



Daniela Röttger

## **Agricultural Finance for Smallholder Farmers**

Rethinking Traditional Microfinance

Risk and Cost Management Approaches



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Daniela Röttger received a Master of Arts in International Relations and Development Policy from the University of Duisburg – Essen in October 2013 and received the 2013 UMM award for her thesis titled “Agricultural Finance for Smallholder Farmers: Rethinking Traditional Microfinance Risk and Cost Management Approaches”.

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UMM is a European initiative which fosters cooperation between European universities, students and microfinance practitioners to promote microfinance and financial inclusion education and innovation through research. UMM is active in the domains of microfinance education, research, documentation of information, professional exchange & dissemination of information. All UMM activities are carried out under the umbrella of the European Microfinance Platform (e-MFP) in the frame of the e-MFP UMM Action Group.

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Daniela Röttger

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## Foreword

It is a great privilege and honor to write this foreword for this outstanding volume by Daniela Röttger, who won the 2013 University Meets Microfinance (UMM) award.

Since its creation in 2008, the Grameen Crédit Agricole Microfinance Foundation has the objective to support MFIs in rural areas and agriculture finance, with a strong focus on Sub-Sahara Africa. Established as a unique alliance between the Bangladeshi Grameen Trust and the French bank Crédit Agricole SA, the Foundation has the mission to contribute to the fight against poverty by supporting microfinance institutions (MFIs) and Social Business enterprises.

After 6 years, the Foundation is proud to have a partnership with 45 MFIs in 20 countries, more than half of them in Africa. Together these MFIs serve more than 2,3 million clients, of which 83% live in rural areas. Nevertheless, the proportion of their portfolio dedicated to agricultural finance is less than 30%. Taking into account our effort to find MFIs that finance agricultural activities, this figure is disappointingly low. And it clearly illustrates that many MFIs are still reluctant to finance agricultural activities due to the perceived high costs and risks, even though microfinance has, in general, successfully paved the way for offering financial services to low-income populations. In that context one question remains open: how to encourage MFIs to engage more in financing agricultural activities for small farmers. The research from Daniela Röttger clearly provides some concrete answers by providing a comprehensive analysis of the issue.

Especially in Sub-Sahara Africa, a continent where small farms account for 80% of the agricultural economy and where 70% of the poor work in agriculture, the challenge of financing smallholder farmers remains crucial. The research of Daniela can be very useful for all stakeholders interested to engage more in that field as it provides insights into how MFIs can successfully manage the risks of financing agricultural activities of smallholder farmers through adapted loan features and lending procedures.

The research thereby systematically links theory with practice. It offers a comprehensive overview of risk and costs of agricultural microfinance and theoretically analyses the extent to which traditional microfinance risk management approaches are able to mitigate these agricultural risks. But more importantly, it offers practical insights into the experiences of MFIs that already offer finance for agricultural activities by interviewing eight MFIs in four countries in East and West

Africa (Uganda, Kenya, Benin, Cameroon). By identifying their loan features and lending mechanism specific to agricultural lending, the empirical research provides concrete examples of the microfinance mechanism that work in agricultural lending and the ones that need to be adapted and thereby underpins the theoretical analysis.

The main contribution of this research is, however, the comprehensive and systematic comparison of the microfinance approaches to manage risks versus the agricultural microfinance approaches, with a summary of the "successful" approaches to manage risk in agricultural microfinance. All main issues have been clearly identified and analyzed, such as the need to adapt loan features to agricultural production cycles (interest rate, duration, repayment schedule), to have qualified staff with sound agricultural knowledge, to perceive and analyze farmers as a part of an agricultural value chain and to introduce innovation like agri-microinsurance and new technology to mitigate costs and reduce risks.

Even though a deeper analysis of the portfolio quality of the studied MFIs, which is a key element for all investors, is missing in the research, the analysis succeeds in demonstrating that MFIs are able to provide relevant services to small farmers and finance their agricultural activities, if there is a strong commitment at the highest level of the institution and the willingness to adapt the methodologies, to innovate and to take well-balanced risk. The Grameen Crédit Agricole Microfinance Foundation can fully share this conclusion based on its own field experience with its partners. However, financing agricultural activities for small farmers is not the sole responsibility of MFIs. It will only be successful with a strong commitment from all stakeholders, especially regulators and funders, which also need to adapt their methodology, approach, services and products. Only then have MFIs the best chances to succeed with their agricultural lending efforts.

This thesis is a concrete example of how very good practical, field based research can help practitioners and the sector in general to better understand some of their key challenges and to open new opportunities for development and innovation. The work of University Meets Microfinance in supporting such master students in their field research and providing them with the opportunity to disseminate their work is unique and extremely relevant.

I am convinced that the readers will share my pleasure of reading this work to better understand how microfinance institutions can contribute to sustain a successful agricultural microfinance business for the benefit of small farmers.

Philippe Guichandut , Paris, November 5th 2014

Head of Development and Technical Assistance at the Grameen Crédit Agricole Microfinance Foundation

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## List of Abbreviations

aBi Trust	Agricultural Business Initiative Trust
ACCI	Adaption to Climate Change and Insurance
ADAF	Appropriate Development for Africa Foundation
AFD	Agence Francaise de Développement
AFRACA	African Rural and Agricultural Credit Association
AGRA	Alliance for a Green Revolution
AIC	Association Interprofessionnelle du Coton
AU	African Union
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)
CB	Commercial Bank
CeCPA	Centre Communale pour la Promotion d'Agriculture
CeRPA	Centre Regionale pour la Promotion d'Agriculture
CGAP	Consultative Group to Assist the Poor
CLCAM	Caisses Locales de Crédit Agricole Mutual
CNCA	Caisse Nationale de Crédit Agricole
COMPACI	Competitive African Cotton Initiative
CRDB	Centenary Rural Development Bank
CSPR	Centrale de Sécurisation de Paiement et de Recouvrement
DEG	Deutsche Investitions- und Entwicklungsgesellschaft (German Investment and Development Corporation)
DFID	Department for International Development
EIR	Effective Interest Rate

FAO	Food and Agriculture Organization
FECECAM	Faîtière des Caisses d'Epargne et de Crédit Agricole Mutuel
GDP	Gross Domestic Product
GDPRD	Global Donor Platform for Rural Development
GIGA	German Institute for Global and Area Studies
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)
GLP	Gross Loan Portfolio
GTZ	Deutsche Gesellschaft für technische Zusammenarbeit (German Technical Cooperation)
HH	Household
HYV	High Yielding Varieties
IAASTD	International Assessment of Agricultural Knowledge, Science and Technology for Development
IBLF	International Business Leaders Forum
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IIED	International Institute for Environment and Development
<i>i</i>	Interest rate
KfW	Kreditanstalt für Wiederaufbau (Bank for Reconstruction)
KDA	K-Rep Development Agency
LACE	Loan Application and Credit Evaluation
MBFI	Membership-based Financial Institution
MC <sup>2</sup>	Mutuelles Communautaires de Croissance
MFC	Microfinance Company
MFI	Microfinance Institution

MFW4A	Making Finance Work for Africa
MoA	Ministry of Agriculture
NGO	Non-Governmental Organization
NPL	Non-performing Loan
OSS	Operational self-sufficiency
PAD	Projet d'Appui aux Etablissements de Microfinance de Développement
PAR	Portfolio at Risk
PTI	Pricing Transparency Index
RUCREF	Rural Credit Finance Company
SACCO	Savings and Credit Co-operative
SADC	Southern African Development Community
SDC	Swiss Agency for Development Cooperation
SSA	Sub-Saharan Africa
UCA	Ugandan Coffee Farmer Alliance
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Development Organization
URCLCAM	Unions Régionales des Caisses Locales de Crédit Agricole Mutuel
WOCCU	World Council of Credit Unions

All dollar amounts are US dollars unless otherwise indicated.

