Development Partners Perspective

"Global Perspectives in Rural Finance and Poverty Alleviation"

4th AFRACA Microfinance Forum

"Lessons Learnt in Micro and Rural Finance Service Provision in Africa"

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International Year of Microcredit – The Results and Challenges

The 2005 International Year of Microcredit (IYOM) is an opportunity to highlight the perspective of finance for the poor. The International Year was proclaimed by the United Nations to bring focus on the poor, their entrepreneurship and highlight a useful tool to help them move out of poverty. As many know, ***the poor are not poor because they cannot manage their money; they are not poor because their business activities are not profitable – they are poor because their resource base is too small***. Simply speaking they have too little capital – too little money and assets.

Many families are poor because of crisis. HIV/AIDS has caused many families to fall into poverty. It affects not only the person, but the family and the community in a way that depletes already meager resources. Other communities suffer drought or conflict and without savings, insurance and access to loans to draw upon forces them to draw down on their working capital, thus decimating their future income. Financial services cannot solve these serious problems, but they can help to alleviate some of the devastating effects.

Many micro-entrepreneurs have high rates of return on the funds they use, but they lack access to sufficient funds. Hence, despite often high returns to capital, especially working capital, their very limited amount of funds available means their aggregate return remains low, thus perpetuating a life in poverty. The microfinance movement exists to provide them that access to funds. It was proven that with additional funds, many persons could multiply their earnings and build for the future. This was especially true of small trade activities with a high turnover of capital.

The Year of Microcredit is also important to dispel the notion that the poor are irresponsible. Indeed, it is an opportunity to show to the world that the poor tend to be very responsible users of financial services – they not only are "bankable" clients, but in fact they are a very important market, and largely untapped financial market. Despite not having traditional sources of collateral, the microentrepreneurs proved that peer group pressure as well as one's own self interest in a lasting source of finance were sufficient to ensure very high rates of repayment.

IYOM is an opportunity to show the world the tremendous growth in microfinance institutions and clients that has taken place around the world. The MicroCredit Summit challenge of a 100 million ME clients served is no longer a wild dream. Yet numbers of clients served and the amount of loans (debt) they have is not the real goal – what is important is the effect Microfinance (MF) is having on the household and community. Are families more financially secure? Do they have more net assets – reserves for mitigating future needs and crises? Do their children now attend school more? Are women now playing a larger role in the community and the household?

Microcredit is valuable, but it is also misleading – it is important to share with the world that the poor need and want more than credit. Both sides of the balance sheet are important, with savings services being the most required by the poorest and vulnerable. But even savings and credit services are not enough – a multiplicity of products and services are desired to meet the needs of this heterogeneous group of entrepreneurs and communities.

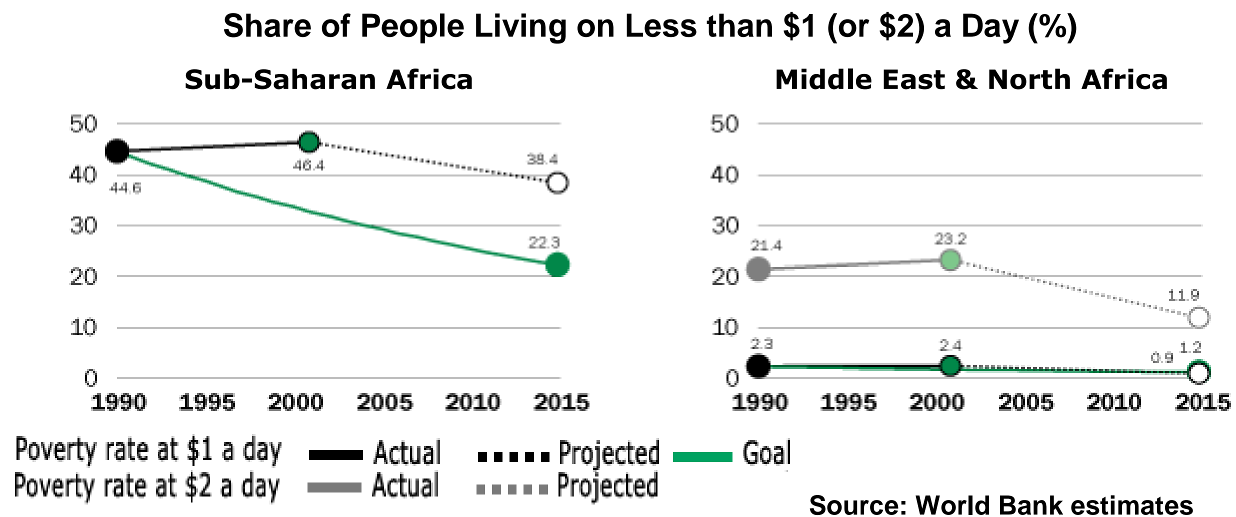
Finally, it is important to put microcredit in perspective – what it can do, who it can reach and why typical microfinance has not reached many of the poor, especially the rural poor. There has been much progress through microfinance for many households, but there are also many gaps – people,

sectors and regions left behind. Why does it work, who does it serve and under what circumstances is it effective? Why has it not done so in other settings – what are our lessons and innovations for meeting these challenges?

The Year of Microcredit is an opportunity – communicating and learning is the key for improving financial services – this dialogue and learning is and must take place among the MFIs, the development banks, the donors and the global media. It must take place in forums, in exchanges, in virtual knowledge centers – and most important, the learning must be based on participation and learning from the microentrepreneurs and farmers around the world who are immersed in the daily realities of making ends meet and hoping for a life without poverty.

The MDGs

The Millennium Declaration and the goal to halve poverty embody a vision of global solidarity – a conscious, collective and coordinated response to a global challenge.[1] Financial reform and deepening are highlighted in many of the Poverty Reduction Strategy Papers (PRSPs) of countries as key for addressing poverty and attaining the Millennium Development Goals (MDGs). Economic growth, which requires increased investment, is fundamental to alleviate poverty. If projected growth remains on track, global poverty rates will fall to 12.7% -- less than half the 1990 level – and 363 million more people will avert extreme poverty. [2] There is considerable reduction in the extreme poverty levels in South and East Asia where markets and market access are growing, where productivity is improving and where there is rapid adaptation of new and improved technologies, such as information and communication. However, even considering Asia, when growth rates are factored in, the aggregate reduction of households in poverty is much less.



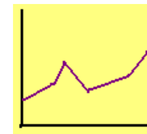
As shown above, there has been no significant reduction in poverty in Sub-Saharan Africa. North Africa has fared better but some countries in the region have been hit by war and conflict.

[1] The Millennium Declaration has changed the way the UN system works together," MDG 2005 Report, February 2005-05-06
[2] World Bank Website, www.worldbank.org/data/wdi2005/wditext/Cover, May 2005

Financial services contribute significantly to poverty alleviation. They cannot directly multiply the net assets of the poor, but they can multiply their working assets, and income is generated by a return on working (productively earning) assets. Financial services provide a family household or business the opportunity to leverage capital through a loan, thus increasing the amount of earning assets. Equally important, financial services are vehicles for families to productively invest excess liquidity capital and reserves into savings, not only to earn, but more importantly to build a risk reserve for future needs and shocks, thus averting more costly future losses caused by crises.

Investment, through loans and equity instruments, is the engine of growth. Financial services facilitate investment and intermediate flows of funds between parties, but finance is only a tool – not an end product – of wealth creation and direct alleviation of poverty. As shown in the following illustration, it is analogous to "greasing" a wheel to make the vehicle go faster and more efficiently; but it is only effective when the necessary elements are present. The MDGs will only be achieved when adequate financial services are available to catalyze the growth needed to stimulate growth and development; yet effective finance services are dependent upon the enabling conditions and environment. Hence, attention must be simultaneously given to finance and a compendium of development support needs.

The poor, and the regions where a majority of them live, do not have many of the elements for the vehicle to run smoothly. This is especially true in the rural areas of developing countries where an estimated 51% of the population and 70% of the developing world's poor live[3]. These households primarily depend on agriculture for their livelihood. FAO embraces the MDG declaration. It is the UN agency tasked with agricultural and food development support and leadership and fully understands the importance that this sector must contribute in order to achieve the MDG goals.



vehicle	means
roads	supporting infrastructure
roadmap	vision
driver	management
skills	capacity
steering and brakes	control
fuel	resources
destination	markets
rules and enforcement	regulatory framework
lubricant and accelerator	finance

Investing in Rural Development

Investing in rural development must come in many ways – conceptual, business, technological, social and regulatory.

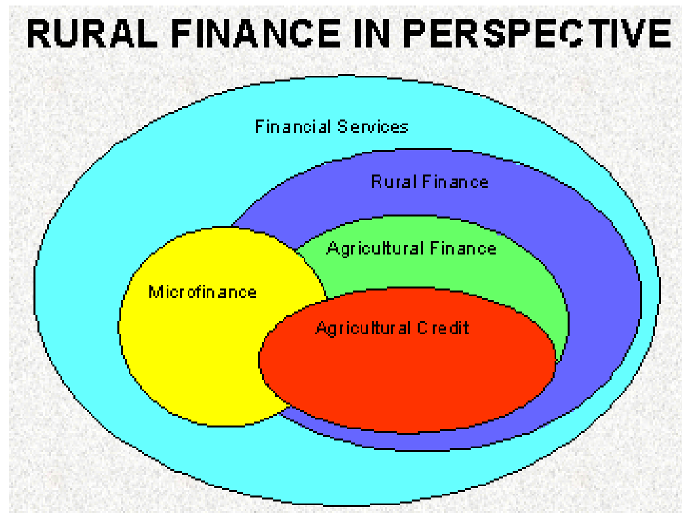
<u>Conceptual</u>
In past decades rural development was treated as synonymous with agricultural development. Similarly, rural finance and agricultural finance (credit) were used interchangeably. Today, the

[3] World Bank Website, www.worldbank.org/data/wdi2005/wditext/Table3, May 2005

focus has changed and should change. ***The future of rural poverty alleviation is investment in all aspects of rural development***. Investment in non agricultural rural development is beneficial and complementary to agricultural development – not in competition with it, as it is sometimes perceived. Following the same concept, ***rural finance is moving and must move beyond agricultural finance*** and address both the growing market of non agricultural households and businesses and its own agricultural finance risk through a more diversified portfolio of investments.

Business development of all kinds is needed in rural areas. With more business, there is the economic incentive to build better roads, electrical lines and competitive schools and services in rural areas, all of which improve the competitiveness of agricultural production. Naturally, these also create more markets and production opportunities for farmers, as well as income stability and diversification through off-farm employment opportunities for their families.

Microfinance institutions and organizations have typically not been a significant factor in agricultural finance, but they have been effective in realizing and supporting the potential in non agricultural rural finance. Small working capital loans for petty trade, artisan production and microbusiness activities in rural areas are a growing part of MFI portfolios. Rural savings products have also been proven to fill an important need.



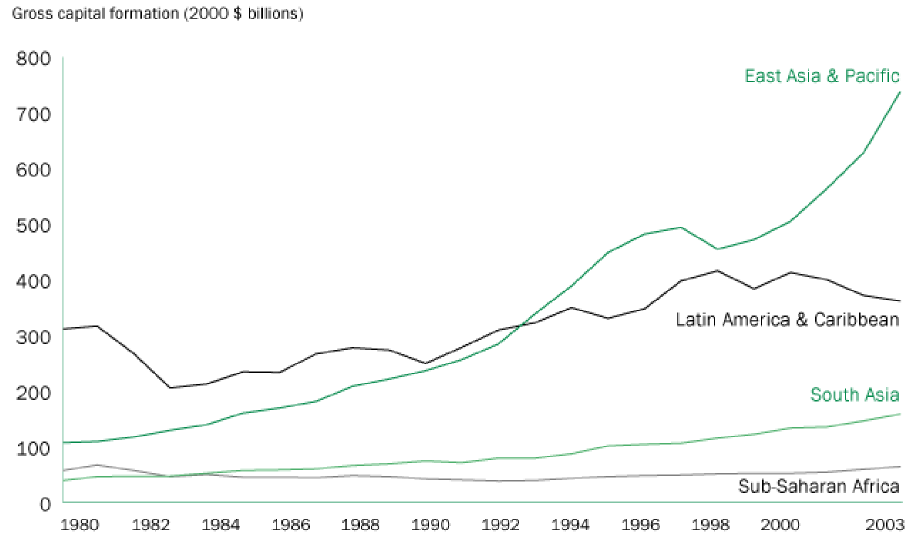
As illustrated to the right, agricultural credit and even agricultural finance is only a portion of rural finance. Microfinance is a part of both rural and urban finance with the major activity in urban and peri-urban areas and very little in agricultural credit activities.

<u>Business</u>
Rural areas need money to alleviate poverty – both debt and equity. In low-income countries it cannot be expected to be made available in sufficient, or in some cases even significant amounts by the public sector. The private sector has been the driving force behind the "success stories" of high-growth economies. Rural development can only occur when the rural area is able to attract and sustain rural investment. Three things must be in place – a conducive operating environment, suitable financial products and services and attractive returns to investment. As shown in the following graph, investment is the key to growth.

Farm and non farm business opportunities begin with a market – competitive market access. Increasing or even maintaining market share is a challenge. Global trade is not yet a level playing field and subsidies of $350 billion a year to agricultural producers in OECD countries are another barrier to developing country exports. The average tariffs on imports from developing countries declined between 1993 and 2003, yet tariffs on food exported from low-income countries to high-income OECD countries increased.[4] In addition, agricultural marketing is under much higher

[4] World Bank Website, www.worldbank.org/data/wdi2005/wditext/Cover, May 2005

quality standards, requiring higher investment into technologies and processes just in order to remain in the market. Hence, investment at all levels in agricultural marketing is critical.



A seven-fold increase in investment in East Asia has resulted in rapid growth of GDP and GDP per capita. Starting from a lower level, South Asia has experienced a four-fold increase in investment. On the other hand investment is almost stagnant in Sub-Saharan Africa and Latin America and the Caribbean.

Source: World Bank data files.

Improving access to financial services is of course fundamental to building competitive business capacity. Improving investments in agriculture is dependent on access to appropriate financial services. At the production level, financing for agriculture can enable farmers to introduce irrigation or other technologies; finance input and marketing costs; bridge the pre- and post-harvest funding gaps to avoid having to sell immediately following harvest at lower prices; smooth seasonal income flows through deposit facilities and access to remittances or insure against price or yield fluctuations. Also, when agribusinesses are not able to access financial services, they are constrained in financing and supplying farmers with inputs and to buy, store and process farm produce.

Policy and Regulatory Investment

Rural business development cannot prosper without proper policies and regulations. Although decreasing, some countries have direct and indirect price controls for basic food supplies within their own countries. Many countries also face trade tariffs from other countries when exporting and/or face unfair competition from large farm-related subsidies given to farmers in rich countries. Investment into equitable trade and investment policies is needed for the benefit of rural development.

Regulatory areas requiring investment are those of land tenure and water rights. Investments via loans, private equity or even technology are stymied and more costly when ownership is unclear and/or when the legal structure is inept. The costs and risks of doing business simply become too costly.

Technology

Technology is both an answer and a curse for rural poverty alleviation in Africa. It opens new doors of opportunity. Cell phones and internet kiosks help small producers to be informed of prices and obtain higher prices and/or forward contract sales for hedging risk or leveraging financing. Smart cards, ATM machines and online transactions will also lower transaction costs when they are more common. While there are promising advances in this area in Uganda, Kenya and South Africa, these technologies are not yet commonplace. Relative to the speed of change in other

regions, many parts of Africa are falling further behind. As a development partner, FAO wishes to promote technology development in both finance and the whole value chain.

But the advances in technology are bypassing many rural households since they lack the financial and educational capacity to take advantage of such rapid changes. This in turn limits production and marketing competitiveness, and hence "pushes" families out of their livelihoods. Public and private investment in this area is important to improve the opportunities for rural communities.

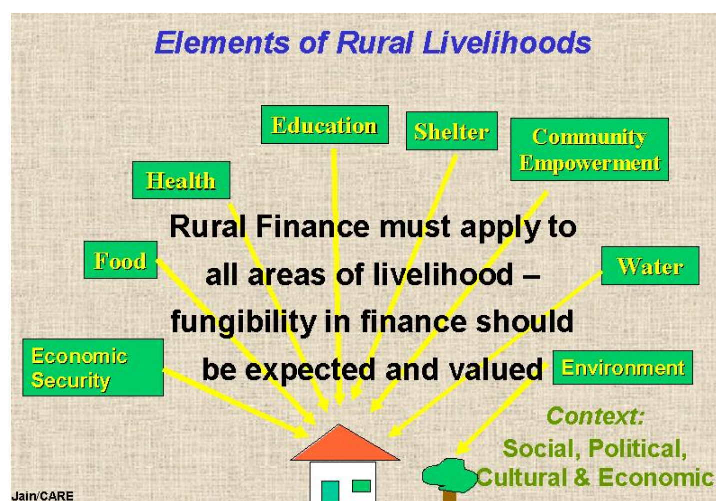
Social

Twenty-one percent of the developing world's population, totaling 1.1 billion people, according to the World Development Index, is in extreme poverty. Of those living on less than $1-a-day, the average figure rose 15% from 1981 to 2001, but in monetary terms it is only 11 cents a day (from 72 cents to 83 cents in 20 years.) For the poorest, finance, especially debt finance, is not a panacea, and without other needed investments may be disastrous for lenders.[5]

In countries where subsistence agriculture predominates, the crucial role of women as food producers is well-documented, including by FAO. Helping to eliminate discriminatory policies against women, improving their access to land, agricultural inputs, financial services and skills, and promoting labour-saving technologies all work in favour of empowerment, equality and better lives for women and their families. Microfinance has been instrumental in raising awareness of and working to address social, gender and ethnic equity issues which hold families in poverty.

Agricultural credit organizations were often directed to focus on production. Microfinance, on the other hand, has also been instrumental in recognizing the multiplicity of both business and social needs of the household. Finance is not only needed for production, but equally so for school fees, health cost, housing and death, and for services such as remittances, accessible savings outlets and insurance. Yet, despite the recognition, small microfinance organizations have typically not had the resources and product diversity to address many of those needs, although through many innovative linkage models it is becoming more common.

An important concern in rural development is what to do with those "left behind." Even the microfinance lending, despite the MF focus on poverty level clients, has tended to concentrate on households with ongoing business activities – generally not the poorest or most vulnerable. Young entrepreneurs and persons wishing to start new businesses who do not have a business track record find it hard to obtain financing to start a new business.



Self-Help group savings and other savings approaches for those who are poor are useful in mitigating household cash flow shortages and liquidity excesses and in averting some

[5] World Bank Website, www.worldbank.org/data/wdi2005/wditext/Cover, May 2005

crises. There are many examples of SHGs building small cash reserves but typically these are not farm families who cannot save regularly. Even so, such mini-savings approaches largely mitigate the effects of poverty as they are not enough to pull oneself out of poverty. For HIV/AIDS households the situation is much bleaker. For the poorest households, financial services are not enough – basic livelihood security foundations must also be in place.

Moving Out of Poverty with Beans and Potatoes – But Not All

The introduction of off-season cultivation of beans and potatoes nearly doubled average family incomes while significantly reducing income seasonality and vulnerability. The success, which continues to this day, nearly 15 years after the introduction, was made possible due to a combination of key factors:

***Finance** – Off-season crop production was only made possible due to the provision of loan capital to allow planting of the crop before the traditional crops of rice and maize could be sold and the opening of markets for the produce.*
***Markets** – Beans were a new crop and an export and a local market needed to be developed. Potatoes were a traditional crop, but new to the region and hence market links were needed*
***Technology** – Seed testing and market research were critical to be able to produce competitively and reach the high potential markets.*
***Organization** – Capacity development of farmer organizations, linkages with input suppliers and markets and basic infrastructure development were needed to build the capacity and economies of scale.*
***Education** – Farmer training was needed, not only to build the technical skills for the new production but also for the rural households to adjust how they manage their time and finances.*

Ongoing impact tracking confirmed the obvious – with higher net income, many moved out of poverty and houses become better, more bicycles and trucks appeared and more children went to school. For this majority of families, loan repayments were made on time and savings accounts in the cooperative grew.

Yet, for a minority, things did not go as well. Some of these farmers' plots of land were more prone to drought or to poor drainage and disease. Some households' heads of household were sick. Others simply had poor management and/or bad luck. For any of these farmers with loans for potatoes which require a relatively large initial investment in seed, a major loss of the crop could spell disaster. While rice, maize and beans generally produced enough to feed the families and generate a small amount of income, they were almost never enough to take the smallholder families out of poverty. Potatoes, and other high-value crops, definitely did take many people out of poverty, as well as put some into deeper poverty. Even when they are only a few, their plight is not only a social dilemma but is also a real business cost and risk concern for their financial service providers. The solution is also not easy – to finance more potatoes production for them the next season can bring them out of their "hole"; or can dig it deeper and make loan recovery even more difficult.

Miller - Bolivia

Twelve Key Challenges in Rural Finance

Rural finance has been recognized as an important element and catalyst to rural development. Millions of dollars have poured into rural finance, especially agricultural credit, in the past and yet rural communities have little to show for it. Donors, governments and bankers became disillusioned with the results. Today there is renewed interest in learning from the past and experiment for the future to meet the seemingly illusive goal of increasing rural farm and non-farm investment and assets through the ready access to appropriate and sustainable financial services by all households. In addition, rural finance has begun to be seen in a broader spectrum than just agricultural and farm credit alone, but is rightly now being defined as farm credit and non-farm credit, savings, insurance, transfers, clearing, equity finance, and other services, and is not restricted to institutional lines of finance.

Twelve key challenges for achieving this goal are laid out below, as foreseen by rural finance specialists. While these are recognized obstacles to overcome, are they the most important questions? What are the root causes and with which ones can we have the most impact? What is missing? What is not important? Should the focus be more on adapting products to fit the constraints or on addressing the constraints? How must the responses to the key issues fit together in order to be effective.

Key challenges for rural financial service provision

Vulnerability Constraints

1. **Systemic Risk** – rural incomes, especially among the agriculturalists, are highly susceptible to similar risks at the same time. Weather is the most uncontrollable and often devastating risk but disease and plagues are similarly important. Failures in agriculture affect not only the farmer households and the production and marketing linkages but also the rural non-farm economies that revolve around and depend upon those income flows. The most problematic by far is farm credit because of higher risk.

2. **Market Risk** – especially in developing countries, there both cyclical and seasonal price fluctuations of agricultural commodities, not only due to local production variation but also affected by “outside forces” such as political price and exchange controls, subsidies and globalization.

3. **Credit Risk** – collateral, especially mortgage, is a missing element in most rural finance, thus increasing the risk of the lender. Similarly, collateral substitutes may be costly in both financial terms as well as social stigma risk terms as can be the case with peer lending. Other support services and information networks such as credit bureaus are often not available to help lower the risk. For term lending, a financial gap risk between sources and uses of funds poses another risk constraint.

Operational Constraints

4. **Investment Returns** – rural capital revolves slowly, with often one or less frequently two crops per year. For investment capital, the returns are even lower and in spite of that are often faced with very low profit margins. Hence the margins for error are much less than for example in commerce or most microfinance, which tend to have high returns per unit of funds invested and higher profit levels.

5. **Low Investment and Assets** – the relative poverty in rural areas causes common crises to become major crises due to the lack of asset “cushion.” Any loss of expected income through sickness or production losses cause significant impact. In compensation, traditional networks and production risk minimization become more important than profit maximization. The small asset base also reduces savings and borrowing capacity, thus constraining economies of scale in the use or provision of services.

6. **Geographical Dispersion** – rural areas in many countries are characterized by a low population density and high dispersion, which is coupled with a relatively low market potential. The low market potential is usually accompanied by poor services, making access and communication difficult, and hence cause high operating costs for both production and marketing, as well as for access and delivery of services.

Capacity Constraints

7. **Infrastructural Capacity** – poor communication, pitiful roads, unequipped schools and missing social and health services decrease efficiency of operations, discourage new services and increase the outflow of the most talented and resourceful persons and a reluctance of educated families to live in rural communities.

8. **Technical Capacity and Training** – a relatively unskilled rural population reduces opportunity for ready access and adaptation to new technologies and employment. The lack of capacity affects not only the productivity and competitiveness in the changing marketplace, but also the ability to find trained staff for service provision.

9. **Social Exclusion** – cultural, linguistic, gender, racial, religious and educational constraints affect market and financial integration. Such barriers reduce production and marketing efficiencies. These are required in order to compete effectively in the marketplace and thereby generate income and levels of assets needed to reduce poverty and vulnerability. HIV/AIDS makes this even worse in many countries.

10. **Institutional Capacity** – while there is an abundance of organizations in rural areas, the relative capacity is lacking. This includes management and technical capacity, size/economies of scale, competitive viability, economic integration and often risk-bearing capacity. Even when urban based institutions have the capacity to reach into rural areas, there is little incentive to do so. An exception to the capacity constraint is at the micro level where the social fabric is often strong. It can be sufficient for the low level of operations typically undertaken. With sufficient organization and experience, these groups may also form linkages with intermediaries of higher institutional capacity.

Political and Regulatory Constraints

11. **Political and Social Interference** – loans can be forgiven, savings can be withheld, interest rates can be capped, mortgages can be rendered useless and payments can be suspended due to decree. Even danger is not uncommon; hence uncertainty can become an insurmountable hurdle.

12. **Regulatory** – regulations and/or a lack of enforcement of them hinder rural as well as urban environments. Land tenure regulations, banking laws, exchange rate manipulation and tax considerations are examples of such constraints that destabilize and/or hinder viability of business and financial operations in rural areas.

Examples of responses to these challenges are shown below.

Key Challenges Affecting Rural Finance			
Category of Challenge	**Constraints and Issues**	**Responding to the Constraints – Designing to Fit**	
		RFI Delivery Approaches and Methodologies	**Appropriate Products and Services**
Vulnerability • Systemic risk • Market risk • Credit/financial risk	• Weather • Plagues, diseases • Prices • Production • Useable collateral • Demand preferences • Health and family needs	• Ensure RFI diversification of products and sectors • Promote diversified income opportunities at the household level • Promote savings to reduce vulnerability • Evaluate the capacity at household level • Use lending policies to support agricultural and environmental sustainability • Apply market-oriented pricing • Have well-conceived approaches for restructuring after crises, combining responsibility and realism • Develop strategic linkages for supportive services	• Index-based insurance • Timely delivery / scheduling of loan products – product and term matching • Warehouse receipts • Credit information services • Trade associations • Price-hedging mechanisms • Leasing
Operations • Profitability/ investment returns • Poverty/lack of assets • Low-density dispersion	• Low growth potential • Low velocity of capital • Non-competitive technologies • Lack of market integration • Lack or quality of roads and communication • Low efficiencies of business operations • High operating costs	• Rural Finance Institution Investment Returns: o Appropriate interest rates that serve both businessperson and financial institution o Diversify portfolio – farm & non-farm activities o Build economies of scale – processing efficiency, scale in lending o Stream-lined processes for pre-qualified clients based on past business performance • Rural Clients: o Savings, not just credit – asset for borrowing o Policy / advocacy for land tenure and clear natural resource rights o Community mobilization to address poor infrastructure and education • Low-Density Dispersion: o Franchising / low-cost branching o Linking with savings and credit cooperatives o Linking large buyers / suppliers - market linkages • Group lending • Partnering / collaborating with NGOs and locaservices address non-financial needs	• Loan Assets: o Flexible and appropriate products – parallel to income streams o Insurance (health, life) products o Consumer credit for other needs aside from business • Low-Density Dispersion: o Group lending as appropriate to reach the largest number of people possible o Finance to farmers through traders, input providers and marketing companies

Key Challenges Affecting Rural Finance			
Category of Challenge	**Constraints and Issues**	**Responding to the Constraints – Designing to Fit**	
		RF Delivery Approaches and Methodologies	**Appropriate Products and Services**
Capacity • Infrastructural capacity • Technical skills and training • Social exclusion • Institutional competency	• Lack of business investment • Lack of competitive technologies • Lack of roads • Lack of communications • Lack of education • Lack of technical and management skills • Lack of institutional capacity • Lack of social representation	• Delivery Approaches: o Promote and provide linkages to training and community mobilization o Promote high productivity through value chain linkages for finance and technical training o Use Palm Pilot / IT technology for reaching rural clients o Ensure adequate market assessment and capacity o Build linkages to promising economic opportunities o Promote strong financial institutions, business development services and community-driven development o Support on-lending linkages and private investment funds	• Products and Services: o Linkages on value chain and other players o Supply credit o Loan sizes and longer term loan products adapted based upon market segmentation o Develop loans according to the capacity level; and also to develop capacity
Political and Regulatory • Political and social interference • Regulations, policies and their application	• Political interference • NGO "donation" competition • Cultural and gender constraints • Land tenure laws • Financial regulations • Inept justice system • Tax policy	• Educate and advocate (jointly) • Pre-emptive self-regulation • Participatory development processes Partner linkages with complementary support mechanisms	• Advocacy • Coalitions and networks

A Vision for the Future in Rural Finance

With an emphasis on poverty alleviation and the MDGs, rural finance will remain of high interest to governments, donors and of course rural households. It will be a frontier challenge – as urban and peri-urban financial services to the poor become more saturated the growth will move toward the rural areas. But what will it look like? Some thoughts are noted below:

Rural Finance on the Horizon		
Change	**Rationale**	**Effect**
Consolidation of RFIs	➢ In countries where MFI and RFI services have been available for longer periods of time, market saturation and intense competition of the easier to reach borrowers have already occurred. Consolidation by the more efficient and aggressive will force out others.	➢ Lower costs to clients ➢ Loss of local "ownership" and control
Full-Service Provision	➢ Clients want a multiplicity of services. Full service provision will be the tendency. Single loan products like those of early MFIs or agricultural credit only services of agricultural banks will disappear – multi-line loans, lines or credit, savings options, remittances, insurance, etc. will be offered.	➢ Multiplicity is a large benefit to clients ➢ Trend is a detriment to small service providers ➢ Technology reduces costs for credit lines which become popular
Financial Linkages	➢ Financial linkages and partnerships will increase. Almost no provider can directly provide a full set of services efficiently and will link with specialized companies (insurance, leasing, venture capital, etc.) for services and/or niche organizations for outreach (NGOs, SelfHelp Groups/SACCOS, etc.)	➢ Greater outreach and access to all areas ➢ Stronger and more comprehensive services
Non-financial Linkages	➢ Training, technology access, market linkages and business services are needed for rural development and for most effective use of financial services. Linking, and in some cases partnering, will be advantageous for RFIs.	➢ Increased specialization ➢ Increased access to services for clients
Regulation	➢ Regulation will make it harder for semi-formal (NGO type) lenders to operate.	➢ Tighter control and systemized reporting
Loan Capital	➢ Savings and private sector capital will be the norm, with donor loan capital becoming relatively insignificant. RFIs will become largely client savings financed with investment funds, securitization and bonds also growing in importance. A role for Apex Funds will continue but with a private sector focus and specialized investor funds will grow as the financing of RFIs moves closer to "Wall Street" finance.	➢ Subsidized finance will largely disappear – a loss to some groups ➢ Funds will be more available, without rationing
Value Chain Finance	➢ Growing acceptance of trader finance with increased vertical integration in production and marketing, coupled with improved information systems and better regulation will drive this financing option to be used more in the future. Use of contract farming, inventory credit, forward contracting and leasing can be expected to grow.	➢ Increased access to finance from traders, marketing companies and suppliers. ➢ Benefits and risks of sales "tied" to finance

Rural Finance on the Horizon		
Change	**Rationale**	**Effect**
Risk Management	➢ Risk management will improve – mitigation through portfolio and client diversification, improved analysis and information tracking and through use of insurance products will make the systemic and unique risks of rural finance less risky and more "mainstream."	➢ Improved stability of rural lenders ➢ Linkages with insurance and other specialist companies will increase
Agricultural & Development Banks	➢ Most agriculture and rural development banks have either semi-privatized (at least in how they are managed) or have been closed down. This will continue but these banks will continue to play an important role in many countries.	➢ Subsidies will decrease and the banks will more closely mimic private bank operations ➢ Directed credit programs will diminish
NGOs	➢ NGOs' direct role in rural finance provision will decrease significantly as is already happening in some regions. Some will transform into financial entities and others will focus on capacity building and civil society issues.	➢ Loss of RF income source for some NGOs ➢ Professionalization of financial services
Donors	➢ Donor emphasis continues moving away from provision of loan capital toward rural financial system development and capacity building. ➢ Pressure will continue from agricultural production, investment and technology projects to have directed credit lines.	➢ Stronger financial systems and much less subsidized loan funds ➢ Directed loans will continue where adequate financing alternatives are missing
Governments	➢ Governmental participation in financing and in directive finance will drop but its role in regulation and supervision will increase as the rural financial service industry evolves. Its role increases in developing enabling financial and rural market and supportive infrastructure.	➢ Closer coordination or Min. of Agriculture with Ministries of Finance, Trade and Commerce
Clients	➢ Rural household and business clientele will grow and will have more access to an array of financial and complementary services.	➢ More incorporation of rural households in financial services

What Does It Mean for the Future?

The future perspective noted above is based upon current trends. The most important point to note is that there will be major changes in the provision, products and services in the next decade.

Policy Implications

As illustrated earlier, many things need to be coordinated together to arrive at a desired destination – effective financial services for rural areas that promote growth while reducing poverty. Policy makers do not need to be the vehicle – they need to concentrate on building the supporting infrastructure (roads), the vision (roadmap) to arrive, regulatory framework (rules) and of course access to good markets (passport to the destination). This is a major effort and one

which cannot be done alone, but requires close public and private collaboration within and between countries.

Learning Agenda

Finally, it must be noted that learning and sharing of knowledge and experience is critical to the process of development of a strong rural finance sector and strong rural enterprises. Toward this end, FAO and agencies have created the Rural Finance Learning Centre available at: www.ruralfinance.org

Development Partner Perspective

Development partners, including FAO stand behind rural and microfinance organizations who want to make a difference in poverty alleviation, economic growth and social empowerment. The partners require transparency and accountability, standardization in reporting and in shared learning. The joint vision for the future is one of hope – rural finance and the other tools to make a difference exist and are continually being refined and improved – together we can make that vision become reality.