

# FARMING MATTERS

Formerly known as LEISA Magazine

Banking for the  
unbankable

## Money for farming

■ Thinking beyond credit ■ Reaching the missing middle ■ Risk management for small farmers

# Small farmers, big business



**T**hree hundred bright minds from business and industry, science, governments, NGOs and farmers' organisations, recently met in Brussels at an international conference called "The Art of Farming". They explored the potential of sustainable business models that include small-scale farmers. Is this too good to be true? What lies behind this new interest in small farmers? And what are the potential problems and opportunities? There are two main reasons for the global agro-industry's interest in small-scale farmers. First, there is increasing demand from consumers for fair and sustainable products. This has alerted the industry to the importance of managing reputation. A recent example is the consumer campaign that led Nestlé to decide not to use palm oil produced on plantations cleared from rainforests. Second, and more importantly, agro-industry is keenly aware of the looming dangers of climate change, which they recognise could endanger supplies of raw materials. They see the wisdom of diversifying supplies and spreading their risks. Together, these two factors are pushing the industry to explore the possibilities of doing more business with small-scale farmers. Yet this brings the complexity of having to deal with large numbers of people, who are considered to be risk averse. They realise that they cannot manage this challenge on their own and are looking to establish innovative partnerships with NGOs and farmers' organisations who can help them explore this new territory.

What might this mean for small farmers and the organisations that work with them? Is this going to be a win-win situation, as reports of some successful experiences suggest? Or will things be more complicated? Much will depend on the space these farmers get in these new partnerships. Will they be able to build on their own strategies towards risk diversification and maximising their options? Or will they be driven towards commodity production and become completely dependent on a single cash crop? While small-scale farmers need money, they also need to maintain a sustainable resource base. This is more than risk aversion: it is a very sensible strategy in a hostile environment. Many small-scale farmers are women. Yet the majority of speakers at the conference in Brussels were men. There is no easy match between the compelling financial logic of agro-industry and that of small-scale women farmers. Let us actively engage with agro-industry and farmers and try to make sense of it together.

A handwritten signature in black ink, appearing to read 'Edith'.

Edith van Walsum, director ileia





# The philosophy of slow growth

**L**a Cabrita is a real family farm. Guicella Igreda Lix (40) and her father Don Manuel (80) manage the goat breeding and forage cultivation together. Guicella's mother, brother and two sisters are responsible for pigs, poultry and the dairy and cheese plant. La Cabrita's products have gained international organic certification, a big success for a small farm of just 2.5 hectares on some rocky slopes in Cerro Puquio, in the arid coastal zone northeast of Lima, Peru. When the family started in 1998, they had almost nothing and invested little by little. They managed to overcome, without any outside help, the theft of the capital from the sale of their house, but the fire at the dairy plant two years later was more difficult, as Guicella explains. "We had tried and

succeeded building our farm without becoming dependant on others. We didn't want debts at the bank. But after the fire we were compelled to ask for a loan". They got the loan, repayable over two years, from a local NGO with a microcredit programme. Guicella is positive about the NGO: "The interest rate is similar to commercial banks, but not the requirements. The NGO knows us and the way we work, they have confidence in us". The Igreda family doesn't need larger loans though: "The stress of being in debt would make us forget the small things. We have a philosophy of slow growth, for us that is the crucial point of sustainability."

Text: Mireille Vermeulen Photo: César Malca-Kukin



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## Local resources: Great capital

How can farmers access capital when commercial banks consider them “unbankable”? The solution lies in making the most of local resources. Rural villages can raise their own funds and use these for loans, says Alfred Lakwo, of the Agency for Accelerated Regional Development in Uganda.



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## Big problems demand big ambitions

The World Rural Forum wants the United Nations to declare an International Year of Family Farming. In an interview with Farming Matters, José Antonio Osaba explains why. “Family farming can be a very significant instrument to overcome hunger and poverty.” Osaba and his team have set themselves a huge task, but then, he says, problems in the rural areas are also huge.



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## Ensuring finance with a contract

Zambian Breweries, a subsidiary of the brewing giant SABMiller, produces a local beer from locally produced sorghum. Contracts with a large number of subsistence farmers provide these farmers with a link to a commercial market, and a secure income. Advanced payments help farmers buy the necessary inputs. Is the Eagle beer case an example to follow?



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## Thinking beyond credit

Yes, credit can be a useful instrument for farmers to improve their income. But it does have its drawbacks. Credit programmes often undermine farmers’ independence and oblige them to take all the risk. Jan Douwe van der Ploeg assesses the pros and cons, and looks for alternatives.



# MONEY: BRIDGING THE GAP BETWEEN SUPPLY AND DEMAND

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**FARMING MATTERS** informs readers about sustainable, small-scale farming. It offers discussions, background to the news, opinions, research findings, and practical examples of how sustainable, small-scale farming contributes to providing food security, social justice, a healthy environment and development. Farming Matters is for policy makers, researchers, practitioners, educators, farmers, and everybody else interested in agriculture and development.



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### Livestock services: free or fee? (1)

If livestock output is to be improved, farmers should be provided with free or highly subsidised livestock services, especially when it comes to animal health because peasant farmers constitute the major producers of food animals. And, in developing countries like Nigeria, they have the following features: They are into small-scale farming (livestock and crop); they are low-income earners; they are concentrated in rural and less-urban areas; they have little or no access to modern management techniques; they maintain their livestock mainly with forages, farm/domestic food wastes and no or low external inputs and no concentrates of compounded rations; they rear more, but with marginal outcome, and they have scarce or no access to livestock service providers because the majority of such providers detest working in local/remote communities.

[Kazeem Akimboye, Department of Veterinary Public Health & Preventive Medicine, Nigeria, on our Open Forum](#)

### Livestock services: free or fee? (2)

Currently this service is free in Kenya but this has not helped poor farmers. This is because the officers sent by the government normally set up their own shops where they stock the necessary equipment and drugs. When farmers go to them for assistance, they are told to buy the needed drugs and syringes from

their own shops, so you end up spending the same amount as if you had gone to a private practitioner. I think the best way to go about it would be to train para-vets in every locality, as some NGOs are doing. The para-vets should be provided with the most essential equipments and drugs. These people not only get a job, they provide the services near the people and at reasonable charges.

[Stephen Kimole, Institute for Organic Farming, Kenya, on our Open Forum](#)

### Needed: a change in strategies

Billions of dollars are spent every year on food aid. Yet there are still more than one billion people suffering from hunger, and children suffering from malnutrition. Investment in small-scale farming and combining traditional farming methods with modern technologies adapted to local conditions, would create possibilities for sufficient local food and fodder production that would alleviate hunger. Offering families a small kitchen garden would eliminate child malnutrition in the shortest time. Return on investment would be remarkably high. Why not change strategies in our world food programmes?

[Willem van Cotthem, Scientific Consultant for Desertification and Sustainable Development, Belgium, on our Open Forum](#)

### My dream

As a typical Ugandan poultry farmer, I enjoyed the theme

overview in your livestock issue. I raise 350 laying chickens. I practise mixed farming whereby I grow bananas, maize and groundnuts. I use poultry manure for the bananas. I have four children. My dream is to become a successful poultry farmer in the Kayunga district, in central Uganda. What I would like is to be linked up with a successful poultry farmer elsewhere, who can be my role model and if possible can extend a helping hand in the extension of my poultry house project.

[Richard Lubega, Uganda, through e-mail](#)

### Mistake

May I just make a minor correction to the article "Re-assessing the fodder problem" in your previous issue: *Stylosanthes hamata* is not a grass, it is a legume.

[Oscar B. Posa, through e-mail](#)

### Keep it up

I find your magazine a very useful source of ideas and information concerning my work with natural resource management and rural development within Zimbabwe and the surrounding areas. I look forward to each new copy and my ambition one day is to be a contributor. Keep up the good work.

[Robert Cunliffe, researcher, Zimbabwe, through e-mail](#)

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see [www.ileia.org](http://www.ileia.org)**

# Everybody benefits

## from financial products for small-scale farmers

Money for farming not only means access to credit, but also access to other financial products and services. Small-scale farmers can also benefit from being able to insure themselves against risk and being able to save. When it comes to money, there is a gap between what small-scale farmers need and what they have access to. But this gap can be overcome, as this issue shows.

Text: Petra Rooijackers

**T**here is no farming without money. As *The Economist* put it last May, “Few farmers, big or small, are free of debt.” Every farmer that wants to expand – or even maintain – his or her business invariably needs cash. This issue could have focused solely on this problem: the need for cash implies a need for credit, and as most small-scale farmers need relatively small amounts of credit, microcredit and its potential for helping farmers grow would have become the point of departure. But microcredit is not always the solution farmers are looking for, and they benefit from it less than other sectors. Their need for credit may be relatively small, but it is still larger than that of the average micro-entrepreneur. Farmers need access to credit over a longer period of time as they have to wait until harvest time, or later, until they can pay back a loan. In 2008 FARM, the Foundation for World Agriculture and Rural Life, held a conference on microcredit’s contribution to meeting the financial needs of agriculture. One of the conclusions was that, unlike micro-enterprises, agriculture cannot sustain above market interest rates as the financial returns are not high enough. According to FARM, “Microfinance has not been able to respond to more than a small fraction of the needs of agriculture in developing countries for financial services.” In India, for example, the total flow of microcredits in 2006-2007 was US\$ 1.87 billion, of which just eight percent went to agriculture.

### From microcredit to microfinance

If microcredit is not the obvious answer for small farmers, then what is? We asked Janiece Greene of Women’s World Banking about the role of women in finance and farming. She highlighted the need for a broader look at small-scale farmers’ needs: “Farmers need other financial products besides access to credit. Being able to save money, for example, can help a farm family meet with unexpected drawbacks.” According to her, the “new frontier” in microfinance lies in providing possibilities for saving, especially in rural areas. This could be good news for women, as they often not only do the farming, but also the saving. “We need to think less in terms of microfinance and more in terms of financial inclusion.”

Financial inclusion – the delivery of banking services at affordable costs to low income groups – means looking beyond credit. It also involves small-scale farmers being able to insure themselves against climatic catastrophes. On page 44 of this issue Thomas Loster of the Munich Re Foundation shows how this kind of insurance can be made accessible to small-scale farmers.

Of course farmers still need credit and they have difficulties getting it. Small-scale customers are not a high priority for big financial institutions. In addition, farming is considered a risky trade, with many uncertainties – which will only increase as the effects of climate change make themselves felt. Add to this the financial crisis, which makes banks less inclined to



lend money, even to businesses that are less risk prone, and one can see that small-scale farmers have a tough time financing their operations. With climate change threatening agricultural output, and a population estimated to grow by an extra 2.5 billion by 2050, even multinational food corporations are now looking towards sustainable, small-scale farmers to ensure their supplies of raw materials. If small-scale farmers are to have a role in meeting the increasing demand for food, they should also be provided with the means to do so.

**The less obvious solutions** It is said that it is difficult for farmers to get credit because farming is considered a high risk activity, but there are different ways of assessing risk. In “Making farmers

**Technology helps farmers** Yet underneath all this it is undeniable that it is expensive to provide financial services to small customers, in out-of-the-way areas with poor infrastructure. Technology is changing this. Brick and mortar structures are being replaced by “branchless banking”, bringing financial products and services within reach of people in the remotest of areas. The potential of branchless banking, made possible by the mobile phone, cannot be underestimated. Similarly, technology also plays a role in insurance. For example the network of Safaricom, East Africa’s biggest mobile-network operator, is being used by insurance companies to collect premiums from



**The future role of technology in providing farmers access to financial services cannot be underestimated. Some people believe that: “mobile banking is the future”.** Photo: Sandipan Majumdar

bankable” (page 24) Jaime ter Linden of ForeFinance moves beyond the conventional ways of assessing risk, and finds that farmers need not necessarily be considered to be a “high risk”. A different approach to risk-profiling, assessing the creditworthiness of farmers, can lead financing institutions to overcome their fear of lending to farmers.

Small-scale farming is considered a low profit activity and this also gets in the way of access to credit. Koert Jansen of the Triodos Sustainable Trade Fund shows, on page 28, that traditional financial institutions can successfully invest in small-scale, sustainable farming. He is convinced that the risk perception of financial institutions will change and that local banks will follow the approach of Triodos.

But we need not necessarily look to traditional financial institutions to adapt. As Alfred Lakwo points out in “Local resources, great capital” (page 10), if banks are not willing to provide capital to small-scale farmers, why not look at ways for the “unbankable” to come up with their own funds? He shows that there is much untapped potential in local communities.

farmers. Safaricom is from Kenya, where 27 percent of the people do not have access to banking services and only about 3 per cent of total population have any form of insurance cover, while 17 percent of the “unbanked” own a mobile phone, creating an opportunity to improve access to financial services. Regardless of technology and advances in providing small-scale farmers with credit, we can only underline Jan Douwe van der Ploeg’s point in “Thinking beyond credit” (page 36): formal credit often comes with strings attached, taking away farmers’ independence and reducing the control they have over their own resources. Credit mechanisms need to be “untied”, allowing farmers to make the choices they deem appropriate. Credit is by no means the only choice for farmers, although microcredit does offer more opportunities now, especially as it is progressing from “product-based” to “customer-based”.

Petra Rooijackers, editorial team Farming Matters. E-mail: [p.rooijackers@ileia.org](mailto:p.rooijackers@ileia.org)



# local resources: Great





# capital

The rural poor have no easy access to loans and grants from commercial banks or financial structures, because they lack collateral and modern business plans. But there is a lot of capital in rural areas that could be used to invest in farming. This is a case study of microfinance from Uganda.

Text: Alfred Lakwo

**A**s in many other countries, small-scale farmers in remote rural areas in Uganda are hardly served by banks or financial institutions, and are commonly described as “unbankable”. The reasons given are that they are hard to reach (geographically), that they have little or no collateral, and that they are involved in rather risky activities. The advent of microfinance has shown that lending money to small-scale entrepreneurs can have very positive results. But most of these programmes focus on urban areas. Other alternatives, like the popular savings and credit co-operatives (SACCOs), have equally excluded many poor rural people as they do not have the money with which to buy shares and become part of such financial programmes. In addition most of the government programmes which are specifically meant to help small-scale farmers in remote areas are strongly influenced by political and social connections – a kind of social capital that the majority lacks. But all villages have local resources, even if just a few. Can a rural finance programme be based on them?

Do rural villages in isolated areas have the possibility of raising their own funds and using these funds for loans? AFARD, the Agency for Accelerated Regional Development found some positive answers to these questions.

**Changing the financial landscape** AFARD is a non-governmental organisation working in the West Nile Region of Uganda, some 400 km north of the capital, Kampala. Having worked for several years with local development projects, AFARD workers realised that very few money lenders work in remote villages, and that rotational credit schemes involve only a small number of people. In most cases, microfinance institutions only provide “booster” instead of “start-up” loans, which is what poor people mostly need. And because they lack collateral and business plans they cannot access these loans from commercial banks. But farmers need capital: they need to buy seeds or inputs, the average cost of which has been estimated as approximately 500,000 Ugandan shillings (circa 200 euros) per family per planting season. How to

close the gap between demand and supply? AFARD thought of trying a collective approach for all members of the community, not only those with established businesses. The optimal strategy had to be one that built on the existing solidarity between the poor (social capital) and on local possibilities for raising funds – even if this would only result in a small loan portfolio. Such an approach would provide equitable local access and ownership of the loan funds, with all participants making an equal contribution and receiving equal benefits.

During the first months of 2009, AFARD carried out a brief study in three districts of the West Nile Region (Nebbi, Arua and Yumbe). The study focused on the different strategies which the various village associations already used to raise funds. Some farmers' associations were raising funds by requesting mandatory fees (membership fees, annual subscription fees and monthly subscriptions), others through regular sales of labour, or the sale of specific products (like bricks and firewood). It was thus clear that many farmer associations did have ways of raising funds. These findings were shared among the groups, many of whom began to work out new ideas and went on to start, or further develop, their fundraising activities. Naturally, there were many differences between these

effectively, AFARD helped design a credit lending policy. This was reviewed by all the association members and finally adopted as the internal working guidelines. These regulations covered issues such as the approval of a loan, the loan period, interest rates, repayment modes, the fines to be imposed for delayed repayment without acceptable reasons, loan rescheduling in cases of death or sickness of a household member, and the termination of access to loans for anyone declared a bad debtor.

**New opportunities** By the end of 2009, AFARD was working with 46 village associations, covering 4,271 households, all running their own Group Loan Schemes. These were circulating a total of 190 million shillings (about € 80,000) in the region, with more than 2,800 borrowers. Overall, in one year of working with the groups, the total money lent reached a total of 384 million shillings.

These loans provide a window of hope. Families are able to buy hand hoes, seeds or ingredients for making organic pesticides, all of which are used to boost production. In only a few months, many families increased the area with crops that sell well, such as cassava. There has also been a significant change in the perception of farming, as Mrs. Betty, a member of



**Some farmer associations are developing new fundraising activities, while others are improving what they were already doing.** Photos: Alfred Lakwo

groups. In some cases, AFARD helped with the formal constitution of village associations (generally building on existing ties and relationships). In others, the groups developed internal regulations and working rules. All the groups managed to work out new initiatives. Three months after the first meetings, the associations had accumulated up to 3 million shillings (about € 1,200) and were ready to lend money through their own Group Loan Schemes. To help use these funds

the Yiba group, explains: “With the loan I got from our group, I could increase my groundnut production. The high yield earned us enough money, so that our family was able to have a peaceful Christmas celebration. Everyone had a new dress.” For her, farming is no longer a subsistence venture, but a commercial enterprise.

The loan period averages two months, the interest rate charged is 10 percent per loan period, and there is



a very high repayment rate (97 percent). While this interest rate is high, compared to the rates charged by formal microfinance institutions, members of the 46 groups insist that it is necessary in order to increase their loan portfolio. They also continue with their diversified resource mobilisation strategies, such as membership fees. Likewise, many groups are now collectively investing in profitable crops like Irish potatoes, and are cultivating larger areas and aiming at local markets. Some have also taken on value-addition activities by processing maize into flour and de-husking rice for sale.

## Reaching “the unbankable”

Tapping into local resources and providing loans with the funds is also having other knock-on results. Both men and women are now involved in new businesses. This is different to how it was before, when women mostly grew food crops and men “robbed” whatever extra money women raised themselves. Such a change has been enabled by an increasing blurring of the distinction between food and cash crops. Women have entered the market economy, and now sell food crops and keep their earnings. Household access to credit has enhanced joint farm planning. Women prefer to grow marketable crops that they can sell and repay the loan. Women keep the rest of the money they earn to meet home needs and to further improve their farming activities.

Seeing that farming can be a profitable business also makes many youngsters feel less attracted to the cities. At the moment, youths constitute on average 14 percent of the membership of all groups supported by AFARD. Aware of unemployment and hardships in urban areas, many youths have taken up farming as a productive venture from which they can generate incomes, improve their livelihoods and gain social status; something they had lacked for decades. Access to credit and organisational strengthening of youth groups have played an important role in realising this.

Another important aspect of the approach is the “democratisation” of credit. All farmers who belong to a group automatically qualify for a loan, given that all of them have made equal contributions to the loan fund. They all pay the same amount of membership and subscription fees and provide the same farm labour (except in the case of bad debtors, those who twice fail to repay a loan without acceptable reasons). And many associations are using part of their profits (up to 7 percent) to support people living with AIDS and orphans.

**A bottom up approach** There is little doubt that having money to invest plays a critical key in reducing poverty. Poor farmers need cash in order

to improve their farming practices and livelihoods. It enables poor farmers to set up small businesses (of a size their local markets can handle) from which they can increase their incomes and even accumulate assets (bicycles, cows or a radio). Access to credit has changed the way smallholder farmers see agriculture and the strategies they follow – they are able to select better varieties, plant early, and stick to sustainable practices. While the results need to be measured more clearly, there seems to be a preference for organic pesticides, better soil management and conserving local biodiversity.

All this shows the huge and untapped (and often ignored) potential that there is for small-scale farmers to raise funds locally. This is true microfinancing from below: an effective alternative to approaches that are based on the idea that poor people know nothing about money or how to manage it. Well used, this approach can help build attitudes of self-reliance and develop sustainable farming practices.

Alfred Lakwo is Programme Director at the Agency for Accelerated Regional Development (AFARD). E-mail: [alfred.lakwo@gmail.com](mailto:alfred.lakwo@gmail.com), [www.afard.net](http://www.afard.net)

## Steps to establishing a Group Loan Scheme

Start by establishing a large group (more than 50 members); focus on building leadership and on team work – but above all involve all members in all the planning work.

Consider what measures for mobilising resources are feasible and acceptable to the community.

Ensure that all group members approve the use of the funds generated for loans, regardless of the size of these funds. Their use should coincide with the process of setting up a transparent and fraud-free guideline and the establishment of a loan committee that ensures compliance with the guidelines.

Make sure that regular supervision takes place, ensuring that guidelines are followed, that accurate and timely reports are provided to members, that bad debtors are excluded, that all records are kept and are accessible to members.



# Our ambition matches the size of the problem

The World Rural Forum is behind the campaign to get the United Nations to declare an International Year of Family Farming. This campaign is now supported by more than 300 civil society organisations from all over the world, and by the Ministries of Agriculture in Pakistan, Switzerland, Peru, El Salvador and Belize. Jose Antonio Osaba is the co-ordinator of this campaign.

Interview: Jorge Charez-Tafur



**J**osé Antonio Osaba was born in Cuba, and has worked with several development organisations there, in France and in Spain. For the last eight years he has been working with the World Rural Forum, a non-profit organisation which aims at building stronger linkages between all those working in rural areas.

### **Why start a campaign for an International Year of Family Farming?**

If we look at the world's agricultural sector, and at the environment, we see two major options: industrial agriculture, which nowadays employs 20 million people, or family farming, which if properly supported can support hundreds of millions of women and men farmers. We believe that family farming, which is rooted in the strong links between a piece of land and the family that owns and works it, can feed the world in a sustainable and ecological manner, and that it can be a very significant instrument to overcome hunger and poverty. But most countries give less than seven percent of their national budget to agriculture, even those where up to 70 percent of the population lives in the rural areas. As a result, millions of women and men smallholders are practically abandoned. So one of the main aims of this campaign is to promote national policies that will provide the necessary support and recognise that rural development and agriculture are keys to addressing the problems these countries face. At the World Rural Forum we have been working with regional issues, but a worldwide campaign fits our own identity better. As an international organisation we recognise that, all over the world, smallholders, and family farming, are in trouble. We have 300 organisations now supporting the campaign, which shows we are on the right track.

### **When do you expect that the year will be proclaimed? Which year will it be?**

Our aim is to try to get the declaration either at the end of 2010, or during 2011. This is something related to the way the UN and its General Assembly works, so we need to get the official support of many governments. Once the UN declares the year, it will not be immediately implemented, as the UN then has to ask a specialised agency like FAO to develop the programme. So we think that the International Year of Family Farming will be 2012, or perhaps 2013. We are working hard to get this approval. We have to be confident, even though it is really a challenge. That is why we rely on all our supporting organisations and on their efforts.

### **At the moment we are celebrating the year of biodiversity. Does declaring such a year really make a difference?**

This is a key question. We feel that if the year is declared from above, its impact won't be so meaningful, or won't go beyond some articles and some references. But we are working with 300 organisations in 56 countries, and that makes a big difference; so many rural organisations are getting mobilised that the campaign now has a real social dimension. And we aim at more than just having a year declared. Right now we are pushing for the declaration of the year. Once that happens it will give us the opportunity to discuss, to exchange opinions, and to organise dialogues and debates. That's when we'll really be busy; one year will provide many opportunities. Let us first get the year, and then we will try to push governments to implement better policies. That's where we will be very active, and that's what's going to make the difference.

### **So at the end of the day you expect governments to implement better policies, or policies that will better support small-scale farmers. Is this needed everywhere? Is there an example to follow?**

Well, the situation is certainly not the same everywhere, but as a rule, we see that very few countries have proper policies towards small-scale farmers and family farming. Even in Europe, in spite of the subsidies, farmers face many difficulties. But there are positive examples. There is the case of Malawi, a very small country where policies to support farmers have been introduced, and as result the country is even exporting food. Malawi is showing the way, providing more attention and more resources. This contrasts those countries which implemented the free-trade policies, and which now have to import almost 70 percent of the food they need. Not all countries are doing so badly, but there are problems virtually everywhere. There is a big controversy about the model of agriculture the world should follow and about the type of products are we getting. Should agriculture become more and more business-oriented, or should it aim at feeding the world? The declaration of the year will be a great asset in this controversy. Nowadays there is much criticism of family farming, with people saying that it belongs to the past. By declaring the year, the UN will give legitimacy to family farming.

### **But we are supposed to get better policies and, as you say, there are very few examples to follow. How are we going to get there?**

This is why it is important to be very active during the year. We are preparing a plan, based on the

establishment of national committees. And in each case, civil society is to push for more resources, for improving roads, markets, access to irrigation or inputs. We really have to look at many different aspects. The issues will not be the same in every country, although there are some issues which are especially important and which all committees will consider. One of these issues is land. We have to get clear laws respecting the right of farmers to own land. Another issue is getting equal rights for men and women. These are two of the main aspects on which we will focus. We know it is going to be difficult and we don't pretend that we are going to solve all

This is a serious challenge, but our starting point is clear: we need food security. The first commitment of a government should be to feed its own people. We believe in national production and national markets. International markets get too much attention, while we think that national or regional markets should be encouraged as a way of supporting rural areas and tackling issues such as hunger and poverty.

**With so many platforms, or networks trying to support family farmers, don't you think that there is some sort of duplication of efforts, or that you can be less efficient?**



**"Huge international conferences are fine, but our strategy is different."** Photo: WRF

problems forever, but we can make a difference by working with the media, strengthening the links between urban and rural people, or by reaching out to consumers' associations. There's a lot to be done, but we are motivated to do it.

**Talking about consumers, many efforts aim to link family farmers with global markets, but if we listen to the IAASTD report, for example, we should take a completely different approach. Isn't there a contradiction?**

We would like to be seen as an umbrella, under which everybody can have some space. We are just establishing the instrument, or the mechanism that will allow the most important issues to be at the top of the international agenda. Of course, working with 300 organisations can be difficult. But we are in touch with them all the time, sharing documents, sharing experiences and receiving suggestions. And we have established an intermediary level for every continent. We have just had a continental meeting in Asia, with all the organisations supporting the campaign, and are planning similar meetings in

**"By declaring the year, the UN will give legitimacy to family farming"**



Africa, America and Europe. Every continental meeting is also an opportunity to get to know each other, establish new links. Many organisations have got in touch with each other through the campaign, so it is already serving as a meeting point.

**I ask you this because of what we saw not so long ago in Copenhagen. Having so many countries and organisations represented, with their own interests and agendas, led to a declaration that does not say very much. Are you not afraid of something similar?**

information, proposals or ideas quite easily. Still, yes, it is ambitious, but our ambition matches the size of the problem. The problems in rural areas are huge, so our ambition should also be huge. Our challenge is to be effective, to be able to mobilise resources and to be heard by the international organisations we are in touch with. But we are proud of the results so far. The meeting in Asia was a big success, and now we are preparing the other ones. By the end of 2010, when the four continents are ready with the continental meetings, we will set up the World Consultative Committee, which will help us guide all the activities to take place during the year.



**A regional meeting point: participants of the continental meeting held in Delhi.** Photo: WRF

This has been seen many times. Three or four days, with everybody there, all raising their issues, bringing their questions, but at the end you go home with empty hands. We are not promoting a particular event, we are promoting a full year. It is not just one extraordinary meeting for one day in Rome or Nairobi, but 365 days to promote farmers' issues, justice and better policies. Huge international conferences are fine, but our strategy is different. We are hoping for a full year, in which civil society can work at the national level. Let us say that there are 200 countries, so we have 200 opportunities, 200 different situations. We are not talking about one global declaration, but rather helping national organisations to confront the challenges they face and articulate their aspirations. These will differ from Burkina Faso to El Salvador, from Thailand to Canada, and Argentina to Mali. We are only co-ordinating the campaign.

**Is it not very ambitious?**

Well, with e-mail and the Internet we can address 600 or 700 organisations in a few minutes, and share

**So if the campaign is on track, and is going on quite well, how can the readers of our magazine contribute?**

The many good practices and experiences shared in all issues of your magazine represent a very significant contribution to family farming. But readers can also contribute in many ways. Their associations can join the campaign, they can also send their articles, their experiences or their opinions to us, and we can share them with all those involved in this campaign. And once the year is proclaimed, or declared, they should join efforts with the organisations involved at a national level. These are all very ambitious efforts, so we would not just like people to say, "ok, go ahead". We prefer them instead to say "ok, let us go ahead together".

### **More information**

Visit the site of the International Year of Family Farming Campaign at [www.familyfarmingcampaign.net](http://www.familyfarmingcampaign.net). Readers are also invited to contact Jose Osaba and the World Rural Forum, and to share their opinions and ideas at [wrfsecretary@ruralforum.net](mailto:wrfsecretary@ruralforum.net).

# The Eagle

flies in  
Zambia

Eagle, a clear beer produced in Zambia, is made from locally grown sorghum rather than from expensive imported malt. Small-scale farmers now grow sorghum for the brewery. Contracts with the company allow farmers to produce sorghum alongside other crops – and to have a secure income.

Text: Nawa Mutumweno

**Z**ambian Breweries, a subsidiary of the South African brewing giant SABMiller, has developed a clear beer made from locally grown sorghum. Until recently, sorghum was used mainly to brew opaque beer, and clear beer was made largely from imported malt. Since the Eagle brand was launched in April 2005, it has offered new opportunities for a large number of subsistence farmers, who for the first time have access to a regular commercial market for their produce. It is also giving Zambians their first taste of a lager they can afford. Alfred Mulele is the chairman of the Kazungula Agricultural Cooperative Society Limited, a small co-operative of small-scale farmers in Mushelekwa Village in southern Zambia. Mr Mulele's co-operative was one of the first to promote and market sorghum, a drought-resistant cereal that is well suited to the climate and soil conditions of this part of the country.

For several years, the Kazungula co-operative has had an order with Zambia Breweries, and this has proved helpful for farmers in the region. "Initially, sorghum was seen as a poor man's crop and many farmers shunned it for maize," Mr Mulele explains, "but this initiative has proved that sorghum is a viable commercial crop that is also useful at household level. Farmers continue to grow crops like maize, groundnuts, millet and cowpeas mainly for their sustenance, and do this alongside sorghum, from which they earn some income."

**Double benefits** Sorghum is Zambia's third most important crop, after maize and finger millet, and is traditionally used for making opaque beers. With the backing of a USAID/IFAD-funded project run by CLUSA (the Cooperative League of the United States of America), Zambian farmers have been helped to produce a crop that meets the standards

set by the brewery. CLUSA provides farmers with loans to procure inputs and implements, as well as giving professional and technical advice on how to meet the quality standards required for beer production. The main source of funds needed every farming season come from the brewery itself, through the contract it has signed with the farmers. This contract provides for a secure market and a fixed price, ensuring a secure income. In most cases, the brewery provides advance payments, which are paid back after harvest. This helps farmers acquire the necessary inputs (seeds, fertilisers or pesticides), invest in their farms and also save money, without having to rely on informal moneylenders. As part of the contract, farmers commit themselves to selling a certain quantity of sorghum

too: better crop yields, improved soil fertility, better rainwater harvesting, nitrogen fixation, and fewer weed problems. These benefits are not limited to sorghum: results of individual trials in Zambia have shown that conservation farming by itself also increases maize yields by at least 75 percent, and those in cotton by 60 percent.

**Increasing numbers** The idea behind the ambitious sorghum contract farming initiative was to produce value-for-money beer for lower-income African consumers. At present, more than 4,500 small-scale farmers in 14 districts are selling their sorghum directly to Zambian Breweries. Taking into account the country's extended family set-up, this



**Stronger organisations have more bargaining power, helping secure a high and sustainable income.**

Photo: Simon Mukwaya

to the brewery every year, and to ensuring a certain quality.

The contracts have also proved to be positive in an agronomic and an ecological sense. Thanks to the standards set by the company, and to the advice that they regularly provide, more and more farmers have opted to employ conservation agriculture to produce sorghum. Their reasoning is simple: conservation agriculture results in a more reliable output and in higher yields. It is based on simple technologies, requiring a minimum of equipment, and is easy to implement with hand hoes or with oxen. One major advantage of conservation farming is that when the heavy rains start to fall, the farmers only need to plant the seeds, in comparison to the many tasks which conventional farmers need to carry out (combining land preparation and sowing) which complicates and delays the job when timing is critical. Farmers who adopt conservation farming experience other benefits

means that at least 60,000 people benefit from this system. More than 500 hectares have been planted with top-grade sorghum, and the total yields exceed 300 tonnes of grain, with a revenue of more than 216 million Zambian kwacha (approximately US\$ 43,000). The Zambian government recently reduced the excise duty on Eagle Lager from 35 to 30 percent, in order to encourage Zambian Breweries to continue engaging smallholders in this project. According to the company, the reduction in taxes has helped them to buy more sorghum from small-scale farmers (as well as increasing beer sales). SABMiller is encouraging other farming communities to grow sorghum and sign similar contracts, and is now trying a similar approach in Uganda, Zimbabwe, Tanzania and Mozambique. These figures, and the opinions of farmers like Mr Mulele, clearly show that contract farming offers many opportunities for small-scale farmers. This has also been seen with other crops. But the whole approach



## Special brand: small-scale and sustainable

As the Eagle Lager case shows, contract farming can offer small-scale farmers a stable income and a supply of inputs, services and loans, which can play a very important role in their farming system. International companies are increasingly aware of their role and corporate responsibility in ecological sustainability and poverty reduction. This offers opportunities for a significant development of small-scale sustainable agriculture. Enterprises like Unilever and SABMiller want sustainable supplies of key raw materials, in a way that provides better living conditions for farmers, maintain soil fertility and protect water availability, quality and biodiversity. For them, securing supply of sustainable raw materials is a question of business risk management, and an opportunity for growth, allowing them to differentiate their brands as being sustainable and fair. In an opinion paper from the Overseas Development Institute, "Making contract farming work with co-operatives" (2007), Martin Prowse points out the advantages of small-scale farmers over large-scale farmers, as they are the most efficient agricultural producers and are cheaper in terms of labour costs. Contract farming can overcome the constraints that small farms face, such as lack of capital and capacity to adopt technological innovations, and can deliver scale benefits. The SABMiller Enterprise Development Report, "Making a difference through beer", from 2009, claims that many farmers taking part in their smallholder programmes have moved from subsistence farms to small-scale agribusinesses and now have more disposable income and more secure livelihoods. In South Africa, their farmers have an average income of around US\$12,000 a year, considerably higher than other farmers in the same region.

### Further reading

More information on the relation between farmers and large business can be found on the publications of companies like Unilever, such as their "Sustainable Development Overview" (2009). The IIED Gatekeeper Series has several issues dedicated to contract farming, among them: "Unlocking the potential of contract farming: Lessons from Ghana", and "Contract farming in India: Impact on women and child workers". These are all available online.

is not risk free. Agro-industrial firms may not always be as reliable as *Zambian Breweries*, or they may easily exploit a monopoly position. Farmers may lose autonomy and control over their farm enterprises, become indebted because of production problems (drought, severe incidence of pests), not being able to comply with their side of the contract, and thus not being able to pay back the loans received before sowing. And as more farmers are contracted to produce the same variety of the same crop, the issue of lack of diversity comes into play, which can have severe consequences.

**Conditions needed** Can contract farming be successful and sustainable? A number of conditions need to be in place. First of all, the reluctance of many agribusiness firms and large companies to engage in long term and binding contracts with small-scale producers needs to be overcome. Local governments can help here by trying to develop a conducive environment for agribusiness. Government extension services and NGOs (large and small) can help farmers to develop their negotiating skills with potential customers so that they get a good price for their commodities. Just as importantly, they need to continually work on strengthening the organisational skills of small-scale farmers. Stronger organisations can have more bargaining power and can also play a bigger role in the flow of market information and market trends, thus playing a more decisive role in protecting farmers' interests and agricultural development in general.

Contractual arrangements vary from commodity to commodity, and can be signed by individual farmers or farmer groups. As with other ways of providing financial services, the potential for defaults is always a major concern and needs to be covered by strong contacts between those providing and receiving a loan. To address these issues, a leading cotton agribusiness firm has introduced the "distributor system", in which a group leader, who is also a farmer, becomes the link between the firm and the other farmers (between 30 and 100). This leader is then trained in basic agronomic aspects of crop production and in basic bookkeeping. The company does not deal with the farmers directly, but through the distributor. In return the distributor gets a commission on the collections he makes from the small-scale farmers in his group. Such innovations help ensure that credit fulfils its role, and that farmers benefit from it.

*Nawa Mutumweno* is a freelance journalist based in *Chingola*, *Zambia*. He has worked for several years producing the newsletter of the *East and Southern Africa Agribusiness Network (ESAANet)*, based in *Lusaka*, and is still related to them as editorial consultant.

Many countries are targets for expanding intensive agriculture. International agribusinesses, banking institutions, sovereign governments and wealthy individuals are being attracted to buy up or lease cheap land, where the use-rights are poorly defined. Countries ravaged by conflict and sanctions are desperate to attract investment. Land in these countries can often cost less than \$1 per year per acre to lease. While these investments appear to represent a win-win situation for both sides, appearances are often deceiving.

More than 124 million acres of land has been acquired by foreign investors responding to global food shortages, fluctuating oil prices and growing water shortages. The phenomenon is being exacerbated by the EU's mandate that 10 percent of all transport fuel should be sourced from plant-based biofuels by 2015. This will require more than 43 million acres of new land for crop production, which is certainly not available in the EU. This will place enormous additional pressure on land producing food for local consumption, and possibly leave a large gap in the global supply of cereal crops. Increased shortages have already been experienced in recent years, leading to rampant food insecurity in developing countries which ineffective and unsustainable food aid has done very little to address.

While many see these investments as economic progress, the majority of food and biofuels produced in these schemes is designed for export. Simultaneously, indigenous people are being forced off their land or to work for these farms as underpaid labor, while lands used by pastoralists are being swallowed whole. These impacts are independent of the catastrophic ecological damage caused by the majority of commercial farms abusing local water and land resources, with little if any regulation from local government agencies.

Currently, East Africa is home to more than 80 million small holder farmers, each farming less than five acres of land. These farmers represent an untapped resource in the battle against the region's excessive and repetitive food shortages, economic underperformance, child malnutrition and global food insecurity. The slow maturation of the microfinance sector, which aims to provide adequate access to technologies and capital, must now compete against the unrestricted private equity that is funding these colossal land grabs.

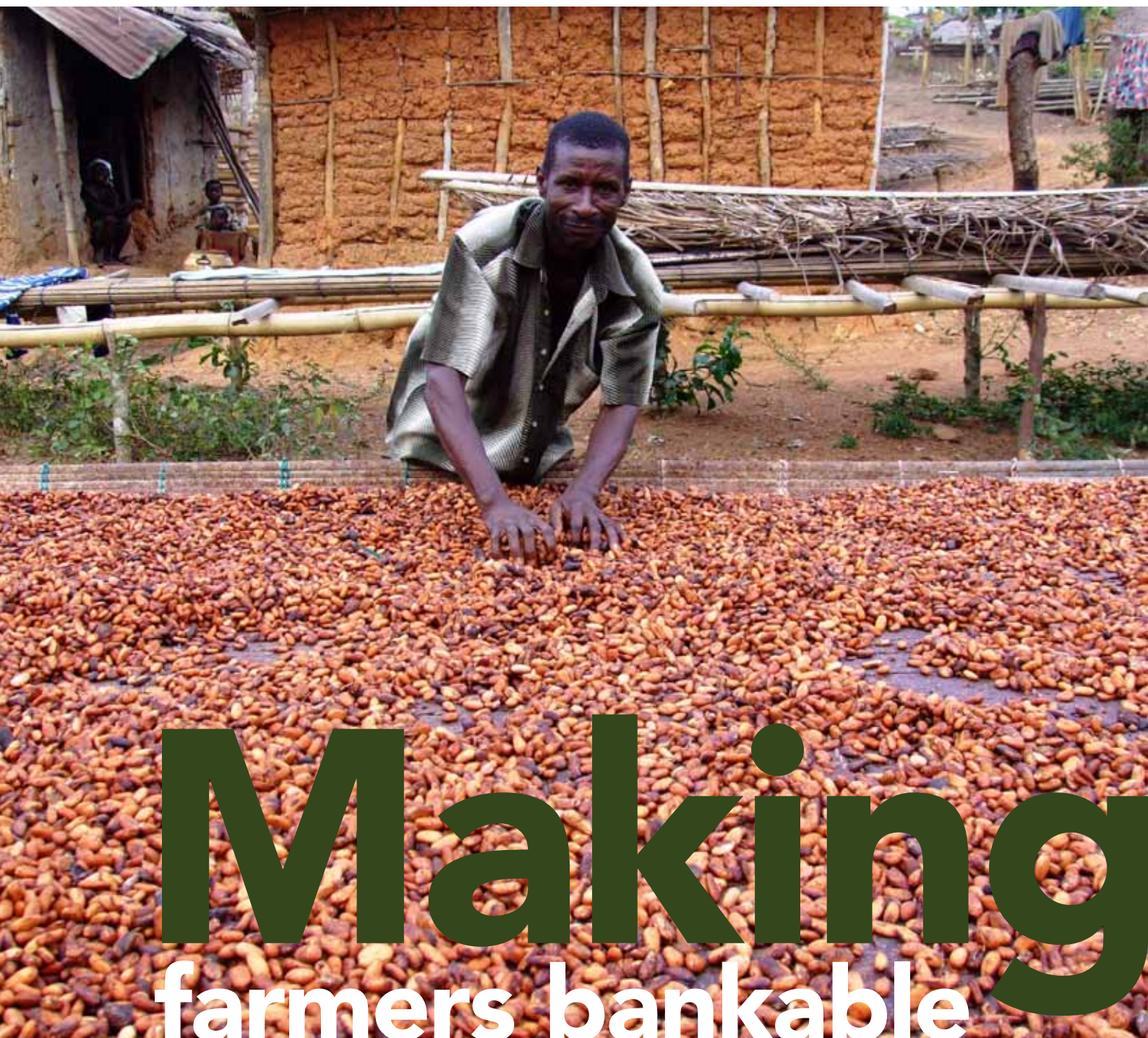
Local and international investment is urgently needed to increase the capacity of Africa's small-scale farmers to ensure sustainable food production tempered by social equity. From personal experience, food aid is not only ineffective but pernicious. Africa must prioritise farming. Commercially viable agro-investment schemes can ensure that Africa is transformed into the world's bread basket through partnership, not servitude.

**Rachel Zedeck** ([rachelz@medeagr.com](mailto:rachelz@medeagr.com)) is managing director of the Backpack Farm Agriculture Program in Nairobi, Kenya, an initiative that supports local agriculture co-operatives.



# Stop land grabs





# Making farmers bankable

New risk-profiling approaches offer the promise of helping the “missing middle”: farmers who are too small to attract loans or be of interest to commercial banks, and too large to benefit from microfinance institutes.

Text: Jaime ter Linden



**M**any farmers in developing countries are too big to get support from microfinance institutions, yet too small for commercial lenders.

The result is a group known as the “missing middle”: farmers who can’t get access to finance. Such farmers often have to depend on private financiers who provide high-interest loans that are often not very transparent and certainly not beneficial to the farmer.

Banks interested in supporting agriculture all aim at the same group of large, well established farms with a good track record, credibility and collateral. Transaction costs play a large role here: it is much more profitable to build long-term relationships with big farms, which need big loans, than with many clients who need smaller loans. Regardless of the size of the loan, a bank has to do the same amount of work in assessing the risks involved and providing financial services. The marketing process, the due diligence, the financial transactions and the monitoring process, all take the same time, whether it is for a loan of US\$ 10,000 or one of one million dollars. In addition, bigger farms tend to be better managed; they can provide more information about the work they do and the risks they take. It is not surprising that banks prefer to work with them. At the same time, there are now microfinance institutions (MFIs) in many parts of the world. They have been able to bridge this information gap by setting up social structures (often groups of entrepreneurs) which are then responsible for the financial behaviour of individual members. This significantly reduces the information and monitoring costs. MFIs have also pioneered the way of dealing with collateral by accepting “soft” collateral like contracts, links with other parties in the value chain, technical assistance, or insurance. MFIs are often involved in creating soft collateral themselves, helping their clients improve their business and thus securing their lending. This model has dramatically changed the opportunities for many of those at the bottom of the pyramid. However, this approach still follows a “relationship banking” model, which is time-consuming and expensive. Though the model is replicable, it is difficult to scale it up to reach those who are part of the “missing middle”.

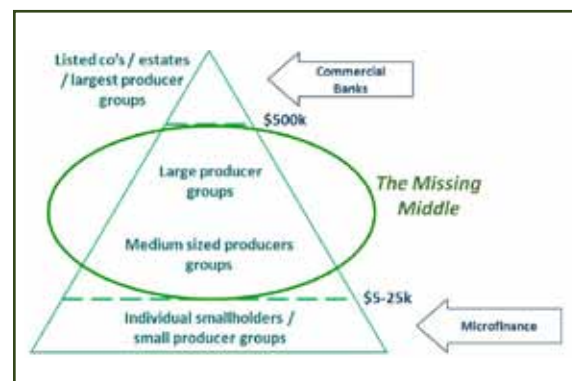
**Bridging the gap** While both the lower and the upper end of the finance market are served with “relationship banking” models, the missing middle can be served with a “transactional banking” model. With this model the bank bases its assessment of the creditworthiness of a farmer on secondary sources of information. Farmers can be assessed according to several indicators, which show how they

are managing their farm and thus the likelihood of them defaulting on a loan. This kind of information is even more important when collateral is lacking, as is often the case with farmers in the “missing middle”.

Traditionally, banks look at two C’s: collateral and capital. Without one of these, they are not likely to provide loans. More progressive banks will also take into account two more C’s: crops and contracts, which can function as soft collateral for loans. However, those four C’s only look at the results of previous investments, without giving a full idea of the possibilities of success in the future. Withholding loans to farmers who can’t show one of these four C’s pushes them into a vicious circle: without investments, they can’t improve their business and they will never get the sufficient collateral, capital, contracts or crops needed to attract investments and improve their business.

Farmers can escape this vicious circle if banks are willing to take other kinds of collateral, or look at information which can show success in the future. Among this, a few more C’s can be included:

- Capacity and character: what is the farmer’s capacity to manage her farm? Does she have an entrepreneurial spirit? Does she receive technical assistance?
- Competitiveness: does the farmer know her market and is she able to adapt product, quantities and qualities to market demands?
- Context and chain: how is the farmer embedded in the value chain? Does she have long-term contracts with the same suppliers and processors or traders?
- Certification: is the farmer certified, and does this enhance good agricultural and management practices? Does the certification scheme generate a price premium?
- Cash flow: what are the future cash flows? Does the farmer have a financial management system?
- Credibility: what is the farmer’s financial track record?



**Only looking for collateral leaves a lot of people without finance**

By scoring a farmer on the basis of these additional factors, banks can get a more comprehensive insight, and this can serve as the necessary input for their own due diligence process.

**Putting it into practice** ForeFinance is a company that makes profiles of farmers based on the C's mentioned above. This assessment is done at a group level, for several reasons. First, working with co-operatives (or other groups) can be more cost effective. Moreover, a group provides some of the essential "soft" collateral: adequate governance and management structures, links with the value chain, certification, financial management or links with technical assistance. ForeFinance has started business in Kenya, and aims to roll out this concept throughout Africa, Latin America and Asia.

The profiling process starts with a request from a group. A third party audit is conducted, which generates a profile of the group. This profile is stored in a database, which is accessible to banks. On the basis of this profile and their own due diligence, a bank can decide to provide a loan which, together with the repayment details, is recorded in the database. The link with those who provide technical assistance is very important, as they often have

extensive experience with the farmer and can provide additional information. When a profile is made, it also generates insights of what has to be done to make the farmer(s) more bankable. This information can be delivered to those providing training or extension.

The relevant importance of these indicators varies between sectors and regions. Among Kenyan coffee farmers, for example, governance and credibility are two very important factors, as coffee co-operatives have a history of bad governance and debt forgiveness. The variables are weighted before they are put into a model which gives a producer group a credit rating from A to D. This serves as an input for the bank's due diligence, which then allows the bank to concentrate on analysing systematic risks (see box).

**Pieces of the puzzle** Certification schemes (in for example coffee, tea and cacao) have helped make whole sectors more transparent, efficient and sustainable, and have brought clear benefits to farmers. Although our work does not intend to be a certification scheme, we think it can lead to the same dynamics and benefits.

Of course, our methodology is only a small part of the puzzle which has to be in place to overcome the financing gap. Change has to come from different sources. Governments can help create a stable context for agriculture. They are responsible for providing the necessary infrastructure (roads, telecommunications) and can regulate and prevent market distortions. Non-governmental organisations have played, and continue to play, an important role in training and extension activities.

However, the major drivers of change have to come from the agricultural and financial sectors themselves. While the model can be a driver in making farmers more "bankable", it is clear that banks have to become more farmer-friendly. They need encouragement and support in this. Encouragement can come from a first-loss structure, which can compensate banks in case of defaults. A fund to subsidise the initial profiling of farmers also seems necessary. Both schemes are currently being set up by the independent consultancy firm Agri Finance Program Management & Consultancy. These schemes are expected to help this model spread, helping more and more farmers get access to credit – and with it, get higher yields.

Jaime ter Linden is program manager at ForeFinance. He has worked in the financial sector for many years as an analyst and portfolio manager. E-mail: [jaime.ter.linden@forefinance.nl](mailto:jaime.ter.linden@forefinance.nl). For more information about ForeFinance, see [www.newforesight.nl/page/forefinance](http://www.newforesight.nl/page/forefinance).

## Systematic risks

In agricultural finance, banks often consider the systematic risks to be the most important ones. These are the risks that are inherent to a whole sector and/or a whole region, such as weather risks, biological risks or price risks. If drought, flooding or a pest outbreak hits a region, it will affect most of the farmers. If prices are going down, all the farmers will be paid less for their products. One of the core strategies of a bank is to diversify their investments, in order to reduce these risks. (This is another reason why banks prefer to stay out of agricultural finance, as the sector is replete with systematic risks.)

Due to their nature, systematic risks are difficult for individual farmers to manage. However, there are risk management strategies which can – at least – mitigate against their effect. Drought can be managed or mitigated by crop diversification (not all crops are equally sensitive), irrigation or insurance. Price risks can be managed by storage facilities (helping farmers wait for better prices). Putting these strategies into practice is a clear indicator of good management and reduces systematic risk.



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## Call for feedback on learning about cropping systems

The interim version of the third module of the Learning AgriCultures series for educators (Cropping systems) will soon be available. This looks at different aspects of small-scale farmers' systems, and how to sustainably intensify them. You can download Module 3 by clicking on the "learning" button on ileia's website. We would very much welcome your feedback (via the survey form) on the content of this module.

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## September issue: Water and sustainable agriculture

Water is a scarce resource, and according to all estimates it will be even scarcer in the future. Water and agriculture are intricately linked: agriculture needs water, but can also help in making more water available; through regenerating water tables, for example. Farming Matters will explore the various aspects of water and agriculture in its September issue. In advance of this, the Theme Info Packs on our website ([www.ileia.org](http://www.ileia.org)) already offer resources on this theme. We invite you to help us expand them, by sending us links to books, websites or other resources which we could add.

If you are interested in this topic, we also suggest you also visit our blog (<http://familyfarming.typepad.com>), which will feature regular contributions on water

related issues. If you are not a subscriber, but would like to receive the September issue, see the offer for a free issue on page 31.



Photo: Bernard Keraita

# Should farmers get paid for providing ecosystem services?



Farmers' fields make up 40 percent of the earth's land mass and thus play a key role in conserving the world's biodiversity. Farmers work hard with limited resources to feed a growing world population. The FAO says biodiversity is our best ally in the fight against hunger and that farmers are the first line of defence in conserving biodiversity. Yet this must also be a shared responsibility, and governments have to play a supporting role by encouraging the development of farmer-driven local programmes, putting mechanisms in place to provide ecosystem services. For example, in most developed countries farmers are paid to establish biodiversity corridors. There is a need to establish similar mechanisms in developing countries, adapted to the specific characteristics of each location. Some fringe farmers' groups

suggest that farmers in developing countries are against ecosystem services in Western countries as this is an unfair form of competition. This could not be farther from the truth. Farmers' organisations in developing countries want their governments to establish similar programmes in their own countries. They want their governments to devote at least 10 percent of national expenditures to agriculture, as they promised in 2003 when they signed the Maputo Declaration. To date, only eight countries in Africa have made good progress towards this target. So long as ecosystem service payments are not coupled to specific commodities, they are not trade distorting.

Farming has an enormous potential for mitigating against climate change through carbon sequestration. According to the Intergovernmental Panel on Climate Change, agriculture's sequestration potential largely exceeds the emissions coming from farming, and 70 percent of this mitigation potential can be realised in developing countries

through sustainable agricultural practices such as organic farming, agro-forestry, the production of renewable energies (such as biogas) and sustainable livestock management. Similarly, farming can play a role in maintaining water quality through watershed management. There are numerous concrete examples.

Such sustainable practices that benefit society as a whole come at a cost that is not always compensated by direct benefits. Farmers' organisations have to work hard to get the entire international community to acknowledge this potential and the efforts required. Farmers can provide ecosystem services if they are provided with adequate incentives and the resources to do so. That is why IFAP encourages co-ordinated global policies, for more widespread programmes that support farmers in providing ecosystem services.

Neil Sorensen, Communications Coordinator, International Federation of Agricultural Producers (IFAP), [neil.sorensen@ifap.org](mailto:neil.sorensen@ifap.org).

**“Farmers need incentives to conserve biodiversity”**



The International Year of Biodiversity gives us a good opportunity look at agriculture's relation with biodiversity. One proposed mechanism to stimulate environmentally friendly farming is PES, or Payments for Environmental Services. Can PES help conserve biodiversity? How can such a mechanism be implemented? Join the debate at [www.ileia.org](http://www.ileia.org) → Open Forum.



The vast socio-economic and cultural diversity of farming communities has created an enormous diversity of crop varieties and livestock breeds. Traditional farming is a form of *in situ* conservation that complements *ex situ* conservation in gene banks and zoos and botanical gardens. Over the last century, farmers have increased their grip on agricultural systems, moving from diverse agro-ecosystems to specialised agro-industry by using external (often subsidised) inputs and high yielding varieties. Monocultures yield more “direct use” products and are more profitable, which makes them attractive from a private perspective. Yet, specialised agriculture yields less services with a “public use” value, like water and soil conservation, and “future option” values, such as biodiversity. This should concern society as a whole, and clear social choices need

to be made over the extent to which agriculture should focus on productivity for direct use, in order to prevent private benefits prevailing over public interest, and public services being lost.

Society cannot expect farmers to maintain that diversity if doing so is against their direct interests. Governments need to provide enabling policies and incentives to promote conservation. Dryland and mountain farmers, as well as hobby farmers, prefer local crop varieties and livestock breeds, and in so doing safeguard public good values. In humid and temperate areas, farmers are more likely to abandon traditional varieties and breeds, and they need support to keep them. This brings us to a financing mechanism, a form of PES to maintain diversity in varieties and breeds: Payment for Agrobiodiversity Conservation Services, or PACS. The first question is: who will “buy” PACS? It is difficult to identify the equivalents of “downstream” users of PES who will be willing to compensate “upstream” farmers and carbon emission buyers. Other payment mechanisms are

imaginable. Governments could reduce agricultural subsidies that have negative consequences for agro-biodiversity, or include agro-biodiversity within biodiversity conservation programmes; while consumers could buy niche market products, effectively becoming service purchasers.

Reward mechanisms might be individual or community-based, in the form of money, recognition, training, or infrastructure. They could, for example, support traditional knowledge systems. As poorer farmers are less likely to convert away from traditional systems, PACS schemes will tend to support equity and poverty alleviation goals. Their impact is still unknown, as is its influence on local communities. Bioversity International is currently carrying out a series of case studies in India, Peru and Bolivia to evaluate these impacts, help develop effective instruments and suggest supportive policy measures.

Adam Drucker, senior economist, Bioversity International, [a.drucker@cgiar.org](mailto:a.drucker@cgiar.org)

“Society cannot expect farmers to maintain diversity if doing so is against their direct interests”

A photograph of an elderly man with a weathered face and a small white beard, wearing a patterned cap and a dark shawl. He is standing in a field of green plants, possibly cotton, with trees in the background. The text 'Trade Finance' is overlaid in large white letters.

# Trade Finance

Money when it is needed

## Finance is a key for maintaining committed trading relationships. Value Chain Finance helps farmers' organisations bridge the "payment gap" between harvest and export.

Text: Koert Jansen

**R**ecent and expected future growth rates for both the organic and fair trade markets reflect a growing consumer awareness of global trade issues and a wish to consume sustainably, along ethical and environmental lines. In both Europe and the United States, market demand exceeds supply for many products, such as sugar, coffee and cocoa, and there is growing demand for imports of these products from Latin America, Asia and Africa. However, not all suppliers/farmers in these regions are able to fully grasp these market opportunities, in particular due to lack of access to (trade) finance.

### Long-term partnerships

To tackle these challenges farmers need the support of committed buyers. Buyers in the organic and fair trade markets are, generally, committed to enter into a long-term and sustainable trading partnership with local companies.

The single most important precondition for building this partnership is timely payment to the farmers, upon delivery of their produce. This means that farmers don't experience (often lengthy) delays in receiving payments. While Fair Trade and/or organic systems generally pay higher prices, farmers' co-operatives generally lack the cash needed to bridge the period between sourcing the harvest and receiving payment from their buyers, and cannot immediately pay farmers from their own resources. This is where the need for pre-finance arises, which is a key instrument for building sustainable trading partnerships.

In most developing countries, agricultural lending is perceived as high risk and the banking system tends to avoid it. Where agricultural lending does exist, banks often require excessive hard collateral such as

land and buildings. Farmer co-operatives generally do not have enough assets to raise the finance they need, especially during the cash-intensive harvest season. Value Chain Finance differs from traditional agricultural lending: instead of relying on hard collateral, it relies on strong and committed value chains. Sales contracts with solid and reputed buyers are actually more valuable than the expected sale value of a building. When the sales revenues from such contracts are flowing into accounts held by the bank financing the co-operative, this adds another level of security. Over the past ten years, this type of lending has been successfully pioneered by a few national and international financial institutions. Triodos Bank, together with Root Capita and Shared Interest, has been among the leading pioneers in this field. The evidence shows that Value Chain Financing can be done at an acceptable level of risk. The average annual loss rate on Triodos' trade finance portfolio over the last five years was less than one percent. The few other players in this field have similar experiences.

### Trade finance: How it works

To illustrate how trade finance works, let's go to the Meatu district in the northwest of Tanzania, the country's main cotton-growing region. In this district 2,000 cotton growers cultivate 11,000 hectares of certified organic cotton, producing around 8,000 tons of seed cotton a year for BioRe Tanzania, Africa's leading exporter of organically certified cotton lint. This chain is co-ordinated by Remei AG, a Swiss firm that produces and markets organically grown textiles. The garments are sold in supermarkets and fashion outlets in Switzerland and other European countries. The cotton farmers have very little capital. Cotton is their only cash crop, so they urgently need money when it is harvested. If BioRe doesn't pay in cash, the

**For farmers like this one in Burkina Faso, cotton is often the only source of income, so they urgently need money once it is harvested. Cotton buyers need a ready amount of cash to pay these farmers, but banks are reluctant to provide them with loans, and therefore make a lot of demands. Simpler lending mechanisms would make their lives – and that of farmers – much easier.** Photo: Mans Lanting





**The potential of microfinance is becoming more and more evident.** Photo: Folkert Rinkema

farmers might sell their crop to other buyers – even if at a lower price. In 2008, BioRe Tanzania needed US\$ 3.5 million in cash to pay its contract farmers. BioRe Tanzania requested loans from several Tanzanian banks, but they required mounds of documents, safeguards such as the firm's office and training centre as collateral, and personal guarantees from the managers of BioRe Tanzania and Remei AG. Many banks see that exporting cotton is a risky business, with several factors affecting an exporter's capacity to repay a bank loan, including climate (risk of drought), price fluctuations on the world market, and also currency risks (BioRe Tanzania buys seed cotton in Tanzanian shillings and sells lint in US

dollars). These factors mean that many banks are reluctant to provide loans to cotton exporters. Swiss Remei AG made contact with Triodos Sustainable Trade Fund, one of the special purpose funds of Triodos Bank, the leading values-driven bank in Europe. This fund offers simple and straightforward trade finance loans. Triodos Sustainable Trade Fund agreed to pre-finance up to 60 percent of the contract between BioRe Tanzania and Remei AG. The start of the loan period commences with the start of the cotton harvesting season and can continue until the last shipment of cotton has left Dar-es-Salam harbour. A central element of the loan is that all payments on the contract go through a Triodos Bank account in the Netherlands, and Triodos Sustainable Trade Fund withholds part of each payment until the loan is paid off. This continues throughout the sales period, so that the loan is fully repaid by the time all the cotton has been sold. Triodos' willingness to finance this organic cotton chain is based on the strong relationship that exists between Remei AG and BioRe Tanzania. This, in turn, is based on proven up and down stream relationships: between BioRe Tanzania, the ginnery and the farmers of Meatu district, and between Swiss Remei AG, the firms that spin the yarn and turn it into cloth, and the retailers. The only document underpinning the loan is the sales contract between BioRe Tanzania and Remei AG, specifying the amount and price of lint to be sold. Triodos' loan is not based on securities, but on trust that the cotton lint will be produced and sold, and that it will generate sufficient profit to repay the loan. In financial jargon, the loan is based on cash flow projections, rather than securities from assets. The repayment agreement confirms the partnership between three mutually dependent organisations, which provides the basis for successful export financing.

### Promising market

The question arises: why are only a few international players prepared to take up this role as financier? What about local banks? A parallel can be drawn with the development of the microfinance sector. Triodos started financing microfinance institutions

## Triodos Sustainable Trade Fund – Who is it for?

Triodos Sustainable Trade Fund lends to agricultural exporter organisations working with smallholder farmers located in Africa, Latin America or (Central) Asia. Organisations need to be dedicated to organic production and/or Fair Trade principles. Furthermore, they need to be financially and commercially sustainable, have access to export markets for commodities or related products, and a minimum annual turnover of € 400,000. For more information go to: [www.triodos.com/sustainabletrade](http://www.triodos.com/sustainabletrade), or email [sustainabletrade@triodos.nl](mailto:sustainabletrade@triodos.nl).

in developing countries in 1994 when it launched two specialised microfinance funds. At that time Triodos was one of the few players in the world to offer this type of investment service. The number of international investors has since increased rapidly – especially in recent years as an increasing number of microfinance institutions have become financially sustainable. The most important development, however, has been that mainstream local banks have learned to appreciate the microfinance sector as a promising market with large business potential and acceptable risk levels. In most developing countries, the sector is now recognised as having the potential to uplift the socio-economic development of hundreds of thousands or millions of individuals. Some microfinance institutions conduct a significant part of their activities in rural areas, which means that farmers can benefit from the financial services, ranging from credit facilities and savings accounts to payment services and micro-insurance. In many countries, microfinance institutions have a special status and are supervised by the central banks. Triodos is convinced that Value Chain Finance can go through the same development phases as the microfinance sector. A very important key factor in this is the further professionalisation of suppliers (including farmers' co-operatives) in developing countries. Currently, not all suppliers are able to fully grasp the market opportunity due to a lack of management capacity, commercial skills and the ability to meet end buyers' quality requirements. Very often they have no solid financial reporting system. With substantial further professionalisation at the bottom of agricultural value chains, Triodos expects that more financial institutions will start providing Value Chain Finance, especially in commodities like coffee and cotton. Their risk perception will change as they become aware that providing finance to organisations without fixed assets can still be pretty good business.

Over the last seven to eight years, Triodos has had a loan loss of less than one percent, calculated over disbursements per year. That is far less than what many would expect. We think, and hope, that this will encourage other players in the financial sector to follow suit.

Koert Jansen is Fund Manager at the Triodos Sustainable Trade Fund, e-mail: [koert.jansen@triodos.nl](mailto:koert.jansen@triodos.nl)

## Further reading

The case of the Meatu district is described in more detail in "Value Chain Finance: Beyond microfinance for rural entrepreneurs", a publication from the Royal Tropical Institute ([www.kit.nl](http://www.kit.nl)) and the International Institute of Rural Reconstruction ([www.iirr.org](http://www.iirr.org)).

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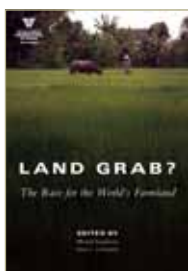
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## **Adding value to livestock diversity: Marketing to promote local breeds and improve livelihoods**

**Evelyn Mathias (ed.), 2010. LPP and LIFE Network / FAO, 142 pages.**

Many livestock breeds found all over the world, such as Bactrian camels in Mongolia, or Umzimvubu goats in South Africa, are specifically adapted to local conditions. They survive under harsh weather conditions, are better able to resist diseases or to reproduce when food is scarce. But in spite of these advantages these local breeds are at risk of extinction as a result of an increasing preference for “modern” breeds. Finding niche markets for their products may be one way to avoid this fate. This book looks in detail at these two cases, together with six others, identifying the main advantages and challenges of niche markets.



## **Land grab? The race for the world's farmland**

**Michael Kugelman and Susan L. Levenstein (eds.), 2009. Woodrow Wilson International Center for Scholars, 123 pages.**

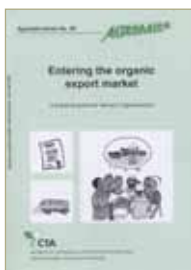
The lease of large areas of land in poor countries is very much in the news today. This process, however, is not really new: in Latin America in the 19th century the same processes led to the emergence of the original “banana republics” – with very negative social and environmental results. As the contributors to this publication show, the consequences today may be even bigger. This collection of essays looks at the implications of these new deals in terms of food security and poverty alleviation (especially when small-scale farmers and the rural population have no voice in the deals), and at the pros and cons of a suggested code of conduct for all parties covering issues such as local land tenure and uses.



## **Realising REDD+: National strategy and policy options**

**Arild Angelsen (ed.), 2009. Center for International Forestry Research, CIFOR, 390 pages.**

Deforestation and changes in land use account for up to 20 percent of all greenhouse gas emissions. The idea of “rewarding” governments, companies, forest owners and users in the south for keeping and maintaining their forests would seem a logical step for any post-Kyoto agreement. Current discussions now focus on REDD+, a strategy that considers forest management and different approaches to enhance forest carbon stocks, which it is hoped might prove effective. But many details remain. Who owns the forests? And what institutions are required in order to make this work? This book aims at helping those interested in making such a system operational: looking at the “institutional architecture” which is needed and at policies and how these, via incentives or regulations, could help increase forest conservation.

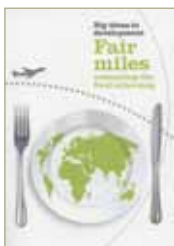


## **Entering the organic market: A practical guide for farmers' organisations**

**Freek Jan Koekoek, Marg Leijdens and Gerbert Rieks, 2010. Agrodok 48, Agromisa, 88 pages.**

In spite of the world's economic crisis, global demand for organic products has continued to grow during the last two years. More and more organic farmers are benefiting from selling their products in international markets and many more are expected to join them. This is an easy-to-read and complete guide for those interested in exporting organic products. It draws on the experience of the EPOPA programme, which ran from 1997 to 2008 and benefited more than one hundred thousand farmers from Uganda and Tanzania. The booklet first gives an overview of the organic market and the importance of the certification process. This is followed by describing the steps involved in making a business strategy: a feasibility study, risk analysis, marketing, planning and evaluations.





## Fair miles: Recharting the food miles map

Kelly Rae Chi, James MacGregor and Richard King, 2010. *Big ideas in development series*, IIED, 44 pages.

In this short, concise and beautifully presented booklet, IIED and Oxfam GB look at “food miles”, a much discussed concept in recent years. The constant increase in food trade between developed and developing countries is often seen as an important source of greenhouse gases and as contributing to climate change. The authors dispel this perception somewhat, showing that transportation is only responsible for 10 percent of all emissions associated with the UK’s food chains. It also argues against the idea that locally produced foods are necessarily better in terms of global warming, since they often require more energy to grow. Equally, the term “local” can be misleading, if most inputs come from developing countries.



## Trade, climate change and sustainable development: Key issues for small states, least developed countries and vulnerable economies

Moustapha Kamal Gueye et al. (eds.), 2009. *Commonwealth Secretariat*, 180 pages.

Some argue that increasing international trade can help to mitigate the effects of climate change. But is this true for the least developed countries? Or are these countries facing additional difficulties as a result of actions being taken against climate change? Although this book was finished before the Copenhagen conference at the end of last year, it addresses these questions in detail, looking at the opportunities and the main challenges which these countries face (and at the difficulty with issues such as “food miles”, which could easily become a hidden trade barrier). The different chapters cover issues such as energy efficiency and competitiveness in the global markets, showing the importance of resilience and diversification in all economic sectors – including agriculture.

## More on agricultural and rural finance

A lot of interesting information on this issue is found online. Among these, readers can visit the sites of Microfinance Focus, the Rural Finance Network, the Microfinance Gateway, the Finance Alliance for Sustainable Trade, and of the Rural Finance Learning Centre. These websites include articles, documents, general information and also news items. The list of documents which can be downloaded includes “The missing middle in agricultural finance” (Alan Doran, Ntongi McFadyen, and Robert Vogel, Oxfam, 2009). This presents a thorough analysis of the needs of small- and medium-

sized enterprises, and of the challenges in supporting them. Although a few years old, two IFAD publications are also very relevant: “Managing risks and designing products for agricultural microfinance” and “Emerging lessons in agricultural microfinance”. A very complete (and recent) publication is “Expanding the frontier in rural microfinance”, edited by Maria Pagura (Practical Action and FAO). Drawing on 12 case studies, it gives a very complete overview, showing the many different strategies followed in the field. More specific documents include “Value chain finance” (KIT, 2010), “Assessing



the role of microfinance in fostering adaptation to climate change” (Agrawala Shardul and Maëlis Carraro, OECD, 2010), and “Gender and rural microfinance” (Linda Mayoux and Maria Hartl, 2009). Finally, readers may also be interested in visiting the sites of microfinance organisations like Oikocredit, Triodos or the Grameen Bank.

# Documentation and organisational scaling up

Wirsiy Eric Fondzenyuy works for CENDEP, the Centre for Nursery Development and Eru Propagation, in Cameroon. At the end of last year he contacted ileia, wanting to share the results of their documentation efforts. This is part of their story.

**C**ENDEP was set up in 1999 as a farmer group, with the mission of assisting and training farmers in the sustainable production and marketing of Non Timber Forest Products. We work in the Northwest and Southwest regions of Cameroon, focusing partly, but not exclusively, on the domestication of eru (*Gnetum* spp.), a forest vegetable with high economic and social importance, and on developing a value chain for it.



Photo: CENDEP

## A short documentation process

A couple of years ago we received the manual “Learning from experience” from ileia, together with LEISA Magazine (as Farming Matters was then called). Interested in sharing the lessons we had learned from our work, we used this booklet to develop a set of guidelines for a documentation process and began documenting our work in September 2009. We orga-

nised meetings with all our stakeholders and collected a lot of information. We used different indicators for our analysis, such as access to financial resources or the interest of participants, and also carried out a SWOT analysis. Some aspects of the process were not easy, but we were soon able to draft a first document in which we identified some of the factors that have contributed to the success of our project, and also the main difficulties we experienced. We feel it reflects what we have learned about our work.

This was our first attempt in documenting our project experiences. We started it because we wanted to make our work visible. As part of our “organisational scaling up” (as mentioned in the first issue of Farming Matters) we wanted to increase the capacity of our staff in documentation (learning by doing) without having to interrupt our activities in the field. We were also hoping to get advice from an organisation like ileia. Finally we thought this could arouse interest from donors to support the further implementation of our project. So we are now using the results of this work as a fundraising tool.

We strongly believe that it is useless to document an experience if the final product will stay on the shelves or in computers in an office. We therefore plan to share the final result with the organisations that we collaborate with in the field, as well as with other individuals and institutions who show interest in our work. This is an important lobbying tool for us and we are planning to make good use of it.

Wirsiy Eric Fondzenyuy ([wirsiyef@yahoo.com](mailto:wirsiyef@yahoo.com)), Monitoring and Evaluation Officer, CENDEP. P.O. Box 742, Limbe, Cameroon. More information can be found on CENDEP’s website ([www.cendep.org](http://www.cendep.org)) and also on the documentation section of our site, where we have included two full PDF articles showing the work of CENDEP and the process they have gone through.



## Rural Finance

What exactly is microfinance and how does it work? How can you make a budget and why is it important to save? How can you set up a farmers' cooperative, village bank or self-help group? The Rural Finance Learning Centre helps you to find answers to these questions.

Text: Mundie Salm Illustration: Fred Geven

“A lot of valuable training materials about rural finance are already out there, so instead of re-inventing the wheel, we bring together resources from around the world into one site,” explains Ake Olofsson, Rural Finance Officer at the FAO. Olofsson is also one of the editors of the Rural Finance Learning Centre (RFLC) website. Going beyond simply offering publications, the RFLC gives people direct access to practical tools to learn and teach about finance issues. It includes downloadable modules to help trainers give short courses, as well as self-study and online interactive lessons on topics relating to microfinance, agricultural finance, savings and enterprise development. Videos with examples from developing countries help bring the issues alive. Other tools include handouts and presentations, as well as ideas for group games to learn about accounting or setting up a business in a rural setting. According to Olofsson, “it is not easy to find good material and we rely on outside people, including subscribers to the site, to suggest resources. Where needed, we improve their format and fill in the gaps with new material.”

The site is a learning resource and can always benefit from more feedback and discussion, something that Olofsson welcomes. While the RFLC is set up to encourage the provision of better financial services it does give a balanced view, providing access to publications and lessons that look critically at the

limits of microfinance in meeting the needs of the poorest, and other specific social concerns.

The site is user friendly and most of its resources are free and easily downloadable. Many materials are available in English, Spanish and French. For those with weaker Internet connections, most pages are also viewable in a low bandwidth format. However, some resources, such as the online lessons need a fast connection to work properly. Also, the videos can be viewed with one kind of media player only.

Some of these problems will be solved in the near future as the site is about to be updated. And for those without internet access “we have been thinking of making a CD-ROM available”, says Ake Olofsson. ■

### Rural Finance Learning Centre

The Rural Finance Learning Centre can be found at [www.ruralfinance.org](http://www.ruralfinance.org), or contacted via e-mail: [rflc@fao.org](mailto:rflc@fao.org). The RFLC is a joint initiative of the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the World Bank and the German Technical Cooperation (GTZ).





# Thinking beyond credit

Credit is often seen as an indispensable vehicle for the poor to get out of poverty, or as the tool that allows farmers to get access to new technologies, to increase productivity and their incomes. But many existing credit programmes often undermine farmers' independence, tie them into dependency relationships, and oblige them to take all the risk. There are better ways to help farmers build their own resource base and independence.

Text and photos: Jan Douwe van der Ploeg

**T**he need for credit plays a key role in many sad realities. Take for example Peru, where many smallholder households are never far from hunger despite having fields laying idle which could well be worked, providing food and additional income to the family. What is lacking is the money to provide seeds and fertiliser, hire a donkey or tractor to prepare the land and pay for the irrigation water. *No hay medios*, as they say in Peru. "We don't have the means." Credit really does seem to be part of the way out of such a situation, even though the combination of credit, highly volatile markets and a risky climate has ruined many farmers before. Many farmers have had to sell their resources to pay back previous loans and have outstanding debts that they cannot repay. For them credit is unobtainable as the banks consider them to be delinquents. Here we have one of the rural development dramas in a nutshell: credit got people into trouble, yet it is what they need to get out of trouble and they cannot obtain it anymore.

**Autonomy and freedom** Farming always requires a multi-faceted resource base. Alongside land, water, animals, seed, fertiliser, labour, knowledge, buildings, instruments and networks, farmers need working capital. Often, this working capital comes from the savings created during previous cycles of production. In fact, farming is not only about using these resources in order to produce. It is as much about the reproduction and development of this resource base. During the process of production, the resources are reproduced. Heifers are bred to be at least as productive as the cows they are replacing. The fertility of the soil needs to be maintained – and preferably improved. When harvesting potatoes, the seeds for next year need to be selected and put aside. All these resources carry the promise for good and hopefully better harvests in the future. This process of reproduction not only applies

to the material resources, but also to social resources, the labour force within the family (and/or the wider community), to networks and knowledge. It also applies to working capital.

The resource base available to farmers is the result of previous cycles. It has been created through the sturdy work and the dedication of the farming family. As the outcome of their own labour it represents autonomy (or independence, as farmers themselves often say). It avoids the need to enter into dependency relations with others. The means needed to produce are at hand. Slicher van Bath, the great agrarian historian, referred to this as "farmer's freedom". He argued that this was a double freedom. First, it is freedom from dependency and associated exploitation. There is no need to rent land from a big landowner and no need to get a loan from a local lender requiring high interest payment. But there is also freedom to farm in a way that corresponds with the interests and prospects of the farming family. Others cannot prescribe how the farmer should operate. Farmers themselves design the way they want to farm and to develop their farms. "Freedom from" and "freedom to" are indispensable ingredients of a prosperous farming sector.

The history of farming can be seen as a struggle for autonomy, a struggle that occurs within single farms, but also takes place at the level of farming communities and farmers' movements. Many co-operatives have grown out of such movements, including credit and savings co-operatives set up to address the credit issue.

**Dependency and survival** The historically created and autonomous resource base is being threatened in many parts of the world. The squeeze on agriculture (increasing costs together with stagnating or even decreasing output prices), the urban bias in state policies and technological models that imply many external inputs, have all contributed to eroding the self-governed resource base. Where



# “Credit often closely ties farming practices to the agro-industrial logic and the needs of the agro-industry”

once autonomy was central, there is now a wide and dense network of dependency relations on the input-side of the farm. These add to the dependency relations on the output-side of the farming. Very often, the former are considerably tightening the latter. Dependency on the capital market is a typical example. Credit obtained from banks often links farms closely to agro-industrial groups. Agricultural co-operatives and individual smallholders in Peru, for instance, received loans from the Banco Agrario in the form of “permissions for withdrawal” which they could only use at the large agro-commercial companies to access prescribed seeds and agro-chemicals. There was no possibility to use the credit in an alternative way for, say, cattle or fruit trees. These loans came with strings that specified which crops had to be grown, in what way and, especially, to whom they had to be sold. Thus, the credit mechanism closely tied farmers to the logic and needs of agro-industry. Through such tied credit the “freedom to” is nearly completely lost. There are considerable differences between farms, regions and countries in the balance between

autonomy and dependency. In some countries farmers and their institutions have far more autonomy over their resources. In many other countries, poor market conditions and adverse rural and agrarian policies have impoverished farmers and eroded their resource base. Despite this, some farms have been able to maintain – or to reconstruct – a strong resource base, often by minimising the use of external inputs and avoiding high financial burdens. The relevance of this strategy of “farming economically” becomes more evident in times of crisis, as these relatively autonomous farms are better placed to survive the difficult times.

**Alternative mechanisms** But what is to be done when, for whatever reason, farm households get into trouble? Let us first scrutinise the different mechanisms that might be employed. At the level of the single farm there is a wide array of potential solutions. Informal credit (often between different farmers, where one of them contributes land and labour and the other the required capital), saving groups (such as *tontines* in several African



“Autonomous” farms are far better placed to cope with difficult times



countries) and social networks (for mutual help) are the first category. Co-operation and an equal distribution of risks are important features of these strategies. This is in stark contrast with the unequal risk distribution entailed in formal credit. Secondly, there are mechanisms like multiple job holding (very important in Chinese agriculture), and temporary transnational migration (very important in considerable parts of Latin America and Eastern Europe, but also, not that long ago, in countries like Portugal). These mechanisms allow farmers to earn an income that they subsequently invest in their agricultural activities. In this way farmers construct their own working capital. Thirdly, there are new mechanisms based upon creating new economic activities within the farm (such as on-farm processing, direct marketing, agro-tourism, energy production, etc.) that can generate a considerable cash-flow and

now increasingly linked to local small-scale farmers. At least 30 percent of the food purchased for these schemes has to be acquired locally from small-scale producers. This provides an enormous stimulus for farmers. Access to this newly created “market” means that they can considerably improve their livelihoods and build savings that subsequently help to improve their farming. The supply of school meals, rather than relying on supermarkets and/or large corporate farms, has been linked into an attractive and highly effective programme to strengthen the resource base of small-scale farmers.

**The agenda** An autonomous base of self-controlled resources is essential for agricultural growth and the emancipation of the peasantry. However, the creation (or recovery) of such an autonomous resource base is hardly possible through



**All over the world, farmers are showing that there are alternative mechanisms to a tied credit**

reduce the need for credit. The problem, though, is that considerable working capital is often needed to start up such new activities. But sometimes a step-by-step development is possible.

At the regional level, social movements may help considerably. The agro-ecological movement in Latin America for example, helps farmers to change to farm practices that require far less external inputs, and this may help to reduce dependency on capital markets. The same movements may also help to change rural and agrarian policies. The delivery of microcredit is another example – it is especially relevant for rural women and the very poor.

National policies that favour agriculture can also considerably help to strengthen the autonomous resource base of farms. Often these policies are far more effective. Brazil’s recent experiences are exemplary. The programmes for public procurement (that includes the distribution of school meals) are

existing formal credit mechanisms. Of course, credit can be helpful, but only under some conditions. First, it needs to be part of a wider programme that aims at strengthening the resource base of farms. Second, it needs to be untied so as to allow farmers to use it in the way they deem appropriate. Thirdly, the implied risk needs to be equally shared. Reviews of successful experiments may well reveal additional criteria. Just as farmers design ways of farming that carry the promise of progress, new credit mechanisms that can help them are crucial.

Jan Douwe van der Ploeg is professor of rural sociology at Wageningen University, the Netherlands. His latest book, “New peasantries: Struggles for autonomy and sustainability in an era of empire and globalization” (Earthscan, London, 2009), has been translated into Spanish, Portuguese, Italian and Chinese. Jan Douwe van der Ploeg can be contacted at [jandouwe.vanderploeg@wur.nl](mailto:jandouwe.vanderploeg@wur.nl). He also has his own website: [www.jandouwevanderploeg.com](http://www.jandouwevanderploeg.com).

Many farmers, in the same way as the organisations that support them, are trying out innovative ways to secure the financial resources they need. These are only a few examples of the many interesting ideas and practices seen in the field.

## Better decision-making processes

**R**e-investment in the farm is a critical issue for the sustainability of any farming enterprise and for the enhancement of rural livelihoods. Farmers usually keep seeds of grains, legumes and cereals from their harvest for planting, or they sell their labour during the planting season in order to get paid with seeds which they can then plant. These efforts complement the formal or informal credit options which are sometimes available. But in villages like Katundulu, in Malawi, only nine percent of all households have access to credit. In contrast, many more receive coupons for subsidised fertilizer from the government. In some cases these credits are sold and the money then used for other needs. The Enabling Rural Innovation (ERI) programme, supported by the International Center for Tropical Agriculture, aims to help farmers make better decisions, and thus make better use of the limited credit available to them. Their



Photo: Mariam Mapila

approach is to work with local organisations, helping them access and generate market information which farmers can then use. Better decision making patterns lead to better

businesses. This, in turn, can lead to more credit options.

**Want to know more? Write to Mariam A.T.J. Mapila, at the Department of Agricultural Economics, Extension and Rural Development, University of Pretoria, South Africa. E-mail: maleytata@yahoo.com**

## More options through a strong organisation

**H**ow to help farmers get credit without actually providing it? The PROSAB project (Promoting Sustainable Agriculture in Borno State) in Nigeria, implemented by the International Institute of Tropical Agriculture, focuses on the important role which Community Based Organisations (CBOs) can play. CBOs are formal, legal entities, rooted or based in a specific community. This project has trained farmers in 30 communities in Borno State on how to form and register a CBO, and assisted them in the process of doing so. Over 200 CBOs were formed during the project's six years life span. Many



Photo: Muideen Salawu

succeeded in securing loans from NACRDB, the Nigerian Agricultural Cooperative and Rural Development Bank. Others developed a system to provide financial resources using the savings of their members (following the examples of savings and credit co-operatives from many countries). Members of these organisations were also encouraged to work together – for example, by jointly buying inputs, or by making these available to others, with interest. Nowadays, farmers in Borno not only show a strong savings culture (even providing part of their harvests in order to secure future credits); their organisations also give them a stronger bargaining power.

**Want to know more? Write to Kolawole Ogundari, formerly at the PROSAB project, IITA, Ibadan, Nigeria. E-mail: kolawole.ogundari@agr.uni-goettingen.de**

# England

## Diversification into tourism

**B**eechenhill Farm is a 37 ha organic dairy farm in the Peak District National Park, in the centre of England. Together with her family, Sue Prince has lived and worked there for 25 years. Although they have access to banks and mortgage corporations, their main source of finance comes from their own tourism business. At first they used a small bank loan to build two bed-and-breakfast rooms. Having repaid the loan, they used the profit from the B&B to convert an old stable into a romantic cottage for two. Later they converted the old milking barn into a cottage with wheelchair access. As a result, many tourists are able to stay at the farm, and enjoy the peace and the excellent local food. The income from this small business supports the farm and helps Sue and her family to continually improve the quality of the accommodation and services they provide. "Once we started the tourism business, alongside the farm, we didn't need to borrow any more money – except to finance large developments



Photos: Sue Prince

like building a house for our daughter and son-in-law. And we haven't had to change anything here to please the tourists: they come to stay because they want to see how we live and work."

**More information? Please write to Sue Prince by sending an e-mail to the editors, Farming Matters, at [ileia@ileia.org](mailto:ileia@ileia.org).**

# Brazil

## Broad-based revolving funds

**T**he north-eastern region of Brazil has an arid environment. For many decades, the authorities' response to the difficulties faced by farmers was to build large scale infrastructure, such as dams and reservoirs, which were seen as promoting agriculture. But this hardly benefited small-scale farmers. Since 1987, CAATINGA, a local NGO, has been promoting the dissemination and replication of locally specific solutions – in particular those which make the best of the little available water. As part of their approach they established



Photo: Sofia Naranjo

a revolving fund. Farmers who receive a loan pay it back either in money or in kind, and this is then "transferred" to another family. After several years, CAATINGA no longer works directly with families, but with local farmers' associations. This change has helped them become more efficient and has led to greater involvement of the population. The associations determine the interest rate and assess grant applications. Working through farmer associations has helped CAATINGA reach a much broader audience. At the moment, they are directly working with 39 associations in the state of Pernambuco, and the fund that serves these associations now totals more than 700,000 reals (or US\$ 400,000).

**Want to know more? Please write to Burguivól Alves de Souza ([burguivol@caatinga.org.br](mailto:burguivol@caatinga.org.br)) or to Giovanna Henrique Satiro Xenofonte ([giovanna@caatinga.org.br](mailto:giovanna@caatinga.org.br)), at CAATINGA**



# Partnerships for learning



Photo: Joshua Spetter

Farmers learn continuously; they carry out experiments and regularly develop new ways of farming. In many cases, they are supported by projects or programmes that seek to enhance this learning. But farmers and extensionists are not the only players in the field. Researchers and policy makers also play a key role, as do farmers'

organisations, traders, multinationals and banks. In one way or another, their involvement shapes the decisions that farmers take. To what extent do these different stakeholders work together? And, does this increase learning?

The hunger experienced by many people in the world, and the likelihood that their numbers are bound to increase further due to climate change, gives a sense of urgency to the need to involve different voices in developing a more sustainable approach to farming. The December issue of *Farming Matters* will focus on how all these different stakeholders are learning to work together to make agriculture more sustainable, by developing new ideas and solutions or disseminating them. We want to explore how different stakeholders deal with difficulties, which might be related to a lack of funds or power issues, and whether by working together they are able to find solutions which lead to better farm practices.

We welcome your suggestions for articles, articles themselves, photographs, contacts of people you think have expertise in this area or ideas for topics you feel we need to address. Please write to **Jorge Chavez-Tafur**, editor, ([j.chavez-tafur@ileia.org](mailto:j.chavez-tafur@ileia.org)) before August 15th, 2010.

## On our website

Olivier De Schutter, special rapporteur on the right to food for the United Nations, has presented a review on the progress made by a number of countries in implementing the human right to food at national level. The review highlights concrete examples of initiatives recently taken by countries such as South Africa, Brazil, Mozambique, India or Nepal.

The March issue of *Farming Matters* featured an interview with Olivier De Schutter, in which he

states, among other things, that large agribusiness corporations exercise a disproportionate influence on governments. To view De Schutter's review, his other reports, and the interview with *Farming Matters*, visit our website, [www.ileia.org](http://www.ileia.org). It keeps you updated on events, vacancies and the latest publications, such as the recently published report "(Mis)investment in agriculture", by the Oakland Institute, on the role of the World Bank in facilitating land grabs.

Twenty years of Earth Summits and numerous dialogues of the Convention on Biological Diversity have done little to improve the situation of local communities that depend upon natural resources, or of the disadvantaged people living in abject poverty in biodiversity-rich regions. In 1990 I wrote a paper, "Why does poverty persist in regions of high biodiversity?" Since then much more evidence has emerged to show that the regions with the most malnourished children almost completely overlap with the biodiversity-rich regions. How can we justify the billions of dollars that have been spent on inter-governmental panels with practically no change in the rights of, and opportunities for, these people? National governments and civil society must bear some responsibility for this situation and for changing it. I propose a few policy changes to make a small dent on the situation.

Every scholar, company or state agency collecting knowledge and/or resources from a local region must be obliged to share the findings, and the use they have put that knowledge to, with the local knowledge and resource providers. The default condition must be an acknowledgement of every substantive personal communication used in publications and/or product or service development. To date there has not been a very good record of benefit-sharing. Most companies using resources from tribal regions share hardly any benefit with the tribal communities, either in terms of knowledge, monetary or other material benefits, capacity building, etc.

An internationally co-ordinated research programme must be mounted to add value to local brews, local grains and other foods, many of which can provide a valuable source of nutraceuticals. Such an investment would pay for itself very quickly, and would have a strong poverty reducing effect. For instance, opuntia fruit provides a wonderful purple dye and a single cup of a drink based on it can provide half of the daily iron requirement of a person. The cactus from which this fruit comes is collected by the very poorest people because of the discomfort in harvesting the fruits. The genebanks worldwide lack such information.

We can all monitor our consumption patterns and identify the scope for using products and services provided by disadvantaged people in high risk environments. This is the only way we can connect our lives to theirs in a positive manner. Without doing so, peace and sustainability are out of question. The increasing recourse to violence by disaffected tribal people should make us realize the urgency of the current situation. Can the UN and other bodies not regularly disseminate precise indicators and information about how consumption in everyday life can be switched so that it supports biodiversity conservation?

**Professor Anil Gupta** teaches innovation management at the Indian Institute of Management in Ahmedabad. He is the founder of the Honey Bee Network ([www.sristi.org](http://www.sristi.org)), which collects and disseminates traditional knowledge and helps facilitate grassroots innovation.



# From rhetoric to reality

# Helping farmers deal with disaster

Farmers need more than loans to sustain their business. Micro-insurance can help farmers avoid falling into poverty traps because of disasters.

Text and photo: Thomas Loster

**W**hen farmers in, for example, Africa experience a severe drought that kills livestock, and harms family members, they are often left with no livestock and no yield. In the most extreme cases this may trigger (international) aid programmes. However, the processes of risk and loss assessment are often cumbersome and bureaucratic, involving a lot of paperwork and data processing. It can take many months, sometimes more than a year, before any compensation makes its way to the farmers to enable them to rebuild their lives. In many cases, it arrives too late.

In 2006 the World Food Program piloted a pioneering insurance scheme in Ethiopia to enable farmers to insure themselves against heavy drought. The scheme takes the most severe drought years of the past as a baseline. If indicators show a historically extreme drought is coming, money is immediately paid out, before the crisis arises and there is a shortfall in yields. This is not a difficult assessment to make; it just involves looking at weather data. In Ethiopia the rains between March and October are the trigger period. If there is no rain in early in the year, then it is clear that there will be not enough yields in autumn. This

triggers the insurance mechanism, before nature takes its toll. Money flows immediately, allowing farmers to cope much better with the situation – before the drought creates tremendous problems. The money allows them to buy food or grains; families can survive, livestock can be better protected. This particular scheme in Ethiopia covered a few hundred thousand farmers, the sum insured was US\$ 7 million. This is the advantage of micro-insurance in a nutshell. Normally, when disasters occur, money may flow, but only after a long and complex assessment. Micro-insurance, in this case index insurance (insurance based on an external indicator, like weather patterns, which triggers a payment to all insured clients), can work even before a disaster strikes.

## Obstacles and promising concepts

In many countries in South America, Asia and Africa, micro-insurance products are difficult to establish for want of suitable or reliable data. It is also difficult to win people's trust and understanding for insurance schemes when they have not previously had experience with financial services. It is very difficult to explain that their premium payments are not savings.



Thankfully, there are now plans to remove such obstacles. Apart from the programme in Ethiopia, in recent years a number of new micro-insurance solutions have been devised to cover the risks of poor crop and livestock farmers in Asia and Africa. India, for example, has micro-insurance programmes under which farmers can insure their livestock. This provides a way of mitigating losses caused by catastrophic events. In Mongolia, where livestock farming is of major importance, livestock farmers have been able to cover themselves against adverse weather conditions since 2006. Premiums are low, and the scheme has been subsidised by the state and the World Bank. The scheme is doing fine

countries. Droughts are among the most destructive natural catastrophes, laying waste to entire regions. Year after year, millions are affected by this scourge, which if it does not destroy lives can destroy the will to live. Countries with poor harvests, or where they frequently fail completely, will face even bigger risks in future.

The African continent is particularly drought prone. In Ethiopia alone, droughts caused hundreds of thousands of deaths in the 1970s and 1980s, when millions were subjected to extensive periods of drought. Sudan, Malawi, Chad and Mozambique also struggle with extremely arid conditions. United Nations scientists believe that climate change will further aggravate these climatic extremes, and that



**Even if gradually, micro-insurance programmes are helping reduce vulnerability**

and developing. In the same way, tobacco and peanut farmers in Malawi have been able to insure themselves against lack of rainfall since 2006. Microloans for failed harvests are insured in this way, so that people can cope better when there is a drought.

These examples are early promising solutions. However, it is vitally important that the scope of these insurance products extends over several years (which implies building long term relationships), that the products are tailored to the needs of the people, and that there is a sufficiently broad geographical spread, so that the micro-insurance providers can deal with the costs and financial risks of such programmes.

**Micro-insurance and climate change** Micro-insurance is especially relevant when considering the effects of climate change. More irregular precipitation, more flash floods, more extreme droughts; all increase risks in the agricultural sector and affect farmers, particularly in developing

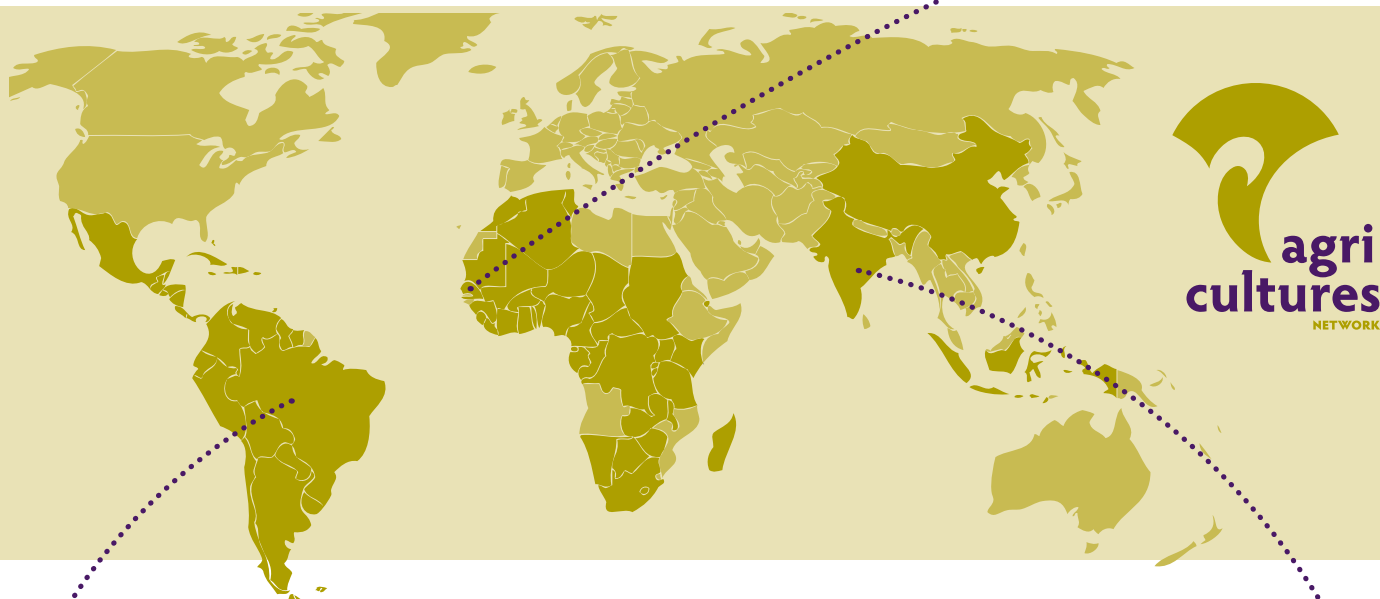
the number of people on the world's poorest continent affected by drought could soon exceed the 200 million mark.

Micro-insurance is but one adaptation strategy, and index products can provide an appropriate approach for working with poor communities. In the long term it could even open up future markets to the insurance industry, as well as offering farmers security and new opportunities.

Thomas Loster ([tloster@munichre-foundation.org](mailto:tloster@munichre-foundation.org)) is an insurance expert specialising in climate change and natural disaster. He is a geographer and chairman of the Munich Re Foundation.

### More Information

News and information about micro-insurance can be found online at [www.microinsurancenet.org](http://www.microinsurancenet.org) and also at [www.microinsurance.org](http://www.microinsurance.org). An international conference on micro-insurance, hosted by the Munich Re Foundation and the Micro-insurance Network, will take place in Manila, Philippines, from 9 to 11 November 2010.



In the International Year of Biodiversity one can't avoid the issue of genetically modified organisms (GMOs). What's going on in the world with GMOs? Our partners report.



Photo: Gabriel Bianconi

### **Gabriel Bianconi Fernandes, Brazil:** **"We are involved in a court case trying to stop GM maize"**

Gabriel Bianconi Fernandes works for AS-PTA, the Brazilian partner of the AgriCultures Network (and publisher of *Agriculturas*). He is an agronomist. He is also one of the country's leading experts on GMOs and is involved in the co-ordination of the national

campaign against GMOs. AS-PTA is currently engaged in a lawsuit, trying to stop GM maize from being grown in Brazil. "GM maize was introduced in Brazil in 2008. Until then, GM crops were mostly soy varieties – some 50 to 55 percent of soybeans grown in Brazil, amounting to some 10 million hectares, were transgenic. These seeds got mixed with conventional ones and contaminated the crops of conventional and organic farmers. With maize the situation is even worse, since cross pollination occurs when the pollen is carried, sometimes hundreds of metres, by the wind."

Farmers are concerned, as "transgenic maize cannot co-exist with regular maize. Once a seed is contaminated, it will start displaying GMO characteristics. Official regulations require a distance of a mere 20 metres of isolation, so contamination is a real threat." GMO crops are not an option for

AS-PTA, says Gabriel: "Until now, I haven't seen one GMO crop that has something to offer to farmers or consumers. Every seed is patented and this takes away the right of farmers to save their own seeds. We are talking about the future of farming and the future of food." AS-PTA is supporting actions by farmers to protect their seeds and crops. Locally, they try and track contamination. "We have meetings with local farmers' organisations, where we discuss local seeds and biodiversity. There is a quick test to check for contamination. We take this test to meetings where farmers exchange seeds. In this way, they learn about the issue and can safely exchange their seeds, without having to fear the spread of contaminated seeds."

The challenge for AS-PTA lies in showing the courts that contamination is an issue that poses a real threat to farmers. For more information on GM crops in Brazil, and on the court case, see [www.aspta.org.br](http://www.aspta.org.br).

### **K.V.S. Prasad, India:** **"Privately funded research is a big problem"**

Last October in India, the Minister of Environment and Forests was asked to approve a



Greenpeace volunteers, Mumbai

recommendation from the Genetic Engineering Approvals Committee to start large scale cultivation of Bt brinjal, a genetically modified eggplant resistant to the shoot borer. Although India already has GM cotton, the committee's recommendation was controversial. K.V.S. Prasad, chief editor of *LEISA India*, the Indian edition of the AgriCultures Network, explains why. "This time it was a food crop that was involved. Brinjal is widely consumed as a vegetable in India, so this directly concerned people's health." The Minister turned the question of whether to start producing Bt brinjal into a public debate and harvested a lot of views from scientists, state governments, NGOs and consumers. People started to realise there are still many unknowns about Bt brinjal. What are the long

term effects on health and the environment? And to what extent will it encourage monopolies? People felt the whole process was not given time to mature. It became clear, also from views expressed by distinguished scientists like Dr. M S Swaminathan and Dr. Pushpa Bhargava, that research should be more extensive, and above all, independent and publicly funded "We need more public investment in research. GM crops should not be the preferred option in providing food security".

The Minister has recently issued a moratorium until there is more understanding about the consequences of Bt brinjal, and no specific time frame has been fixed for reaching a decision.

**Awa Faly Ba Mbow, Senegal: "The role of governments is crucial"** Awa Faly Ba Mbow, editor of *Agridape*, the West African edition of the AgriCultures Network, has no doubts that GMOs are an issue. "There certainly is Bt cotton and Bt maize in the region. In Mali, Burkina Faso and Senegal there is a certain ambiguity: biosecurity laws exist to regulate the use of GMOs and governments see GMOs as a potential solution to food crisis. These laws show

some openness to GMOs and to agro-business multinationals. At the same time, we are very weak in monitoring and evaluating the introduction of such species. The role of governments is fundamental: they have the responsibility to inform actors and protect national resources. But on the pretext of modernising agriculture they are supporting controversial technologies and choosing to ignore warnings from civil society and farmers' organisations." Information on critical issues like GMOs is crucial, says Awa. There is a right to information, which needs to be repackaged so that it is accessible to farmers. "There is a large role for magazines like ours, because at the moment, the information is one-sided."



Photo: Stephen Yata

## COLOPHON

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**Address**  
P.O. Box 2067, 3800 CB,  
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**Visitors address**  
Zuidsingel 16,  
3811 HA Amersfoort,  
Tel: +31 (0)33 467 38 70,  
Fax: +31 (0)33 463 24 10  
E-mail: ileia@ileia.org

**Editorial team**  
This issue has been compiled  
by: Jorge Chavez-Tafur, Petra  
Rooijackers, Mundie Salm,  
Frank van Schoubroeck,  
Mireille Vermeulen and Edith  
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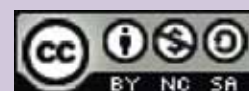
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# "WE CREATED MICROCREDIT TO FIGHT THE LOAN SHARKS; WE DIDN'T CREATE MICROCREDIT TO ENCOURAGE NEW LOAN SHARKS"

Muhammad Yunus, developer of the concept of microcredit, on the increasing emergence of commercial microcredit lenders, some of which charge interest rates as high as 100 percent. The New York Times, "Banks making big profits from tiny loans", April 2010.

**"YUNUS TALKS ABOUT MICROFINANCE AS A SOCIAL BUSINESS. WE FEEL THAT IN FACT YOU HAVE TO STRUCTURE THINGS IN A FOR-PROFIT WAY, YOU HAVE TO PAY INVESTORS HIGH DIVIDENDS, BECAUSE OTHERWISE THERE IS NO WAY YOU ARE GOING TO ACCESS THE CAPITAL THAT POOR PEOPLE NEED"**

Vikram Akula, founder of SKS Microfinance, India's fastest growing microfinance institution. <http://microfinanceafrica.net>, May 2010.

**"Credit by itself cannot support rural agricultural development. Putting in place shared risk mechanisms and diversifying loan portfolios are some of the conditions that encourage better developed and more viable finance in the agriculture sector"**

FARM Foundation (Foundation for World Agriculture and Rural Life) held a conference on agriculture and microfinance in 2007. This is quite a while ago, but the papers on the conference provide lots of useful input from people worldwide. They can be accessed at [www.foundation-farm.org](http://www.foundation-farm.org). This particular quote is from Alou Sidibe of Kafo Jiginew, a federation of credit unions in Mali.

**"Farmers need risk management tools. They are not going to be innovative if there is no safety net"**

Neil Sorensen of IFAP (International Federation of Agricultural Producers), at the conference "The Art of Farming", May 2010, Brussels.

# "THE FUTURE OF FINANCIAL INCLUSION LIES IN MICROFINANCE BEYOND CREDIT"

Jim Roth of LeapFrog Investments, the world's first microinsurance fund, on the importance of providing people in developing countries with financial products and services beyond microcredit, such as savings and insurance, on [www.vccircle.com](http://www.vccircle.com), April 2010.