Agricultural Finance

A roadmap for making inclusive finance a driving force for rural development and food security

February 2018

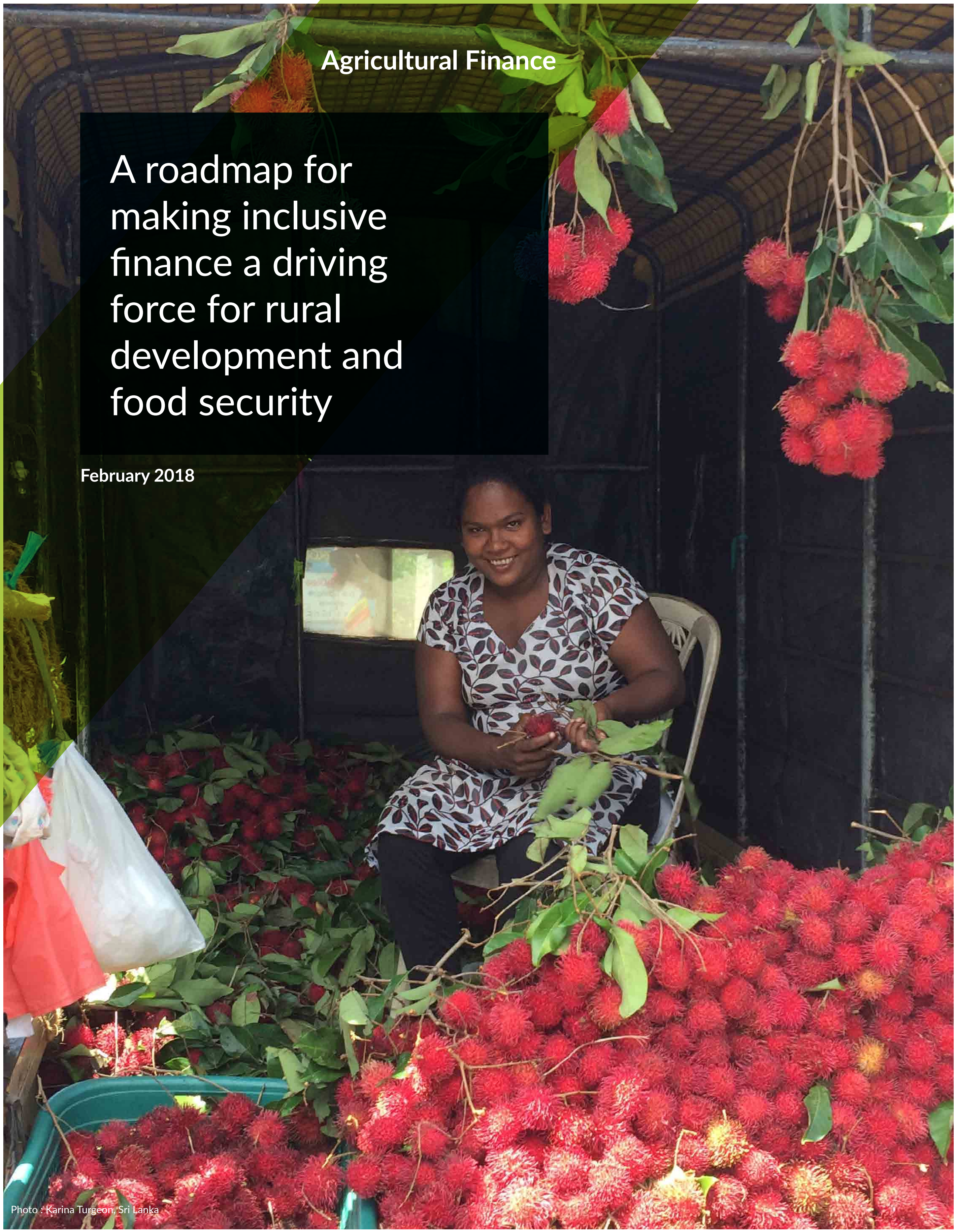

Photo : Karina Turgeon, Sri Lanka

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Our experience: a rich source of knowledge

Over the years, DID has carried out dozens of rural finance technical support projects with numerous partners in highly diversified environments.

Similar observations have been noted across these various interventions:

- Producers have varied needs that depend on multiple factors associated with their stage of development as well as with the maturity of the value chain and the business environment in which they operate.
- Financial institutions need to be efficient and strictly control the risks inherent in their agricultural financial service offering so that they meet regulatory requirements and ensure their sustainability.
- The agricultural system covers a great number of actors. Because they all have an influence on the success and sustainability of the interventions carried out, close coordination must be implemented among these actors.

Based on these observations, DID issued a position paper in 2010[1] in which the organization outlined its vision and convictions regarding the best practices to promote in order to make financial resources a genuine tool for rural development. The main points outlined in that paper are presented in the Appendix.

This document is intended to complement the 2010 position paper by further emphasizing the sequence of planned interventions. It is, therefore, a roadmap designed to guide our action as well as that of our partners and funding agencies in order to increase

- agricultural yields,
- associated revenues, and
- the level of agricultural and financial knowledge among the actors in the system.

This roadmap, just as our position paper states, uses a sector approach aimed at strengthening the overall agricultural finance system. Experience shows, however, that there is no single solution that applies to all situations. Instead, our roadmap indicates the desirable intervention parameters that are likely to have an organizing and sustainable effect in relation to the level of development of the agricultural sector under consideration. Our experience has also taught us that it is better to avoid trying to do too much all at once, and that, preferably, we should strive to achieve certain early results and gradually build on them on over time.

Photo : Jean Bernard Fournier, Burkina Faso

[1] Agricultural Finance: A powerful tool contributing to the food security of populations, 2010 (www.did.qc.ca/media/documents/en/positionnements/DID-AgriculturalFinancing-November2010.pdf)

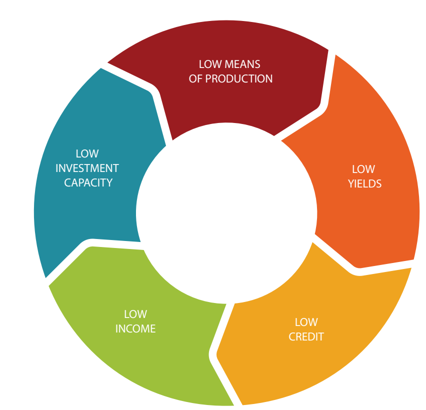
Agriculture: the core issue for sustainable development in disadvantaged countries

- In over half of the 48 nations designated as least developed countries (LDCs) by the United Nations, agriculture contributes more than 20 percent of the gross domestic product (GDP), and in 10 of them it accounts for over 40 percent of GDP. (IFAD, 2011)
- Agriculture employs 1.3 billion individuals, 97 percent of whom live in developing countries. Agriculture is a source of strength and social welfare in rural communities that can mitigate urban shocks. (World Bank, 2007)
- Agriculture is up to 3.2 times better at reducing poverty than non-agriculture in low income countries. (Christiaensen, Demery and Kuhl, 2010)
- On average, women account for 43 percent of the agricultural workforce in developing countries (in West Africa the rate is 80 percent). If women benefited from the same access to agricultural resources as men, their productivity could increase by 20 to 30 percent which would reduce the number of the undernourished in the world by 100 to 150 million people. (FAO, 2010-2011)

Better access to financial services can break the vicious circle of underperformance

For DID, access to agricultural financial services is essential for modernizing agricultural operations and raising agricultural productivity and revenues. This access is essential for food security, economic growth and decent job creation, the fight against poverty, the struggle for gender equality and the fight against climate change - several of the sustainable development objectives set by the United Nations.

Yet access to financial services is still a major constraint on producers, and especially on women. Consequently, their productivity remains insufficient thus compromising their access to the larger loans required for investing in their development. As a result, this unproductive cycle is perpetuated[2].



To break this vicious circle, it is necessary to adopt a **systemic vision of the agricultural sector** and make an effort to strengthen all its components.

[2] Source of figure: Simpha, Fanny, *Le warrantage dans le Sud-Ouest du Burkina Faso: Une pratique adaptée aux besoins des petits producteurs et productrices*

Four perspectives of analysis

The approach advocated by DID for strengthening the agricultural financing system starts with an in-depth analysis of the environment in which the interventions take place. To determine the stage of evolution for the sector under consideration, the situation is analyzed through four complementary perspectives.

The following table summarizes the factors that determine the degree of evolution and the effectiveness of the agricultural financing system using four complementary perspectives.

Photo : Andréanne Dubé Bernier
Burkina Faso

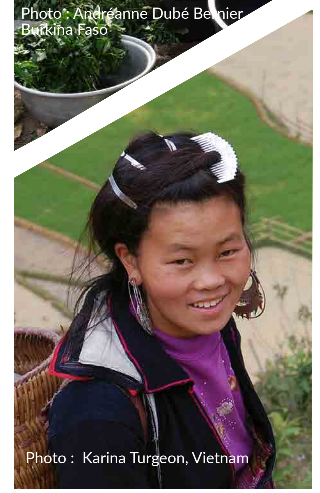


Photo : Karina Turgeon, Vietnam

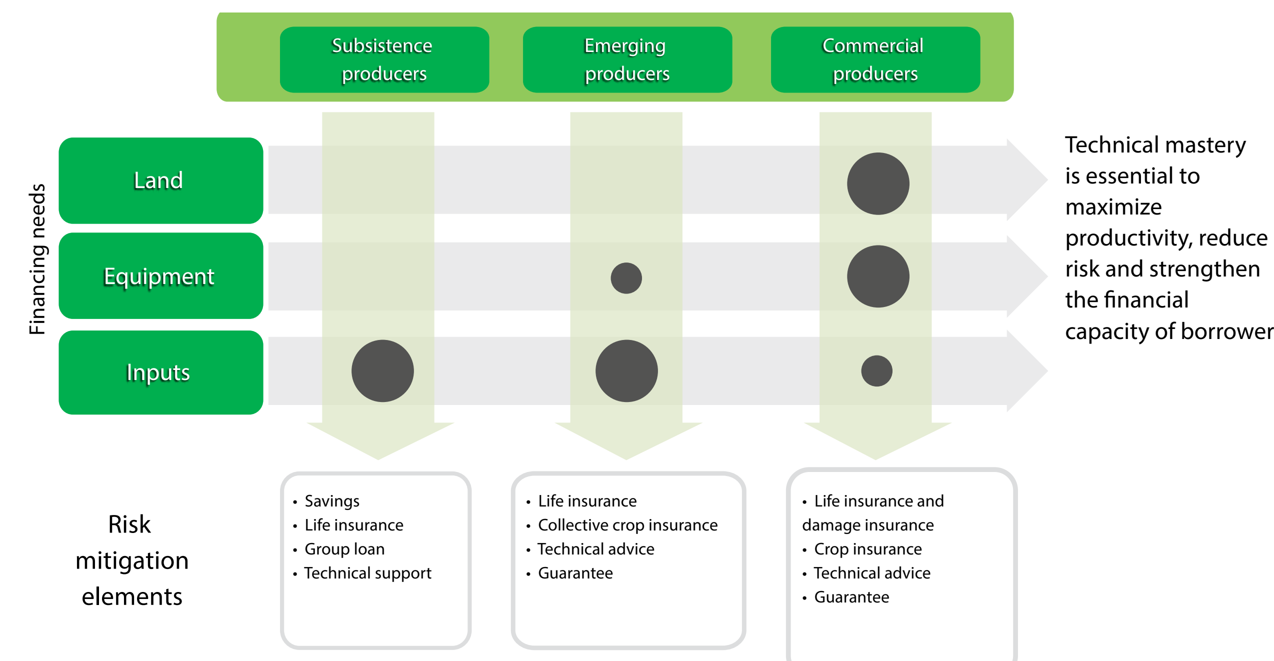
1 The stage of development among producers	• Technical mastery adapted to climate change within a sustainable development perspective • Management competencies • Degree of organization and governance of producer organizations • Financial literacy
2 Financial institution capacity for meeting market requirements	• Accessible distribution network • Adapted service offering • Quality of human resources, good knowledge of agricultural sectors • Efficient procedures, risk management • Financial capacity
3 Value chain maturity	• Access to inputs • Commercialization (conditioning and packaging, preservation and storage, marketing) • Access to processing and distribution markets • Suitable aggregation of supply and demand
4 Business environment / Government measures	• Access to land • Quality of infrastructure • Legal framework

1 The stage of development among producers

The right approach for the right segment of the clientele

Analysis of the stage of development among the producers is especially important because their needs for financial and non-financial services line up with the degree of progress they have achieved related to technical, financial and managerial knowledge, as well as with their degree of organization and productivity. As they do make progress, the producers' capacities are strengthened, and they represent a lower risk for the financial institution while their access to financing grows.

To meet their needs properly, they must be provided with a gradated service offering that supports them through each stage of growth. Such a provision of services should include not just financial services, but insurance products as well (such as life, disability, and crop insurance) and non-financial services (technical support designed to modernize agricultural practices and improve producers' competencies regarding management, financial literacy programs designed to improve their knowledge of financial products and their uses).



Producers must be provided with a gradated service offering that supports them through each stage of growth.

Photo : Geneviève Villeneuve Patry, Zambia

- **Subsistence producers**[3] farm mainly to meet the needs of their families and have limited production and financial capacities. They need to gain access to savings products and basic life insurance, loan products related to purchasing inputs, technical assistance that will help them make proper use of such agricultural inputs, in addition to financial literacy activities to help them understand the financial products available to them and how to properly use them in order to avoid overindebtedness.

- **Emerging producers** are capable of commercializing production and generating the cash surpluses needed to guarantee that loans will be repaid. They seek to access loans to purchase inputs as well as more sophisticated machinery. They also are seeking crop insurance products and advice related to production techniques and business development.

- **Commercial producers**[4] sell nearly all of their production and may thus build up assets and capital. They must be able to access financing that will allow them to purchase additional land for cultivation and continually modernize their operations. They will also have a need for crop insurance products and casualty insurance along with consulting services related to production techniques and management of their agricultural business.

Producers must be able to advance from one stage of development to the next in order to improve their situation. This presupposes that they must be able to generate sufficient revenue and regular cash surpluses if they are to have the means necessary to modernize their production techniques. In this manner they can start up a virtuous circle leading them to better livelihoods.

Producers are best placed to make the choices that will lead them to increased productivity and revenues.

In any case, producers are best placed to make the choices that will lead them to increased productivity and revenues. Therefore, interventions must focus on the producers and be profitable for them. If this condition is met, interventions will have a sustainable impact and will eventually contribute to increasing food security throughout the region.

[3] The food crops produced for subsistence agriculture are generally recognized as the main source of nutrition throughout the world.

Photo : Isabelle Ouellet, Senegal

[4] The cash crops associated with commercial agriculture are large generators of jobs and revenue and produce capital that encourages innovation.

Aim for the inclusion of the most disadvantaged

In rural finance, as for all its interventions, DID targets first and foremost the ***bottom of the economic pyramid***, namely the portion of the population that is most likely to be excluded from the formal financial system. In the case of rural finance, the bottom of the economic pyramid is composed of smallholders who usually are subsistence farmers, and who often are women. Just the same, to take part in building a strong agricultural sector, DID interventions must encompass all categories of producers, including emerging as well as commercial producers.

Women: essential actors too often deprived of resources

In developing countries, financial exclusion, poverty and food insecurity too often wear a woman's face, despite major contributions by women to the economic development of their community[5].

In agriculture it is estimated that women account for two thirds of the hours worked. It is not unusual that the crops produced by women generate cash that keeps families afloat between harvests in the more highly organized agricultural sectors. Nevertheless, women only earn 10 percent of the revenue that flows from their own work and hold less than 2 percent of the land (UNIFEM, 2016). Too often, women do not have access to the inputs or the proper seed grain required to produce profitable yields.

Faced with such inequity, and considering that women make up an essential active force in agricultural and rural development, it is of paramount concern to support their empowerment:

- through identifying and optimizing of the agricultural sectors where women are likely to work,
- through financial products tailored to their needs,
- through better access to innovations that would lighten their burden,
- through the hiring of a greater number of women as loan officers,
- through the establishment of community-based distribution mechanisms, and
- through awareness-raising and education programs and activities aimed at both women and men.

Include youth to support rural vitality and sustainable food production

To make agricultural production viable over the long term, it is important to include youth and raise the value placed on farming. To achieve this goal, it is necessary to allow youth to move beyond the subsistence stage of production and support the creation and formalization of innovative and productive rural enterprises.

Through its interventions, DID aims to offer the coaching and tools that youth need to take their place in the agricultural sector. In Cameroon for example, DID has worked with a group of microfinance institutions to improve access by young rural entrepreneurs to the medium and long-term financing they need to move forward with their investment projects.

[5] See also: Reference Framework - Gender Equality (www.did.qc.ca/media/documents/en/positionnements/reference-framework.pdf)

Photo : François Bussières, Burkina Faso

2

Financial institution capacity for meeting market requirements

Matching the needs and requirements of each party

Strengthening financial institutions is crucial since they form the core of the agricultural financial system. In addition, since they are private sector actors, they face a double challenge: responding to market needs while at the same time ensuring their permanency. As a result they often are very reluctant to deal with the risks usually associated with agricultural finance[6]. Their determination to make a commitment to this sector, therefore, becomes a major issue.

For this reason, it is essential to integrate a knowledge of agronomics among these institutions to allow them to better understand the needs, the obstacles and the risks associated with the agricultural sector: such as production costs, rate of productivity, average revenue, etc. Integration of this knowledge will come through training loan officers, but also the managers and the officers of a financial institution. This is what will lead to an authentic commitment from the institution in favour of agricultural finance.

Financial institutions also need to be supported through guarantee funds, either public, private or, ideally, jointly funded by both. This is a major incentive for encouraging financial institutions to increase their commitment to agricultural finance.

Ideally, financial institutions should be able to rely on

- a **community-based distribution network** that is easily accessible to agricultural producers,
- a **diversified and gradated offer** of products and services that meet the evolving needs of producers and take into account their production cycle (for example, loans should be disbursed incrementally and repaid when the harvest is sold),

Several institutions supported by DID have introduced innovative products such as:

- investment credit that allows producers to access appropriate storage facilities and crop conditioning machinery that will enable longer preservation of crop harvests, and
- inventory credit (also referred to as a warehouse receipt system or as a warrantage system) that allows producers to put off the sale of harvest yields until the market timing is right for better prices.

Photo : Juan Sebastian Camelo, Colombia

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- **efficient procedures for loan application analysis** linked to stringent measures for managing agricultural risks,

In Colombia for example, the introduction of agronomic expertise into the loan management process of DID partner financial institutions made it possible to reduce loan application analysis times by 80 percent and reduce the loan refusal rate to less than 4 percent (with similar loan volumes).

- **qualified human resources** who possess good technical understanding of the crops that are financed,
- **effective control systems** as well as effective information systems and other well-performing technological solutions,
- **adequate access to capital** and to refinancing (lines of credit, guarantee funds, long-term sources of funding).

[6] On this topic, it is interesting to emphasize that agricultural loans currently account for the lowest loss rate and the lowest risk in the loan portfolio at Desjardins Group, in particular due to the risk sharing model implemented in Quebec.

Photo : Karina Turgeon, Haiti

3 Value chain maturity

Just one single weak link increases the risk associated with the entire chain.

It should not be lost from view that each producer is part of a larger value chain in which all the links play a crucial role in terms of a development perspective.

The risks associated with the value chain depend on the strength of the weakest link in the chain. As a result, it is necessary to strengthen each link so that producers can gain access to

- quality inputs (seed grain, fertilizer and pesticides), tools and machinery,
- the resources needed for commercialization of crop yields (conditioning and packaging, preservation and storage, marketing), and
- markets for processing and distribution in order to be able to sell off production at an interesting price.

To ensure the overall performance of the value chain, proper coordination must also be provided among each of the actors in the chain and financing must be available throughout the entire chain.

Grouping producers into organizations

While it is not an obligatory stage in development, grouping smallholders into organizations or associations allows them to better integrate into the value chains and play a more active role. Setting up and strengthening these organizations is therefore a determining factor for success and is likely to foster better aggregation of supply and demand.

4 Business environment / Government measures

Create conditions favourable to system development

Agricultural producers, as do financial institutions, operate and evolve within a regulatory environment that strongly influences the development of their activities and their profitability. That is why it is necessary to work in collaboration with governmental authorities, central banks, agricultural development banks and other government institutions in order to promote the establishment of a legal framework and conditions that are favourable to development.

These conditions include

- adequate access to land and land registries that contribute to protecting the rights of agricultural producers
- quality infrastructure (roads and other infrastructure related to transportation, storage infrastructure, access to water and electricity, telecommunications, etc.)
- the availability of long-term financial resources and guarantee mechanisms for the financial institutions
- crop insurance systems and income insurance designed to mitigate risks related to climate unpredictability and fluctuation in the price of staple crops, and therefore to secure the assets of the producers and the portfolios of the financial institutions, and
- policies that encourage investment, innovation, environmental protection, and gender equality.

Photo : Isabelle Ouellet, Mali

DID action

A sequential approach that evolves with the targeted market

1. Produce a status report

Our experience demonstrates that before undertaking or designing any agricultural development intervention, it is necessary to conduct a preliminary analysis of the agricultural system and produce a status report that encompasses the four perspectives for analysis described earlier.
In fact, if the agricultural system does not exhibit the minimum conditions required, the impact and the sustainability of our interventions may be compromised. This can happen if, for example, a storage facility is built without first ensuring there is a financial incentive such as inventory credit[7]. Or, in a similar fashion, if an irrigation system is put in place without validating the availability of quality seed grain, or if a crop insurance system is created without first ensuring a genuine commitment from the government.

In such cases, it is better to first see about strengthening the components deemed the weakest in the environment. However, if the interventions must be carried out in an imperfect environment, the design of such interventions should take this into account.

The **choice of agricultural sectors** for intervention is a determining factor. Too often, this choice is based on criteria other than the producers' productivity and revenues, settling instead on considerations such as the contribution of the sectors targeted to food security, the presence of export markets, utilization of labour, the presence of women, political intentions, etc.

Ideally, interventions should target a specific number of promising sectors. If that is impossible, it is better to aim at a limited territory that offers a certain degree of homogeneity.

Generally speaking, all choices may be acceptable... on the condition that they are in line with the available resources.

[7] This loan product encourages producers to wait for the proper moment to sell off their harvest in order to earn the best value.

Photo : France Hamel, Vietnam

2. Optimize the match between the capacities of financial institutions and the competencies of producers

It is then necessary to ensure a proper match between the stage of development of the producers and the capacity of the financial institutions with which they do business. This condition is essential for the proper operation of the agricultural system.

Historically, the DID approach for encouraging agricultural and rural development has focused more specifically on strengthening the capacities of financial institutions and consequently, their financial service offering. Through our partnerships and interventions we have worked to introduce diversified products and services, strengthen the loan analysis process and the mechanisms for managing agricultural risks, set up community-based distribution networks, encourage adequate access to capital and refinancing, etc.

However, as our experience has shown, this component only constitutes a part of the equation: this is a big step but it is not sufficient. It is also necessary to work directly with the agricultural producers by offering them:

- expert advice focused on production techniques and management of an agribusiness,
- coaching aimed at improving their general financial literacy and understanding of the financial services offered to them, and
- support for commercialization designed to facilitate access to markets.

It is to the advantage of financial institutions to assist their clients in becoming better borrowers and to provide them with the technical assistance they need to move forward as better producers or, in some cases, as better managers of agribusinesses. Doing so creates risk reduction and sustainability factors for these institutions, in addition to making a significant contribution to community development. This education and coaching component could be offered by financial institutions themselves or by external partners. The same applies to programs designed to protect producers' assets, especially crop insurance, which requires a commitment from the government.

LEVERAGE FOR OPTIMIZATION

3. Move the system forward by strengthening value chains, innovation and the business environment

After having conducted a preliminary analysis of the environment and optimized the match between the operations of financial institutions and the competencies of producers, it would be risky to end our analysis and intervention at this point. To move the entire system forward, it is also important to strengthen other key elements such as the value chains, the capacity for innovation and the business environment.

• Strengthen and tighten value chain links

Agricultural production, while at the core of the value chain, is only one of many activities that make it possible to satisfy customer demand. As mentioned above, agricultural producers must be able to rely on quality inputs in sufficient quantities delivered in a timely manner in order to produce marketable surplus yields on a regular basis. Producers must also have access to markets and obtain equitable prices for their harvests.

Fluidity of financing throughout the chain is essential for overall performance. Consequently, the supply of agricultural credit must be complemented with credit to businesses both upstream and downstream from the agricultural activity. In addition, in order to be effective, this strategy must allow for equitable sharing of risk and revenues throughout the chain. For this reason, it is recommended to facilitate the emergence of producer organizations which will make it possible to aggregate demand for inputs and the supply of products and help producers participate more actively in developing the value chain.

Using a holistic approach actually makes it possible to tighten the links in the value chain and contribute to reducing the overall risks related to the sector by eliminating the bottlenecks that hinder efficiency.

• Stimulate innovation

Innovation is another key condition for helping the entire agricultural system move forward. Therefore, it is necessary to stimulate the development of innovation as well as its dissemination and adoption by producers and all actors in the value chain.

In this perspective, emphasis should be placed on early adopters of innovations placed at their disposal, who usually make up 10 to 15 percent of the producers. These leaders will stimulate wider adoption of innovative techniques. In this same perspective, it appears advantageous to sequence innovations in order to respect the pace and capacity for absorbing them.

In Burkina Faso, DID is working in collaboration with the International Development Research Centre (IDRC), the RCBP network of financial cooperatives (*Réseau des caisses populaires du Burkina*) and other partners to demonstrate that a specific type of financing (in this case, CIPA agricultural intensification credit (*crédit à l'intensification de la production agricole*) can accelerate access to markets and widespread adoption of innovative techniques produced by research.

The success attributed to the innovations developed within the framework of the project comes from the fact that they are tightly linked to the technical itinerary of the agricultural producers and therefore genuinely meet their needs for seed grain, inputs, storage bags, etc.

• Strengthen business environment

Lastly, it is important to strengthen the business environment by supporting public and private structures likely to offer producers conditions that are favourable for development. This strengthening effort should be undertaken on a sustained basis and follow the general evolution of the environment in which the producers, the financial institutions that serve them and all the actors that compose the agricultural sector are operating.

If one of the above enumerated components is revealed to be too weak to suitably support the system, then that weakness must be compensated through specific strengthening activities without which the system will become increasingly fragile and unbalanced[8].

[8] On this topic, see the table in the DID position paper on agricultural financing (www.did.qc.ca/media/documents/en/positionnements/DID-AgriculturalFinancing-November2010.pdf), p. 4

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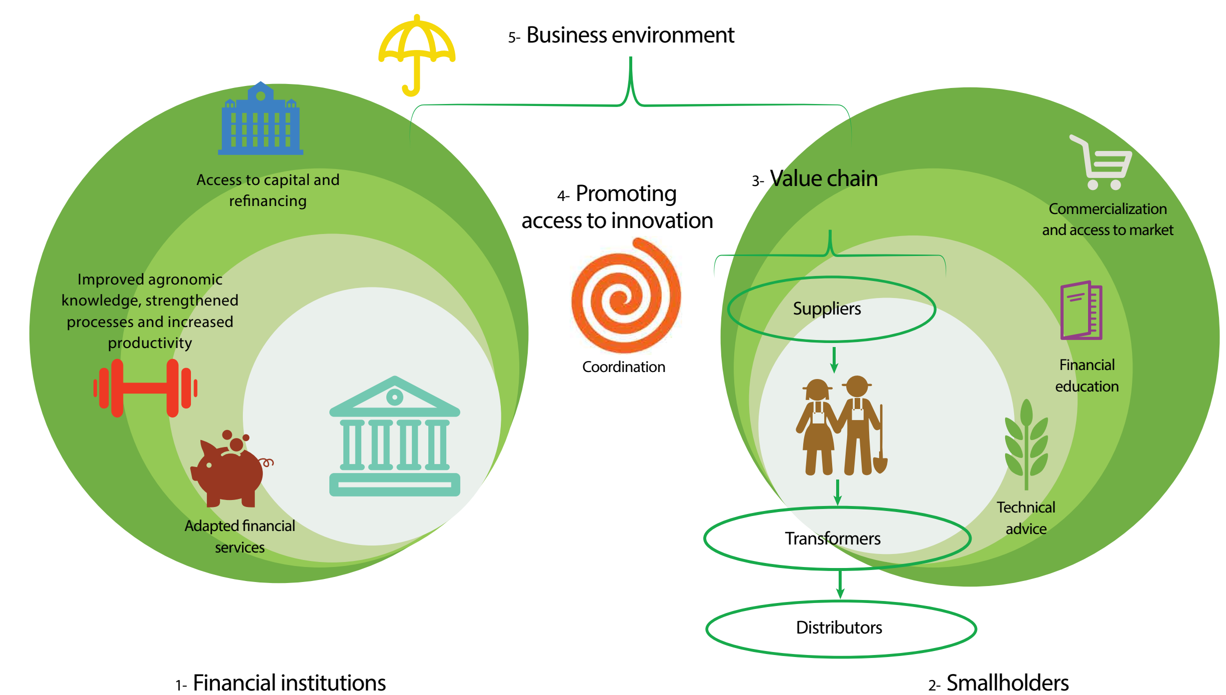
LEVERAGE FOR PROGRESS



Summary

In short, to have a significant and sustainable impact, access to financial services must be part of a larger framework for analysis and intervention in such a manner that it is also associated with access by producers to

- technical advice and financial literacy programs,
- insurance programs enabling them to safeguard their assets and smooth out their revenue streams,
- quality inputs, the resources required for effective commercialization into the markets for processing and distribution,
- innovative techniques produced by research centres, and
- land, quality infrastructure and a regulatory framework conducive to expansion.

The approach advocated by DID thus takes into account all the components of the agricultural sector (producers and other actors in the value chains, financial institutions and government authorities) and the degree of evolution of each. Strengthening financial institutions and producers as well as matching them are prioritized, but without however neglecting to strengthen the value chains and the business environment, since proper development of the sector will rely on coordinated contributions from each of these components.

In this manner it is possible to bring out an increase in the yields and livelihoods of producers which will constitute a new point of departure for future interventions.

Our key lessons learned

- Every intervention in agricultural development should be primarily **focused on improving the situation of the agricultural producers themselves**: it serves no purpose to target food security if this takes an approach that does not profit the producers. And to encourage the adoption of change by producers, it is useful to build on a consultative approach and to get closer to the “champions”, or community leaders.
- While ideally there should be a series of winning conditions to ensure the impact and the sustainability of our interventions, moving forward should not be stopped if all such conditions are not fully assembled. In such cases, it is necessary to **target more modest results** on which it will be possible to gradually build as the various components of the system are strengthened.
- **Financial services are a strong catalyst** and while they constitute only one of the required components for proper functioning of the sector, they may play a major role in coordinating and strengthening the actors involved.
- Access to financial services can also play a key role is disseminating **innovations** produced by research centres making it possible for producers to gain access to quality production factors throughout the value chain.
- The notion of **gradation** is fundamental: it is necessary to design interventions that are **adapted** to the degree of organization and maturity of each component in the sector. This notion applies also to investments which should also be made incrementally in order to build on the results obtained.
- **Coordination** between each actor is essential and DID is in a position to play a key role in connecting these actors. Due to its importance, this coordinating function should be formalized and made permanent by relaying it to a local actor.
- An **in-depth knowledge of the agricultural sectors** (such as their yield and conditions for success) is essential for an effective loan analysis process and the development of adapted financial products.
- It is preferable to intervene in a **limited number of agricultural sectors** that represent a good potential for production and revenue for producers. If it is impossible to target specific sectors, it is better to aim at a limited territory that offers a certain degree of homogeneity.
- **Grouping producers within associations** is desirable since it allows them to better integrate into the value chains and play a more active role.
- **Issuing grants** may be useful for making progress within the system but this should not apply to interest rates in order to avoid creating market distortions.
- As for all of our interventions, results and impacts should be **evaluated** in a precise and rigorous manner so that corrective measures may be put forward if needed.
- The success of the interventions carried out in agriculture should be measured using the following 3 **target indicators**:
    - o improvements to productivity
    - o improvements to revenues
    - o improved knowledge.


Photo : Jacques Frenette, Colombia


Photo : Oumar Touré, Mali


Photo : Karina Turgeon, Vietnam


Photo : Karine Turgeon, Haiti

APPENDIX 1

Positions stated in the DID paper on agricultural finance[9]

(published in 2010)

1

DID recognizes that agriculture is a critical sector in the economy of many developing countries and believes that strengthening the sector requires, among other things, better access to financial services in rural areas.

2

DID believes that a financial service offering that targets the development of the agricultural sector should be extended to all the players in the value chain. Thus, access to financial services should be fostered for both the agricultural producers and the entrepreneurs in the agri-food sector, including the exporters.

3

DID considers that access to adapted financial services must be increased in order to support the development of the agricultural and agri-food sector, but also recognizes that strengthening financial institutions, albeit essential, cannot on its own support the development of the sector.

4

DID believes that strengthening the capacities of the entrepreneurs in the rural environment requires the creation of partnerships or alliances with the local players. In addition, DID recognizes the need for increased involvement by financial institutions in these alliances, in particular with regard to strengthening the management abilities of the entrepreneurs. This increased involvement requires, among other things, the availability of qualified human resources ready to provide appropriate advice to the borrowers.

5

DID recognizes that, in the whole value chain, farmers are the most likely not to receive an adequate price for their production. Therefore, DID encourages any measure that will enable farmers to better manage the risks they face as well as to obtain a fairer price for the products they commercialize: associations, storage, insurance, fair trade, etc.

6

DID believes that the responsibility of mitigating the risks related to the agricultural sector should be shared by all of the players in the agri-food sector, but, more than any other sector, requires a strong commitment by the government, both legislatively and financially.

[9] Agricultural Finance: A powerful tool contributing to the food security of populations, 2010
www.did.qc.ca/media/documents/en/positionnements/DID-AgriculturalFinancing-November2010.pdf

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7

DID believes that a guarantee fund mechanism is a measure that can be effective for stimulating the agricultural credit offer insofar as it respects the notion of joint responsibility, does not generate distorting effects on the markets and is accompanied by a strategy to professionalize loan-granting methodologies.

8

DID believes that financial institutions have limited power in terms of preserving the environment, especially because of the absence of clear and enforced regulations that enable them to introduce the principle of ecoconditionality in granting loans. Despite this, DID believes that the power of influence of the financial institutions does exist and tends to include in its activities with its partners awareness-raising measures to this end.

9

DID believes that it is essential to be innovative and offer savings products accompanied by distribution modes adapted to the rural context. A voucher scheme for buying agricultural inputs and the use of cell phones are examples of innovations in this direction.

10

DID believes that encouraging savings should precede the promotion of credit with rural communities and sometimes replace credit promotion with the farmers so they will be able to self-finance part of their production activities.

11

DID considers that, in agricultural financing, productive credit is the one that offers the greatest potential for improving the welfare of rural inhabitants over the long term. Therefore, DID believes that for financial institutions to fully play their dynamic role in development, they have to promote this type of financing and include in their service offer educational approaches in support of the financial management of their members and clients.

12

DID advocates financing approaches adapted to the cash flows of the different types of agricultural production in order not to create pressure on the borrower's liquidity off market periods for its production.

13

DID believes that the approach of choosing the level of intervention within a value chain is preferable to an approach aimed at subsidizing interest rates to foster production investment so as to alleviate inadequate profitability of the activity financed. If the subsidized-rate approach is adopted, it should be supported by other structuring activities, be part of a specific development strategy and include an exit mechanism.

14

DID considers that an in-depth knowledge of the agricultural sector and the risks it entails is required in order to adequately manage the credit offer in this area. This is why DID considers that specialized human resources should be assigned to this activity sector, when the volume of business justifies it.

15

DID recognizes that women play a major role in the fight against poverty because of their great contribution to the agricultural sector. Therefore, DID supports the implementation of affirmative-action credit policies that favor their access to services and advocates the development of credit products that target the sectors they are primarily active in and those activities they engage in throughout the value chain.

16

DID believes that individual loans through groups of borrowers jointly and severally liable constitute the best way for the producers to build a credit history that will eventually enable them to access individual loans.

17

DID believes that, in agricultural financing, maintaining proximity services is essential and the cost constraint linked to the distribution of these services in a rural environment may find a solution through technological innovations implemented in a diversified distribution network.

18

DID recommends adequate diversification of loan portfolios, particularly agricultural credit portfolios that often entail a higher level of risk than other credit categories.

19

DID recommends strengthening the information-transmission mechanisms in rural areas, in tandem with the improvement of the information-management systems in order to ensure their viability.

Photo : France Michaud, Colombia

Photo : Oumar Toure, Mali

Photo : France Michaud, Tanzania

Développement international Desjardins (DID) is a world leader is a world leader in providing consulting and technical assistance services in the area of inclusive finance.

Our expertise is based on over one hundred years of experience acquired by the Desjardins Group, the leading cooperative financial group in Canada and the fifth largest in the world.

We take inspiration from best practices that have been tested in collaboration with our numerous partners for creating, expanding and strengthening financial institutions in developing and emerging countries.

Providing technical assistance, operating an institution or as an investor, DID is characterized by in-depth expertise in the following fields:

- Mobilization of savings
- Agricultural Finance
- Technological Solutions
- Financial Surveillance
- Risk Management
- Gender Equity
- Financing for entrepreneurs
- Social Performance
- Governance
- Training and Capacity building

Firmly focused on the future, DID draws on its talented staff to expand access to financial services for populations in developing countries. Together we are building the future. That is our ultimate goal.

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