Agricultural Mechanisation.

## 6.2 Key players and stakeholders

Liberalizing foreign direct investment policy in retail and encouraging private players to compete with established markets for farm produce will help in getting huge investment and infrastructure needed to improve and unify agricultural markets in the country, the Economic Survey has said. The first step for the Centre could be to persuade states to remove fruits and vegetables from the Agricultural Produce Marketing Committee (APMC), which requires farmers to sell their produce to designated market. Cereals, pulses and oilseeds could follow next, and eventually, the entire market should be liberalized, the survey said. Currently, even chicken, goat, fish and sugar can be first sold only in APMC markets. States have already spent on infrastructure for APMC markets, making it difficult for private competition even in states where the APMC provisions have been relaxed.

"State governments should also be specifically persuaded to provide policy support for setting up infrastructure, making available land, etc., for alternative or special markets in private sector, since the players in the private sector cannot viably compete with the APMCs in which the initial investment was made by the government on land and other infrastructure," the survey said. It made a case for foreign investment in retail infrastructure, saying it was difficult to attract domestic capital for setting up marketing infrastructure, particularly, warehousing, cold storage, laboratories, etc.

<sup>24</sup> The Department of Commerce and Industry 2014-15

“Liberalization of FDI in retail could create the possibilities for filling in the massive investment and infrastructure deficit which results in supply-chain inefficiencies,” it said. Analysts say that market inefficiencies and the presence of numerous middlemen lead to a situation in which consumers pay a high price for food items but the farmer is paid a pittance. The government is keen to create a unified agricultural market, which would deal with regional demand supply imbalances and price fluctuation. In some APMCs, the market levies and fee can be very high, the survey said. In Andhra Pradesh, these add up to 14.5 percent in the case of rice, excluding the state VAT. It said traders bid in a manner that the farmer ends up bearing these costs. The survey also proposed changes in the import policy of agricultural products. For establishing a national common market, the Economic Survey 2014-15 has recommended the following reforms:

- i. Examine the APMC Act, EC Act, Land Tenancy Act, and any such legally created structures whose provisions are restrictive and create barriers to free trade.
- ii. Rigorously pursue alternate marketing initiatives, like direct marketing and contract farming.
- iii. Examine inclusion of agriculture related taxes under the General Goods and Services Tax (GST).
- iv. Establish stable trade policy based on tariff interventions instead of non-tariff trade barriers.
- v. Develop and initiate competition in the agro-processing sector. Incentivize the private sector to scale up investments.
- vi. In this scenario of bumper production and stocks, a paradigm shift in the role of the government in all aspects of food grain production and distribution is necessary.

## CHAPTER 7

## Concluding Statements

The challenges to Indian agricultural are variable rainfall (especially for dry land farming), pests and diseases, price fluctuations and constrained smallholder access to inputs, advice, and markets coupled with small size of individual transactions and high information/transaction costs for service providers. Seasonality of agricultural production (crop production in particular) leads to a lag between investment needs and expected revenues, and consequent liquidity management challenges to Financial Institutions. The other challenge is lack of usable collateral due to ill-defined property and land-use rights, costly or lengthy registration procedures, and social constraints to foreclosure<sup>25</sup>. These are the challenges throughout the country. A study, though not conducted in India but relevant to Indian conditions, reveals that three hurdles were repeatedly mentioned by interviewed institutions and they are unique to agricultural lending: crop failure resulting from bad weather or pests, low yield and poor quality produce due to underinvestment in inputs, and reduced harvest income caused by market failures in the sale of produce. Family illness and poor health is also one of the most frequently cited problems, which is not unique to agricultural lending but may affect farming clients disproportionately due to greater reliance on family members' physical labour<sup>26</sup>. Lenders are also facing a situation such as scarcity of collateral and absence of risk mitigation mechanism.

However, there are certain study reports which are extremely positive on agricultural finance. Experience of bankers in lending to small holding and tenant farmers and sharecroppers through their JLGs is positive. Similarly, SHG Bank Linkage is a success story. Community Managed Sustainable Agriculture (CMSA) in Andhra Pradesh and Telangana has been very successful with small farmers cultivating crops using locally amiable resources for pest management, seeds and fertilizers. You will find case studies on SHG Bank Linkage and CMSA at the end. BASIX, once a leading MFI in India, has reported long term loan losses of less than 3 percent in case of agricultural lending, which is at par with their business loans. MFIs have penetrated rural space and providing microfinance services to rural poor. Much of the credit in rural areas is being absorbed either for agricultural activities or agro-dependent activities. The repayment rate is at par with their urban clients though operational cost of delivering rural credit is high. The descriptive analysis by Anup Roy<sup>27</sup> on profitability of MFIs in Assam reveals that more than 94 percent of borrowers are given loan for agriculture purposes. It is noticed in Assam that MFIs disbursing agricultural loans are profitable. The MFIs of Assam are earning higher Return on Assets (ROAs) of 9.43 percent compared to the national average ROA of 1.40 percent during 2008-2010 and this result is found to be statistically significant at 5 percent level of significance. Moreover, these MFIs of Assam are also earning higher Return on Equity (ROE) of 19.83 percent compared to the national average ROE of 12 percent during 2008-2010 and this result is found to be statistically significant at 5 percent level of significance.

One key concept or goal of National Agricultural Technology Project (NATP) is to decentralize decision-making to the district level through the creation of Agricultural Technology Management Agency (ATMA). This component aimed at pilot testing new institutional arrangements for technology

<sup>25</sup> Agriculture Investment: Source Book, World Bank (module 8)

<sup>26</sup> Improving Agricultural Microfinance Barriers to the supply of agricultural lending in the Philippines: This study was undertaken by the Innovations for Poverty Action (IPA) with support from the Hanns Seidel Foundation/Germany (HSF) which is financed by the Federal Ministry of Economic Cooperation and Development (BMZ) under the joint project: "Microfinance Capacity Building Program," in partnership with the Ninoy and Cory Aquino Foundation (NCAF), formerly the Benigno S. Aquino, Jr. Foundation (BSAF), and the PinoyME Foundation (PMF).

<sup>27</sup> Arup Roy, Agricultural finance Vs. Profitability of Microfinance Institutions – A case study of the MFIs of Assam, Asia Pacific Journal of Marketing & Management Review, Vol. 1 No. 3, November 2012, ISSN 2319-2836.



dissemination at district level and below in order to move towards an integrated extension delivery. The project process involved adopting bottom up planning procedures for setting the research and extension agency in order to make the technology dissemination farmer driven and farmer accountable. The overall performance of the project has been quite successful and effective in creating several institutions for strengthening the process of both development and dissemination of new/improved technologies. This has been quite effective in facilitating the identification of real constraints faced by the farmers and adoption of new technologies/farm practices, new enterprises, etc. promoted by the project. The information technologies have also started playing effective role and farmer led extension has empowered farming community, including women. The time lag in adoption of new technologies has considerably reduced and weaker sections of the society also have benefited from this process strengthening<sup>28</sup>.

Rural Inclusive Growth Projects, supported by the World Bank in Andhra Pradesh and Telangana (APRIGP and TRIGP) are working on value chains of several important crops as well as on dairy and small ruminants and forming producer groups (PG) around these initiatives, and ultimately culminating into formation of their federations (Producer Association). NABARD has been supporting formation of producer groups. GIZ has successfully facilitated PG formation.

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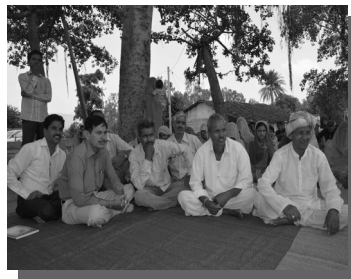
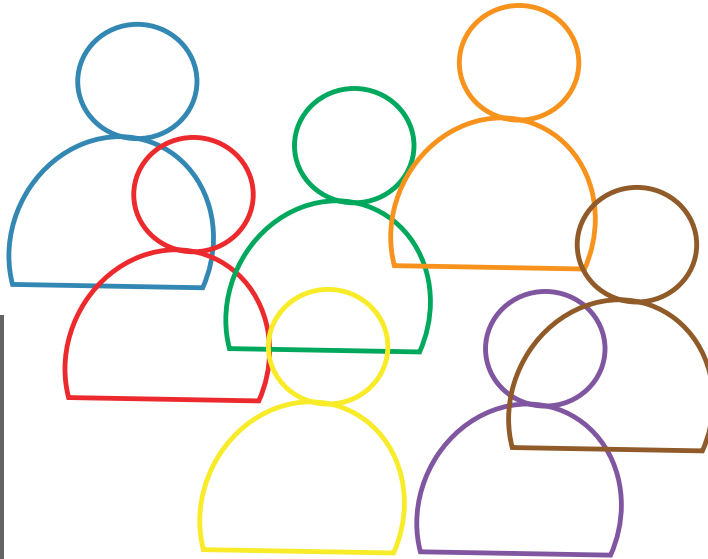
<sup>28</sup> M. Singh, M.S. Meena, R.K.P. Singh, Abhay Kumar and Ujjwal Kumar – Agricultural Technology Management Agency (ATMA): A Study of its Impact in Pilot Districts in Bihar, India – ICAR Research Complex for Eastern Region, Patna, India



**Part 4**

**People Empowerment, Financial Access and  
Community Development in Indonesia**

Tika Noorjaya





# CHAPTER 1

## Introduction

### 1.1 Indonesia Rural and Agricultural Landscape

Indonesia is the largest archipelago in the world. It consists of five major islands that are part of its total of 17,508 islands of which about 6,000 are inhabited. Total area of Indonesia is 1,919,440 sq km. The five main islands are: Sumatra (473,606 sq km); Java/Madura (132,107 sq km) as the most fertile and densely populated islands; Kalimantan or Borneo (539,460 sq km); Sulawesi (189,216 sq km); and Papua (421,981 sq km).

Indonesia has 34 provinces with a total population of 252,370,792 that make Indonesia as the fourth populous country in the world behind China, India, and USA. Data in March 2015 showed that 28.59 million or 11.22 percent of the Indonesian population is living below the poverty line where the 62.75 percent of those poor people live in rural areas, and 73 percent of them are working in the agricultural sector. According to the Central Statistics Agency (BPS), the definition of the poverty line is the minimum amount of money needed to meet the minimum basic needs of food that equivalent to 2,100 kilocalories per capita per day.

The village terminology in Indonesia refers to the smallest administrative territorial unit under the district level which includes the Village, Urban Village and Transmigration Settlement Unit (UPT). Meanwhile the terminology of the Rural is a region that has a major agricultural activity, including natural resource management with the arrangement functions as a rural residential area, services, administration, social services, and economic activities. Based on the data collection of potential village in 2014 (Podes 2014), there are 73.709 villages, 8.412 urban villages and 69 UPT. Podes 2014 also recorded a number of 7.074 sub-districts and 511 districts.

The life of rural communities in Indonesia are generally in groups on the basis of kinship. Most of the people in rural areas work as farmers while other activities merely as a sideline work to fill spare time. Indonesia's rural communities are homogeneous, as in the case of livelihood, religion, customs, and others. In addition, the life of rural communities in Indonesia are identical in terms of mutual cooperation called "Gotong Royong" which is working together to achieve their interests and purposes.

The agricultural sector is the heart of rural community life. This sector absorbs the largest labor force with a percentage of 34.6 percent of the total workforce, while its contribution to GDP is 15 percent. Aside from being a guarantor of food sovereignty of the nation, the agricultural sector has also become the backbone of the national economic strength. In general, the agricultural sector in Indonesia covers not only cropping activities, but also includes plantation, animal farming and forestry.

Based on Agricultural Census in 2013 (ST2013), the farming business in Indonesia is dominated by household type of business. It can be seen from the large number of farming business households when compared with the formal agricultural companies or other types of agricultural businesses. Based on ST2013, there are 26.14 million of farming businesses households in Indonesia, this number decreased by 16.32 percent compared to the Agricultural Census in 2003 (ST2003) that were recorded at 31.23 million households. While the number of formal agricultural companies is recorded at 4,165 companies and other types of agricultural businesses at 5,922 units.

Food crop looks to dominate the agricultural business in Indonesia. The highest number of farming business households occurred in the subsector of Animal Husbandry, Food Crops and Livestock which

recorded respectively by 17.73 million households and 12.97 million households. Meanwhile, the Fisheries Sub-Sector which consists of aquaculture and fish catching activities is a subsector that has the fewest number of farming business households which recorded by 1.19 million households and 0.86 million households respectively.

ST2013 also recorded a growth in the number of formal agricultural companies by 3.87 percent compared to ST2003. The highest growth occurred in the sub sector of Animal Husbandry which grew by 33.89 percent (161 companies). While the decline occurred in the sub sector of Horticulture by 17.78 percent (40 companies), Fish Farming by 46.35 percent (241 companies), Fish Catching by 9.91 percent (11 companies), and Forestry by 10.14 percent (74 companies).

## **1.2 Importance of People Empowerment, Financial Access and Community Development**

In the previous government, many programmes that have been undertaken to encourage the economic development of rural communities. In general, programmes that carried out is still struggling in the provision of physical support, either in the form of irrigation facilities, inputs aid, pumps, construction of water supply and others. In fact, when the project ends, the output of the project is not run properly or even useless and disappeared. Some of the factors that influence the failure of the project, among others, (1) the inaccuracy between the needs of the community and the assistance provided (2) the project package is not equipped with skills support (3) there is no monitoring and evaluation activities (4) there is no institution at the level of society able to continuing the project (Ihsan Fajri, 2011).

Learn from the failures of the past rural development programmes, then the subsequent programmes have been started to be equipped with other aspects such as skills training, the establishment of institutions at the community level, the presence of field officers, and NGO involvement. In other words, some projects have been managed by the community empowerment approach. These are things that are subsequently inspired the implementation of the National Program for Community Empowerment Mandiri (PNPM Mandiri).

Still, the activities in the rural economy is dominated by micro and small scale enterprises with the main actors are farmers, agricultural laborers, traders of agricultural inputs and products, processing of agricultural products, artisans and retailers. However, in some cases the aforesaid main actors in general are still faced with the classic problem that is the limited access to finance. As an essential element in support to boost agricultural production and rural livelihoods, the limited financial access may narrow down the development of agricultural and rural economy. In the long term, the lack of financial access could be the entry point of the chain cycle of poverty in rural communities that are difficult to break.

To accelerate the adoption of innovation development of agricultural activities, the financing facility that can be easily accessed by the farmers is absolutely needed. Until now, access to finance for the majority of farmers still considered to be obstacles. On the other hand to get financing by relying on the existing formal financial institutions are constrained in terms of administration that cannot be met by the farmer. The only reliable source of finance is a financial services institution or microfinance institutions (MFIs) which are managed by farmers.

Realizing the problem, several strategies have been implemented by the government to facilitate rural financial access, such as the implementation of national strategies for financial inclusion, provision of programme credit schemes, issuing the Law on MFIs, and other initiatives taken by related agencies.

## 1.3 Rural Finance in Indonesia

Indonesia's rural financial terminology is identical to the existence of microfinance institutions in rural areas which provide saving and financing to Micro, Small and Medium Enterprises (MSMEs) including farmers. However, the word of "microfinance" is more commonly used instead of the word of "rural finance" since it has a wider coverage and refers to the relevant regulations in force. The institutions involved in microfinance may be divided into three categories: *banking institutions, cooperatives, and non-bank/non-cooperative*. Banking institutions including commercial banks, which distribute microcredit or have a micro business unit as well as Islamic banks and Islamic unit.

Microfinance in Indonesia has a long history, therefore it is not surprising that there are currently many types of MFIs in Indonesia. Microfinance services not only dominated by financial institutions, but also many kinds of services and assistance in the form of subsidies disbursed by the government. It is the fact that in every change of government, there is almost a different programme launched for the poor and low income. This leads to overlapping of programmes, rules and also the authority of institutions engaged in microfinance, and ultimately lead to the difficulty of measuring and evaluating the success of existing programmes. This situation also led to MFIs that are located in rural and urban areas are unable to perform their businesses sustainably. Moreover, the intense of competition among MFIs and overlapping regulatory policies have made some MFIs unable to compete. As an illustration in a village in Bali, there are more than five to seven types of MFIs and commercial banks that target the micro segment. Limited market segment makes every MFI should be able to compete, it is certainly very difficult for conventional MFIs if it had to compete with modern institutions such as Bank Rakyat Indonesia (BRI) and rural banks.

In efforts to encourage community empowerment particularly for middle and lower income people and MSMEs, it requires a comprehensive support from financial institutions. During this time the constraints faced by MSMEs and farmers is the limited financial access to formal financial institutions. To overcome these obstacles, there are some MFIs which consists of non-bank financial institutions that provide business development services and community empowerment activities, both set up by the government and or by the community. However, most of these MFIs do not have a legal entity and not have a business license. In order to provide a strong legal foundation on operations, the government has issued Law on MFIs No. 1/2013. According to the aforesaid law, the definition of MFI is a financial institution that is specifically established to provide business development services and community empowerment, either through a loan or financing for micro enterprises to members and the societies, savings management, as well as the provision of business development consulting services that is not solely for profit.

Apart from the existence of BRI widespread network in both rural and urban areas, and other commercial banks who have micro business units, at least there are some MFIs that play an important role in rural finance and development, among others:

### 1.3.1 Village Credit Agency (BKD)

BKD has a long history. It could be argued that BKD is one of the first formal MFIs in Indonesia. The existence of BKD is inseparable from the establishment Volkerediet Algemene Bank (AVB) which later became the forerunner of Bank Rakyat Indonesia (BRI) in about 1896. BKD history begins with the founding of the Village in Banyumas, Central Java. BKD is currently the only remaining on the island of Java, although previously had spread to other regions in Indonesia. BKD is a financial institution owned by the village with village officials who play a role in its management. Supervision of BKD conducted by BRI. BKD lending short-term, usually three to four months. BKD funding sources are usually derived from compulsory savings system borrower and also soft loan from BRI.



### 1.3.2 Rural Financial Fund Institution (LDKP)

LDKP was launched in the 1980s by the Government in attempt to classify the non-bank MFIs operating in all regions of Indonesia, especially in Java. LDKP refers to many types of MFIs with different names in various parts of Indonesia. With the large number of Microfinance Institutions that were classified into groups of LDKP, it becomes quite difficult to identify the type of this institution, as in every other region began to appear different terms such as MFIs on the basis of the customary in Bali and West Sumatra.

There are also some LDKPs that operate at Sub-district level such as the Sub-district Credit Agency (BKK) in Central Java and South Kalimantan, Sub-district Credit Institutions (LPK) in West Java, and Lumbung Pitih Nagari (LPN) in West Sumatra. In February 1984, the Ministry of Home Affairs held a seminar on rural credit in Semarang, Central Java. After that, it began to appear similar institutions in other areas, such as Village Credit Institutions (LPD) in Bali, BKK in Bengkulu, Riau, South Kalimantan and Aceh. The aforesaid LDKPs is supervised and managed by the respective Provincial Governments supported by the Regional Development Banks (BPD). In addition, there are a lot of LDKPs in Indonesia whose existence is not officially recorded, such as Rural Credit Enterprises (BUKP) in Yogyakarta, Small Business Financing Institutions (LPUK) in South Kalimantan, and Rural Credit Institutions (LKP) in West Nusa Tenggara.

### 1.3.3 Baitul Maal wat Tamwil (BMT)

BMT is a microfinance institution that is based on Islamic principles. Etymologically, BMT consists of two meanings, namely 'Baitul Maal' which means "house of cash" and 'Baitul Tamwil' which means "house of financing". The house of cash in this sense is the collection of funds derived from Islamic charities (infaq, zakat, or shadaqah), while the financing activities undertaken is based on the principle of profit sharing.

Operationally, BMT is similar to cooperative which the initial membership was at least 20 members. BMT has principles as collector and distributor of Islamic charities, in the sense that BMT is merely "wait" consciousness of people to distribute charities without something power to perform retrieval or collection directly to those who already meet such obligations. Besides, BMT also received funds in the form of donations, grants or endowments as well as the sources of funds of a social nature that do not have conflict with Islamic law.

BMT funding distribution should be specific, especially the financing that comes from charities since it has been set forth in the Qur'an, that is for Faqir (the poor), Amilin (people who take care of charities), Mualaf (people who are convert to Islam), Fisabilillah (people who are struggling or preacher for Islam), Gharimin (people who have debts), Hamba Sahaya (slave, prisoner or detainee), and Musafir (people who are traveling far). Meanwhile, financing which is not derived from charity funds can be used for the development of poor people, the development of educational institutions, mosques and operational costs of social activities. There are three principles that can be carried out by BMT: (1) the principle of profit sharing, (2) the principle of buying and selling at a profit, (3) non-profit principle.

### 1.3.4 Rural Banks and Micro Units of Commercial Banks

Rural Banks (RBs) are expressly defined as banks conducting conventional business and/or business based on sharia principles, excluding provision of clearing payment services. RBs business is targeted primarily at small-scale business and rural communities. RBs may be incorporated as Limited Liability Companies, Regional Government Enterprises or Cooperatives.

Commercial banks are also competing to penetrate MSMEs such as BRI Unit, Warung Mikro of Bank Mandiri, Saving and Loan Units of Bank Danamon (DSP), Swamitra outlet of Bank Bukopin, etc.

## CHAPTER 2

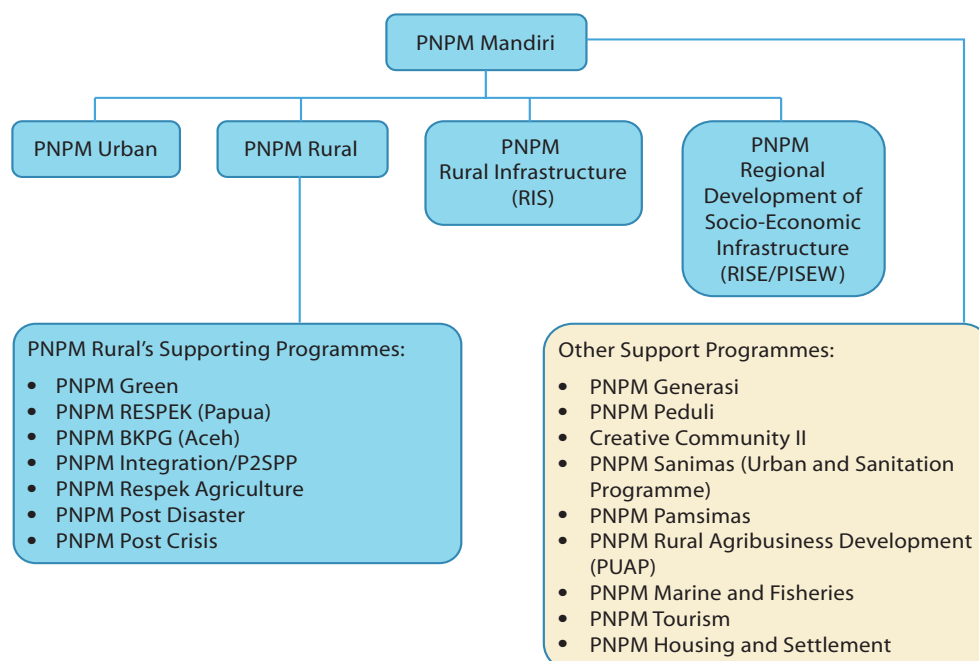
# National Programme for People Empowerment and Community Development

## 2.1 Programme Introduction

Starting in 2006, the Government has formulated an integrated poverty reduction on the basis of people's empowerment and community development, hereinafter known as PNPM Mandiri. PNPM Mandiri stands for The National Programme for People Empowerment and Community Development Mandiri. It is a national programme and issued as basis and reference for implementing community-driven development programmes. It was first implemented in 2007 as the expansion of the Development Program (KDP/PPK) that was later changed into the Urban Poverty Program (P2KP). The success of KDP and P2KP became a model for community empowerment programme in rural and urban areas. PNPM Mandiri is seen as an umbrella for various poverty alleviation programmes that use Community-Driven Development (CDD) as their approach. PNPM Mandiri was launched by the President of the Republic of Indonesia, Mr. Susilo Bambang Yudhoyono, in Palu, Central Sulawesi on April 30, 2007. It will be implemented until 2015, in line with the achievement of the MDGs (Millennium Development Goals). It is expected that between 2007 and 2015, communities will self-reliance and capacity and so they can continue the implementation of the programme on their own.

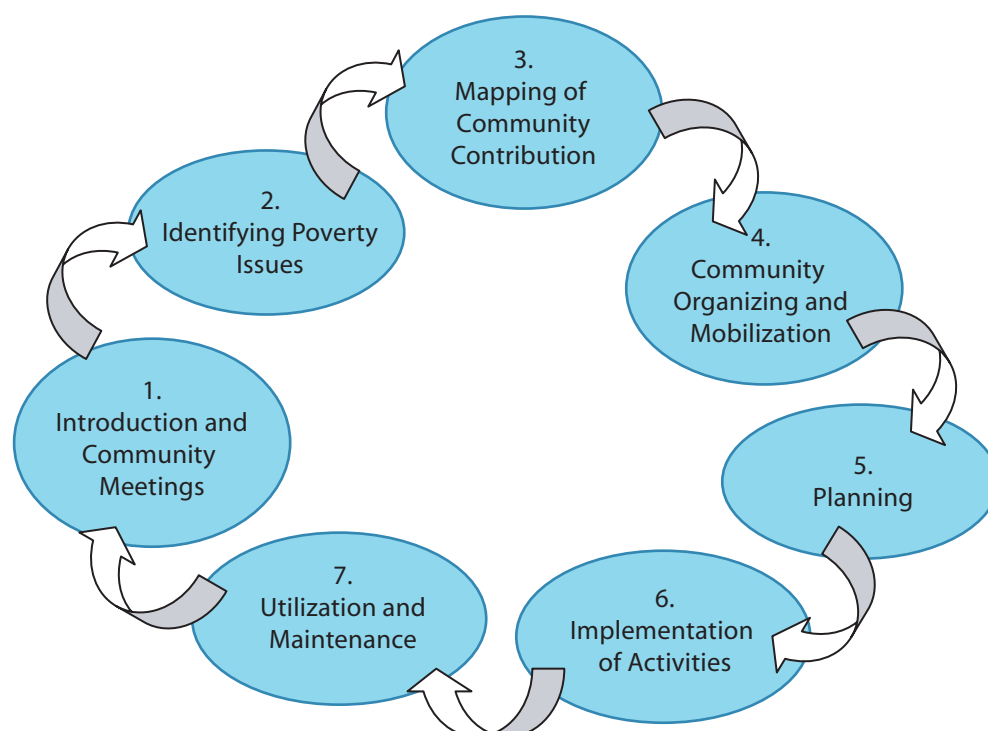
The objectives of PNPM Mandiri are to improve the welfare and increase the employment of the poor. It aims to achieve this by developing people's capacities (both individually and collectively) to solve various problems they face in improving quality of life, self-reliance, and prosperity. They should be able to solve these problems by utilizing their economic and social potential through an independent development process. The programme categories covered by PNPM Mandiri are as follows:

**Figure 10. PNPM Mandiri Programme Categories**



The community empowerment cycle in PNPM Mandiri are as follows:

**Figure 11. Community Empowerment Cycle**



Stakeholders appointed to implement the PNPM Mandiri are:

1. Directorate General of Village Community Empowerment (PMD)-Ministry of Home Affairs is responsible for implementing PNPM Mandiri Rural and its supporting programmes (by working together with related ministries).
2. Directorate General Cipta Karya-Ministry of Public Works (PU) is responsible for implementing PNPM Mandiri Urban, PNPM Mandiri Regional Development of Socio-economic infrastructure (RISE/PISEW) and PNPM Rural Infrastructure (by working together with related ministries)

## 2.2 Core Programmes and Covering Area

PNPM Mandiri is designed to alleviate poverty and increase employment of the poor by empowering communities. The approaches used in the programmes are Community participation, Empowering community capacity, Activity implementation by communities, Creating positive action for women. PNPM Mandiri has the following core programmes:

### 2.2.1 PNPM Rural

PNPM Rural is the Government of Indonesia's flagship poverty reduction and community empowerment programme implemented by the Ministry of Home Affairs together with Bappenas, Ministry of Finance, Oversight Committee of PNPM Mandiri and other government agencies. The programme's development objectives are for villager in PNPM Rural locations to benefit from improved local governance and socio-economic conditions. It empowers villages and communities to identify and implement village infrastructure sub-projects that are cost-effective, pro-poor and productivity-enhancing. The activities include construction of infrastructure, a microcredit and livelihood scheme, and the delivery of training activities — all of which are supported by an extensive facilitation network.

PNPM Rural is a continuation of Sub-District Development Program (KDP) that was implemented since 1998. Additional grant funding for pilot programs are provided by the Government of Australia, United States of America and Millennium Challenge Account-Indonesia through a Government and Multi-Donor Support Facility known as PNPM Support Facility (PSF).

The programme has three main components: (i) block grants (for investment in physical infrastructure and to facilitate revolving loan funds); (ii) community empowerment and facilitation; and (iii) implementation support and technical assistance. It provides block grants directly and transparently to communities to finance poverty alleviation activities selected from an open menu and identified through a gender-inclusive community participatory planning process. The Programme also aims to enhance the capacity of the national and local governments to partner with community organizations to improve the delivery of basic services.

Since its launch in 2007, PNPM Rural has expanded rapidly to become a nationwide programme, with the value of its annual budget reaching Rp 9.5 trillion (US\$ 0.93 billion) in 2013. Until the end of 2013, more than 85,000 sub-projects have been implemented in 5,146 Sub-districts. The majority of the sub-projects implemented have mainly focused on the development of infrastructures. In 2013, block grants were used for building rural roads (13,500 kilometers built) and clean water systems.

Peer-reviewed quantitative assessments of PNPM Rural have consistently demonstrated that the programme makes a significant contribution to the achievement of the GOI's poverty reduction goals. Specifically, these assessments show that: (i) *the poorest members of rural communities receive the greatest benefits from the programme*, with the two lowest quintiles of the participating population receiving the largest share of project benefits; (ii) *the programme results in significantly increased levels of consumption*, with household expenditures among the poor increasing by an average of 11 percent; (iii) *benefits are sustained*, with 85 percent of infrastructure built through PNPM/KDP in good to very good condition five years after its completion; (iv) *benefits are shared*, with PNPM Rural generating more than 20 million days of paid employment, with labor composition in PNPM programmes averaging 40-70 percent, and with PNPM's focus on financing public projects ensuring that they benefit a broad range of poor people; and (v) *investments are cost efficient*, with infrastructure built through the programme 30-50 percent cheaper than similar infrastructure built through existing, traditional government systems.

### 2.2.2 PNPM Urban

The development objective of PNPM Urban is to ensure that the urban poor benefit from improved socio-economic and local governance conditions. This objective is achieved through: (i) forming and institutionalizing elected representative organizations that are accountable to communities; (ii) directly providing grants to communities to transparently finance poverty reduction activities, especially infrastructure services; (iii) enhancing the capacity of central and local governments to partner with community organizations in service provision; and (iv) increasing the awareness of disaster risk mitigation and mainstreaming the measures for resilience.

The Urban Poverty Project (UPP), the predecessor to the PNPM Urban programme, began in 1999 as a means to respond to the economic collapse at the time by rapidly transferring resources directly to the poor in urban communities. In August 2006, the Government took the decision to scale up UPP to institutionalize its proven track record of bottom-up, participatory planning into a single community-driven poverty reduction programme at the national scale. Reflecting the Government's desire, PNPM Urban was implemented in 2008. Since then, the programme's coverage has extended to 11,000 wards in urban areas, reaching 23.7 million beneficiaries. The total value of funding for the PNPM Urban programme since its inception until 2012 reaches approximately US\$ 1 billion. The programme is funded through the Indonesian Government's own funds, and through loans provided by the World Bank and the Islamic Development Bank.

The project consists of four main components: (i) *Capacity Building for Communities and Local Governments*: This component involves community capacity building training and workshops and facilitation of Community Organizations (*Badan Keswadayaan Masyarakat*, BKM) and revolving loan funds (RLFs) unit staff; (ii) *Kelurahan Grants*: Under this component, grants are provided to participating kelurahan to co-finance sub-projects identified through community development plans; (iii) *Implementation Support and Technical Assistance*: This component provides capacity-building activities for the staff of Program Management Unit (PMU) and other groups and supports monitoring and evaluation; (iv) *Contingency for Disaster Response*: This component finances preparedness and rapid response measures to address disaster, emergency and/or catastrophic events, as needed, by way of the rapid reallocation of loan funds in the event of emergencies. In addition, a number of special programmes are or have been implemented under PNPM Urban, including the Neighborhood Development (ND) programme. ND improves living conditions of the poor by promoting urban upgrading. This specialized programme uses an approach that is programmatic (three year plan), integrative (a package of investments, such as housing, drainage and roads), and spatial (using evidence-based urban planning expertise). The programme significantly increased the size of ward grants, to up to US\$ 111,000 per ward, for neighborhood-level interventions that target the poorest areas. ND grants are matched by at least the same amount of funds from the participating local governments.

### **2.2.3 PNPM Rural Infrastructure (RIS)**

PNPM RIS was launched in 2008 as a core PNPM Mandiri programme to help address Indonesia's large deficit of village infrastructure. To achieve this goal, it was imperative to address many causes of rural poverty, including insufficient access to health, education, safe water, and sanitation services; lack of economic opportunities; and poor rural connectivity. Areas in difficult geographies are isolated further by a shortage of infrastructure and inadequate market linkages. According to the data collected in 2010 as part of project preparation, about 50 percent of rural villages are not connected by asphalt roads and more than 10 percent of all villages are inaccessible by four-wheel-drive vehicles at certain times of the year. Poor roads or no roads mean that government services are less accessible, while higher transportation costs place an additional burden on poor and remote communities. In addition to poor road conditions, water supply needs special attention. Disadvantaged rural people are especially vulnerable to external shocks and could easily fall back into poverty in the event of sickness, natural disaster, harvest failure, or rising food prices.

Corresponding to the overall objective of PNPM Mandiri, PNPM RIS is established with the Asian Development Bank (ADB) supports to the Government to reduce poverty in the target areas through three projects: PNPM RIS I (closed in June 2011), PNPM RIS Project II (closed in September 2013) and PNPM RIS III (ongoing as part of the Urban Sanitation and Rural Infrastructure Support to PNPM). The project aims to improve access to service delivery and to promote improved living conditions for the poor, the near poor, and women in the project communities. To produce these outcomes, the projects consist of three main components: (i) strengthening capacity for community planning and development, (ii) improving village services and infrastructure through community development grants, and (iii) improving the Government's capacity for project implementation and monitoring and evaluation. The three projects assist community mobilization by providing block grants to finance the upgrading of basic rural infrastructure in more than 3,800 villages of four provinces, namely, Jambi, Lampung, Riau, and South Sumatra, in accordance with community-identified priorities.

### **2.2.4 PNPM Regional Development of Socio-economic Infrastructure (RISE/PISEW)**

Building on the PNPM Rural platform, PNPM RISE/PISEW aims to accelerate social and economic development by improving the poor's access to basic infrastructure such as access roads, water supply systems, small irrigation infrastructure, markets and health and education facilities; and by introducing microcredit services in rural areas. Established in the highly decentralized context of Indonesia where

local governments demonstrate a mixed performance in the area of service delivery, the programme also aims to build the capacity of district and sub-district administrations to operationalize decentralization and regional autonomy laws and to facilitate the achievement of national and local development priorities. PNPM RISE/PISEW is implemented by the Directorate General of Human Settlements (DGHS) within the Ministry of Public Works and is financed through a US\$ 252 million loan from Japan International Cooperation Agency (JICA). Between 2008 and 2013, PNPM RISE provided block grants amounting a total value of more than Rp 1.849 billion to 2,669 villages for financing the construction of village infrastructure. The programme covers 9 provinces, namely North Sumatera, Jambi, Bengkulu, Bangka-Belitung, West Kalimantan, South Kalimantan, West Nusa Tenggara, West Sulawesi, and South Sulawesi.

## 2.3 Basic Principles

PNPM Mandiri emphasizes the following basic principles in its activities:

1. Focus on Human Development – The implementation of PNPM Mandiri should always be about improving human dignity.
2. Autonomy – When implementing PNM Mandiri, communities have autonomy to decide and manage their development activities.
3. Decentralization – The authority of development activities and management, at sector and regional levels, are in the hands of regional governments or communities, based on their capacity.
4. Pro-Poor – All activities in the programme prioritize the interests and the needs of the poor and disadvantaged communities.
5. Community Involvement and Participation – Communities are actively involved in every decision about development, and work together on development projects.
6. Gender Equality and Justice – Men and women have fair and equal opportunities at every development stage, as well as equal rights to benefit from the development.
7. Democracy – Every decision about development projects are made through community meetings, with the poor as the main priority.
8. Transparency and Accountability – The community must have adequate access to all information and to the process of decision-making to insure transparent and accountable project management.
9. Priority – The government and the communities must prioritize poverty reduction and people's urgent and beneficial needs by utilizing various limited resources wisely.
10. Collaboration – Everyone is encouraged to foster collaboration and synergic partnerships among stakeholders for poverty reduction.
11. Sustainability – All decision-making must include the consideration of improving people's welfare, for today and for the future, while also protecting the environment.
12. Simplicity – All regulations, mechanisms, and procedures used in the implementation of PNPM Mandiri must be simple, flexible, easy to understand and manage, and accountable.

## 2.4 Components and Scope of Activities

The following components are the key elements that must exist within each program of PNPM Mandiri:

1. Community Development – This component includes a series of activities to build the critical awareness of communities which consist of: mapping potential, problems and needs, carrying out participatory planning, community organizing, resource utilization, and monitoring and maintaining development outcomes.



2. **Community Block Grant (BLM)** – BLM is stimulant fund provided to community groups for financing activities that have been planned to improve their welfare, especially the welfare of the poor.
3. **Strengthening Capacity of Local Government and Actors** – Strengthening the capacity of local government and actors aims to create a positive, conducive, and synergistic environment for the community, especially the poor, so they can have a decent living standard. Activities in this component include seminars, training, workshops, field visits, etc.
4. **Technical Assistance for Programme Management and Development** – This component consists of activities to improve the capacity of the government and other stakeholders in activity management, such as management consultation, quality control, evaluation, and programme development.

PNPM Mandiri is open to all activities related to poverty reduction that are proposed and approved by communities, among others (1) providing housing, and basic social and economic infrastructure developments (through labor intensive methods); (2) providing financial resources through revolving funds and micro credit to develop the economic activities of the poor. Women are prioritized in utilizing these revolving funds; (3) activities to improve human qualities, especially as related to MDGs and accelerating the achievement of MDGs; (4) increasing the capacity of communities and local governments by building critical awareness, providing training in business skills, organizational and financial management, and by practicing good governance.

## 2.5 Programme Management

As a national programme, PNPM Mandiri must have good management and well-planned. Therefore, the management has included preparation, participatory planning, activity implementation, control, administration, complaint handling, evaluation, reporting, and socialization. Globally, the management of the PNPM Mandiri are as follows:

1. **Preparation** – Includes the arrangement of general polices, location determination, funds availability, and the deployment of consultants and facilitators
2. **Participatory planning** – Includes planning at the village level, as well as coordinated planning at sub-district and regency levels
3. **Activity implementation** – Concerns selecting and determining organizations that will manage activities, disburse funds, mobilize labor, provide material and equipment, and implement the proposed activities.
4. **Control** – Control is necessary to ensure project implementation in line with the programme's goals and targets
5. **Complaint Handling Management** – Complaint handling management starts at the location closest to the complaint handling unit, so complaints can be dealt with as quickly as possible. Communities, the government, and stakeholders are responsible to manage and handle the complaints
6. **Evaluation** – Evaluation should be done regularly-by both the programme organizers and independent parties, such as NGO's, universities, and research institutions
7. **Reporting** – Reports should be made regularly and follow the hierarchy level of the government'
8. **Socialization** – The purpose of PNPM Mandiri socialization among various parties to build understanding, interest, and support for PNPM Mandiri



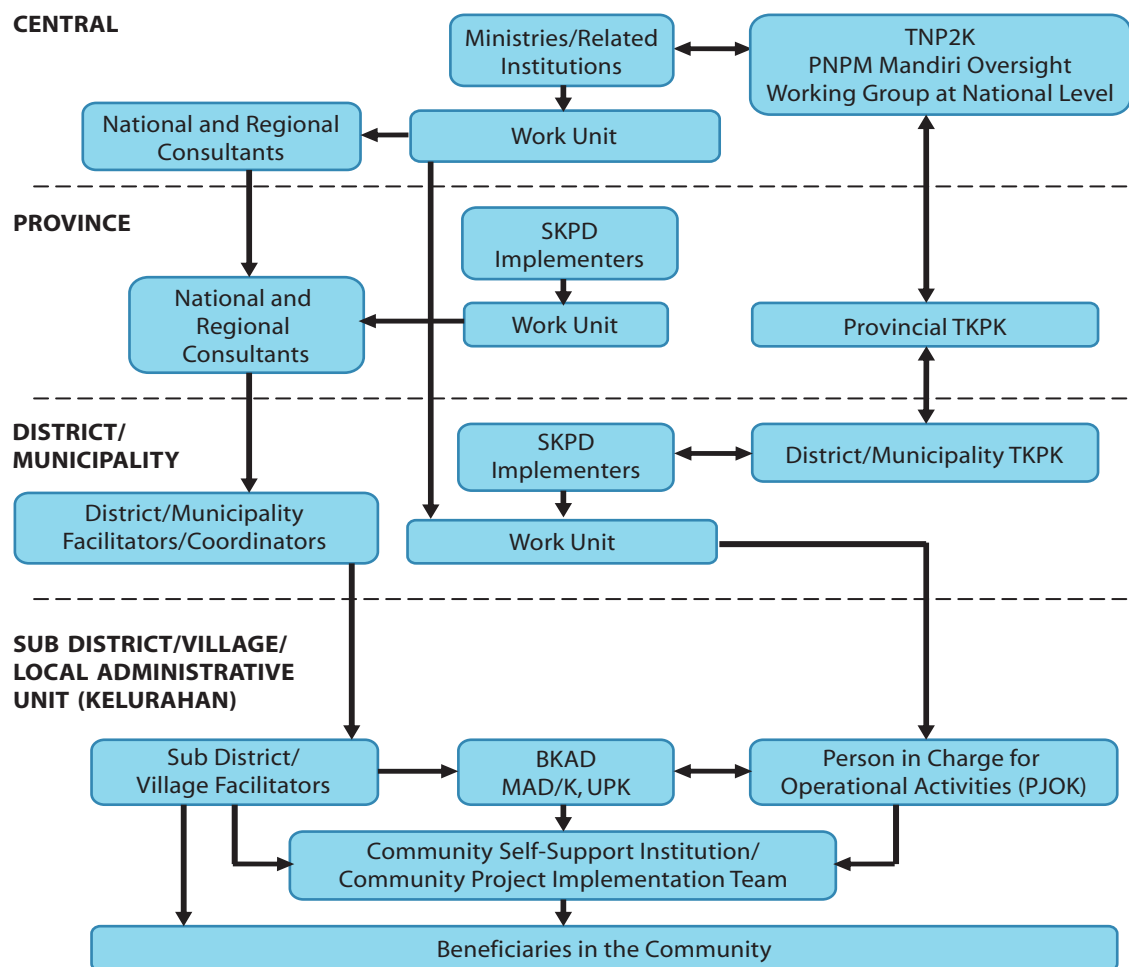
## 2.6 Institutional Structure

The Institutional structure of PNPM Mandiri consists of government, communities, business owners, facilitators, consultants, and stakeholders who are involved in poverty reduction and efforts to achieve its objectives.

As mentioned in Presidential Regulation (Perpres) No. 15/2010 concerning the acceleration of poverty alleviation, the control of the all poverty alleviation programmes, including PNPM Mandiri is in the hands of TNP2K, or the National Team for Accelerating Poverty Reduction. TNP2K is chaired by the Vice President, Deputy I Minister of the Coordinating Ministry for People's Welfare, and Deputy II Minister of Coordinating Economic Ministry with assistance from the Oversight Working Group (POKJA Pengendali). POKJA Pengendali consists of officials from the Coordinating Ministry for People's welfare, the National Development Planning Agency (Bappenas), Home Ministry, Public Works Ministry, and other ministries involved in PNPM Mandiri.

The Coordinating Team for Poverty Reduction (TKPK) was established to increase the coordination of poverty reduction efforts at province and regency levels. At the province level, TKPK is placed under and responsible to the vice governor. At the regency level, TKPK is placed under and responsible to the deputy regent or mayor. PNPM Mandiri institutional structure described in the following figure:

**Figure 12. PNPM Mandiri Institutional Structure**



Notes:

SKPD – Regional Administrative/Logistics Work Unit

TKKPL – Regional Coordinating Team for Poverty Reduction

BKAD – Inter-Village Cooperation Body

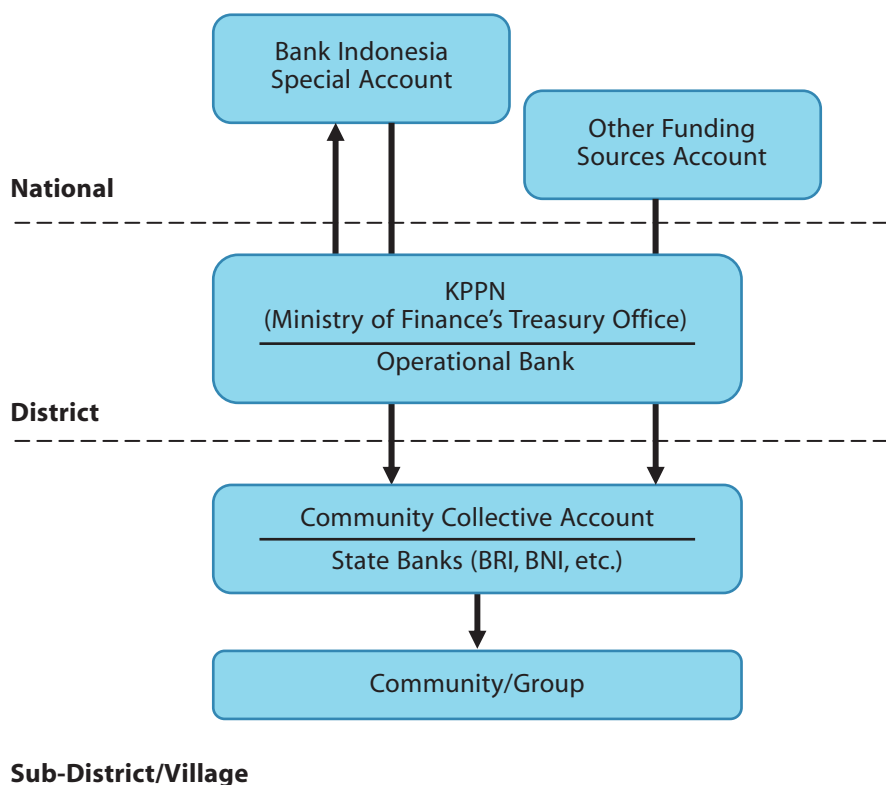
MAD/K – Inter-Village/Sub District Consultations

## 2.7 Programme Funding

PNPM Mandiri, as a joint programme between central and local governments is funded by the State Budget (APBN) and the Regional Budget (APBD) of a province or regency. PNPM Mandiri is also open to contributions from the private sector, communities, and various organizations. To coordinate grants various donors, then in 2007 has established The PNPM Support Facility (PSF). PSF is chaired by the Deputy of Bappenas for Poverty, Labor and Small and Medium-sized Businesses (UKM). PSF provides technical support the government related to planning, policy, management, and financial planning of PNPM Mandiri.

The disbursing funds procedure for from APBN and APBD follows existing regulations and mechanisms. For community block grants (Bantuan Langsung Masyarakat – BLM), funds are distributed to collective community bank accounts that are opened with at least two specimen signatures of community members who receive the assistance. The transfer of BLM funds to community accounts is done in phases, or based on their needs and types of assistance. In case, the implementation of PNPM Mandiri or in the use of BLM funds, non-compliance or corruption is found, then the PNPM Mandiri Working Unit (Satker) – based on the recommendation and input from a consultant and the local government – may cancel the distribution of BLM funds in part or in whole. PNPM Mandiri BLM Fund described in the following figure:

**Figure 13. Distribution System for Community Block Grant**



## 2.8 Monitoring and Supervision

To ensure that the implementation of the programme has been in accordance with the goals and objectives, and also to ensure that the funds are used has been channeled properly, then it is quite necessary to monitor and supervise the programme thoroughly from the upstream to the downstream. Therefore, PNPM Mandiri adopts the following system of monitoring and supervision:

1. Participatory monitoring and supervision by communities – Communities are involved in the monitoring and supervision process. The process ranges from participatory planning to the implementation of PNPM Mandiri from the village level up to the regency level
2. Monitoring and supervision by the government – Monitoring and supervision by the government follows its hierarchy orders to ensure that PNPM activities are implemented in accordance with the programme's principles and procedures. It also aims to ensure that the use of the funds corresponds to the programme's goals
3. Monitoring and supervision by consultants and facilitators – Monitoring and supervision by consultants and facilitators is done at the national regional, province, regency or city, sub-district, and village levels. Consultants and facilitators carry out monitoring and supervision by regularly utilizing the programme's information system and by visiting the locations. Facilitators supervise each step of the development process to see whether there is anything to improve and adjust in the programme implementation.
4. Independent Monitoring by third parties – PNPM Mandiri provides opportunities for other parties, such as NGO's, universities, and journalists to monitor PNPM Mandiri independently and to report their findings to authorized institutions.
5. Financial review and audit – To safeguard against misuse of funds, the State Development Finance Controller (BPKP) and the City Inspectorate, as the government's audit agency, conduct regular inspections at several locations that are randomly chosen.

In the case there are complaints or discovered irregularities in the programme implementation, the programme has set up a complaints management system that implemented at all levels as become the concern and responsibility of communities, the government, and stakeholders. Communities are able to submit a complaint to the consultants, facilitators, government workers, NGOs, or to the secretariat office of each PNPM Mandiri programmes. Each PNPM Programme and the office of the PNPM Oversight Working Group (POKJA Pengendali) will record the complaint and will follow it up.

## CHAPTER 3

# Rural Financial Access

### 3.1 Strategies and Practices Undertaken

The World Bank's survey (2010) shows that only 49 percent of Indonesian households have access to formal financial institutions. In other words, the majority of households in Indonesia which are mostly living in rural areas do not have financial access to formal financial institutions. Bank Indonesia revealed the same in a Household Balance Sheet Survey (2011) showing that 48 percent of households save their money with formal financial institutions and non-financial institutions. This sad condition caused by low household income, complicated bank operation, lack of financial and banking education, high bank charge, and bank location away from houses.

However, amidst the issues mentioned above, public access to financial services in Indonesia is categorized moderate among the other developing countries. The access of Indonesian people to financial services is greater than two emerging giants, India and China, and is slightly lower than Thailand, Malaysia, and even South Korea. It means, there is enough space remains to make financial system more inclusive and gain bigger social advantages. Access to financial services is a complicated issue related to people as consumers and financial institutions as producers. It requires formulation of a multi-dimensional approach to improving public access to financial service (Bank Indonesia, DPAU 2014).

There are many programmes and policies that have been carried out by the Government and related stakeholders in Indonesia to improve access to finance both in general and specifically to rural areas. Some important points regarding strategies and practices undertaken in improving rural financial access, among others:

#### 3.1.1 National Strategy for Financial Inclusion

Improving people's access to rural financial services is also one of the goals and indicators of success of the national strategy for financial inclusion (SNFI) initiated by the central bank. The general constraints for poor people to access financial services are mostly due to geographical and administrative issues. It is conceivable, Indonesia which has more than 17 thousand islands is a challenge in improving access to finance.

Financial Inclusion is a national development strategy to boost economic growth through equal income distribution, poverty reduction, and financial system stability. This community centered strategy needs to target groups that facing constraints to access financial services, they are placed in three categories (low-income poor, working poor/productive poor, and near-poor) and three cross-cutting categories (migrant workers, women, and people living in remote areas).

Increase of public access to financial institutions is a complex issue, which needs cross-sectoral coordination involving bank authorities, non-bank financial services, ministries, or other institutions focusing on poverty reduction, and therefore, a comprehensive and holistic policy is needed in a National Strategy for Financial Inclusion. Thus, the government has formulated the following 6 pillars of strategies for financial inclusion:

- **Pillar 1: Financial Education** – It aims to increase public knowledge and awareness on financial products and services that available in the formal financial market, consumer protection aspect, and understanding on risk management. The scope of this financial

education includes: a) knowledge and awareness on the various types of financial products and services, b) knowledge and awareness on risks related to financial products, c) consumer protection, and d) financial management skill.

- **Pillar 2: Public Financial Facility** – The strategy for this pillar refers to the government's ability and role in providing direct or conditional public financial funding to boost community's economic empowerment. Several initiatives in this pillar include: a) subsidy and social assistance, b) community empowerment, c) MSME empowerment.
- **Pillar 3: Mapping of Financial Information** – It aims to build the public capacity, primarily those categorized not eligible to become eligible or unbankable to become bankable by normal financial institutions, particularly productive poor people and micro and small businesses. Initiatives made in this pillar include: a) capacity building (through training and technical assistance), b) alternative of guarantee system (simpler but still considering their relevant risks), c) provision of simpler credit services, d) identification of potential customers.
- **Pillar 4: Supporting Policies/Regulations** – Implementation of an inclusive financial programme requires policy support from the government and Bank Indonesia to improve access to financial services. Initiatives made to support this pillar include: a) Policy to promote dissemination of financial service products matching to public needs, b) prepare product schemes which met the public needs, c) encourage change of provisions by observing the principle of prudence in a proportional manner, d) make regulations on assistance fund disbursement mechanism through banks, e) strengthen legal grounds to improve consumer protection in financial services, f) make studies related to financial inclusion to determine policy direction in a sustainable manner.
- **Pillar 5: Intermediary Facilities and Distribution Channels** – It aims to increase the awareness of financial institutions on the existence of potential segments in the community and expand the outreach of financial institution services by using alternative distribution channels. Several aspects in this pillar include: a) intermediary forum facilities to allow financial institutions to meet productive community groups (eligible and unbanked) to solve asymmetric information issues, b) increase cooperation between financial institutions in order to increase business unit scale, c) explore various possibilities of products, services, and innovative distribution channels by observing the prudential principles.
- **Pillar 6: Consumer Protection** – It aims to make people have a guarantee for security in interacting with financial institutions to utilize the offered financial products and services. Components of this pillar include: a) product transparency, b) handling of consumer complaints, c) mediation, d) consumer education.

### 3.1.2 Government Credit Scheme Programmes

One of the strategies to improve access to finance is the provision of credit schemes that are appropriate and can be easily accessed by MSMEs/farmers. Therefore, the government has provided various schemes of credit programmes for MSMEs/farmers. The role of government in these credit schemes is on the supply side of the state budget funds to provide subsidies on loan interest, while credit funds is 100 percent wholly derived from banks that are appointed by the government as implementer banks. Other than provide subsidies on loan interest, the government is also preparing MSMEs and farmers to be financed by the appropriate schemes, establishing policies and priorities of businesses that will receive the scheme, to provide guidance and assistance during the loan period, and facilitate linkages between MSMEs/farmers with other parties. The credit schemes consist of:

- **Credit Scheme for Food Security and Energy (KKP-E)** – The scheme is provided by the government for businesses, especially for as capital or investments. Therefore, the utilization of the credit programme by farmers does not only improve the farmers' access to agricultural financing but it could also improve the availability of production inputs, function effectively

as an instrument to facilitate the adoption of new technology which could increase production, income and employment opportunities at farmer level which in turn is expected to improve the farmers' welfare and become a driving force for agricultural development in Indonesia, particularly in achieving the goals of food security programmes.

- **Credit Scheme for Bio-Energy Development and Plantation Revitalization (KPEN-RP)** – The scheme is provided in order to support the implementation of biofuel crops and plantation revitalization programme. This programme is distributed to 21 provinces in Indonesia which has the potential development of biofuels and plantation needs to be revitalized.
- **Credit Scheme for Cattle Breeding (KUPS)** – The scheme represent credit facilities provided by banks to breeders for cattle breeding through cooperatives, farmers' groups, or a combination of groups of farmers.
- **Credit Scheme for People's Business Development (KUR)** – Among others, KUR is the most familiar credit scheme provided by government. KUR is a programme contained within the MSMEs, targeted to poverty alleviation and aimed to increase access to capital and other resources by micro and small enterprises. KUR is credit scheme to be used for working capital and/or investment financing specifically dedicated to MSMEs and cooperatives, where enterprises are unable to meet certain requirements set by banks. KUR is a credit/financing provision programme of less than USD 500. The overall objective of KUR programme is to accelerate the development of economic productivities in the real sector and to alleviate poverty as well as expanding work opportunities.

### 3.1.3 Role of Central Bank

Referring to the law 23/1999 on Bank Indonesia as amended by law No. 3/2004, the policy of Bank Indonesia (BI) as the Central Bank for the development of MSMEs and farmers focused on "improving access of MSMEs and farmers to the Bank". The policy was motivated by the limited access to finance to MSMEs and farmers, which in turn affects the quality of the production, marketing, and income of MSMEs and farmers.

There are 3 gaps between MSMEs/farmers and banking affecting limited access to financing, i.e. (1) the gap scale that occurred due to mismatch between the amount of loan to be provided by banks to the needs of SMEs and vice versa, (2) the formal gap – it is occurred due to the limitations of MSMEs/farmers to fulfill formal requirements of banks such as business licenses, collateral in the form of land certificate and or tax ID, and (3) the information gap, that is misinformation about what the requirements and procedures of the bank and what is known by MSMEs/farmers in general.

The current role of BI leads to a promotional role for MSMEs associated with the BI main task that is for maintain the stability of the exchange rate through increased economic capacity. BI is currently conducting technical assistance activities in the framework of the development of MSMEs, which in turn is expected to generate interest banks to provide financing facilities. BI's role is directed both on the demand and supply side.

On the supply side, BI seeks to encourage banks to extend credit to MSMEs/farmers. One of these ways is by issuing banking regulations that support credit distribution and supporting institutional strengthening through the development of financial infrastructure in order to improve MSMEs/farmers access to bank financing. As for the demand side, the central bank seeks to increase the eligibility and capability that is conducted through research, training or technical assistance as well as the provision of information. Benefit from the research conducted by BI is to assert that MSMEs/farmers may provide job opportunities and a source of income for the people, while training and technical assistance is to provide the knowledge that anyone may undertake micro businesses, which in this case BI may help in the effort increased access to banks so that MSMEs/farmers may grow better. While the information carried out is to provide insight to all stakeholders to jointly develop MSMEs/farmers.



Furthermore, BI has disseminated a circular letter No.15/35/DPAU dated 19 August 2013 addressed to all commercial banks in regard with lending programme by commercial banks in the framework of MSMEs/farmers development. The circular letter called on commercial banks to prepare and submit a plan of financing to MSMEs/farmers by showing phases of achieving the MSMEs/farmers financing ratio to total loans: (1) in 2013 and 2014, according to the capability of Commercial Banks, (2) By 2015, at least 5 percent, (3) By 2016, minimum 10 percent, (4) By 2017, minimum 15 percent, (4) and by 2018 onwards, at least 20 percent.

In addition, to expand formal financial access to all areas of Indonesia, the use of agents from the local community (individual agents) by the bank is expected to accelerate and expand the range of financial access to the public. This is supported by the large number of informal sector (local economic units) such as shops, grocery stores, cellular/sim card seller, and others in various areas that can be used to serve the financial transactions of the local community. On the other hand, the penetration of mobile phones that can be used as a medium for financial transactions has grown very rapidly. The combination of agents and cell phones to conduct financial transactions on a limited scale may be the beginning of a bridge for the community that are unbanked to go further into the formal financial sector, which is called by Digital Financial Services (LKD). To accommodate this matter, Bank Indonesia has issued a circular letter No. 16/12/DPAU dated 22 July 2014 in regard with the Implementation of the Digital Financial Services through Individual Agents. The purpose of the Circular is to provide clear guidance to issuers of electronic money (banks) that will implement the LKD by using individual agents. In addition, these provisions also provide certainty for people to be able to enjoy access to financial services safely.

### **3.1.4 Other Initiatives**

In order to support the National Strategy for Financial Inclusion, the Financial Services Authority (OJK) has issued Regulation No.19/POJK.03/2014 concerning Branchless Banking or known as “Laku Pandai”. Laku Pandai is a programme or the provision of banking services and other financial services through cooperation with other parties (agent bank) which is supported by the use of information technology facilities. The goal of Laku Pandai is to provide simple financial products, easy to understand, and other banking facilities that accordance with the needs of people who have not been able to reach financial services. Laku Pandai provides three kind of products namely Basic Savings Account, Credit/loan to micro customers, and other products such as microinsurance. Laku Pandai is expected to be the spearhead for improving financial access in rural and remote areas throughout Indonesia.

Other than that, OJK in cooperation with the Ministry of Maritime Affairs and Fisheries has launched the programme “Reach, Synergy, and Guidelines” or shortened to “JARING”, by inviting banks, non-bank financial institutions, chambers of commerce and industry, and insurance companies to increase financing to the marine and fisheries sector.

The main objective of “JARING Program” is to increase financing in the marine and fisheries sector, as well as to improve the welfare of fishermen and micro and small businesses, and increase employment, which in turn will boost the growth of the national economy. This programme will put forward a lot of business models and financing not only for fishermen, but also for cold storage and large vessels financing. In addition, the programme will also eliminate the information gap between the entrepreneurs, fishermen, and financial institutions.

For the smooth running of the programme, eight banks and non-bank financial industry through a consortium of finance companies, life insurance, general insurance, and guarantees have partnered with the OJK, and has distributed funding to the marine and fisheries sector amounting to Rp 10.8 trillion in the period of December 2014. They are committed to provide financing growth amounted to 66.2 percent up to December 2015.



Furthermore, the enactment of Law No.6/2014 about the Village has brought a “fresh breeze” to the government at village level. The strategic issues that revealed in the aforesaid law is on the encouragement to establish Village-owned Enterprise (BUMDes) which one of its objectives is to improve rural financial access. Other benefits of the aforesaid Law for rural development, i.e.: (1) ensuring the financial resources of the state budget (APBN) for the implementation of development and revitalization of rural asset management; (2) strengthening community participation in determining the direction of rural development policy implementation; (3) strengthening the pillars of democracy in terms of checks and balances system in rural development; (4) able to improve public services on village administration system in order to ensure the needs of rural communities; and (5) to be used as the revitalization of the village social capital to empower rural communities (Arie Sujito, 2014).

### **3.2 Innovations Made**

In line with BI Circular Letter No.16/12/DPAU and OJK Regulation No.19/POJK.03/2014, — on 12 December 2014, Bank Rakyat Indonesia (BRI) launched a branchless banking programme called “BRILink”. It is an innovation to facilitate financial access to the people who do not have access to the formal financial sector. BRILink as a service-based agency is an extension arm of BRI for remote and rural areas. Requirements that must be fulfilled in order to become an agent of BRILink are individuals who have been running the business for a minimum of 2 years, did not have a legal entity, or those who have a permanent business location that well known by local people. BRI will then provide the agency number on each agent of BRILink which will be installed at the business location. The agency numbers can be checked directly via mobile phones. Through these agencies, the local community can perform various banking transactions such as account transfer, paying electricity bills, topping up the balance for mobile phone, and limited cash withdrawals. The agents will benefit from administrative costs charged to customers. As of the end of May 2015 there were 32,000 agents of BRILink spread out throughout Indonesia (Budi Satria, BRI).

Similarly, Bank Andara as an Apex for Rural Banks whose main business focus is expanding access to financial services through Microfinance Institutions both in terms of product development, service and technology has developed an MFIs network system known as “AndaraLink”. It is an online banking system that aim to facilitate MFIs and their customers with electronic banking service throughout Indonesia. AndaraLink systems enables Bank Andara’s MFI partners to deliver financial electronic service to their customers both within regional and national coverage, as well as for their own internal use. There are some benefits of AndaraLink, i.e. Easy and quick access to a quality banking products and services; Available in various devices such as Electronic Data Capture (EDC), Easy to operate, no need special skill or expensive maintenance; Supported by an extensive network of MFIs incorporated in AndaraLink partners; and MFIs can conduct cross selling of the product itself to users who are not customers of AndaraLink.

Still from BRI, the geographical condition of Indonesia as an archipelagic country has its own challenges in enhancing access to financial services to the rural island communities. It hereinafter makes BRI innovating to launch “Floating Bank” or called as “Teras BRI Kapal”. The programme was launched in the Port Kaliadem, Muara Karang, Jakarta on 4 August 2015. At the initial stage, the on-boat banking services, or Teras BRI Kapal is served people in Thousand Islands regency of North Jakarta. Later, similar boats will serve customers on other remote islands. The boat provides services for existing and potential customers on six islands, namely Pramuka Island, Tidung Island, Kelapa Island, Untung Jawa Island, Harapan Island and Panggang Island. The boat is manned by 11 staff including crew, guards and four BRI officers: a teller, a customer service officer and two account officers. It operates from Monday to Friday. The floating bank provides all essential services, similar to other BRI branches, such as savings, loans and money transfers. For the next stage BRI would invest Rp 15 billion (US\$ 1.11 million) for each boat and aimed to launch one additional vessel every year as well as looking at the eastern part of Indonesia to identify which areas need banking services the most (Sunarso, 2015).

### 3.3 Lessons Learned

Financial inclusion is important and urgent because there are many people who do not have access to the formal financial sector. Moreover, since the formal financial sector is a common area, then everyone is entitled to access formal financial products and services. For that reason, access to formal financial products and services should be provided to all segments of society, with special attention to poor, low-income groups, the poor productive, groups of migrant workers and those living in remote areas.

Other than that, to facilitate MSMEs access to the formal financial sector, the government has provided a variety of financing schemes associated with the task and economic development programme in certain business sectors, such as food security, livestock and plantations. This programme would also be expected to support and synergized with the national strategy of financial inclusion.

The main problems that hinder the development of MSMEs is the difficulty of getting financing. The efforts made by Bank Indonesia as the central bank for the development of MSMEs is to solve the financing problems through the provision of technical assistance and the issuance of regulations that aim to facilitate SMEs to get access to financing and encourage banks to provide financing to MSMEs.

Bank Indonesia regulation on Digital Financial Services and Financial Services Authority regulation on Branchless Banking is an effective strategy to expand access to formal financial services, especially for remote areas. Concretely, BRI has responded to these regulations by its BRILink programme as a breakthrough in improving access to financial services.

### 3.4 Cases

The following cases tells the success story that was published in several publications related to activities within the framework of rural financial access.

#### 3.4.1 Housewife Successful turned BRILink Agent

**TRIBUNMANADO.CO.ID, MANADO** – Starting from the decision to quit working as staff of hotel in Manado, Mrs. Deice Tamatompol who living in Griya Tikala, Manado, North Sulawesi started to think to open a business to support her family. "At first I attempted to open a small shop and sell food," she told the Tribune Manado, Sunday (05/24/2015).

The effort was indeed quite helpful, however she admitted that her income is very limited. Luckily there is a neighbor who works in BRI and offering her to become an agent of BRILink. "Incidentally, there is a neighbor who offered me to be an agent of BRILink. Our house is also far from the city center. So it can help people around here to carry out banking transactions. It also helps me to support the family. After all, it may be able to enliven my existing business," she said.

She added that the requirements to become a BRILink agent are simple; a copy of ID, Tax Identification Number, BRI bank account with a minimum balance of Rp 500,000 and a certificate of business from the village office. "The process after the filing of the application is fairly quick. It only takes one week. After; a BRI officer conducts a survey about my condition and brings the tools necessary for banking transactions. We are also guided by BRI officers on how to conduct operations of BRILink agent," she said.

Through a device called the Electronic Data Capture, the agents can help local people to conduct banking transactions such as balance checking, savings, transfers, payment of electricity, telephone payment, payment of school fees, and much more.

On a separate interview, Mr. Muchlis M. Yakin, a local resident claimed that he was greatly helped by the BRILink agent. "The most common is to pay for electricity; if the electricity had gone out and credits increase, payment is easier. The important thing is, I do not need to go to the city center which is located quite far," he said.

Mrs. Deice say that in a day, there are at least 10 banking transactions. "Mostly for bank account transfer and topping up credit for electricity," she explained.

Mr. Moningka Chandra, Head Division of E-banking and Card, BRI Regional Office of Manado, explains that the income earned by the BRILink agent comes from two sources. "The first source is from fees that earned from every transaction. So, if there are transactions such as account transfers, then they have to pay an administration fee in cash to BRILink agent accordance with the rates that have been set. The second source derived from sharing fee or commission, such as commission from the State Electricity Company. The commission was split 50-50 between the bank and the agency," he explained.

Currently, the total agent of BRILink in North Sulawesi reached 170 agents with a total number of 71 agents in Manado. "BRILink will be developed by BRI to spearhead in serving the community. This is in accordance with the policy of the Financial Services Authority (OJK) on Laku Pandai, and strategy of Bank Indonesia (BI) on Digital Financial Services (LKD). Thus, BRILink agent has become a customer service of BRI," he concluded (Tribunmanado/fionalois watania 2014).

### **3.4.2 KUR Developing MSMEs and Farmers in Sragen, Central Java**

**PUSDATIN, SETKAB RI.** Credit Scheme for People's Business (KUR) has opened access to finance for Farmers and Micro, Small and Medium Enterprises. With this programme, financing which has been an obstacle slowly began to be solved. Since initiated on 5 November 2007, many success stories behind KUR in various areas, especially in rural areas. For loans below Rp 20 million, KUR has succeeded in making people in the grassroots confidence to develop their businesses. One of the KUR programme successfully can be seen in Sragen, Central Java Province. Most of KUR in Sragen channeled through local Bank Rakyat Indonesia (BRI). The amount of KUR disbursement until August 2014 reached Rp 535 billion and distributed to 24.234 clients with business sectors including agriculture, mining, industry, electricity and gas, trade, warehousing, communications, business services, social services community, and others.

Not many success stories of KUR involve large-scale or corporate enterprises. Most of the success stories of KUR are dominated by Farmers and MSMEs, as experienced by Mr. Suparno who lives in Ngoncol Village, Sragen, Central Java. Mr. Suparno who was born in 1967 became a farmer of onions and vegetables for 9 years. The first time he got KUR support is Rp 20 million which he used to rent land, labor costs, fertilizers, and seeds. Mr. Suparno is a KUR customer with specific requirements, which means that the installments are paid using the system of planting season or paid every 3 months in a year. Mr. Suparno claimed that he has been helped by KUR programme to make his farm business grow. He also shares that from a capital of Rp 20 million, he could produce a net profit of Rp 40 million in one harvest. In one season, Mr. Suparno employs about 10 workers who are paid on a daily basis. Notably, he can still get a profit to repay the loan in accordance with the time set by the bank. "Everything I do it carefully, Thank God, so far, I've got a lot of blessings and KUR really helped me," said Mr. Suparno.

Another success story was experienced by Mr. Sumardi who received KUR in August 2011 for the first time at Rp 5 million with an interest rate of 1.49 percent per month for a year. The second loan was on August 3, 2012 at Rp 10 million and continues to the third loan on August 20, 2013 at Rp 10 million. The installments are paid on a seasonal basis during the year. Finally, Mr. Sumardi receive KUR in August 2014 at Rp 10 million. He used KUR to expand his business in the field of agriculture particularly, rice farming, and cattle production.

Mr. Sumardi admitted that his business is growing because of the KUR loans. He got a middling profit for each cow sales season. From the profits, he is able to pay the installments that are computed regularly every 4 months. "At the time I get a loan, I immediately bought a cow and this business Alhamdulillah continues to grow until now," said Mr. Sumardi found at his home.

Mr. Sumardi claimed that information about KUR is obtained from his neighbors. He then tried to ask further information to the village office. Armed with the information he receives, Mr. Sumardi tried to apply for KUR to BRI. Mr. Sumardi admitted that he get a satisfactory explanation from the officials of BRI. Only three days after the filing, the proposed loan can be realized. Mr. Sumardi further invites his friends to apply for KUR. "The process is very fast and in just three days the applied loan is obtained plans to loan again, hopefully, he can get larger loan sizes," said Mr. Sumardi (Diana Saragih & E.S. Dalimunthe 2014).

### **3.4.3 Mr. Masril Koto: The Founder of MFI for Farmers**

Mr. Masril Koto is the founder of a financial institution where farmers can get access for loans hereinafter known as Microfinance Institution for Agribusiness of Prima Tani, or shortened as "LKMA Prima Tani." The establishment of this MFI is motivated by the difficulty of farmers to seek loans to run their agricultural businesses.

Mr. Masril Koto is the eldest of eight children. This jet-skinned man came from the District Baso, Agam, West Sumatra. In his hometown, he was a farmer and rancher. He did not complete his elementary. He left his elementary education when he was in grade 4 due to financial constraints. Mr. Masril Koto is a simple man. This is reflected in his appearance in every event he attended. He is not ashamed to use flip-flops as a speaker in the National Seminar on Financial Inclusion in eastern Indonesia at Hotel Sahid Makassar, and use a white shirt and a black cloth jacket and pants in Kick Andy Show who made him as the simplest guest among the other guests.

The establishment of LKMA Prima Tani by Masril Koto started in 2003. As a farmer, he planted rice, corn, and sweet potatoes. At that time, he wanted to turn into a catfish farmer. Until one day, he met artist-farmer Mr. Rumzi Sutan who sang about the ideals of self-reliance of farmers. Since then, Mr. Masril Koto was determined to promote and assists farmers. He then studied at the Farmer Field School (SL) administered by the Department of Agriculture of West Sumatra in Nagari Tabek Panjang, Baso, Agam. While in SL, he realized that the main problem of the farmers is lack of financing. Similarly, it is too risky to finance the farmers through commercial bank in general. So he had an idea to create a bank of farmers to meet their needs.

The idea to establish a special bank for farmers initially deemed impossible. Almost all banks in Padang, West Sumatra has been visited by him to get support for his idea. But no one believes, even he had experienced deceived by a bank, when he was told to wait all day to meet the bank executive officer, when in fact the bank executive officer was out of town.

However, he did not give up. With the intention to help farmers who have difficulty in obtaining loans from banks, he finally got a bright spots. Through a discussion organized by the Alumni Foundation of the Faculty of Agriculture, University of Andalas (AFTA), he gained knowledge about the mechanisms of bank establishment. Further, he and some of his colleagues began to establish LKMA by selling shares at Rp 100,000 per share to hundreds of farmers.

At first many farmers were skeptical. They were confused. "Why is this piece of paper worth Rp 100,000," so common questions from farmers. Yet, slowly they understood, and many farmers then bought the shares. Once the capital was obtained, the problem of bookkeeping popped-up. To tackle the problem, he then attended a training in Yogyakarta. He learned the process and eventually addressed the bookkeeping problem.

LKMA Prima Tani starting to bear significant results in 2006. Besides LKMA Prima Tani, Mr. Masril Koto has also set up other 580 LKMAs scattered throughout West Sumatra which total assets reached Rp 100 billion. Each LKMA have at least 5 employees who usually are the children of farmers, especially those who drop out of school. This is intended to reduce unemployment in the villages.

Rules of LKMA in each region is different. Rules were made in a flexible way and agreed upon by members of LKMA all of which refer to the local wisdom, for example by using a system of guarantee of "Datuk" (the elder) as the guarantor of the borrower.

Savings products provided by LKMA quite varied, such as education savings, savings for pregnant women, savings to repay a motor cycle, and saving for the wedding preparations. This type of savings is based on the identification of problems of members.

Regarding loan repayments, it is sometimes not running smoothly. Members who pay late will be notified by their Datuk. Furthermore, Datuk will warn them on their obligation. If this does not work, then the officials of LKMA will announce the names of the members who pay late in the mosque through a loudspeaker.

Dedication of Masril Koto to increase financial access, especially for farmers has led him to get two awards, namely "Danamon Award" and "Indonesia Achievement Award". He said he was surprised when it suddenly contacted by the organizers of the awards. He said he did not know anything about them, but when the selection committee of the awards went to the village and make an assessment, he still appears as it is. Doing business as usual and even invite them dropped straight to the outlying villages.

Until now, Mr. Masril Koto is still loyal to assists the farmers. He did not want them constantly exploited, especially just before general election. Now, he is preparing the establishment of the People's Food Barn Agency. The goal is to replace the role of the State Logistics Agency that are deemed not functioning optimally as mandated (Syilfia Indriani 2014).

## CHAPTER 4

# Issues and Concerns Related to People Empowerment, Financial Access and Community Development

### 4.1 Conceptual

Although the national programme for community empowerment has been well-organized, but in practice still found misappropriation in the use of facilities and funds for personal benefit. The existence of the programme that involve community participation sometimes make people, especially the elite leaders become familiar with the scheme “project” along with the technical rules.

Many outputs of the programme in the form of physical buildings, facilities and infrastructure is abandoned due to not maintained properly. In other words, the results of the programme are not guaranteed to be well maintained. There is a kind of envy and no sense of shared responsibility to preserve it. The reason is there no budget for programme maintenance and leading to blame the other, while no more attention from the government or community assistance disconnected.

This could backfire for a programme that aims to empower communities. National community empowerment programme feared to cause new problems. There is a kind of mental changes in communities, that is from the selfless and willing to sacrifice for the benefit of society, into a society requesters rewards and selfish to put the interests of individuals or groups. It is going to undermine the values of communities that has been formed with a social capital and local wisdom. Later, the impact could occur frictions in society.

Indications such as these have mostly found in the community. This is a phenomenon that needs to be anticipated, especially for organizations engaged in people empowerment and community development programme. Now it is like a lot of “systemic deception” carried out by an elite group of people, especially by those who can afford access to funding and use it for personal benefit.

People empowerment and community development programme could become counter-productive if not escorted right from the conceptual stage leading to the technical implementation. Therefore, it is important for agencies involved with community empowerment program to review about what to do in the concept of community empowerment.

Other than that, the small micro enterprises which covers almost 99 percent of the number of businesses that exist in Indonesia is not yet all been touched by the financial services. Expanding access to financial services for the poor and micro businesses should be emphasized by governments and stakeholders as identified in the national strategy of financial inclusion.

### 4.2 Technological

The use of Information Technology must be completely optimized to improve community empowerment programmes, particularly to absorb the aspirations and community participation as well as to facilitate the monitoring and evaluation activities after the implementation of the programme. By optimizing the use of information technology, the decision to be taken by governments and stakeholders will be faster so that it will expedite the community empowerment programmes that are running.



Unfortunately, in most people who live in rural areas there are some indications of a society that is less encouraging, for instance, there is no awareness of information optimally, the attitude of people who are less concerned about the technology, the use of information technology that not evenly distributed and widespread, and the application of information culture that has not been driven by institutionalization or overall policy.

For microfinance institutions, information technology is a must to improve services to customers. Information technology is also beneficial for the effectiveness and operational efficiency, improve service, increase savings fund, controlling transaction costs, improve productivity (market performance), and expanding access to finance to reach out to remote areas.

Despite the benefits, a study revealed that there are constraints in the development of information technology for MFIs, especially in developing countries, including Indonesia. These constraints include: (1) lack of communications infrastructure and Internet bandwidth that is hindering efforts to reach remote areas, (2) there are still people who do not have a clear identity and do not have a record of loans that require MFIs to invest more in information technology to provide services to them, (3) there are still people who lay on information technology, and (4) lack of funding for investment in infrastructure, human resources, and information technology. These constraints remain to be faced and resolved to be able to provide better access to financial services (Ssewanyana, 2009).

### **4.3 Methodological**

The method community empowerment are implemented in a participatory development would have been appropriate and can be used to anticipate changes in the strategic environment and their community. However, this does not mean that the method used has been going well.

In practice, sometimes there is a conflict among the community members as a result of the many differences in the demands of society itself. In addition, conflicts also occur due to differences in regional interests with national interests. This conflict occurs because people in the regions are generally only see issues on the scope of the region only, while the central government appointed to accommodate the various demands or aspirations of each region.

On the other hand, participatory methods are often hampered by the capacity factor of the organization. The success of any effort to improve the quality of planning and implementers decentralization depends on an effective organizational structure. The formation of structures like this will take a long time and a lot of fund. Thus, methodologically, a participatory approach was impressed is an issue which is less efficient both in terms of time, cost, and personnel.

### **4.4 Others**

At national level, the achievement of the effort to expand access to finance through government credit programmes are still not at a satisfactory stage. It can be seen from the data of KUR realization that has not been distributed evenly.

Most of KUR is concentrated on the island of Java. In addition, 65 percent of KUR recipients is for trade sector. While the percentage of recipients for the agricultural and fisheries sector is 16 percent and 0.14 percent respectively. This is certainly not ideal considering that Indonesia is an agricultural country and 2/3 of the country is water.

Socialization as well as dissemination of government credit programmes are also considered less. It can be seen from the total KUR distributed by three state-owned banks, which only reached Rp 6.2 trillion as of October 2015, or equivalent to 20.67 percent of the target of Rp 30 trillion.



## CHAPTER 5

# Challenges

### 5.1 Sociological

Modernization in community development activities often undermine the foundations of social culture in society. In fact, the diversity of the social system must be understood as a cultural or social capital resources that already exist in the community. Therefore, the challenge is how the rules that already exist to maintain social and cultural diversity in every area, thus, sociologically community empowerment programmes capable of maintaining social interaction and local culture.

### 5.2 Technological

A large number of islands and rural areas is one of the challenges faced by Indonesia to improve community empowerment programmes and expanding access to financial services. Therefore, the use of information technology must be completely optimized, particularly to absorb the aspirations and community participation as well as to facilitate the monitoring and evaluation activities after the implementation of the programme.

Meanwhile, in relation to Digital Financial Services, Ms. Heni Nugraheni, Director of Education and Consumer Protection, OJK, explained that there are at least three challenges faced by banks in Indonesia, i.e. (1) the setting connection time of bank information system that is too short so many transactions were not completed, (2) limited communications network available, compounded with blank spots and weak communications signals, (3) the need for attention for the education and protection of consumer complaints, especially those related to the risks, rights and obligations, restrictions, and responsibilities of banks and agents on digital banking.

In expanding access to financial services, a new breakthrough being run by BRI which will launch and operate the satellite. If this is realized, then BRI will be the first bank in the world who operate its own satellite.

According to Mr. Budi Satria, Corporate Secretary of BRI, the current manufacturing progress of BRI Satellite or called as "BRISat" has reached 50 percent assembled at the factory space system/loral, LLC (SSL) Palo Alto, California. He added that if everything goes smoothly, then BRISat will be launched before mid-2016.

To support the operations of the satellite, BRI has prepared its supporting infrastructure placed in Ragunan, South Jakarta in the form of primary satellite control facility that is at the moment construction has reached 90 percent. While in Tabanan Bali, BRI has built back up satellite control facility which construction has reached 80 percent. The operators of satellite control facility will be carried out by internal resources of BRI. Therefore, BRI officers assigned to operate satellite control facility is currently undergoing operational training programmes in California.

Besides increasing the scope of financial access service to the wider community, the operation of BRISat will also save operating costs when compared to lease satellite services for communications networks.

## 5.3 Economic

In the near future, Indonesia and other ASEAN countries will enter the era of the ASEAN Economic Community (AEC), where the flow of trade, services and human resources will not be protected when the markets become more open which will lead to the growth of rural industrialization as a form of optimizing the management of village resources such as the emergence of business agriculture, fisheries, plantation, tourism, etc. based on the potential of village resources at industrial scale. All of this will have an impact on the absorption of skilled labor. Therefore, the challenge of community empowerment programmes that need to be considered is how to improve the competitiveness of businesses and create competent human resources.

AEC will also affect financial services institutions, banks and MFIs to optimize its financial services to the public. In other words, the impact of AEC is the increased competition among financial institutions. EAC allows the ease for economic actors such as MSMEs and farmers to get financial services and capital from abroad. This fact will create competition in the financial services sector in the country and abroad become more stringent and has the potential to reduce the role of MFIs in financing MSMEs. For Microfinance Institutions these circumstances would be a challenge. To face the challenges of the competition, MFIs such as cooperatives and BMT should be able to create alternative programmes, especially related to community empowerment in their local area.

## 5.4 Environment

In some areas, it was found that community development activities involve the exploration of local natural resources to be best utilized by the community. The emerging challenges in the environmental community empowerment is how to give directives to the utilization of natural resources carried out in a planned manner, rational, responsible and in accordance with the carrying capacity that promotes preservation and environmental balance.

Stakeholders should keep community empowerment programmes do not have a conflict with environmental regulations that have been enacted. There are some laws governing the environment, i.e. (1) Law No. 11/1967 on Mining, (2) Law No. 1/1973 on Indonesian Continental Shelf, (3) Law No. 5/1983 on the Exclusive Economic Zone, (4) Law No. 9/1985 on Fisheries, (5) Law No. 17/1985 on Ratification of UN Convention on the Law of the Sea, (6) Law No. 5/1990 on Conservation of Biodiversity and Ecosystems, (7) Law No. 12/1992 on Plant Cultivation System, (8) Law No. 6/ of 1996 Indonesian Waters, (9) Law No. 23/1997 on the Principles of Environmental Management, (10) Law No. 27/1997 on Environmental Impact Assessment, (11) Law No. 41/1999 on the Principles of Forestry.

## 5.5 Political

Many thought that community empowerment programmes and government credit scheme programmes for better financial access is only used as a campaign of the ruling political party. This is reflected in the lack of political parties paying attention to programmes of community development and access to financial services to the community. Just before the election, it is often found political parties that provide assistance to communities in the form of tools and agricultural inputs. But unfortunately this provision is not equipped with mentoring programmes and technical assistance.

Supposedly, the activity of political parties is not only before the the general election, but the political parties should also have an obligation to carry out development activities to the constituency parties and the general public. The work of a political party must be balanced with the dimensions of education, as well as improving the quality of life of every society, so that the programmes of community empowerment and development of financial access unimpressed politicized.

## CHAPTER 6

# Future Directions

Programmes for community empowerment and strengthening access to finance should be continued and gradually refined based on best practices that have been done. This expectation can actually be achieved simultaneously with the strengthening of rural institutions focused on the development of the commodities that are tailored to local potential and resources.

Data from OJK in the second quarter of 2015 indicated that the total credit portfolio of commercial banks for the sector of agricultural and fishery is only 5.83 percent of total loans. Therefore, there is a need for an assessment of the possibility in establishing specific commercial bank to finance agriculture and fisheries sectors. In this case, the interest subsidy scheme as such KUR programme can be developed for specific commodities related to food security. This is in line with the mandate of the Law on Village, where the establishment of Farmers Bank needed to channel KUR scheme with a target of 80 percent of villages throughout Indonesia.

Rural economy needs to be built through a cooperative-based local wealth and maximize the active participation from rural communities using the principles of: (1) Mutual cooperation; (2) Giving priority to the development of the agricultural sector; (3) Develop farm and off-farm activities based on agriculture; and (4) Develop a rural economic system independent and sustainable.

Take measures to put the farmers and the local community as the manager of the local natural resources to uphold the sovereignty and farmer independence based on: (1) the various cultural background and history; (2) indigenous knowledge; (3) the values of justice; (4) Referring to the principles and sustainable ecosystem management perspective, fair and civilized; and (5) recognizes the rights, especially the rights of indigenous peoples.

Policy makers should have to assess the development of local food systems based on process and production by MSMEs and farmers arranged by family units with technology that is inexpensive and can be used by ordinary people to create food sovereignty.

## CHAPTER 7

# Concluding Statements and Recommendations

Taking into account all matters related to Community Empowerment, Finance Access and Community Development has been described, it can be drawn the following conclusions and recommendations:

1. From the evaluation of the achievement of the implementation of PNPM Mandiri, it can be concluded that the implementation of the programme with the concept of "Community Driven Development" has been running well and relevant to equitable development strategies, reducing inequalities, poverty and unemployment. However, there are also significant barriers primarily related to the programme efficiency. This confirms that although the concept is good, there are still challenges in its implementation, and how to set the "pendulum" centralization-decentralization properly and well. Therefore, the implementation of design and technology to support the programme "Community Driven Development" needs to be constantly reviewed and improved.
2. Based on Statistical Distribution of Deposits in Commercial Banks, the number of accounts as of March 2015 reached 163.59 million accounts or grew by 32 percent from the same period in the previous year. This shows that the noble objectives of the National Strategy for Financial Inclusion for expanding access to financial services can be said to be successful. Yet another thing to consider is the expansion of access to financial services in areas that are really very far out of reach, such as Papua, East Nusa Tenggara, and other eastern regions of Indonesia.
3. The National Strategy for Financial Inclusion would be less efficient if only successfully applied in remote areas which incidentally is still quite accessible to the surrounding area. This will actually lead to inequalities between regions in western and central Indonesia to the eastern part of Indonesia, so that the expansion of access to financial services can not be realized to the fullest.
4. Branchless Banking or "Laku Pandai" is an effective way to formalize the access to financial services because it can reach people who have no access of formal financial services. "Laku Pandai" can be used by communities to improve the standard of living, which in turn leads to the progress of the overall economy. "Laku Pandai" would be better realized if there is adequate infrastructure support.
5. Although there are still some shortcomings, but in general, government credit programmes especially KUR programme has been successfully implemented. It can be seen from the penetration of an effective lending especially to new entrepreneurs and MSMEs that were previously not served by formal financial institutions.
6. Based on data from BRI, there are 942,763 of KUR BRI customers who have switched from micro-credit loans to commercial. This shows that the KUR programme has been able to increase the capacity of entrepreneurs from small-scale business into a medium-scale businesses.
7. For better implementation, KUR should be able to address the issues that have been described and there is need for improvement in the selection of prospective customers. In addition, the number of implementer bank must also be upgraded so that its scope could be wider.

## Annexes

**Table 16. The Number of Agricultural Business, by Provinces and Type of Business**

No.	Provinces	Farming Business Households				Formal Agricultural Companies				Other Agri-cultural Businesses
		ST2003	ST2013	Difference		ST2003	ST2013	Difference		
				Absolute	Percent			Absolute	Percent	ST2013 (Unit)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Aceh	699,370	644,851	-54,519	-7.80	131	100	-31	-23.66	111
2	North Sumatera Utara	1,492,104	1,327,759	-164,345	-11.01	455	420	-35	-7.69	352
3	West Sumatera Barat	709,351	644,610	-64,741	-9.13	99	71	-28	-28.28	293
4	Riau	541,050	581,517	40,467	7.48	177	258	81	45.76	102
5	Jambi	414,986	431,589	16,603	4.00	77	123	46	59.74	120
6	South Sumatera	971,458	958,724	-12,734	-1.31	118	178	60	50.85	46
7	Bengkulu	280,964	277,136	-3,828	-1.36	41	77	36	87.80	128
8	Lampung	1,293,192	1,226,455	-66,737	-5.16	92	123	31	33.70	127
9	Bangka Belitung Islands	139,315	124,970	-14,345	-10.30	43	55	12	27.91	66
10	Riau Islands	74,195	69,991	-4,204	-5.67	6	35	29	483.33	10
11	DKI Jakarta	52,583	12,287	-40,296	-76.63	48	31	-17	-35.42	28
12	West Jawa	4,345,148	3,058,612	-1,286,536	-29.61	480	479	-1	-0.21	397
13	Central Jawa	5,770,801	4,290,619	-1,480,182	-25.65	242	225	-17	-7.02	579
14	DI Yogyakarta	574,920	495,781	-79,139	-13.77	44	20	-24	-54.55	90
15	East Jawa	6,314,370	4,978,358	-1,336,012	-21.16	653	410	-243	-37.21	1,083
16	Banten	898,021	592,841	-305,180	-33.98	78	98	20	25.64	58
17	Bali	492,394	408,233	-84,161	-17.09	63	84	21	33.33	406
18	West Nusa Tenggara	719,875	600,613	-119,262	-16.57	65	53	-12	-18.46	98
19	East Nusa Tenggara	729,483	778,854	49,371	6.77	35	37	2	5.71	500
20	West Kalimantan	614,738	627,638	12,900	2.10	168	275	107	63.69	72
21	Central Kalimantan	302,414	270,914	-31,500	-10.42	97	228	131	135.05	164
22	South Kalimantan	471,972	432,328	-39,644	-8.40	122	125	3	2.46	112
23	East Kalimantan	203,179	180,614	-22,565	-11.11	118	214	96	81.36	38
24	North Kalimantan	38,948	44,735	5,787	14.86	38	28	-10	-26.32	–
25	North Sulawesi	324,374	253,503	-70,871	-21.85	91	50	-41	-45.05	267
26	Central Sulawesi	396,622	401,891	5,269	1.33	60	49	-11	-18.33	131
27	South Sulawesi	1,082,251	980,946	-101,305	-9.36	135	80	-55	-40.74	129
28	South-east Sulawesi	314,011	316,262	2,251	0.72	18	32	14	77.78	20
29	Gorontalo	133,083	122,515	-10,568	-7.94	42	26	-16	-38.10	23
30	West Sulawesi	167,098	185,847	18,749	11.22	18	14	-4	-22.22	23
31	Maluku	184,376	175,362	-9,014	-4.89	57	52	-5	-8.77	235
32	North Maluku	129,246	130,233	987	0.76	21	20	-1	-4.76	69
33	West Papua	75,790	70,223	-5,567	-7.35	32	41	9	28.13	30
34	Papua	280,502	438,658	158,156	56.38	46	54	8	17.39	15
Indonesia		31,232,184	26,135,469	-5,096,715	-16.32	4,010	4,165	155	3.87	5,922

Source: BPS – Agricultural Census 2013 (ST2013)

**Table 17. The Number of Agricultural Business, by Sub-Sector of Agriculture and Type of Business**

No.	Sector/Sub-Sector	Farming Business Households				Formal Agricultural Companies				Other Agri-cultural Businesses
		ST2003	ST2013	Difference		ST2003	ST2013	Difference		ST2013 (Unit)
				Absolute	Percent			Absolute	Percent	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Agricultural Sector* Sub-Sector		31,232,184	26,135,469	-5,096,715	-16.32	4,010	4,165	155	3.87	5,922
1	Food Crops	18,708,052	17,728,162	-979,890	-5.24	87	114	27	31.03	1,316
	Rice	14,206,355	14,147,861	-58,494	-0.41	69	75	6	8.7	589
	Secondary Crops	10,941,919	8,624,228	-2,317,691	-21.18	18	47	29	161.11	950
2	Horticulture	16,937,617	10,602,142	-6,335,475	-37.4	225	185	-40	-17.78	1,455
3	Plantation	14,128,539	12,770,571	-1,357,968	-9.61	1,862	2,216	354	19.01	1,451
4	Livestock	18,595,824	12,969,206	-5,626,618	-30.26	475	636	161	33.89	2,196
5	Fisheries	2,489,681	1,975,249	-514,432	-20.66	631	379	-252	-39.94	979
	Fish Farming	985,418	1,187,604	202,186	20.52	520	279	-241	-46.35	950
	Fish Catching	1,569,048	864,506	-704,542	-44.9	111	100	-11	-9.91	35
6	Forestry	6,827,937	6,782,956	-44,981	-0.66	730	656	-74	-10.14	964
7	Agricultural Services	1,846,140	1,078,308	-767,832	-44.59					

Source: BPS – Agricultural Census 2013 (ST2013)

\* One farming business household may have more than one sub-sector of agricultural business, thus the number of farming business households in the agricultural sector is not the summation of the farming business households of each subsector.

**Table 18. The Number of Farmers, by Sub-Sector of Agriculture and Gender**

No.	Sub-Sector	Man		Woman		Total	
		Absolute	Percent	Absolute	Percent	Absolute	Percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Agricultural Sector**</b>		24,362,157	76.84	7,343,180	23.16	31,705,337	100.00
<b>Sub-Sector</b>							
1	Crops	16,096,457	78.91	4,302,682	21.09	20,399,139	100.00
2	Horticulture	9,342,562	78.17	2,608,427	21.83	11,950,989	100.00
3	Plantation	11,729,886	83.09	2,386,579	16.91	14,116,465	100.00
4	Livestock	11,080,280	75.18	3,658,009	24.82	14,738,289	100.00
5	Fisheries						
	Fish Farming	1,141,125	88.54	147,740	11.46	1,288,865	100.00
	Fish Catching	869,022	93.72	58,232	6.28	927,254	100.00
6	Forestry	6,221,033	85.82	1,027,997	14.18	7,249,030	100.00

Source: BPS – Agricultural Census 2013 (ST2013)

\*\* One farmer may have more than one sub-sector of agricultural business, thus the total number of farmers is not the summation of farmers of each subsector.

**Table 19. KDP/PNPM Rural Outputs (1998-2013)**

Type of sub-project	KDP (1998-2007)	PNPM Rural (2008-2012)	PNPM Rural in 2013
Km of farm/rural roads built	40,371	81,897	13,543
# bridges built	9,049	7,212	2,248
# irrigation systems built	11,062	19,127	104
# clean water systems built	10,451	9,826	8,547
# public toilets and washing facilities built	4,822	4,567	3,374
# village electricity units built	842	2,128	379
# market units built or rehabilitated	1,164	1,275	677
# school buildings built or rehabilitated	6,732	30,778	5,465
# education activities supported	5,041	12,667	2,224
# scholarship beneficiaries	118,796	209,290	20,161
# health facilities built or rehabilitated	3,865	7,889	2,338
# health activities supported	1,037	7,088	498
# other infrastructure built	23,162	25,544	2,799
# revolving loan fund activities supported	68,737	127,911	27,316

Source: 2013 PSF Progress Report

**Table 20. PNPM Urban Achievements**

Items	Achievements
1. Program's coverage	11,000 wards in urban areas
2. Number of beneficiaries	23.7 million
3. Total value of funding	Until 2012 reaches approx. US\$ 1 billion
4. Grants has been used for financing until 2013	
Infrastructure	79%
Revolving loan funds (RLF)	9%
Social activities	12%
5. Total value of disbursed grants under Neighborhood Development Program	Until 2013, approx. Rp 374.1 billion (83% of the allocated fund)
6. Number of houses rehabilitated for the poorest	177,990
7. Km of drainage built	18,347
8. Km of small roads built	34,627
9. Number of solid waste units and sanitation facilities built	258,202
10. Number of health facilities built	13,499

Source: 2013 PSF Progress Report



**Table 21. Infrastructure built under PNPM RIS (2008-2013)**

Type of infrastructure	Unit	PNPM RIS 1	PNPM RIS 2	PNPM RIS 3	Total
Rural roads	Km	1,635.8	3,282	935	5,853
Bridges	No.	5,483	5,899	1,616	12,998
Boat landings	No.	52	61	40	153
Drainage canals	Km	142.9	309.1	139	591
Irrigation canals	Km	25.7	17	8.2	51
Domestic water reservoirs	No.	355	458	41	854
Wells	No.	75	1,168	243	1,486
Water supply pipelines	Km	50.3	47.6	11.9	110
Communal sanitation facilities	No.	1,820	521	185	2,526

Source: 2013 PSF Progress Report

**Table 22. Infrastructure built under PNPM RISE**

Category/Infrastructure	Unit	Volume (Fiscal Year)					Total
		2009	2010	2011	2012	2013	
Transportation							
Road	Km	1,677	2,039	2,389	1,891	1,381	9,377
Bridge	Meter	11,183	5,516	4,150	5,191	1,995	28,035
Mooring Boat	No.	43	83	66	24	10	226
Other	Package	2,154	1,556	978	1,017	273	5,978
Clean Water and Sanitation							
Clean Water	Liter	617	548	419	452	159	2,195
Clean Water Piping	Km	144	145	105	92	36	522
Bath wash toilet	No.	686	229	178	193	131	1,417
Drainage	Meters	52,116	82,657	124,715	51,328	23,691	334,507
Health							
Community Health Center/ Subsidiary/Village Maternity House	No.	310	169	239	151	71	940
Agricultural Production Enhancement							
Irrigation Canal	Meters	114,621	119,037	151,122	144,562	290,164	819,506
Water Construction	No.	367	103	213	67	68	818
Farmer Road	Km	12.15	160.11	–	267.34	84.65	524.25
Levee	Meters	15,646	7,232	2,664	8,103	12,704	46,349
Agricultural Marketing Enhancement							
Village Market	No.	165	117	82	34	19	417
Drying Floor, Warehouse	No.	–	83	78	74	86	321
Education							
Elementary School/Intermediate School	No.	136	210	86	71		503
Furniture	A set of	2,659	–	1,595			4,254
	Package	–	65	–	56	29	150

Source: 2013 PSF Progress Report

**Table 23. KUR: Credit Realization and NPL (as of November 30, 2014)**

No.	Implementer Bank	KUR Absorbed				NPL (percent)
		Plafond (Rp Mio)	Outstanding (Rp Mio)	Debtor	Credit Average (Rp Mio)	
1	BNI	15,483,835	3,239,387	217,086	71.3	3.3
2	BRI (KUR Retail)	20,600,695	7,821,037	117,259	175.7	2.9
3	BRI (KUR Micro)	95,003,570	24,038,639	11,326,246	8.4	1.8
4	Bank Mandiri	17,464,110	6,613,257	385,931	45.3	3.4
5	BTN	4,589,882	1,607,567	25,255	181.7	12.9
6	Bukopin	1,813,282	495,284	12,139	149.4	5.5
7	Bank Mandiri Syariah	3,898,017	1,145,079	59,861	65.1	17.2
8	Bank BNI Syariah	319,702	134,670	1,424	224.5	4.6
9	BPD (total 26 banks)	15,995,744	5,607,188	200,856	79.6	9.5
<b>Total</b>		<b>175,168,837</b>	<b>50,702,108</b>	<b>12,346,057</b>	<b>14.2</b>	<b>3.9</b>

Source: Coordinating Ministry for Economic Affairs

**Table 24. Realization of KUR by Economic Sector (as of November 30, 2014)**

No.	Economic Sector	Plafond (Rp Mio)	Outstanding (Rp Mio)	Debtor
1	Agriculture	31,228,432	11,050,730	2,036,442
2	Fishery	923,180	172,360	16,498
3	Mining	147,039	58,673	5,227
4	Processing Industry	4,910,127	1,720,709	273,950
5	Electricity, gas, and water	95,173	39,632	3,427
6	Construction	2,181,843	478,214	13,365
7	Trading	99,116,660	29,609,564	8,076,974
8	Accommodation	1,242,663	307,919	49,072
9	Transportation	2,298,798	901,285	66,129
10	Financial intermediaries	1,166,943	269,681	7,774
11	Rental business	8,732,607	3,352,026	475,415
12	Government Administration	59,396	30,889	3,441
13	Education services	98,042	21,997	760
14	Health services	426,304	95,908	3,486
15	Social services	4,733,018	925,690	117,189
16	Individual services	153,438	31,071	1,142
17	International Bodies	75	–	1
18	Others	17,655,099	1,635,760	1,195,764
<b>Total</b>		<b>175,168,837</b>	<b>50,702,108</b>	<b>12,346,057</b>

Source: Coordinating Ministry for Economic Affairs

**Table 25. Realization of KUR by Province (as of November 30, 2014)**

No.	Province	Plafond (Rp Mio)	Outstanding (Rp Mio)	Debtor
1	Nanggroe Aceh Darussalam	2,722,674	712,133	189,717
2	North Sumatera	8,589,865	2,799,426	502,054
3	West Sumatera	5,627,001	1,751,392	295,409
4	Riau	4,765,484	1,606,858	200,951
5	Jambi	2,747,617	787,474	160,420
6	South Sumatera	6,390,932	2,217,899	225,776
7	Bengkulu	1,294,127	388,457	93,659
8	Lampung	3,912,868	1,095,552	297,144
9	Riau Islands	1,209,771	357,509	43,502
10	Bangka Belitung Islands	626,790	205,401	38,610
11	DKI Jakarta	7,899,822	2,136,764	289,715
12	West Jawa	22,714,388	6,251,309	1,782,280
13	Central Jawa	28,201,489	7,323,466	2,861,243
14	DI Yogyakarta	3,543,500	1,044,466	316,530
15	East Jawa	26,659,797	7,050,891	2,174,932
16	Banten	3,605,871	968,057	203,349
17	Bali	3,923,850	1,219,466	282,675
18	West Nusa Tenggara	2,306,661	685,125	195,227
19	East Nusa Tenggara	1,862,494	549,555	124,901
20	West Kalimantan	4,009,207	1,802,608	139,451
21	Central Kalimantan	2,605,349	894,302	118,590
22	South Kalimantan	4,251,079	1,506,705	229,726
23	East Kalimantan	4,320,253	1,404,713	199,805
24	North Sulawesi	1,741,091	527,574	118,018
25	Central Sulawesi	2,127,504	672,630	154,543
26	South Sulawesi	9,424,011	2,399,338	650,096
27	South-east Sulawesi	1,462,658	383,210	109,359
28	Gorontalo	885,972	248,901	76,144
29	West Sulawesi	869,872	216,073	60,776
30	Maluku	1,173,542	275,692	62,983
31	North Maluku	720,033	181,269	30,912
32	West Papua	892,429	285,615	33,026
33	Papua	2,080,838	752,278	84,534
<b>Total</b>		<b>175,168,837</b>	<b>50,702,108</b>	<b>12,346,057</b>

Source: Coordinating Ministry for Economic Affairs

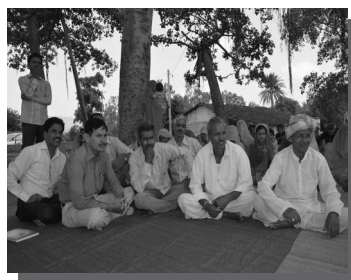
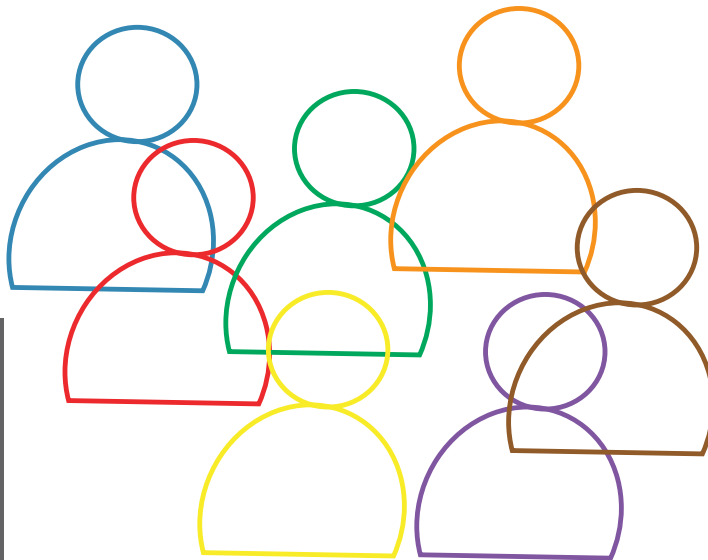
## Part 5

# People Empowerment, Financial Access and Community Development in Malaysia

Zainal Abidin Bin Mohamed

Juwaidah Sharifuddin

Rika Terano





# CHAPTER 1

## Introduction

Malaysia is one of the fast growing economies of the Southeast Asian countries and targeting towards becoming a developed country by 2020. This vision can only be realized if only the country could enhance its rural development and empowers the rural dwellers to participate in the country's development. Similar to most developing countries, the rural areas are the supplier of food to the urban areas. The supply chain connecting the rural area to the urban area is very crucial and the flow of information along the supply chain on both sides can further enhance the development of the rural areas and at the same time meeting more adequately the needs of the urban populace.

Entrepreneurship plays an important role in all countries worldwide. It creates job opportunities which indirectly reduce the unemployment rate in any society and also fulfills the specific needs of the market and consumers. On the economic side, it helps to improve the economy of a country which in turn generates national wealth. A country with less entrepreneurial activity experiences relatively low economic stability. Malaysia is among the developing countries focusing more on the entrepreneurship sector due to its significant contribution towards the country's economy. In case of Malaysia, about Small and Medium Enterprises (SMEs) contributed about 99 percent to the field of business. It also help to create 56.4 percent in 2015. As Abdul Aziz (2003) stated that the best community is a community with many entrepreneurs that are creative, innovative and dynamic. They prepared for the worst through creativity and determination to succeed. Zenkin (1981) on the other hand explained that without the contribution of entrepreneurs, socio-economic activities which lead to developments in a country would not take place. Thus Malaysia is moving up the ladder to develop the country as about 56.4 percent of employment is created by SMEs in 2015. While it contribution to Gross Domestic Product (GDP) is increasing from 29.4 percent in 2005 to 33.1 percent in 2013. It is expected that SMEs will contribute 40 percent during the Eleventh Malaysia Plan (RM 11, 2016-2020) to GDP. In the same token it is expected that the SMEs to contribute to the export market to 25 percent by 2020 from 19 percent in 2015.

Hence for agriculture sector to be one of the key player in the SMEs contribution to Malaysian development, the agro-based industry should be enhanced with different approaches to it development. The role of government and its agencies is very important in empowering the growth and development of farmers/producers, entrepreneurs, women and youth involvement in agriculture and agro-based industry.

The 2016 Malaysian Budget tabled by the Prime Minister of Malaysia allocated RM 450 million to modernize the agricultural sector for vegetable cultivation, herbal products, and fish cage farming. Besides that, the Government also allocated RM 90 million to set up 50 farmer's market and 150 new Agro-bazaars Rakyat 1 Malaysia. The solemn effort of the government in developing the agricultural sector can also be seen in the recent budget where about RM 70 million was allocated for the youth agri-entrepreneur development programmes and Agricultural Finance. Thus, human empowerment especially among the Malaysian youths not only focused on encouraging young people's involvement in the agricultural sector but also ensure the availability of funds for the agri-development programme. Hence, there are lots of opportunities for human empowerment in the agricultural sector.

Table 26 shows the number of rural people in Malaysia and it distribution within the states in the country. The table also shows the percentage of poverty in each state. In the same token, Table 27 shows the different categories of the agri-based job description and the number of people involved in each of the activities. The level of poverty among each activity is also presented. Similarly, Table 28 shows the income level for each of the job description categories compared to the national average and other sectors. On the other hand, Table 29 shows the poverty level between urban and rural dwellers.

**Table 26. The Distribution of Rural Population and Percentage of Poverty Selected Year in Malaysia**

States	Rural People Distribution		Poverty Percentage			
	2000	2013	2009		2012	
	Rural People ('000)	Rural People ('000)	Urban Area (%)	Rural Area (%)	Urban Area (%)	Rural Area (%)
<b>Johor</b>	926.9	901.2	0.8	2.6	0.7	1.4
<b>Kedah</b>	962.1	671.0	2.2	7.6	1.1	2.6
<b>Kelantan</b>	856.4	915.5	3.1	5.8	1.8	3.4
<b>Melaka</b>	197.3	85.4	0.3	1.2	0.2	–
<b>N. Sembilan</b>	373.8	324.4	0.7	0.8	0.5	0.3
<b>Pahang</b>	711.9	733.6	0.7	3.5	1.1	1.4
<b>Pulau Pinang</b>	252.0	117.3	1.1	1.7	0.5	1.0
<b>Perak</b>	809.8	664.4	2.1	6.0	1.1	2.2
<b>Perlis</b>	131.3	104.8	4.1	7.3	0.9	2.6
<b>Selangor</b>	473.5	440.1	0.4	3.2	0.2	2.3
<b>Terengganu</b>	445.3	425.2	2.0	6.1	1.5	2.0
<b>Sabah</b>	1,281.3	1,475.6	9.8	32.8	5.3	12.7
<b>Sarawak</b>	1,045.5	1,134.9	2.3	8.4	1.1	4.0
<b>W.P. K. Lumpur</b>	–	–	0.7	–	0.8	–
<b>W.P. Labuan</b>	16.1	14.5	4.4	3.9	0.6	2.7
<b>W.P. Putrajaya</b>	–	–	–	–	–	–

Source: Buletin Perangkaan KKLW 2012 (Statistics Bulletin, KKLW 2012)

As can be seen in Table 26, the number of rural people and percentage of poverty and its distribution shows a significant reduction in poverty among the states in Malaysia. The distribution of rural people is quite stable with the most state showing a reduction in the rural population except for Sabah and Sarawak. One of the main reasons in the reduction of rural population is rural-urban migration. On average, the percentage of poverty between the rural and urban people is relatively low. There is an improvement between 2009 and 2012 except for the state of Sabah which has the highest incidence of poverty, however, this has improved over the years. Even though the incidence is becoming less problematic, the government through various governmental ministries and agencies are still focusing on rural and urban empowerment via various programmes and projects in order to have zero poverty in Malaysia.

In the same token, Table 27 shows the different categories of the agricultural based job description and the number of people involved in each of the activities. The proportion of the people employed in the agricultural based sector is also presented. In 2014, there are approximately 1.6 million people employed in the agricultural based industries which accounted for about 12 percent of the total labor force in the country. This percentage compared to the total employment is quite consistent over the years. This phenomenon is not quite similar to other developed countries such as Japan and the USA (these countries have fewer people in the agriculture sector, approximately around 3 percent of the available labor force).

Table 28, on the other hand, shows the comparative income level of different occupational categories in 2014. The table indicates that the agricultural based occupation has on average, the lowest monthly household income compared to other sectors. The unattractiveness of earning in the agriculture sector could be due to the unpopularity of the agriculture sector especially among the youth. Thus, empowerment of youth both in the rural and urban areas in agricultural-related enterprises should be prioritized as they are required to replace the aging farmers.



**Table 27. Employment in Agri-Based Industry (agriculture, forestry and fishing) and Level of Poverty among the Population, 2010 to 2014**

Year	Agri-based industry	Total employment in (%)
	Agriculture, Forestry, Fishing ('000)	
2010	1,614.9	13.57
2011	1,410.0	11.48
2012	1,601.7	12.59
2013	1,682.1	12.73
2014	1,659.8	12.27

Source: Department of Statistic, Malaysia (various issues)

**Table 28. Comparative Income Level for Different Occupation Description**

Occupation	Mean monthly household income (RM)	Mean monthly household income – urban (RM)	Mean monthly household income – rural (RM)
Professionals	11,036	11,428	7,934
Clerical	5,683	5,861	4,510
Skilled agricultural, forestry and fishery workers	3,410	4,299	3,170
<b>Agricultural, forestry and fishing</b>	<b>3,621</b>	<b>4,844</b>	<b>3,261</b>
Accommodation and food beverage services	5,495	5,762	4,025
Financial and insurance/takaful activities	10,855	10,998	6,805
Education	8,345	8,746	7,027
Others services activities	5,727	5,972	3,773

Source: Household income and basic amenities survey report, 2014

Similarly, the discrepancy between the urban and rural income has led to rural-urban migration, especially among the young ones. This phenomenon has left the rural areas with middle age and old people. Thus in order to attract young people to the rural areas and to ensure the continuity of the existing activities, human empowerment is very important with adequate financial availability and accessibility. This is important so that the continuity of the traditional activities will be ensured and carried out in a more modern and innovative way.

In order to develop the rural areas, Government has initiated agricultural and fisheries development policies, via several National Agricultural Policies (NAP) starting with NAP1 (1984-1991), NAP2 (1992-2010), NAP3 (1998-2010) and the recent National Agro-Food Policy (NAFP) (2015-2020). The NAFP is a comprehensive agricultural policy which encompasses the crop (cash crops and paddy), livestock and fisheries. It also includes human resource, rural development, environment and sustainable agriculture and financial institutions.

Under the NAFP, the government emphasized the development of rural agriculture and agro-entrepreneurship. Various development and financial programmes for crop, livestock and fisheries have been initiated to empower both the crop and livestock farmers, and the fishermen in order to enhance the development of the agricultural sector. Table 29 shows the different financial institutions initiated by federal and state governments for agriculture development and human empowerment. Table 29 shows some financial institutions being established by Federal and State government to empower the micro and SMEs agri- and non-agri entrepreneurs in the country. The Amanah Ikhtiar Malaysia (AIM) was the oldest. Furthermore, various government ministries are also playing important roles in organizing and financing several agricultural and human empowerment programmes.

**Table 29. Microcredit Institution initiated by Federal and State Government, Malaysia**

Year	Agencies
1987	Amanah Ikhtiar Malaysia (AIM)
1995	Yayasan Usaha Maju Sabah (YUM)
1998	The Economic Fund for National Entrepreneurs Group (TEKUN)
2009	Yayasan Bina Upaya Darul Ridzuan (YBUDR)
2008	Merakyatkan Ekonomi Selangor (MES)

Source: Various financial institution annual reports and website (website access in 2015)

**Table 30. Financial institutions Microcredit Disbursement and number of members as of 2015**

Organizations	Number of People	Ringgit Malaysia (RM)
Amanah Ikhtiar Malaysia (AIM) ( <i>As of February 2015</i> )	356,458	12,153,111,093
Tabung Ekonomi Kumpulan Usaha Nilai (TEKUN)	276,934	2,934,964,800
Yayasan Usaha Maju Sabah (YUM) ( <i>As of February 2015</i> )	11,512,838	258, 830,111
<b>Bank Pertanian Malaysia Berhad (Agro Bank)</b>	N/A	N/A
Yayasan Bina Upaya Darul Ridzuan	24,068	N/A
Merakyatkan Ekonomi Selangor ( <i>As of 31 October 2014</i> )	9,274,608	1,244,695,274.11
Unit Pembangunan Usahawan Negeri Kedah	N/A	N/A
SMEs Bank	N/A	N/A

Source: Various financial reports from various financial institutions, 2015

Table 30 shows some of the financial institutions and present their performance. AIM seems to be the agency that takes the lead in the human empowerment programmes through providing accessible financial assistance to the crop farmers, livestock farmers, and fisherman. Beside AIM, agencies like TEKUN and SME's (Small and Medium Enterprises Bank) have also played significant roles in human empowerment through the provision of funds for various agricultural programmes. As mentioned earlier, one of the notable financial institutions that give out microcredit in Malaysia is AIM. AIM is under the jurisdiction of Agro Bank. Agro Bank is one of the financial institutions that issue microcredit in the Ministry of Agriculture and Agro-Industry. Each state in Malaysia has its own financial institution or agencies giving credits to the farmers.

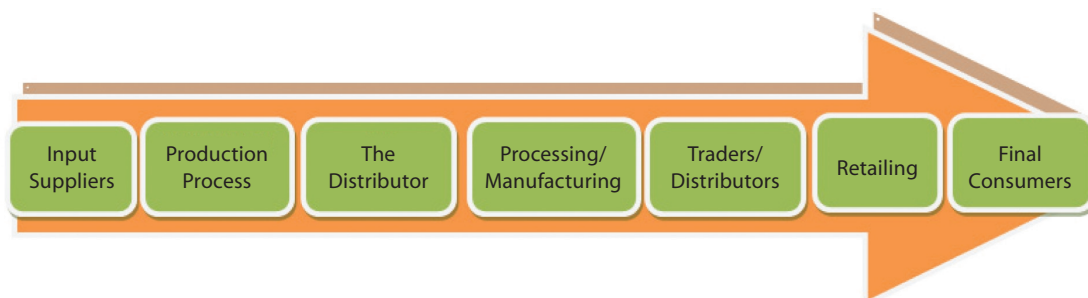
## CHAPTER 2

# People Empowerment

The agribusiness systems begin with the production of crops, livestock or fisheries products and input suppliers as an important component in enhancing the production process without which the production might not be able to proceed successfully or efficiently. Some of the produce have to be processed to change the form and need some sort of processing, grading, and packaging. Subsequently, the products need to be marketed which require transportation and distribution before the products get to the final consumers who obtain the products at the retail level. These activities along the supply or value chain will lead to financial implication and thereby call for the empowerment of rural dwellers involving in the production process for necessary financial aid which can be accessed from different sources.

As can be seen, in Figure 14 each actor in the supply or value chain has a role to play so that the produce can reach the final consumers. Lack of proper and efficient flow of the produce along the supply chain will result to inadequacies especially in the time required for the produce to reach the final consumers. This is particularly important for agricultural produce due to their perishable nature which demands proper and efficient coordination along the supply chain to maintain the value and quality of the produce.

**Figure 14. The Supply and Value Chain of Generic Agricultural Produce**



The upstream activities are the central focus of this report, that is, the point of production and how to enhance the participation of the rural people in the production of crops, livestock and fish (aquaculture). Thus, the crop and livestock farmers and the fisherman are the focal point for rural empowerment in improving food production in the country. Generally, as a country develops there are more job opportunities available in the urban areas which require less effort. This will, however, increase the rate of rural-urban migration especially among the young folks thereby leaving the farming activities for the older members of the community. For instance in MADA (The Muda Agricultural Development Authority) paddy sector, the age cohort is so diverse with 61 percent of the farmers aged between 51-71 years old, while farmers less than 25 years of age accounted for only 0.6 percent (Norsida M. and Sami Ismail, S. (2009)). In another study on the integrated agricultural development area in North-West Selangor, it was found that 55 percent of the paddy farmers were between 50-71 years old while only 8.5 percent of the farmers are aged between 25-39 years old (Alam, M.M. et al., 2010).

These figures are very alarming and thus signify the importance of policy necessary for the empowerment of young people in order to maintain economic stability which can be achieved through creating entrepreneurship opportunities for the youth. In response to this situation, the Malaysian government introduced several financial schemes to help the rural people and to dissuade the young ones from leaving the rural area. Such schemes or programmes are aimed to enhance and empower rural people, to encourage the young ones in becoming agri-entrepreneur and at the same time to tackle the food security issues in the country.

Table 31 shows the level of food self-sufficiency in Malaysia indicating the potential for the youth participation in agriculture which will subsequently increase the level of self-sufficiency and at the same time tackles the food security issues in the country. On the other hand, Figure 15 shows the Food Balance of Trade from 1970 to 2012. Over the last few decades, Malaysian balance of trade in food continue to increase and it is projected to reach RM 17 billion in 2016. Both Table 31 and Figure 15 show the situation of food sector in the country where by Table 31 shows the level of food self-sufficiency and Figure 15 shows the food balance of trade. Currently, Malaysia is importing most of her food and import substitution should be the strategy to reduce the food balance of trade. Thus, there is a lot of potentials for young Malaysian to participate in agri-food production given the incentive and financial institutions in the form of microcredit and other financial aids.

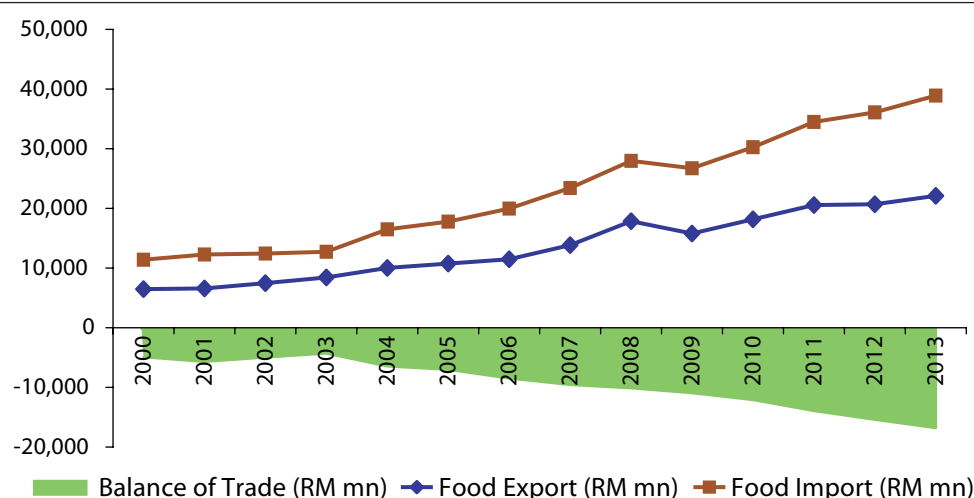
As mentioned earlier, Table 30 shows the numbers of the financial scheme from the different financial institutions and government agencies. Nonetheless, the focus of this report will be AIM (Amanah Ikhtiar Malaysia) and Agro Bank. Furthermore, the eligibility and the financial credit allowable by the actors along the supply chain or value chain will also be presented. However the focus of this study will be primarily on the production of crops, livestock, and fisheries products and the people involved in the production process with necessary value-chain activities where applicable.

**Table 31. Self-Sufficiency Level of Major Food Commodities (percentage), 2009-2014**

Commodities	2009	2010	2011	2012	2013	2014
<b>Crops</b>						
Rice	70.4	71.4	72.1	71.8	71.1	71.6
Vegetables	39.2	41.2	58.4	58.7	83.7	81.3
Fruits	64.7	65.8	60.0	57.9	55.2	56.0
<b>Livestock</b>						
Beef	27.0	28.6	29.4	29.9	29.4	28.6
Mutton	10.3	10.6	11.4	15.9	14.2	18.1
Pork	96.9	101.7	91.1	89.8	90.7	89.2
Poultry Meat	122.2	127.9	129.9	130.7	135.6	136.4
Poultry Eggs	114.7	115.4	130.1	131.0	135.4	138.4
Milk	4.9	4.9	5.1	5.0	5.0	4.9
<b>Food Fish</b>	100.1	101.7	123.3	127.3	121.0	111.1

Source: Department of Statistics 2015

**Figure 15. Balance of Trade (BOT) of food sector in Malaysia, 2000-2013**



Source: Department of Statistic 2014

## CHAPTER 3

# Financial Institutions

### 3.1 Amanah Ikhtiar Malaysia (AIM) in Empowering Rural People

As discussed earlier, one of the biggest constraints in the development of the country agriculture sector is financial availability. Agriculture being a risky business has difficulties in obtaining loans from the financial institution such as the commercial bank and other private financial institutions. Realizing this, the government in most developing countries including Malaysia has introduced several financial institutions to cater to the needs of the farmers and fisherman in the country. One of the notable financial institutions that were established in Malaysia to enhance the empowerment of the rural people is Amanah Ikhtiar Malaysia (AIM). AIM was formed in 1987 under the Trustee Act 1952 (Act 258, Regulation 1981). AIM was established with the help of the founder of Grameen Bank, Bangladesh; Prof. Dr. Muhamad Yunus with the objective of eradicating and reducing poverty level in the rural areas. It is not surprising that the methodology adopted in issuing the microcredit to the smallholder farmers to assist them in improving their incomes by making funds available for engaging in more productive activities and recollecting the debts is similar to that of Grameen Bank, Bangladesh. Besides giving microcredit to the poor to enhance their income generating activities, AIM also provides microcredit to existing agri-entrepreneurs to expand their agribusiness. Finally, AIM also provides training and advisory services to the poor household to start some sort of petty business and creating small petty entrepreneurs.

Today AIM has grown and different microcredit scheme has been developed to empower the rural populace. As can be seen in Table 7, there are several AIM scheme catering for a different sector of the economy with different term and condition of funding. As of 2015, there are 106 AIM branches all over Malaysia with 356,458 members and approximately RM 7 billion has been disbursed with a repayment rate of 99.49 percent.

### 3.2 Case Study on AIM Recipient

#### Case 1: Aquaculture – Fish Cage Farming in Kuching, Sarawak

Ms. Kamariah Udin, 31 is a housewife and a successful cage fish farming agri-entrepreneur. She was introduced to AIM programme and scheme in 2001 and with encouragement from her husband Mr. Ayuraziman Tuah, 38 she ventured into cage fish farming through the microcredit obtained from AIM. Her courage and enthusiasm managing the cage fish farming attracted the attentions of other government agencies such as the department of fisheries and LKIM (Lembaga Kemajuan Ikan Malaysia) and these agencies provided technical know-how and some inputs for the project.

As of 2014, she has obtained eight (8) loans from AIM under the Economic Scheme worth RM 54,900 to enhance and expand her agribusiness. She used to earn RM 30 per day but ever since she ventured into this project she earns RM 1,000-2,000 per day. Presently, she employs 3 workers with salary of RM 2,600 per month. She has also moved into a bigger house and accumulated assets in the form of vehicles for transportation and distribution of her produce as her agribusiness grows.

Some of the caged fish she rears are sikiap, kerapu, merah, jampung and kara prawn. Besides being a producer of fish and prawn, she also acts as a wholesaler in the area with regular customers such as restaurants and small retailers.

"I used to be poor but I give thanks to AIM for encouraging and motivating me to venture into this agribusiness. And thanks to Allah that my life is now better off" said Ms. Kamariah Udin.

### Case 2: Wholesaler – Fish, Kuching, Sarawak

For Ms. Zorah Tohat, 44 the RM 600 microcredit that she obtained in 1999 has changed her life. With a small boat, fish net and fish rod she started catching fish in a small way with her husband Sahari Adam, 49. She used to dry the fish that she caught and sell it as dry fish in bits. However after 10 years and with RM 58,600 microcredit from AIM under the economic scheme, Ms. Zorah has now expanded her agribusiness to become one of the biggest fish wholesalers in the area.

Now she is earning RM 30,000 per months which enables her to obtain other loans from any bank. Presently, she has about 10 workers to help in her agribusiness.

“There is no word that can describe my success except to be thankful to Allah and to AIM for giving me the opportunity to venture into this agribusiness which has enhanced my family well-being”

## 3.3 Other Financial Institutions: Involvement of Youth in Rural Empowerment and Finance Value Chain: Ministry of Youth and Sport, Ministry of Higher Education and Ministry of Agriculture and Agro-Based Industry in Collaboration with Agro Bank Malaysia

### 3.3.1 Ministry of Youth and Sport

One of the most notable ministry involved in the development of agriculture and agribusiness industry among the youth is the Ministry of Youth and Sport. The statistics have shown that the number of youth involved in the agricultural and agribusiness sector is not very encouraging. The age cohort of the majority of farmers in different agricultural sectors are greater than 50 years old and accounted for over 60 percent of the total workforce in the agricultural sector. Thus, the ministry developed programmes to empowered the youth to take agriculture as agribusiness and as a career. These programmes include The Youth Business Scheme (SBN) and the Youth Agriculture Scheme (SBT) which focus on empowering the youth to enhance their participation in agriculture and agribusiness. Under the former Prime Minister of Malaysia, Tun Abdullah Ahmad Badawi the concept of **“AGRICULTURE IS BUSINESS”** was introduced. The aim is to enlighten the youth that agriculture is neither a poor man job nor does it belongs to the rural people but it is a business entity with profit in mind.

There are several projects initiated under the Youth Agriculture Scheme programme. These includes; production of cash crops such as vegetable, fruit, ornamental flower, and herb; the rearing of livestock such as cattle for beef and dairy production together with sheep, goat and quill rearing. The fisheries especially the aquaculture; Bees rearing; other downstream activities such as processing and manufacturing of agri-based products; and agricultural services such as agriculture machinery workshop, nursery and provision of shop for agricultural inputs such as fertilizer and insecticides were all included.

The success of the youth empowerment and community development programmes rest on the financial access or financial institutions in creating the value chain. The notable financial institution collaborating with the Ministry of Youth and Sports is none other than the Agro-Bank of Malaysia. This financial institution not only acts as the backbone for the agricultural development in the country but also in the empowerment of farmers in the rural community. Under the Youth Agriculture Scheme programme, the youths were given loan ranging from RM 5,000-50,000 depending on the project. Nevertheless, there is 4 percent service charge per year based on the loan balance and the youths were given 7 years to pay the loan.



### 3.3.2 Ministry of Higher Education

Besides the Ministry of Youth and Sport, the Ministry of Higher Education (MOHE) in collaboration with Ministry of Agriculture, Agro-based Industries and Agro-Banks developed MyAgroSis programme. MyAgroSis is a short form for Agriculture for Higher Education Student. MyAgroSis was launched on 17 December 2011 with the aim of encouraging university and college students to get involved in and have experience in agriculture. This exposure to agriculture among the youth in higher education is hoped to inculcate in them, the interest to take up agri-entrepreneurship when they graduate. The students who have undergone the MyAgroSis programme will be given a certificate and a membership card. Thus, upon graduation, the graduates who are interested in pursuing agriculture and agribusiness as their career will be able to obtain the loan from the Agro-Bank with a minimum amount of RM 5,000 and maximum of RM 50,000.

Furthermore, the MyAgroSis program instituted by MOHE also embarked on the AGRI-INCUBATION PROGRAM. This programme is in collaboration with Agro Bank, Ministry of Agriculture, Agro-Based Industry (MOA) and Universiti Putra Malaysia (UPM). Universiti Putra Malaysia was selected as an Incubation center by the MOHE due to the available facilities and expertise. The UPM agri-Incubation programme is designed for 6 months and it is a hands-on experience for the trainee. This programme is targeted towards graduate in the higher educational institutions with a diploma or bachelor degree. There are several modules being offer to the graduates to be incubated for 6 months. These modules include; Cash crop production, fumigation systems of production under the close system, chicken village production, aquaculture, agricultural trading, recreation, food catering and management and the recent ones are beef cattle feedlot, sheep/goat rearing and management. Besides hands-on practical training guided by an expert in the field, the students were also exposed to some theoretical and classroom lectures (courses) especially on farm management, developing agribusiness and marketing plan. This is crucial for the students because Agro Bank would like to see the agribusiness plan and the cash flow analysis before giving any loan to the graduate. The loan is without collateral, which is the incentive given to the graduate. Upon graduation from the UPM agri-Incubation programme, the student will be given a certificate and MyAgroSis membership card. The membership card can be used to apply for a loan from Agro Bank with special treatment (no collateral is needed). The UPM agri-Incubation was launched in 2014 and has graduated 44 participants thereby creating agri-enterprises and agri-entrepreneurs. This is very encouraging and of course, we don't expect to have 100 percent success rate but the number is encouraging. Table 8 shows the list of successful incubation entrepreneur programmes.

#### 3.3.2.1 Case Study on Ministry of Higher Education

##### **Case1: Mohd Afiq bin Arif – Aquaculture and Village Chicken “Akar Putra”**

Mohd Afiq Arif, 26, is from the town of Kuala Ketil, Kedah. In 2009, he was accepted to pursue a bachelor degree in agribusiness in Universiti Putra Malaysia. In 2012, he participated in the Agri-Entrepreneur Incubation **organized by the Faculty of Agriculture, UPM as part of his practical training for 6 months**. This is the beginning of his journey to becoming an agro-entrepreneur. Together with 2 friends, he formed a company that focuses on rearing Red Tilapia fishes. Starting small, they managed a total of 14 cages, producing 20 kg of fishes a month. They were nominated by the University to participate in the Ministry of Education (MOE) Entrepreneurial Awards in 2012 and eventually bagged the Best Student Enterprise award with their business ideas and concept. Upon graduation, he continued the fish business by starting a new company – SA Agromax Enterprise, while his two partners went in separate directions. He increased the business capacity with the capital earned by expanding the production to 60 cages and now produces fish fingerlings to supply to cage fish farmers.



In 2014, a new business opportunity came his way, when the lead researcher of a new breed of chicken, "Akar Putra" approached him to commercialize this new product. APC Nature Farm Sdn Bhd was then formed and he was appointed the CEO of the company. He participated in the SUPERB (Skim Usahawan Permulaan Bumiputera) Business Challenge organized by Unit Peneraju Agenda Bumiputera (TERAJU) in July 2014 and was announced as one of the winners for the business challenge with RM 500,000 grant. He is now working on setting up the farm for the commercialization of "Akar Putra" chicken while running his fish farming business concurrently. Mr. Mohd Afiq is still a bachelor and earning more than RM 10,000 per month and with "Akar Putra" in place he is expected to earn RM 25,000 per months.

### 3.3.3 Ministry of Agriculture and Agro-Based Industry

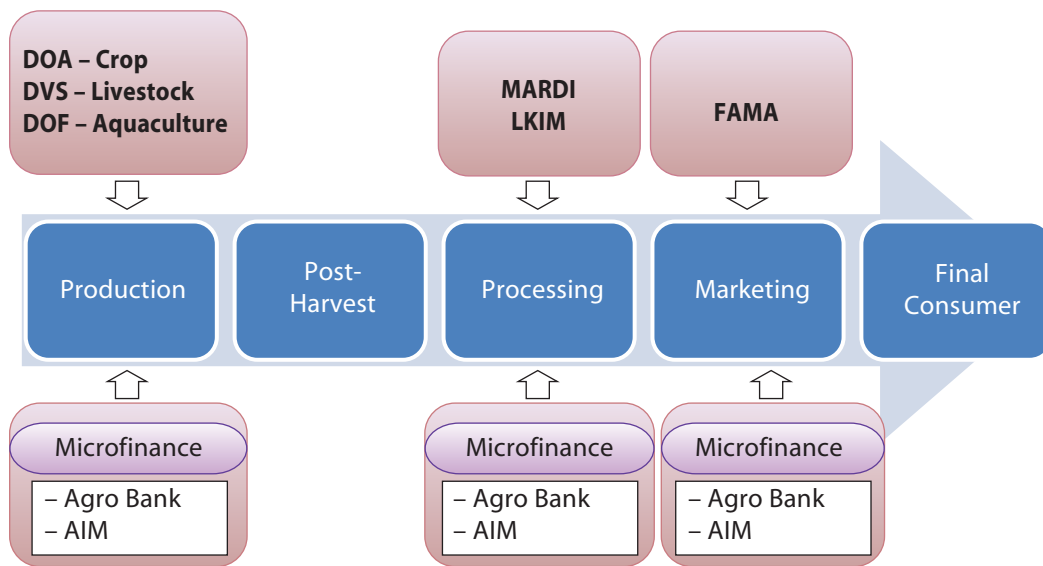
There are ample Opportunities for financial assistance needed for agricultural and community development in Malaysia. The Ministry of Agriculture and Agro-Based Industry (MOA) play a vital role as a catalyst in the agricultural and community development and human empowerment, especially among the youths. Several programmes have been introduced by MOA in collaboration with few financial institutions depending on the programme scheme. One of the most popular programmes introduced by MOA is the YOUNG AGRO-ENTREPRENEUR with the objective of creating young agro-entrepreneurs who are progressive, competitive, creative, innovative and also with the ability to generate high income in the agricultural sector. The 12 agencies under MOA such as Department of Agriculture (DOA), MARDI (Malaysian Agriculture Research Development Institute), FAMA (Federal Agriculture Marketing Authority), Department of Veterinary Services (DVS), Department of Fisheries (DOF) and of course Agro Bank and others to mention but a few will assist the young agro-entrepreneur to achieve the targeted income and indirectly to achieve MOA goal in developing agro-entrepreneurs (depending the type of project the individual is embarking on). Beside Agro Bank being the main financial institution providing loan to the participant of the programme, TEKUN National Foundation (Foundation of Economic Funding for Entrepreneur Group) under the auspices of MOA also provide accessibility loan for the young agro-entrepreneurs.

Under the YOUNG AGRO-ENTREPRENEURSHIP scheme, there are 3 programs being instituted with different financing rate and level. The notable programs is the Agriculture Entrepreneurs Scheme for Graduate. This scheme is to encourage graduate to embark in the commercial agriculture sector as an alternative career development. Maximum financing is RM 500,000. The eligibility criteria are quite simple and very attractive among the young unemployed graduates with keen interest to develop a full-time career in the agricultural sector either in;

- a. Food production and processing involving crops, livestock and fishery; and
- b. Upstream products for food production, for example, fish fry and feed meal.

Figure 16 shows the value chain that being initiated for the agro-entrepreneur by the MOA. Different MOA agencies will assist in the development of the agro-entrepreneur. Starting with loans, production process, post-harvest, processing, and marketing. Different department under the auspices will blend their strategies and resources to make the project a huge success.

**Figure 16. The Collaboration among Government Agencies in Empowering the Rural People and Youth in Enhancing Agri-Based Food Production**



Source: From own conceptual framework (2015)

## CHAPTER 4

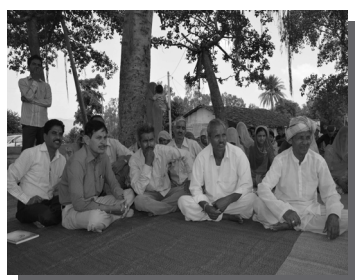
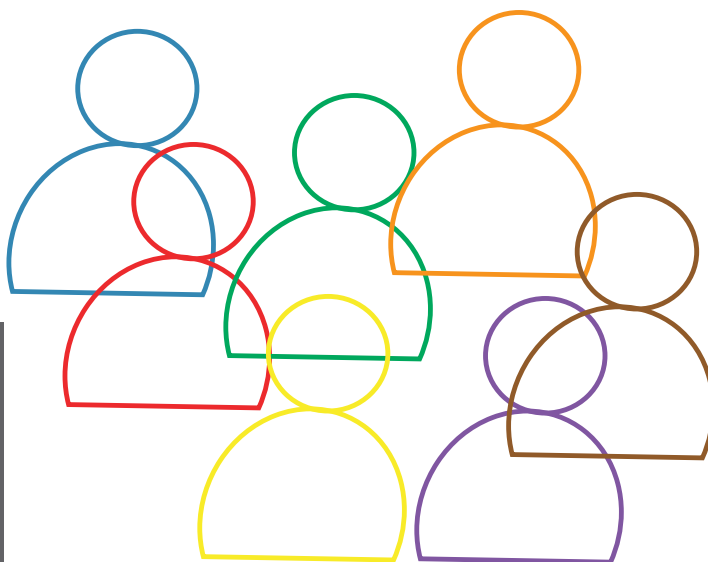
# Summary and Conclusion

The balance of trade in food and the level of self-sufficiency can be used as an indicator by the policy makers to empower the people towards food production and the supply and value chain that comes with it. There are tremendous opportunities for Malaysians intending to venture into agri-based activities especially among the young people. The government has established several financial institutions to encourage and assist the agri-entrepreneurs in starting agribusiness or expanding their agribusiness either in production, processing and marketing of agricultural products. Some of the notable financial institutions providing microcredit are Agro Bank, Amanah Ikhtiar Malaysia (AIM), TEKUN and SME bank. Besides the Federal based financial institutions, each state within the country also have financial institution providing microcredit in order to enhance the availability of credit for the needy. Thus, lack of human empowerment through the provision of microcredit by financial institutions is no more a barrier for Malaysians except the willpower to engage in agricultural activities and the innovation to create feasible technology to enhance production, processing, and marketing of the produce in order to compete in the domestic and international market.

## Part 6

# People Empowerment, Financial Access and Community Development in Nepal

Sunity Shrestha Hada, Ghuran Thakur  
and Krishna Nakarmi





# CHAPTER 1

## Introduction

### 1.1 Nepal Rural and Agricultural Landscape

Agriculture is one of the most important economic sectors and the largest employer in the global south. Three out of four poor people in developing countries live in rural areas, and most of them depend directly or indirectly on agriculture for their livelihood. Agricultural development remains the main catalyst for economic progression, employment creation, food security, raw materials for industries and poverty reduction.

Agriculture sector has occupied one third share in GDP of Nepal. Fluctuations in agriculture GDP has been affecting overall economic growth rate. In the context of Nepal's vulnerability of agricultural production on favorable/unfavorable climatic conditions, achieving higher growth rate through sustainable development of this sector has been a persistent challenge (Eco Survey 2015).

On the basis of annual UN hunger report "*The State of Food Insecurity in the World 2015 – SOFI*", despite various efforts still 795 million (12.9 percent of the population) hunger people are in the world. Proportion of undernourished in total population in 2014-16: is 7.8 percent (2.2 million). Number of people undernourished (millions) in Nepal during 1990-92: 4.2 millions; 2000-02: 5.2 millions; 2005-07: 4.1 millions and 2010-12: 2.5 millions and 2014-16: 2.2 millions.

Around a billion people continue to live in extreme poverty, on less than \$1.25 a day. One third are likely to be children, although they make up just one fifth of the overall population. Also over one third of the poor are actually in work – an estimated 375 million people. Two thirds of the poor are in agriculture, mainly smallholder farmers. Under the Millennium Development Goals (MDGs), although poverty was reduced, the gains have been close to zero for the poorest, "Leave No One Behind". The real bottom billion, ODI publication, <http://www.odi.org/publications/9899-leave-no-one-behind-sdgs-mdgs-extreme-chronic-poverty-policy>.

About 23.8 percent of the population in Nepal is living below poverty line (Eco Survey 2015). The Human Development Index (HDI) has listed Nepal in 5<sup>th</sup> position among the low HDI with index of 0.540. Whereas, Bangladesh is in 6<sup>th</sup> position and India is ranked 10<sup>th</sup> in the HDI list in 2013 (UN Report 2014). With 66 percent of literacy rate of Nepal (Census 2011), the Gross Domestic Product per capita in Nepal is 2,265.42 US dollars in 2014 (adjusted by purchasing power parity PPP). Though the trend of decline in poverty rate had continued since last few years, the population size below poverty is expected to grow with likelihood of possible adverse impact of the recent catastrophic earthquake on Nepalese economy. Moreover, the situation may be worse due to the unstable political situation and continue going Terai strike and highway blockade since last 2 months.

Nepal is an agricultural country with 65.6 percent of labor force engaged in this sector (Agri. Year book 2014). Engagement in service sector is increasing as around 400 youths are migrating to Gulf nations mainly for labor work. On the basis of various reports, altogether around 4 million youths are in Gulf nations and even more than it is in India for seasonal labor work. Though, they contribute significantly in the economy by sending foreign currency, its negative impact is seen badly in the agriculture sector i.e. shortage of labor. Aggregate data show that women comprise about 43 percent of the agricultural labor force globally and in developing countries (FAO, 2011). Contribution of agriculture sector in GDP is 36.8, from industry sector 14.5 and 48.7 percent from service sector. Only about 20 percent of the total area is cultivable in Nepal; another 33 percent is forested; most of the rest is mountainous.

Agricultural crops in Nepal are classified as cereal crops, pulses, cash crops like cardamom, tea, jute, tobacco; vegetables, turmeric, fruits, livestock and fisheries. Nepalese farmers are diversifying their interest in Bee-keeping and Honey production with about 154,780 hives and total production of 1,500 MT, Mulberry and Cocoon in 1420 hectare and 31.4 MT, total sheep wool production 387,017 kg. (MoAD, 2012).

Total expenditure of government in agriculture is 9,136.5 million rupees (2010-11) (MOA 2012). The agro-based industries are the backbone for uplifting the economic status of farmers in any country. In the absence of enough agro-based industries in Nepal the processing of the crops are in basic level and the value addition is low.

## **1.2 Importance of people empowerment and community development through access to finance in relation to agriculture and fisheries development**

As rightly said in SEACAN-2013 that rapid economic growth does not reduces poverty rather it widens the economic inequality thus resulting in unsustainable growth. The rural population in Nepal is 82.2 percent (World Bank, 2013) and the financial access to all is not yet met. Reasons behind can be attributed to poor infrastructure, literacy rate, good governance and in past years the young labor force migrating to foreign countries for higher studies and to earn money, due to which the remittance amount is increasing in Nepal but the agriculture activities are decreasing significantly. This causes the scarcity of agriculture labor in Nepal to maximum. Recent earthquake in Nepal on April 25, 26 and May 12 in 2015 has created another problem of scarcity of land and depopulation in agriculture sector in Nepal. The constant shakes is an alarming signal to further land sliding and destruction of road infrastructures of the country.

Nepal has an estimated 44.7 percent of agricultural entities are commercialized and 55.3 percent are subsistence farming entities. Staple commodities such as rice, wheat, potato and vegetables have higher commercialization rates (30-50 percent) than maize and fruits (15-25 percent). Commercialization rates (60 percent) buffalo meat (80 percent) and goat meat (85 percent) are high, reflecting the high value of these products (MOAC and JICA 2010). The low proportion of commercial agriculture in Nepal is highlighted by low use of mineral/chemical fertilizers, irrigation and mechanization, and limited production of rural surplus to for the rest of the economy. (ADS: 27)

The lack of technical know-how and the lack of appropriate finance have left Nepalese farmers with low agriculture productivity. Number of government organizations (GOs), non-government organizations NGOs and international non-government organizations (INGOs) working in Nepal has great challenge to meet the country's food requirement and empowering the people in Nepal.

## **1.3 Objective**

The general objective of this paper is to conduct desk review on people empowerment, financial access and the community development and assess these factors with real cases.

The specific objectives of this research are to:

- Describe the scenario, condition and updates of the country's rural and agricultural development with emphasis on rural finance
- Review the country's condition on people empowerment, financial access and community development



- Assess the strategies, approaches, practices and innovations in people empowerment, financial access and community development including the influential factors (contributing and limiting factors) towards rural financial service delivery system
- Analyze the influencing factors (contributing and limiting) necessary for adaptive and applied people empowerment, financial access and community development in the context of rural finance

## 1.4 Methodology

This paper discusses on the people empowerment, financial access and community development in agriculture sector as a whole and focuses specially on three products; Floriculture (Carnation), Vegetables (Tomato) and Fisheries (Trout).

This research is based on primary and secondary data which were collected and analyzed. The secondary data has been collected from the publications of NRB, MOF, CBS, ADBL, World Bank, APRACA, and reports from various Nepalese and foreign agencies. Books, journals, websites and other materials were also reviewed.

The primary data were collected through personal interview with key informants using semi-structured questionnaire. Field visit and focus group discussions were conducted for important information and photos for all the three cases. Informal discussion with ADBL officials, FNCCI and other rural financing institutions was also carried out to achieve the aims of the study.

## 1.5 Rationale and Scope of the Study

This paper is a study of people empowerment, financial access and community development (PEFACD) in agriculture sector of Nepal. Empowerment in agriculture signifies total empowerment among the farmers whether men or women. Empowerment among the employees in an organization/farmers in a community involves providing four element; information, knowledge, power and rewards. The linkage between the accesses to fianc  in rural sector make the farmer aware and knowledgeable in financial planning that develops confidence and makes them able for independent decision making in their farming activities. In Nepalese context there are many GO's, NSO's, INGO's working to empower the farmers with training, capacity building programmes, many soft credit policies, and various other support system. This study emphasizes on identifying these activities in Nepal and focusing on three cases as mentioned above.

## 1.6 Organization of the Paper

This paper is organized in five chapters. The first chapter comprises of introduction, objective and methodology, the second chapter includes the general framework of PEFACD and current status and potentials in Nepalese community. The third chapter presents and discusses three cases on carnation, trout and tomato as best practice in Nepal, the fourth chapter summarizes the whole issues of PEFACD with references to the three selected cases, the constraints and potential to meet the challenges ahead and, the fifth chapter concludes the findings of the whole paper.

## CHAPTER 2

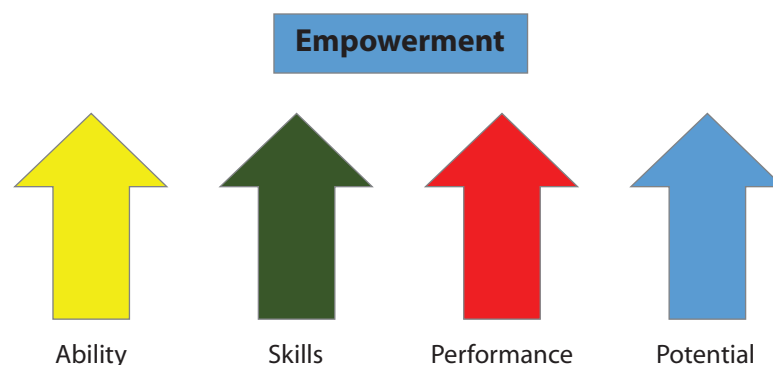
# Review of People Empowerment, Community Development and Access to Finance in Nepal

## 2.1 People Empowerment

Empowerment refers to policies and measures designed to increase the degree of autonomy and self-determination in the lives of people and in communities in order to (re-)enable them to represent their interests in a responsible and self-determined way, acting (again) on their own authority. Empowerment refers both to the process of self-empowerment and to professional support of people, which enables them to overcome their sense of powerlessness and lack of influence, and to recognize and eventually use their resources and chances. The term empowerment is also used for an accomplished state of self-responsibility and self-determination (wiki).

Empowerment is process of helping people to assert control over the factors that affect their lives. The factors that they must possess are Ability, Skill, Performance and Potential (Figure 17). Empowerment is recognizing, promoting and enhancing people's abilities to meet their own needs, to solve their own problems and to mobilize the necessary resources in order to feel in the control of their own lives (Gibson 1991). These factors are being followed by the different Nepal GOs/NGOs working with rural and urban poor people especially women.

**Figure 17. Components of Empowerment**



Source: Gibson 1991

In addition, most of the literatures on empowerment is concentrated on women and their activities. Various studies have considered the dimensions of empowerment differently. The USAID (2014 p. 24) study of various developing countries on women empowerment considered five dimensions of women empowerment such as, autonomy in decision on production, resources (decision making on credit, on purchase and sale of asset, ownership of asset), control over income, leadership (group membership, speaking in public) and the availability of time.

## 2.2 Nepalese Scenario on Access to Finance

Rural finance refers to the financial transactions related to both agricultural and non-agricultural activities that take place among households and institutions in rural areas. And, rural microfinance, refers to the provision of financial services to people with low incomes in rural areas for both farm and off-farm activities. Rural finance or microfinance include the range of retail and wholesale institutions that have the capacity or potential to offer financial services to the poor and extremely poor. The range of products and services covers smallholder farmers' investments in livestock, stables, machinery, tools, warehouses, along with providing working capital and financing risk prevention measures (IFAD 2010).

About 70 percent of adults in the developing world have no access to financial services, a percentage far higher in rural areas. For example, rural Madagascar has one bank branch for 1.4 million people (ILO, 2012: 1). In developing countries, 60-80 percent of the population lives in rural areas which are widely dispersed (IMF 2014). Rural development's visibility has increased on the global agenda. To a large extent, the triple F (food, fuel, financial) crises have been responsible for this (IFAD 2011). Rural population in Asia-Pacific region is 62.3 percent in 2005-2009 (The World Bank; in ADB 2011).

The financial sector in developing countries consists of three sub-sectors: the formal, semi-formal and informal sector (Gallardo 2003, Rabobank 2005, Ferrari 2006). The formal financial sector falls under the banking law and regulation and supervision of financial authorities. It includes various kinds of banks (commercial, development, specialized, regional, co-operative), insurance companies, social security schemes, pension funds, and in some countries, capital markets. In many countries, the formal sector is largely urban-based and organized primarily to supply the financial needs of the wealthier population and larger corporations (Rabobank 2005). In many developing countries, the formal financial sector serves only 5 percent to 20 percent of the population and the number of institutions is very limited (Gallardo 2003). However, the share of the formal financial sector in total bank assets is about 95 percent. This means that poor people in developing countries depend on semi-formal and informal financial intermediaries.

On the basis of financial inclusion conducted by NRB with the support of donors and other agencies, it pointed out that 40 percent of Nepalese adults are banked or having bank services. Compared to 60 percent of Nepalese obtaining services from cooperatives and other formal non-banking financial institutions. Individual and informal money lenders are the highest source of credit in Nepal. Moreover, many customers have multiple borrowing and deposit as well as other financial services.

The weighted average interest rate of 91-day Treasury Bills was just 0.69 percent on mid-April 2015. Likewise, weighted average interest rate of inter-bank transaction of commercial banks was just 0.64 percent during the same period of 2015. Weighted average cost of deposit of commercial banks is 3.9 percent. It clearly indicates, due to lack of conducive loan disbursement environment, banks are forced to mobilize their loanable amount to treasury bill and inter-bank lending at very minimum return far below than their cost of capital and operating cost. Moreover, commercial banks are concentrated mainly in urban and safe area and have hesitation in the rural area.

Table 32 clearly shows interest on deposit and credit of commercial banks is slightly decreasing. This could not be considered positive for a sound financial system. Moreover, number of loan was just 703,205 which was 6.2 of the total number of deposit account in 2015, 2.5 percent of the total population (28,000,000) and 11.7 percent of the total household (6,000,000). It clearly indicates, financial access is still very low. On the other hand, the average loan size per loan is increasing i.e. 1.569 million while average deposit size was just 0.129 million in 2015. It shows that access of rural smallholders to commercial bank is negligible. Government should strictly monitor the regulation to increase access of smallholders.

**Table 32. Weightage Interest rate on deposit and credit of commercial banks**

	Jul-12	Jul-13	Jul-14	Jul-15
Weightage average interest on deposit	4.58%	5.13%	3.99%	3.90%
Weightage average interest on Credit	11.10%	12.14%	10.37%	9.61%
Spread rate	6.52%	7.01%	6.38%	5.71%

In Table 33, it clearly shows there is slightly decrease in wholesale interest rate from 2012 to 2014. Interest rate of RMDC is slightly lower compared to the others two banks (SKBBL and FMDB). Presently, the government is providing 5 percent interest rate for special subsidized (seed money at zero percent) on goat raising programme instituted and implemented by the Ministry of Agricultural Development for rural farmers.

**Table 33. Interest rates of major wholesaler microfinance development banks**

	Particulars	Wholesaler to Retailers
SKBBL: Sana Kisan Bikas Bank Ltd.	2012	10%
	2013	5-9%
	2014	5-9%
RMDC: Rural Microfinance Development Center	2012	7 -7.5%
	2013	6-7%
	2014	7-8%
FMDB: First Microfinance Development Bank	2012	7%
	2013	5.5- 8.5%
	2014	5.5- 8.5%

Source of data: Financial Reports and key informant interviews of SKBBL, RMDC and FMDB clients conducted in 2014

The growth rate of saving and credit cooperative is highly positive. Most of these cooperatives are rural based and majority of shareholders are smallholders. Generating own saving about US\$ 0.172 billion and mobilizing about US\$ 0.1546 billion is praiseworthy. These institutions should be strengthened to meet the financial need of the unmet people. Here both depositors and borrowers are same, thus well familiar with each other. These cooperatives are one of the important channels to act as financial intermediary between wholesalers and the rural poor (Table 34).

**Table 34. Growth of savings and credit cooperatives**

Particulars	2012	2013	2014
Number of Institutions	11,302	15,813	20,102
Growth rate		39.9	27.1
Loan portfolio (Rs. Billion)	134.03	133.83	154.63
Growth rate		-0.1	15.5
Savings deposits (Rs. Billion)	139.54	158.16	172.53
% Increase in deposits		13.34%	9%

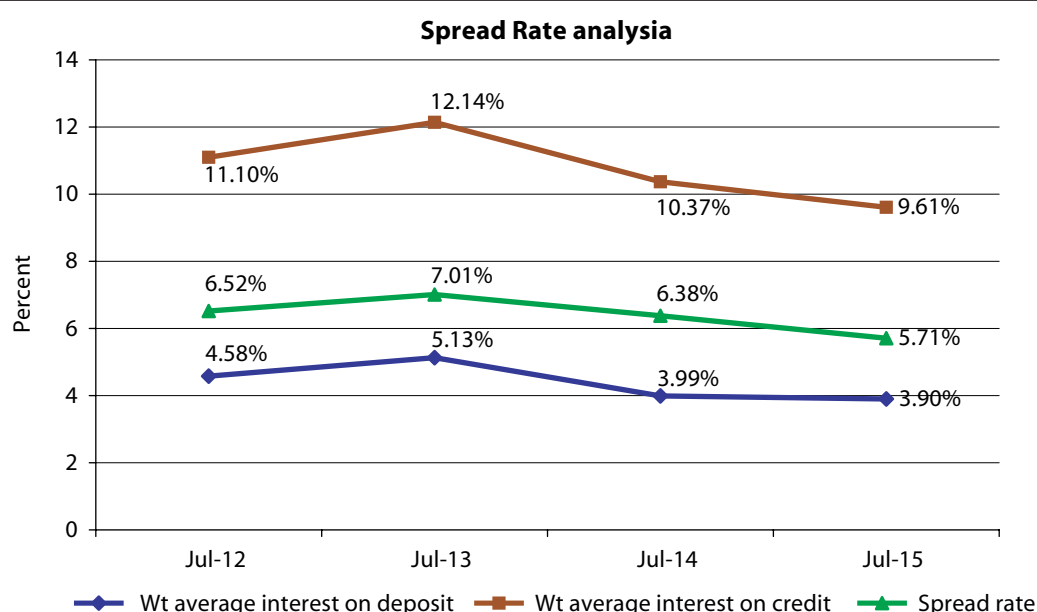
Source: Nepal Central Bank, Department of Cooperatives (2014)

Furthermore, the Nepal monetary policy is providing more focus on loan disbursement in agriculture sector for the past 6 years. Presently, the Nepal Rastra Bank (NRB) has provided directive to all its supervised financial institutions (rural and microfinance, cooperatives, commercial banks and specialized banks) for an increase in their agriculture portfolio. Table 4 shows the increasing portfolio from 2011 to 2015. Accordingly, it should be at least 12 percent of the total loan portfolio; however, it is just 4.6 percent in the last fiscal year (2015). It was noted that the present lending friendly environment, value chain financing, farm mechanization, safety net tools like crop and livestock/fishery insurance, availability and affordability of quality inputs and marketing of products as well as willingness of political leaders are quite essential to significantly increase portfolio in agricultural sector.

**Table 35. Portfolios of Commercial banks (Million)**

	2011	2012	2013	2014	2015
Credit	528,023.1	622,575.2	757,207.5	902,162	1,103,153
Agricultural portfolio	14,211.63	24,985.2	31,531.3	40,302.29	50,706.25
% of agricultural portfolio	2.7	4.0	4.2	4.5	4.6

Moreover, it was noted that prior to the implementation of the FinServAccess Project (FSAP) in Nepal, it was observed that there was a continuous slight decrease on spread rate which started during the FSAP's organized activity on the National Dissemination Forum/Workshop on Agricultural Value Chain Finance held on September 2013 in Dhulikhel, Nepal as shown in Figure 18.

**Figure 18. The spread rate analysis of the finance in Nepal for a period of 4 years**

In this situation, achieving the “Universal Financial Access by 2020 in Nepal” is one of the great challenging tasks. Unserved people especially from the rural area need to be addressed and provided with appropriate financial services. Moreover, the devastating earthquakes, frequently reoccurrence of aftershocks and the two-month prolonged strikes in Terai regions have even worsen the access to formal finance by the people and has increased dependency on the private money lenders and informal lenders.

Notably, informal banking is more practiced in rural sector in the form of borrowings from money lenders, friends and relatives. About 38 percent of Nepalese households have an outstanding loan exclusively from the informal sector, 16 percent from both the informal and formal sector, and 15 percent from only the formal sector (that is, a bank, finance company, financial NGO or cooperative, or microfinance or rural regional development bank) based on a study by Ferrari et al. (2006). The reason for farmers inclined towards informal finance is simply on immediate outreach and cost of transaction.

On the other hand, others rely on the semi-formal sector that comprises savings and credit cooperatives, societies and financial intermediary NGOs. Savings and Credit Cooperatives Societies (SCCS) have been created through different processes. The most common being community-based organizations that have evolved from informal self-help groups (SHG) to credit and savings organizations status, and then graduated to become formal Savings and Credit Cooperative Societies.

In 1988, the Nepal Federation of Savings and Credit Cooperative Unions Ltd. (NEFSCUN) was established as the member based national apex organization of the Savings and Credit Cooperative Societies (SACCOS) and their District Unions (DUs). NEFSCUN is committed to the development, promotion and strengthening of its member organizations through supporting SACCOS and DUs aimed to contribute for the upliftment of financial, social cultural aspiration of individual members of respective community.

Also, it was established following the credit union principles propounded by World Council of Credit Union (WOCCU) in 1984. With its competitive products and services, NEFSCUN has reached 73 districts and able to cover 1.8 million of individual members into financial mainstreams. Every year, NEFSCUN provides cooperative management training especially for its members on financial management, cooperative accounting principle, Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth (PEARLS) monitoring, Credit Management as well as Information Communication.

The number of financial institutions has been increasing in Nepal tremendously. The number of development banks and microfinance institutions were 264 in 2010 and is now 242 in 2014 (Table 36a). Among them, thirty-six (36), 16 and 37 are Microcredit and Development Banks, Savings and Credit Cooperatives and microfinance companies, respectively as of 2014. The product-wise cooperatives are established and are active in Nepalese rural sector which can be more useful to the farmers in respective areas (as shown in Table 36b). Table 36c shows the number of cooperative union and members of federation of cooperative union NEFSCUN. Co-operatives are already growing more than 30 thousand in different sectors, mobilized Rs. 40 billion as share and reserve capital, collected Rs. 160 billion as savings, provided loan worth Rs. 135 billion and created jobs for hundreds of thousands of Nepali people. (Khatiwada, 2014).

The Agricultural Development Bank, Limited (ADBL), Small Farmers Development Bank, and the regional development banks (Grameen Bikash Banks) account for more than 60 percent of the rural finance outreach from the formal and semiformal institution. In addition to those public institutions, the government through the Nepal Rastra Bank has also acted to improve access to finance by (i) directing banks (both public and private) to allocate 3 percent of their total loan portfolio to low-income households and small businesses (the deprived lending scheme); (ii) creating special microfinance windows and programs such as the Rural Microfinance Development Centre (RMDC) and Rural Self-Reliance Fund (RSRF) (NRB, 2014).

**Table 36a. Financial Institutions of Nepal**

Financial Institutions	1995	2000	2005	2010	2014
Commercial Bank (Class A)	10	13	17	27	30
Development Bank (Class B)	3	7	26	79	75
Finance Company (Class C)	21	45	60	79	48
Microcredit and Development Bank	4	7	11	18	36
Savings and Credit Cooperatives	6	19	20	16	16
Microfinance NGO		7	47	45	37
<b>Total</b>	<b>44</b>	<b>98</b>	<b>181</b>	<b>264</b>	<b>242</b>

**Table 36b. Number of SACCOS and Members associated with NEFSCUN**

Description	2011	2012	2013	2014
District Unions	39	51	56	57
SACCOS	1,097	1,663	1,983	2,223
Total	1,136	1,714	1,949	2,280
Members (Million)	1.0	1.3	1.55	1.8
<i>Capacity Building (Training)</i>				
Number of Training/Workshop conducted		149	241	112
Total Participants		5,291	6,618	3,279

**Table 36c. Status of Cooperatives in Nepal (2014)**

Nature of Cooperative	Total	Percent
Saving and Credit Cooperatives	13,368	42.88
Agriculture	8,069	25.88
Multipurpose Cooperatives	4,114	13.20
Milk Cooperatives	1,732	5.56
Consumer Cooperatives	1,426	4.57
Electricity Cooperatives	429	1.38
Vegetable and Fruit Cooperatives	202	0.65
Tea Cooperatives	109	0.35
Coffee Cooperatives	146	0.47
Herbal Cooperatives	192	0.62
Bee keeping Cooperatives	67	0.21
Communication Cooperatives	121	0.39
Health Cooperatives	92	0.30
Sugarcane Cooperatives	47	0.15
Junar (citrus) Cooperatives	44	0.14
Others	1,019	3.27
<b>Total</b>	<b>31,177</b>	<b>100</b>

Finally, there are number of active NGOs in the rural areas of Nepal for the well-being, empowerment and capacity building of the farmers. Financial literacy is the first step to make farmers/people aware of making not only the business plan but also to make their own financial plan for short-term and long-term. Financial education, like all types of education, is about empowering individuals so that they are better equipped to analyze diverse (in this case, financial) options and to take actions that further their goals (IBRD 2009).

### 2.2.1 The Process of Loan Borrowings from Formal Sector

Mercy Corps have considered few important indicators of financial access, outreach, ease of transaction and cost of transaction. Small farmers face several challenges, such as high transaction costs in accessing inputs, credit and marketing facilities (IFAD 2011). The study of Arora observed the financial access indicator (FAI) as compared with five countries, Nepal lies at 5<sup>th</sup> rank following Pakistan, Bangladesh and India 4<sup>th</sup>, 3<sup>rd</sup> and 2<sup>nd</sup> positions while Sri Lanka has the highest FAI, ranks first in terms of outreach, ease and cost of transaction (Arora 2010 and Karki 2011).

In the formal sector of Nepal, such as commercial banks, especially the ADB/N has almost similar processes. ADB/N is more outreach agency for farmers because of its large branch network in the country. Following table describes the processes of loan sanction from ADB/N which is sketched by Mr. Ghuran Thakur based on the new credit manual and his long association with ADB/N. Minimum 7 working days requires for new customer, while it takes only one day in case of present prime customers. The number of days might increase depending upon the volume of loan and any problem in legal documents.

During the whole period the farmer has to be in contact with the bank. In such case, if the bank branch is not available to the farmers place, then the cost of getting loan will be extremely high for them by being in the capital or the headquarter of the districts or so. On top of that, frequent highway blockage causes more borrowing costs and stresses. Thus the outreach, as well as the ease and cost of transaction become a day dream to the potential farmers (Table 37).



**Table 37. Steps of Loan Sanction Process of ADBL**

Process	Tentative time requirement in Mandays
1. Customer inquiry in ADBL: help desk or in loan section/manager	0.2
2. Simple inquiry by bank staff like: Nepali citizenship, permanent resident of which VDC, purpose of credit, project site, experience, past track record with ADBL and other banks, age, collateral.... Provides checklist for management of essential documents	0.2
3. Management of essential documents	2 to 10
Passport size photo of client	
Credit information from credit information bureau or from financing institutions of the area	
Photocopy or paper of:	
• Citizenship	
• Land ownership/housing (the assets wishing to offer as collateral)	
• Receipt of payment of land revenue	
• Business plan/scheme	Take more time
• Bank account in ADBL	
• Sources of income	
• Map (trace) of collateral from Land Survey Office	
• Photo of building/housing wishing to offer as collateral	
• Map of house/building	
• Engineering estimate of the proposed project	
• Registration certificate of company and authority to operate industry	
• Certification from VDC or municipality	
• PAN, registration certificate	
• Income tax clearance certificate	
• Audited balance sheet, PL account for large project	
• Recommendation from concerned authority	
4. Pre-loan inspection/supervision: track record/character, collateral, verification	1-3
5. Request for submission of additional documents (if necessary only)	0.2
6. Collateral valuation (by independent valuator for large project and ADBL staff for small project i.e. <1 million)	1-5
7. Credit appraisal, cash flow analysis, financial analysis, loan amount/installment, repayment schedule Loan approval/rejection	1-5
8. Submission of original landownership/collateral paper, dristibandhak (registration of collateral in the name of bank), signing of agreement/consent paper	1-2
9. Opening of account in ADBL (if no account)	
10. Release of installment	0.2
11. Supervision of project progress/progress of loan utilization	1-2
12. Monitoring and supervision	1-2
13. Release of remaining installments on the basis of progress	0.2
14. Loan repayment	

## 2.3 Community Development

The United Nations defines Community development as “a process where community members come together to take collective action and generate solutions to common problems” (community dev, *UNTERM*. Retrieved 7 July 2014). Community development seeks to empower individuals and groups of people with the skills they need to effect change within their communities. The subject of development has shifted from government to private, and rural development has become more participation-oriented.

Rural empowerment in agriculture can be seen as the capacity of people to participate in rural activities (Cupples, 2005, in Aref. et al. 2011, OECD 2012, Kumwenda et al. 2013). People empowerment in rural sector needs to be analyzed at three various hierarchy: farmer level, the organization level and the rural community level. Individual capacity can develop rural cooperatives through enhancement of skills and knowledge, and sense of community. Hence, developing community organizations will help promote rural agriculture towards sustainability.

The Agro Enterprise Center (AEC) of FNCCI has its networking with 92 District Chamber of Commerce and Industry in various parts of the country. One village one product (OVOP) was officially launched in July 17<sup>th</sup>, 2006 in Nepal for 5 years as a pilot project. The concept of OVOP was developed in Japan and later on expanded in China and Thailand. Nuwakot district was selected for Rainbow Trout under this special programme. The roles of AEC in OVOP include 1.) Marketing information system (MIS): Producers get price information of agricultural products, 2.) Support in preparation of business plan for agricultural enterprises, and 3.) Buyback guarantee of agricultural products. AEC is performing its role as in trading of the agriculture products, building business linkages among the actors within the production chain, and, capacity building of the farmers and agriculture traders through training in various areas covered.

The capacity development programmes help the farmers quite a lot in empowering themselves. The experience of Malawi revealed that by capacity building of lead farmer knowledge sharing through networking, peer to peer training and good practice demonstrations can yield widespread and significant benefits (Kumwenda, 2013). Rural empowerment can be used in three major categories: community, organizational and individual levels. (Aref 2011).

Empowerment should be developed first at individual level, i.e. at farmer’s level. The development of four elements as mentioned above, the skill, the knowledge, performance and potential develops the sense of empowerment. Once the individual is empowered, the organization or the firm is empowered based on the farmers experience and effort. Each empowered firm in the community thus empowers the community itself.

## 2.4 Policies supportive to people empowerment and community development

Nepal Rastra Bank signed a 5-year long project called Support to Financial Inclusion in Nepal through the Access To Finance (A2F) with United Nation Capital Development Fund (UNCDF) on 25 March 2014, for a total amount of over 8 million USD funded by UNCDF and DANIDA. The Project will be nationally implemented by the Nepal Rastra Bank (NRB), Government of Nepal (GON) with UNCDF providing technical advisory services and implementing some activities delegated by NRB (A2F 2014).

Agriculture is the largest economic sector contributing to more than one-third of GDP (32 to 36 percent) and employment and livelihood opportunities to more than two-thirds of its population (76 percent). Given that Nepalese depend on agriculture for their livelihoods, the investment into the development of the sector can make difference in the lives of millions of people (A2F, 2014).

As a part of developing conducive people empowerment endeavor, it is imperative to have the following paradigms.

### 2.4.1 Policy formulation

Policy is the major guideline that basically usher the people empowerment as per the objective. Lack of conducive policy always hinders the triggering force that continuously upgrading for the innovation. Basically Macro Level policy that needs to be prevailed from government sides as well as internal policy that basically encompasses under the prevailing organization as a part of micro level policy should be always aligned in the same wave length for broad base growth of the organization and nation as a whole.

Under the macro level, the Monetary Policy of NRB (2072 BS) 2015 (pp. 12-20) has recommended various policy measures for the upliftment of agriculture sector. Some important policies are listed below.

1. The refinance interest rate for agriculture, hydropower, livestock and fishery and other specified productive sectors will be reduced from 5 percent to 4 percent. Existing other refinance interest rates have been kept unchanged. A policy to protect the rights of consumers of financial services, related to the protection of financial services customers and financial literacy is being drafted/prepared based on the stakeholders' suggestions including arrangements for the protection of financial service customers.

It also states that priority will be given to provide wholesale credit from RSRF by mobilizing cooperatives operating in the areas where financial access is poor due to low presence of BFIs. Wholesale credit from RSRF will also be provided to microfinance institutions, if required.

2. A directive has been issued to non-government organizations, authorized by this NRB for financial intermediation to convert into "D" class microfinance institution by mid-July 2015 by completing the specified process. In order to encourage this process, limit on promoter share ownership in such organization has been increased from 25 percent to 51 percent. A provision will be made to increase paid up capital necessary for establishing microfinance institutions outside the specified districts with low financial access from 2014/15.

The limit of loans provided at zero interest rate for a certain period to "D" class microfinance institutions that open new branch in the districts specified as having low financial access will be increased from Rs. 2.0 million to Rs. 3.0 million. In addition, provision of not requiring to take approval by "D" class microfinance institutions from the NRB to expand branches in these districts has been continued.

3. There is also provision for women borrowers by providing guarantees. Loan utilization capacity of deprived sector including microfinance institutions has not expanded as expected. In addition, since microfinance institutions do not have shortage of resource to invest in this sector at present, existing deprived sector lending ratio required for BFIs has been kept unchanged.
4. The policy regarding financial literacy has been formed as "Strategy for Financial Literacy will be formulated and implemented for expansion of financial access to the general public and for the effective use of financial instruments. For this, programmes such as NRB with students, other public awareness oriented programmes, interactions, and information and communication media will be utilized effectively."

Also an arrangement to link the microfinance institutions with the Credit Information Center has been planned so that it will facilitate the exchange of credit information among microfinance institutions and help reduce the problem of loan duplication.

Nepal Rural Development Bank Limited has been established after merging five regional rural development banks. Necessary arrangement will be made to strengthen the institutional capacity of the bank by operating it professionally. Coordination will be made to assist the concerned regulatory body in bringing saving and credit co-operatives into strong supervisory net for maintaining financial stability.

5. The Agricultural Development Strategy (ADS) recalls the Agriculture Perspective Plan (APP) launched in 1995-1996 and its implementation was poor because of limited support in terms of resources, policies, and institutions needed to carry out the programmes. APP ownership was weak and the leading stakeholders of the agricultural sector farmers, private sector, cooperatives – were not actively involved in its formulation and implementation. Land issues were left unresolved. The lessons learned from the APP experience have been incorporated in the formulation of the ADS. Among these lessons are the need of ensuring governance, promoting effective participation of stakeholders, addressing land issues, effective support to decentralized research and extension, and promoting commercialization and competitiveness.

In ADS, it considers the agricultural sector in its complexity, and encompasses not only the production sectors (crops, livestock, fisheries, forestry) but also the processing sector, trade and other services (storage, transportation and logistics, finance, marketing, research, extension).

Furthermore, ADS focuses on farmer's right, the ADS provides institutional mechanisms to ensure farmers' participation in the planning, decision making, implementation, and monitoring of the strategy. In particular, the ADS ensures that farmers' representatives are part of the leading coordination mechanisms of the ADS at the center and local level; they are part of the Steering Committee of the ADS.

Implementation Committee; they are in the board of NARC; they are in the board of the almost 4,000 VDC-based Community Agricultural Extension Service Centers (CAESC); they are in the board of Commercial Agricultural Alliances and Value Chain Development Alliances; they are consulted when formulating policies for the agricultural sector; they are consulted when undertaking monitoring of the sector; and they are members of the Food Security Networks at the District level. By having their representatives in all these institutions, farmers will be able to ensure and strengthen their rights in the ADS.

ADS recognize commercial farmers, subsistence farmers, and the landless and formulate strategy accordingly. Commercial farmers are directly affected by most of the ADS measures and in some cases, the impact is direct and very strong, for example in the case of irrigation, mechanization, value chain development, and exports. Subsistence farmers are also directly affected by most ADS measures. The direct effect is very strong in the case of the ADS measures related to gender, social, and geographical inclusion; land (e.g. addressing the issues of tenancy, land leasing, cooperative farming, reversing the trend towards degraded land); access to quality and timely inputs (e.g. vouchers targeted to subsistence farmers, improved resilience); and access to microfinance and agricultural insurance. Landless or near landless will benefit from the ADS measures related to targeted food and nutrition programmes; gender and social/geographic inclusion; access to forestry products; and growth of small and medium enterprises. Thus stimulating the process of commercial transformation has been included in past and current policy.

6. Apart from macro level policies, the organization like ADBL has also formulated its internal policies to uplift commercialization in agricultural business blended with agricultural value chain financing. As per the policy, ADBL is committed to increase 10 percent agricultural portfolio every year there by increasing its outreach by 20 percent. To reinforce this, the bank has also adopted the policy to literate the un-bankable population (39 percent) through its extensive financial literacy programme from all its branches as well as regional offices. The

bank has target to sensitize its potential customers through 350 financial literacy orientation programmes all over the country. The bank is also on the way to implement mobile and branchless banking to cater its potentiality in un-bankable areas.

## 2.4.2 Capacity building

Another important aspect of people empowerment and community development endeavor is capacity building of staff and stakeholders. After policy formulation from macro and micro level, the staff and stakeholders should be trained to achieve the organizational goal. The central bank on the way of circulating its circulars have explicitly stated that at least 1 percent of net profit of the organization should be attributed to capacity building its staff. This is one of the prudent circular that reinforce for the enhancement of the knowledge and skill level of the staff. On the way of monitoring and supervision of the banking offices, central bank has witnessed many lapses from the staff due to lack of orientation and training.

The bank like ADBL has made investment of sufficient amount for the capacity building of its staff and entrepreneurs. Table 38a shows that there is progressive increment in the number and participants except for year 2015. The slack down in the year 2015 is attributed to devastating earthquake in the country during April 2015. Over the years, ADBL has trained its staff in various areas of operation such as information technology management, banking business management, credit management, risk management for the staff and group mobilization, agricultural financing especially for farmers and entrepreneurs. Other prominent actors in rural development sectors are Sana Kisan Bikas Bank Limited (SKBBL) and NEFSCUN which also significantly contributed in the capacity building of farmers and staff as a whole as shown in Tables 38b and Table 38c.

**Table 38a. ADBL Capacity Building for the past 4 years**

Training/Workshop	2012	2013	2014	2015
Number of trainings	188	205	231	148
Male trained participants	2,964	3,557	3,544	1,862
Female trained participants	428	615	463	341
Total Staff	3,392	4,172	4,007	2,203
Farmers trained	1,755	1,085	1,559	1,374

**Table 38b. SKBBL Capacity Building for the past 4 years**

Training	2011	2012	2013	2014
No. of Training/Workshop	182	240	165	176
Total Participants	8,338	8,541	9,235	9,010

**Table 38c. Capacity Building (NEFSCUN)**

Training	2011	2012	2013	2014
No of Training/Workshop	–	149	241	112
Total Participants	–	5,291	6,618	3,279

Aside from the domestic trainings, ADBL and SKBBL also sent and participated its staff and client-entrepreneurs in training programmes abroad under the sponsorship of APRACA/FinServAccess project particularly in Value Chain Finance, Risk Management in Agriculture Rural Finance, Micro Finance in Agriculture, Agricultural Insurance and Small Ruminant Value Chain Finance. These activities reinforced the commercialization in agricultural value chain of various commodities. In addition, ADBL and SKBBL provided training/exposure visits to its client-entrepreneurs in Israel under the sponsorship of MASHAV and CINADCO.

Based on these activities the banking and financial sector enhanced and strengthened the capacities of the rural sector especially in mobilization and organization of farmers, entrepreneurs and traders who became inspiration and instrument for rural development. Furthermore, the clientele become empowered that they have established good relationship with other stakeholders of agricultural development and avail of financial products and services necessary to improve and increase their production and profit making it sustainable for all concerned.



## CHAPTER 3

# Case Analysis

This study analyses three selected cases from the borrowers of Agricultural Development Bank Limited (ADBL). These are the carnation production for floriculture, rainbow trout production for fisheries and tomato for vegetable production. The selected farmers contributed significantly in the improving the production base of the commodities which also encouraged and showcase farming/fishing empowerment and development. All the three farmers are now successful agriculture entrepreneurs.

### 3.1 Floriculture

Floriculture production is done in 38 districts of Nepal covering a cultivated land area of 141 hectares. There are about 650 nursery and 85 demonstration showroom (protective structures) throughout the country. More than 40,000 persons are directly or indirectly dependent on the floriculture business. Among these, about 5,000 are directly employed, 20,000 are dependent on those employed and 15,000 are indirectly employed (Shrestha and Nakarmi, 2013).

The analysis of floriculture in relation to people empowerment and community development focuses only on carnation. The demand of Carnation is from 7,500 to 9,000 sticks per day which is highest among all other cut flowers (FAN 2014). Specifically, the carnation production management system of Mr. Indra Lal Maharjan who established the Kumari Flora at Chitlang, Makwanpur was identified for review.

The Kumari Flora was established in Chitlang approximately in 8 ropani land (1 ropani = 508.74 m<sup>2</sup>) with favorable climatic condition for floriculture production. The place is also near rainbow trout farming, goat farming and other agro-tourism activities such as Homestay. It has a developed road network that links the farm to Kathmandu.



*The Kumari Flora protective structures of Mr. Indra Lal Maharjan located in Chitlang, Makwanpur (Photo source: ADBL: Nakarmi 2014)*



Mr. Indra operates the farm as an added source of income and an extension of other family owned businesses. The source of financial support is from the formal sector particularly the ADBL which provided support to the protective structure infrastructure with the use of drip irrigation. The whole family is involved as a self-managed and operated farm with a few number of employees.



*One of the family members of Mr. Indra harvesting carnation ready to be sent to Kathmandu Market (Photo source: ADBL: Nakarmi 2014)*

The Kumari Flora showcases a strength of empowerment. This is manifested by Mr. Indra Maharjan in operating the business. It has established a stable and sustainable business that members of his family including the surrounding families in the area take pride of following. The farm further supports the training of his growing family including other budding cutflower producers. In Chitlang, he is the lead farmer in floriculture and provides continues training to interest people. Through the years, the Kumari Flora became a very competitive business in the community even though there are other agro-farming in the area.

Because of the growing business operation, Mr. Indra prepared two successors in his family; elder son, Mr. Rabindra Maharjan is an expert in cutflower business including production management and capacity building. On the other hand, his younger son, Mr. Prabindra Manahrjan is well-trained for marketing, book keeping and record keeping of all financial transaction.

### **3.1.1 Limiting Factors**

Even with a stable and competitive business operation, the Kumari Flora is faced with some constraints which limits its sustainable operation. The following limiting factors were noted and observed:

1. *Nature of Product, Cold storage and insurance.* The shelf life is short, which needs cold storage until it is sold to the traders or consumers or to export. There is no cold-storage facility in the airport which is the major problem for the export of such a high demand product. Due to lack of this facility, the rejection possibility is high in export flower products. Even the retailers has no cold storage system, rather during the process of displaying in showroom, the flowers are exposed to direct sunlight and heat which affect the quality of the flowers.

It is suggested by the stakeholders in the floriculture industry that there should be insurance services in such production like carnation farming in particular to support the better and sustainable management. It is viewed that this must be established by concerning authorities.

2. *Lack of technical knowhow:* There is little knowledge about the production of flowers among the farmers as well as among the traders. There is no uniformity in the production efficiency, no collective strength among growers and retailers.
3. *Government policy:* Good government policy is required to protect and commercialize the industry by providing infrastructure, tax exemption, interest subsidy, cold storage and air freight.
4. *Small scale industry:* Due to varying demand of various cutflowers, it is observed that there is narrow specification of the flowers resulting to price fluctuations and customers choices. As such, the farmer need to grow different types of flowers to survive the business.

### 3.1.2 Contributory Factors

1. *Employment:* There is great opportunity of employment generation in this crop. The employment of family members and others people is inevitable. The business can retain young generation in Nepal if things turn favorable to them such as availability of initial investment fund, low interest loan, technical trainings and stable and sustainable market.
2. *Community cold storage:* The study observed that in the absence of cold storage, the farmers including the members of the FAN members have jointly operated the cold storage. The cold storage is operated in the community level which draws attention for technical and financial support. It is considered an innovation necessary in production and postharvest management for the growers, and could be replicated in other districts.
3. *Potential for essential oil and perfumery industry:* The unsold flowers are all considered wastages. It is observed that essential oil out of the flowers and its scent could be extracted for perfumery industry especially the produce from carnation, rose, tube rose, marigold and other flowers. Such aspects could boost the emerging industry given the well-commercialized technologies available.
4. *High export potential:* The demand of flowers is very high in Nepal and nearby countries. It is noted that with the favorable climatic condition ideal for floriculture, Nepal could contribute significantly as one of the highly potential growers in the region. Also, the export potential is very high and with the support of the Nepal government, they could be one of the exporters of flowers globally.

## 3.2 Rainbow Trout

In 2014, there were 12,000 raceways, measured in square meters which produce about 192 MT of trout. The main requirement for rainbow trout farming is pristine cold running water which passes through the build ponds. The natural resource system like fresh clean water is suitable for the trout production especially in the high-hill and mid-hill of Nepal.

The analysis of the Himali Rainbow Trout Enterprise owned by Mr. Padma Kumar Rumba in Betani, Nuwakot was subjected for review in relation to people empowerment and community development. Mr. Rumba is from Kakani who established the Himali Rainbow Trout at Betani, Nuwakot. He is one of the most successful trout farmers supported by the Agricultural Development Bank Limited (ADBL). The local communities benefited from his fish farm as far as getting opportunity to work, learn, earn and replicate trout production in other farms. In turn, the Himali Rainbow Trout Enterprise which also operates a booming restaurant buys organic agricultural products of local communities like milk, onion, potato, vegetables, cauliflower, trout, spices and herbs.

He is also working as a wholesale trader/buyer of trout produced in the village, neighboring areas, and even in other districts. He buys around 1,000 kg live fish and uses it for restaurant purpose.

As a sustainable business operator, his financial status improved through saving in financial institutions, increase in loan transaction, credibility among financial sectors (many banks are requesting for credit and other financing facilities, higher credibility among trout producers/traders) and source of technical knowhow on the production and marketing.

Mr. Rumba is a local resource person (LRP) who provides training to other farmers; he encourages social mobilization and empowerment, a well-known individual in the community, district and the whole nation as the 2<sup>nd</sup> trout producer of Nepal. He is also credible among business society, member of trout producers association and belongs to a happy family.



*One of the rainbow trout fishponds of Mr. Rumba in his home where they keep watch prior to expanded aquaculture production for their family run restaurant in Betani, Nuwakot. (Photo source: ADBL: Nakarmi 2014)*

His business operation is jointly supported by the family within their household especially the fingerlings and ready for massive aquaculture production resulting for better protection. Local communities are also benefited in the enterprise for labor, learning trout production skill, getting better opportunities in other trout farms, selling organic agricultural products.

Competitive advantage of rainbow trout in the community has been observed by the increase of local domestic as well as foreign tourists visiting and enjoying the trout and the natural resources. The influx of tourists has developed the road infrastructure to some extent, establishment of small retailer shops, other local small businesses resulting to the improvement of the local socio-economic condition status of the people in Nuwakot.

### **3.2.1 Limiting Factors**

1. *High risk product and insurance:* Trout farming is very risky because of its requirements and nature of production. The raceway needs fresh cold running water. Any of the three conditions of the water if not maintained will have adverse effect on its production. It has high risk of being affected by flood, over rain, land sliding and other natural and man-made disasters. Most of the effort has to put on maintaining the risk factors. Therefore insurance of the trout farming is very important and has to be facilitated by concerning authority.
2. *Input supply:* The supply of its seed and feed is a challenge to the farmers. Shrimps are imported and its availability and price are badly affected by the strikes and road blockage.

3. *Cold-storage*: The farmers need it to be stored as it is a perishable product. Cold storage is most important for trout.
4. *Export*: As trout farming is limited geographically due to its nature, export of trout within the neighboring districts or capital city or within and outside the country is not easy. The transportation system of living trout or dried trout needs facility and good relationship with the traders.
5. *Conflict on water*: There can arise conflict between the community foresters and the trout farmers that can affect the farming immensely.
6. *Government policy*: It needs high attention from the government. As it needs high investment initially to construct raceways and others the loan rate should be minimum, the insurance facility is must because of its risk involved,

### 3.2.2 Contributory Factors

1. *High demand product*: Because of its nutrition content and fresh availability in Nepal, its demand within the country is very high among Nepalese and foreigners. If well advertised, the demand can go up around the world also.
2. *Expanded agro-fishery tourism*: The prevalence of rainbow trout in the area and other parts of the country significantly support the tourism activities in the country. Based on the natural resources available, it has tremendously increase the nature, food-culture related tourism activities in the country which is now know to a lot of foreign tourists.

## 3.3 Tomato

It is estimated that there were 3,000 farmers cultivating tomato in 1,880 ha and producing approximately 35,992 MT tomato in 2010/11 in Nepal. About 15 national level and 230 local level agro-vets are supplying production inputs to tomato producers. In 2014, the cultivation of tomato was done in 17,273 hectare of land and the production was recorded as 232,897 MT with an average yield of 13.5 MT per hectare.

Mr. Krishna Prasad Regmi of Jeevanpur VDC, Dhading is a successful tomato grower. A President Award winner for his continuous leadership in agriculture sector, he is also a role model to his colleagues and his community for tomato commercialization.

The labor is a major input in tomato production. It needs about 24 man days for one production cycle per tunnel. Mr. Regmi has 50 tunnels for his requirement is 1,200 man days for one crop cycle which is getting difficult due to the shortage of labor. Labor rate per day is also significantly increasing. More than two-third labor requirement is for harvesting and weeding. In these activities, the family members and women labor provide the needed labor requirement.

The community is benefited by tomato cultivation in Dhading are in terms of demonstration farm model, involvement of youths in vegetable production, labor use including women, the employment generation within the community, improved transportation system due to the increasing tomato production, application of technologies including the dissemination done by Mr. Regmi which he shares during ADBL capacity building activities and the increasing interest among other members of the community to engage in tomato production.





*Mr. Regmi discussing the progress of his tomato production with ADBL officers during one of their visits in his farm (Photo source: ADBL: Nakarmi 2014)*

### 3.3.1 Limiting Factors

1. *High investment and high risk:* Tomato cultivation needs high initial investment. It is risky in terms of disease, insects, heavy rain/draught, landslides, earthquake etc. during production process, and later due to marketing activities. The frequent strikes and other reasons make distribution and Sell of tomato very difficult. Previous experiences have shown the wastages of tomato thrown over the road due to road blockades.
2. *Cold storage and insurance:* The nature of the product is perishable therefore it needs cold storage to be used in off seasons. There is lack of enough cold storage in the country. And, the insurance of the product is most important aspect which is not been facilitated at its requirement level.

### 3.3.2 Contributory Factors

1. *Round the year production:* Tomato can be produced round the year with special agriculture techniques and in tunnel. It has competitive advantage over other vegetables, cereal and fruit.
2. *Processing industry:* The demand of tomato is very high during the season and in off season. The tomato processing industry has high potential as a catch-up and tomato soup production industry.

## 3.4 Aspects of Empowerment

The empowerment level in all the three cases have been observed at very high level. All of them are ADBL clients with good financial and social status. In the beginning, all of them had to struggle hard in getting access to the finance, the technical knowhow, input supplies and many more. This has changed over time because of their pursuit to organized production and marketing system including business entrepreneurship and their willingness to learn more and apply for the further development of their businesses.

It was noted that all cases involve strongly their family and employ them with other community members engaged as hired labor to support other farm ad business activities. It has created a holistic view of developing the community through well-dedicated and committed individuals who are empowered and dedicated to provide service to all.

The empowerment strategies employed also a number of changes by instilling to the people that change could happen like the development of road networks and other facilities/infrastructures to support community life. In turn, the small business became part of the whole for the improvement of the socio-economic conditions of the people and the communities as well as other employment has also been raised in the community.

## CHAPTER 4

# Practices and Innovations

The agriculture sector with farmers having proper access to financing creates great positive changes in the society. The impact of agriculture production in the community, implementation of new technology and mechanization and the improved productivity is observed not only to the farmer alone, but it spreads throughout the community as a whole. The empowerment of the farmer and the family becomes the source of inspiration to the society not only morally but also with competitive advantageous endeavor among the neighborhood.

Farmer empowerment means providing with the ability and capacity to use local and international skills and knowledge to ensure a fair social and economic situation while preserving and conserving the environment. In this process, the farmer is becoming a supply chain actor, a crop specialist with clear market orientation.

### 4.1 Practices

The Agricultural Development Bank Limited in Nepal (ADBN) is the prime financing agency in agro-farming as its branches are available and located in most of the districts of the country. Based on the informal discussion with the farmers, the supplier of input, the retailers, and other active members in the process, it has been revealed that the financial access for production of floriculture is not very difficult. As the districts under flower cultivation is mostly in Terai belt, inner Tarai and urban areas, finance is easily accessed from the cooperatives and banking sectors. The cost of finance transaction is almost average in the area.

In particular, the rainbow trout farming, ADBL has financed the Himali Rainbow Trout farm since 2059 BS (2002 AD) for the construction of raceways. Technical support was received from Fishery Development Center of Trishuli. The trout is cultivated in about 15,000 hectares and production is 192 MT (Agr Stat. 2014). Tomato is cultivated in 17,273 hectares and the production is noted to be 232,897 MT in whole of Nepal. Most of the production of tomato is in Terai and mid-hill base; the access to finance is not very difficult but is somewhat expensive to the farmers and risk taking farmers are highly benefited.

### 4.2 Innovations

Innovative approaches that may contribute to reducing poverty in the rural sector are associated with (i) diversification of agriculture to horticulture, aquaculture and livestock production, (ii) emergence of supermarkets with global supply chain, the penetration of latter being much higher in South East Asia than in South Asia and China; (iii) contrary to the dominant view, the prescription that labor force must move out of agriculture needs qualification in view of agriculture becoming an attractive option for investment and expansion of markets for not just staples but also high-value items; and (iv) creation of linkages between the farm and non-farm sector, and increase in the proportion of non-farm income to rural household income. (ADB 2011: 5-6).

In floriculture, many farmers have started cultivating cutflower in various places and are using mechanization during the process. AEC is supporting them for preparing business plan, provide access to finance, develop links among the trader and the market. In addition, the Department of Agriculture, ADBL, Nepal Agriculture Research Center (NARC) and Project for Agricultural Commercialization and Trade (PACT) are also there to support them through technologies, finance and capacity building



activities. The rainbow trout farming is getting popular among farmers in mid-hill and high-hill areas with the strong assistance of ADBL through their promotional and information campaigns. In addition, better training and the financial support provision lead to more farmers joining the trout fish farm production. Furthermore, tomato cultivation is a regular commodity of Nepali household and a regular farming operation among farmers. With the strong provision of technical skills entrusted and developed to the farmers by various organizations including the mechanization, tunnel farming, cold-storage and insurance services, the innovative ideas continuously inspire farmers to cultivate and produce the crop.

Another innovation which is getting popular in Nepal is the warehouse established in Kathmandu by FAN with its members. The warehouse now serves as a good facility because of the increasing innovative ideas attached to it through social awareness and networking of like-minded and technically abled individuals.

In addition, the different farmers' associations like any other commodities including floriculture crops, trout, tomato and other crops have built capacity-building knowledge chain by knowledge sharing through networking, peer-to-peer training and good demonstration practices for widespread yield and significant benefits (Malawi 2011).

Moreover, the agricultural development strategy (ADS) includes supporting farmers to acquire knowledge and skills using approaches like Lead Farmer (Progressive Farmer) Concept, Farmer Business School, and Farmer Field School which certainly bring about increase in capacity building activities among the farmers finally resulting to farmer's empowerment and community development.

## CHAPTER 5

# Summary and Conclusions

This study aimed to analyze the status of empowerment and development based on desk review, field validation/observation and cases in Nepal through ADBL assistance. Various literatures have been reviewed and three cases were studied in field particularly carnation (floriculture), rainbow trout (fisheries) and tomato (vegetable).

There has been lot of efforts done in many developing countries and many organizations involved to make the agriculture supply chain and value chain functioning effectively, train farmers and build the chain actors stronger, and financing the farmers in need with ease and cheaper agriculture loan.

In Nepal, the NRB has reviewed and developed its monetary policies to support farmers to increase productivity and empower the farmers to a great extent. ADS in its strategy has emphasized more on farmers classification based on land holdings and strengthened them by financial and technical literacy, providing easy access to finance, encouraging lease and cooperative farming and many more. The MoAD, NARC, ADBL and individual associations are trying to build up networking among the farmers within the country as well as with international farming communities.

The field study reveals some common features among the three commodities including common issues and common challenges. These observations can also be identified to other similar commodities in Nepal.

### 5.1 Issues

#### *Financial Literacy*

Financial awareness to farmer in availability of financial services of their benefit, the interest rate, the collateral and others is a must to Nepalese farmers. Even urban sector farmers are not fully informed on all the issues. Therefore, financial counseling unit should be activated effectively in all semi-formal and formal sector financial institutions. This will minimize the farmers problems related to money.

#### *People Empowerment at individual, institutional and community level*

Whole community is not enlightened or empowered in a day or with one person empowered. Therefore, community empowerment is possible only when all the members of the community is empowered. This can be started with empowerment at individual farmer level and then institutional level. An institution empowered means all the people involved with that institution are empowered and hence the community as a whole is empowered.

#### *Insurance*

The major issues of the farmers insecurity in the farming business is the lack of insurance. Farmers face insecurity at each level of the production of the crops to the marketing of the product, such as, the rain fall or irrigation, draught or flood, timely availability of seeds and fertilizers, warehouse for proper storage of the crops, traders and the fluctuation in price, transportation of the crop up to the market and many more. Problem in any of the above and other unseen problems causes harm to the farmers. If only insurance system facility is available to them, they can work and take risk and could be protected the disaster period.

## 5.2 Challenges

### *Political Instability*

Political instability has become one of the major components for setback of economic development endeavor in Nepal. After the Comprehensive Peace Accord signed on November 21, 2006 between Government of Nepal and Unified Communist Party of Nepal, it was expected that the peaceful environment in entire business sector will be restored. After subsiding the blockages especially with the declaration of Federal Democratic Republic of Nepal on December 28, 2007, Nepal has witnessed many occasional strikes and blockages which eventually lasted for one/two days. But, the recent blockages starting from August 08, 2015 lasting till 67 days (more than 2 months till October 18, 2015) has many catastrophic effects on Nepalese Economy. So far, 12 private sector dairy are closed, all poultry farm, cow/buffalo/goat farm are badly affected due to unavailability of petroleum products and market due to lack of transportation. Farmers of fruit cultivation, vegetable and flower growers (banana, lemon, pineapple, guava, tomato, cabbage, chili and cutflowers) are badly affected and this seems to have multipliers effects on the broad base economy of the country as a whole.

### *Natural Disasters*

Nepal being multiple diversity land geographically has to face number of natural disasters throughout the year, such as flood, draught, land sliding, earthquake, and others. Nepal has to face many manmade disasters also, such as strike, bandh, accidents and others. All these disasters have direct impact on the farming and the supply chain and value chain of the products, and hence the farmers are affected most. These events directly affect the national economy.

### *Poverty Reduction*

Nepal is a developing and very poor country because of which the country and its country-men have to face number of problems and humiliation. From the very first development plan of the country, poverty reduction is being addressed with full emphasis but the aim of poverty reduction is not met. The contribution to national economy has been agriculture, tourism and others in the past, but now remittance has also become one of the major contributors in the economy. But, the scenario of remittance earning these days is not found very pleasant, major disasters keep on affecting tourism industry. So, in this situation agriculture is the only one sector which is basic and major sector that contributes most in the national economy.

### *International Competition and Self-existence in Global Market*

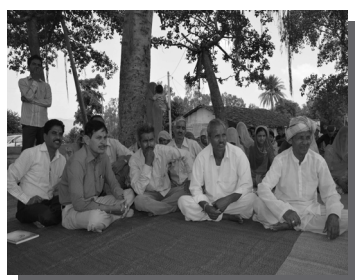
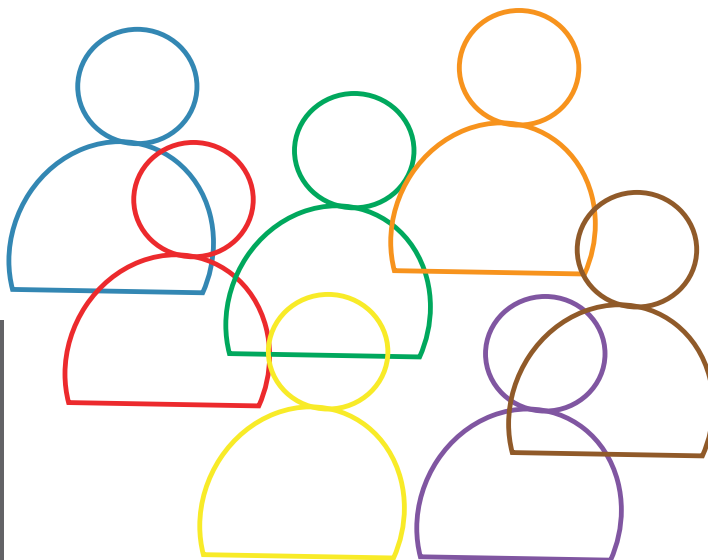
Although Nepal is a small, landlocked and developing poor country, but some of its specialties are unique. The high mountains, natural streams and plain terai and the crops suiting to these ecology is not found elsewhere. So, some crops which are unique can be encouraged to cultivate and promoted in such a way that Nepal can stand in the global market and show its existence. Flowers like rhododendron, floriculture products, local wild honey, silk, rainbow trout, yak milk products and cheese and so many agriculture products could be promoted.

An inclusive development program can be launched in all geographical suited crops and agriculture programs should focus all the high mountains, high hill, mid hill, inner terrain and terrain belt so that people love to live in all the places that will minimize internal migration to the capital city.

## Part 7

# People Empowerment, Financial Access and Community Development in the Philippines

Norman William S. Kraft  
Noel Clarence M. Ducusin





# CHAPTER 1

## Introduction

### 1.1 Philippine Agri-Fishery Profile

Over the period 2010 to 2014, the agriculture and fisheries sector contributed an average of 11 percent to the Philippines' Gross Domestic Product (GDP). Taking into consideration the whole agriculture value chain, however, it is estimated that the sector's contribution to GDP could jump to as much as 35 percent (National Economic and Development Authority, 2014).

The growth of the sector, though, has been averaging only 1.3 percent annually over the last six years (2010-2015), less than half of the 3.2 percent posted in the previous six years (2004-2009). In contrast, industry growth over the same period has averaged 7.4 percent, nearly twice the 4 percent posted in the previous six-year period. Services growth, on the other hand, also improved to 6.6 percent from the previous period's 6.2 percent (Habito, 2016).

Compared to industry and services, therefore, Philippine agriculture has yielded the lowest productivity and lowest incomes over the years. Yet, the sector employs an average of almost 35 percent (i.e. around 12 million people) of the country's total work force. Again taking into consideration the whole agriculture value chain, it is estimated that the number would even reach as much as 50 percent of total employment in the country.

With these numbers, it does not come as a surprise that 70 percent of the Filipino poor are found in the rural areas, where the dominant source of livelihood is farming and fishing. Poverty incidence is also highest in rural areas (at 40 percent, against only 13 percent in urban areas and 3.9 percent in Metro Manila).

### 1.2 The Importance of People Empowerment/Community Development and Financial Access in Agriculture and Fisheries Development and Rural Finance

Almost all Filipinos are proud of the fact that "people power" figures prominently in their history. In 1986, millions of Filipinos risked their lives to fill strategic portions of a major highway traversing Metro Manila, named Epifanio de Los Santos Avenue or EDSA, for a period of five days as a collective expression of protest against the corrupt and repressive regime of the former President, Ferdinand E. Marcos. The popular uprising eventually culminated in the overthrow of the dictator with almost no incidence of violence or bloodshed. This historical event came to be known as the "EDSA People Power Revolution" and the phrase "people power" would eventually be officially adopted in various references to become broadly defined as "the power or pressure demonstrated by large numbers of the public in non-violent ways"<sup>1</sup>.

The EDSA People Power Revolution gave Filipinos the distinct honour of claiming "people power revolution" as their original contribution to world history. Recognizing this unique and valuable gift of Filipinos to the world, as well as the important role that it played in effecting the needed political change in the country, the succeeding administration of President Corazon C. Aquino consequently made *people power* and *people empowerment* the indispensable building blocks and benchmarks in her

<sup>1</sup> Collins Dictionary

administration's campaign to restore democracy in the country. To ensure its translation into official policy, the principle of people empowerment was enshrined in no less than the fundamental law of the land when the Constitution was amended a year after the revolution (i.e., in 1987). The 1987 Amended Philippine Constitution – also referred to as the Freedom Constitution – now provides that non-government organizations (NGOs) shall be involved in the planning and decisions made by government, both in the local and national levels.

The greater importance given to the participation of NGOs in national and local governance soon evolved to include their involvement not just in socio-political matters, but also their participation in socio-economic programmes of government. *Government gave NGOs the privilege and opportunity to operate in various capacities formerly performed exclusively by state organizations, such as serving as alternative programme/service delivery mechanisms, facilitators for project funding and assistance, credit conduits, and project implementors.*

By the early 1990s, the passing into law of the Cooperative Code of the Philippines (1991) and the Magna Carta of Small Farmers (1992) formalized State policy on promoting the establishment of strong and viable farmers' organizations such as cooperatives, credit unions, rotating savings, and credit associations and non-government organizations (NGOs) and their role in, among others, increasing small farmers' access to credit – one of the support services considered by the State as critical to agricultural and rural growth and development.

### 1.3 The State of Agriculture Financing in the Philippines

In 2014, the nationwide credit requirement for the production of priority agri-fishery commodities was estimated to be around P 574 billion (US\$ 12 billion). Of this amount, the banking system was able to finance around P 109 billion (US\$ 2 billion) or 19 percent, thus pointing to an agri-production credit need of around P 465 billion (US\$ 10 billion) (81 percent) that was left unserved by the formal financing sector as of the given year (Table 39).

**Table 39. Estimated Credit Gap in Agricultural Production (2014)**

Major Commodity	Credit Requirement (Billion Pesos)	Supplied by Banks (Billion Pesos)	Credit Gap (Billion Pesos)
Rice	179.4	44.7	134.7
Corn	51.2	6.4	44.8
Coconut	17.8	6.0	11.8
High Value Commercial Crops*	123.3	10.37	112.9
Livestock and Poultry	187.7	35.1	152.6
Fisheries (Marine and Municipal)	14.8	6.1	8.7
<b>Total</b>	<b>574.3</b>	<b>108.7</b>	<b>465.5</b>

\* High Value Commercial Crops include abaca, cassava, rubber, mango, coffee, banana, durian, lanzones, mangosteen, durian, oil palm, and other vegetables such as cabbage, onion, carrots, tomato, eggplant, white potato, cauliflower, broccoli, and habichuelas.

Source: ACPC, 2015

Agriculture in the country has historically been characterized by a low level of bank financing. The year 2014 was no different with only 2 percent of the overall total loans released by Philippine banks going to the agriculture sector (Table 40). The bulk of these loans (90 percent) are released by private financial institutions (Table 41).



**Table 40. Amount of Loans Granted by all Banks (2014): Agricultural vs. Non-Agricultural**

Loan Purpose	Amount		% Share
	(in Million Pesos)	(in Million US\$)	
Agriculture	778,250	16,558	2%
Non-Agriculture	39,416,776	838,655	98%
Total	40,195,026	855,213	100%

Source: ACPC, 2015

**Table 41. Agricultural Loans Granted, by Type of Bank (2014)**

Types of Bank	Amount		% Share
	(in Million Pesos)	(in Million US\$)	
Government Banks	78,537.70	1,671.01	10%
<i>Development Bank of the Philippines</i>	16,769.50	356.79	2%
<i>Land Bank of the Philippines</i>	61,768.20	1,314.21	8%
Private Banks	699,712.40	14,887.50	90%
<i>Commercial Banks</i>	575,222.70	12,238.78	74%
<i>Thrift Banks</i>	64,202.90	1,366.01	8%
<i>Rural Banks/Cooperative Rural Banks</i>	60,286.80	1,282.70	8%
Total	778,250.10	16,558.51	100%

Source: ACPC, 2015

As an attempt to spur greater capital flows for the development of the agriculture and fisheries sector, a law requires that all banks should lend at least 25 percent of their loanable funds for agricultural purposes and agrarian reform beneficiaries.<sup>2</sup> Since the time the Agri-Agra Law was initially implemented, however, banks have consistently fallen short in their compliance with its loan quota requirement. In 2014, only up to 16.7 percent of banks' total loanable funds went to agriculture and agrarian reform beneficiaries (ACPC, 2015).

Notwithstanding the banking sector's lesser preference for agricultural lending, access to formal financing has nevertheless been improving for rural borrowers in recent years. In fact, as of 2014, the borrowing preference of small farmers and fisherfolk had already shifted to more than 50 percent borrowing from formal sources, from more than 70 percent borrowing from informal sources previously as of the late 1990s (Table 42). This improvement in financial inclusion conditions ("financial empowerment") for small farmers and fisherfolk throughout the country is being credited, on the other hand, to NGOs, cooperatives, and other microfinance institutions or MFIs, which spearheaded the introduction and dissemination of innovative financing technologies – such as microfinancing (e.g., replication of the Grameen Banking model of Bangladesh) – in the country (ACPC, 2015).

Unsurprisingly, therefore, out of twenty (20) documented different government credit programmes catering to the agriculture and fisheries sector as of 2014, seventeen (17) or 85 percent are on record as partnering with cooperatives and other NGOs in order to deliver credit to individual farmer and fisherfolk borrowers. On the other hand, two other programmes – the Sikat Saka Program and the Land Bank of the Philippines-Agriculture and Fisheries Financing Program (AFFP) – also require the assistance of people's organizations (e.g. Irrigator's Associations and other farmers' and fisherfolk's organizations) in the endorsement of potential borrowers, but introduce other new features as well that additionally empower the farmers and fisherfolk themselves in enhancing their access to agri-fishery financing (Table 43).

<sup>2</sup> Presidential Decree No. 717 or the Agri-Agra Law – amended in 2010 by Republic Act 10,000 (Agri-Agra Reform Credit Act) – mandates all banks to allocate 25 percent of their net loanable funds for lending to agriculture (15% of net loanable funds) and agrarian reform beneficiaries (10% of net loanable funds).

**Table 42. Distribution of Small Farmer and Fisherfolk Borrowers (in %), by Source**

Source	1998	2000	2002	2005	2007	2014
Formal	24	38.6	34.4	44	51.7	53
Informal	76	61.4	60.3	48	41.4	40
Both	–	–	5.3	8	6.9	7
Total	100	100	100	100	100	100

Source: ACPC, 2015

**Table 43. Government Credit Programmes for Agriculture and Fisheries and their Loan Conduit or Partner Lending Institutions (as of 2014)**

Name of Agri-Fishery Credit Program	Implementing Agencies	Loan Conduit/Partner Lending Institutions
<b>Programs of the Land Bank of the Philippines' (LBP) Programs*</b>	<b>Land Bank of the Philippines (LBP)</b>	– Cooperatives, rural banks, cooperative banks
<b>Sustainable Agribusiness Financing Program</b>	<b>Development Bank of the Philippines (DBP)</b>	– DBP branches
<b>Agro-Industry Modernization Credit and Fin. Prog.</b>	<b>Department of Agriculture – Agricultural Credit Policy Council (DA-ACPC)</b>	
<i>Cooperative Banks Agri-Lending Program (CBAP)</i>		– Cooperative banks
<i>Agricultural Microfinance Program (AMP)</i>		– Partner microfinance institutions (accredited NGOs, cooperatives, rural banks, cooperative rural banks, other MFIs)
<i>Calamity Assistance Program (CAP)</i>		– Cooperative banks, cooperatives
<i>Sikat Saka Program (SSP)</i>		– Landbank lending centers (borrowers are endorsed by Irrigators' Associations)
<i>Agriculture and Fisheries Financing Program (AFFP)</i>		– Landbank lending centers (borrowers are endorsed by organizations that serve as "service conduits") – Partner microfinance institutions (accredited NGOs, cooperatives, rural banks, cooperative rural banks, other MFIs)
<b>Livelihood Credit Assistance Program (LCAP)</b>	<b>National Livelihood Development Corporation (NLDC)</b>	– Partner microfinance institutions catering to Agrarian Reform Beneficiaries (accredited NGOs, cooperatives, rural banks, cooperative rural banks, other MFIs)
<b>Business Development Loan Facility (BDLF)</b>	<b>Social Security System (SSS)</b>	– SSS offices/branches
<b>Credit Assistance Program for Program Beneficiaries Dev't (CAP-PBD Window III)</b>	<b>Department of Agrarian Reform (DAR)</b>	– Agrarian Reform Cooperatives

\* As of 2014, the Land Bank of the Philippines reported having eleven (11) different credit programmes for the agriculture and fisheries sector.

Source: ACPC, 2015

## CHAPTER 2

# People Empowerment and Community Development

### 2.1 People Empowerment/Community Development in Sustainable Rural and Agricultural Development

In view of a fast-growing population, declining farm production areas due to land conversion, and more intense occurrences of natural calamities resulting from evolving global climatic conditions (induced by human interventions and naturally induced hazards), agricultural development in the country has become increasingly challenging. To address this challenge, the Philippine government has been advocating a shift towards the use of sustainable agricultural development practices – defined through the country's Agriculture and Fisheries Modernization Act (AFMA) of 1998 as development that is compatible with the preservation of the ecosystem in areas where agriculture and fisheries activities are carried out.

Such development, based on the AFMA, is characterized by the exercise of care and judicious use of the country's natural resources in order to attain long-term sustainability. As such, success of this development paradigm is anchored on the direct involvement of the people who are themselves the players in the agri-fishery sector. Authority and responsibility are shared with or even ceded to them so they can be enabled to directly participate in the implementation of sustainable development strategies.

Some examples of sustainable agricultural development practices in the country that involve community empowerment and the participation of people's organizations (POs) – such as farmers' cooperatives, farmers' associations, associations of agrarian reform beneficiaries, organizations of upland farmers, and fisherfolk associations – are the following:

- 1) Involvement of farmers and indigenous people's communities in the promotion and use of community-based agriculture-related industries, such as organic farming practices/systems and eco-tourism that reduce environmental pollution and ecosystem destruction, and that prevent the depletion of natural resources. The practice of organic farming systems is also believed to boost community resiliency to disaster risks and climate change vulnerabilities caused by climatic changes and, therefore, contributes to risk reduction.
- 2) Organizing fisherfolk, non-government and people's organizations, and other private sector stakeholders of marine/coastal areas to form Fisheries and Aquatic Resource Management Councils (FARMCs) that participate in the governance of their own coastal communities, including the management and conservation of their communities' marine resources.

To help advocate the adoption of more community-based sustainable agricultural practices, one of the programs developed by the Philippine government is the Community-Based Participatory Action Research (CPAR) programme. The CPAR programme is aimed at helping promote improved farming systems technologies for specific micro agro-climatic environments in different provinces/municipalities.<sup>3</sup> The programme applies a community-based participatory approach to involve the active

<sup>3</sup> The CPAR program is being managed by the Bureau of Agricultural Research (BAR) and implemented by the Department of Agriculture's Regional Integrated Agricultural Research Centers (RIARCs) and Regional Integrated Fisheries Research and Development Centers (RFRDCs) as well as the Local Government Units (LGUs).

participation of community folk in implementing a holistic approach to the overall management of the production system/s in their respective areas. This includes: integrated farming systems development, resource management orientation, whole farm and whole family systems approach, focusing on complementation and integration. These processes are instituted through a farm model framework focused on participatory community-based resource management systems. Over the years, the CPAR programme has helped in verifying developed agricultural technologies and in hastening the process of technology transfer which has improved and sustained productivity in areas that the programme has covered.

In 2016, a pilot innovative credit facility for CPAR farmer-cooperators and adoptors is set to be implemented by the Agricultural Credit Policy Council (ACPC) in partnership with the Bureau of Agricultural Research (BAR). The pilot credit facility shall provide financing assistance for the adoption and application/replication of mature agricultural technologies developed through the CPAR programme using prevailing policy principles in the implementation of government credit programmes. The project will also determine the viability of financing the adoption of various CPAR-developed technologies.

## 2.2 Some of the Relevant Policies that Support People Empowerment and Development in Agriculture

The Philippines has set in place several policies that support and encourage a greater role for non-government entities in governance for the development of the various sectors of society and the economy, including agriculture and fisheries. Over the years, initial broad policy pronouncements for the empowerment of agriculture stakeholders in the private sector, would eventually be translated into more focused policies granting the private sector greater roles and responsibilities in specific development initiatives for agriculture, such as in the areas of policy advocacy; policy and programme consultation; planning and feedback; government programme monitoring; and even programme implementation – including the implementation of government agri-financing programmes. Among the policies that support people empowerment in agricultural development that are presently in place are the following:

- a) **Creation of the National Agriculture and Fishery Council (NAFC) and other AFCs (Executive Order No. 116) – 1987.** In the reorganization of the Ministry of Food through EO 116, a mechanism to promote private sector participation in agricultural and fishery development through consultation, advocacy, planning, monitoring and project evaluation was also included through the creation of Agricultural and Fishery Councils (AFCs). The AFCs are private sector organizations that serve as advisory bodies at the regional, provincial, and municipal levels. The role of AFCs has since been expanded. The Councils now have the broader functions to: (1) serve as consultative/feedback mechanism on the policies, plans and programmes of the DA; (2) monitor agricultural and fishery programmes of all government agencies; (3) assist the DA in mobilizing and evaluating the contributions of government agencies to agriculture and fishery modernization; (4) promote consensus on the support for national and local budgets for agriculture and fisheries; (5) assist the DA in advocacy work among concerned government agencies; and (6) support the continued development of the nationwide network of AFCs not only as a consultative network, but also as partners in the execution of agency functions.
- b) **Republic Act 7607 (Magna Carta of Small Farmers) – 1992.** The primary objective of this law is to empower small farmers as a means to attain an equitable distribution of benefits and opportunities in the country. Towards this end, the law encourages the participation of small farmers, farm workers, farmers' cooperatives and organizations in the planning, organization, management and implementation of agricultural programmes and projects. Among the relevant policy principles espoused by the law are the following:

- The *Agricultural Credit Policy Council (ACPC)* along with other concerned agencies shall conduct an intensive information drive that will promote the establishment of strong and viable farmers' organizations such as cooperatives, credit unions, rotating savings, and credit associations and non-government organizations (NGOs) which play a major role in increasing small farmers' access to credit.
  - Through the National Irrigation Authority (NIA) and other concerned offices, the farmer organizations are encouraged to spearhead the construction of irrigation systems through the formation of *Irrigators' Associations (IAs)*. The farmers' organizations are also encouraged to develop their capabilities to later on assume the operation and maintenance of irrigation systems, including the collection of fees to be remitted to NIA.
- c) **Republic Act 8435 (Agriculture and Fisheries Modernization Act) and Administrative Order No. 6 Series of 1998 (Implementing Rules and Regulations Pursuant to RA 8435) – 1997/1998.** This law is aimed at empowering the agriculture and fisheries sector by making it a policy of the State to pursue the attainment of the following for the sector: a) Poverty Alleviation and Social Equity (i.e., equitable access to resources, income opportunities, basic and support services and infrastructure); b) Food Security (i.e., availability, adequacy, accessibility and affordability of food supplies to all at all times); c) Rational Use of Resources (i.e., efficient and effective allocation of public investments in agriculture and fisheries to obtain optimal returns); d) Global Competitiveness (i.e., competitiveness of agriculture and fisheries in both domestic and foreign markets); e) Sustainable Development; and f) People Empowerment. Among the policy principles of this law is to promote active participation of cooperative banks, rural banks, government financial institutions and viable NGOs in the delivery of financial services to put emphasis on the principle of proper credit programme management and loan fund utilization.
- d) **Republic Act 8550 (Fisheries Code) – 1998.** The Fisheries Code puts emphasis, among others, on the need to manage and conserve fisheries and aquatic resources; and assign these tasks not only to government, but also to LGU-based and private sector-led Fisheries and Aquatic Resource Management Councils (FARMCs). Through the FARMCs, non-government and peoples organizations are given the chance to participate, and govern their own communities. The FARMCs represent the fisheries subsector in the larger AFCs.
- e) **Republic Act 10000 (Agri-Agra Reform Credit Act) – 2010.** This law mandates that all banks set aside 25 percent of their net total loanable funds for loans to farmers, fishers, farmers' organizations and agrarian reform beneficiaries; for production, agribusiness and exports, purchase of farm equipment, merchandising, agri-product marketing. For banks having difficulty in lending directly to farmers, fisherfolk and agrarian reform beneficiaries, one of the alternatives provided by the law is to lend on wholesale or invest in the preferred shares of stock of accredited non-bank rural financial institutions (NBRFIs), including cooperatives, NGOs, peoples' organizations (POs).
- f) **Republic Act 10068 (Philippine Organic Act of 2010) – 2010.** The Philippine Organic Act incorporates both the principles of people empowerment and sustainable agriculture in one law. The law mandates the promotion, propagation, and further development and implementation of organic agriculture practices that will condition and enrich soil fertility, increase farm productivity, reduce pollution and destruction of the environment, prevent the depletion of natural resources, further protect the health of farmers, consumers and the general public, and save on imported farm inputs. On the other hand, the law also provides a central role in this campaign for the farmers, indigenous people and other stakeholders at the grassroots. The organic agricultural systems being advocated also include the development of related community-based industries, namely organic agriculture, prime habitat and eco-tourism, among others.

- g) **Food Staples Sufficiency Program (FSSP) – 2011.** Under the Philippine Development Plan (PDP) for 2011-2016, empowerment goals include food security and raising incomes in the agriculture sector. Towards these goals, the Department of Agriculture launched the Food Staples Sufficiency Program (FSSP) in 2011 as the country's policy and programme framework for improving farm productivity and making the Filipino farmer globally competitive. Through growth in agricultural productivity and incomes, the FSSP aspires to attain sustainable food security and poverty reduction for farm and fishing households. One of the key strategies identified for the FSSP is to strengthen credit provision to small farmers through interventions in the agricultural credit market that are aimed at increasing farmers' access to timely, adequate, and affordable credit – through the *Sikat Saka Program*.



## CHAPTER 3

# Key People Empowerment/Community Development Features and Strategies in Implementing Agricultural Financial Programmes

The flagship programme of the Philippine Department of Agriculture under the present administration is the Food Staples Sufficiency Program (FSSP). The FSSP aspires to attain sustainable food security and poverty reduction for farm and fishing households by raising their agricultural productivity and incomes. Among the essential strategies under the FSSP for the adoption of improved production technologies and other higher income-generating measures is the provision of flexible, timely, adequate, and affordable credit. This section discusses key empowerment features of the two financing programmes that have been established by the government to support the FSSP – the *Sikat Saka Program (SSP)* and *Agriculture and Fisheries Financing Program (AFFP)* – which demonstrate sharing of information, authority, and responsibility in programme policy formulation, decision-making and implementation with programme clients and stakeholders.

## 3.1 Sikat Saka Program (SSP)

With the objective of attaining self-sufficiency in food staples, an integrated financing programme named *Sikat-Saka*<sup>4</sup> was launched by the Department of Agriculture in January 2012 with the Land Bank of the Philippines (LANDBANK) as its partner implementing institution. Through LANDBANK, the programme aims to provide flexible, timely, adequate and affordable production credit directly to small rice farmer-borrowers who do not have access to loans for their rice production. The programme also aims to improve the viability of agricultural production by ensuring availability of irrigation services, extension, links to market and a favorable economic environment. This programme was also designed to serve as a facility for farmers to establish their credit-worthiness with the LANDBANK for the development, hopefully, of a long-term banking relationship. The *Sikat Saka Program* covers 45 major rice-producing provinces of the country.

### *Key Empowerment Features of the Credit Delivery Scheme*

#### *a. Borrower Identification & Loan Facilitation through Irrigators Associations (IAs)*

The *Sikat Saka Program* utilizes Irrigators Associations (IAs)<sup>5</sup> to act as “service conduits” for the programme. As service conduit, a pre-screened IA (i.e. has been established as having a good track record in managing its operations and irrigation system) endorsed by the National Irrigation Administration (NIA)<sup>6</sup> to LANDBANK performs the following under the *Sikat Saka* and is given the prerogative to decide on who among its members are most eligible to borrow given the basic criteria of the programme:

- Consolidates and endorses its members/farmers and submits their loan applications to LANDBANK;

<sup>4</sup> Depending on the intonation, the Pilipino word “Sikat” may either mean *renowned* or *brilliance*. “Saka”, on the other hand, means *to farm*.

<sup>5</sup> Irrigators Association – Group of farmers organized and accredited with the National Irrigation Authority (NIA) to which the operation and management of a government-constructed irrigation system is turned over (whether partially or fully).

<sup>6</sup> A government-owned and controlled corporation whose mandate includes the organization and development of irrigation farmer-beneficiaries into Irrigators Associations (IAs)/ Irrigators Service Cooperatives (ISCs)



- Issues certification that a farmer-borrower is an actual tiller, is in good standing with the IA, and has no loan for the same purpose (whether current or past due) with LANDBANK and/or its existing conduits;
- Assists in persuading its endorsed farmer-borrowers to pay on time;
- In case there is a wilfully-defaulting borrower among its endorsed farmer-members, (IA) takes over management of said farmer's farm and the continuation of the farmer-borrower's loan payment.

In recognition of the contribution of IAs in helping endorse and ensure the creditworthiness of farmer-borrowers, the Programme, thru the LANDBANK, also provides incentives based on the collection efficiency and promptness of loan repayment of borrowers endorsed by the IAs. The incentive is in the form of an interest rebate, which is computed based on the collection rate.<sup>7</sup>

*b. Making Modern Banking Technology Accessible to Farmer-Borrowers and Allowing Full Borrower Control Over the Loan*

*Sikat Saka* loans are released through Automated Teller Machines (ATMs). Qualified farmer-borrowers open individual savings bank accounts with the LANDBANK so they can be issued ATM cards for the withdrawal of their loans. The introduction of the use of modern banking technology to small farmer-borrowers (the first time for most of them) is another empowerment feature of the programme. Further, the net proceeds of the individual borrower's loans are released through the ATM in full. With this scheme, borrowers are entrusted with full control over the loan fund. Unlike in previous other programmes, farmer-borrowers are free to choose which rice variety to use as well as from whom/where to source their farm input requirements.

*c. Providing Borrowers the Opportunity to Avail of a Reduced Interest Charge Based on Repayment Performance*

The interest rate on *Sikat Saka* loans is graduated based on the credit track record of a farmer-borrower under the Programme. Initially, the interest rate is pegged at 15 percent per annum for the first two loan cycles. The rate may thereafter be reduced by 1 percent every succeeding loan cycle up to the 8<sup>th</sup> cycle which will bear a single digit interest of 9 percent per annum, provided that all preceding loans were fully paid on time (i.e. on or before loan maturity).

Under the graduated interest rate scheme, borrowers with 100 percent and on-time loan repayment of their previous 7 loan availments under the Programme are eligible for the lowest possible interest of 9 percent p.a. starting on their 8<sup>th</sup> loan availment cycle. This feature gives farmer-borrowers the option to adjust downwards the interest on their loan.

*d. Using Target Clientele Feedback/Inputs in Revising Programme Policy*

The Programme initially required all borrowers to put-up their clean (unencumbered) land titles as "table collateral" for safekeeping by the LANDBANK. This collateral requirement policy was eventually revised to simply allow proof of other assets (vehicles/machines, live animals) as alternative collateral for safekeeping if putting up a clean land title is not possible for the farmer-borrowers.

The policy-change was based on the result of an assessment conducted by the ACPC during the pilot phase of the programme,<sup>8</sup> the result of which strongly suggested that farmers disliked the collateral feature of *Sikat Saka* as most of the farmers are unable to comply. Thus, the policy change on collateral requirement.

<sup>7</sup> The rebate is equal to 0.50% of the total amount of loans in one batch of borrowers, if collection rate for the batch is 90%-99%; or 1.00% of the total amount of loans in a batch of borrowers, if collection rate for the batch is 100%.

<sup>8</sup> A Quick Assessment on the DA-LANDBANK *Sikat Saka* Program was conducted by ACPC on October 2012 to determine the reasons behind the low availment of loans among the targeted small farmers in the *Sikat Saka* pilot areas.

e. *Reducing the Riskiness of Borrowers*

*Sikat Saka* loans are also enrolled under the crop insurance programme of the Philippine Crop Insurance Corporation (PCIC)<sup>9</sup> at no cost to the farmer-borrowers. By providing automatic protection against financial losses from crop damage (thru indemnity payments equivalent to the amount of crop loss), the Programme enhances the eligibility of small rice farmer-borrowers to access credit from LANDBANK.

f. *Non-Financial Support Components*

f.1 Building Farmer-Borrowers' Credit-Worthiness and Awareness

The Programme also enhances the credit-worthiness of farmer-borrowers through a seminar/training conducted by the Agricultural Training Institute (ATI).<sup>10</sup> This training serves as a pre-requisite for loan borrowers prior to loan release. A certificate of seminar completion also forms part of the final documentary requirements for first time loan availers.

Moreover, the Programme creates enhanced awareness among the farmer-borrowers about the *Sikat Saka* and its benefits through roadshows/orientation activities. These awareness activities are conducted at the regional and provincial levels to ensure that rice farmers are properly informed about programme rationale, implementing policies, guidelines and procedures. Information, Education and Communication (IEC) materials on the *Sikat Saka* such as programme brochures, flyers, leaflets, radio plugs, and audio visual presentation materials, are also used for the same purpose.

f.2 Assuring a Market and Best Returns for Farmer-Borrowers

A marketing contract or a purchase order (P.O.) executed/issued between the National Food Authority (NFA)<sup>11</sup> and the individual farmers also ensures a ready and firm market for the farmers' production outputs at the government support price and enables them to have a fair return on their production investment. The marketing contract or P.O. is also a requirement of the *Sikat Saka* loan. In cases where prevailing buying prices of palay (rice) go higher than the government support price, the *Sikat Saka* program also allows the farmers to sell to other (private) buyers to enable them realize a bigger profit.

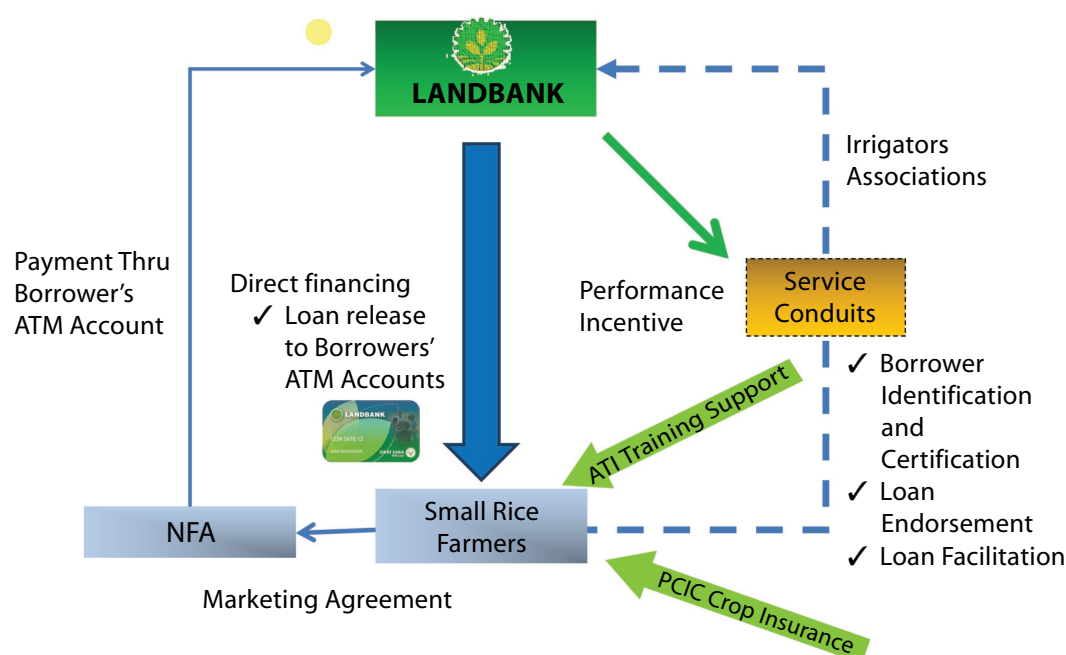
f.3 Organizational Support to Irrigators Associations (IAs)

Through the National Irrigation Administration's (NIA) Institutional Development Programme, the *Sikat Saka* is also able to provide capacity building/training and assistance/support to partner IAs as well as other potential IAs that enables them to improve on their membership and organizational capacity. In turn, the IAs help identify their members who are in good standing to the *Sikat Saka*, which ensures the quality of borrowers being endorsed for financing under the Programme.

<sup>9</sup> PCIC is a Government-Owned and Controlled Corporation (GOCC) attached under the Department of Agriculture that was created by virtue of PD 1467 (June 11, 1978), later on amended by PD 1733 (October 21, 1980) and further amended by RA 8175 (December 29, 1995), as the implementing agency of the government's agricultural insurance programme.

<sup>10</sup> ATI is an attached agency of the Department of Agriculture that was created by virtue of Executive Order 116 to act as the overall manager of agriculture and fisheries training and extension of the Philippines.

<sup>11</sup> An agency attached to the Office of the President that was created under Presidential Decree (PD) No. 1770 (January 14, 1981) that is in charge with ensuring the food security of the country and the stability of supply and price of the staple grain-rice.

**Figure 19. Sikat Saka Credit Scheme**

*g. Program Performance*

The Sikat Saka kicked-off to a slow start when it was launched in March 2012, a few weeks before the dry season cropping in 2012 began. Loan availments in the initial 4 pilot provinces was minimal with only 52 farmers borrowing a total P 2.65 million (USD 0.062) million. Policy modifications were made taking into consideration the feedback from farmer-borrowers (i.e. modification of the security/collateral requirement) and promotion and information campaign were conducted at different levels, i.e. national, regional/provincial and municipal levels. As a result, as of July 31, 2015, the Program had already released an annual average of PHP 640 million (USD 14.3 million) in loans for the last 3 years or a total amount of PHP 1,925.5 million (USD 42.8 million) in loans released benefitting 8,108 rice farmers. Repayment is above 90 percent and loan defaults were mainly attributed to crop failure due to natural calamities.

Indicator	December 2013	December 2014	July 2015	Cumulative
Loans Released (PHP'000'000)	357.7	881.8	588.5	1,925.5
Outstanding Loan (PHP'000'000)	151.6	339.4	554.7	554.7
No. of Farmer Borrowers	3,544	7,283	8,108	8,108
Repayment Rate	96.5%	97.2%	90.4%	90.4%

## 3.2 Agriculture and Fisheries Financing Program (AFFP)

The Agriculture and Fisheries Financing Program (AFFP) is a PHP 3.0 billion (USD 66.7 million) credit facility designed to benefit non-agrarian reform beneficiary (non-ARB) small farmers and fisherfolk who are registered in the Registry System for Basic Sectors in Agriculture (RSBSA)<sup>12</sup>. Its overall goal is to help contribute to the attainment of inclusive growth through financial inclusion of the unbanked and under-banked sectors in agriculture.

<sup>12</sup> The RSBSA is an electronic compilation (database) of the basic information on farmers, farm laborers, and fishers. It also includes profile and additional information on farmers, farm laborers, and fishers, as well as farm parcels and fisheries.

The Programme helps enhance the productive capacity, competitiveness, and income-earning potential of small farm and fishing households through the provision of credit for production, processing, marketing, and other income-generating livelihood activities.

The Programme also seeks to establish special financing facilities that will provide loans to small agricultural households: (a) in case of losses caused by extreme weather events and calamities; and (b) to finance climate change-resilient farming practices and technologies and facilitate the coordinated provision of credit-enhancement and other support services such as capacity building, technical assistance, credit guarantee, crop insurance, marketing, and monitoring and evaluation in order to optimize the benefits and potential impact of credit to target areas and beneficiaries.

The AFFP Programme design adopts several key features of the *Sikat Saka* particularly its delivery and risk mitigating support mechanisms. The Programme was implemented in January 2014 initially covering 6 provinces and later on expanded to 14 provinces after a year of implementation.

#### *Key Empowerment Features of the Credit Delivery Scheme*

*a. Borrower Identification & Loan Facilitation through Cooperatives, Farmers Associations and Peoples Organizations*

Similar to the *Sikat Saka* Program, service conduits also play a very important role in the credit process under the AFFP. Cooperatives, Farmers Associations and Peoples Organizations with farmers or fisherfolk members may be tapped as service conduits. Provincial and Municipal Local Government Units are also requested by the DA Regional Field Units to designate their respective focal persons who will mobilize and identify potential farmers and fishery organizations for endorsement to LANDBANK. The service conduits are given a free-hand in identifying its members who are in good standing and are registered in the RSBSA, and endorsing them to LANDBANK for possible financing under the Program. The conduit is tasked to consolidate and submit the farmers' loan applications to LANDBANK with a certification that the farmers/fisherfolk are members of the organization and have no loan with LANDBANK for the same purpose being applied for.

The conduits also have a responsibility in helping persuade their member-borrowers to pay on time. Service conduits are entitled to incentives based on the collection efficiency and promptness of loan repayment of the borrowers.<sup>13</sup>

*b. Making Modern Banking Technology Accessible to Farmer-Borrowers and Allowing Full Borrower Control Over the Loan*

Following the *Sikat Saka* model, AFFP borrowers are also issued Automated Teller Machine (ATM) cards so that loans can be withdrawn through ATMs. Net loan proceeds of the individual borrower are also released in full, therefore also entrusting full control over the loan fund to the borrower.

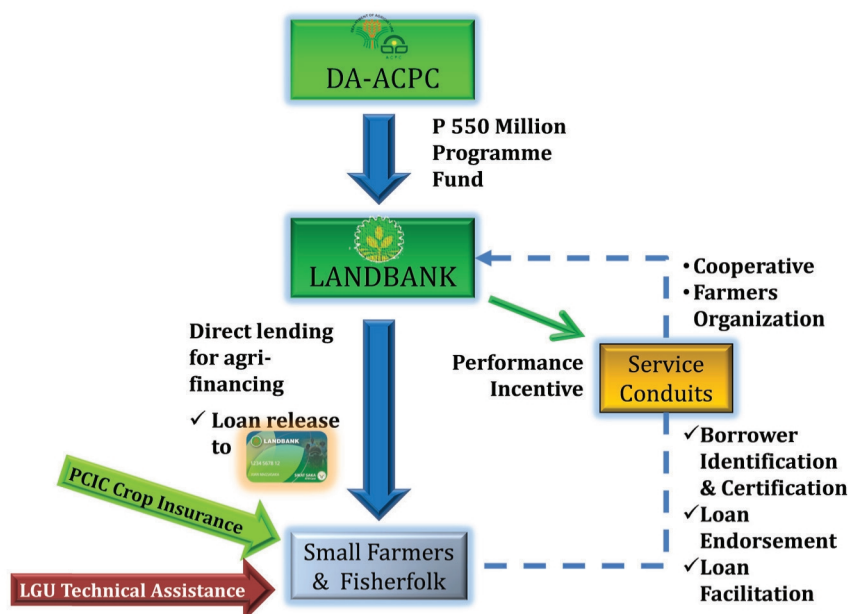
*c. Databasing of the Eligible Clients*

The programme specifically targets small farmers and fisherfolk who are registered in the Registry System for Basic Sectors in Agriculture (RSBSA) and are engaged in the production of crops, livestock, fishery projects and activities undertaken other than rice. The use of the RSBSA is a new approach in beneficiary targeting. Its main objective is to create a nationwide database of information on farmers and fisherfolk and their basic profile that can be used as a tool in carrying out the delivery of support services, such as credit, and the provision of

<sup>13</sup> Patterned after the *Sikat Saka* incentive scheme, the rebate is equal to 0.50% of the total amount of loans in one batch of borrowers, if collection rate for the batch is 90%-99%; or 1.00% of the total amount of loans in a batch of borrowers, if collection rate for the batch is 100%.

adequate facilities relative to agriculture and fishing. The system is also intended to help reduce leakages in the delivery of government programme services to target beneficiaries and also help in assessing programme effectiveness.

**Figure 20. AFFP Credit Scheme**



d. *Unrestrictive Loan Security Requirements*

Farmer borrowers are not required to put-up collaterals to secure their loans but instead required to execute a Deed of Assignment of their Promissory Notes and crop insurance proceeds.

e. *Reducing Riskiness of Borrowers*

Under its insurance premium subsidy programme, the Philippine Crop Insurance Corporation (PCIC) provides full premium subsidy to agri- and fishery projects of farmers and fishers who are registered in the RSBSA. Borrowers are required to enroll their agri-fishery production projects for coverage under the appropriate PCIC insurance facility.

f. *Assisting Borrowers in Developing Farm Plans*

Agricultural Technicians based in the municipal government assist in the development of farm and business plans for priority agricultural commodities in their respective localities that borrowers use in developing their own respective farm/business plans and budget. The LANDBANK requires the submission of a farm or business plan and budget as part of the loan documentary requirements.

g. *Designation of Program Focal Persons in the Local Government Units*

Programme focal persons designated at the regional, provincial and municipal levels assist in programme implementation. The focal persons play a crucial role in helping identify eligible organizations that may act as service conduits for the programme, as well as in endorsing prospective individual small farmer and fisherfolk borrowers registered in the RSBSA.

*h. Programme Performance*

After a year of implementation as of end December 2014, the AFFP Direct Lending Facility thru LANDBANK posted a total approved loans amounting to PHP 37.8 million (USD 0.84 million). As of December 31, 2015, cumulative loans approved significantly increased to PHP 224.1 million (USD 4.98 million) which benefitted 1,236 farmer borrowers.

Indicator	December 2014	December 2015	Cumulative
Loans Approved (PHP'000'000)	37.84	186.3	224.1
Loans Released (PHP'000'000)	18.99	100.4	119.4
Outstanding Loan (PHP'000'000)	18.99	76.14	95.13
No. of Farmer Borrowers	228	1,008	1,236
Repayment Rate	–	78.5%	78.5%

Feature	SSP	AFFP
Delivery Scheme	Direct Lending thru ATM Account	Direct Lending thru ATM Account
Target Borrowers	Small farmers	Small farmers and fisherfolk registered in the RSBSA
Priority Commodities	Rice (and Corn in pilot areas)	Fisheries, high value crops, livestock, poultry
Interest Rate	15% p.a. for 1 <sup>st</sup> two cycles which is reduced by 1% after every succeeding cycle on loans fully paid on time (on or before loan maturity) up to the 8 <sup>th</sup> cycle	15% per annum
Collateral Requirement	<ul style="list-style-type: none"> <li>Land title or any proof of other assets as table collateral</li> <li>Assignment of proceeds of guarantee/crop insurance</li> </ul>	Assignment of promissory notes and proceeds of crop insurance
Service Conduits	Irrigators Associations (IAs)	Cooperatives, farmers organizations/associations
Incentive Mechanism (for Service Conduits)	Based on repayment performance: <ul style="list-style-type: none"> <li>90% up to less than 100% - 0.5% interest rebate</li> <li>100% - 1% interest rebate</li> </ul>	Based on repayment performance: <ul style="list-style-type: none"> <li>90% up to less than 100% - 0.5% interest rebate</li> <li>100% - 1% interest rebate</li> </ul>
Implementing Structure	OC PMO Secretariat PAT	NEC PCC TWG Secretariat Focal Persons

## CHAPTER 4

# Issues and Concerns Related to People Empowerment, Financial Access and Community Development in Agriculture and Fisheries

In a National Agricultural Credit Summit organized by the Agricultural Credit Policy Council in Manila in 2011 in collaboration with the Department of Agriculture (DA) and the Congressional Oversight Committee on Agriculture and Fisheries Modernization (COCAFAM), participants representing the key players and various other stakeholders in agriculture and fisheries financing identified the main constraints to increased access to formal credit for Philippine farmers and fisherfolk as the following: 1) Inadequate financing facilities responsive to the peculiar needs of small rural borrowers; 2) Relatively high interest rates charged on agriculture and fishery loans; 3) Inaccessibility of formal credit facilities to small farmers and fisherfolk; and 4) High risks of lending to small farmers and fisherfolk.

The strategic plan presented during the summit gave six major strategies aimed at addressing these concerns and to be implemented over a five-year period (2011-2016):

- 1) Boost funding for the Department of Agriculture's financing programmes aimed at lending to small farming and fishing households and strengthen lending to agriculture and fisheries by government financing institutions;
- 2) Reduce costs of agricultural lending and provide incentives for private banks to increase lending to the agriculture and fisheries sector;
- 3) Strengthen agricultural credit guarantee and insurance programmes;
- 4) Build up small farmers and fishers credit database, intensify information dissemination, and strengthen monitoring and evaluation; *and*
- 5) Expand programmes that build the capacity of small farmers and fisherfolk cooperatives/other organizations to manage credit funds.

To date, most of these strategies are already in place, particularly in connection with the implementation of the Agriculture and Fisheries Financing Program (see earlier discussion on the AFFP).

Although with regard to the RSBSA, there are already initial observations that a number of legitimate small farmers and fisherfolk were unintentionally not captured during the census. As a consequence, however, they are disqualified at the moment from accessing loans being offered under the AFFP. It also does not help that the process of updating the registry system – which now involves a greater number of stakeholders – is taking longer than it should.



## CHAPTER 5

# Challenges

- A very special feature of the Sikat Saka Program and AFFP is the adoption of an identification and endorsement mechanism whereby famer organizations are entrusted with the critical task of identifying potential small farmer and fisher borrowers and vouching for their characters. While both programmes have each a different set of service conduits, it is viewed as a critical function in the credit decision process that is delineated to the organizations where endorsed borrowers are members. The borrower identification and endorsement mechanism, thus far, is effective in facilitating the borrower selection process as the service conduits are believed to have better knowledge and judgment on who among the members are credit worthy.

There, however, can be a potential risk in this identification and endorsement mechanism in that it can be abused by endorsing authorities/officers of the organizations. On one hand, it can be used as a tool to manipulate members who would want to seek endorsement and on the other, non-members or any other person can be purposely included in the endorsement list to be submitted by the service conduit to the lending institution. Particularly on the Sikat Saka model where potential SFF borrowers need not be included in the RSBSA, the challenge, therefore, is on how to ensure the integrity of the list and quality of SFF borrowers being endorsed by the service conduits. Periodically providing the lending institutions an updated list of members of the service conduits should be a first step in addressing this challenge. Additionally, instituting additional verification measures and processes can really help out in ensuring the integrity and quality of endorsements being forwarded to the lending institutions.

- It can also be noted that the risk cover mechanism being integrated into the financing facility is fully subsidized which is afforded to the programmes through annual appropriations by the government. While the benefits of low/graduated interest rate, less the crop insurance premiums, is now being enjoyed by good paying borrowers, the challenge is on how the programme can sustain the loan pricing structure in the event that the premium subsidy allocations will no longer be available in the light of the impending transition in government leadership which can lead to drastic change in policy.
- The marketing aspect of the credit programmes is critical in ensuring good loan repayment. Similar to Sikat Saka, an assured market and a guaranteed support price is made available thru a marketing agreement/purchase order with the National Food Authority (NFA). While it is not a mandatory requirement for the farmers to deliver their produce to (NFA), the programme allows a certain flexibility in allowing farmer borrowers to choose other markets that offer a higher buying price to maximize profits. The challenge therefore in incorporating an assured marketing channel with a support price but is flexible in allowing borrowers to sell to other third parties that can provide a cash capture mechanism to ensure a high loan repayment performance.

## CHAPTER 6

# Concluding Statement

Since the important role played by people power in the revival of democracy in the country in 1986, people empowerment officially became a key component of national and local governance in the Philippines. The policy of people empowerment is enshrined in the 1987 Amended Philippine Constitution which dictates the involvement of non-government organizations in the planning and decisions made by government, both in the local and national levels. Having a unique and important “grassroots” orientation and perspective, the involvement of people’s organizations was eventually seen as strategic as well in the delivery and implementation of government programmes and projects.

The participation of people’s organizations in government programmes aimed at agricultural and rural growth and development is considered particularly important in as much as 70 percent of the Filipino poor live in the rural areas, where the dominant source of livelihood is farming and fishing.

In recent years, survey data show that access to formal credit – one of the support services considered by the State as critical to agricultural and rural growth and development – has been improving for small farmer and fisherfolk borrowers. This improvement in financial inclusion conditions is being credited to the participation of NGOs, cooperatives, and other microfinance institutions or MFIs, which spearheaded the introduction and dissemination of innovative financing technologies in the country.

As of 2014, 17 out of 20 (85 percent) documented government credit programmes catering to the agriculture and fisheries sector have reported partnering with cooperatives and other NGOs in order to deliver credit to individual farmer and fisherfolk borrowers. On the other hand, two other programmes – the Sikat Saka Program and the Land Bank of the Philippines-Agriculture and Fisheries Financing Program (AFFP) – introduce other new features that additionally empower the small farmers and fisherfolk themselves in making agri-fishery financing more accessible to them:

- Borrower identification and loan facilitation through cooperatives, farmers associations and people’s organizations;
- Introduction and accessibility to farmer/fisherfolk-borrowers of modern banking technology and allowing them full control over the loan;
- Databasing of farmer/fisherfolk clients;
- Unrestrictive loan security requirements;
- Reducing the riskiness of farmer/fisherfolk borrowers;
- Providing a graduated mechanism for reducing interest rates based good credit performance;
- Supporting farmer’s choice from production to marketing;
- Assisting farmer/fisherfolk borrowers in developing their own farm plans;
- Designation of programme focal persons in the Local Government Units

Although the Sikat Saka Program initially took off slowly, the program now – after almost four years of implementation – is consistently showing favorable results using various indicators, including outreach and repayment.

On the other hand, the AFFP – which is still entering its third year of implementation – remains weighed down by operational constraints, including issues over completeness of the RSBSA and the integrity/effectiveness of the borrower endorsement process. Yet, although these are crucial concerns that will have to be resolved as soon as possible because they directly impact on the effectiveness of the lending process, the experience with the Sikat Saka Program – from where the AFFP is patterned after – nevertheless gives hope that the AFFP model could work as well. Evaluation of the AFFP is due in 2017.

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