››› Financial inclusion and risk management in agricultural (micro) finance

11th University Meets Microfinance

Expert roundtable “Financial services for agricultural value chains”

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Bank aus Verantwortung

Agenda

1	Where we come from
2	Where we are
3	Where we (would like to) move to
4	Challenges
5	Access to Agricultural Finance Fund

Agri-Finance in KfW Development Bank

Where we come from

In Words	In Numbers
› Agri-Finance has always been important but **never been a low hanging fruit**; › KfW Agri-Finance projects under the **old development paradigm** (directed preferential lending mostly though (Agro) development bank) have all but one **failed** (ex-post sub evaluation of 16 projects); › 1980/90s: Bye, bye directed lending, hello (microfinance) institution building; › Since then, **strategic focus on building solid FIs serving MSMEs increasingly including rural businesses and farmers**; › Recently **growing interest to find/develop sustainable dedicated agri-finance project** approaches, esp. in Africa.	› Financial Systems Development (FSD) is a focus area of KfW Development Bank (~26% of annual total commitments); › **Micro** (41%) and **SME Finance** (31%) account for **72% of the total FSD portfolio** (12/2013: 5.8 bln EUR); › Approx. **20% of the MSME Portfolio is rural** (12/2012: 770 mln EUR) of which we estimate half to directly address primary producers; › **Most projects** are **country-specific** (~ 48), however, regional approaches (3+) gain in importance.

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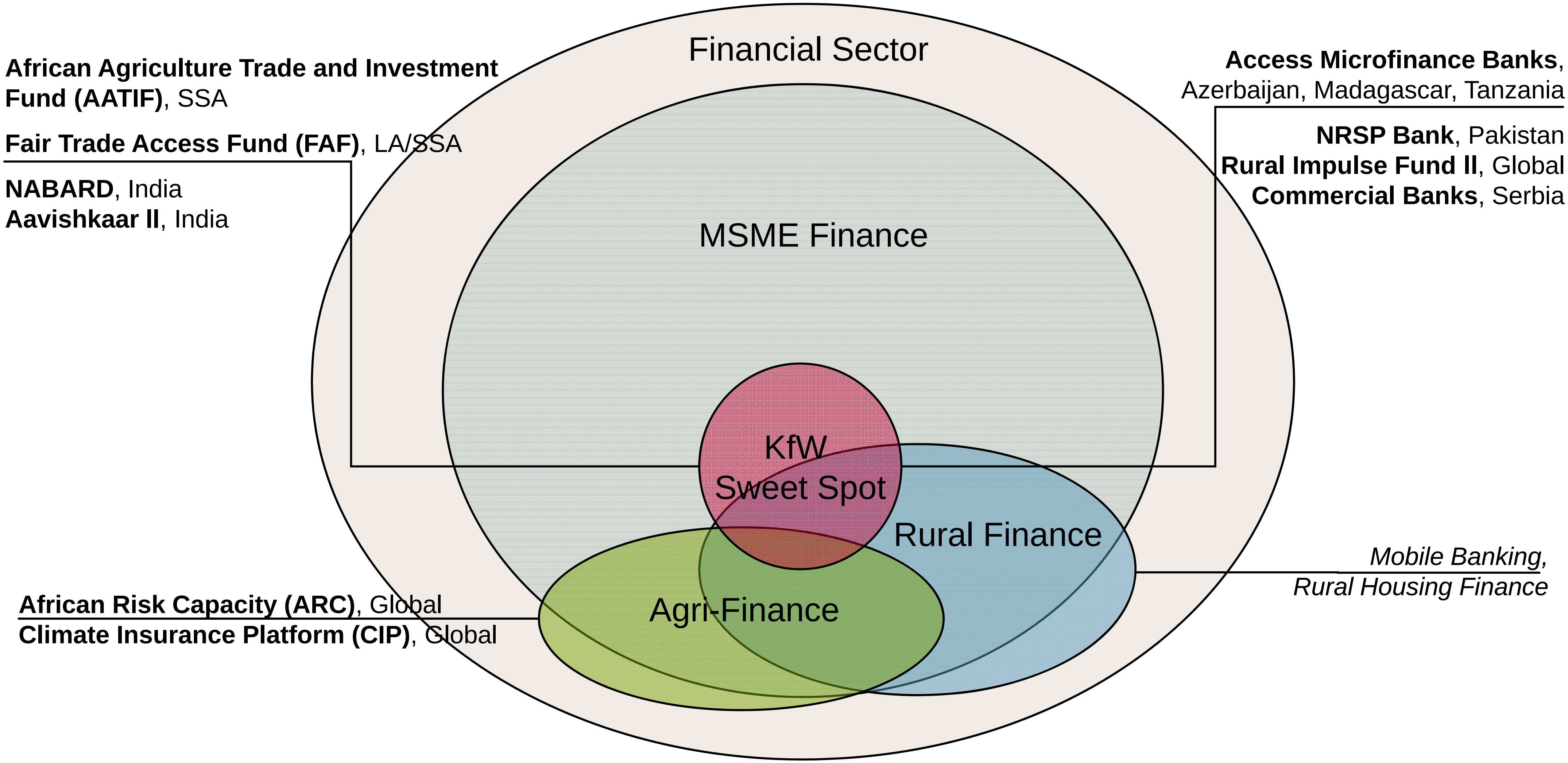
Where we are



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Where we (would like to) move to

Today	Tomorrow
i. Agri-finance is important but underrepresented compared to its relevance for development;	**i. Do more** without falling back into old development finance paradigm, i.e., no directed lending;
ii. Agri-finance mostly integrated in MSME project approaches;	**ii. Scale** and **replicate** successful MSME approaches + **innovate** further;
iii. Focus on senior debt instruments; equity stakes in MFIs	iii. Senior debt, equity on rise, insurance pilots, **bundling of financial and non-financial services,** leasing?
iv. Use of structured funds to complement local approaches, crowding-in private investors, (also preferred method for risk sharing as compared to guarantee schemes)	**iv. Structured funds** likely to remain important

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Challenges

- **Push or Pull?** Is there time to be patient?
- **Find or found?** What to do when there is no existing financial intermediary interested in expanding into agri-finance?
- **Efficiency or effectiveness?** Reaching farmers with adequate products replicating costly microfinance approaches?
- **Broad or narrow**? Agro-industry as financial service provider?
- **“Weather” or not?** Which role play weather risks for our (financial) intermediaries and what are adequate ex ante/ex post risk management options?
- **Tell or not to tell?** Should the farmer know when there is insurance linked to credit?
- **Subsidize or not?** If yes, what and how?

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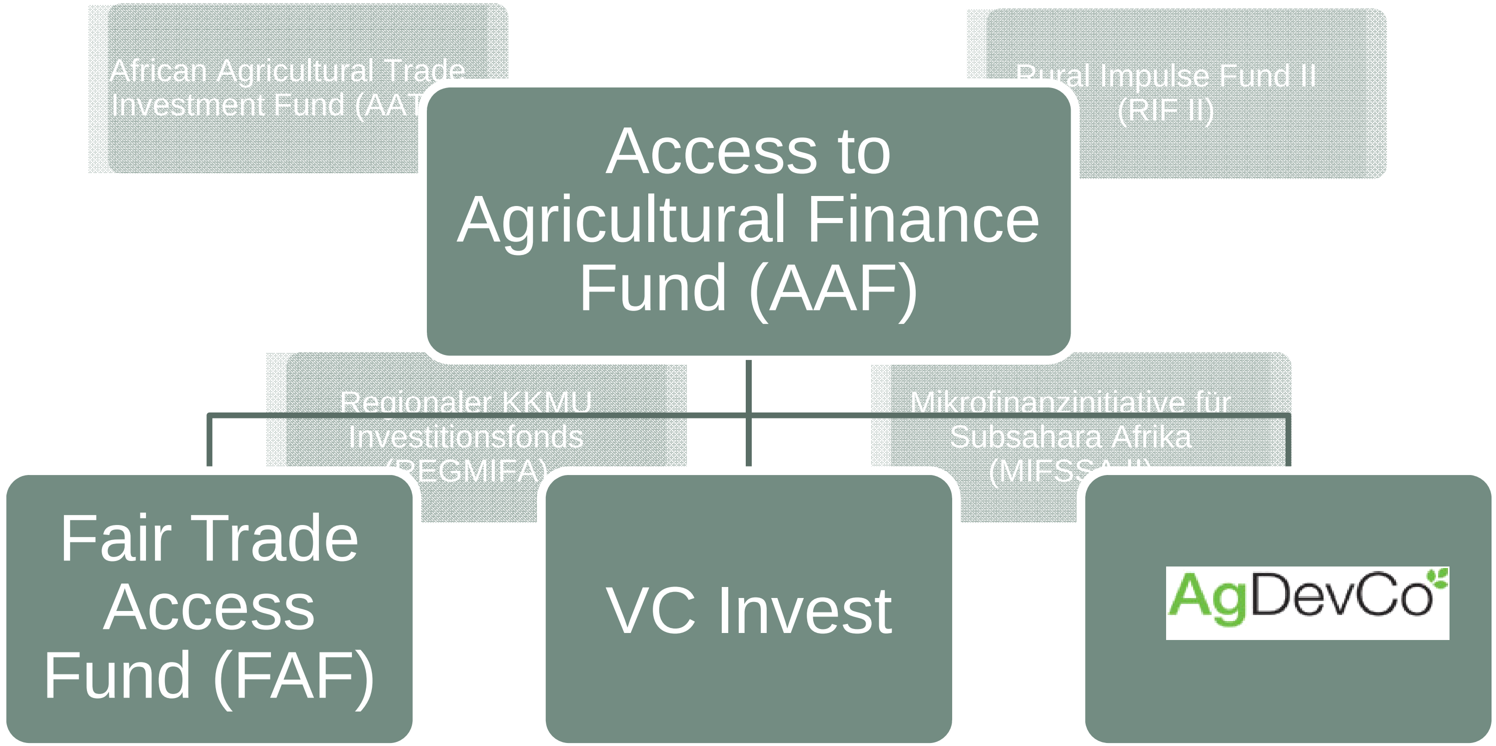
Access to Agricultural Finance Fund



- Agricultural cooperatives show regional differences in development (role, capacitive), thus national markets can not be served sustainable by bilateral agreements
- Diversification of agricultural risks (weather, prices)
- Avoidance of market saturation through regional flexibility
- Know-how exchange through centralized approaches

››› Thank you.

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