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HOW CAN MICROFINANCE RESPOND TO THE NEEDS OF FARMERS?

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CONTEXT

In developing countries a large proportion of the population lives in rural areas and is involved in agriculture.

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- The proportion of people whose livelihood depends on agriculture is greater in these countries. For example in Mali, Burkina Faso and Rwanda, over 80% of the population directly depends on agriculture, and the agricultural sector contributes over 40% to the GDP. In comparison, in Canada, the United States of America and France the agriculture sector only accounts for 2 to 4% of the active population and contributes only 3 to 4% to the GDP.

- Despite the major contribution of the agricultural sector to the economy, rural people in developing countries have poor access to financial services. In Mali, the rate of extension banking services in rural areas is around 5%.

- Traditional financial institutions` lack of interest in rural people and their reticence in financing agriculture can be explained by the unpredictable nature of the profitability of agricultural activities (agriculture remains one of the industries whose financial needs are largely unmet);

  And by the often considerable costs due to the geographic dispersion of rural clientele.

- In a publication entitled **"*World Agriculture: Horizon 2015/2030*"**, **FAO mentions: "*For a large proportion of the billion people living in absolute poverty, economic growth based mainly on agriculture and non-agricultural rural activities is essential for improving livelihoods. The majority of poor people live in rural areas. To mitigate poverty and hunger, it is essential to promote the growth of agriculture in rural areas and provide rural peoples with better access to land, water, credit, health services and education*".**

- **Rural populations also need to be able to save their money safely as well as being able to access credit in order to improve productivity and to diversify the economic activities of rural households.**

- **Savings and credit facilities are essential means of protecting and increasing the assets of rural peoples, in the same way as for their urban counterparts.**

- **There are now numerous microfinance practitioners who have developed methodologies for agricultural financing in order to provide small farmers with access to adequate financial services,.**

- **Apart from group agricultural credit, FMIs in developing countries provide individual farmers with financial services adapted to their needs.**

- **Offering small loans to farmers is a specificity of microfinance. It is rare for traditional banks to finance individual farmers in developing countries.**

KAFO JIGINEW`S EXPERIENCE IN FINANCING FARMERS IN MALI

Kafo Jiginew`s figures at the end of October 2007

- **Start date: Oct. 1987 (20 years of activity)**
- **Number of outlets: 154 (128 in rural areas)**
- **Number of members: 237 581**
- **Outstanding deposits: 13.6 billion F CFA**
- **Outstanding credit: 13.4 billion F CFA (60% rural)**
- **Number of permanent employees: 560**
- **TOTAL: 20 billion F CFA.**

The agricultural financing methodology of Kafo Jiginew is based on 5 areas:

1. Identifying farmers` needs in terms of financial products and services;
2. Offering local financial services at reduced costs;
3. Finding adapted financing;
4. Putting in place guarantees
5. Repaying loans.

CONCLUSION

Rural populations are amongst the most disadvantaged in the majority of developing countries. Achieving the goals to reduce poverty requires developing better-targeted approaches for this clientele. Therefore, it is essential that FMIs serve rural areas and thereby contribute to the economic and social development of farmers.

Upholding our position:

- Rural peoples who rely on agriculture for their subsistence constitute the majority of the population in developing countries. For us, it is imperative that these people (largely powerless) also have access to adequate financial services including credit.

- However, credit by itself can not support rural agricultural development. Secured access to land and water, access to lucrative markets through structured marketing, using resource production techniques, putting in place shared risk mechanisms and diversifying loan portfolios are the conditions that encourage better developed and more viable finance in the agriculture sector.

- Microfinance institutions in rural areas must generate enough business to support professional services and ensure their sustainability.

- **In this respect, putting in place service points in rural areas linked to a mother credit union responsible for management and which itself will be linked to a national network responsible for (amongst other things) oversight will have a far better chance of viability than the creation of a multitude of small credit unions. New information technology, which is inexpensive and easy to use, should be taken advantage of to provide professional financial services to rural populations.**

- Diversification of agricultural credit activities is a quasi-incontrovertible part of the risk management strategy to protect the assets of the institution as well as those of the savers. The link between urban, peri-urban and rural institutions can allow a better diversification of loan portfolios. Furthermore, setting up a guarantee fund is necessary to protect the assets of savers and local finance/ microfinance institutions.

- Finally, where credit is not possible, savings remain a safe way to self-finance agricultural activities. The setting up of institutions that allow safe saving in rural areas goes hand in hand with access to credit.

END

THANK YOU FOR YOUR ATTENTION

Kafo Jiginew, l'institution de microfinance qui vous comprend

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