

State Bank of Pakistan *Development Finance Conference*

Expanding Agri/Rural Finance
Products and Services

Benedicto S. Bayaua
Secretary-General APRACA

ABOUT APRACA

Asia-Pacific Rural and Agricultural
Credit Association (APRACA)

- 57 member financial institutions
and finance-related agencies
- in 23 Asian countries

Expanding Outreach of Rural Financial Institutions

Topic Coverage

- defining rural finance, agricultural finance and outreach
- the building blocks of a sustainable outreach
- concluding statements

Rural finance- among the most powerful weapons to fight chronic poverty.



improve the living conditions
of the rural areas







Defining rural finance

provision of financial services
credit, savings, payments, and insurance
to
rural individuals, households, and
enterprises, both farm and non-farm,
at all income levels.

Dialogue with farmers



Agricultural finance

- as a subset of rural finance, involves financing agricultural and agri-related related activities

input supply, production



processing, value-addition



transporting, distribution, marketing



Outreach

refers to

- the provision of rural products and services to the rural areas,
- the access of the rural workers to these products and services and
- the absorptive capacities to utilize these products and services

four building blocks of outreach

1. defining the target clientele
2. building a diversified rural financial infrastructure
3. promoting a conducive policy and regulatory environment
4. fostering stakeholder participation in rural finance

1. Defining the Target Clientele

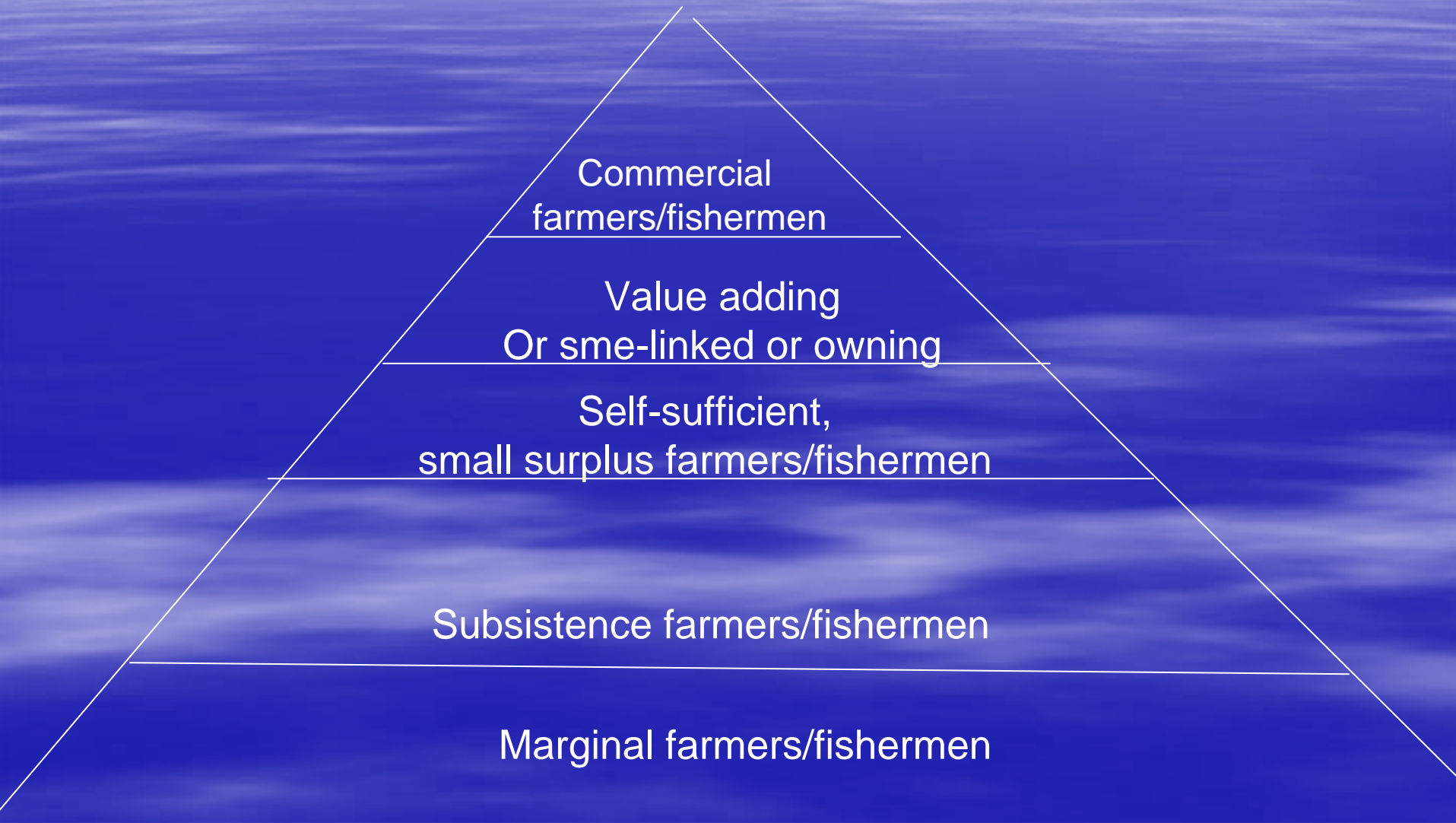


farmer to refer to all land-based workers (in farmlands, upland, forest)

Fishermen: refers to all water-based workers
(in coastal waters, deep sea, rivers,
lakes, etc.)



Category of Target Clients



Commercial farmers/fishermen

- commercial farmers/fishermen,
- corporate farmers/fishermen and
 - large cooperatives
- with large tract of land,
- whose rural activities have achieved an economy of scale that is linked to world markets

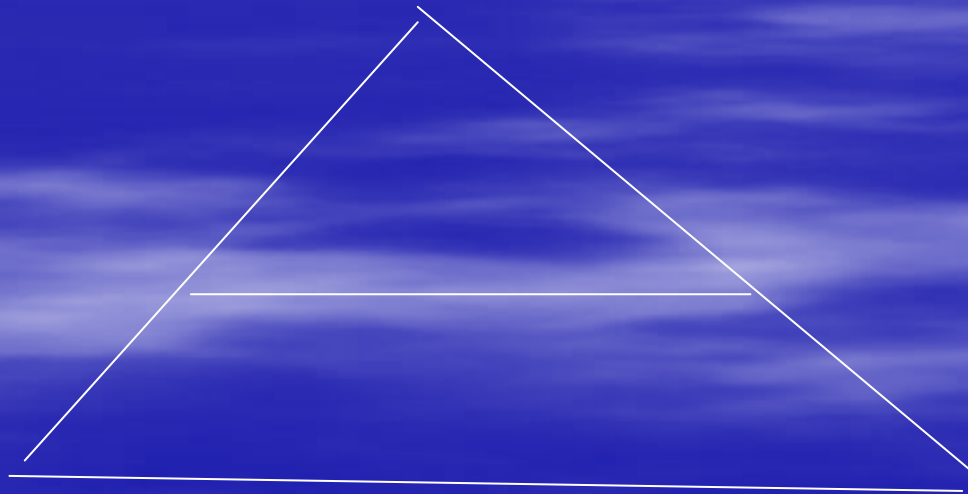
Value-adding, SME-linked or owning farmers/fishermen

small to medium scale farmers/fishermen as well as cooperatives and self-help groups which have

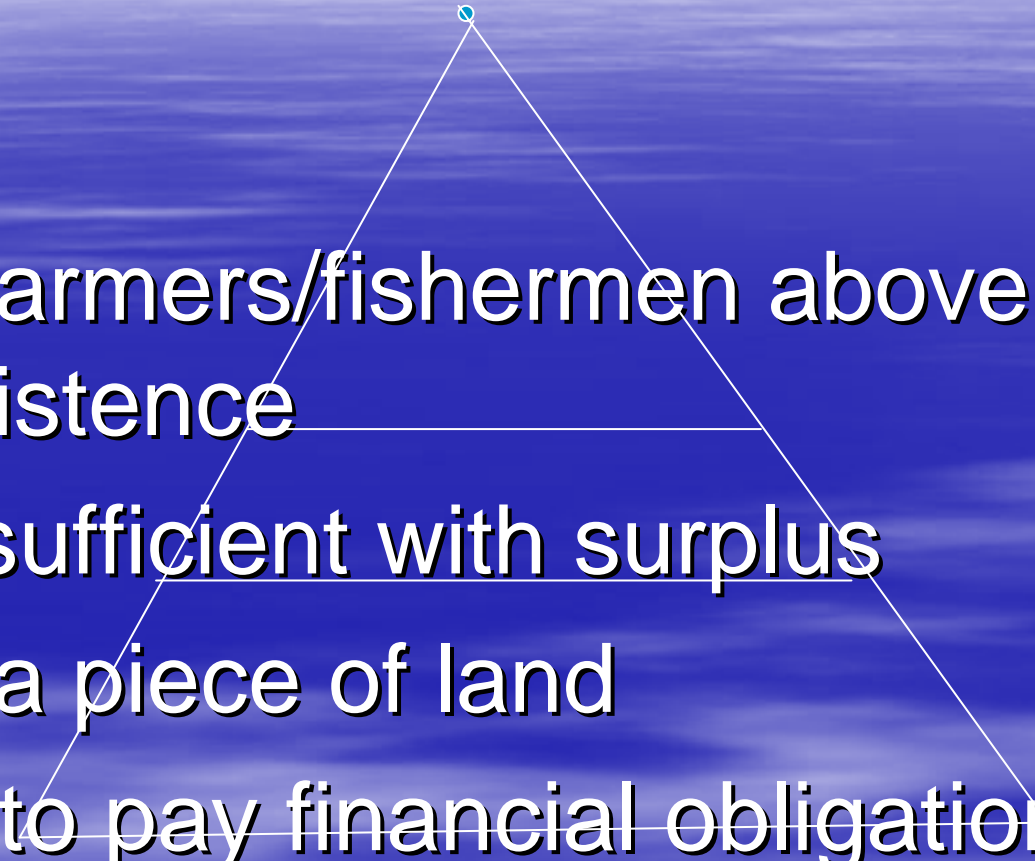
- expanded their activities beyond production, toward processing and marketing, albeit on a smaller scale
- are linked to the domestic market or to international trade through traders

top of the pyramid

By all indications, these top two categories are financially self-sufficient and are linked to the mainstream commercial banking system



middle of the pyramid



small farmers/fishermen above
subsistence

- self-sufficient with surplus
- own a piece of land
- able to pay financial obligations



May slide down to the lower level
if....

there is a need for full support
and continuous access



Subsistence farmers/fishermen

- may own a piece of land but this can hardly make both ends meet.
- may also be tenants, share-croppers, landless agricultural labourers.

However, are considered bankable or capable of self-sufficiency - an ideal area for expanding outreach



Marginal farmers/fishermen

- perennially financially deficit
- socially excluded
- disadvantaged
- geographically disenfranchised
- away from socio-economic centers
- live in calamity-prone areas.

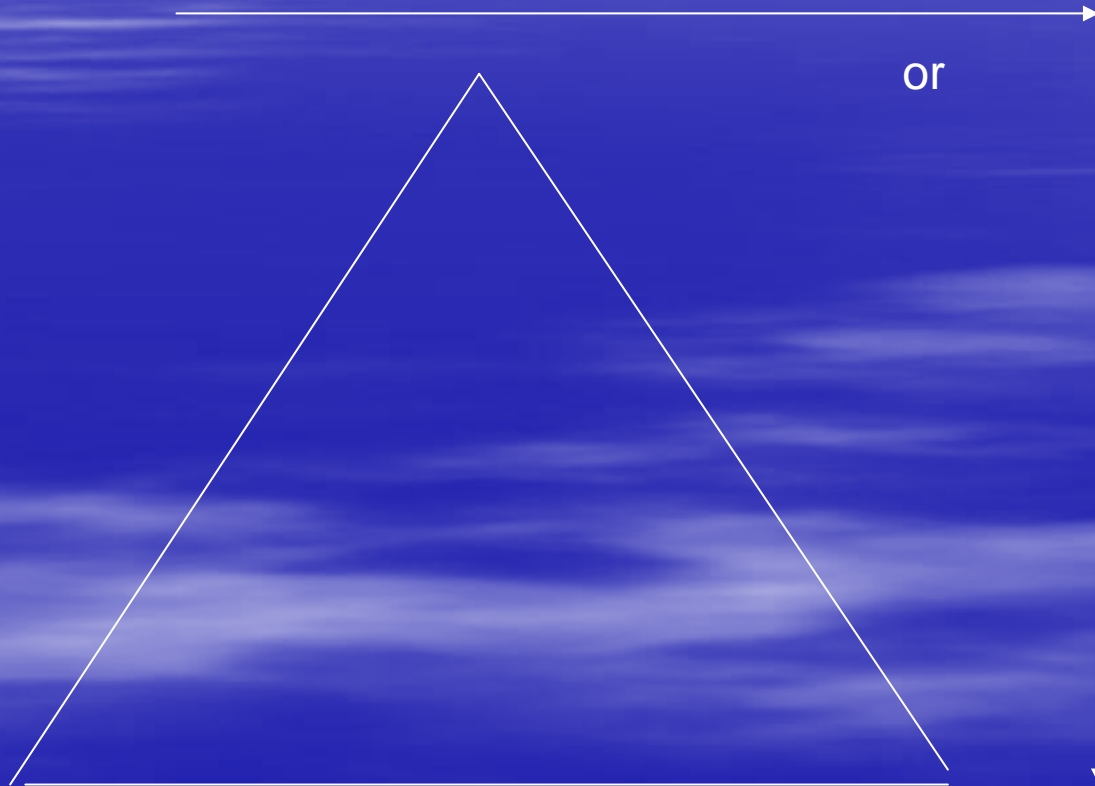
Women at a disadvantage



Dilemma: how low in the pyramid

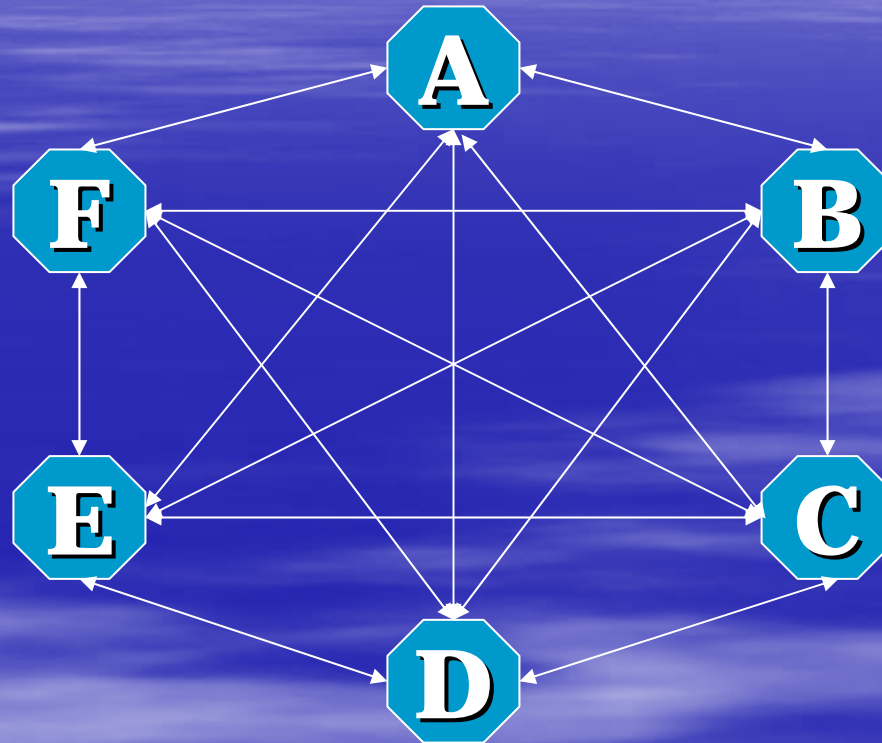


Horizontal expansion or vertical intensification



BAAC CREDIT TECHNOLOGY

- JOINT LIABILITY GROUP GUARANTEE IN GROUP - BASED LENDING



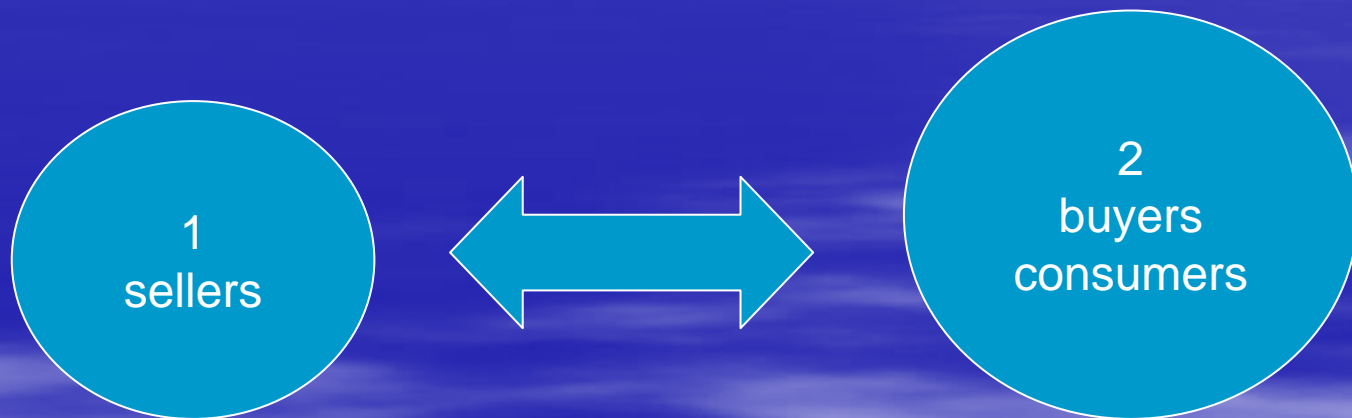
**BAAC serves about
96% of agri farm
households**

Targeting: does it work?

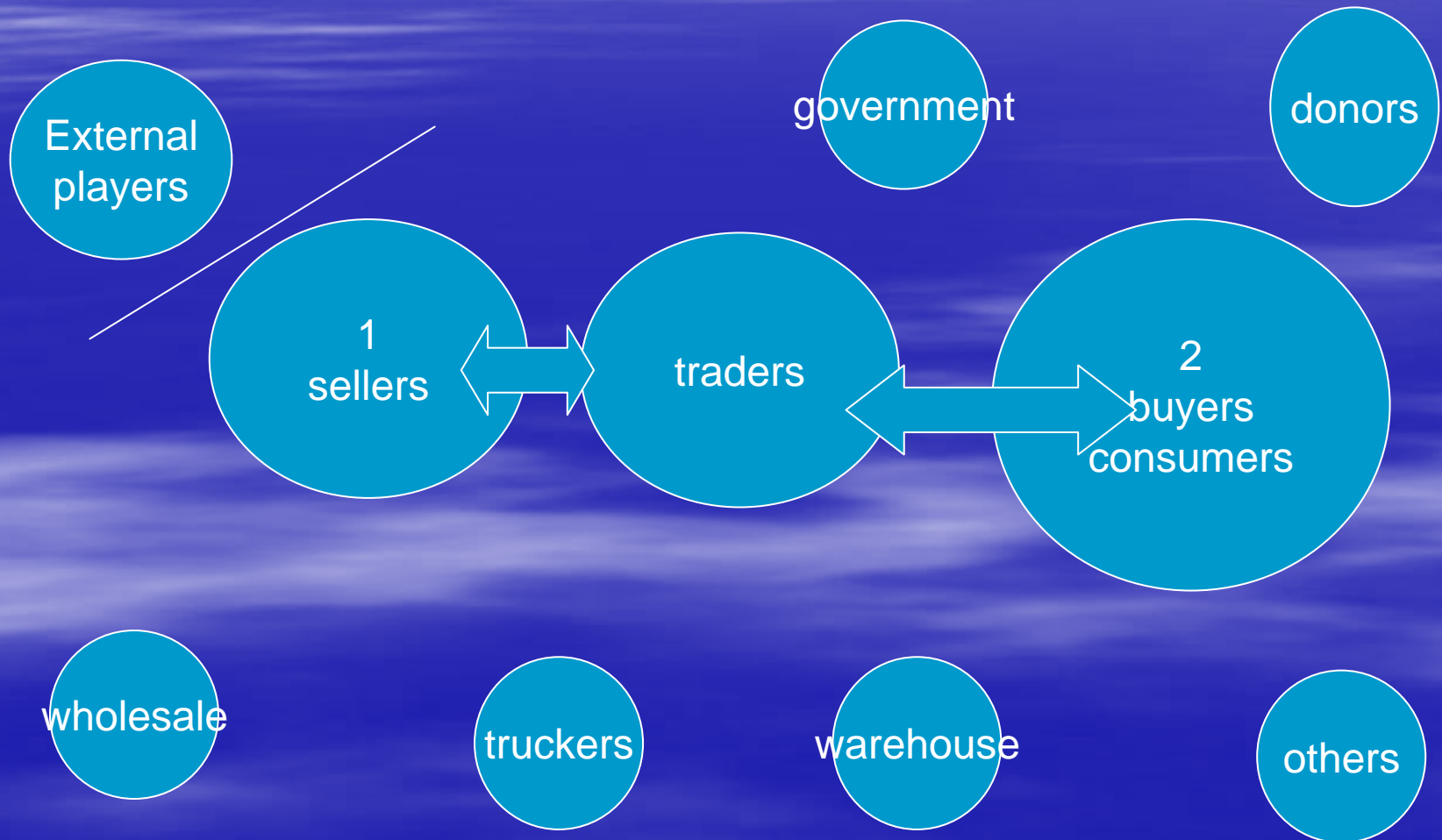
- selective targeting
- differentiation
- priority sector

2. Building a diversified rural financial structure

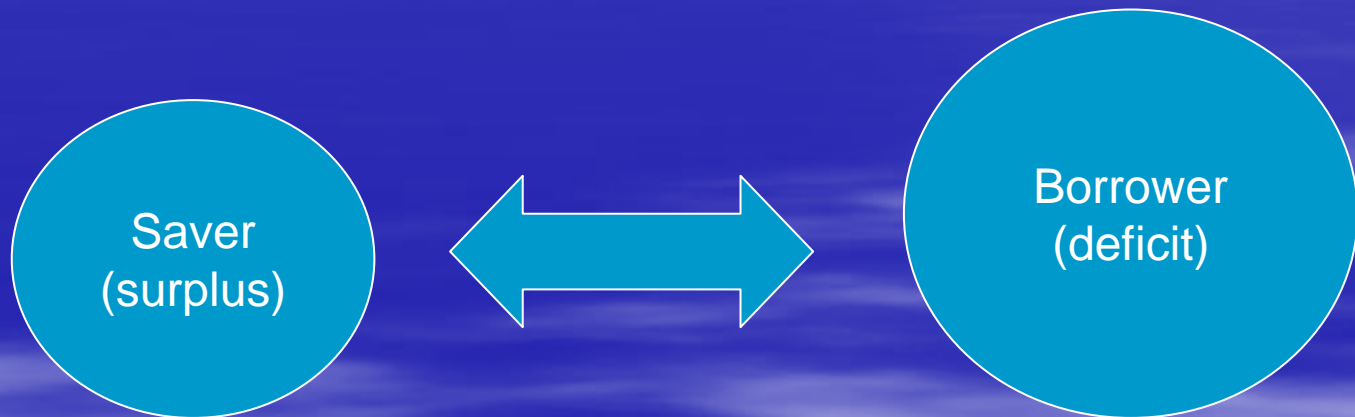
An ordinary market



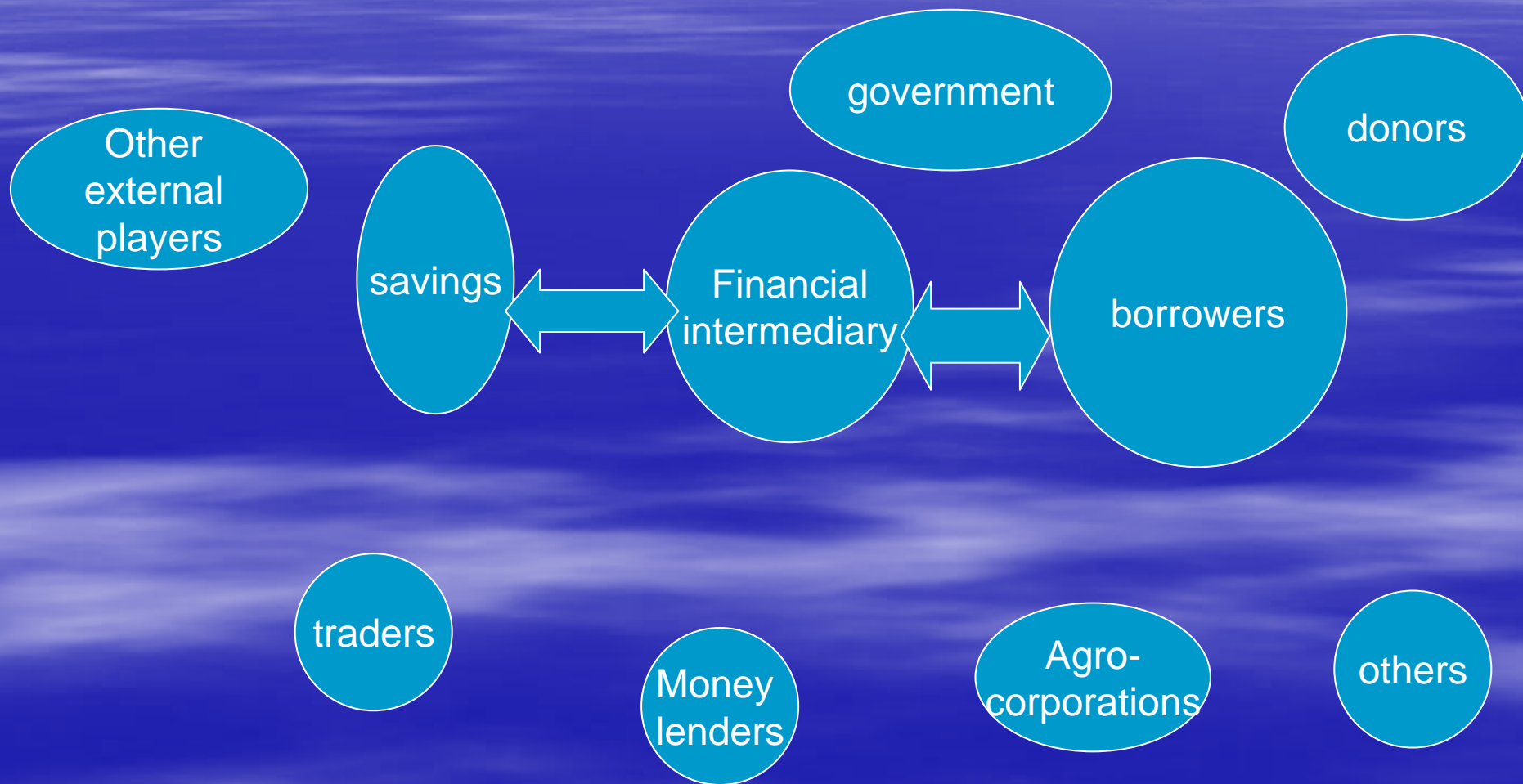
as the market grows



ordinary financial transaction



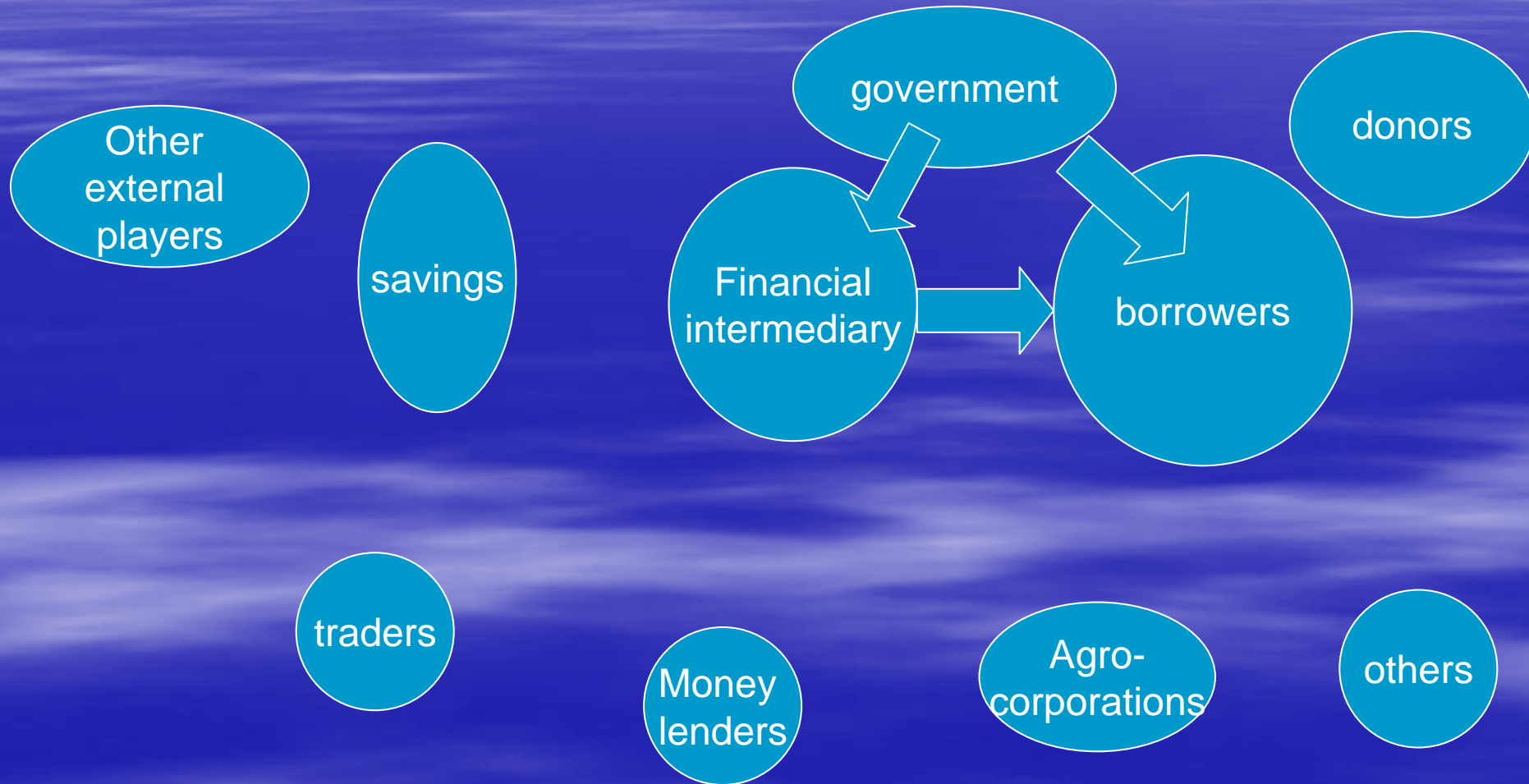
A rural financial market



Need for

- appropriate organizational structure
- appropriate systems and procedures
- appropriate strategies
- Strong human resource
- Appropriate products and services

infusion of cheap funds



Rural Credit in India - Institutional Structure

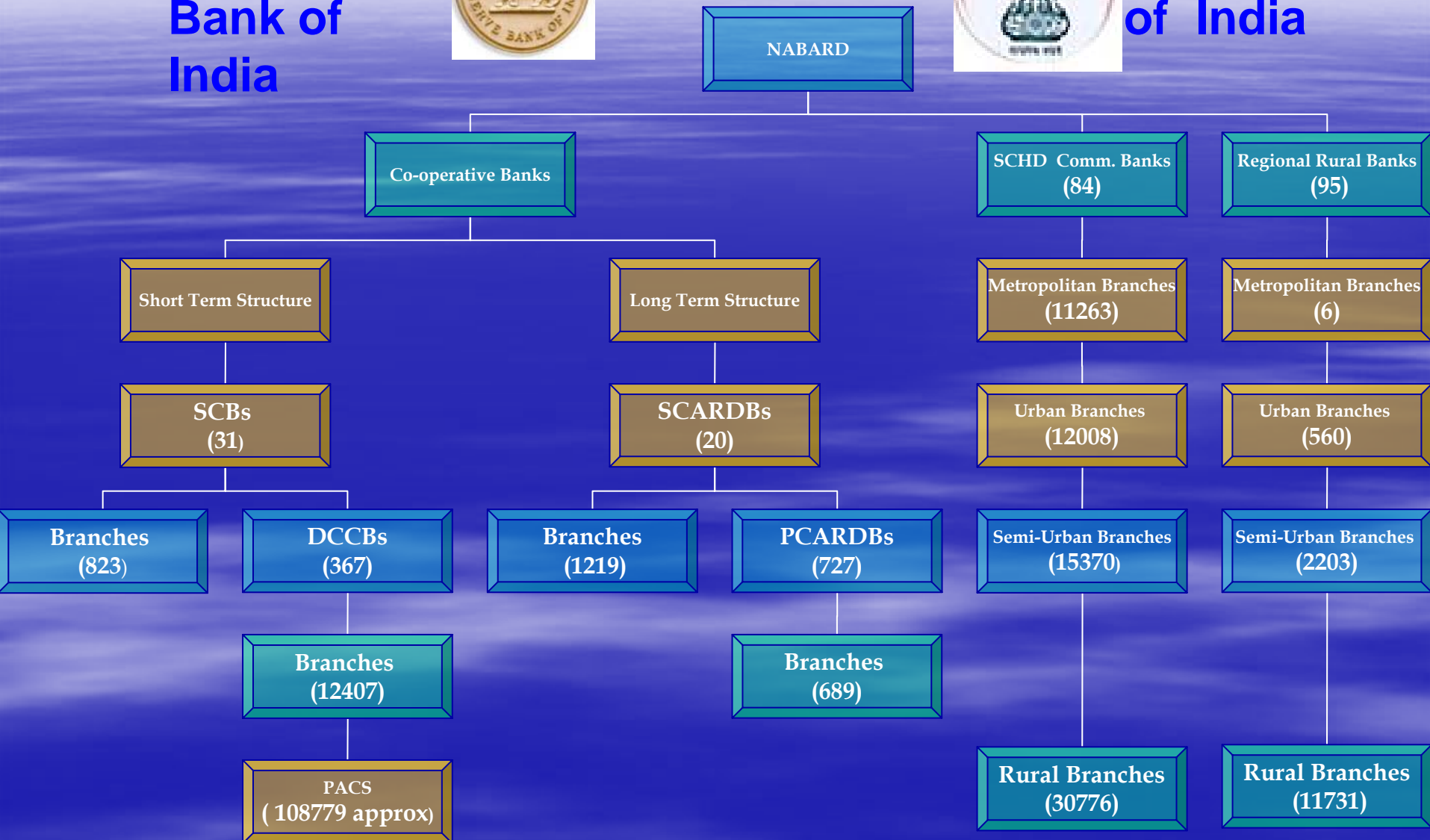
Reserve
Bank of
India



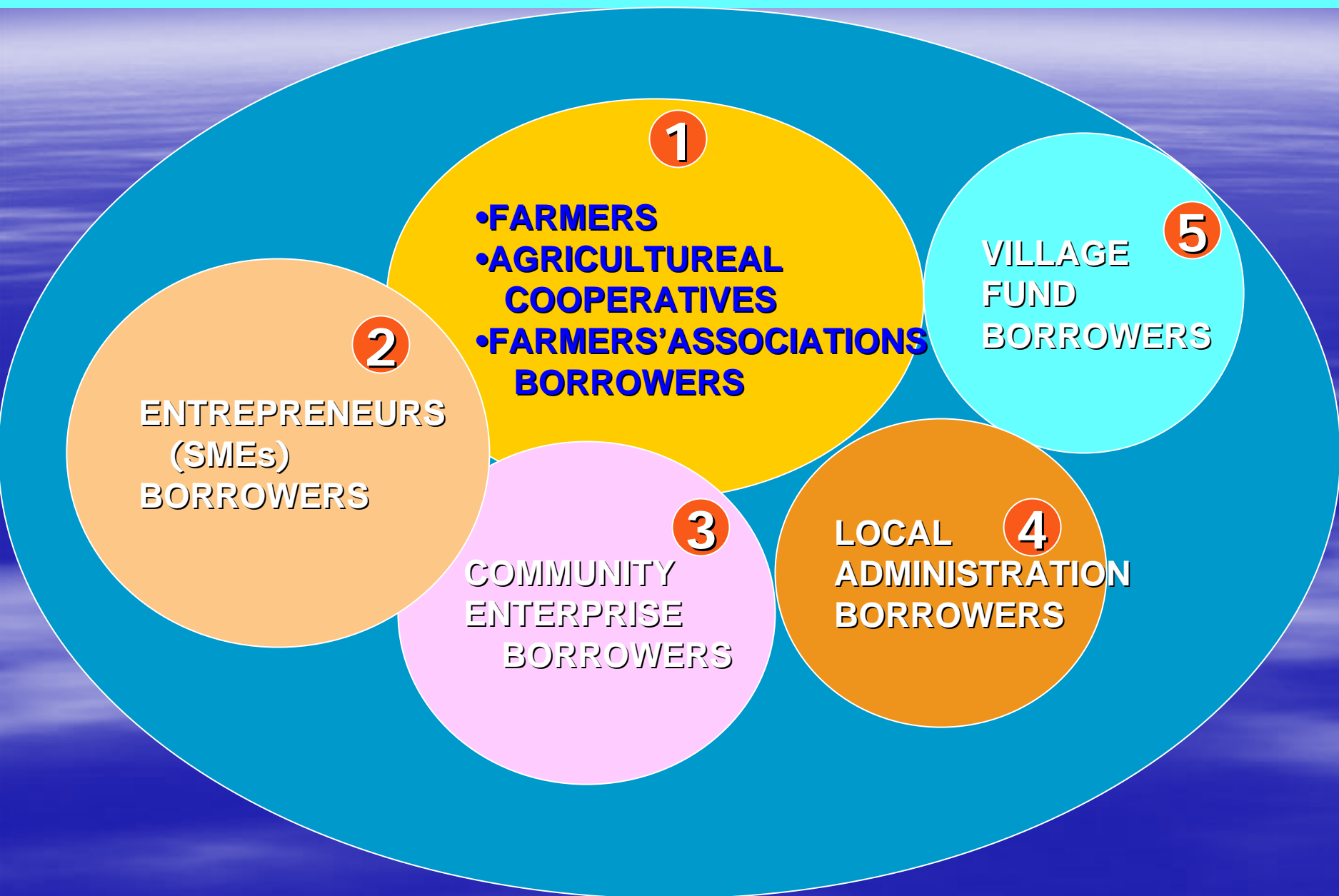
NABARD



Government
of India

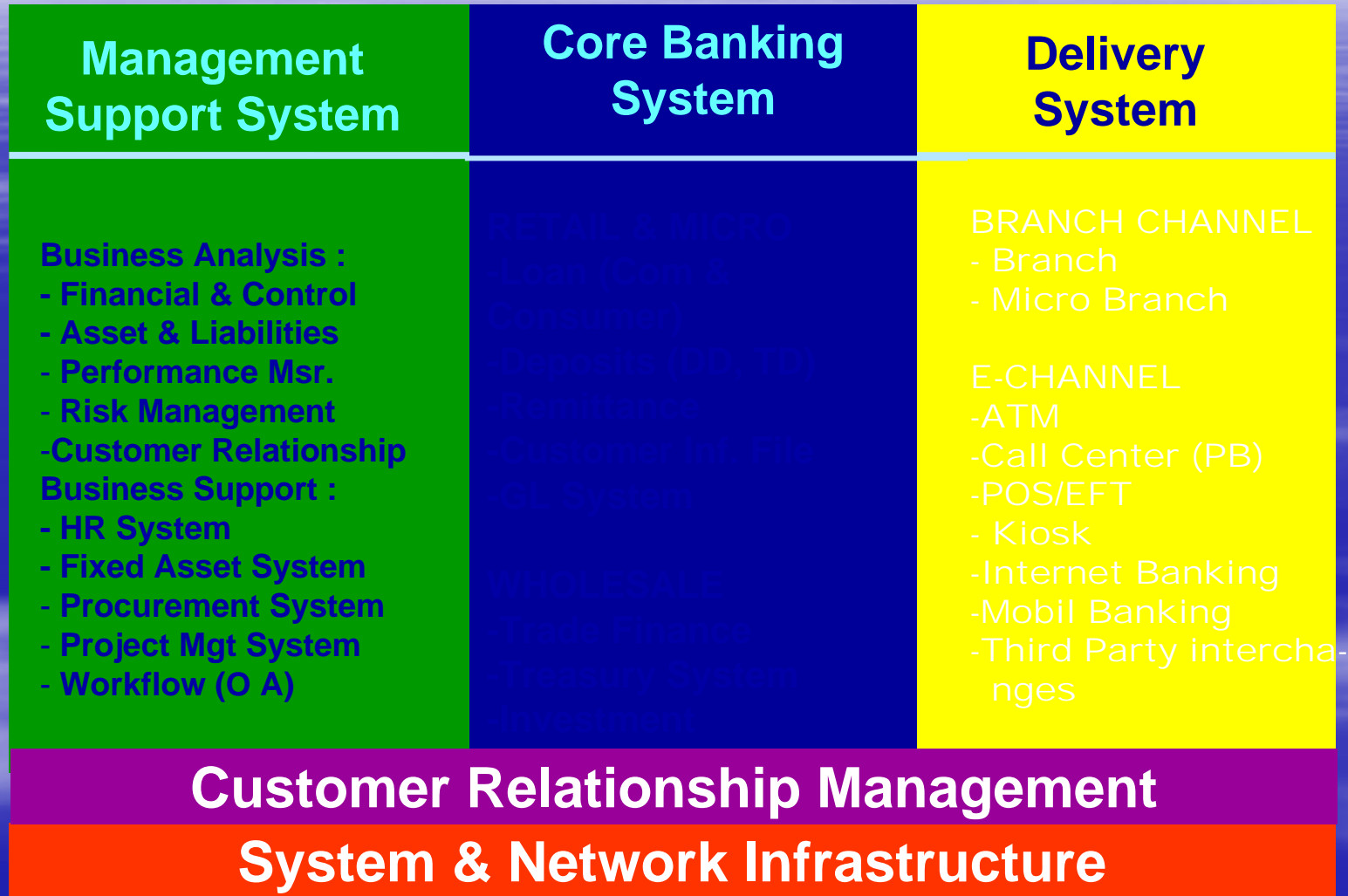


BAAC CLIENT BASE



BRI Application Architecture

BRI MANAGEMENT



CUSTOMERS



Other lagging RFIs

- In most cases, where the government-owned rural financial institutions are heavily supported, these RFIs lagged behind and microfinancial institutions (MFIs) sprouted.

Cambodia and Nepal

Emergence of
NGO-microfinance providers
and
NGO-MFIs

No single best type

- There are different types of financial institutions in Asia today and given each country's cultural diversity and historicity, there appears to be no single best type.

In marginal areas

- In marginal areas, small self-help groups, which are savings- oriented and operate at nominal costs, appear to be suitable.
- In high potential areas with surplus agriculture and profitable rural micro-enterprise activities, rural banks, large financial cooperatives and big agricultural/commercial bank branches may be suitable

Outreach Structures

wholesale financing institutions, linking with
retail financing institutions

Retail financial institutions

- micro-finance institutions (Cambodia, India)
- small farmers' cooperatives (Nepal)
- rural banks (Philippines)
- regional rural banks (India)
- cooperatives (Thailand)
- commercial banks (Sri Lanka).

Subsidiaries

- Land Bank through the People's Credit Finance Corporation
- Vietnam Bank for Agriculture and Rural Development through the Vietnam Bank for the Social Policy
- Bangladesh through the Palli Karma Sahayak Foundation

Branches and offices

- BAAC through its branches and field offices
- BRI through its Unit Desas
- Sanasa Development Bank through its thrift and cooperative societies
- Bank BUKOPIN through its cooperative network,

Conceptualization of a self-help group



Links with semi-formal groups

- linkages with existing informal grassroots structures, such as farmers' associations, production credit groups or semi-formal institutions such as women's unions and cooperatives.

Links with informal lenders

- Hatton National Bank linking with villages through prominent individuals and leaders, loosely called barefoot bankers
(Gami Pubuduwa Scheme)

Corporative

- In the Philippines, a rural bank had experimented with an agricultural joint-venture called a corporative, built on the concept of shared capital and ownership between the bank and the rural clients,
- The rural bank and the rural clients own the corporation at the start.
- The rural clients buy the bank's share on a pre-agreed term and time,

Mobile Banking

- Rural financial institutions also reach out to inaccessible highlands and mountainous areas, through their mobile banking services (various highland development projects) or through service posts (BRI), where banking services are offered not daily but weekly.

Caveat

- the geographic expansion (creating field offices, branching) and the formation of small farmers' groups should be done at an appropriate pace so as not to jeopardize an institution's implementation capabilities.
- A too rapid expansion may lead to inadequate supervision, poor control and limited interaction and
- into loan defaults and an increase in the number of passive small farmers' groups.

Risk mitigating structures

Finally, let us look at the structure of risk mitigation, which are provided by insurance agencies, guarantee mechanisms, product pledging, warehousing receipts, contract farming, joint marketing linkages between rural financial institutions and farmer clients.

**3. creation of a
conducive policy environment
and
regulatory framework.**

Transformation of agricultural development banks

- Restructuring, reform to strengthen outreach
 - Some reform strategies include:
privatization, autonomy in management,
opening ownership to clients, expansion of
mandate

Policy on scaling up, conversion, transformation

NGOs and MFIs
can move
into mainstream banking

Policy on networks, apex services

- In line with comprehensive regulatory framework, MFI networks and apex services of networks are being promoted in many countries. Many rural financial institutions are now able to conduct allied banking activities

Policy on branching

**Relaxation on the policy of branching has
expanded outreach and converted
branches into profit centers**

Policy on ownership

Expanding ownership of rural financial institutions provided financial incentives to rural clients.

Policy on governance

A strong policy on corporate governance and transparency provides a shield for anomalies that may arise.

Policy on products and services

- Design of services taking ease and cost-saving efforts into consideration.
- New products (Govisarupatha Credit Card for Farmers by Seylan Bank) to enable small farmers to purchase their agricultural needs without having to go personally to the banks
- Inclusion of non-financial services

Policy on capitalization

- Policies on minimum capitalization of small rural financial institutions (such as in Philippines, Cambodia, and Indonesia) provide impetus for an expanded outreach.

Policy on supervision

- A clear policy on supervision by regulatory authorities or an apex body and on self-regulation through second-tier authorities, including mandatory and voluntary adoption of prudential norms can enhance outreach.

4. Participation

- When stakeholders, including the poor, participate in the development of the rural financial system, outreach is enhanced.
- Such as in the support given by universities, extension agencies, research institutes, NGOs and the private business sector.

Concluding statement

Where do we go from here?









And finally,



Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.

THANK YOU