

# Finance for Food



Doris Köhn  
Editor

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Towards New Agricultural and Rural Finance

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## Preface

It is a shocking fact that in today's world one billion people do not have access to sufficient food. In spite of manifold efforts by local actors, civil society, governments, and the international community, hunger remains the most striking and visible development issue in many countries of the South.

The global supply of food, however, is largely sufficient to feed the world's seven billion people. So far, agricultural production has been able to cope with our exponential demographic growth. And most experts are confident that further population growth – even the estimated peak of nine or ten billion people – can be accommodated by an increase in global food production.

However the success story called “the green revolution” has its price. Turning more and more land into soil will have severe environmental consequences, like water shortages, the concentration of toxic elements, deforestation, loss of biodiversity, erosion, and more. Moreover, these negative trends will be aggravated by climate change. Nevertheless, the fundamental issue is not availability of food but the accessibility of available food – both in physical (transport, storage, etc.) and in economic (purchasing power of the poor) terms.

Another promising way to limit the growth of the agricultural production required to feed the world is the reduction of post-harvest losses. Whereas the causes and challenges of developing countries are widely discussed and well known (e.g. transport and storage facilities), one should not forget that equally serious post-harvest losses occur in the North: not at the field site but on the supermarket shelves and in our refrigerators.

In view of this, the extent of increasing agricultural production might be debated. Eventually, it could be much less than the FAO estimated 70 percent required rise in output until 2050. There is no doubt, however, that food production in general must grow significantly in the next decades.

The question is: Where (and how) should this happen? Where is the potential? Many of the poorest countries, especially in Sub-Saharan Africa, possess large reserves of arable land and untapped water resources. Crop yields are generally far below those of other continents and irrigation is limited to six percent of cultivated area (Asia: 37 percent).

The growing private investment in African agriculture proves that land and water are valuable assets, especially in these times of high commodity prices. In view of the challenges, this trend is welcome in spite of some undesirable cases of “land grabbing.” Agriculture and rural infrastructure had been suffering over years from under-investment, especially in Africa, and cannot be developed with public funds alone.

Alongside increasing private investment in agriculture, governments with support of the development finance community have reversed the trend and are now allocating substantial funding to agriculture and rural development. The multi-donor L'Aquila Food Security Initiative, launched in 2009 with financing of US\$ 22 billion over three years, might be the most prominent example.

It is a fact that because of widespread poverty in rural areas and the labour-intensive nature of agricultural production, growth in agriculture will do more to reduce poverty and hunger than growth in any other sector of the economy. In particular, improving the productivity of small-scale farmers, and connecting them to the market, is largely considered to have the highest potential for increasing food production and supply. It could significantly increase the income of the poor.

The flow of investment into agriculture – both from private and from public sources – is definitely more generous today than in the past. Still, significant bottlenecks remain that slow investments in agriculture. For example, inappropriate legal and institutional frameworks, as well as political instability and insecurity. Such bottlenecks are difficult to ameliorate.

Access to capital and financial services is among the most prominent bottlenecks for small-scale farmers and processors. Yet, this can be changed. Unfortunately, many financial institutions remain extremely reluctant to engage in rural and agricultural finance. As a consequence, not only farmers and rural enterprises lack access to credit, but the majority of the rural population still has no access to the most basic infrastructure and financial services.

This was the key concern of the ninth KfW Financial Sector Development Symposium with the title “Finance for Food: Towards New Agricultural and Rural Finance”: Identifying ways to encourage financial and physical “connectivity.” In other words, finding ways to work for the inclusion of smallholder farmers in particular and the rural population in general that allow for accelerated agricultural growth.

## **About This Book**

Strengthening financial institutions in rural areas is a cornerstone for mobilizing domestic capital through savings for future investments; it is also key to the development of a functioning financial sector that can serve the rural poor. Financial institutions working in rural areas face numerous constraints, such as poor physical infrastructure, dispersed demand, client profiles with high price and yield risks, scarce human capital, and limited collateral. These are some of the issues this book will address.

This book is the result of the Symposium “Finance for Food”. More than one hundred leading international experts from Asia, Africa, the Middle East, the Americas and Europe joined KfW to discuss the challenges and potentials of delivering sustainable financial services in rural areas. The participants came from

banks, microfinance institutions, governments, international financial institutions, academia and agricultural industry.

This book focuses on three main issues. First, institutional and process innovations dealing with agricultural risk and the use of modern technology to improve financial services in rural areas. It starts off with an overview of the current systems, players, and different types of agricultural finance. While observing global trends that influence agricultural production and demand, the emphasis is put on the relevance of financial services for the rural poor. This overview is then followed by a more detailed look into the fields of process innovation, value chains, innovative microfinance, and a case study of Access Bank Azerbaijan.

Second, these aspects are complemented by a complex examination of the distinct risks associated with agricultural finance and how to assess and mitigate them. The successful management of agricultural finance can trigger the demand for and the offer of new financial products. Therefore, a variety of actors such as governments, DFIs, donors, and commercial investors are closely watching the evolution such new products.

Third, in view of the restrictions posed by deficient infrastructure and high transaction costs, the last part of the book focuses on possible distribution channels for reaching the rural poor with modern technology. This includes mobile banking as well as scoring to increase efficiency and outreach in agricultural finance.

I would like to thank the German government for supporting the KfW Financial Sector Development Symposium, the authors for their efforts in preparing the papers, and the participants for providing broad insights by looking at these topics from very different angles. Not least, I express my gratitude to my colleagues who organized the KfW Financial Development Sector Symposium and made this publication possible, especially Michael Jainzik, Claudia Schmerler, and Piero Violante, for editing and overseeing the production of this publication.

September 2013

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## Abbreviations

|         |  |
|---------|--|
| AATIF   | Africa Agriculture and Trade Investment Fund                     |
| ADA     | Austrian Development Agency                                      |
| ADB     | Asian Development Bank   |
| AfD     | Agence Française de Développement                                |
| AfDB    | African Development Bank   |
| AgDevCo | Agricultural Development Company                                 |
| ASA     | Association for Social Advancement                               |
| BAAC    | Bank for Agriculture and Agricultural Cooperatives               |
| BAGC    | Beira Agricultural Growth Corridor of Mozambique                 |
| BIO     | Société belge d'Investissement pour les Pays en Développement SA |
| BMZ     | German Federal Ministry for Economic Cooperation and Development |
| BRI     | Bank Rakyat Indonesia  |
| BSTDB   | Black Sea Trade and Development Bank                             |
| CGAP    | Consultative Group to Assist the Poor                            |
| COMESA  | Common Market for Eastern and Southern Africa                    |
| CSIS    | Center for Strategic and International Studies                   |
| DCA     | Development Credit Authority                                     |
| DEG     | Deutsche Investitions- und Entwicklungsgesellschaft              |
| EBRD    | European Bank for Reconstruction and Development                 |
| EIB     | European Investment Bank   |
| FAO     | Food and Agriculture Organisation                                |
| FIDES   | Financial Systems Development Service AG                         |
| FMO     | The Netherlands Development Finance Company                      |
| IADB    | Inter American Development Bank                                  |
| ICA     | Infrastructure Consortium for Africa                             |
| IFAD    | International Fund for Agricultural Development                  |
| IFC     | International Finance Corporation                                |
| IFPRI   | International Food Policy Research Institute                     |
| IPC     | International Project Consult GmbH                               |
| KERUSSU | Kenya Rural Savings and Credit Cooperative Society Union         |
| KfW     | Kreditanstalt für Wiederaufbau                                   |
| LFS     | LFS Financial Systems  |
| MFI     | Microfinance Institution   |
| MIF     | Multilateral Investment Fund                                     |
| OAU     | Organisation of African Unity                                    |

## XII Abbreviations

|         |  |
|---------|--|
| OECD    | Organisation for Economic Cooperation and Development                                  |
| OIBM    | Opportunity International Bank of Malawi   |
| PATMIR  | Proyecto Regional de Asistencia Técnica al Microfinanciamiento Rural                   |
| RCPB    | Réseau des Caisses Populaires du Burkina   |
| RIF     | Rural Impulse Fund   |
| RUTA    | Unidad Regional de Asistencia Técnica  |
| SAGARPA | Secretaria de Agricultura, Ganadería, Desarrollo Rural,<br>Pesca y Alimentación México |
| SAGCOT  | Southern Agricultural Growth Corridor of Tanzania                                      |
| SAGF    | Sustainable Agriculture Guarantee Fond   |
| SF      | Structured Finance   |
| SICREDI | Sistema de Cooperativas de Crédito   |
| SMEP    | Small and Micro Enterprise Programme   |
| SPV     | Special Purpose Vehicle  |
| SSA     | Sub-Sahara Africa  |
| USAID   | United States Agency for International Development                                     |
| WOCCU   | World Council of Credit Unions   |
| WTO     | World Trade Organization   |