AGRICULTURAL FINANCING

A powerful tool for contributing to the food security of the populations

CONTEXT[1]

FINANCIAL SERVICES IN THE RURAL ENVIRONMENT: AN INDISPENSABLE LEVER FOR DEVELOPMENT

In developing countries, poverty is a phenomenon concentrated in rural areas where the vast majority of the farm holdings maintain rudimentary agricultural practices. However, in these countries, agriculture contributes greatly to the nation's economy in both jobs[2] and GDP[3]. This makes agricultural development a priority strategy for the governments of several countries in their struggle against food insecurity and to reduce poverty. Food insecurity and poverty are likewise issues for the international community and have furthermore contributed to make access by small farmers to adequate financial services one of the most extensively debated issues in the course of the past several decades in the proximity finance sector. The findings on the state of the world at the dawn of the third millennium oblige mankind to tackle simultaneously three colossal struggles related to poverty, environment and health. Agricultural activity is intimately related to these three struggles, since it employs the greater part of the active populations in developing countries, it has a major effect on the ecosystems and the climate (water use, deforestation, pollution) and it has a direct impact on the health of the communities (nutrition and food safety).

> *"For many of the 1.1 billion people currently living in extreme poverty, economic growth based primarily on agriculture and on non-farm rural activities is essential to improve their livelihoods. The majority of poor people live in rural areas. Promoting agricultural growth in these areas and giving rural people better access to land, water,* ***credit,*** *health and education, is necessary in order to alleviate poverty and hunger."*[4]

The confirmed role of financial institutions in economic development, by means of the lever represented by financial intermediation, makes natural the growing interest in extending access to such services to the most economically disadvantaged areas in developing countries: rural areas.

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1 A DID Position Paper on credit gives a general presentation of the principles and approaches in credit prioritized by DID. This Position Paper on agricultural credit seeks to develop the specificities of the sector.

2 The agricultural sector generally employs more than 60% of the active population in developing countries. This proportion rises to as much as 80 to 90% in some countries such as Burkina Faso, Burundi, Malawi, Mali, Niger and Rwanda. Source: World Statistics: http://www.statistiques-mondiales.com/population_active_par_secteur.htm

3 The share of GDP attributable to the agricultural sector in developing countries is between 35 and 50% and even exceeds the 50% threshold for some countries such as Liberia, Guinea Bissau and Chad. Source: http://www.statistiques-mondiales.com

4 "World Agriculture: Towards 2015/2030," United Nations Food and Agriculture Organization (FAO).

Having said this, even if a consensus about the link between the issues of the agricultural sector and an adequate offer of financial services appears to emerge, certain factors warrant additional explanations. On the one hand, explaining where lenders face such different constraints when offering credit to farmers as compared to commercial entrepreneurs and, on the other hand, distinguishing how agricultural financing differs from financing in general. This Position Paper, which specifically addresses agricultural financing and finance services in the rural environment, makes an attempt to provide these explanations.

The distinction is essential, first of all, because of the unpredictability of the profitability of agricultural activities, since, more than in any other area of activity, the influence of weather conditions and the cyclical or uncertain nature of commodity markets considerably affect the ability of borrowers to reimburse their loans. In addition, the distribution costs of financial services in rural areas, explainable by the geographic dispersion of the clientele, which is even more pronounced for agricultural activities, are considerable. Finally, one of the peculiarities of rural environments is the high rate of illiteracy among the population. The rural borrowers are primarily engaged in agriculture-related activities and do not keep accounting. These factors are the main reasons why financial institutions are often more reluctant to offer financial services in this sector, which resulting in agriculture always being among the industries where financial needs go largely unsatisfied.

Accordingly, in order to increase access by rural populations to agricultural credit and other financial services, while at the same time ensuring the profitability and viability of the financial institutions, strategies capable of alleviating the risks specific to financing agricultural activities have to be identified. With its vast experience and that of its partner networks in the development of financial services, DID believes that:

- It is necessary to adapt financial services, as well as credit methodologies, to the agricultural systems of each region if we are to respond adequately to borrowers' needs and facilitate loan management;
- The offer of agricultural financial services must, to the extent possible, be made part of an overall approach that fosters the development of the entire value chain;
- Risk-management and risk-sharing mechanisms must be put in place to secure agricultural loan portfolios against systemic risks;
- An essential element of accessibility to financial services by rural populations is the employment of proximity services provided by existing financial institutions or by the emergence of new structures or new distribution networks.

1. DID recognizes that agriculture is a critical sector in the economy of many developing countries and believes that strengthening the sector requires, among other things, better accessibility to financial services in rural areas.

THE VALUE-CHAIN APPROACH

This approach was introduced in the early 1980s in the writings of Michael Porter[5] about the competitive advantage. The approach can be summed up in the analysis of the functions involved in the production of a good for the purpose of optimizing each one's contribution of these functions and obtaining a higher price for the product resulting from the value it has acquired in

[5] Mr. Porter teaches company strategy at Harvard University. His specialty is economic development.

the course of the process. It is precisely the competitive advantage that the enterprise succeeds in acquiring that is at the root of the final value of its production. Each function represents a link in the value chain and the overall performance of this value chain can be improved by strengthening both each link and the dynamic between the links.[6]

The challenges posed by the inclusion of the agricultural sector in the worldwide spread of market rules require the players in this sector to be innovative, but especially to work more in partnerships. The value-chain approach becomes, in a certain manner, a strategic response to these innovation imperatives. To this end, the value-chain approach is a rapidly evolving model, which has gone from the creation of marketing boards[7] or local discussion structures, to sophisticated certification mechanisms, whose fair-trade products are good examples of this. DID supports initiatives pursued through the value-chain model and believes that this model is entirely appropriate for the optimal development of a financial services offer adapted to the agri-food sector in developing countries.

FINANCIAL SERVICES IN THE RURAL ENVIRONMENT: A LINK IN THE VALUE CHAIN

The "value chain" approach, applied to the agri-food sector involves development of the sector based on an overall vision, i.e., from land to the consumer's plate. Thus, it becomes more appropriate to speak of financial services in the rural environment, rather than agricultural credit as such.

> *2. DID believes that a financial services offer targeting the development of the agricultural sector should be extended to all the players in the value chain. Thus, access to financial services should be fostered for both the agricultural producers and the entrepreneurs in the agri-food sector, including the exporters.*

This multidimensional approach goes beyond the notion of profitability and market positioning. For the agricultural and agri-food sectors, it emphasizes on the entire importance of equilibrium among the different pillars of its development.

So, as determinants of agricultural development, access to adequate financial services at the right time is an essential but not sufficient condition. Actually, a viable financial services offer cannot exceed the level of equilibrium of the essential functions that support the development of the sector; including financial services and, the whole, supported by an appropriate legislation that fosters secure access to land and water resources.

In this connection, "essential functions" are here referred as:

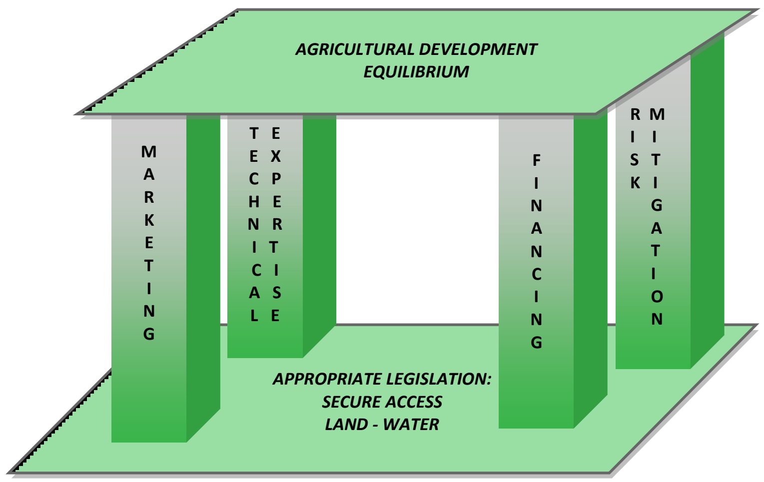
- The organization of **marketing channels;**
- The use of **techniques** that allow adequate, stable and durable production levels;
- Access to risk-sharing mechanisms that ensure **equity protection;**
- Access to a range of **financial services adapted** to the needs of the population.

6 Stratégor, 1993.

7 The marketing board principle is to gather around the same table all of the stakeholders related to an agricultural sector for the purpose of sharing points of view, synchronizing efforts and acting with consultation for a better development of the entire value chain.

The higher the level of development of these other functions is, the greater the demand can be satisfied by a well-developed financial services offer that will remains viable over the long term. It is, therefore, necessary before deploying financial services in the rural environment, to analize the different agricultural sectors and their production systems. This makes it possible to characterize the level of equilibrium among the different pillars supporting agricultural development and, therefore, implement a financing offer better adapted to the conditions of the environment. Figure 1 outlines how the financial services are integrated into an agricultural production system and the following sections discuss each of these pillars individually.

Figure 1
Integration of the Financial Services Offer in the Agricultural Production System



3. DID considers that access to adapted financial services must be increased in order to support the development of the agricultural and agri-food sector, but also recognizes that strengthening the financial institutions, albeit essential, cannot on its own support the development of the sector.

THE PILLARS OF AGRICULTURAL DEVELOPMENT

TECHNICAL EXPERTISE

Obtaining a better yield cannot be achieved without modernizing farm operations. This modernization entails several factors: production techniques, new technologies, the use of new seed varieties, farming practices promoting long-term protection of land and water resources, better control of infestations (insects, rodents, weeds, fungal diseases, etc.), the development of new products, etc. Increased access to financial services in the rural environment allows enterprises to consider modernization.

However, the scope of this increased access will be all the greater if entrepreneurs in rural environments also have access to support services that enable them to build up their technical skills, as well as their organization and management abilities. The approach favored by DID in the area of strengthening the capacities of entrepreneurs is one of partnership and alliances with the local players. An alliance, for example, can link financial services offered by the financial institution to technical services offered by the local offices of the Ministry of Agriculture. In this example, if the Ministry conducts studies of production costs at the national level, the institution can use this source of information to define more adequate credit products. This financing offer can also consider the technical support received as a mitigating factor in the analysis of its risks and favor access to credit. This same type of alliance can emerge between educational institutions that, through training programs based on good business management practices, contribute to strengthening the capacities of the farmers and peasant organizations and thereby provide access to more advantageous conditions for lending. The financial institution can work in cooperation with the educational institution for the content of the training program based on management and, at the same time, be a promoter of this program. The contribution by the financial institutions within these alliances rests on their involvement in the very definition of the services but also in their capacity to deploy qualified human resources, emphasing on an advisory approach with the borrowers.

4. DID believes that strengthening the capacities of the entrepreneurs in the rural environment requires the creation of partnerships or alliances with the local players. In addition, DID recognizes the need for increased involvement by financial institutions in these alliances, in particular with regard to strengthening the management abilities of the entrepreneurs. This increased involvement requires, among other things, the availability of qualified human resources ready to provide appropriate advice to the borrowers.

MARKETING

Farmers often have little control over their profit margin, because they have little influence on the selling price of the produce they commercialize and on the cost of the inputs necessary for their crops or livestock. Their power relationship with the market intermediaries is often weak. In addition, the globalization of agricultural markets and changes in eating habits that follows, require the producers to have a greater knowledge of the marketing function. For them, this is no longer a matter of selling well what they produce, but also producing well what markets want.

Agricultural credit products adapted to the prevailing market conditions can help farmers obtain a higher price. For example, storage loan (or warehouse receipt financing or warrantage) enables farmers to stagger their sales and thus obtain a higher average price than what they would have obtained by selling all of their production at harvest time, when prices are generally at their lowest.

Furthermore, it will be advantageous for financial institutions to establish partnerships with credible marketing organizations that enable the farmers to obtain better purchase terms for their inputs or for the sale of their goods. In addition, this type of association can enable lenders to facilitate the distribution of credit and the repayment of loans granted to farmers. It is important to point out that such partnerships do not replace the due diligence the institution must display in granting and tracking loans.

The degree of development of the marketing systems will, therefore, be at the core of the analysis of the sectors, enabling financial institutions to evaluate the potential and the level of risk associated with a specific sector. In fact, the more the marketing mechanisms are developed, the more farmers will be able to efficiently plan the sale of their products on the market, obtain fairer and more stable prices, cover their production costs and receive adequate compensation for their labor. The choice of whether or not to offer financing in a given sector will rely on the evaluation of these factors, in order to increase the scope of a financial services offer in the rural environment. Among the marketing systems, we find basic infrastructures (road networks, means of transportation, storage capacities, etc.), as well as regulations favoring a better power relationship among all of the players in the value chain. The presence of peasant organizations or farmer groups whose objective is to collectively market or certify their production generally indicates a reassuring level of structure.

5. DID recognizes that, in the whole value chain, farmers are the most likely not to receive an adequate price for their production. Therefore, DID encourages any measure that will enable farmers to better manage the risks they face as well as to obtain a fairer price for the products they commercialize: associations, storage, insurance, fair trade, etc.

RISK MITIGATION AND EQUITY PROTECTION

One of the factors that make it possible to observe improvement in the living conditions of the populations is the creation of equity. Without risk-mitigation mechanisms, the gains achieved at the cost of numerous efforts can quickly be lost. Access to insurance or micro-insurance products, affords protection of equity, but also has significant economic effects. Indeed, thanks to the feeling of security it creates, insurance encourages innovation and enables the economic players to make more informed choices with regard to which sector of activity to develop.

The level of “security” is a critical factor that has to be considered in the analysis of a sector. Among the elements that make it possible to determine the security level of a sector, we find legislation (support measures, protectionism, etc.), loan-guarantee mechanisms, such as guarantee funds (government or external) and insurance systems (crop, income, etc.). All of these measures are intended to stimulate production by reducing the risks related to certain types of production, which risks are sometimes linked to weather hazards, sometimes to market fluctuations.

6. DID believes that the risks mitigation’s responsibility related to the agricultural sector should be shared by all of the players in the agri-food sector, but, more than any other sector, requires a strong commitment by the Government, both legislatively and financially.

Indeed, although agricultural production is an economic activity engaged in by independent entrepreneurs, it is a government responsibility, inasmuch as it ensures the food security of both rural and urban populations and contributes broadly to economic activity, including the country’s exports. From an economic point of view, all of the players (farmers, consumers, financial institutions) seek to maximize their profits or their welfare under their own particular constraints. In the area of agricultural production, one constraint is shared by them: the risks associated with the sector. This common constraint makes it very difficult to reach a stable equilibrium between agricultural production and the needs of the population, since none of these economic agents is really capable of assuming all of the risks. Therefore, the Government has to contribute to putting in place measures capable of removing certain barriers and thus foster the achievement of the equilibrium required to ensure the population’s food security.

Although necessary, intervention by the Government must seeks to minimize market distortions in order to comply with the rules of the World Trade Organization (WTO) and join a global trend toward accountability of all the players. In this connection, DID supports putting in place risk-mitigation or sharing measures, such as:

- The adoption of new production techniques to enable farmers to diversify their sources of income;
- Risk-sharing pools within financial institutions or among financial institutions in an effort to secure their portfolio;

- The offer of loan insurance products intended to protect the equity of the borrowers and the portfolios of the financial institutions;
- The development of agricultural insurance programs.

Certain programs, such as crop insurance funds and guarantee funds used by financial institutions, contribute to stimulate the financing offer to traditionally ignored populations, such as farmers. However, for the sake of sustainability, DID believes that two basic elements should guide the implementation of such mechanisms:

1. The notion of joint responsibility;
2. Respect of natural market conditions.

The Notion of Joint Responsibility

Joint responsibility involves normal sharing of risks and costs among the farmers who apply for the loans or take out insurance, the financial institutions that disburse them and the external agent (Government, international donor agency, ethical or philanthropic fund) that initiates or supports the program. In the case of a guarantee fund, this joint responsibility will, among other ways, take the form of partial coverage of loan losses, which will avoid encouraging the financial institution to display laxity in analyzing and authorizing loans. What should be avoided is for the guarantee being used to mask weaknesses in the methodology of analyzing, authorizing, tracking or collecting loans and not the mitigation of market or weather risks. In the case of an insurance fund, joint responsibility will result in an equitable sharing of premiums, a coverage cap and other features to avoid encouraging bad farming practices.

Respect for Natural Market Conditions

Cost is still an important obstacle for the access to financial services in rural areas. The costs related to opening and maintaining a bank account may often, for disadvantaged populations, prove higher than the tangible benefits of joining the formal financial system, which seems to explain in part a certain ceiling in the bancarization rate. The cost of access to credit is also an important obstacle, especially for small-scale farmers. Although, a financial institution that wants to expand its financial services to rural areas must, if wants to do this on a long term basis, cover its costs with appropriate fees and rates. Generally speaking, fees and interest rates should cover: the cost of the funds lent (including term matching and management of exchange-rate risks), the cost of distributing services (including labor and transportation), the fixed institutional costs, the cost associated with the risk of default, the cost associated with the risk of capital loss and a reasonable profit margin to maintain an adequate level of capitalization, return on capital and support for the institution’s growth.

Having said this, when a loan-guarantee mechanism intends to stimulate the credit offer by reducing the cost linked to the risk of loss, this cost reduction should not be transferred to the borrowers, since the primary objective of the guarantee is to enable the financial institution to stabilize its services offer. If the guarantee mechanism proves to be permanent because, for example, it is institutionalized at the State level, the reduction of costs related to the risk of loss can be transferred to the borrowers, without, however, exceeding the relative weight of this factor in the total cost of the credit distribution. DID believes that the cost related to the risk of loan loss should not be the main cost linked to the offer of agricultural credit, because this risk can be controlled by the financial institutions if they adopt appropriate loan-analysis and granting methodologies. So, in order for a loan-guarantee mechanism to allow a developing financial services offer capable of surviving the fund itself, it must be accompanied by a professionalization strategy and should not generate a service offer under concessional terms incapable of being sustainable beyond a punctual intervention and which would generate adverse effects on the market that would cancel out the benefits of professionalization.

7. DID believes that a guarantee fund mechanism is a measure that can be effective for stimulating the agricultural credit offer insofar as it respects the notion of joint responsibility, does not generate distorting effects on the markets and is accompanied by a strategy to professionalize the loan-granting methodologies.

ACCESS TO LAND AND WATER

Land and water are basic resources to ensure agricultural production and constitute a major form of wealth underpinning food security. This essential feature makes this access the foundations of agricultural development, supporting each of the pillars of development. Indeed, without a secure access to the land and without sufficient rainfall, agriculture cannot develop adequately, even if the technical expertise, marketing or financing are strengthened. It is very important for the agricultural enterprise and for the financial institution supporting it, to ensure the presence of a minimum number of development factors. For example, the characteristics of the land influence the attainment of profitable long-term yields and, therefore, the maintenance of profitable agricultural activities. Another example: erratic rainfalls or irrigation infrastructures can make crop yields uncertain and hence, affect yields stability. Inasmuch as land and water are resources impacted by the hand of man, when we talk about supporting development of the agricultural sector, DID encourages taking into consideration the following two factors: how these resources are managed and how are they protected and, especially, renewed.

RESOURCE MANAGEMENT

Land tenure is a fundamental factor tying the farmer to the land he works. Inasmuch as all of the production choices are influenced by the type of property involved, it is imperative for the development objectives of the agricultural sector to be structured on objectives directed toward defining a land policy that fosters sustainable development of agriculture and the equitable distribution of the land. Indeed, the precariousness of the title to farmlands holds back the modernization of farm holdings and may even lead to misuse of the land. Farmland property title in developing countries is often faulty and it is up to the State to tackle this problem as part of an integrated strategy of sustainable development.

RESOURCE PROTECTION AND RENEWAL

Land and water are exhaustible resources and therefore should be used responsibly. Agricultural production is an activity that impacts the environment, either by land erosion, the choice of farming practices, the potential for pollution of the water, land and food by the abusive use of fertilizers and pesticides, irrigation practices that can lead to squandering water, desertification caused by overgrazing, etc. Therefore, DID considers that farming activities can have a major impact on the quality of the environment and the health of the communities and, to this end, has fully adopted the Canadian position in terms of environment.

The financial sector can, by instituting the principle of ecoconditionality[8], have a significant impact on the preservation and renewal of natural resources. However, the principle of ecoconditionality in granting loans requires the existence of legislation for the preservation of resources and for the Government to have the will and personnel to ensure its enforcement, which is currently not the case in developing countries. Despite this, professionalization of the financial sector includes a

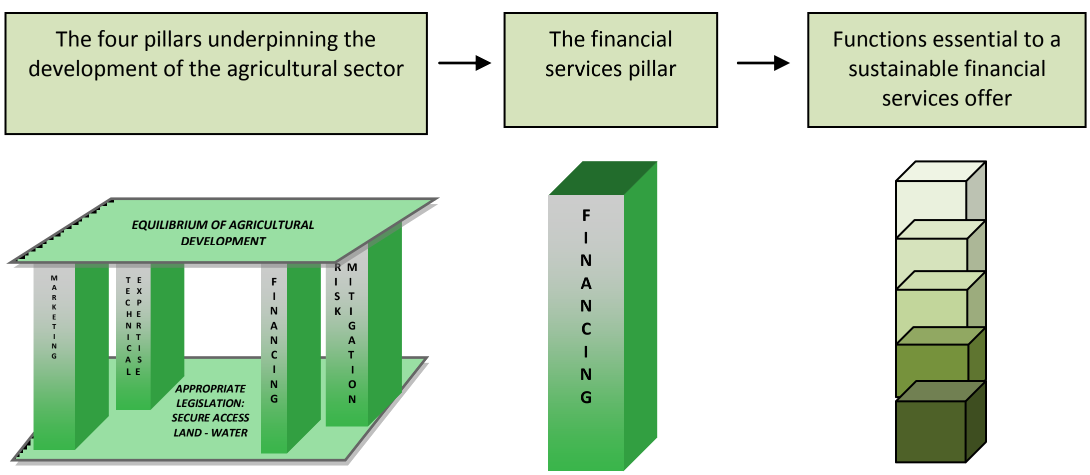
[8] The principle of ecoconditionality, when applied to credit, consists of linking the granting of the loan to the attainment of environmental objectives.

component for raising awareness of the environmental aspect in agricultural production and DID advocates the institution of standards designed to encourage sound management of natural resources. In addition, it would be advantageous to set up partnerships among organizations specializing in the environmental protection and the financial institutions for the sake of finding solutions and implementing alternative means that will ensure the protection of the environment and the health of the community.

8. DID believes that financial institutions have limited power in terms of preserving the environment, especially because of the absence of clear and enforced regulations that enable them to introduce the principle of ecoconditionality in granting loans. Despite this, DID believes that the power of influence of the financial institutions does exist and tends to include in its activities with its partners awareness-raising measures to this end.

FINANCIAL SERVICES

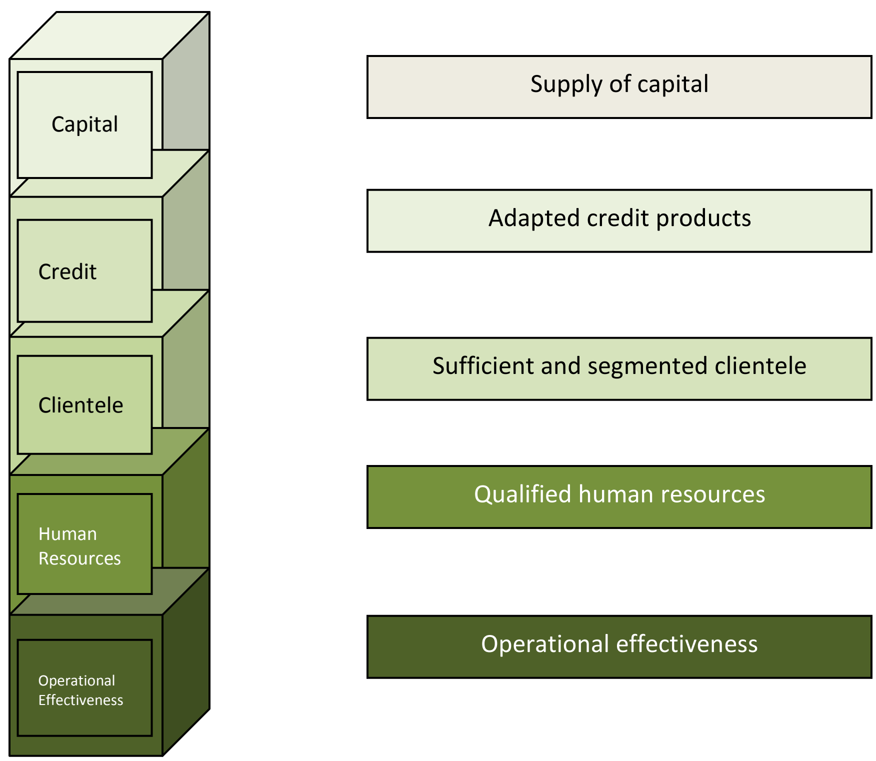
The higher the level of structuring of the different pillars is, the more access to financial services is an important lever for the development of rural regions. Food security relates to the notion of sustainability. Therefore, to contribute significantly to food security, financial services offer in the rural environment has to be sustainable. In order for the financial institutions to be able to ensure the sustainability of their services and, thus, play an important role in the development of the communities, they must coordinate all of the essential functions on the basis of their service offer. Hence, the following section will isolate the pillar of financial services and present DID's vision of the factors able to contribute to ensuring its sustainability.



AN OFFER OF SUSTAINABLE FINANCIAL SERVICES: A QUESTION OF EQUILIBRIUM AS WELL

The likelihood of a sustainable financial services offer will be all the more stronger if all essential functions to financial intermediation are present and act in coordination with one another. Just like access to financial services is a pillar of the development of the agricultural sector, the limit on the development of this financial services offer will be imposed by limiting one or another of these essential components, as illustrated in the following illustration:

Figure 2
The Functions Essential to the Sustainability of the Financial Services Offer in Rural Areas



THE FUNCTIONS ESSENTIAL TO THE SUSTAINABILITY OF THE FINANCIAL SERVICES OFFER IN RURAL AREAS

SUPPLY OF CAPITAL

The recent financial crisis has brought savings to the forefront. However, the microcredit craze has prevailed for several years, which has certainly contributed to eclipsing the virtues of saving[9]. However, savings is for any individual a powerful means of achieving his financial objectives,

[9] DID's Position Paper on savings lays more emphasis on the thinking of the organization. This position is limited to taking up the savings mechanism peculiar to the rural communities whose livelihoods depend on agricultural activities.

meeting family needs and improving his well-being. Furthermore, the savings habit is the best gateway to credit, since it demonstrates the individual's management abilities and partially reflects the regularity of the cash flows necessary to repay any loan. In addition to the impact on improving the personal situation of individuals, savings are the "lungs" of the financial institution, providing the raw material to carry on lending activities: capital. In addition to this capital-supply function, the development of savings products that meet the needs of rural communities is part of a complete financial services offer that will enable the financial institution to fully play its dynamic role in development.

ABOUT SUPPLY OF CAPITAL

Although the costs related to taking in savings may appear significant, equity mobilized through savings fosters stable and profitable financial intermediation. Insufficient or irregular liquidity forces the financial institution to seek outside sources to support its lending activities. This is not bad in itself, but it may contribute to increasing the cost of the funds and the supply risk—two factors capable of impacting the cost, if not the availability, of credit. Branches in rural areas often show a lack of liquidity generated by a higher level of credit activity and the cyclical nature of the economic activities financed. Therefore, for them, the need to access external funds is a reality. Hence, promoting savings should be for them even stronger and, to facilitate savings mobilization, it is desirable to innovate in the design of products that meet the specific needs of this clientele.

ABOUT SAVINGS PRODUCTS OFFERED BY FINANCIAL INSTITUTIONS

The extreme poverty that characterizes rural environments is expressed in the specific features pursued with regard to savings products. Indeed, the savings products proposed by financial institutions should respond, among other things, to a need for increased security when compared to the informal mechanisms, such as mobile savings collectors, storage in kind or rotating savings and credit associations (ROSCAs). For the poorests, the need for security may also relate to increased anonymity, for example, to avoid having family or friends ask for financial support that would be difficult to refuse. This need of anonymity is directly related to the pressure exerted on the members of a poor community who have a little more money than the others or for whom availability of money follows a different pattern. The higher the level of poverty, the more the pressure increases and directly influences the choice of a savings vehicle and even the choice of whether to save or not. The tendency to hoard is, furthermore, observed more in the rural environment, in the face of no alternatives deemed to be valid. In addition, the capacity for savings of rural communities has specificities the financial institution ought to take into account when developing its savings products: significant and sporadic influxes of money related to the growing seasons or traveling fairs, long distances to cover and the small amounts of the sums to be saved.

> *9. DID believes that it is essential to be innovative and offer savings products accompanied by distribution modes adapted to the rural context. A voucher scheme for buying agricultural inputs and the use of cell phones are examples of innovations in this direction.*

The need to promote savings goes beyond the importance of securing the supply of capital required to engage in lending activities. Savings promotion enables the financial institution to play an important role in financial education in the community and contribute to reducing credit-related risk. Indeed, an individual incapable of saving will be hard pressed to accumulate the capital necessary to access credit or support regular loan installments. Savings in the rural environment may also stand in for credit advantageously. Indeed, some agricultural activities do not offer an adequate level of profitability and the required stability to be credit worthy. For example, in the case in which the rate of return on investments is lower than the interest rate charged on loans, it is desirable to resort to savings as a mechanism for self-financing, rather than becoming unduly indebted and pay interest that the profitability of the activity doesn't allow assuming and, inevitably, incurring difficulties in repaying the loan.

10. DID believes that encouraging savings should precede the promotion of credit with rural communities and sometimes replace credit promotion with the farmers so they will be able to self-finance part of their production activities.

CREDIT PRODUCTS ADAPTED TO THE NEEDS OF THE CLIENTELE

Like savings products, credit products are part of a complete financial services offer and are the main source of income for the financial institution. Access to credit is sometimes the best lever to promote the investments that will contribute to increasing the productivity of the farm holdings or diversify the economic activities of rural households. To really contribute to fighting poverty in the rural environment, it is important to set out guidelines for the credit products offer.

PRODUCTIVE CREDIT

DID believes that financial institutions should not exclude anyone from access to a loan that falls within the applicant's ability to repay. Contrary to what is observed in the urban environment, the ability to repay of rural inhabitants rarely relies on regular income from a job. In the rural environment, the ability to repay depends largely on income generated by all of the agricultural activities engaged in during the year and is rounded out with income from supplementary trade activities. The income from the activities engaged in should thus cover both production expenses and generate a surplus capable of meeting the needs of the family members. The surplus amounts to the farmer's salary and his ability to save.

The low profit margin of agricultural activities, combined with the volatility of their income, imposes on rural households an increased prudence when it comes to using credit. Indeed, productive credit is often the only credit that offers the possibility of guaranteeing the repayment capacity, while non-productive credit (i.e., non-income generating credit), if poorly planned, can jeopardize the borrower's financial position and lead to debt overload, which casts a shadow over long-term development. When the loan is not intended to finance an income-generating asset, it must be carefully planned and be mindful of the borrower's financial capacities. Alphonse Desjardins[10] defined at the time productive credit as "beneficial credit that fertilizes efforts, causes fortunate initiatives to take root, increases yield, raises income tenfold and enhances, by wise foresight, the prosperity of the person who knows how to use it wisely and prudently."[11] Increased yields are still today the objective of a farmer who applies for credit with the end goal of achieving better living conditions for himself and his family by the growth of his production, his income and his financial and social equity.

11. DID considers that, in agricultural financing, productive credit is the one that offers the greatest potential for improving the welfare of rural inhabitants over the long term. Therefore, DID believes that for financial institutions to fully play their dynamic role in development, they have to promote this type of financing and include in their service offer educational approaches in support of the financial management of their members and clients.

Agriculture has some peculiarities that make it different from other commercial activities. The main distinction consists of more irregular cash flows than other sectors of activity and hence, to

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[10] Alphonse Desjardins is the founder of the Desjardins Group, the leading cooperative group in Canada and the sixth largest in the world.

[11] Excerpt from Alphonse Desjardins, *"Mémoire sur l'organisation de l'agriculture dans la province de Québec"* ["Report on the Organization of Agriculture in the Province of Québec"], in Cyrille Vaillancourt and Albert Faucher, *op. cit*. p. 168.

better serve their agricultural clientele, microfinance institutions should adjust their practices and offer loan products adapted to the reality of the sector. Indeed, each agricultural sector has its own production cycle. Although the seedlings of some cereals or some vegetables produce a crop at the end of three months, planting an orchard may require a four- or five-year wait before producing its first fruits. Likewise, raising chickens requires at the most three to four months before they are ready for consumption, while raising cattle may require more than 24 months. The peculiarities of these cycles involve designing products with disbursement and repayment terms adapted to each of these productions. Despite this, loans with a lump-sum repayment of the principal and interest upon maturity entail a higher level of risk, which should be mitigated by another factor, such as more reliable collateral.

12. DID advocates financing approaches adapted to the cash flows of the different types of agricultural production in order not to create pressure on the borrower's liquidity off market periods for its production.

THE VALUE-CHAIN APPROACH IN DESIGNING PRODUCTS

The analysis of the production systems within agri-food value chains constitutes the basis of the agricultural credit offer. Indeed, only an in-depth knowledge of how the different links in the value chain work will make it possible to adapt the credit products to the needs of the industry and, in this way, render them competitive operationally and financially. Designing credit products adjusted to the needs of farmers should combine the satisfaction of needs, market development, profitability and risk management. The main types of products that meet the different needs of entrepreneurs in the rural environment are operating loans (seasonal credit), marketing loans (for example, warehouse receipt financing or storage loan) and investment loans. Each of these types of credit seeks to meet a specific need of the enterprise.

Operating Loans

For most developing countries, whose GDP strongly relies on agricultural production, operating credit is the basic tool to improve agricultural productivity. This emerges simply from the fact that the poor level of productivity that tends to persist is attributable to a rather generalized use of rudimentary production techniques, starting with the choice and quality of the seed and other basic inputs such as fertilizers and pesticides. Thus, the marginal yield of an investment in this type of inputs is generally high enough to make it worthwhile for the farmer to take out an operating loan. In addition, for most microfinance institutions in developing countries, financing operating expenses that produce a crop or livestock in less than 12 months generally does not pose any problems for matching the funds, which primarily consists of demand deposits or short-term savings.

Marketing Loans

Marketing is still a weak link in various agricultural value chains. Two factors greatly weaken marketing activities in developing countries: the poor level of organization of the markets and the lack of adequate infrastructures. Some credit products can contribute to improve the marketing systems and then become significant productive loans whose impact on improving the living conditions of farmers is sizeable. This is the case of storage loan that offers an alternative to the producer for the distribution of his production. Without storage loan, he has to sell his crop at harvest time—the time of the year when prices are generally the lowest because of the abundant supply. With an appropriate loan, he can defer part of the sales and obtain a higher average price, which contributes to raise his welfare. This alternative, when it exists, enables the most vulnerable farmers to combine an appropriate operating loan with a storage loan so as to avoid being the victim of swindlers who finance inputs and exchange for production at harvest time at valueless prices. In addition, despite the risks connected with storage in kind—such as pests or downward shifts in market price—storage loan is one of the safest credit products for the financial institution, since it enables it to keep control of the collateral and at the same time secures the operating loan. All of the loans granted for business activities are also part of this category.

Investment Loans

Like other types of credit, an investment loan should enable the borrower to achieve a sufficient marginal yield on his investment to at least meet his credit obligations. If it is generally easy to satisfy this condition for an operating loan, or even for a storage loan, this is not the case for an investment loan, which involves higher sums repaid over a longer term. Indeed, the profitability peculiar to basic agricultural activities is often weak and uncertain, so that the investments may appear too great to justify financing them with credit. In addition, most microfinance institutions providing financial services in rural areas often suffer from a lack of long-term capital capable of supporting this type of loan.

PRODUCT TYPE AND SUPPLY OF CAPITAL

Prudential standards of financial institutions suggest that the deposits should be matched to the term of the loans granted. So it would be desirable for a financial institution wishing to offer longer-term loans to turn to external long-term funds or develop term savings products to finance this portion of its lending activities. For agriculture, the situation is paradoxical. Increasing the productivity of agricultural activities requires investments that often require capital the farmers don’t have and, therefore, require access to credit. Now then, several investments in the agricultural sector don’t offer sufficient profits to allow the farmer to justify a loan. So offering credit lines, whether or not subsidized, whether from the government or by means of projects :

- Provides the capital needed by financial institutions to carry out their lending activities;
- Facilitates the matching of funds so as to ensure the maintenance of the offer of medium- or long-term credit products;
- Offers agricultural enterprises access to reduced rates, which makes it possible to stimulate investments.

DID recognizes that these lines of credit are necessary to balance the supply of capital and ensure the maintenance of the credit offer in rural areas. However, offering subsidized rates to agricultural enterprises is a measure that demands increased prudence and a good analysis of the sectors. DID believes that this type of support should be accompanied by other measures that contribute to structuring the sector. Moreover, to prevent the subsidized rates from generating adverse effects susceptible of canceling out the benefits from this availability of funds, DID recommends the following nuances:

TYPE OF CREDIT	TYPE OF LINE OF CREDIT FOR AGRICULTURAL ENTERPRISES	
	SUBSIDIZED LINE OF CREDIT	*NON-SUBSIDIZED LINE OF CREDIT*
Production (seed stock, inputs, etc.)	Should be avoided. The financial institutions normally have the short-term financial resources to support this type of lending. Accordingly, short-term investments, such as inputs and seed stocks, generally offer a marginal return adequate to cover the cost of the loan and improve the farmer's position.	Should be temporary and accompanied by support for the MFI enabling it to strengthen its ability to mobilize savings. Without this type of parallel support, the MFI becomes dependent on external lines of credit and, therefore, very vulnerable if the availability of this source of funds disappears. The farmers are just as dependent in such a context.
Investment (capital assets)	Compensates for profits too low to justify a loan, which produces adverse effects. When the investment is recurrent (purchase of equipment), the subsidized rate is a trap for the farmer. The impermanent nature of this subsidy leaves him vulnerable in the future, since he will not have the means to borrow to replace his equipment. For a nonrecurring investment (purchase of a plot of land), the subsidized rate enables him to build productive assets and so becomes a famous lever for other investments and, accordingly, has a positive effect.	Often necessary. Makes it possible to contemplate modernizations that offer a potential for sufficient yield to justify the loan. The adverse effects are limited to the impermanent nature of the credit facility, but the positive effects remain. Is an excellent lever of development that should be accompanied by support for the mobilization of long-term savings.

DID believes that lines of credit should be reserved for designing investment loans that will have a significant impact on development, considering the value chain as a whole. Indeed, properly targeting the sectors and the links in the chain in which the investment offers the best marginal return can minimize the adverse effects. For example, the analysis of certain sectors may lead to the conclusion that it is preferable to offer an investment loan for processing a commodity rather than for its production and, thus, promote not only the development of agricultural production but also the agri-food industry in rural areas. If the agri-food industry develops sufficiently, it will be a source of demand for basic commodities. This increased demand for raw materials, combined with the potential shift of the workforce toward the industry, will generate the need to modernize farming operations. With this increased demand, the return on production investments will be higher and should justify taking out loans for modernization purposes. The "development chain" will thus have a solid beginning.

13. DID believes that the approach of choosing the level of intervention within a value chain is preferable to an approach aimed at subsidizing interest rates to foster production investment so as to alleviate inadequate profitability of the activity finance. If the subsidized-rate approach is adopted, it should be supported by other structuring activities, be part of a specific development strategy and include an exit mechanism.

QUALIFIED HUMAN RESOURCES

Any financial institution that contemplates expanding its distribution network to rural areas should make sure that the basic conditions have been met to do so successfully. One of the basic conditions: the availability of sufficient skilled human resources. Agricultural credit has enough specificities to require staff specialized in the evaluation of risks, loan authorization and tracking the portfolios. A better knowledge of the activity sector will prevent granting loans in activities that are too risky or granting loans that fail to take into account the borrower's ability to repay, thereby preventing debt overload.

In addition, loan officers specialized in agriculture will be more inclined to offer advices and anticipate the farmers' needs, which factors will contribute to developing a business relationship with the borrowers. In addition to helping earn client loyalty, loan officers who cultivate close and professional relationships with their borrowers generally have a high repayment rate of the loans they recommend. Furthermore, if the volume warrants it, it might be desirable to bring together a certain number of MFIs with a view to creating an expertise and business development center, commonly called "Agricultural Business Center." This formula can arise within a cooperative network and have the advantage of concentrating and outfitting the staff at the center devoted to managing agricultural loans for the financial institutions that are part of it, while maintaining an essential proximity service. A Business Center can also be a financial institution in itself, which specializes in financing business and agricultural activities. Regardless of its formula, a financial institution that in this way places experts at the service of its members and clients contributes to strengthening their capacities for sustainable development of the sector.

14. DID considers that an in-depth knowledge of the agricultural sector and the risks it entails is required in order to adequately manage the credit offer in this area. This is why DID considers that specialized human resources should be assigned to this activity sector, when the volume of business justifies it.

SUFFICIENT CLIENTELE

The only justification for developing financial services in a rural area is if there is a demand for it. The demand should be creditworthy and we should be able to expect that there is a point of equilibrium between what the clientele are ready to pay or capable of assuming for financial services and the price at which the financial institution is ready or capable to provide the distribution of the services in a perennial and profitable way. Without equilibrium, there is no sustainability. Assessing the clientele in rural areas is therefore essential and the financial institutions have the challenge of orienting the development of their services according to the characteristics of each type of clientele.

TYPES OF AGRICULTURE

With regard to agricultural production, four major categories of agricultural scheme dominate:

Smallholdings practicing subsistence agriculture

These smallholdings constitute the majority of the agricultural enterprises in various developing countries. These family units produce primarily for their own consumption and occasionally sell their excess production on the market. For them, the modernization of their farming practices should concentrate on increasing productivity and diversifying their activities in order to better cover the basic needs of their families and increase the surplus set aside for the marketplace. The low level and the instability of income from the surpluses risk restricting access to credit for this type of operation, which will barely be able to demonstrate an adequate ability to repay. In this case, the offer of well-designed savings products can promote modernization while preparing the enterprise to access credit gradually. The promotion of technical support that would enable the enterprise to develop its productive capacities and join other producers to commercialize their surplus will accelerate achieving conditions for access to credit.

Diversified merchant agricultural businesses

With regard to this category of farmers, some plots of land are set aside for producing basic foodstuffs for household consumption, while other plots are used to produce cash crops for the market. Crops or livestock production may be mixed so that the farmers can benefit from cash inflows at different periods throughout the year. In order to prevent debt overload and ensure the loan repayment, a fair appraisal of the family unit's ability to repay should be performed. It is important to consider all of the family's income and expenses, because the family budget is often inseparable from the farm's budget. Income from occasional employment may also round out family income. In this case, income stabilization and staggering mechanisms that combine savings and credit are susceptible of better meeting the needs of this type of businesses. In addition, loan insurance becomes an important lever that makes it possible to secure the borrower in the face of the risk of taking out a loan and thus accompanying him in the development of his enterprise.

Specialized merchant agricultural businesses

This refers to enterprises that primarily produce a single crop or raise livestock essentially for the market. These businesses may be modestly sized as well as very large-scale. They generally sell their commodities to market intermediaries who in turn sell them to wholesalers or exporters. The specialization of these enterprises involve a higher operating risk for the farmer as well as for the financial institution that accompanies him, since they cannot rely on income from other sources than those produced by their main line of production. For this type of farmer, loan insurance becomes indispensable and the other types of insurance, such as crop insurance, would benefit from being developed to support the advancement of this type of enterprise. From the point of view of the financial institution, the prevalence of enterprises specializing in agricultural speculation is often the result of the formation of highly concentrated loan portfolios that are vulnerable when faced with sectoral crisis. The institution should then contemplate strategies to diversify and share the risk.

Agri-Food enterprises

The output of primary agricultural is a vast range of foodstuffs essential to life. Agri-food enterprises are characteristic of the secondary sector and, through activities at one level or another in the value chain, process primary foodstuffs into a multitude of products essential to the food trade. Primarily installed in rural areas for the sake of optimizing their supply activities, agri-food enterprises make a big contribution to a subregional dynamic underlying a strong rural economy. They may be enterprises that process an agricultural product, a market middleman, a merchant, a restaurateur, a shipper, etc. The vertical integration of a farm holding can lead to this type of enterprise. Agri-food enterprises are generally more likely to use investment credit and are in a better position, vis-à-vis enterprises in the primary sector, to obtain an adequate marginal return on their investments to justify financing them. The analysis of the repayment capacity should be based on the knowledge of the enterprise's activities.

ACCESS BY WOMEN TO FINANCIAL SERVICES

Women play a major role in the fight against poverty because of their great contribution to the agricultural sector. Responsible for nearly 80% of food production, women are an important target clientele for whom financial services should be adapted. Despite their recognized contribution to agricultural activities, women in developing countries are generally deprived of access to ownership and education. With few resources, they have to face significant family burdens related to child rearing, healthcare, clothing and other basic family needs. This extreme poverty often leads women to exhibit greater aversion to risk and, therefore, be less inclined to use credit as a development tool. In addition, accessing credit poses a major challenge for most of these women who have little or no physical collateral to offer, who have limited means of travel and who often need relatively small amounts, which makes the cost of the financial services disproportionate in relation to the gain generated by credit. To promote accessibility by women to credit, it is essential to invest effort in the development of products that:

1. Target the sectors they are primarily engaged in;
2. Respond to the needs of the activities they are engaged in throughout the value chain;
3. Take into account the socioeconomic characteristics of women.

Developing products intended to sectors in which women have a greater presence does not mean, however, ignoring the activities more traditionally practiced by men. A vast range of products must be available to prevent the offer from becoming too concentrated in certain sectors, which could lead to the displacement of the demand. Indeed, the landowners, more generally men, would be tempted to change their activities if financing were only available for certain sectors. This could gradually take away certain economic activities from women. Accordingly, among the socioeconomic characteristics, the woman's place in decision-making is an important factor. It is observed that, the greater the role of women in decision-making, the better the loan will be repaid and the more it will have been an important lever in improving the welfare of the household. On the contrary, a loan granted in a context in which the woman plays less of a decision-making role or is more controlled by her husband, the loan entails a higher risk of default and misappropriations of funds are observed within the household.

15. DID recognizes that women play a major role in the fight against poverty because of their great contribution to the agricultural sector. Therefore, DID supports the implementation of affirmative-action credit policies that favor their access to services and advocates the development of credit products that target the sectors they are primarily active in and those activities they engage in throughout the value chain.

GROUP AGRICULTURAL CREDIT

One of the characteristics of rural environments is the multiplicity of borrowing groups. These numerous groups first arise from a form of social organization (village associations, for example) peculiar to rural environments, but also from the fact that access to credit is facilitated by joint surety. Indeed, the joint surety makes it possible to compensate for the absence of physical collateral, which is a characteristic frequently observed within rural populations. This joint surety, a form of mutual credit organization, is a powerful means of limiting the risks related to loans granted by rural financial institutions, which explains its popularity.

Beyond the notion of joint security, the group dynamic is an important factor that ought to be taken into account in the credit offer. There are multiple rules governing the groups as well as the credit granting process. Despite this multiplicity, three group-credit approaches are discussed here:

1. **Individual loans** via groups of jointly and severally liable borrowers, i.e., bound by a **joint surety** to secure the advances granted. These loans are considered as a "gateway" to an individual loan; i.e., they are often the first step toward introducing banking services for clientele who do not meet all of the conditions to qualify for an individual loan. These loans can enable the farmers to create a credit history that will eventually allow them to obtain individual loans;

2. **Group loans** where the borrower is the association itself, represented by its leaders who take charge of redistributing the sums borrowed to the members of the group according to their respective needs based on their **individual production level;**

3. **Group loans** where the borrower is the association itself, represented by its leaders who borrow in the name of the group for **activities carried out in common** by the members who make up the group. In this type of group, productive assets are generally pooled.

Regardless of the approach, the financial institution is not risk-free and should display diligence throughout its loan granting process. Indeed, although the joint surety secures the loan in part, each of these collective approaches may eventually lead to embezzlement within the group or misappropriation of funds that result in defaulted loans. The probability that such situations will occur is all the more higher if the number of persons making up the group is very high, if the bonds joining them are not solid—a characteristic of spontaneously or casually organized groups—and if the group does not have a demonstrated level of organization. Despite this, several advantages have multiplied group loans in the rural environment; among them, we should note the possibility of acquiring a credit history, accessibility to loans for persons whose individual needs are too small to justify normal loan expenses, limitation of the distribution costs for the financial institution and the strengthening of the individual capacities of the members of a group.

> *16. DID believes that individual loans through groups of borrowers jointly and severally liable constitute the best way for the producers to build a credit history that will eventually enable them to access individual loans.*

OPERATIONAL EFFECTIVENESS OF THE FINANCIAL INSTITUTIONS

The presence of the basic functions for viable financial intermediation is not enough to ensure the survival of a financial institution or a microfinance network. Sufficient savings to match the loans, well-defined financial services adapted to the needs of the targeted clientele, qualified human resources and a good development strategy will only lead to a sustainable financial services offer if the network shows adequate operational effectiveness. Operational effectiveness is measured by the profitability of the network's operations and illustrates its capacity to organize internal processes that link the functions of the enterprise as a whole and that ensure the delivery of services based on the market strategy. In short, this is the operating capacity of the institution or the network. In a competitive environment such as financial services, operational effectiveness will distinguish an institution that will survive from an institution that will eventually have to abandon the market.

DISTRIBUTION NETWORK STRUCTURE

The major issue with regard to the distribution of financial services in a rural environment is the dispersion of the clientele, which makes the unit costs of delivering the services higher than in a urban environment. Small permanent branches offering limited office hours, as well as specialized and mobile agricultural credit advisors, can combine professional services and reduce the costs and adequately serve the rural environment. The new information technologies, such as portable computers and wireless communication techniques, including cell phones, can be advantageously put into the purpose of offering professional financial services to low-density populations, while reducing operating costs.

> *17. DID believes that, in agricultural financing, maintaining proximity services is essential and the cost constraint linked to the distribution of these services in a rural environment may find a solution through technological innovations implemented in a diversified distribution network.*

RISK MANAGEMENT AND CONTROL

If the credit activities are the main source of income for the financial institution, they are also an important source of risk and, therefore, a cost for the institution. The efficiency required by competitiveness on the marketplace and the financial institution's responsibility to protect its savers' equity demand that there be standards and mechanisms to manage and control credit risks. Mismanagement or inadequate or deficient risk-control mechanisms reduce the profitability of the institution's operations.

One of the risks that appear more important in the rural environment is the risk of concentration. Indeed, a loan portfolio concentrated in a single agricultural sector or in the same area, sooner or later, will end up experiencing enormous pressures related to the borrowers' difficulties in repaying their loans. This is because agricultural income varies greatly depending on the weather vagaries and sometimes because of cyclical market conditions. It is, therefore, almost inevitable for a financial institution whose portfolio is heavily concentrated in an activity sector to occasionally experience delinquency crisis capable of undermining its situation, if not endangering its survival and threatening the deposits of the savers. For this reason, it is essential to resort to sound diversification of the loan portfolio. This diversification can be implemented in the different activity sectors (agricultural sectors, other industries), clienteles (salaried and entrepreneurs) and geographical regions (rural and urban).

18. DID recommends adequate diversification of loan portfolios, particularly agricultural credit portfolios that often entail a higher level of risk than other credit categories.

A too heavily concentrated loan portfolio can also lead to complications in liquidity management for the financial institution. Indeed, it may occur that the farmers all apply for loans in the same period and withdraw a part of their savings to finance a crop year. On the other hand, at harvest time, they will make deposits to repay loans or save. This implies for the institution shortage of funds during the growing period and excess liquidity at harvest time. The institution must then, according to the case, resorts to outside financing or shift short-term liquidity to alleviate the major fluctuations of funds caused by concentrating the portfolio too heavily in a given type of production.

If the possibilities for diversification prove to be difficult for a given area by reason of the regional socioeconomic characteristics, the institution will have to be more selective in choosing the quality of its borrowers, for the purpose of preventing a sectoral crisis from inflicting too much damage. Maintaining a higher level of capitalization, creating contingency funds[12], sharing claims and accessing to outside guarantee funds are ways to be contemplated to help getting through crisis periods.

INFORMATION SYSTEMS

Risk-management and control standards can be accurately monitored if this monitoring relies on reliable information systems. The major challenge of financial institutions serving clienteles in rural areas is having to operate in places with limited access or without electricity and, therefore, without the ability to rely on everyday information technologies. The cost of managing data, as well as the risk of data unreliability, is necessarily higher at rural branches. DID believes that unreliability of the data inputted into information systems leads to haphazard management decisions that turn out more costly in the long term than any mechanism for transmitting data and controlling operations that might be put in place.

[12] A contingency fund, or security fund, is a financial reserve that serves as a tool to cope with the potential insolvency of institution due to fluctuations in the economic cycle. This type of reserve is intended to support the institution facing temporary difficulties and ensures that adequate recovery measures are implemented.

19. DID recommends strengthening the information-transmission mechanisms in rural areas, in tandem with the improvement of the information-management systems in order to ensure their viability.

MANAGEMENT

Management should provide the network’s strategic planning, decide on the best way to organize resources and train staff in concordance with objectives contemplated by the enterprise. When the network engages in activities in both urban and rural environment, it falls on management to ensure that the training offered to the staff in the rural environment is adapted to their reality. Two major factors distinguish the rural environment from the urban environment. First of all, the extent of the territory in the rural environment requires adapting the number of loan accounts to be handled by a single loan officer in order to enable him to do his work properly, despite the distances to be traveled to visit the enterprises. Accordingly, the close ties—often family ties—the employees of rural branches have with the clientele generate an increased need for supervision in order to prevent violations of the code of ethics regarding loan-granting powers.

CONCLUSION

Poverty is a strongly undesirable phenomenon mostly concentrated in rural areas. Agriculture still leads the economic growth in rural areas and the stagnation of agricultural productivity contributes to keep a large part of the population in a situation of food insecurity. Although it is a major and essential component of agricultural development, a timely access to adequate financial services, including credit, is not by itself a sufficient condition to ensure the development of the sector. DID therefore advocates a comprehensive vision of agri-food development in which only strengthening all of the pillars and encouraging better synergy among them can lead to tangible, significant and lasting progress.

Access to financial services in rural areas, as an essential condition for development, should be made sustainable. The sustainability of the access to financial services will only be ensured if the offer is viable over the long term, i.e., if the financial institutions that provide it are capable of making their operations profitable and ensuring their development and growth. DID believes that the development of a viable financial services offer in rural areas requires, not only strengthening each essential function underlying financial intermediation, but also an operational effectiveness that makes it possible to optimize the coordination between each of these functions.

In spite of the fact that the basics underpinning loan-granting and the management of credit risk are still the same for all types of financing, DID believes that there are sufficient peculiarities related to rural areas and agricultural activities to justify the financial institutions adapting their approaches when they serve these markets.

For more than 40 years, Développement international Desjardins (DID) has worked to improve access by communities in developing countries to quality financial services that meet their needs. In order to do this DID supports the creation, development and strengthening of sustainable financial institutions that are rooted in the community. DID's activities are backed by the 110 years of experience of the Desjardins Group, the largest cooperative financial group in Canada and the sixth largest in the world.

To consult DID's other Position papers, or for any other information about our organization, you may visit our website at www.did.qc.ca.

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