# Rural finance:
## Sustainable and inclusive financing for rural transformation

IFAD
Investing in rural people

### Financial Inclusion and the SDGs

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|---|---|---|---|
| | | 5 GENDER EQUALITY | Improved access to financial services for women |
| 1 NO POVERTY | Ensure all men and women, in particular the poor and vulnerable, have access to financial services | 8 DECENT WORK AND ECONOMIC GROWTH | Formalization and growth of MSMEs, through access to finance/Strengthening capacity of domestic financial institutions to expand access to financial services for all |
| 2 ZERO HUNGER | Secure and equal access to financial services as a means to double agricultural productivity and incomes of small-scale food producers | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | Providing small enterprises with access to financial services |
| 3 GOOD HEALTH AND WELL-BEING | Financial risk protection | 10 REDUCED INEQUALITIES | Reducing the costs of remittances |

## Did you know:

- IFAD is one of the world's largest lenders in rural and agricultural microfinance for poverty reduction
- IFAD has to date invested over US$3 billion in rural finance initiatives
- IFAD's ongoing rural finance commitments as of December 2015 were US$1.2 billion (18 per cent of IFAD's portfolio)
- Various rural financial services publications are available in hardcopy or online at: www.ifad.org/pub/overview

Most of the world's 1.2 billion very poor people live in precarious conditions, without the security of reliable income, shelter or food. Being able to save, receive, pay or borrow small amounts of money can make a big difference to their lives. Yet according to the Global Financial Inclusion Database (Findex) 2014, around 2 billion poor adults remain excluded from the financial system. The majority (72 per cent) come from South and East Asia and the Pacific and sub-Saharan Africa.

Challenges, such as economic shocks, food shortages and climate change, disproportionately affect poor people. Rural poor households are typically excluded from formal financial sector opportunities. In fact, it is estimated that less than 10 per cent of poor rural households have access to the most basic financial services. These households earn their income as smallholder farmers, or are self-employed or work in the informal economy. They are both producers and consumers, and they need financial access to build assets, create and sustain their livelihoods, manage risks and smooth consumption.

Access to financial services in rural areas allows poor people to manage their household cash flows, start new agricultural activities and set up small businesses. When poor rural people have higher earnings and safe ways to save their money, they can pay for healthcare and education, and plan and invest in the future of their farms or enterprises.

Small, informal savings and credit groups have operated in different forms around the world for centuries, but the field of microfinance (financial services for microenterprises and poor people) took off in the late 1970s when experimental development programmes in Bangladesh began lending tiny amounts of money to groups of poor women.

The women invested the money in income-generating activities, and reliably repaid their loans. News of their repayment rates and the difference microfinance had made to their lives spread; the field grew quickly, reaching more and more people around the world.

It soon became clear that providing loans was not enough. Poor rural people, like everyone else, needed access to a wide range of financial services. Today, the rural finance sector has moved beyond credit to include savings, money transfers, and a variety of insurance products that cover life, health and agriculture.

Inclusive rural financial services are particularly important for poor women and young people. Women are often at the lowest levels of rural societies. The status of women in their homes and in their communities improves when they are responsible for loans and manage their household's budget. Generally, financial services extended to women have a greater positive impact on household food consumption and on the quality of life for children than similar loans to men.

# IFAD's commitment to a market systems approach to inclusive rural financial services

There is increasingly robust evidence that promoting access to inclusive rural financial services shows positive impact at the microeconomic level, improving household welfare and local economic activities. Also at the macroeconomic level, the degree of financial intermediation is positively correlated with growth. Policymakers increasingly recognize that an inclusive financial market allows for more effective and efficient achievement of other policy objectives.

With almost four decades of engagement in more than 70 countries and more than US$3 billion invested in rural finance systems to date, IFAD has deep, multifaceted experience, a global network of partners working at the frontier of innovation and hundreds of different types of providers (commercial banks, agricultural development banks, microfinance institutions and financial cooperatives, community-based grass-roots savings and credit associations, and specialized finance companies, e.g. equity, leasing, insurance) that address the needs of the clients: rural poor households.

IFAD's goal is to empower poor rural women, men and youth in developing countries, and to improve their incomes and food security. To do this, IFAD is working to expand access to a range of financial services in rural areas. These services are tailored to the needs of rural poor households, smallholder families and rural microenterprises.

Financial service providers need to be sustainable, providing relevant services over the long term and continually increasing their outreach to rural customers. IFAD also looks at the long term, working to build institutions that are able to allocate scarce resources efficiently, manage risk and reduce transaction costs.

Sustainable poverty reduction requires political will, good governance and sound policies. Governments have an important role to play, creating a conducive policy and regulatory environment in which responsible financial service providers can thrive and be effectively supervised.

IFAD catalyzes global knowledge and country applications, and shares knowledge through publications, operational guidelines and building communities of practice (e.g. CGAP, CABFIN, etc.). Its market systems approach to inclusive rural financial services entails understanding the needs of vulnerable low-income households and smallholder farmers, demonstrating pro-poor business cases, enhancing the effectiveness of rural outreach, supporting financial sector infrastructure development, and promoting the enablement of national policy and regulation. One of the approaches to better serve IFAD's clients is through "toolkits" that cover industry best practice offerings such as:

## Beyond lending and saving

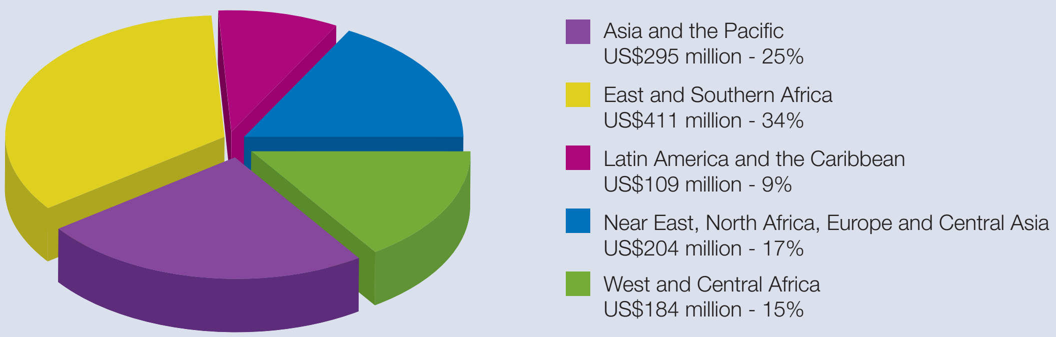
**Agricultural Risk Management (ARM)**. The inherent risks and vulnerabilities, especially of smallholder farming systems, are often a barrier that discourages private-sector investments in agriculture. In this context, ARM represents a key, innovative approach to matching demand with supply, and leveraging rural financing and investments. The Platform for Agricultural Risk Management (PARM) is a G20 initiative supported by IFAD, the European Commission, the Agence Française de Développement (AFD) and the Italian Government. PARM focuses on mainstreaming ARM into policy and investment plans of developing countries. PARM promotes rigorous risk assessment and a holistic and demand-driven approach to managing agricultural risks.

**Index insurance**. A key challenge in boosting financial inclusion for poor rural populations and strengthening their resilience is the high occurrence of risks. Climate-related production risks – such as drought and pests – are on the rise. These are difficult to tackle because they strike many farmers, in the same area, at the same time. As part of an integrated approach, index insurance can help protect and encourage investments in farming. It enables smallholders, Financial Service Providers (FSPs), value-chain players and governments to manage these risks upfront rather than dealing with the consequences. IFAD works on new solutions for index insurance with the World Food Programme through the joint Weather Risk Management Facility (WRMF).

**Remittances**. The money that migrant workers send home – remittances – is a lifeline for poor people. These funds, which add up to more than US$450 billion worldwide, generally surpass foreign direct investment and development assistance combined. IFAD is working to unlock the development potential of remittances by linking them to other financial services, such as savings, insurance and loans. The Financing Facility for Remittances (FFR), based at IFAD, seeks to improve access to cost-effective and easily accessible money transfer services in remote rural areas. The FFR is funded by the European Commission, the Governments of Luxembourg and Spain, the United Nations Capital Development Fund, the Consultative Group to Assist the Poor (CGAP) and the Inter-American Development Bank/Multilateral Investment Fund.

**IFAD's yearly investments in rural finance, 1981 to 2015**
Cumulative total of US$3.1 billion


**Regional share of IFAD's ongoing investments in rural finance, as at 31 December 2015**
Share of total of US$1.2 billion




**Digital financial services (DFS),** which fosters a culture of innovation that leverages new and emerging technologies to address smallholder-specific financial needs. As a member of the Better Than Cash Alliance (BTCA), IFAD recognizes the benefits of replacing the use of physical cash with electronic payments, and of increasing the use of electronic payment systems in programmes and operations to promote financial inclusion, increased transparency and efficiency.

**Youth access to rural finance**, which has become a central concern of poverty reduction strategies. Financial services such as savings, loans and insurance are essential tools young people need to start an enterprise and increase farm productivity. Remittance products are needed for youth who migrate, to help spur local economies in the communities of origin.

**Community-based financial organizations (CBFOs)**. There are many examples of how CBFOs bring financial services to rural areas, empower the poor and women in particular, enable rural households to better manage seasonal income and expenditure fluctuations, provide a safety net for life events, and allow households to invest and build assets. IFAD's support in setting up, strengthening or upgrading CBFOs is designed with these types of social goals in mind.

Read more at www.ifad.org/topic/resource/overview/tags/rural_finance.

## IFAD STORIES FROM THE FIELD:

# Microfinance for Small and Marginal Farmers Project in Bangladesh— Winner of the U.S. Department of Treasury Development Impact Award

IFAD and the Government of Bangladesh joined forces with the Palli Karma-Sahayak Foundation (PKSF), one of the world's leading independent microfinance institutions. Together, they pioneered a new approach to delivering financial services to small and marginal farmers in the country. The results have been excellent. The Microfinance for Small and Marginal Farmers Project covered 10 districts in the north-west region and four in the north-central region of Bangladesh. Prior to the project, attempts to provide financial services to small and marginal farmers in Bangladesh had been disastrous. Banks had great difficulty in achieving good repayment rates from farmers, hence most lending programmes were not financially viable.

The project introduced financial services customized to the specific needs of poor farming communities. As a result, incomes are improving and rural people are beginning to lift themselves out of poverty. Small farmers have been able to pay off moneylenders and rid themselves of the burden of debt that many carried with them perpetually. Better still, they have been able to buy land, make home improvements, vaccinate their poultry and, in some cases, create employment opportunities for others within their villages. At completion, the project had 208,868 active microfinance clients, of which 81 per cent were actively borrowing. A total of US$156 million has been provided as microcredit to members, with a loan recovery rate of 98 per cent. In terms of gender benefits, the project is considered very successful, with 84 per cent of direct beneficiaries being women, and with significant empowerment impacts reported, such as increased access to land for women, increased decision-making power and increased control over incomes.

What started out as a donor-financed experimental project to test new microfinance products has mushroomed into a national programme, exclusively funded by a national institution (PKSF). The seasonal loan and agricultural sector microcredit products, which were successfully piloted by the project, have now been mainstreamed into the PKSF programme, and are being sustainably financed by PKSF core resources.

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# The warehouse receipt system in Tanzania: no ordinary piece of paper


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Maimuna Omary Ikanga is a farmer in the Babati district of the United Republic of Tanzania. For years she had to sell her maize, peas, beans and sunflowers immediately after harvest because she had no place to store them. Crop prices usually drop drastically during the harvest season, so Maimuna's financial gains from her harvest were small. Now, thanks to the introduction of a warehouse receipt system (WRS), Maimuna has been able to store her products in a warehouse. With the receipt she receives, she can use her stored goods as collateral to get credit at reasonable interest rates, and also cover post-harvest expenses such as school fees. When prices go up, sometimes doubling or tripling after three to six months, she can then sell her products, making a much better profit. IFAD has learned, however, that the system can also have negative repercussions, for example when the prices drop, and farmers like Maimuna are no longer able to repay their loans.

The WRS in Tanzania is the result of collaboration between two IFAD-funded projects in the Babati district: the Agricultural Marketing Systems Development Programme (AMSDP) and the Rural Financial Services Programme. "The warehouse receipt system is an arrangement that solves two problems," explained a marketing specialist at AMSDP, "the lack of storage facilities in the district and the difficulty of obtaining credit".

The Rural Financial Services Programme has helped create savings and credit cooperatives, formed by local communities, which allow poor rural people to get much-needed credit at reasonable rates. When the harvesting season begins, managers of the cooperatives submit a loan application to the bank. The warehouse manager issues a receipt to the farmer when the produce has been deposited in the warehouse. The farmer can use this receipt to obtain a loan from the cooperative of up to 70 per cent of the value of the deposited stock.

While the WRS can immediately and positively affect farmers' incomes, recent unexpected price drops require further safeguard mechanisms within the formal and informal financial sector.

See our three-volume publication on appropriate warehousing and collateral management systems, a study conducted in nine countries in sub-Saharan Africa – Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, Madagascar, Mozambique, Niger, Senegal and Uganda. Hard copies can be collected from the IFAD Rural Finance team, or the publication can be downloaded at: http://p4arm.org/library/. You can also watch a short video on the WRS in Tanzania at: https://youtu.be/pFqbHwVXSYs.

# Promoting microfinance services for youth: Rural Financial Services Programme, Uganda

In Uganda, the IFAD-supported Rural Financial Services Programme (RFSP) has succeeded in attracting youth to join the savings and credit cooperative organizations (SACCOs) it has helped promote.

RFSP has reached 9.6 million rural people – 49 per cent of them women – with financial services through 735 of these organizations. Savings have been mobilized to the tune of 55.6 billion Uganda shillings (UGX), or approximately US$22.7 million, while the loan portfolio has increased to UGX 96.1 billion (approximately US$39.2 million).

Christopher Balichaza, a 30-year-old from Lukotaime village, is one of the members who joined as a very young man. He started farming – growing coffee and maize on a small scale – and opened his first account with UGX 300,000 (US$130) from the sale of his first crop. By 2012, his savings had reached UGX 1.3 million (US$565), which enabled him to take out a loan to buy a commuter motorbike to diversify his income.

SACCOs offer loans at an attractive interest rate. Motorbike loans, commonly called "boda-boda" loans, are particularly appealing to young men who have no land to farm. For them, riding these bikes is more prestigious as a source of income. From the motorbike, Balichaza earns about UGX 15,000 (US$6.50) per day. He repays UGX 10,000 (US$4.30) to the SACCO for the loan and keeps the remainder for his daily expenses. He has a wife and three children, and also pays for his youngest brother's secondary school fees.

# Remittance-linked savings for rural Sri Lankan women

Nearly 10 per cent of Sri Lankans (about 2 million) are migrant workers who send more than US$5 billion to their families back home each year, amounting to over 6 per cent of GDP. The vast majority of these workers come from rural areas and remit half of the total flows to families living in Sri Lanka's 38,000 villages.

The implementing agency, Hatton National Bank (HNB), is the second-largest bank in Sri Lanka in terms of total assets, and channels about 20 per cent of official international remittances, making it also the second-largest channel in the country. HNB has opened offices in several Gulf countries and India (where over 60 per cent of Sri Lankan remittances originate). It has reduced fees for migrant workers who transfer money to HNB accounts in Sri Lanka, and linked savings and loan products to these flows.

The pilot project developed a tailored savings scheme for migrants and their families in rural areas (women in particular), offering a safe and affordable way for them to send money home through direct transfers into a recipient's savings account. What started as a small pilot project in four branches has had an enormous response and expanded to more than 200 branches throughout the country. Demand for expansion continues to grow, as requests by migrants and their families in rural areas increase.

More branches receiving remittances means more money saved in bank accounts, which HNB can in turn loan to others to start a business. Remittances to Sri Lanka could add up to as much as US$5 billion for local investment and economic growth. As a result, 1,000 more Sri Lankans have opened accounts and started businesses, so that many are no longer dependent on their relatives abroad.

Overall, the project has contributed to wealth generation, improved gender parity by allowing women microentrepreneurs to start businesses and reduced the vulnerability of low-income rural households.

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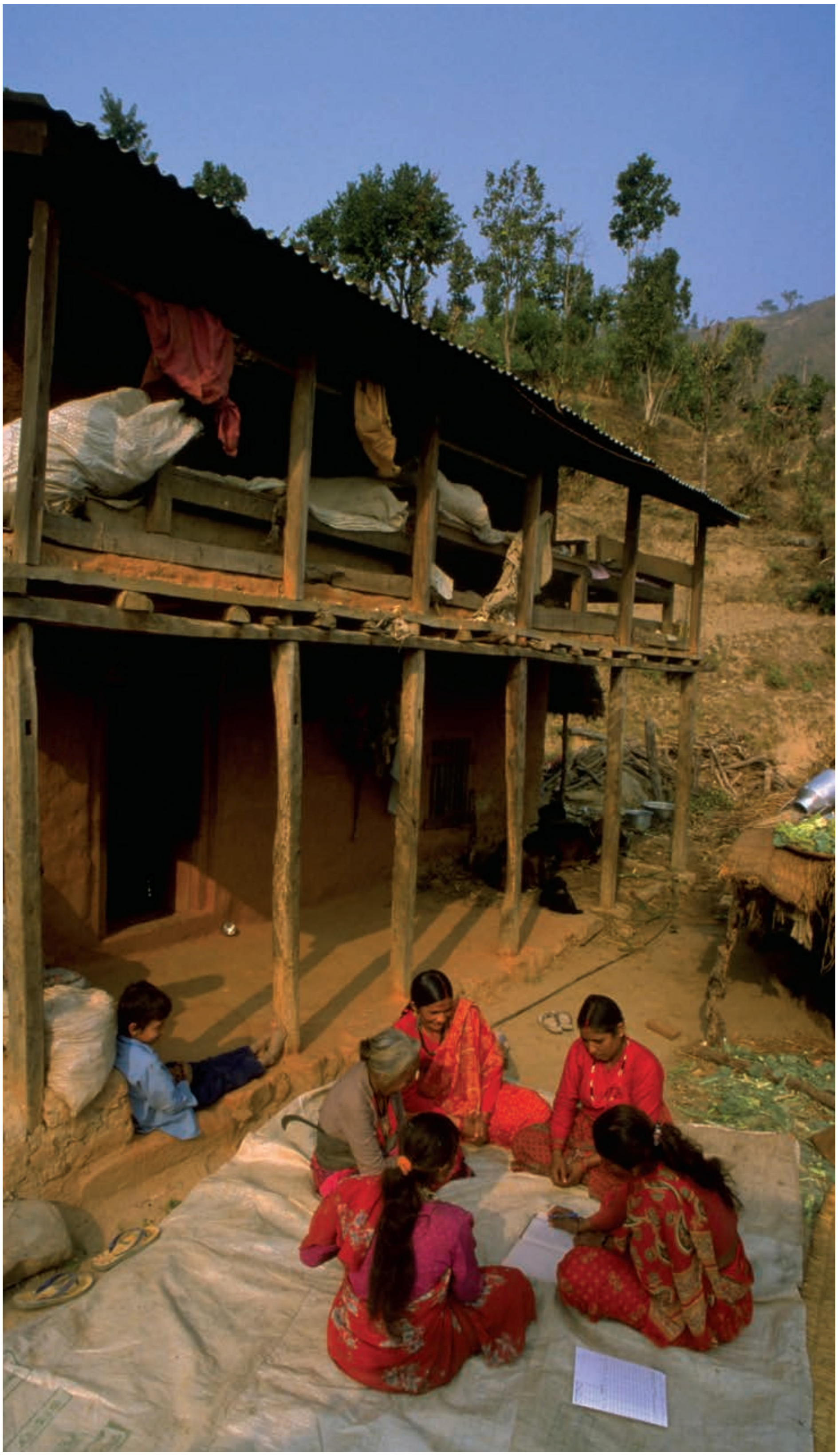
IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries.



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June 2016

## LINKS

IFAD and rural finance
www.ifad.org/topic/overview/tags/rural_finance

Weather Index Insurance
https://www.ifad.org/topic/wrmf/overview/tags/weather_insurance

Microfinance Centre for Central and Eastern Europe
www.mfc.org.pl/

MicroInsurance Centre
www.microinsurancecentre.org

RemittancesGateway
www.remittancesgateway.org/

United Nations Capital Development Fund
www.uncdf.org/english/index.php

Rural Finance Network
www.ruralfinancenetwork.org/

Consultative Group to Assist the Poor
www.cgap.org

Rural Finance & Investment Learning Centre
www.ruralfinanceandinvestment.org

Microfinance Information Exchange (MIX)
www.themix.org/