



Creating Opportunity for Smallholders through Microfinance

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ABHAY PAREEK

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MicroSave

Market-led solutions for financial services

About *MicroSave*- in a Nutshell

- We are a Development Consulting with over 2 decades of experience of working in Asia-Pacific and in Africa
- Focus Domains: Digital financial services, inclusive finance, MSME finance and private sector development
- Our clients: include a variety of institutions like NGOs, MFIs, Banks, Corporates
- What is common to our client profile: Working either directly or indirectly with the low-income and marginalised sections of the economy
- Nature of Consulting: From **Innovation to Implementation**

***MicroSave* in Numbers**

17 projects to design and implement DFS across Africa and Asia

150+ plus banks, MFIs and MNOs which have improved operational efficiency on the basis of our advice

100 plus financial products developed across the globe

40+ countries across Africa and Asia in which we have in-depth financial market intelligence

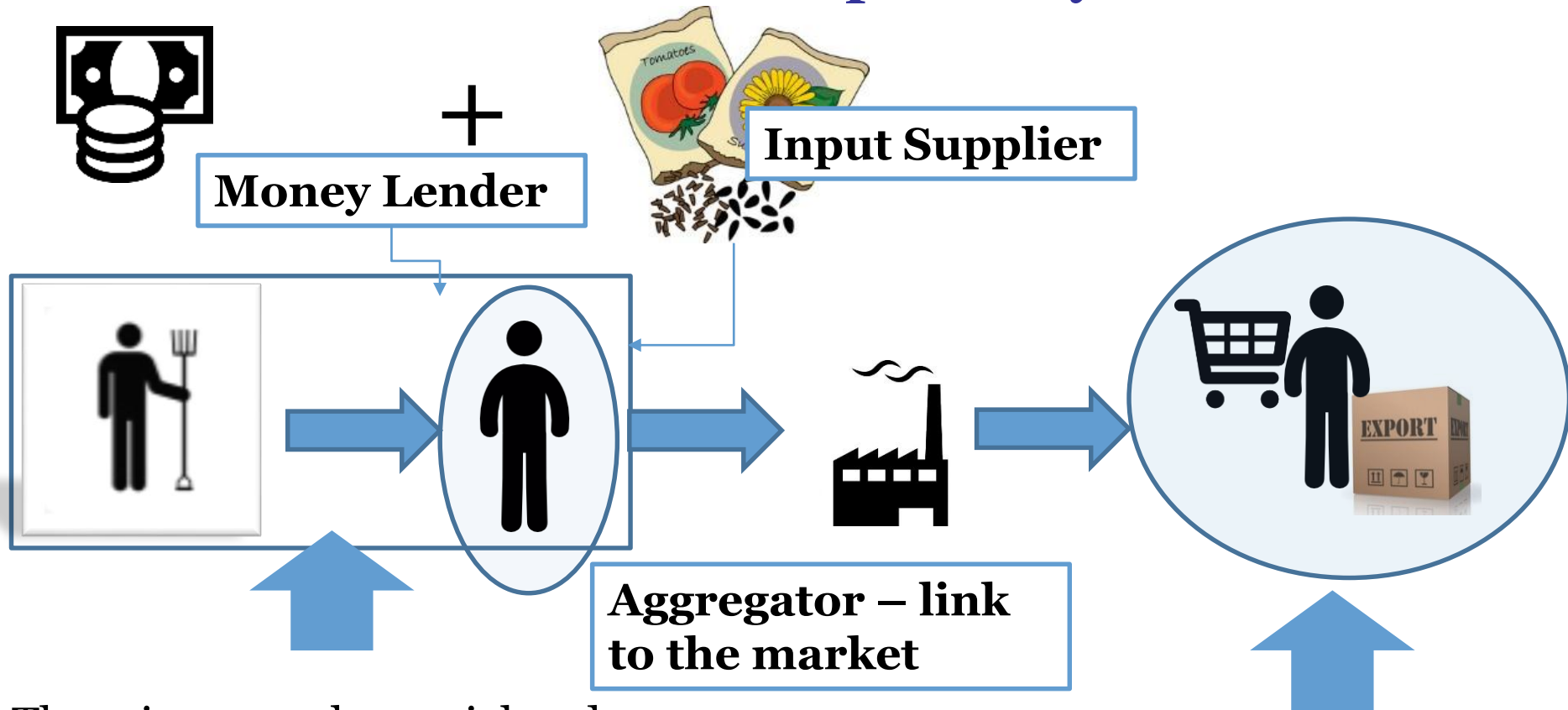
300 papers, focus and briefing notes, and other print and online published



The Palay Value Chain Analysis

Key Findings

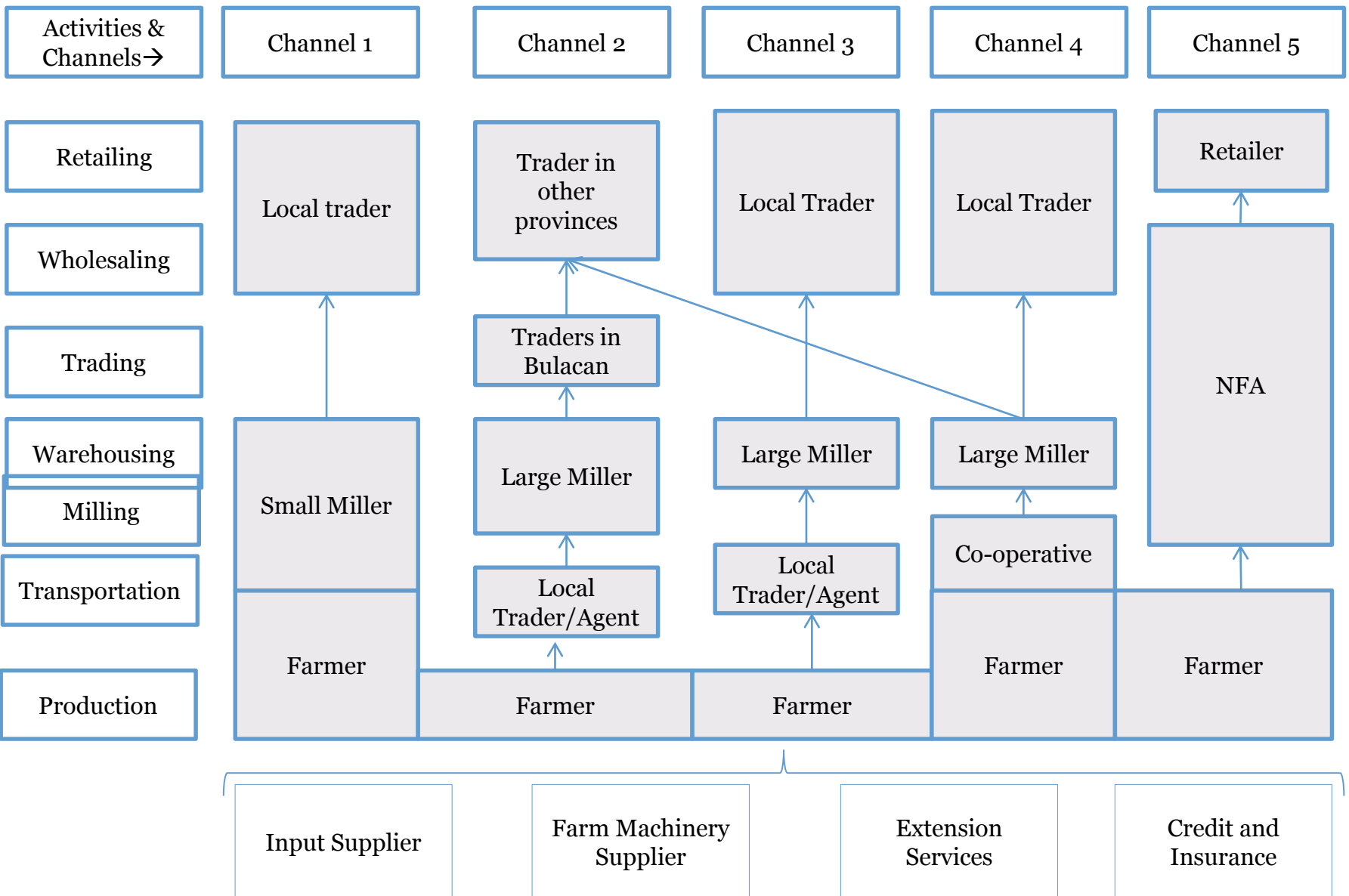
Value chains and the power dynamics



There is a complex social and economic relationship between agent/aggregator and the farmer which brings in scope for power dynamics and exploitation

Controls flow of produce in the market, stores it for peak season or some way influences price for lean and peak season

Value chain map of Palay/Rice



Simplified value chain map of Palay/Rice

Activities & Channels →

Retailing

Wholesaling

Trading

Warehousing

Milling

Transportation

Production

Trader in other provinces

Traders in province

Large Miller

Local Trader/Agent

Farmer

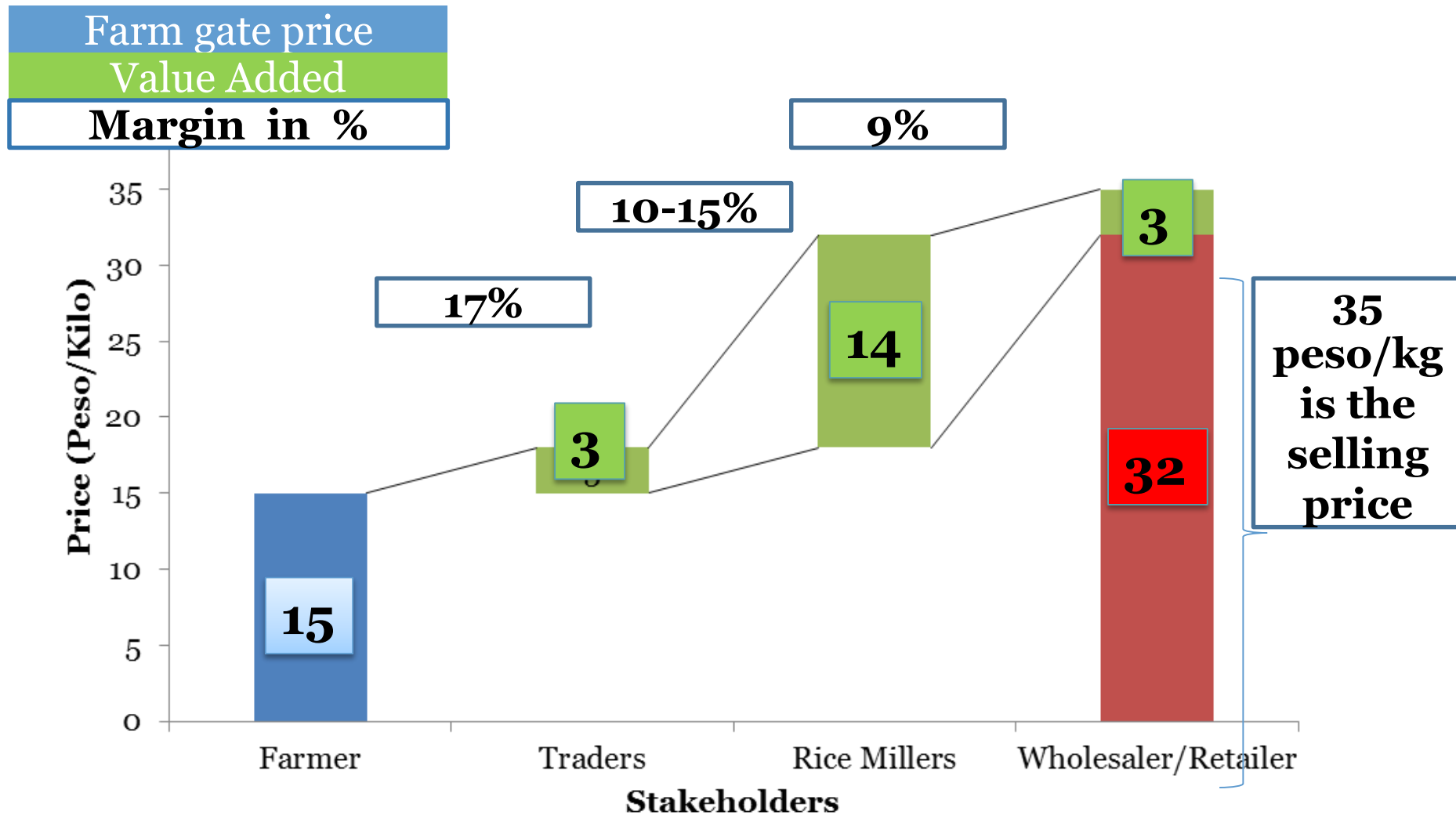
Input Supplier

Farm Machinery
Supplier

Extension
Services

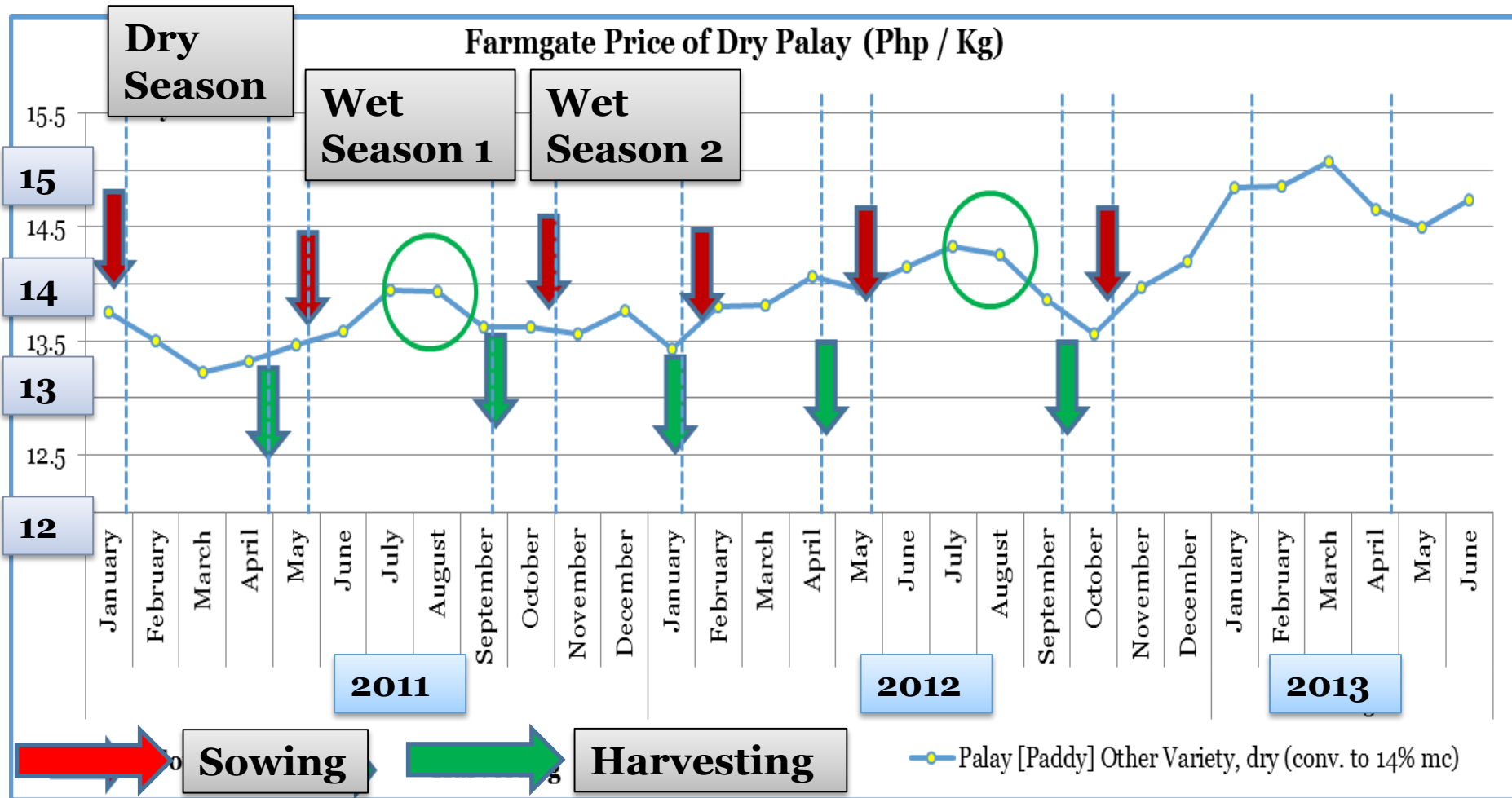
Credit and
Insurance

Price variation and margin within the rice value chain



Hints: Financing of drying units, aggregation at the producer level, facilities for warehousing and finance against the WRs

Seasonality in price of dried palay



Sources of finance for farmers

The Input supplier

- Providing input credit at a rate of 5% per month
- Local suppliers - in-kind charges
- Inputs supplier charges 50 Peso extra over the retail price

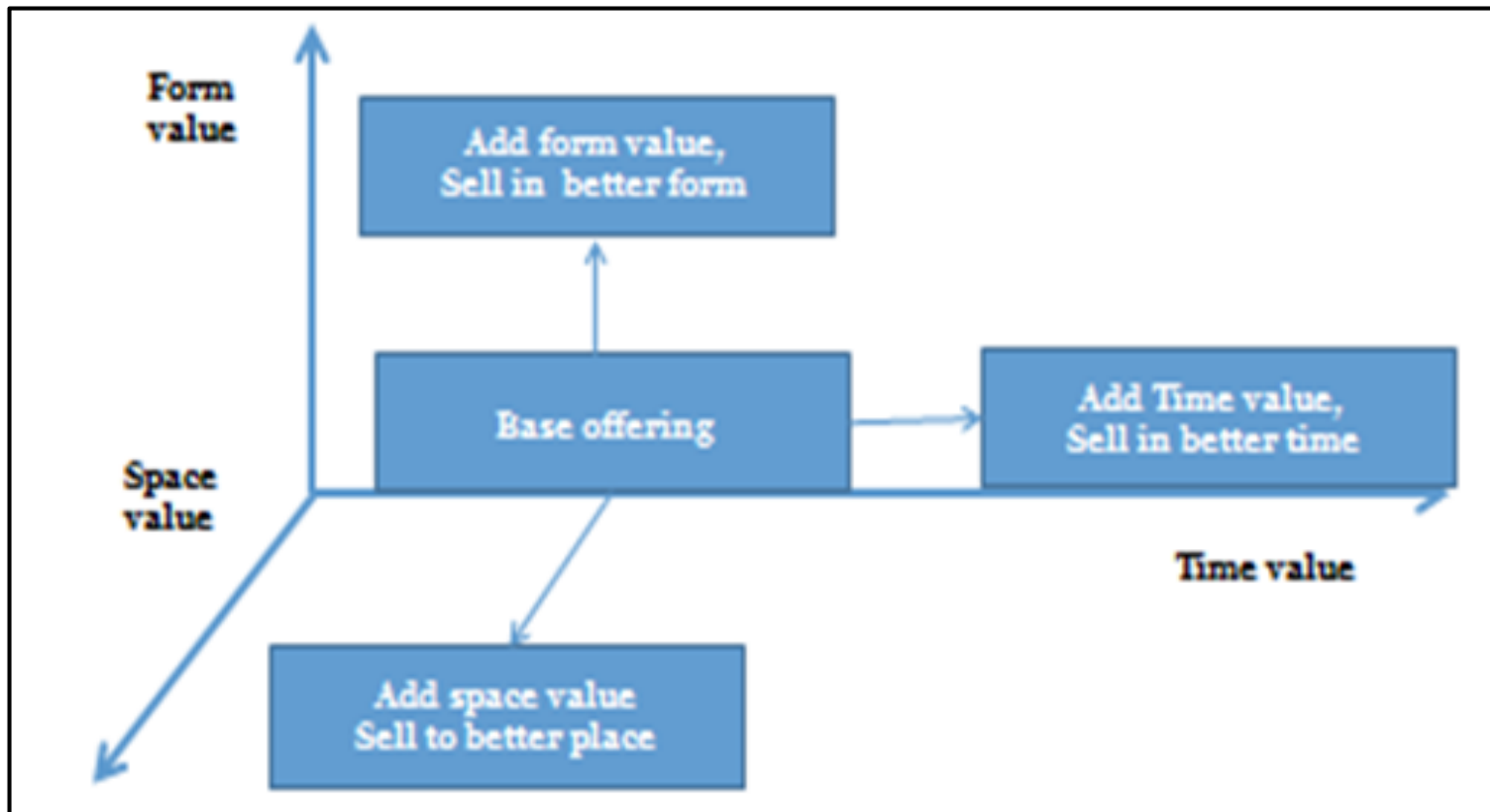
Microfinance Institutions

- Provide agriculture loan
- At times the loan amount is insufficient to cover consumption and agri expenses

Traders/Private Financers

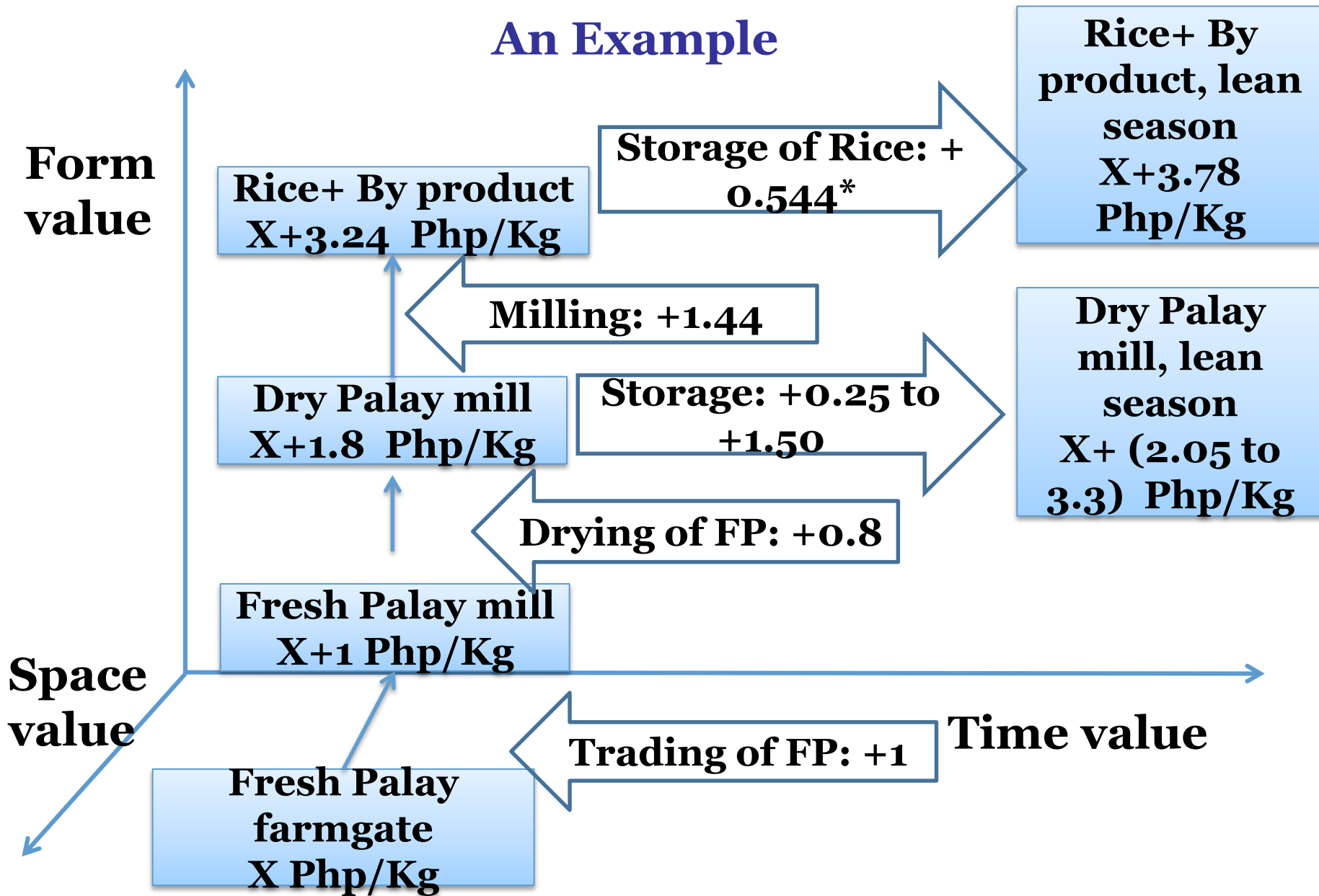
- Provide loans at a rate of 5-6% per month.
- Farmers have to sell produce at the earliest to repay loan(s),

Space, form and time factors in VC



- It has emerged as a powerful tool in creating an impact on the livelihood of farmers
- The “value” gets created in three ways- space, form and time, shown as the three axes

An Example



* Based on past trend of price fluctuations in cost of rice in a span of 3 months@ Php 1 per Kg and Rice obtained from 1 Kg FP= 544 gms

MFIs do extend finance to value chain actors

Types of financing	External financing				Internal financing		
Value chain actors	Banks	Co-operatives	MFI	Money lenders	Processor/Insti tutional buyer	Input suppliers	Traders
Small holders/Marginal farmers	No	Yes	Yes	Yes	Yes	Yes	Yes
Traders	No	No	Yes	Yes	Yes	No	Yes*
Processor/Rice miller	Yes	No	Yes**	No	-	No	No
Wholesaler and retailer	No	No	Yes***	No	No	No	No
Input suppliers	Yes	No	Yes	Yes	No	Yes**	No

Credit required for production / to avoid distress sales

Phase	Production	Harvesting	Post-harvest storage/ processing
Price trend		Palay – 14-16 peso/Kg	3 months, Palay – 18-20 peso/Kg
Credit supply	MFIs, Traders, Input suppliers		
Income realised		Sell the produce immediately	
Outcome	Inadequate loans Informal credit @3-5%	Low income realisation	Traders and Cooperatives
What can be done	Adequate loan	<ul style="list-style-type: none"> ✓ Loan to improve the produce ✓ Receivable finance 	

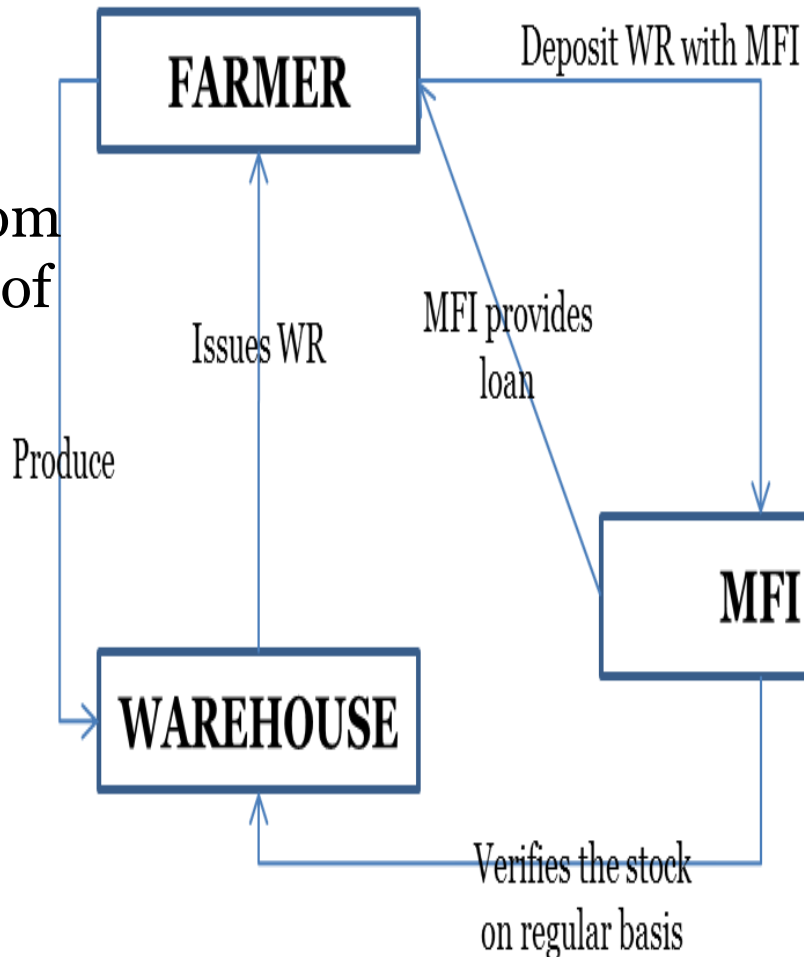
Innovative financial products can help marginal farmers realise benefits of time arbitrage

Emerging Themes for VCF

Model 1: Receivable Finance

Benefits

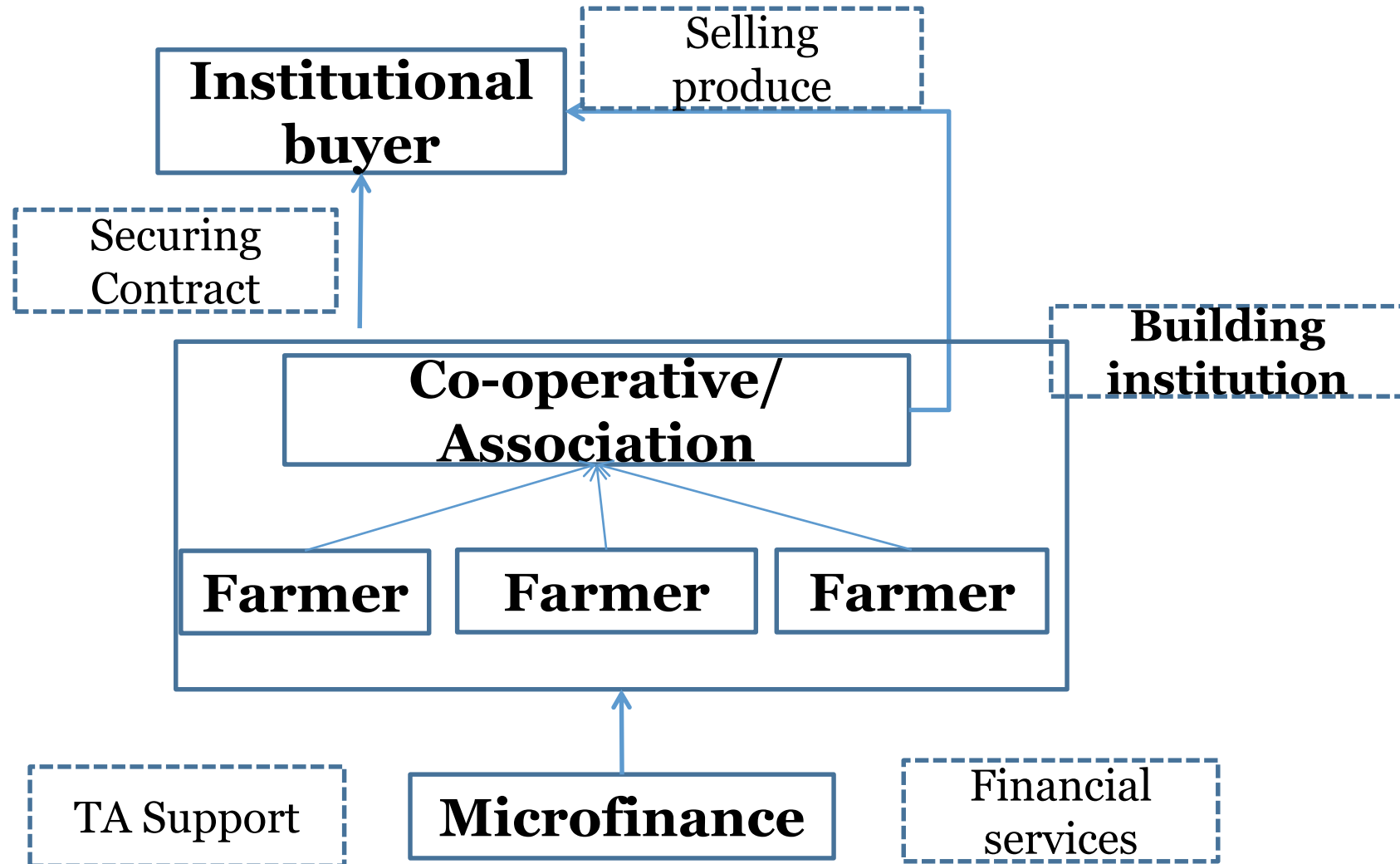
- ✓ Quick and easy cash
- ✓ Higher realisation from same volume of produce
- ✓ MFI gets collateral



Challenges

- ✓ Aggregation requires significant institutional effort
- ✓ Wilful default by farmers
- ✓ Quality of warehousing facility
- ✓ Government regulation
- ✓ Success of RF will be contingent on macro-economic factors

Model 2: Institutional finance (1/2)



Model 2: Institutional financing (2/2)

Benefits

- ✓ Finance based on contract secured by the farmer or the co-operative
- ✓ Impact of price fluctuation can be minimized
- ✓ Increased collective bargaining power of farmer(s)
- ✓ Reduced dependency on traders
- ✓ Technical inputs for farmers

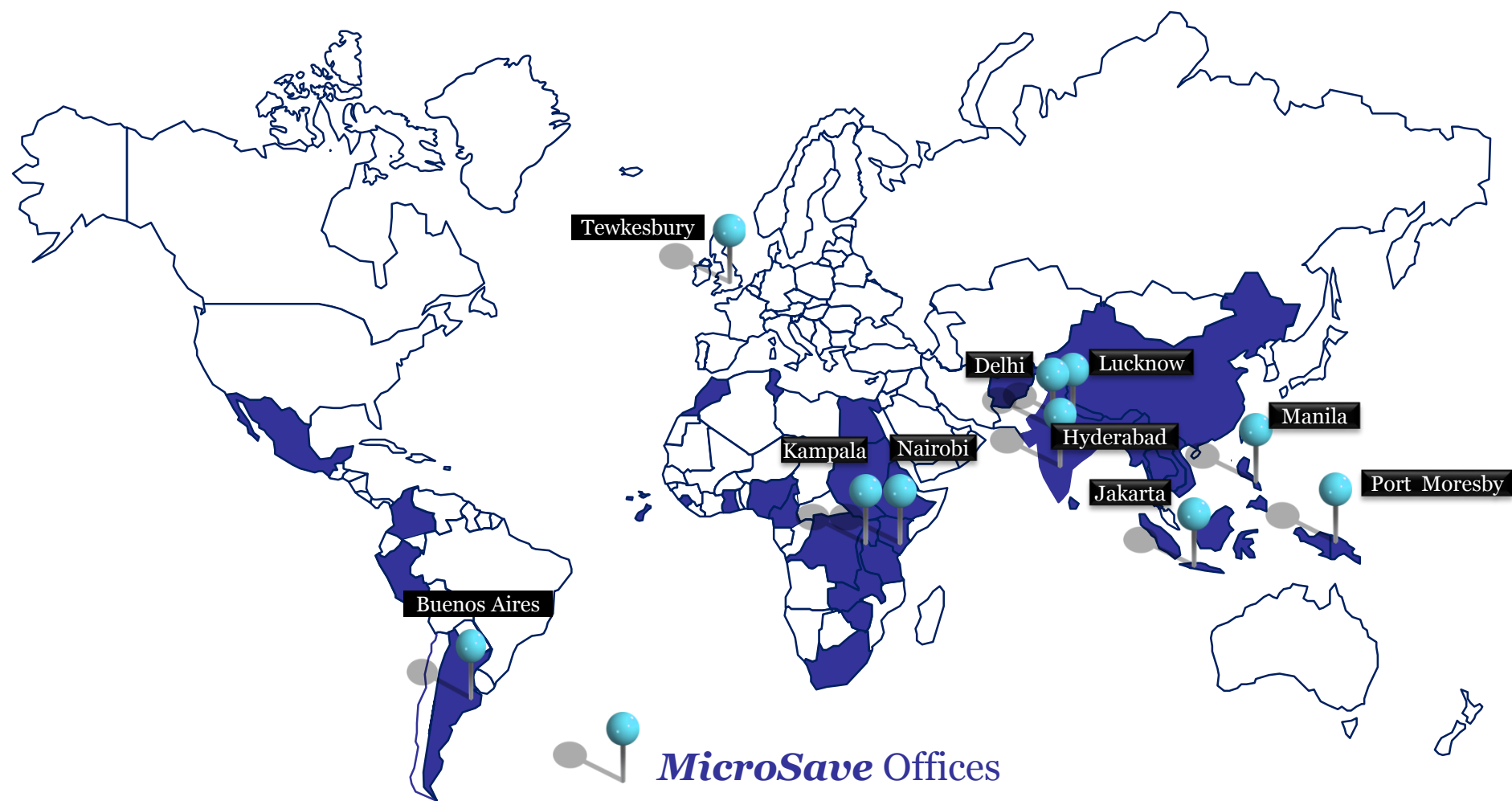
Challenges

- ✓ Model requires a gestation period
- ✓ Requires investments of time in building relationships with the community
- ✓ Quality parameters

How will VCF affect the MF sector as it moves forward and goes beyond MF?

Affects on VCF on MF sector

- Direct impact on majority of microfinance clients who are engaged in agriculture
- VCF represents a “ecosystem approach” over a “decentralised approach”
- Requires a shift to client-centric products design for small and marginal farmers and for the value chains
- **Pressure on MFIs :**
 - Reduce cost and develop innovative delivery channels
- **Risks for MFIs :**
 - Shift from core business of financing to households to an eco-system approach
 - Lack of expertise and experience in comprehensive value chain finance



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