



## Proceedings for the Rural Finance Working Group Meeting on July 16, 2004

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### **Meeting Objectives**

The Microenterprise Development Team and the Office of Agriculture at USAID hosted a one-day Rural Finance Donor Working Group meeting in Washington, D.C. on July 16, 2004 to achieve the following objectives:

- To bring together key donor stakeholders working in rural and agricultural finance (RAF);
- To share information on USAID activities on research and training in RAF and solicit donor input; and
- To explore collaborative donor efforts and seek opportunities for collaboration.

The ultimate goals of the meeting were to promote cooperation and collaboration among donors on RAF, help avoid duplication of efforts, and keep members of the Donors' Working Group on Rural Finance well informed of USAID's ongoing work in this technical area. Attendees included a wide range of donor organizations involved in RAF (a list of meeting participants is included as Appendix A). The meeting followed the agenda shown in Appendix B. Key researchers and training curriculum designers for USAID, including Claudio Gonzalez-Vega (DAI/Ohio State), Stephanie Charitonenko (Chemonics International), Bob Fries (ACDI/VOCA), and Hillary Miller (DAI), joined the meeting to ensure maximum incorporation of feedback into the research itself. The meeting was facilitated by Kate McKee, Director of USAID's Office of Microenterprise Development.

### **Welcome Addresses and Introductions**

Kate McKee welcomed everyone to the meeting and noted that

this was the second official meeting of the Rural Finance Donor Working Group since the “Paving the Way Forward” conference last year. She also reviewed the objectives for the meeting as listed above.

Emmy Simmons, Assistant Administrator, USAID/EGAT also welcomed the participants and addressed the issue of how RAF fits into the bigger development picture at USAID. She explained how agricultural finance is a special case within the rural finance sector, due to unique characteristics including “lumpiness,” highly correlated risk, a history of government subsidies seen as necessary for food production that have distorted the agricultural finance sector, etc. She expressed that these issues should be dealt with in a more direct way: as national governments continue to intervene in this sector, donor communication is critical to moving the industry forward and positively influencing government policy.

Participants then took turns introducing themselves and stated what they felt were the burning issues in RAF. Five key themes emerged:

#### A. Agricultural Profitability, Vulnerability and Risk Mitigation

- Understanding that there may be limits to growth of agricultural finance
- Need to build assets in order to reduce vulnerability
- Addressing issues of systemic risk in agricultural credit
- Covariant risks of agricultural production
- Agricultural finance and risk mitigation

#### B. Knowledge Management and Coordination

- Transferring successful lessons learned from one country to another
- Ensuring donor activities complement each other and achieve objectives
- Using training resources effectively
- Applying good microenterprise examples of rural enterprises that deal with risks
- Increasing information exchange among donors

#### C. Donor and Investor Participation

- Extent to which donors should establish guarantee funds to address perceived or real risks in agriculture
- Understanding how investors and donors can profitably participate in field
- How to get increased investor participation in programs related to rural finance and rural enterprise development
- Better guidance for government intervention

#### D. Increased Access to Financial Services/Technology/Innovation

- Impacts of DCA (USAID’s guarantee mechanism) on RAF, other instruments to reach rural, small farmers

- Value chain financing
- Medium and long-term financing to producer associations
- Increasing outreach to rural areas sustainably
- Access to agricultural finance for small and medium sized firms, agricultural enterprise credit
- Increasing investment in rural areas with higher risk and elasticity of capital
- Informal supplier of credit, other forms of supplier financing in rural areas
- Business cluster development
- Technology transfer for sustainable rural finance, adapting best practices for agricultural finance

#### E. Focus on the Policy Dimension and the Rural Economic Realities

- Integrating the rural financial sector into whole economy and appropriate roles of financial sector institutions
- Matching expertise in financial sector with agricultural finance, engaging Ministry of Finance not just the Ministry of Agriculture.

### **Presentation of USAID’s Process of “Continuous Learning”**

Lena Heron of USAID’s Office of Agriculture gave an overview of USAID/EGAT’s RAF initiative that incorporates both AMAP and BASIS RAF activities. Roughly 50 of USAID’s 77 missions manage RAF-related activities. She outlined USAID’s objectives of capturing the experience of USAID Missions, and of creating tools and training opportunities to share these experiences across Missions in order to improve program design and management in the area of rural and agricultural finance. A continual learning process is envisioned in which field practice informs research best practices, which form the basis for tools and training opportunities, which in turn improves field practice. . .

The presentation elicited the following observations and discussions:

- Donors must deal with a wide range of government interventions, including some bad practices such as the demand to strengthen state agricultural banks. Training and programming design tools must warn of the negative attributes of bad policies and institutions, and offer alternative approaches to the development issues underlying demand for such interventions. . .
- To promote a continual learning process, internal incentives must be created to promote Mission (field staff) feedback/engagement. Learning is most useful when it is applied to concrete contexts and programs, so research findings should be translated into actual practice. Tools/learning opportunities are needed that will bring governments into the learning process.
- The constraints of donor agencies are different and impact our work differently. We must be very specific in how donors as a group respond to field demands. Individually, IADB is faced with government/policy challenges (e.g. Mexico), while USAID has the option to work directly with the private sector.

- A major issue for many of the donors is how to address various competing field interests including interests in financial development, interest of non-financial fields that want to use financial tools for other purposes, i.e. health project with credit component.

## **Presentation of USAID’s Rural and Agricultural Finance Research Plan**

Geoff Chalmers of USAID’s Office of Microenterprise Development reviewed USAID’s RAF Research Plan, emphasizing the complementarity of USAID’s research training initiatives with its mission support work. Of particular importance is the development of practical tools for Mission staff. In terms of the technical direction of the research initiative, he outlined the three components of the research plan: agricultural finance; rural, non-farm finance; and savings mobilization. Emphasizing the agricultural finance component especially, he summarized the two common approaches to agricultural finance – the institutional perspective and agricultural commodity chain approach – and pointed out that until now the two have often been assessed separately. He highlighted the ways in which the research will demonstrate ways of integrating these two perspectives, noting a gap in the literature about the long-term role of financial institutions in alternative models (e.g. supplier credit, buyer credit, trader credit) of agricultural finance. He also pointed out that the policy side has not been exclusively targeted as a research component; rather, it will be assessed as an important aspect of analyzing the context of RAF innovations.

Following the presentation, discussions developed on a few key issues:

- Different time horizons exist regarding what interventions make sense for countries in various stages of development, and this can drive project design; consideration of country context must be taken into account.
- Integrating financial institutions (focus on long-term sustainability) and commodity chain (shorter-term solutions based on individual “deals”) approaches can achieve greater access to RAF products and services.

USAID provided some real world examples of RAF experiences from Mexico (expanding microfinance initiatives to rural areas), Uganda (Hewlett Packard’s use of smart card technology), Central Asia (large state bank presence not lending to agricultural enterprises) and Croatia (solid relationship forming between associations and buyers).

## **Feedback on USAID’s Research Plan**

At USAID’s request, participants provided feedback on the research plan, based on their previous reading of the document and on the presentation. Feedback was structured around the questions put forth in the Feedback survey distributed prior to the event. Several issues emerged during the feedback session which could be organized around at least four themes:

#### A. Assessing Agricultural Profitability, Vulnerability and Risk Mitigation

- Agricultural businesses may or may not be profitable. How can we handle “hanging fruit” syndrome? (i.e., answer the question, “Why should I go into agricultural finance when consumer finance or even T-bills is so much more profitable?”)
- Research should include analysis of how profitable certain commodities are in a country; analyze margins of farm systems, including specific commodities and mixed farming

#### B. Focusing on the Policy Dimension and Rural Economic Realities

- Problem of short term horizon of governments wanting results; RAF activities separate within governments; need short-term recommendations that support long-term needs;
- The answers to “why rural finance matters” varies by country and should be addressed as part of the country context
- Policy issues are key – too much emphasis on financial institution innovations in research agenda. Remember there may be just as important policy innovations or legal and regulatory innovations
- Need practical diagnostic tools for policy assistance, i.e. if introducing new technology, you must understand legal implications; if establishing a grain warehouse receipts system, you need to know policy implications such as collateral law; if advocating a credit bureau, you need to know laws on privacy, know legal impediments of technological innovations, etc. Analyze specific policy context for each innovation, present prerequisites on policy side.
- Need to train politically influential constituencies on the issues that influence governments, e.g. show how to use index insurance instead of farm subsidies, must understand trade-offs between policy options. This has implications for training strategies.
- Need to look at credit bureaus, land/asset registries, credit information systems and how these systems increase/impact access to financial services

#### C. Incorporating Financial Systems and Value Chain Analysis

- Need to assemble lessons learned on effective methods of organizing producer groups and building their organizational capacity to deliver useful services to their members
- Production organizers are key to facilitating access to markets, credit, etc., Need to help expand credit to intermediaries who then advance help to smallholders and make them more robust, viable, link them to government, donors, banks, etc.
- Value chain analysis must examine all players along the value chain (not just the farmers, nor just the smallholders and MEs) and use indicators to evaluate impact on smallholders
- Missing policy/enabling environment dimension in research agenda, too much of a retail lens

#### D. Meeting the Needs of Different Donors and Other Stakeholders

- When considering financial deepening – need to look at income profile of client (important when evaluating impact, especially for USAID due to Congressional mandate)
- Link innovations/tools to different donor needs (e.g. some work with government, others work with private sector institutions, etc.)

- Look at different types of case studies, not just donor-funded projects, analyze banks that are financing supply chains outside of typical microfinance projects
- Need to look at financial institutions that are not currently involved with RAF clients
- Ultimate goal of the working group is to give us (donors) a stronger voice to discuss with big players and influence government priorities for RAF development

## Small Group Discussion Presentations

Small group meetings were meant to be multi-donor in nature, discussing specific ways in which donors can collaborate in the areas of: a) training, b) research and c) pilots and initiatives. Presentations were made based on the small group discussions. The Training group vetted how web resources could be used to move donor coordination regarding RAF training curriculum development forward, the Research group focused primarily on the AMAP RAF research agenda, and the Initiatives group discussed issues of pilots, knowledge management, and donor coordination (particularly in-country).

### A. Training

- Participants agreed that training continues to be an issue that warrants donor collaboration
- Unlike microfinance, rural finance does not yet have a wealth of material and curriculum already created. Donors can work toward filling that void.
- Many things make rural finance training different from other development trainings.
  - Substance
    - Knowledge of the sector is more important (agriculture)
    - Local circumstances matter more (i.e., Risk is different in different regions)
  - Procedure
    - Cross-pollination is important, participants need to see different regions to understand how the systems function
    - Study tours are important
- Possibility of the World Bank Institute allowing others to use their state of the art facilities for training
- Follow-up to the meeting was to solicit donor information on their trainings through CABFIN

### B. Research

- Understand context within which the interesting case exists (economic, political, legal, and regulatory as well as demand and supply issues) - but the focus should be on the innovation (or innovations)
- Unit of analysis (financial institution or non-financial institution or linkage) should answer the specific research question posed and build recommendations from that (necessary conditions, etc.)
- Although there is an “M” in AMAP, our research will be broader than just micro, it will be all along value chain

- There are at least two types of RAF Technical Notes: 1) geared to practitioners, somewhat technical; 2) easily accessible to donors/policymakers/general public
- All RAF Technical Notes should focus on problem-solution-results
- Need positives (what worked, and why) and negatives (what didn't work, and why)
- Possible case studies included: examining the relationship between remittances and active rural lending in El Salvador by looking at three different institutions; analyzing SHGs in India and how they expand access to RAF; rural banks in the Philippines; Credit Rural du Guinea; commodity chains in Peru; syndicated loans at Caja San Martin; case of a downscaled bank, Bank de Pachincha in Ecuador; WOCCU's credit union affiliate in Ecuador; Calpia in El Salvador is doing well, but agricultural finance is not doing well – may be a case of what went wrong; innovative, privately- owned risk funds for agricultural finance in Argentina and Uruguay; bank financing of agribusiness in South Africa.

### C. Initiatives

While a database is being created to detail donor pilots in RAF (Appendix C), the following summarizes issues raised regarding knowledge management activities.

- USAID will post report of working group meeting outcomes on relevant websites, including MicroLinks
- USAID will solicit donor feedback on training through CABFIN and cross-post the USAID RAF research plan on CABFIN
- A listserv should be organized to solicit input over next few months on USAID RAF research plan
- Someone should be designated to synthesize ongoing listserv/COP discussions for those who want to be less active
- There should be occasional person-to-person meetings to enrich virtual discussions (e.g., SEEP Oct 25-26, CGAP Nov 2-4)
- Working group members should submit names and email addresses of select colleagues in the field so that they too can assist in vetting case studies, study tours, etc.
- For the Community of Practice on MicroLinks to work, we need a coordinator and 3-4 who commit to respond in a subject area
- There should be one point person for CABFIN and one for Microlinks to stay on top of everything and each donor will need to assign point persons for gathering and submitting information on RAF initiatives
- The working groups needs a knowledge manager to periodically (quarterly) update the donor initiatives database and solicit information from donors

### Next Steps

The working group agreed to meet again this fall (exact date TBD). This would be a shorter meeting that could be coordinated with the dates of the CGAP annual meeting (early November) or SEEP (October 27-29). Before this meeting, the following tasks will be completed:

#### A. Finalize Database of Donor RAF Initiatives

USAID will prompt working group members to correct errors and update projects included in the Rural Finance Donor Working Group Initiatives Database under development (this database will include RAF research, training and pilot activities, as shown in Appendix C). USAID will also contact donors who were not present so as to obtain information on their RAF initiatives.

#### B. Broaden Distribution List of Working Group

Donors will identify field colleagues who should also receive USAID's introductory message pertaining to its RAF activities. USAID will send out letter requesting active participation in the working group.

#### C. Knowledge Management

Training information will be posted on the CABFIN website, "Rural Finance Learning Center" (<http://www.ruralfinance.org/>) and once it is finalized using the MicroLinks site (<http://www.microlinks.org/>). The rest of the RAF research activities will be posted on MicroLinks, which will serve as a virtual meeting space for future RAF discussions; donors will commit to distributing the proceedings of this meeting within their own organizations.

#### Appendix A: List of Meeting Participants

- Margie Brand, QED Group, mbrand@qedgroupllc.co
- Chris Barltrop, USAID, cbarltrop@usaid.gov
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## Appendix B: Rural Finance Donors Working Group Meeting Agenda

RURAL FINANCE  
DONOR WORKING GROUP MEETING  
Hemisphere B Room  
Ronald Reagan Building  
1400 Pennsylvania Avenue, N.W., Washington, D.C.  
16 July 2004

8:30-8:45am	Coffee/registration
8:45-9:30am	Welcome and Introduction to Rural Finance Working Group Kate McKee and Emmy Simmons, USAID
9:30-9:45am	Introduction to USAID's process of "continuous learning" Lena Heron, USAID
9:45-10:15am	Presentation of USAID's Rural and Agricultural Finance Research Plan Geoff Chalmers, USAID
10:15-11:15am	Feedback on USAID's Research Plan This discussion, moderated by Kate McKee, will be structured around the questions outlined in the "Feedback Questionnaire" previously distributed to participants
11:15-11:30am	Coffee/Tea Break
11:30am-12:45pm	Open discussion (in plenary) of participant donor activities in: a) rural finance training and tools; b) rural finance research; and c) new and innovative pilots and implementation programs
12:45-1:45pm	Lunch
1:45-3:00pm	Small group discussions on potential areas of collaboration: in: a) rural finance training and tools; b) rural finance research; and c) new and innovative pilots and implementation programs
3:00-3:15pm	Coffee break
3:15pm-4:30pm	Reports from small groups and discussion on coordination and collaboration: How can the different agencies' RAF activities fit together? Where are the opportunities for coordinated activities?

## Appendix C: Rural Finance Donor Working Group Initiatives Database

See the Excel spreadsheet, “Database of Donor RAF Initiatives.xls”