



An International Conference on Rural Finance Research: Moving Results into Policies and Practice

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Submitted by

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Introduction

The Food and Agriculture Organization of the United Nations (FAO), Ford Foundation and International Fund for Agricultural Development (IFAD) jointly sponsored a conference on rural and agricultural finance (RAF) in Rome, Italy, 19-21 March 2007. The conference brought together leading experts in RAF from around the globe – researchers, practitioners, government representatives – to discuss the state of the art in RAF, to encourage collaboration, and to lay out next steps for the further development of the industry. As indicated by the title of the conference, *An International Conference on Rural Finance Research: Moving Results into Policies and Practice*, the focus was on research and how to make it usable and relevant at various levels. The term ‘research’ spanned both academic / theoretical research as well as practical / action-oriented research, ensuring that a comprehensive perspective on learning and information sharing could be explored and advanced.

Many attendees were satisfied with the outcomes of the conference, considering it a first step in advancing research, collaboration and innovation. Others were disappointed that the conference did not go further in achieving its goal of identifying the types of research that need to be conducted to serve the industry, and how and by whom this research will be carried out.

During plenary sessions, the conference dealt with a number of overarching issues including: the role and implications of research at various levels from policy to practice, developments in the global rural economy, supply versus demand in rural finance, and the regional variations that affect such discussions. Leading experts presented plenary papers, sat on discussion panels, moderated divergent viewpoints, and responded to audience questions and comments. Daily breakout sessions allowed smaller groups to convene, listen to panel presentations, and pursue more in-depth inquiry that concentrated on the following five core conference topics:

- Understanding demand for rural financial products and services
- Expanding outreach of financial products and services in rural areas
- Improvements in operational management of rural finance institutions
- Advances in rural financial products and services
- Enabling environment and policies for rural financial markets

In addition to presentations and discussions, the conference hosted an exhibit of poster sessions organized around the same five core themes – twenty-two sessions in total – that provided a rich opportunity for one-on-one

discussion. On the last day of the conference, there was an opportunity for geographical groupings to meet and discuss the relevance of the conference themes to their regions, and to present their respective research needs to a plenary session. The regional groups were broadly divided as follows: Africa and the Middle East, Asia, Central and Eastern Europe, and Latin America.

Reporting Back: Themes, Regions and Research Priorities

The conference provided the various constituencies an opportunity to report back to the ple-

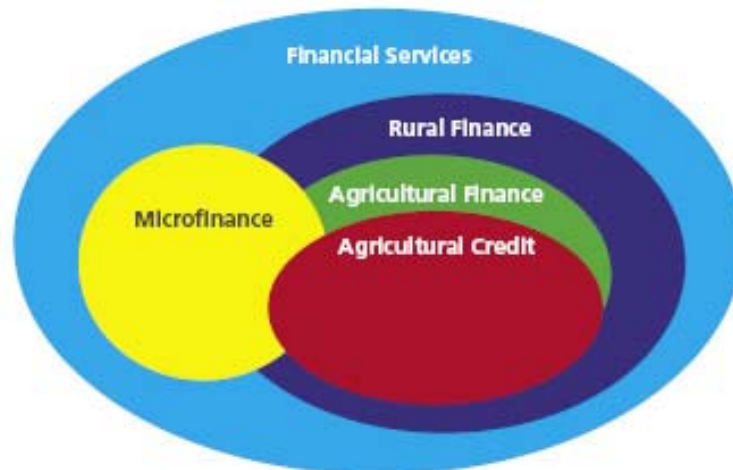
nary on research needs and next steps: conclusions were presented by thematic breakout session moderators; regional feedback was reported by facilitators; and a summarization of research priorities was compiled based on a 'top priority' index card completed by each participant and returned to conference organizers. Rather than go through a laundry list of findings, I have organized the results according to several main categories that emerged and re-emerged during the conference. I offer a brief elaboration of each in the remainder of this report.

Terminology

Rural finance, as defined by the World Bank, is the provision of a range of financial services such as savings, credit, payments and insurance to rural individuals, households and enterprises, both farm and non-farm, on a sustainable basis. It includes for agriculture and agro-processing.

Agriculture finance is defined as a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing.

Microfinance is the provision of financial services for poor and low income people and covers the lower ends of both rural and agricultural finance as seen in the diagram below.



Source: CGAP Donor Brief No. 15 October 2003

Value chain finance: The series of actors and activities needed to bring an agricultural product from production to the final consumer is often called a value chain. When credit or other financial services flows through actors along these chains, it is called value chain finance.

- **Regional Diversity Cannot be Generalized:** In terms of research needs, and the implications for policy and practice, it became apparent that there is no global consensus, and regional diversity must be respected. Even within the regions – take Africa as an example – there are notable differences in terms of language, socio-cultural issues, government capacity, status of financial institutions, and so on. This does not mean that there are no common themes, but each region needs a tailored research agenda, as well as country-specific awareness and responsiveness.
- **Research and Services Must be Demand-Driven:** This was perhaps the most commonly repeated refrain at the conference – that the needs of clients must be heard and addressed, both in terms of products and services as well as the research agenda. We have to gain an understanding of the real and perceived risks and needs of clients, as well as their socio-cultural beliefs and constraints, household influences, agricultural issues, and other important concerns. If we do not pay attention to clients, we will be unable to design programs, or offer products and services that reach scale while achieving the desired results in terms of poverty reduction and prosperity creation.
- **Institutional Diversity Equals Increased Access:** Greater diversity of financial institutions – from those that are formal and regulated to others that are highly informal – guarantees that clients will receive a wider selection of services and products to suit their specific needs. This principle recognizes that not all borrowers are served equally by the same financial products or delivery mechanisms. For some, self-help groups or village savings and loans are optimal, while for others, agricultural development banks offer the most appropriate packages. Diversity within a financial system offers more choice to clients and greater likelihood that one or more type of institution will succeed, strengthening the overall system.
- **Are We Reaching the Very Poor, and Do We Care?** The conference witnessed considerable debate about the target clients that are being reached by financial services. Some participants felt that financial service operators are not doing enough to reach down to the poorest segments of society, and that this issue needs to be addressed. For example, lowering of interest rates would be one method to increase outreach to this particular client base. Others stated that expansion of access is an evolving process and microfinance has done an excellent job of reaching further down to marginalized and very poor producers. Most agreed that additional research is needed to understand the reach and impact of financial services, and how to better measure these results.
- **Value Chain Approaches Offer Potential for High Impact:** Many experts view value chain methodologies as having the promise to significantly increase the impact of financial services. There are two key approaches that were discussed: 1) value chain finance that enhances access to finance throughout the chain – including finance between value chain actors such as credit provided from suppliers or buyers to producers – benefiting the client and contributing to the strengthening of the entire chain; and 2) market driven development that involves the identification of viable market opportunities for clients' products as well as the availability of support services that will enable clients to access the market opportunities on a sustainable basis. More

work is needed to understand success factors and derive best practices for the role of financial services in value chain functioning.

- **Innovation in both Products and Processes is a Must:** In order to reach more clients, and to achieve greater depth and breadth of impact, innovations are required both in the development of specific financial services and products, and in the processes by which these services and products are delivered to clients. Innovations to extend the availability of suitable savings, microinsurance and remittance products offer strong potential for reducing risk, decreasing reliance on loans, smoothing income, and empowering producers to manage their finances. The prospects for new technologies to increase efficiency, expand geographic reach, and to reduce costs were also reviewed and endorsed as areas of future research. Innovations are also needed to improve access to education, health services and essential consumer goods, as well as to smooth incomes both seasonally and in times of crisis.
- **There is a Role for Government but it Requires Definition:** The role of government and its potential value to rural and agricultural finance was recognized as critical, but with variations across regions and countries. In general, it was agreed that governments can provide crucial support in terms of productive regulatory frameworks and enabling legislation, such as laws that mobilize deposit-taking. However, the role of government in terms of institutional development, service delivery and subsidization needs to be better understood and promoted with specific contexts and outcomes in mind.
- **Ignore Gender and Cross-Cutting Themes at Peril:** The conference did not focus on the cross-cutting themes of gender, environment, HIV/AIDS, and youth.

However, participants often raised the concern that these themes cannot be ignored if financial services are to achieve sustained impact. In particular, the imperative to include gender analysis and considerations in every step from research to impact assessment was reiterated on a number of occasions, and received general support from conference attendees.

- **Risk Must be Better Understood and Managed:** A number of participants emphasized the necessity to better understand risk to both lenders and borrowers, and to devise risk mitigation strategies appropriate to the situation. With regard to clients and borrowing, it was observed that risk can be classified as perceived or real, and that there are many dimensions of risk that are not strictly financial. For example, the phenomenon of 'mental accounting' was raised to illustrate that financial planning follows rules (perhaps socio-cultural or even idiosyncratic) that cannot always be clearly defined by financial analysis alone.
- **Greater Sharing of Information and Research is Warranted:** Participants called for enhanced knowledge sharing between practitioners and researchers, between financial and non financial services, across sectors, and amongst public, private and civil society institutions. Information exchange is complicated by the fact that rural and agricultural finance involve a host of considerations including, but not limited to: the risks inherent in smallholder farming, the needs of poor rural households, the potential of market-driven support, the common deficits in infrastructure, and the high costs of product delivery to hard to reach populations. As part of this information exchange conference attendees requested that more experiences be shared on failed products, failed programs and failed institutions – enabling us all to learn and benefit from each other's mistakes. Multi-

disciplinary research, communication, and engagement are critical to the design and implementation of successful programs and service packages.

Next Steps

The conference set a general research agenda for the coming years in rural and agricultural finance. This agenda is multi-faceted and demanding, and there is no one area that on its own can deliver the much sought after “holy grail” in financial services provision. It will be up to organizations, countries, and regions to identify their key research and programming needs, in consultation with clients and financial institutions, and to achieve impact and scale in poverty reduction. How the results of this research will be communicated was not defined, but it is our sincere hope that the conference will continue as an annual event, become a regular venue for knowledge dissemination, and spawn related events and methods for information sharing.