

**Summary outcome of expert meetings
in Rwanda, Burundi and Ethiopia, Kenya,
Uganda, Tanzania, Benin and Mali.**

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1. Introduction

In the course of 2014, NpM, Platform for Inclusive Finance (NpM) composed of 13 large investors in Inclusive Finance in the Netherlands, in collaboration with AgriProFocus, an international network with Dutch roots that promotes agro-entrepreneurship in low- and middle income countries, commissioned a study on financing smallholders. The Food & Business Knowledge Platform co-financed the study. The study was initiated by the NpM rural finance group and focussed especially on the risk management strategies for financing smallholders including linking financial institutions to producer organizations (POs). The study was much appreciated and highlighted important lessons learned. In the course of 2015 and 2016 workshops were organized in several countries¹ to present the outcome of the study. This report provides a brief summary of the outcome of the workshops in the 8 countries.

2. Outline of the seminars

The workshops were organized for an audience of financial institutions, producer organizations, NGOs, government agencies and donors. All workshops were organized by the country networks of AgriProFocus. The seminars were organized following a standard set-up:

1. The study was briefly introduced by NpM and AgriProFocus.
2. A quick round of participant's presentation was done.
3. The results of the study were presented by one of the experts involved.
4. After questions and answers, the audience was split up in groups: in most cases the group formation followed the specific working areas of participants:
 - I. financial service providers;
 - II. producer organizations
 - III. NGO's; and
 - IV. a combined group of donors and government agencies.
5. The groups were asked to list their experience with access to finance for smallholders and elaborate on the risks involved. The group then recommended actions that could assist to mitigate these risks and which external actors could assist to implement the recommendations.
6. The recommendations were compiled in a follow up plan for that particular country.
7. The activity plans for follow up were discussed and NpM and AgriProFocus highlighted how they could support the specific country plans.

The outcomes of the meetings showed a remarkable similarity in all countries, which is presented below.

¹ Rwanda, Burundi, Kenya, Uganda, Tanzania and Ethiopia, Benin and Mali.

3. Main challenges and recommendations from the expert meetings in the 8 countries

Across all countries a number of identical challenges and recommendations were identified. Below you will find a short summary of the main issues which came forward during the expert meetings.

3.1. Challenges and recommendations with regard to financial services providers

Quote from Participants: A farmer representative from Uganda indicated “the financial institutions are so risk averse even though financial services are essential in increasing production.” A bank representative confirmed this view: “There is little knowledge within my institution to understand farming. This needs to change so that we dare to expand into this segment and structure our products well. However, our management has to see it as a business case.”

All countries stressed that currently financial services for smallholders are either not available or not well tailored to smallholders needs. Issues such as long loan processing time, high interest rates and inflexible repayment schedules do not match the farming seasons. Collateral requirements such as physical collateral needs are restrictive. Across the board POs mentioned that they expect financial institutions to provide appropriate and timely loans for agriculture, with flexible loan conditions and less importance on physical collateral, especially on land. In order to have good financial products, financial institutions need to increase their level of understanding of agriculture and adjust their credit analysis and due diligence processes as well as their credit conditions. Alternative and innovative collateral forms were requested and as usual, POs would like to have lower interest rates on loans. Some PO-groups asked for long term investment loans. Appropriate financial products should be developed for both individual farmers and producer organizations and should address pre- and post-harvest loans. MFIs were also asked to train their credit clients on financial education, since it was noticed that financial institutions do not provide proper and clear information on their loan products.

Donors as well observed lack of agricultural knowledge within the financial institutions and recommended specialized staff; to have in-house agricultural expertise. This could be a challenge since especially MFIs need to provide a large number of small loans on the one hand which calls for standardization while on the other hand agri-finance loans call for flexibility and tailored loan products.

Banks could also refinance MFIs to finance producers and finance producer organizations or companies buying from the producers. All financial service providers want to be actively linked to organised farmers in value chains with potential. They are very interested to collaborate with companies in jointly developing alternative collateral constructions. Partnerships between farmer organizations, companies and financial institutions could be instrumental to create alternative forms of collateral based on their business relationships. Several countries emphasized that this should be developed further.

Both banks and MFIs indicated that they would need technology to reach many small clients and to systematically use information on agriculture for their risk assessment process. For the agricultural production process appropriate farm inputs such as seeds and fertilizer are of crucial importance. Current technical innovations in agriculture aim to make such information readily available for farmers. Also financial service providers could use such information.

Example of technical innovation in agriculture:

In Nairobi, Soil Cares has developed a small mobile instrument to measure soil quality in a few minutes, Based on this information a farmer can quickly assess which type of fertilizer and other inputs are required on his plot.

The company Agrics then visits the farmer before planting and gets their GPS location. This location is send to Wageningen University and within 24 hours the farmer gets advice on use of fertilizer, and the relevance of irrigation for his/her plot. Also advice is provided on crop rotation to preserve the soil quality.

Loan officers who assess farmers for a specific agro-crop production loan can use this information to assess required costs of inputs and to judge whether that farmer manages his/her farm well.

Both Soil Cares and Agrics use satellite data to interpret the area details. The Dutch program on Geodata for Agriculture and Water (G4AW) supports such technology for stimulating improved production at farmer level.

3.2. Challenges and recommendations with regard to producer organizations

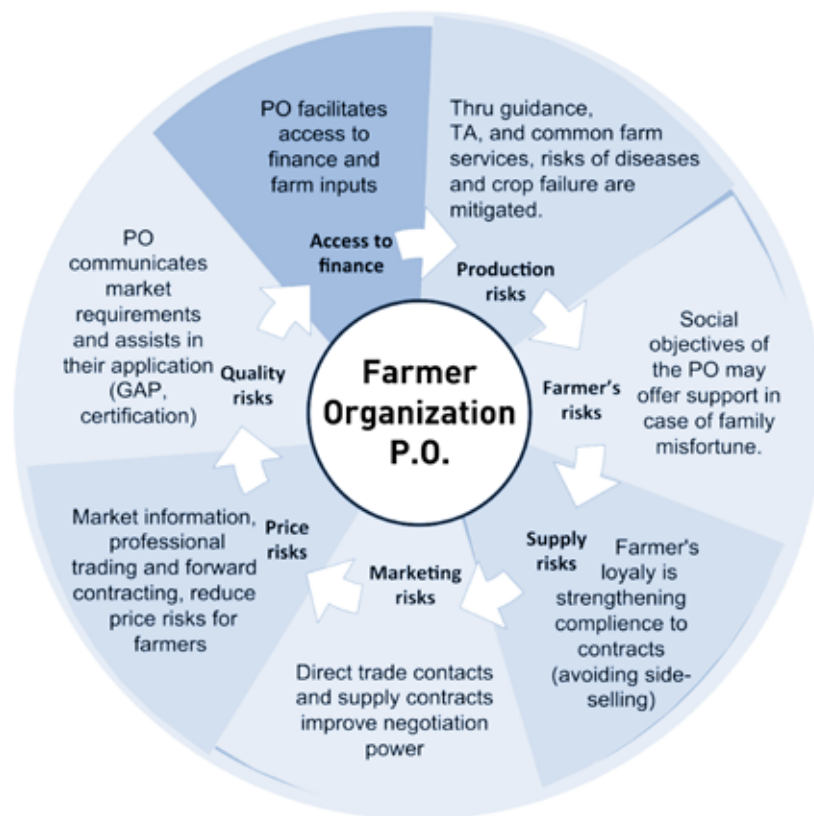
Quote: participants from the Rwanda meeting stressed that 'stability and good governance of POs is crucial for building strong business oriented organizations that can tackle the market and access finance'

In all meetings it was confirmed that producer organizations play a crucial role in access to markets and finance for farmers². However not all POs are functioning well, often a business orientation is lacking. A good functioning PO can also play an important role in risk reduction for financiers and thus improve access to finance. Some countries stressed that it is important that farmers organize themselves into formal organizations. A lot of the risks associated with farming can then be mitigated, because the agricultural extension training is coordinated and linkages to the market are established in a synchronized manner. Usually formal registration assists to improve the performance of the POs.

The financial service providers stressed time and time again that they can only lend to strong and well managed producer organizations that are linked to the market and able to solve internal conflicts. They see that farmers are still practicing traditional farming systems with low productivity. The POs should assist their members to employ modern agriculture. They expect a professional role of NGOs in supporting POs and their members on these aspects. In general, good collaboration of stakeholders and orchestration of viable value chains is essential for the proper functioning of producer organizations in the chain and to facilitate access to finance.

Striking was the mention of climate change in a number of workshops and the needed adaptation of the agricultural sector to climate change. In some countries the financial Institutions mentioned the need to develop insurance products and establish calamity funds to protect both the financial sector and farmers against immediate climate risks. Risk mitigation related to climate could also be achieved through access to irrigation systems and, if needed, supported by loans for such systems.

² See circle chart on next page



Risk management potential of farmer organizations.

Example of how PO and financial services provider link can create impact: NUCAFE:

Youth unemployment is a huge problem in many African countries. They have young populations, including Uganda, which has the youngest in the world, with 77 percent of the population being 30 years old or younger. Organizations of farmers that are able to produce for the market contribute immensely to job creation. One of the cases analyzed was NUCAFE, a coffee organization in Uganda. Just over 170,000 farmers have joined NUCAFE – they are organized into regional producer organizations and in a national cooperative, and they have their own storage facilities and roasting plant. These farmers are now able to hire an average of six people each to work in their fields, and if you add the staff who works for the NUCAFE group, the total amount of employment generated is around 1.5 million people. NUCAFE is also instrumental in linking producer organizations to financial service providers such as Centenary Bank and Uganda Development Bank.

4. Need for supporting role of government.

Quote: from participant in Uganda. During the meeting a representative of the Ministry of Finance mentioned that 'the outcomes of the research and meeting will be used for our policy formulation since many important stakeholders are now together to share their ideas'

A good regulatory framework and a supporting role of the government were seen as a key critical factor to succeed in lending to smallholders. This role could include improved control and monitoring of the finance sector; proper registration of ID cards and land titles; installation of credit bureaus; improving integrity to reduce fraud cases but also to stimulate innovations in the sector such as creating regulation for mobile payment systems, leasing products, outgrower contracts and warehouse receipt lending. All countries strongly supported the set up of a national dialogue on finance for agriculture.

Facilitation of access to information e.g. on prices of inputs and outputs and good agro-practices was also seen as an important role of government. In some countries this is already taken up by government programs. Furthermore, it was suggested that governments could play a role in financial education programs.

A direct implementing role of government in the area of access to finance or markets was generally discouraged. The financial service providers stressed that government should not interfere too much in the day-to-day operations of financial service providers and POs. Also, it was advised that government subsidies on for example inputs or equipment should be avoided since they could also be provided by loans and would create market distortion for the sector. Generally there was a strong sense of importance of a supportive government to stimulate agro-finance.

5. Possible support role of donors and investors.

Quote from participant from the meeting in Benin: 'it is strongly recommended that for the improvement of access to finance for smallholders several actors collaborate based on their specific area of expertise'. Especially donors could play a role in facilitating such collaboration.

All meetings discussed the possible support role of donors and investors. Generally it was felt that donors should support innovation through the supply of risk bearing capital and should support technical assistance at the level of financial institutions, POs and other service providers such as business development services. Across the board it was also agreed that donors should support learning, sharing and innovation by stimulating platforms and networks. Donors should support linkages amongst actors, create platforms and provide a guarantee system as back up for lending. Donors and investors could jointly address the need for refinancing to financial service providers.

Regarding support to POs, it was recognized that both companies and donors could address this issue but in a sustainable manner: stimulating cost sharing constructions so that POs and their members learn to pay for these services.

Especially for starting new innovative value chains there is a need for high risk bearing investments, sometimes even combined with grants or subsidized technical assistance for building chain relationships and support development of new financial products. Donors should finance such innovations in a smart way with the right combination of subsidies, technical assistance and investments.

According to many, donors and government should not disturb the market with subsidy or free services competing with the private sector including financial service providers. The current support of the Dutch government to stimulate public private partnerships is also much appreciated.

The donors and government representatives welcomed the set up of a national stakeholder forum on agro-finance and confirmed the need for information and communication between actors.

6. Appreciation and closure

All participants in the meetings appreciated the efforts of NpM, AgriProFocus and the Food and Business Knowledge Network (FBKP) to undertake the study and organize the presentation and discussion workshops in the 8 countries. They are looking forward to follow-up activities which are planned per country and any recommendations that come in through international sharing and learning on the subject. NpM and AgriProFocus mutually appreciated the collaboration and would like to continue the partnership whereby NpM's strengths are particularly in the links to the Dutch and international expert organizations and AgriProFocus's strength is based on its strong local networks.

