

Microfinance: Shortcutting the Long and Winding Road to Financial Security

The Microcredit Summit in 2006 reported that about 97 million poor families have been served by a total of 1,652 microfinance institutions (MFIs) in Asia and the Pacific.

How can poor families, particularly those relying on agriculture, become financially secure?

Microfinance promises to shortcut the long and winding road to financial security. Found to work out well in Asia, it involves small-scale credit, savings, and insurance to meet the needs of poor producers. Microfinance programs also provide skill-based training and other forms of support to empower the poor. It has become an important approach for poverty reduction in many parts of the world, including Asia and the Pacific region.

Bangko Sentral ng Pilipinas (BSP) Governor Amando M. Tetangco, Jr., keynote speaker of the Regional Consultation¹, said that microfinance is linked to the following principles:

- It is linked to households and their microenterprises. The household is seen as one



with diverse activities and multiple streams of income and expenditures. It looks at the regular cash flow of household and microenterprise -- not the loan use, in determining the size, term, and repayment structure of the loan. It is primarily short-term loans with frequent repayments.

- Microfinance loans are used for additional capital to grow an existing business. The loan amounts are not very large.

Governor Tetangco said that these features are somewhat “incongruent to the financing needs of the agriculture sector. Cash flow lending and frequent repayments do not fit the seasonal nature of agricultural incomes... short-term financing, as well as the relatively small loan amounts, result in a lack of term financing which is important to particular types of agricultural activities... Agriculture finance bears unique risks such as price and yield risks.”

However, Governor Tetangco stressed that some of the best practices of microfinance with salient features of agricultural microfinance can be combined to create a product that addresses the needs of the agriculture sector, specifically the poor farming households. This is showcased by BSP's approval of the Micro-Agri Product which allows banks with microfinance operations to extend credit to those with small agricultural activities using microfinance methodologies.

Dr. Nimal Fernando of the Asian Development Bank stressed the need for MFIs to focus on managing microfinance risks for them to be able to implement agriculture microfinance more effectively. Dr. Fernando said that some MFIs have reported success, while others have experienced serious grave delinquency crisis.

Dr. Gilbert Llanto of the Philippine Institute for Development Studies noted similar observations on MFIs failing to understand the different types of risks in agriculture and address those risks by using market-based instruments. He said that one of the reasons for this is not being able to understand fully the information problem affecting rural areas (one party has more information than the other party).

Dr. Uddhin Khan of the Association for Social Advancement,

on the other hand, highlighted increasing productivity by modernizing agriculture, side-by-side with developing the skills of the farmers on coping with modernized agriculture; while Dr. Ganesh Thapa of the International Fund for Agricultural Development added that MFIs to be sustainable will need to be both financially viable with clear strategic vision. These features coupled with a transparent and credible organization would make the MFIs sustainable in reaching out to the rural poor.

Recommendations:

To further improve the efficiency of MFIs for the agriculture sector, MFI experts and participants of the Regional Consultation recommended the following:

- *Scale up MFI's valuable experiences and transform these into policies applicable to the agriculture sector and disseminate at the regional level.*
- *Include the fisherfolks and landless farmers in the development of agricultural microfinance.*
- *SEARCA and APRACA² to spearhead documentation experiences of agri banks who want to go into microfinance and come up with more generic products for the whole of the Southeast Asian region.*



Explaining the vision of the microenterprise movement she spearheads, former Pres. Corazon Aquino asserted the need to build

a larger and stronger middle class, which would constitute the foundation for a stable democracy.

"The crux of the challenge in pursuing that goal lies in determining innovative ways with which to make microenterprise development accessible to the poorest of the poor. This essentially means getting to hard-to-reach areas, such as isolated mountain and island communities, and making an impact on the lives of farmers and fisher folk in the margins of subsistence." - Former Philippine President Corazon C. Aquino, also Keynote Speaker during the Regional Consultation

The use of MFIs in the agriculture sector shows a lot of promise. Powered by true commitment and passion in the hearts of planners and implementers to alleviate poverty, MFIs may indeed help secure financial freedom of the poorer families in the agriculture sector. (Lorna C. Malicsi, Knowledge Management Unit)

¹SEARCA and CARD MRI hosted the Regional Experts' Consultation Meeting on Overcoming Obstacles to Agricultural Microfinance in Southeast Asia held on March 1-2, 2007 at Heritage Hotel, Manila; Philippines

²APRACA - Asia-Pacific Rural and Agricultural Credit Association