Inclusive Rural and Agricultural Finance

MEDA’s Experiences, Approaches and Strategies

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Mennonite Economic Development Associates

is a recognized leader in applying business solutions to economic development challenges with over 50 years of international experience. Today, Mennonite Economic Development Associates (MEDA) is an association of 3,000 business people from North America and Europe who believe their faith, skills and resources can be used to help overcome poverty.

MEDA’s Guiding Principles

Throughout its 50-year history, MEDA has been committed to finding sustainable solutions to economic development challenges. From our first investment in a locally owned dairy in Paraguay in 1953, we have strived to apply sound business practices to every step of development programming. Our selection of partners and building of local capacity, design of context-sensitive interventions, support of innovation and entrepreneurship, and adherence to results-based management promote positive change in some of the most difficult environments in the world. At the same time, our commitment to equitable, inclusive and responsible development advances the potential for continued growth at the enterprise and industry levels.

Adhering to sound business practices

Building local ownership and capacity

Supporting innovation and entrepreneurship

Results-based management

Equitable, inclusive and responsible initiatives

Work with and for the poorest

Foreword

One of the world’s most under-utilized resources is the land, labor and skills of the rural poor. And yet, more than a billion people live at the margins of survival on less than $1 per day, three quarters of them in rural areas. A similar share of the world’s population suffers from malnutrition. Where is the disconnect?

Despite their resourcefulness and resilience, the rural poor most often lack access to markets, capital and knowledge that they need in order to make their land and labor truly productive. This booklet outlines what MEDA has done about this, and our experience that we are eager to share with others who truly care about the plight of the rural poor.

In my travels throughout the developing world over the past 30 years, I have often been inspired by the stories that I hear from rural, often illiterate, people who have changed their destinies when given access to markets and capital. I think of the Bolivian farmer who planted three hectares of edible beans when he was given an opportunity to sell to local and export markets and access to loans to buy the inputs. From those three hectares, he proudly told me, he had earned enough over several years to send six of his seven children to university. The seventh is now running the family farm.

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Or I think of poor village women in Bangladesh who were able to access capital to establish a facility to produce and market desiccated coconut to local biscuit manufacturers. Again, 15 years later, each woman spoke of investing her earnings in her children’s nutrition and education – surely a destiny-altering opportunity.

Most of these opportunities for the rural poor do not begin with access to capital. Access to a new market, improved crops, or better technologies are usually at the forefront. However, all too often these opportunities do not reach fruition because no one is willing to invest in rural finance. Today, the majority of microfinance providers still focus on urban areas.

It is our hope that this booklet will begin to change that reality – opening new possibilities for rural and agricultural finance – so the rural poor can realize their true potential.

Allan Sauder

President, MEDA

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Examples of rural financial services:

- Working capital loans for agricultural or raw materials inputs
- Accessible, safe deposit services
- Burial savings groups, rotating savings and loans clubs
- Long-term loans for equipment or new technologies (e.g., micro-irrigation) purchase
- Equipment leasing
- In-kind input supply credit
- Purchase order financing
- Index insurance for crops or livestock
- Trade financing
- Money transfer / payments services (intra-country or international)

The Role of Rural and Agricultural Finance in Pro-Poor Economic Development

Tackling issues of poverty through economic development often takes organizations like MEDA into rural areas, where many of the poor reside and where poverty rates can be higher than in urban locations. An estimated three billion people live in rural areas of developing countries, and three-quarters of the world’s poor are located in rural areas.

Rural households in developing regions depend heavily on agriculture as a main source of livelihood as well as a major source of food. 2.5 billion are engaged in agriculture, 1.3 billion of these are smallholders. Even in more urbanized regions like Latin America, up to 45% of the poor live in rural areas, and large portions of the economy are agricultural-dependent, such as the food and agro-processing sectors. A clear link can thus be made between the importance of development in the rural and agricultural economies and economic growth, poverty reduction and increased food security in developing countries.

Successful rural development builds on an integrated strategy which supports improved input supply chains and production practices, new post-harvest and processing technologies, access to finance, better market knowledge and linkages, and strengthened support institutions, both public and private. MEDA is active in supporting the range of actors and services needed for successful rural development, but we will focus here on one important component of our support: increasing access to rural and agricultural financial services.

For an agriculture-based business — whether a smallholder farmer, processor or trader — to succeed it needs capital for improved inputs and technology (seeds, fertilizers, fuel, tools and equipment), labour and transportation costs. Just as urban businesses have a variety of financing needs, so do rural-based businesses require short-term working capital, investment capital, seasonal credit, and other types of financial services such as insurance or money transfers. Rural and agricultural finance actually serves both rural and urban regions, encompassing a range of clients from poor rural households dependent on agriculture, to small retail, production, trade and service businesses to larger processing, wholesaling, or exporting enterprises. Agricultural producers tend to be located in rural areas, but many associated services, such as processing and agro-industrial businesses, may be peri-urban or urban-based.

Often operating at minimum capacity, rural businesses can be trapped in a vicious cycle of 'low investment – low return – low investment' that can perpetuate poverty. Without access to additional capital, at appropriate terms, they cannot improve their businesses enough to generate a real return for future reinvestment. Rural and agricultural finance thus plays a key role in rural development, providing the crucial link between proposed improvements, non-financial services, and the realization of production upgrading and new market opportunities for rural and agricultural businesses that will allow them to increase their revenues and thus incomes of their own households and their employees.

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Rural Finance has unique challenges

Access to finance is a critical component of rural and agricultural development that includes and benefits smallholder farm households—but it also presents unique challenges. Traditional microfinance methodologies have not led to significant breakthroughs in improving access to rural finance, especially for disbursed populations or for very small farm households. Advances in microcredit in the financial NGO and commercial microfinance sectors have—-with some exceptions—been mostly limited to urban areas and trade sectors, while alternative providers (such as cooperatives) have been constrained in resources, outreach, and product offerings.

Though the fundamentals of economic development and microfinance apply to rural finance, there are unique characteristics to rural and agricultural markets that must be considered to effectively design and deliver financial solutions to these areas. Five factors impact on all other aspects of rural and agricultural finance:

**High transaction costs**

Dealing with dispersed populations presents challenges: transportation may be difficult, communication technology unreliable and infrastructure can raise costs for both lenders and borrowers, as does the general lack of information available about rural households and enterprises.

**Agricultural-specific risks**

The majority of economic activity in rural areas is agricultural-based or agricultural-dependent. Risks in this sector are high and systemic, usually affecting large regions or numbers of households simultaneously. Risk areas include production risks (climate, weather, pests and disease), price risks (fluctuations subject to global, regional and local market factors), and seasonal or turnover-related risks (longer investment periods, lower turnover).

**Shortage of human capital**

Employment opportunities in rural areas are often more limited and educated residents may relocate to cities for better jobs. Urban residents are also reluctant to relocate to rural areas to work, making staffing difficult for rural financial institutions. In addition, rural clients often have lower literacy and financial literacy levels, making lending more difficult, expensive and risky.

**Government interference in rural markets**

Government intervention in rural and agricultural markets presents a real risk to lenders. Governmental policies directed at producers——such as subsidized credit or inputs, loan forgiveness programs, interest rate ceilings, price controls on agricultural products, or export tariffs——can wreak havoc on rural markets and distort repayment capacity or incentives of rural household.

**Unequal and inappropriate legal and property rights**

Weak judicial systems, undefined or discriminatory land ownership laws, and lack of functioning property registries mean that rural clients often cannot provide proof of assets and lenders cannot use assets as collateral, an important restriction affecting rural finance supply and demand.

In short, RAF markets are unique from traditional financial markets and require special knowledge, expertise, and risk management skills to serve rural clients profitably. MEDA, with over 30 years of experience in both microfinance and rural development, is uniquely positioned to help our partners with tested solutions to these challenges.

Since its inception, MEDA has recognized the important role that rural and agricultural development, including rural financial services, plays in the development of a country’s economy. In Bolivia, MEDA introduced black beans, an entirely new crop to the country, simultaneously opening new marketing channels and providing access to finance for small producers. Beans now enable families to better meet their nutritional requirements by providing a new winter crop alternative, as well as earning much-needed foreign exchange through export. MEDA’s work in Bolivia was supported by several donors, including CIDA, IDB and USAID.
Why MEDA? The Evolution of MEDA's Historical Experience in Inclusive Rural and Agricultural Finance

Since its origins in 1953, MEDA has continuously supported a market-driven approach to the economic development of rural areas to improve the lives of rural households. MEDA's drive to work with rural and agricultural enterprises stems from our Mennonite heritage: throughout Europe and in North America, Mennonites are known for their strong farming tradition that stretches back over 400 years. It is thus no surprise that MEDA's founding members directed their first investments towards agribusinesses in Latin America – an economic sector they knew well – and that their projects continue to have a strong bias towards rural poverty eradication.

MEDA's rural finance experience has evolved along with the development of the agricultural and microfinance sectors. From our initial experience providing seed capital for rural small and medium enterprises, MEDA's approach expanded to developing the sesame sub-sector through extension assistance to farmers, coordination of exporters and processors, and linkages to financial sector providers such as MiCrédito. 

MEDA works with a range of non-financial and financial sector partners to deliver inclusive RAF services

Non-financial sector RAF providers:
- Marketing companies (Producer cooperatives in Haiti)
- Agricultural cooperatives (Bean cooperatives in Bolivia)
- Input suppliers (Seed providers in Peru)

Formal/semi-formal financial sector RAF providers:
- Savings and Credit Cooperatives (SACCOs) (Tanzania)
- Credit unions (Jamaica, Peru, Bolivia, Paraguay and Haiti)
- Microfinance NGOs (Nicaragua, Afghanistan, China, Romania and Mozambique)
- Non-bank financial institutions (Haiti, Tajikistan)
- Commercial banks (Tajikistan, Nicaragua)

Finance to support development of the sesame value chain in Nicaragua

In 2004, MEDA created a new finance company, MiCrédito, with the mission of serving rural communities in Nicaragua. Funded exclusively with capital from MEDA, MiCrédito became profitable in one year, and today serves over 3,000 clients with a portfolio of $3.8 million. MEDA helped the MFI to establish all agricultural lending policies and procedures, and over 30 percent of the portfolio is in the agricultural sector. Many of MiCrédito's clients are also supported by MEDA's value chain project, PRODUMER, which is developing the sesame sub-sector through extension assistance to farmers, coordination of exporters and processors, and linkages to finance providers such as MiCrédito. CIDA also supports our work with MiCrédito.

MEDA’s First Investment: Sarona Dairy Farm, Paraguay

MEDA's first project was a partnership formed with farmers in the Fernheim Colony of Paraguay for establishment of the Sarona Dairy Farm. After constructing simple farm buildings and clearing land, higher-grade cattle were imported to create a crossbreed with a higher milk yield. Milk production rapidly increased and cows eventually yielded 5-10 times more milk than local varieties. MEDA's intention was to act as a temporary partner, providing necessary capital and arranging technical expertise for the Sarona project. In 1972, Sarona's local partners bought all the remaining shares from MEDA, acquiring complete ownership of the dairy farm. The Sarona Farm was a model MEDA project in many ways; local ownership was realized, family farms were strengthened, jobs were created and dairy products have contributed to the staple food supply of the local population. 

"Rather than move into the area of microfinance, IDE has preferred to work with specialist partners like MEDA who better understand the modalities of lending to rural poor customers."

Al Doerkson
Managing Director, International Development Enterprises (IDE)
Innovative financial solutions for technology input suppliers in Africa
KickStart, an international NGO specialized in low-cost water technologies, asked MEDA to research, design and develop a financing program for rural farmers who buy their irrigation pumps in Kenya and Tanzania. The model design objectives were to help increase demand for KickStart pumps and ensure operational sustainability (full cost recovery for pump financing and marketing). After extensive primary research with direct stakeholders – especially farmers, retailers, distributors, financial institutions and local government and community leaders – MEDA suggested up to 19 pump-financing models for KickStart’s consideration. KickStart selected two of the models for piloting and MEDA prepared operational details, budgets, timelines and draft policies for pilot implementation (2007).

Advocate and promote inclusive RAF best practices in the enterprise development community:
- Support the formation of the International Network for Rural Finance
- Advance learning and experience-sharing amongst RAF stakeholders and practitioners through participation in international RAF forums, disseminating MEDA’s RAF approach in industry publications, and developing RAF tools and resources for a variety of audiences

Recent industry contributions include:
- Development of packaged training materials and tools for rural and agricultural finance incorporating value chain principles (ongoing)
- Invited speaker at the Association of European Microfinance Institutions (AEMFI) Bi-Annual Conference and General Assembly on the topic of “Effective Microfinance for Agricultural Development” (Assosa, March 2008)
- Published peer-reviewed article “Reducing borrower and lender risk in Tajikistan through context-sensitive product and portfolio design” in Enterprise Development & Microfinance (Vol. 18 No. 2/3, Jun/Sep 2007)
- Panel speaker at International Conference on Rural Finance Research: Moving Results into Policies and Practice, sponsored by FAO, IFAD and Ford Foundation (Rome, Italy March 2007)
- Paper commissioned for the Global Microcredit Summit on “Microcredit and Agriculture: How to make it work” (Halifax, Canada 2006).

Rural finance as a tool for reducing poverty amongst women in Paraguay: Through a UNDP - sponsored project, MEDA assisted two rural MFIs (an NGO and a cooperative), to reach more than 10,000 rural families with access to financial services for enterprise activities, and created a national microfinance network for Paraguay to ensure continued support to the rural microfinance sector. The project built significant human resource and institutional capacity around rural microfinance methodologies and risk management to ensure permanent and expanding financial services to rural households (2006-2008), (UNDP)

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How MEDA delivers our inclusive RAF services
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Rural microfinance sector support:
Build internal capacity for rural financial service providers to expand outreach and product diversity and to improve efficiency and quality of service through integrated approach to rural development, institutional management support, coaching, technical assistance, training and board level support.

Services offered:
- Training in value chain approach to RAF
- RAF market research (supply side and demand-side)
- Developing strategic alliances for linkages with value chains or support service providers
- Value chain financing product and model development
- RAF provider efficiency improvement - i.e. process mapping, product costing, internal controls, staff incentives, etc.
- Software solutions for agricultural portfolio monitoring - AgroMonitor
- Loan capital for rural financial institutions through debt or equity investments

Financial solutions for agriculture and value chain interventions:
Working with international and local NGOs, governments and enterprises involved in agricultural value chains to develop innovative responses to lack of capital in the system, through strategic advice, technical support services, internal staff capacity building, and facilitating linkages with the formal financial sector.

Services offered:
- RAF market assessment and partner screening and selection
- Financial needs assessment of entire value chain (input –> producer –> output)
- Training on microfinance and rural finance for non-financial NGOs or enterprises
- Strategic advice / technical support for international organizations (at global or regional level) on financial solutions for agriculture or value chain interventions
- Developing strategic alliances for financial sector linkages with value chains or rural development interventions
- Value chain finance or RAF product development, from design to pilot and roll-out
- Ongoing monitoring or impact assessment of value chain finance linkages
- Software solutions for value chain monitoring (AgroMonitor)
- Venture capital to SMEs engaged in promising value chain activities

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2007 2010

Rural Prosperity Initiative, Africa and Asia (IDE International, Bill & Melinda Gates Foundation, Dutch Government)

MEDA provides specialized technical support and capacity building on viable supply chain development, value chain and market development, and microfinance / value chain finance to IDE International in four countries in Asia and Africa.

2008 2013

Revitalizing horticulture value chains and financial solutions for sustainable rural economic growth, Ukraine (CIDA)

Build the competitiveness of horticulture subsector, working closely with local financial institutions to create financial solutions for SME agribusinesses and smallholder farmers to enable investment in upgrading opportunities and new marketing linkages.

2004 2008

“Farms to Markets”: Integrated rural finance and agricultural programming, Tajikistan (CIDA)

Addresses the spectrum of challenges to agriculture, using distinct service providers: improved extension services, strengthened supply chains, post-harvest value- add opportunities, and increased access to rural credit through technical assistance and capital support to a local MFI (IMON) to offer tailored agriculture products.

1989 1997

PRISMA, Bolivia (IDB)

Trained and grew a network of self-sustaining rural savings and loan cooperatives to support savings, credit, and business training needs of 98,000 rural households.

1984 1992

Cocoa Marketing Cooperatives Development, Haiti (CIDA)

MEDIA established and supported 13 rural cocoa farmer cooperatives, provided technical assistance in production, credit, market access and information, including the selling and shipping of cocoa on the open market.

50s // 70s // 80s // 90s // 00s // 10s

Timeline – evolution of MEDA’s inclusive rural and agriculture finance programming

1953

Sarona Dairy Farm, Paraguay

First direct investment in local agribusiness for technical upgrading and capital investment led to profitable local milk production business.

1972 1975

Loans to Agricultural Cooperatives, Bolivia

MEDIA makes several loans to agricultural cooperatives in Bolivia for diverse uses such as inputs purchase for resale, credit to member farmers, and crop diversification.

1985 1997

Bean Sub-sector and export development, Bolivia (USAID, IDB, others)

Series of projects that dramatically increased incomes and nutrition levels of small-scale farmers by developing and expanding bean subsectors through marketing and export assistance, farm credit and farmer organization.

1994 2002

Community Economic Reinforcement [REKO] / SFF Fonkoze, Haiti (CIDA)

MEDIA returns to Haiti, focusing on sustainable rural microfinance programs and using a modified community banking methodology to reach 6,000 clients in 22 extremely remote, illiterate communities in Haiti, eventually merging with the largest MFI in Haiti, SFF (Fonkoze).

2004

MEDIA assisted two rural MFI’s (an NGO and a cooperative) to reach more than 10,000 rural women with access to financial services, and created a national microfinance network for Paraguay to ensure continued collaboration and support to the rural finance sector.

2006 2008

Rural microfinance institutional support, Male Yeru, Mozambique

Under the Mozambique Microfinance Facility, a six-year sector-wide support project, MEDIA strengthened the capacity of Male Yeru, an MFI serving exclusively rural areas in southern Mozambique through training and technical assistance in areas such as operational best practices, MIS, and HIV/AIDS issues impacting clients and staff.

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MEDA’s strategy for inclusive rural and agricultural finance reflects both practical experience and technical expertise that have been augmented by active engagement in the microfinance and enterprise development industry over the past 50 years. As a result of our programs and wide-ranging industry activities, we have defined a series of RAF intervention principles that form the basis for our current strategy and inform our vision for moving forward. Rather than a static methodology, the strategy is a framework that incorporates key principles to mitigate risks to both clients and financial institutions and leverage opportunities in a range of contexts.

Conduct a rural finance market assessment upfront

Whether as part of a larger study (i.e. value chain analysis) or as a discrete exercise, a comprehensive understanding of the rural financial market system in a target region provides the basis for a strong intervention. The assessment should survey existing financial service providers (both formal and informal), community initiatives with potential for expansion, and analyze enabling environment factors. The goal is to identify current challenges and gaps, opportunities for intervention and possible institutional and private sector partners.

Support institutional diversity in rural finance markets

Ensuring a greater diversity of financial institutions – from formal and regulated to semi-formal and informal – guarantees that clients will receive a wider selection of services and products to suit their specific needs. For some clients, village savings and loans are optimal, while for others agricultural development banks offer guarantees that are optimal, while for others agricultural development banks offer.

Spectrum of informal to formal partners - MEDA

Through our history, MEDA has worked with diverse institutions such as credit unions and cooperatives in Bolivia and Peru, informal village savings and loans organizations in Tanzania, formal microfinance institutions in Tajikistan and Nicaragua and commercial banks in Jamaica.

The ‘other’ microfinance revolution in Bolivia: Rural savings and loan cooperatives

With a presence in agricultural development projects in Bolivia since 1976, MEDA recognized a need for a strong rural finance provider to support farmers in the eastern regions of the country. In 1989 MEDA began the PRISMA (Program of Incentives and Support for Micro-enterprise) program with support from the Inter-American Development Bank (IDB) and in collaboration with the San Luis Savings and Loan Cooperative in Santa Cruz. Although other microcredit programs were also beginning in Bolivia in this era, MEDA’s was the first to work with cooperatives and the only one to focus on savings and training as well as credit – PRISMA strategically targeted production and service-related microenterprises, rather than the usual trade clients of microfinance. The rapid success enjoyed by San Luis and other partners created a demonstration effect, and by 1997 when MEDA’s involvement ended, PRISMA had expanded to include eight cooperatives throughout eastern Bolivia serving over 98,000 clients. The training component was also a critical success factor: an impact study showed that participating microenterprises increased their assets by an average of 35%, production sector jobs were created, and participants reported increased product diversification, improved money management, and better pricing strategies.

Plan ahead for successful rural financial sector partnerships

Best practice principles for microfinance still apply: small to start, keep it simple, monitor progress, feedback loop and incorporate lessons learned. Whether working with an experienced MFI, village bank, or network of input suppliers, a basic level of organizational capacity and systems must be in place to introduce a rural credit portfolio. Even with basics in place organizations should plan and budget for up-front investments in institution-building (governance, accounting systems, MIS, management and human resources, etc.). Size and scope matter as well: rapid growth in a rural setting is difficult to manage – pace the outreach and expansion of rural products slowly and allow for feedback and product refinement along the way.

Lending to marginalized women farmers in Afghanistan

In Afghanistan, MEDA provided technical assistance to Women for Women International (WWI) to launch and manage a new microfinance program for women marginalized by decades of war and poverty. Initially, MEDA provided overall management, business planning and financial modeling as well as technical assistance in human resources, financial and operational systems and strategic planning. The program has grown to serve over 15,000 peri-urban and rural clients. In 2008, MEDA assisted WWI to develop a new agricultural loan product targeted at women kitchen-garden farmers participating in “Through the Garden Gate,” a four-year CIDA-funded MEDA project to integrate marginalized women into horticulture markets. The agricultural loans have been a success in their first year and will be scaled up in the next planting season (2004-present).

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Conduct a rural finance market assessment upfront

Whether as part of a larger study (i.e. value chain analysis) or as a discrete exercise, a comprehensive understanding of the rural financial market system in a target region provides the basis for a strong intervention. The assessment should survey existing financial service providers (both formal and informal), community initiatives with potential for expansion, and analyze enabling environment factors. The goal is to identify current challenges and gaps, opportunities for intervention and possible institutional and private sector partners.

Support institutional diversity in rural finance markets

Ensuring a greater diversity of financial institutions – from formal and regulated to semi-formal and informal – guarantees that clients will receive a wider selection of services and products to suit their specific needs. For some clients, village savings and loans are optimal, while for others agricultural development banks offer.

Spectrum of informal to formal partners - MEDA

Through our history, MEDA has worked with diverse institutions such as credit unions and cooperatives in Bolivia and Peru, informal village savings and loans organizations in Tanzania, formal microfinance institutions in Tajikistan and Nicaragua and commercial banks in Jamaica.

The ‘other’ microfinance revolution in Bolivia: Rural savings and loan cooperatives

With a presence in agricultural development projects in Bolivia since 1976, MEDA recognized a need for a strong rural finance provider to support farmers in the eastern regions of the country. In 1989 MEDA began the PRISMA (Program of Incentives and Support for Micro-enterprise) program with support from the Inter-American Development Bank (IDB) and in collaboration with the San Luis Savings and Loan Cooperative in Santa Cruz. Although other microcredit programs were also beginning in Bolivia in this era, MEDA’s was the first to work with cooperatives and the only one to focus on savings and training as well as credit – PRISMA strategically targeted production and service-related microenterprises, rather than the usual trade clients of microfinance. The rapid success enjoyed by San Luis and other partners created a demonstration effect, and by 1997 when MEDA’s involvement ended, PRISMA had expanded to include eight cooperatives throughout eastern Bolivia serving over 98,000 clients. The training component was also a critical success factor: an impact study showed that participating microenterprises increased their assets by an average of 35%, production sector jobs were created, and participants reported increased product diversification, improved money management, and better pricing strategies.

Plan ahead for successful rural financial sector partnerships

Best practice principles for microfinance still apply: small to start, keep it simple, monitor progress, feedback loop and incorporate lessons learned. Whether working with an experienced MFI, village bank, or network of input suppliers, a basic level of organizational capacity and systems must be in place to introduce a rural credit portfolio. Even with basics in place organizations should plan and budget for up-front investments in institution-building (governance, accounting systems, MIS, management and human resources, etc.). Size and scope matter as well: rapid growth in a rural setting is difficult to manage – pace the outreach and expansion of rural products slowly and allow for feedback and product refinement along the way.

Lending to marginalized women farmers in Afghanistan

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Managing a rural microfinance portfolio in Nicaragua

MEDA launched MiCrédito — a Nicaraguan MFI — in 2004 to respond to an unmet demand for rural microfinance services. Despite the institutional mission of serving rural clients, MEDA recognized the need to diversify MiCrédito’s portfolio, and set a target of no more than 50 percent of rural microfinance activity. Since most production in rural districts served by MiCrédito is concentrated in just two crops, sesame and beans, the institution further diversified its products to serve credit needs of non-farm rural enterprises and for cattle-raising activities. CIDA supports MEDA’s technical assistance to this rural MFI.

Diversify a rural portfolio and monitor commodities for early warning signs

Portfolio diversification is a key tool for agricultural and rural loan portfolio managers. The overall portfolio risk can be reduced through balanced expansion and by carefully limiting exposure by economic activity, geographic region, loan methodology, size of loan and loan purpose (microentrepreneur, housing, consumer etc.). The agricultural portfolio should be further diversified by agricultural subsector, limiting reliance of the portfolio quality on any one commodity. Increasingly globalized markets mean that rural finance managers need to understand the entire market picture in agriculture: they should identify the vulnerabilities of each commodity chain, recognize early market warning signs, and have risk mitigation strategies in place.

Capitalize on integrated rural development approaches

MEDA increasingly implements or advises on multi-faceted programs that complement rural and agriculture finance with market development activities. In this approach, MEDA incorporates value chain principles and best practices with skills and expertise in rural and agricultural finance. This approach is proving to be beneficial both as a risk management strategy and as a means to identify potential linkages between producing, processing and financial institutions that promote sustainable and holistic growth. Integrated programs can activate viable and sustainable value chains, ensure appropriate financing at each stage of the value chain, and develop innovative models for market access, finance delivery, technology distribution and production support services. Market development aspects of the program strengthen income-generating opportunities for rural households and reduce risks to both clients and financial institutions. A multi-sector program also has the potential to examine how a rural loan portfolio heavily invested in agricultural production can be diversified by financing other activities in the supply and value chains, including input suppliers, equipment providers, marketing agents and other support services.

Build strategic alliances between the financial sector and rural development organizations

Not all programs incorporate both agricultural development and rural finance, nor should they attempt to. For many organizations, it is often optimal to develop linkages that provide the missing set of skills and decrease the risks to the parties. For rural finance providers, strategic alliances with commercial players (lead firms, buyers, input suppliers, technology providers), public or community-managed services (extension, price and weather information, services) or producer groups (cooperatives, marketing boards) can create opportunities for research and development, market research, and delivery and exchanges of information on clients, markets and production risks, and ensure that clients can participate in growing subsectors. For rural development organizations, partnerships with a financial institution can prevent the drain of staff and financial resources needed to capitalize and manage a financial program that brings new risks and operational challenges. Overall, clients benefit from the increased communication and cooperation between organizations with similar clientele and objectives of rural economic development.

Encourage financing of market-driven rural economic activities

Providing loans for promising economic activities and solid agricultural practices that respond to market demand is perhaps the single most important way that rural financial institutions can mitigate risk and help small farmers to integrate their production into national and global economies. The linkages and integrated program opportunities mentioned above are the most promising ways of ensuring that appropriate activities are chosen for finance, but rural financial institutions can also build internal skills in identifying promising or growing sectors and guide finance towards successful agricultural practices that improve yields and mitigate risks. MEDA’s experience in designing financial programs tailor-made for special technologies that have been proven to increase productivity in the hands of smallholders — such as micro-irrigation technology — have shown these rural finance interventions to be much lower risk, easier for clients to adopt, and with potential for real scale.
Value chain finance solution brings higher prices to smallholders in Tajikistan

MEDA discovered that farmers in northern, Tajikistan were receiving lower prices for their produce due to market gluts during harvest season, and that they faced high spoilage levels which prevented them from accessing new markets. Together with IMON, a leading MFI, and with funding from the SEEP Network/USAID, MEDA designed an integrated value chain financial solution that facilitated the development and supply of affordable storage technologies for smallholder farmers and developed appropriate loan products to enable farmers to invest in the new low-cost storage options. As a result, participating farmers increased their incomes by an average of 50 percent. They now exercise greater control over their sales and marketing and have transitioned from being ‘price takers’ to ‘price makers’ in local markets (2006-2007).13

How can Value Chain Development reduce risks of rural microfinance?

- Increases and improves buyer/seller collaboration and cooperation
- Integrates smallholders into formal market systems
- Increases demand for/improves supply of input products and support services
- Introduces cost-saving technologies
- Enhances opportunities for leverage
- Promotes profitable participation in new output markets
- Can distribute risk more evenly amongst stakeholders in chain

MEDA Checklist: Effective Microfinance for Agricultural Development

Microfinance providers need to:

- Provide demand-driven products and services
- Have an effective risk-mitigation strategy
- Ensure viable and sustainable service delivery

They can achieve this by:

- Aligning microfinance products with market development activities
- Using value chain information for product development and portfolio diversification
- Maintaining a necessary level of autonomy
- Thinking long-term and thinking scale

As a learning organization, MEDA continually evolves to meet the needs of clients and achieve impact. Some of these ‘new directions’ are simply natural extensions of previous experience in related sectors that is being transferred and consolidated around the rural finance agenda. Other initiatives are true ‘works in progress’, and MEDA is committed to testing our new approaches in an action setting and sharing the results with the wider international development community for mutual learning, new perspectives and greater impact on rural poverty.

Bring the value chain perspective to design solutions to rural finance constraints

Rural and agricultural finance can be approached through a classic financial sector approach, emphasizing the importance of formal institutions in facilitating access to a range of financial services, or through a value chain approach, using the production ‘chain’ to identify entry points for financial interventions that can increase the competitiveness and earning potential of production chains and specific actors, such as smallholders. MEDA adopts a complementary approach, drawing on both perspectives to address the constraints to finance in rural areas, but also examining existing relationships between value chain actors and institutions to identify opportunities for value chain financing. MEDA will continue to assist financial institutions to build skills in the under-used value chain approach to rural finance as well as to develop and implement supply chain finance and value chain finance linkages.

Share risk through investments in rural financial institutions

MEDA was founded as an investment club and we continue to build on that experience by providing investment capital, both debt and equity, to selected financial institution partners worldwide. A recent equity investment assisted an MFI partner in Tajikistan – with one-third of its portfolio in agriculture – to transform into a regulated institution. Our investments can be coupled with governance support, strategic management, or specialized technical assistance as appropriate to support the viability and effectiveness of the institutions. New experiments with guarantee mechanisms for rural portfolios can also help spread risk across partners and encourage expanded services to rural areas.

A value chain finance solution centred on a rural MFI in Peru

To overcome uneven market development and weak trading relationships – due partly to lack of access to finance – in the rice sector in Peru, MEDA developed a value chain finance solution centred on an MFI, the Caja Rural San Martin, in collaboration with small-scale rice producers, agrochemical input suppliers, and marketing agents (rice mills), with funding from the U.S. Agency for International Development.

Using management information software designed by MEDA and delivered through a local firm, all stakeholders in the chain are provided with access to timely information about the production cycle, avoiding duplication of monitoring efforts, lowering transaction costs of credit, and reducing business risks for all parties. The model was successful in meeting these objectives, but governance and management of the value chain relationships proved too difficult to maintain, highlighting the importance of choosing the right private sector partner and aligning the vision of all parties early on, to ensure the rural finance solution can be led by an internal stakeholder when external support ends.

MEDA brought an absolutely new program which we had never done before.

Sanavbar Sharipova
Managing Director, IMON, Tajikistan

New directions in MEDA’s inclusive rural and agricultural finance practice

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Use technology innovations to improve service delivery

A range of technologies are available to streamline and monitor operations, be more cost-effective, or reach more remote clients with financial services. Some technologies are in the testing phase, while others are becoming more accessible and proven in rural settings. Mobile phone banking, SMS money transfer services, agent or correspondent banking channels, and mobile branch units offer opportunities to greatly expand the rural finance frontier. Combined with new methods of disseminating production and marketing information and monitoring production of smallholders using mobile or electronic communications, there will be great advances in the short term for these services in rural areas. MEDA is experimenting with several systems – such as SMS vouchers for technology purchase, and specialized software for value chain management (“AgroMonitor”) — and will continue to incorporate new technologies into our rural finance programming.

Expand rural financial services to include a wider range of products

MEDA recognizes that households in rural areas need access to a wider range of financial services other than credit to help mitigate risk and plan for the future. Access to remittance and deposit services can help both clients and institutions smooth seasonal cash flows and decrease credit and other risks. Innovative indexed insurance schemes can encourage investment in agriculture and protect the poor from cataclysmic events. Not every product must be sophisticated to be effective: Savings lock boxes for MEDA women’s agricultural groups in Afghanistan have spurred savings in communities previously unfamiliar with financial services of any kind. MEDA will continue to support its partners in the design and delivery of a wider range of rural financial services, such as leasing, long-term investments, insurance, remittances and savings.

Focus on regional and global alliances for greater impact and learning

MEDA is increasingly involved in supporting multi-country and/or multi-regional programs, and will continue to grow in this area. This allows MEDA to transfer skills and technology from one country or region to another, taking into consideration contextual factors when making adaptations. It can also help MEDA to achieve the scale necessary to make a significant impact at a global level. This will be made possible through strategic partnerships that offer complementary skills, products and services.

Standardize tools and training materials for rural finance

Based on its substantial experience, MEDA has developed many training packages and toolkits to help local organizations and other practitioners to improve the efficiency and effectiveness of their services and programs. Our approach to rural financial market assessment, demand-side market research, value chain finance and agricultural credit product development is similarly being packaged into various training modules appropriate for microfinance institutions or other rural development organizations wishing to partner with MFIs to deliver rural finance products. MEDA trainers are experts at delivering these materials for a variety of audiences and contexts.

Help combat climate change through our rural development activities

MEDA’s new Sarona Green Investment Fund will invest in businesses – many in rural areas – that can contribute to carbon offsetting. Through Sarona Green, MEDA will also seek to engage with microfinance institutions to help them to reduce their carbon footprint and to develop financial products that enable their clients to invest in clean energy technologies for their homes or businesses. MEDA is also experimenting with green agriculture practices such as conservation agriculture that can be incorporated into our market development activities to benefit both clients and the environment through decreased carbon emissions or other energy-saving techniques.

MEDA believes that our heritage of agriculture, business and peace-building give us a unique advantage in reaching the rural poor with access to inclusive financial services. This remains a primary component of our strategic planning and program implementation. For more information on how MEDA can assist your organization in its rural or agricultural programming, or for more information about MEDA’s RAF approaches and tools for practitioners, please contact us: mf@meda.org or 1-800-665-7026

Rural Prosperity Initiative reaches dollar-a-day farmers in Africa and Asia:

This four-year project (“RPI”) managed by IDE International and funded by the Bill & Melinda Gates Foundation seeks to build the incomes of 100,000 smallholder farmers through access to low-cost water technologies for higher-value crop production and improved market opportunities. MEDA provides specialized technical support and capacity building to IDE RPI country programs in five countries in Asia and Africa in the areas of viable supply chain development, value chain and market development, support service delivery options and microfinance / value chain finance (2007-2010).

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In 2008, MEDA’s work touched over 2.6 million families in 44 countries, in partnership with 139 locally-owned and managed organizations. Here, Zambian farmers test out new irrigation technologies purchased through a MEDA discount certificate program and linkages to local microfinance services.