

Cooperative Financial Institutions in Rural Development: Promise and Challenges



Panel 5 - November 10, 2021

CFIs and Agricultural Finance – challenges & opportunities

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Panelists:

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Executive Summary

- Being locally based, member-owned organizations, Cooperative Financial Institutions (CFIs) are well-positioned to contribute to improved access to agricultural finance. Yet, a financing gap persists.
- Agricultural finance is complex. Digitization can provide a huge opportunity and makes CFIs better enabled to serve the sector.
- Transitions in terms of both digitization as well as sustainable agriculture can bring great benefits for both CFIs and the communities they serve.

BACKGROUND

In many developing and emerging economies a majority of the population – in one way or the other- depends on the agricultural sector for their livelihood. Access to adequate and affordable financial services for long has been acknowledged to be a crucial factor for improving performance of the agriculture sector and increasing rural livelihoods.

Importance of CFIs

Being locally based, member-owned organizations, Cooperative Financial Institutions (CFIs) are typically close to their clients and involved in local communities. The proximity to – and intimacy with- their members make CFIs well-positioned to contribute to improved access to agricultural finance.

What is holding CFIs back?

Despite the above-mentioned positives and CFI contributions to agricultural finance a financing gap persists. Although CFIs differ substantially across the globe –e.g. in constitution, and market outreach – constraints for the success of CFIs can be explained in terms of scope and scale.

With regard to scope, many CFIs focus on serving specific customer segments, and are not focused on growing with their best members, or adopting value chain financing concepts. In terms of scale the local orientation often is constrained by low capital accumulation, limited (or no) access to financial markets, and low adoption rates of technology. These are limiting factors to substantially close the financing gap in terms of access to finance for a larger share of agricultural actors, growing with their best members, delivery of financial services against affordable rates; all within acceptable risk levels.

Would digital help?

Overcoming these limitations will not be an easy fix. Access to adequate and affordable agricultural finance is complex, and that needs to be acknowledged. Weather risks, crop concentration, price volatility, and unstructured value chains, limitations in collateral amongst others make agriculture a very difficult sector to finance.

CFIs are well-positioned to serve the sector, but how to make CFIs better enabled to serve the sector?

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Can digitization help CFIs to accelerate their outreach and performance beyond their current capabilities?

Digitization provides a huge potential opportunity to complement CFIs proximity to clients, linking CFIs more integrally with agricultural value chains, markets, capital & liquidity suppliers, etc. This can reduce information asymmetries, reduce cost and time to reach farmers, and increase transparency within the sector and reduce risks.(*)

Moreover, the agriculture sector contributes a significant share of the greenhouse gas (GHG) emissions that are causing climate change: 17% directly through agriculture activities and an additional 7-14% through changes in land use. As a result of climate change, the agricultural sector itself is heavily impacted by rainfall variation, drought, pollution and soil degradation. As a result of this correlation, sustainability aspects of agriculture have become increasingly important for agricultural production, value added services, financing and consumption.

This increased transparency could not only decrease credit risks for lenders but also contributes to the rising need for sustainable agricultural value chains.

(*): Example: Mastercard and Rabobank have teamed together to rollout the Agriculture Exchange platform. The mission of the platform is to enable all players in the F&A value chain to connect and transact through an interoperable, data-driven digital ecosystem. The team is currently focused on rolling out solutions in Kenya, India, Tanzania, Uganda, and Nigeria.

Making it work

Transitions in terms of both digitization as well as sustainable agriculture can bring great benefits for both CFIs and the communities they serve.

Which opportunities will emerge for CFIs to accelerate their outreach and performance beyond their current capabilities? Can private and public - stakeholders support CFIs in digitisation and financing sustainability initiatives? In the panel session on November 10th, we aim to stimulate a fruitful discussion among various stakeholders, finding out *how different components of the food system can interact and turn the challenges of agricultural finance into opportunities, for both CFIs and agricultural actors.*

Session Discussion

1. Why have CFIs not sufficiently been able to close the financing gap?
2. How does/can digitization play a role in closing the financing gap?
 - a. Are there any operational challenges that need to be overcome to facilitate this?
 - b. Are there any regulatory challenges that need to be overcome to facilitate this?
3. Which parts of the delivery process have not been covered yet by digital solutions?
4. Which future opportunities do you envision here?
5. What role does environmental sustainability currently have in your practices?
6. What are the main opportunities that arise from public sector support/collaboration?
7. How do you see CFIs getting involved in value chain finance? Any specific experiences to share?



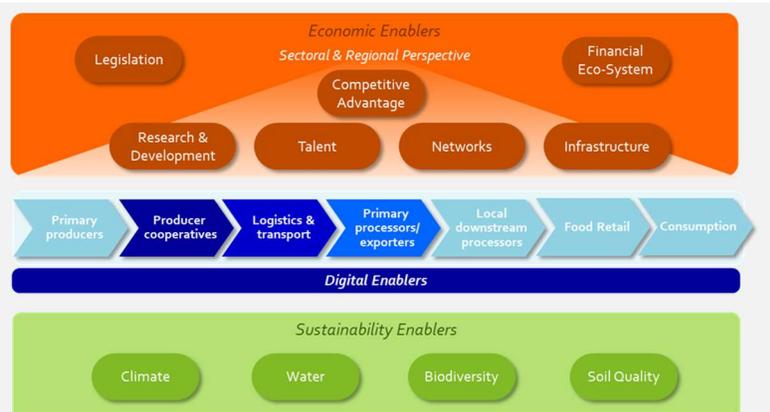
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LIMITATIONS/CHALLENGES/AREAS FOR FURTHER RESEARCH

- Adapting agricultural finance products to the needs of different groups such as smallholder farmers, women, youth, etc.
- Direct and indirect impacts of sustainable agricultural practices on planet, profit, and people

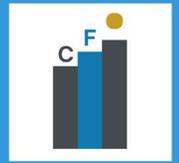


The agricultural value chain is part of a wider food system: continuously interacting with various actors and enablers. Source: Rabo Partnerships, based on van Berkum et al. (2018).



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