

# Financial Inclusion via Agriculture Value Chains

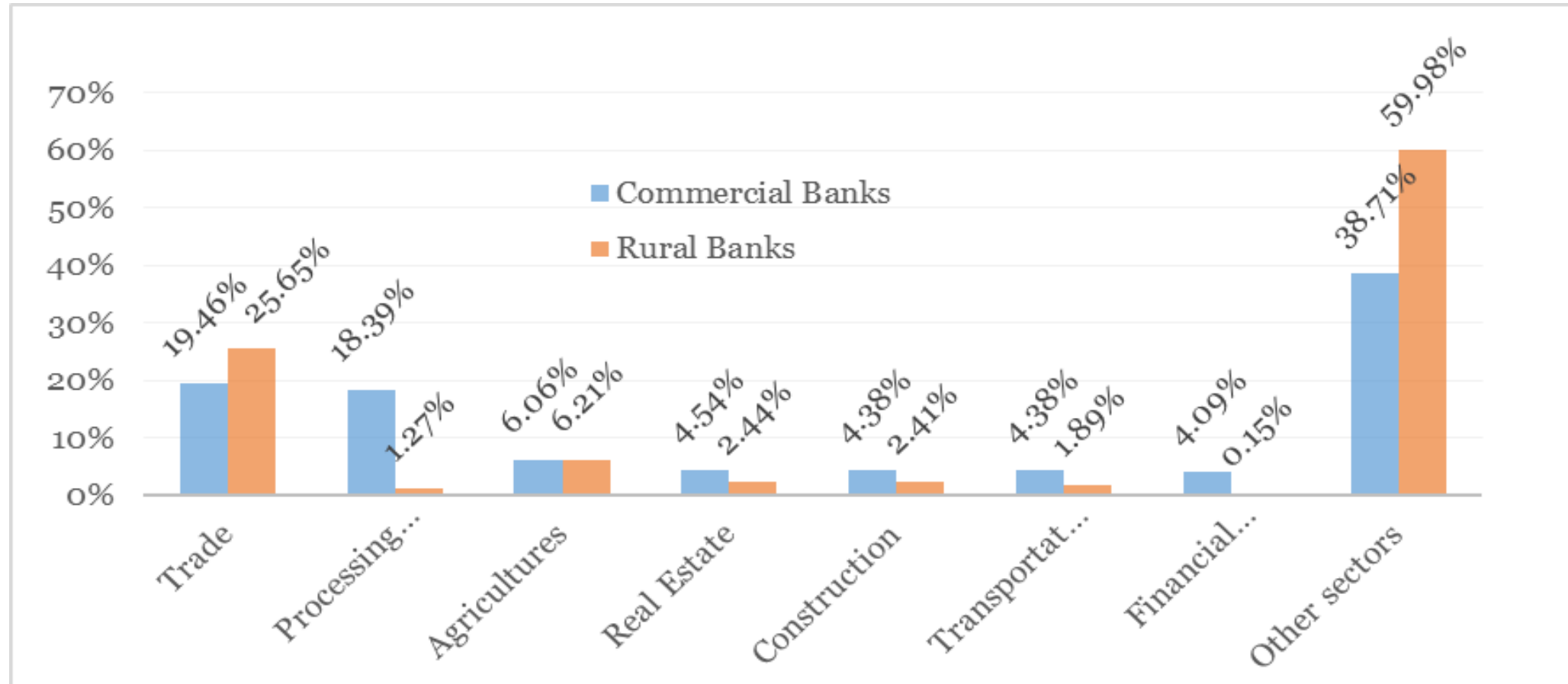
**Clay O'Brien**

**March 2016**

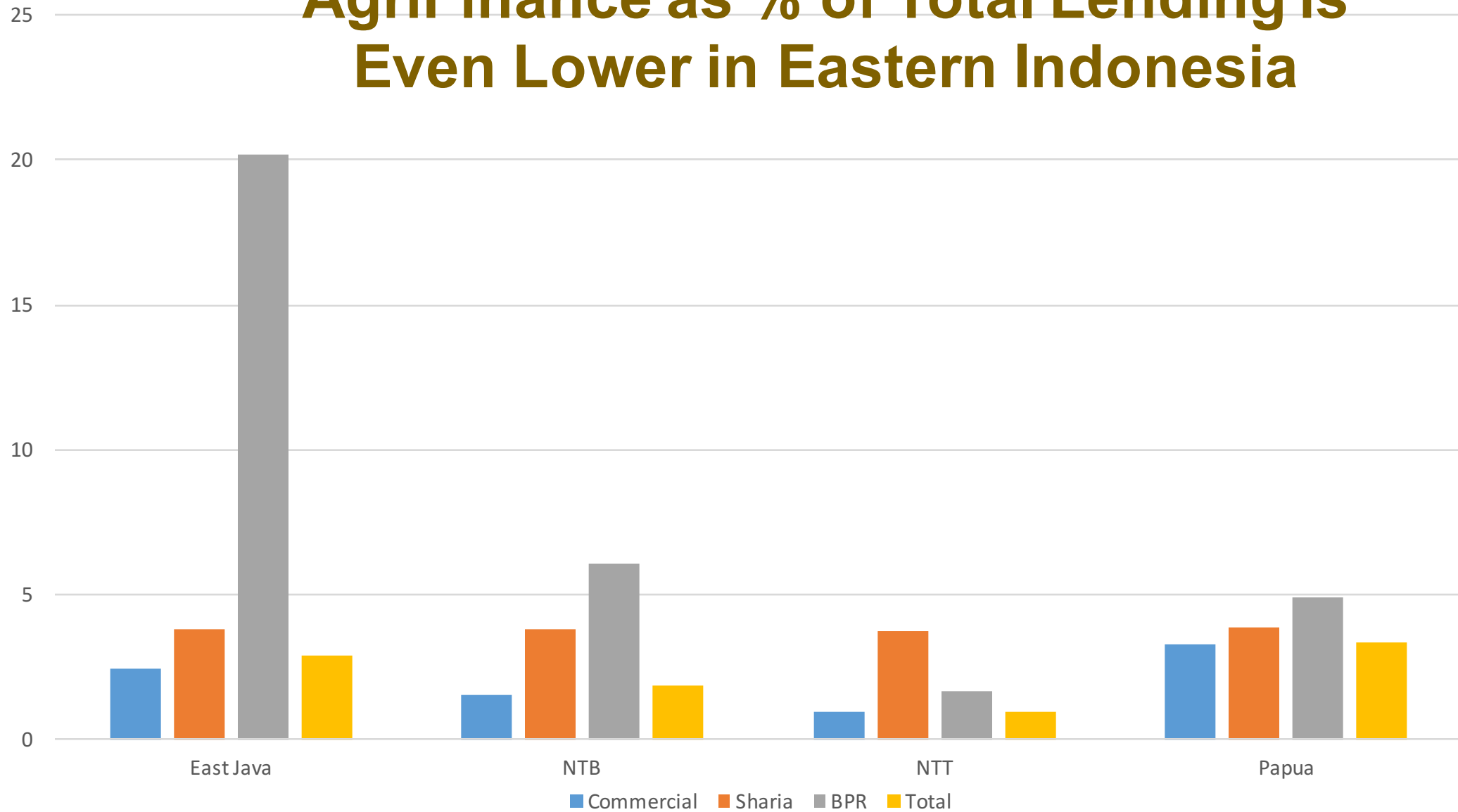
# Australia-Indonesia Partnership for Rural Development

- The Government of Indonesia has partnered with the Government of Australia (AIP-Rural).
- The long-term goal is to improve the income of at least 1m poor men and women smallholder farmers in five provinces in Eastern Indonesia by 2022.
- AIP-Rural is focused on market based development aimed at improving agricultural competitiveness and access to markets, better inputs, know-how and technology.
- Of the projects being implemented under AIP-Rural, PRISMA is the largest, primarily focused on agricultural value chains, targeting 300,000 farmers by the end of 2018.
- The fourth, SAFIRA, focuses on agriculture value chain financing to expand access to finance for 12,000 farmers.

# Key Driver: Indonesia Lending to Agriculture is Low as a Proportion of Total Lending



# AgriFinance as % of Total Lending is Even Lower in Eastern Indonesia



## It is Not Due to a Lack of Financial Institutions

| Type of FIs / Numbers                                  | East Java | NTT   | NTB   | Papua |
|--|-----------|-------|-------|-------|
| <b>Commercial Banks</b>                                | 85        | 17    | 29    | 19    |
| <b>Sharia Banks</b>                                    | 36        | na    | 8     | na    |
| <b>Rural Banks</b>                                     | 325       | 11    | 32    | 6     |
| <b>Co-operatives</b>                                   | 27,140    | 2,818 | 2,283 | 1,784 |
| <b>(of which, Credit Unions with &gt;1000 members)</b> | 8         | 32    | 0     | na    |

# There are Farmer Demand and Supply Side Constraints

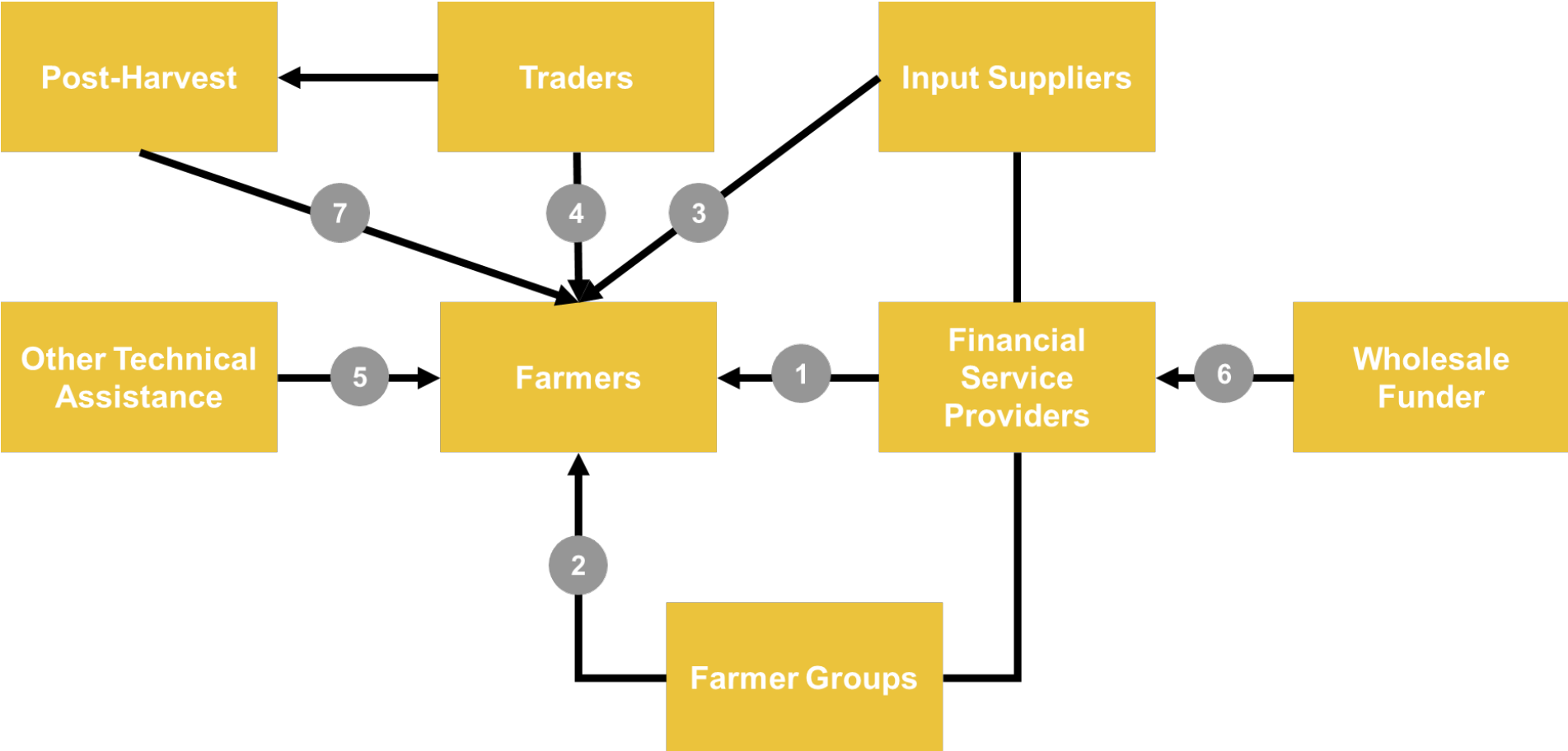
*Demand side barriers* include:

- land title;
- a lack of collateral generally;
- poor financial literacy and product knowledge;
- the small loan sizes needed; and
- the prevalence of informal structures.

On the *supply side*, there is:

- a lack of knowledge on the part of the FSPs;
- an undiversified and untailored product range;
- a lack of liquidity;
- high costs;
- inadequate risk management capacity and availability of risk mitigation eg insurance.

# The Solution: Use Farmers' Relationships as Assets

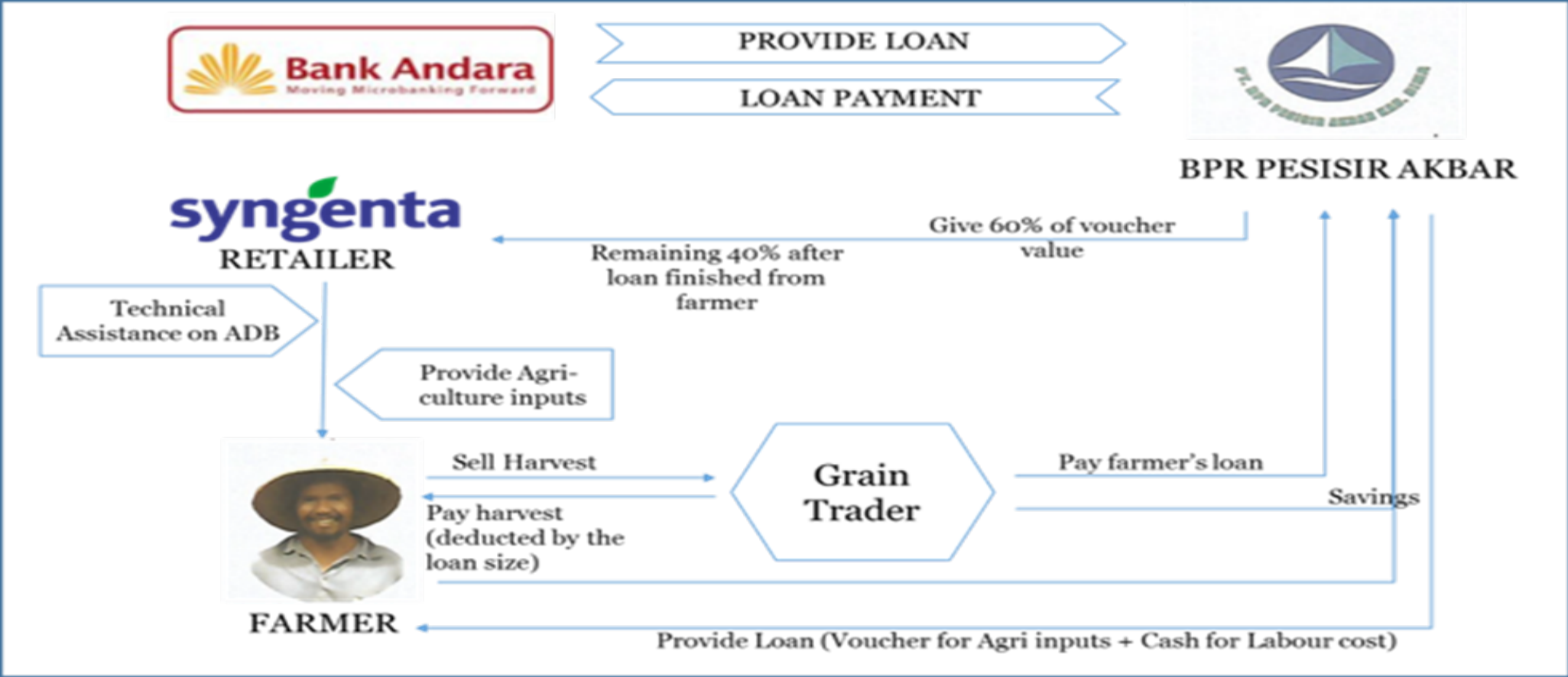


# Value Chain Finance (VCF)

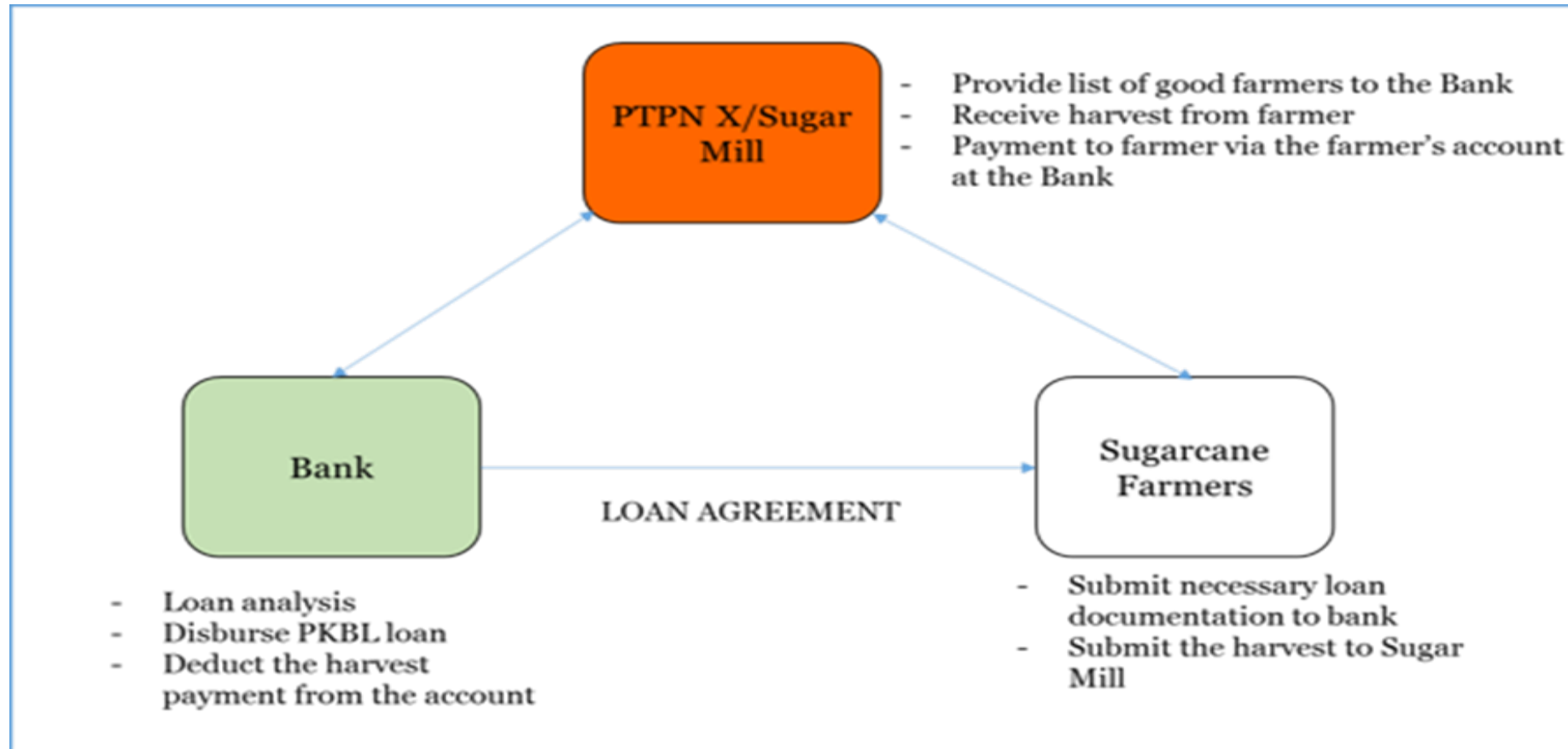
- VCF is made possible by value chain relationships and mechanisms.
- It is used primarily to reduce:
  - lending risks by leveraging relationships as assets, and/or
  - transaction costs of lending by using value chain actors as loan assessors, distributors or collectors for financial services.
- The rationale for these types of financing arrangements is that, when properly constructed, they are profitable for and beneficial to:
  - providers of financial services (e.g. banks),
  - their customers (e.g. seed producers, processors, buyers), and
  - farmers.
- VCF is a method that has been used successfully worldwide and there are many examples in Indonesia.



# Sample VCF 3, 5 and 6: Maize Farmers in NTB



# Sample VCF 4: Sugarcane Farmers in East Java



# What SAFIRA offers for VCF

- SAFIRA seeks to introduce more rural banks and financial service providers to the agricultural sector and develop their competencies to take advantage of the opportunities that VCF can provide.
- SAFIRA also assists value chain actors to:
  - interact more effectively with financial institutions,
  - deliver credit to smallholder farmers more efficiently, and
  - facilitate the growth of their businesses through expanded outreach.
- This is done through capacity building and technical support, provided for free by SAFIRA under an MOU with our partners.
- Essentially, SAFIRA aims to replicate and expand the VCF models existing in Indonesia and from overseas.

# AIP-Rural Survey on Financial Inclusion and Access

- The key goals of SOFIA are, like a Finscope study, to:
  - Measure and profile levels of access to and use of financial services, and
  - Make this information available for use by key stakeholders such as policy-makers, regulators and financial service providers.
- SOFIA will:
  - Measure the levels of financial inclusion in Eastern Indonesia,
  - Determine the needs for financial products in general, with particular emphasis on the agricultural sector, and
  - Describe the landscape of access, i.e. the type of products and services used by financially included individuals, and the gap with supply.
- AIP-Rural is considering extending the survey to other provinces and deepening the analysis in certain districts.

# Thank you

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