



Rural Finance and Investment

INVESTING IN AGRICULTURE FOR POVERTY REDUCTION

Increases in commodity food prices have not only raised awareness of the urgency to increase agricultural investment, they also have set up opportunities for profitable investments. The capital required to invest comes through debt or equity but both rely upon financial service providers such as banks and credit unions to facilitate the needed money flows for loans, deposits, money transfers, guarantees and other financial products. They provide access to the assets required to increase agricultural productivity and reach a scale that will lead to higher incomes and asset growth for the rural poor. However, providing financial services to agriculture and rural areas involves risks, high transaction costs and historically low returns on investment to agriculture. For small-scale agriculture, financial services are even more limited.

RURAL FINANCING EFFORTS MUST ENCOMPASS BROAD ISSUES

Although technological advancements and improved financing systems offer investment avenues for some institutions and regions, they do not necessarily address the specific needs of small farmers and agro-industries. FAO has identified practical actions and approaches for improving and expanding the provision of rural financial services:

- increase economic opportunities and build the management capacity of rural entrepreneurs to use finance effectively through training and business-development linkages;
- mitigate risk in finance and investment through improving assessment tools and linking finance to the agricultural value chain;
- introduce cost-effective, flexible and longer term loan products that use new approaches and technologies to meet farm and agro-industrial needs;
- lower costs and promote effective management of diverse rural financial institutions by improving information systems and technologies;
- develop policies and mobilize support for sound interventions in financial markets.

FAO AGRICULTURAL AND RURAL FINANCE ACTIVITIES INCORPORATE MODERN TOOLS AND TECHNOLOGY

Research – FAO has found that financial linkages between rural microfinance institutions and formal financial institutions expand rural household access to a broad array of financial services, not just credit. This information, gathered from analysis, testing and adapting

of successful linkages and information from other sources, was presented at a global Rural Finance Research Conference that was led by FAO to determine research priorities and policy application.

Web site management – FAO developed and manages the multi-donor Rural Finance Learning Centre (RFLC), a dynamic Web site that offers rural finance information and presents on-line training in English, French and Spanish.

Software development and support – FAO works with numerous financial institutions through the FAO/GTZ MicroBanking System software it developed. Currently, 75 financial institutions in 20 countries with more than 1 500 branches use the software. Training and on-site support enable them to improve management by maintaining

FAO looks for insurance for the future

FAO advises its member countries on agricultural insurance schemes through technical assistance and through publications such as “Insurance Innovations” and “Crop Insurance”. Its extensive work on crop and agricultural insurance covers:

- **index-based insurance which reduces risks to borrowers and lenders and improves access to agricultural finance, and**
- **weather-based index insurance, which links insurance to historical weather data on rainfall or temperature with payouts triggered by the effects of a difference in these during the growing seasons, thus not requiring expensive on-farm inspections and loss assessments.**

accurate and reliable records of accounts, transactions and clients, and to reduce transaction costs of servicing small clients. The software permits village banks, credit unions, agricultural cooperatives, microfinance institutions and commercial banks to improve efficiency and rural outreach.

Risk management products – FAO, through several of its divisions as well as other agencies involved in risk management, has helped develop products such as indexed insurance and improve price risk and loan risk analysis.

Market development – FAO work on value chain and agro-industries development opens secure and competitive markets for farm produce. This includes analysis and innovative finance modelling from input suppliers and marketing companies within the value chain and from finance embedded in contract farming and outgrower arrangements. Work in value chain finance promotes alternative collateral schemes such as inventory credit systems, forward contracts and product linked finance. In Asia, Africa and Latin America, FAO has organized major conferences bringing together bankers, agribusinesses, government and technical agencies and farm organizations to learn from and analyse the many innovations and models in value chain finance and to forge relationships for addressing replication, policy issues and priority areas for further work.

Partnerships and networks – FAO partners with and supports strategic network organizations including the Regional Rural and Agricultural Credit Associations (RACAs) – AFRACA, APRACA, NENARACA and ALIDE – which were founded in the late 1970s.

FAO COUNTRY PROGRAMMES FOCUS ON SMALL PRODUCERS

At the national level, FAO works with partner organizations to develop and test financial products and services and set up linkages with financial service providers interested in expanding their operations to include lending to small agricultural producers.

In addition, FAO:

- provides advisory services in value-chain finance by working with financial institutions and developing products and linkages with input suppliers, large

agribusiness firms and marketing companies, to help improve methods of financial service provision;

- organizes and participates in strategic workshops and fora to share lessons, support policy and regulatory reform, and motivate national, regional and global action;
- carries out advisory missions, when requested, to support technical improvement, training and policy development.

Field programme activities also include support to agribusiness investment promotion and rural infrastructure investment and finance.

FAO focus on rural finance and investment

With more than three decades experience dealing with agricultural finance issues, FAO's Rural Infrastructure and Agro-Industries Division (AGS) works in partnership with agricultural banks, cooperatives, ministries of agriculture and finance, and microfinance organizations to develop policy dialogue and establish approaches for information analysis and dissemination. In keeping with its mandate to gather and share knowledge and expertise, FAO's rural finance activities focus on four key areas:

- developing sustainable financial and business linkages among banks, local financial and microfinance institutions, producer organizations, agro-enterprises and support service providers;
- improving small farmers' access to financial services throughout the value chain;
- improving the products, services and operational systems of financial service providers;
- sharing and using the lessons learned to improve services and policies in other countries.



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