Position paper

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Solutions to finance the development of family farming

Collaborations between farmers' organisations and rural finance institutions

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PROBLEMS
SUGGESTION
CONCLUSION
CONTACTS

Agriculture's return to grace

After 30 years of indifference and marginalisation, agriculture returned to centre stage following the 2008 food crisis. This return was notably officialised by the World Bank's 2008 report on agricultural development.

The International Year of Family Farming (IYFF), set by the United Nations in 2014, is a revealing sign of this once again favourable context.

During the IYFF, the topic of the necessary transformation of family farms (FFs) became a central focus. Indeed, these farms were recognised as the most sustainable agricultural model to overcome poverty according to the IAASTD report.[1]

However, the question of the financing needed to accompany these transformations has been raised in a context where a certain number of governments and donors are re-investing in agriculture but where we can see on their part an overall trend of disinvesting in one of the sectors that helps finance agriculture—microfinance, which is increasingly being left to the private commercial sector.

1 *International Assessment of Agricultural Knowledge, Science and Technology for Development*, 2008

Financing demand and supply

It is extremely difficult to put a number on either the demand for or supply of financing for FFs, but it is clear that rural finance institutions (banks and MFIs) have until now shown little capacity to respond to the immensity and diversity of FFs' needs.

A number of elements explain the existing hindrances:

- Addressing FF financing is complex: Few FFs are able to draw up operating accounts. Plus, FF is a system that has specific and diverse needs and is not easy for FIs to grasp, particularly as the two worlds do not really know each other and are cut off from each other, in a climate of reciprocal distrust.

  On this point, the efforts being made by FOs such as FONGS in Senegal[2] and ANOPER[3] in Benin to increase knowledge of FFs are important to provide objective information on FFs' financial situation.

- The resources required are considerable and out of reach of MFIs where the savings deposited are usually short-term while FFs' needs also extend greatly over the medium and long term. Banks, however, have more and longer term resources, but do not necessarily have the local presence needed to enter the arena. In this way, stronger collaboration between banks and MFIs is a serious path for the future.
- The risks are very high and of different orders: weather, a little regulated market and therefore price volatility, lack of physical collateral from borrowers, etc. Among other things, some of these factors are covariant risks: they affect all borrowers in a given zone when there is a problem.
- From the standpoint of FFs and the real profitability of their crop and livestock activities, the cost of financing is still very high: the risk factor mentioned above is one part of the explanation but the issue of the dispersal, even isolation, of certain FFs worsens the problem. In addition, since the past failures of public agricultural development banks, no other stakeholder has significantly taken up the relay in the context of liberalisation.

For several years, financing of commodity chains or value chains has been presented as the solution. This approach is particularly seductive for donors—but with little coordination among them!—by taking into account the entire chain and its various stakeholders, ranging from input suppliers to production to processing and then to marketing. This approach is designed to manage the risk taken by those involved. It favours the concept of agricultural enterprise, seen as the main lever for the sector's development.

This is, of course, noteworthy progress but does not meet all FFs' needs. Among other things, it is not really an innovation because it already existed for certain cash crops (e.g. cotton in West Africa) when they were still under public sector control.

In fact, it is an approach to the agricultural world that differs from that of FFs. While FFs are usually a diversified and complex system combining crops, livestock and non-agricultural activities (which diversifies risk from the family's standpoint), the value chain approach favours specialisation in a product that can bring about a high level of dependency.

Finally, one should note that not all value chain are seen as promising—far from it—and in particular those that make large contributions to the food security of rural populations (e.g. millet and sorghum, which are found on 85% of farms in Sahelian Africa[4] or potato in Andean America).

PROBLEMS
SUGGESTION
CONCLUSION
CONTACTS

2 See on this subject, issue No. 32 of *Farming Dynamics* published by SOS Faim that discusses the Fédération Nationale des ONG du Sénégal – Action Paysanne.

3 ANOPER is the national association of professional ruminant breeders' organisations.

4 *Cereals at the Heart of a Nourishing West Africa*; ROPPA – SOS Faim – ISSALA – LARES; 2012.

SOS Faim's position and proposals

In the light of the challenges described above, SOS Faim believes that developing relationships, connections, synergies and collaboration between farmers' and producers' organisations (the demand for finance) and rural finance institutions (the finance supply) are essential keys to accompany the necessary transformation of FFs.

In other words, the idea is to **innovate** by creating the institutional and operational conditions that make it possible to forge relationships and collaboration among stakeholders to optimise the potential of existing financial tools.

The principles that we defend

- Family farming is a vital economic component in developing countries.
- Family farms' access to financial markets is a decisive lever in their transformation and sustainability.
- A systemic approach needs to be encouraged, involving not only producers and rural finance institutions but also professional agricultural organisations, public policies, technical and financial partners, support organisations, etc.
- The starting point is farmers' organisations, which are most able to understand and communicate FFs' needs.
- The interest rates producers are asked to pay must be consistent with the real profitability of the activity financed.

PROBLEMS
SUGGESTION
CONCLUSION
CONTACTS

For this, two steps to take

Build a relationship between the stakeholders concerned

A crosscutting approach creating a network of relationships between stakeholders should make it possible to meet unmet financing needs and eliminate missing links.

Several stages in forging relationships: get to know each other, communicate, respect each other, become comfortable with each other, negotiate, work together optimising the comparative advantages of the two types of structure by establishing a win-win relationship; foster dialogue between the agricultural and financial sectors; achieve co-built systems that can be included in public policies.

FONGS

Action paysanne in Senegal: building collaboration between a farmers' organisation and an agricultural bank.

FONGS, a Senegalese farmers' organisation, made a strategic choice in the early 1990s to become a shareholder in the Caisse Nationale de Crédit Agricole du Sénégal (CNCAS). Thanks to this approach, it was able to obtain a seat on the bank's board of directors and managed to influence a certain number of decisions in favour of the Senegalese farming world:

- a drop in the cost of agricultural credit: down from more than 20% initially to the current 7.5%;
- expanding credit to all agricultural value chains; and
- strengthening the bank's coverage network throughout the entire country.

PROBLEMS
SUGGESTION
CONCLUSION
CONTACTS

Set up three complementary tools

SOS Faim has **identified three tools** as "missing links." They may be used together or separately as needed depending on the circumstances. They are strengthened by the crosscutting approach of connecting stakeholders and fostering dialogue among them.

Crosscutting approach: inter-sector dialogue		
Building the capacities of FOs and their members when it comes to financing	Concessional lines of credit to invest in family farms	Guarantee funds for risk management

Tool 1: Building the capacities of FOs and their members when it comes to financing

Building the capacities of FOs and their members is a way to redress a form of imbalance between the farming world and the world of finance when it comes to access to information and training.[5]

Agricultural organisations need to build their capacities in several areas: ability to analyse the issue of agricultural finance at level of households, organisations and the national economy; the logic and rules behind agricultural financing in a commercial environment (credit, savings, self-funding, etc.); elaborating a loan application, managing a loan; ways of negotiating with financial institutions; specific tools and innovations available in the area of agricultural finance (warrantage/warehouse receipts, leasing, line of credit, value chain financing, guarantee funds, mutual guarantee associations, etc.); the logics and mechanisms in public agricultural finance policies to be able to be a source of proposals in their elaboration.

5 See on this subject: *Organisations professionnelles agricoles et institutions financières rurales : construire une nouvelle alliance au service de l'agriculture familiale. Un guide opérationnel*, Wampfler B., Doligez F., Lapenu C., 2008. Collection Les cahiers de l'IRC/Montpellier SupAgro/SOS Faim.

MOORIBEN

MOORIBEN is a large federation of Nigerien FOs (more than 60,000 members).

Following an in-house strategic reflection process facilitated by international expertise, MOORIBEN opted to facilitate its members' financing through agreements with existing financial institutions, primarily the Banque Agricole (Bagri).

In this framework, MOORIBEN provided itself with the necessary expertise by hiring a finance professional, formulated a credit policy, and set up its own loan committees.

From 2011 to 2013, this process as a whole required the execution of a training plan for elected officials (40 officials trained) and executives (19 organisers trained) from the federation and the elaboration of management tools to monitor loans. 4,986 members (nearly 75% of which women) from MOORIBEN obtained access to credit (agricultural inputs, warrantage/warehouse receipts, and agricultural product marketing) from Bagri through their federation. This capacity building system allowed the FO to internalise skills and obtain excellent results in terms of portfolio quality.

Tool 2: Concessional lines of credit for investments in family farms

This tool is destined in particular for microfinance institutions that have little long-term resources to meet the demands of agricultural investment credit. Their provision at concessional rates (a maximum of 4% to 5% per year) opens the possibility of offering farmers interest rates that are compatible with the real profitability of their agricultural activities.

Fonds d'appui aux investissements ruraux (FAIR) – Mali

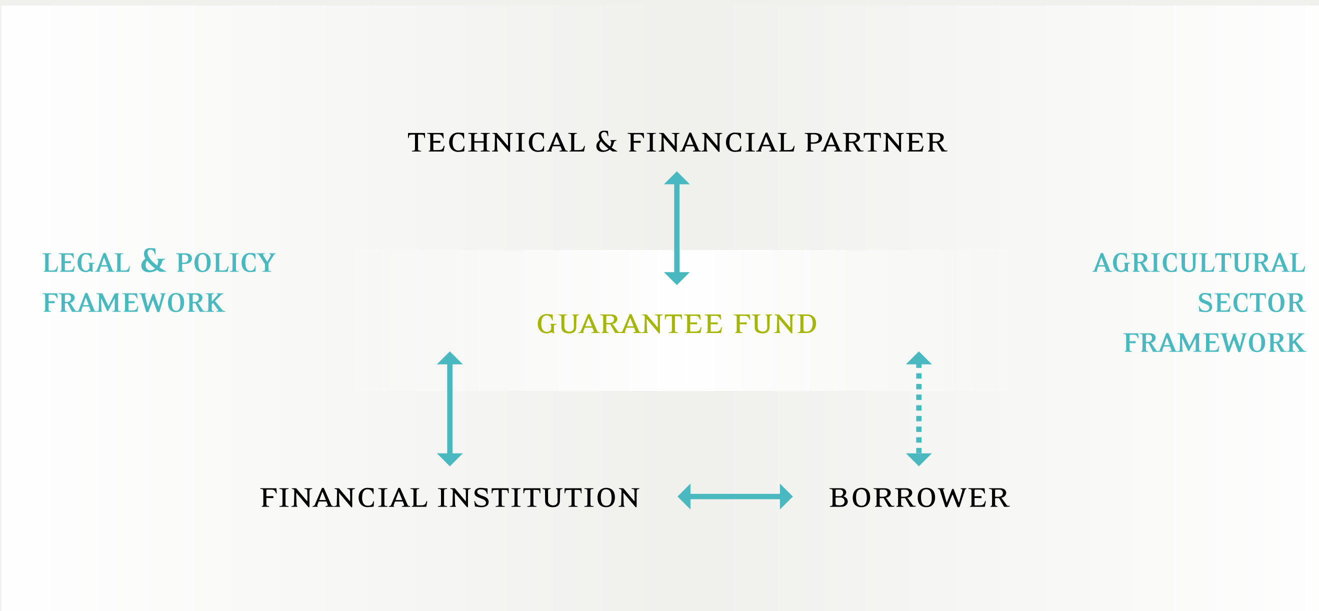
As part of the collaboration between Sexagon and Kafo Jiginew, a line of credit was set up to encourage the granting of investment loans.
Over the 2009-2013 period:

Type of Loan	Products Concerned	Number of Loans	Amounts Disbursed	Average Loan
Medium Term (1 to 3 years)	ploughs, plough-oxen, threshing machines	738	€960,853	€1,219
Long Term (› 3 years)	two-wheeled tractors, storage warehouses	72	€524,425	€7,284

Tool 3: A Guarantee fund to manage risks

A risk management tool for agricultural production–related risks: the guarantee fund. The principle is to pool risks while avoiding loss of responsibility. This tool must be part of a systemic logic. A priori, it targets mostly banks and other international financial institutions.

It allows borrowers to access funds to which they did not have access and the FI to develop new products or markets or test new approaches.



FOGAL

SOS Faim instigated the creation of a guarantee fund for Latin America that has a sub-regional vocation in the Andes region.

Local partners are involved with the governance of this fund created in 2004. At the end of 2013, the fund had 23 clients, including 12 farmers' organisations. Outstanding guarantees issued came to US$2,407,000 for a volume of released credit of $5,637,000, amounting to a leverage effect of 2.34. The fund makes it possible to mobilise liquidity present in local commercial banks to sustainably ensure the marketing of products such as coffee, cocoa, banana, Brazil nuts and grains. Progressively, a long-term business relationship has been established between the stakeholders thanks to the financial guarantee provided.

PROBLEMS
SUGGESTION
CONCLUSION
CONTACTS

In conclusion, SOS Faim's vision and approach

SOS Faim's approach is a response to the challenge of building trust between family farming and the financial sector. The aim is to sustainably strengthen financing of agricultural investment. We have made the following choices:

- Centre our system around farmers' and agricultural organisations. Indeed, they can play a decisive role between farming households and the financial sector, banks and microfinance, for more complete financial inclusion of family farming. They are certainly best armed to ensure consideration of FFs' needs.
- Depending on the context and the diagnostic established, the tools presented may be used separately or may combine and strengthen each other. Throughout the process, emphasis is placed on dialogue between stakeholders, farmers' organisations and financial institutions, as well as the other public and private actors, thereby ensuring a systemic approach that benefits family farms.
- This model clearly requires subsidies at the outset, but prospects for institution-building and sustainability exist without a doubt, as the examples evoked demonstrated.
- It takes time and patience to build lasting alliances among stakeholders: here, we speak of lengthy processes that go beyond the project or program approach.
- The innovation is that stakeholders of different natures take risks together, building a future together from the perspective of mutual strengthening.

PROBLEMS
SUGGESTION
CONCLUSION
CONTACTS

SOS Faim

SOS Faim Belgium and SOS Faim Luxembourg are two development NGOs active in the fight against hunger and poverty in Africa and Latin America. By privileging an approach based on partnership with local stakeholders, the two SOS Faims support family farming by providing farmers in the south with technical, organisational and financial support, and by raising the awareness of and mobilising people from the North around issues relating to poverty and food security.

Further Reading

- ***IAASTD report: International Assessment of Agricultural Knowledge, Science and Technology for Development*, 2008**
  http://www.unep.org/dewa/assessments/ecosystems/iaastd/tabid/105853/default.aspx

SOS Faim publications

- ***Cereals at the Heart of a Nourishing West Africa;* SOS Faim; 2012**
  http://www.sosfaim.org/be/wp-content/uploads/sites/3/2014/10/SOS-12-cereales-UK4.pdf
- ***Réponses des organisations paysannes aux besoins de financement des exploitations familiales en Afrique de l'Ouest,* SOS Faim, 2014**
  http://www.sosfaim.org/lu/publications/autres-publications/
- **The publications *Zoom Microfinance* and *Farming Dynamics***
  http://www.sosfaim.org/be/publication/

PROBLEMS
SUGGESTION
CONCLUSION
CONTACTS

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